Survey and Analysis on the Financial Accounting Management of Building Enterprises Based on Their Management Characteristics

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Abstract

Since China implemented the reform and opening-up policy, the building industry has been playing an increasingly important role in China's economic development, and is now a pillar industry in China. However, with development of the building industry, building enterprises have been faced with more serious management problems, resulting in urgent demand for improving management. Besides, financial accounting management is also an integral part of enterprise management. Therefore, to enhance financial management of building enterprises, efforts should be made to optimize the organizational structure of financial management, strengthen prevention against financial risks, and establish a sound financial supervision and management system. This paper, based on the characteristics of financial accounting management in building enterprises and by taking the financial survey report of a Wuhan-based building enterprise as an example, points out problems with the financial accounting management of building enterprises, and discusses how to make improvement based on their management characteristics.

Keywords: Management characteristics, Building enterprises, Financial accounting, Management and survey and analysis.

1. ANALYSIS ON THE CHARACTERISTICS OF FINANCIAL ACCOUNTING MANAGEMENT IN BUILDING ENTERPRISES

Building enterprises refer to operating enterprises that contract and complete civil, industrial building, road and bridge construction projects. The building industry is a special industry as it involves heavy investment, high financial management risks, and long capital recovery period. Besides, financial management of building enterprises has a decisive bearing on achievement of their development goals. Such financial management includes fund-raising, cost budget, project cost settlement, cost assessment and many other elements, which is how building enterprises vary from other enterprises in financial management. Therefore, to have a deep understanding on the status of financial accounting management in building enterprises, it is necessary to analyze the characteristics of their financial accounting management, so as to better understand the importance of financial management to building enterprises.

1.1 Decentralized accounting

During the production and operation, building enterprises have decentralized production structures as the construction sites often change with the construction requirements, which causes difficulty to financial accounting management and results in separation of financial accounting and actual construction (Li et al., 2012). Therefore, building enterprises often adopt decentralized accounting to realize level-to-level management of their production and operation activities, with an aim to facilitate the financial accounting that achieves a fair and true representation of enterprise performance, and to adapt the financial accounting to the actual production and operation activities. This is a main feature of the financial accounting management of building enterprises.

1.2 Order cost calculation

During the production and operation, building enterprises will consume a lot of building materials, which are often purchased from suppliers by placing orders (Zhang, 2013). This process involves cost management. Therefore, during financial accounting management, building enterprises should calculate the cost of such orders to meet the requirement for cost management. Besides, cost of every production link should be separately
calculated according to the project characteristics, so as to ensure that the calculated cost is consistent with the budgeted cost, and in turn to facilitate assessment and analysis of their financial management and achievement of their development goals.

1.3 Staged cost accounting and project cost settlement

Besides, during the production and operation, it takes a lot of time for building enterprises to complete a construction project (Tang, 2013). During such a long period, if project cost isn’t calculated until completion of the project, then building enterprises will lose control over financial management, resulting in many uncertainties and even financial crisis, which will surely exert a negative impact on their financial management and the true and fair representation of their operation performance. Therefore, to achieve the objectives of financial management, building enterprises should conduct cost accounting at each construction stage, and ensure timely accounting of the actual cost, so as to guarantee timely capital recovery and enough working capital.

1.4 Changing cost settlement

During the production and operation, building enterprises may encounter changes in their actual cost due to a variety of factors (Wang, 2016). Furthermore, they have a great variety of products that are independent of each other, so it is often difficult for building enterprises to adopt a standard price when calculating the cost of such products, which leads to changing cost settlement. To make the calculated cost close to the actual cost as much as possible, building enterprises should analyze every change in product price during the construction process, and carry out cost settlement according to the specific situation. That’s why the cost settlement of building enterprises is changing.

1.5 Complex financial management relationship

The production activities of building enterprise usually involve the coordination and efforts of several organizations, including the subcontractors, design institutes, construction companies, supervising companies, etc., which cooperate with each other in the construction project but conduct financial management independently (Yan, 2009). And they have both common and their own economic interests. Therefore, the above-mentioned entities have a complex economic relationship during financial management, which significantly enhances the difficulty of financial management for building enterprises (Ye, 2014). To do a good job in this aspect, building enterprises should both manage the project cost and take into account the respective economic interests of parties involved in the project.

2. SURVEY ON FINANCIAL ACCOUNTING MANAGEMENT OF BUILDING ENTERPRISES

2.1 Survey on financial accounting management of a Wuhan-based building enterprise

![Operating Income by Quarter of the Enterprise in 2013](image)

**Figure 1.** Operating income by quarter of the enterprise in 2013
Please see Figure 1 for the operating income by quarter of a Wuhan-based building enterprise (hereinafter referred to as “the Enterprise”) in 2013:

![Figure 1: Operating income by quarter of the Enterprise in 2013]

Located in Wuhan, the Enterprise was established in March, 2012 with the registered capital of RMB 30 million yuan. It is a Grade A General Contractor for building decoration & renovation projects and for earth & stone works, with the scope of contracting being construction of building projects, civil buildings, public buildings, etc (Liu and Luo, 1981). According to a survey on its financial management in 2013, the operating income of the Enterprise in 2013 was RMB 16 million yuan, of which, the investment cost was RMB 10.36 million yuan, the financial cost incurred during the construction process was RMB 642,000 yuan, the administration expense was RMB 2.34 million yuan, the amount of taxes and surcharges paid was RMB 14.9 million yuan, and the provident fund paid was RMB 120,000 yuan. As of the end of 2013, the Enterprise had the total assets of about RMB 80 million yuan and the net assets of about RMB 52 million yuan, with the asset-liability ratio of 84% and the net profit of about RMB 21 million yuan. In addition, the Enterprise had ten functional departments and several construction project management teams (Wang and Xue, 2009). Please see Figure 2 for its detailed organisational structure.

![Figure 2: Organizational structure of the enterprise]

**Figure 2. Organizational structure of the enterprise**

- Communicate with the head of the Finance Department, review the internal financial management information, financial accounting information and documents.
- View the specific business situation, profits, inventory and purchase orders of the Enterprise.
- Issue questionnaires, clarify the purpose of the survey and the object of investigation, establish investigation questions and master the work of financial accounting personnel.

**Figure 3. Survey on the financial accounting management of the enterprise**
organizational structure. Efforts are made to identify problems with the Enterprise’s financial management and work out improvement solutions by exploring the characteristics of its financial accounting management and analyzing its financial data in 2013. From April 12, 2013 to April 30, 2013, the author conducted an 18-day survey on the Enterprise through communication with the head of the Finance Department, review of its financial management data, collection of financial accounting data and files, and launch of a questionnaire (Zhang and Ju, 2008). Besides, the author also acquired information on its business condition and reviewed its accounting management system and other relevant documents, with an aim to get an understanding on the Enterprise’s budget management and cost management, and in turn to identify the problems with its financial accounting management. Analysis of such problems may help put forward strategies for improving the Enterprise’s financial management.

The respondents of the survey only include employees with the Contract Management Department and the Finance & Accounting Department of the Enterprise. After defining the purpose and respondents of the survey, the author also launched a questionnaire regarding the problems identified to get a better understanding on the business condition and financial management status of the Enterprise.

2.2 Survey and analysis on the status quo of the enterprise’s financial accounting management

During the survey on the Enterprise, it was found out that the employees with the Contract Management Department and the Finance & Accounting Department were slack and often chatted with each other at work. (Lin, 2017). Moreover, many problems were identified during the process: the amortization of raw material cost was unreasonable; formalities of cancelling stocks weren’t gone through until relevant raw materials were used up; there was failure in establishing divided account and detailed account according to the applicable financial system; and during cost accounting, cost of low-value consumables in construction projects were recorded into manufacturing expenses. For example, the cost of electric wires purchased on May 2, 2013 failed to be amortized within the specified period, resulting in extremely high cost of May. Besides, during review of the supporting materials, it was found out that some supporting materials were absent, the original documents failed to be filled in according to relevant requirements, the reporting and approval system wasn’t strictly followed, and many payment vouchers didn’t bear the name of the payer and/or the payee, and/or signature of the people involved. For example, No.19 Payment Voucher dated on April 16, 2013 only indicated that the transport charge of RMB 16,523 was paid, but failed to bear the name of the payer and the payee, and signature of the people involved. Besides, as its cost accounting system was far from perfect, financial accounting personnel of the Enterprise were unable to conduct cost management by objectives for each product variety according to applicable management system. Moreover, the Enterprise didn’t set up any accountability system, or responsibility division system, or cost assessment system. The financial management personnel didn’t strictly follow the reporting and approval system for borrowing forms and reimbursement forms. As relevant executives of the Enterprise were too busy, they didn’t carefully review the financial accounting statements. Last but not the least, there was inconsistency between the book value and the actual value due to wrong bookkeeping practice of the financial accounting personnel. For example, according to an inspection on the Enterprise’s book value on April 26, 2013, the book value of its profits was RMB 6.22 million, but the survey result showed that at that time, the Enterprise only had the working capital of RMB 2.2 million.

2.3 Survey results

Through a survey on the Enterprise’s financial accounting management in 2013 and further understanding on its business condition, the author has identified the following problems with its financial accounting management: (1) The Enterprise failed to conduct strict supervision on financial management. It is known to all that financial management is the lifeblood of development of building enterprises, and the key to excellent financial management is to establish and implement a financial management system. But the Enterprise failed to do so, which led to sloppy financial management and slack financial employees who failed to accomplish assigned tasks in a timely and efficient manner and to strictly comply with the Enterprise’s management system. As a result, the Enterprise conducted poor financial management due to failure in the following aspects: preparation of a budget document in early 2013, strict control over cost, comprehensive cost accounting, and timely handling of unsettled accounts, etc. (2) The Enterprise failed to establish relevant rules and regulations to clearly define the responsibilities and obligations of each functional Department Consequently, the financial accounting personnel exercised their power but didn’t have to assume any responsibilities, causing loss of enterprise assets. If there is a huge loss, it is difficult to hold the defaulting employees accountable, which will in turn lead to chaos of financial accounting management. Moreover, its executives barely conducted in-depth analysis of the contract after the Enterprise contracted a project, and almost never actively inspected the financial statements...
submitted by financial personnel due to lack of financial expertise. Such behaviors will surely cause chaos in financial management and in turn decline in operation performance of the Enterprise. (3) According to its book value, the Enterprise was making profits. But the survey result showed that the book value was inconsistent with the actual value, namely, the Enterprise didn’t have enough working capital although the booking value indicated otherwise. The financial accounting personnel recorded profits into the financial statements only for the purpose of easy management. Such practice has a great disadvantage: Despite the positive book value of profits, the Enterprise may have difficulty in collecting the corresponding amount and in using it as working capital. If such payment in arrears lasts for a long time, the amount will become bad debts, which will surely incur great economic losses to the Enterprise, high interest cost imposed by the banks, and barriers to the Enterprise’s long-term development. As a result, the Enterprise may fail to pay wages to its employees and cover due expenses, thus impairing its reputation.

3 STRATEGIES FOR IMPROVING THE FINANCIAL ACCOUNTING MANAGEMENT OF BUILDING ENTERPRISES BASED ON THEIR MANAGEMENT CHARACTERISTICS

3.1 To optimize management of order-based procurement and trade receivables

Based on the management characteristics of their financial accounting, building enterprises should do a good job in capital management for the purpose of long-term development, as only capital in hand may produce value in the circulation process (Zhou, 2016). Therefore, first, building enterprises should reasonably reduce the inventory of raw materials in a way that will facilitate circulation of capital but will not incur suspension of construction due to lack of raw materials. Second, building enterprises should lower the purchasing cost with normal production guaranteed (Zhao, 2016). For example, they may make bulk purchase by placing an order so as to enjoy larger discounts. During an order-based purchase, they may appropriately increase the purchase quantity to reduce the frequency of purchase and in turn lower the purchase expenses. Third, building enterprises should regularly check the trade receivables with suppliers, intensify payment collection efforts and work out feasible measures for payment collection. Besides, they should establish a collection management system and accountability system to define the responsibilities per employee. In this way, in case of any economic losses, it is possible to hold the defaulting employees accountable and to retrieve the losses through arbitration and other judicial means, etc.

3.2 To enhance budget management

Building enterprises should strengthen annual financial budget and audit work. (Li, 2016). The head of the financial Department should prepare an accurate budget for financial expenditures of the following year, make reasonable arrangements for financial management, break down the financial management indexes, and supervise the work of financial accounting personnel. Attention should also be paid to the following aspects: First, financial personnel should liquidize remnant assets, optimize assets increment, and control accounting items with losses. Second, budget management should follow the principle of making ends meet. Building enterprises should make overall arrangements for capital expenditure, and strictly control expenses based on their financial indexes and profit target. Furthermore, they should never approve financial expenditures if the respective voucher lacks any of the following information: signature of people involved, common seal, name of the payee and payer, and justification for payment.

3.3 To strengthen awareness of financial accounting management

Building enterprises should attach great importance to the quality of financial staff and cultivation of financial staff with good professional ethics (Liu, 2016). In addition to clearly defining the responsibilities and obligations of the financial staff, building enterprises should also standardize the financial management process, so as to ensure financial management is conducted pursuant to the management characteristics. Besides, building enterprises should, by identifying their own advantages, specify the requirements for establishing a modern financial management system, put forward the idea of overall financial management, and transform traditional financial management model with Internet technology, so as to improve the awareness and performance of financial accounting management.

3.4 To standardize financial accounting

Building enterprises should regulate their financial accounting (Gao, 2015). Executives of building enterprises
should realize the importance of financial management, and constantly improve internal financial decision-making mechanism. In addition, they should define the duties and responsibilities per financial employee, standardize the financial accounting system, establish a financial reporting system and a supervision system, and supervise and evaluate the implementation of relevant rules, regulations and decisions, so as to guarantee orderly production and operation of the enterprises.

REFERENCES

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