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On the Optimal Relation between the Properties of Managerial and Financial Reporting Systems

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ABSTRACT

We develop a theoretical model of the firm that links properties (stewardship vs. valuation focus) of financial reporting regimes with the informational properties of optimal managerial accounting systems. We show that, contrary to the standard textbook proposition, properties of management and financial accounting systems are *not* independent. Significantly, we provide an explicit connection between exogenous and observable properties of a firm's financial reporting system and the quality of the managerial accounting system on which manager(s) base real economic decisions. As the quality of those economic decisions can also be inferred from publicly available data, our theory generates new opportunities for empirical managerial accounting research on large nonproprietary samples. Further, by being able to identify enhanced performance due to improved managerial accounting information, our theory provides opportunities to gain a better understanding of the link between *particular* managerial accounting practices and the quality of the information produced.

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