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## **The Use of Accounting in the Management of the Military Economic Entity**

**Abstract.** *Modern achievements of accounting are increasingly used by commanders of military units to help them make a series of decisions, especially those of an economic nature. They tend to reorient the current approach of the military unit from a statutory obligation towards the possible use of accounting data to make rational management decisions. This article presents the tasks, scope, and organization of accounting in the military economic entity. The content of the article contains general solutions to the accounting of economic entities, taking into account the specificity of these entities in the military economic environment. Presented content will concern military commanders of military economic departments, commanders of security departments, commanders of air bases, commanders of naval bases, heads of military airfield units, commanders of logistics brigades, commanders of regional logistics bases, heads of regional infrastructure management boards, as well as, their associates and subordinates including, in particular, deputies and chief accountants along with their staff.*

**Keywords:** *defense economics, security economics, budget accounting, public finances, military finances*

### **Introduction**

Accounting, as the oldest business register system, involves both theory and practice. Accounting practitioners look through theory for clues and confirmation of their actions, thereby creating the future of theory, while theorists describe the practice of accounting, form its fundamentals. In balance, accounting is a dynam-

ic area of science in which the development of theory is determined by practice based on the existing theory of the problem.

Accounting can be understood as the numerical measure of the financial and economic activity of the entity. This is a kind of language to transmit information on the economic activity of the person concerned, the reporting entity. It includes a whole set of techniques, methods, terminology, and principles aimed at giving it a coherent meaning and usefulness [Patterson 2015: 377].

Due to the fact that accounting records kept in military units are getting more and more like the accounting system prevailing in the country, the possibility of taking advantage of its achievements appears to be readily available.

In the contemporary military unit, in a unit of economic nature, the subject of accounting is:

- collection and disbursement of cash,
- registry of tangible fixed assets and current assets,
- registry of revenue, income, expenditure, and costs,
- registry of accounts,
- registry of investments.

Therefore, modern achievements of accounting are being increasingly used by commanders of military units to help them make a series of decisions, especially those of an economic nature. They tend to reorient current the approach of the military unit from a statutory obligation towards the possible use of accounting data to make rational management decisions.

Contemporary accounting organization within the units of the Ministry of Defense, from a formal-legal point of view, is based on the general solutions derived from the provisions of statutory regulations<sup>1</sup> subject to the specificity of units and military institutions. Entities functioning in the Ministry of National Defence are created in the organizational-legal forms foreseen for the public finance sector. Thus, with respect to accounting and financial economy, there is no isolation of the principles of functioning of these entities. Until recently, economic functions have been performed by most military units which, as the ones functioning in the form of budgetary units, tend to be called military budget units.

A wide range of financial economy issues, the complexity of subjects concerning keeping accounting records of these units, the need to possess expertise and experience in this field, time-consuming duties of an economic and accounting nature, have all given rise to the necessity to make changes in the organization of the military economic system. These changes have led to shifting the burden of keeping accounting records and handling financial economy. The commanders of military budget units were somehow liberated from this obligation which has been

<sup>1</sup> Ustawa z dnia 29 września 1994 r. o rachunkowości, Dz.U. nr 121, poz. 591 [The Accounting Act of 29 September 1994, Journal of Laws no. 121, item 591].

transferred to the commanders of the Military Economic Departments. These new entities in the military economic structure – 23 Military Economic Departments – took over the responsibilities in the field of logistics, financial-economic security, and accounting from the rest of the military budget units focusing primarily on performing tasks in the above mentioned fields.

Hence, contemporary issues in accounting will mainly concern military commanders of military economic departments, commanders of security departments, commanders of air bases, commanders of naval bases, heads of military airfield units, commanders of logistics brigades, commanders of regional logistics bases, heads of regional infrastructure management board, as well as, their associates and subordinates including, in particular, deputies and chief accountants along with their staff.

The aim of this paper is to present the tasks, scope, and organization of accounting in military economic entity. The content of the article contains general solutions to the accounting of economic entities, taking into account the specificity of these entities in the military economic environment.

## **2. The Tasks and Scope of Accounting**

Nowadays, activities of a military unit involve numerous ordinary, everyday decisions, as well as, difficult ones having strategic importance. Choosing the right option depends primarily on the relevant economic information, whose source is accounting. Thus, the speed and accuracy of the decision made depend on the efficacy of the accounting system. Frequently, only the effects of the decision force leaders to reflect on and assess the decision-making process. Usually, decisions entail financial consequences (favorable or unfavorable), and therefore managers need to have enough information collected to analyze the decision-making process which ensures effective management [Polak & Telep 2002: 49-50].

The tasks concerning accounting which have to be faced in the military unit, in essence, do not deviate from the principles created by the mutual interpenetration of accounting theory and practice.

The primary task of accounting in military units is the provision of quantitative information about the execution of the budget necessary for control, analysis and planning, as well as, making economic decisions. These are the tasks associated with the transfer of information, control, and reporting:

1. Information tasks of budgetary accounting and reporting on the implementation of budgets provide the authorities of executive power and state administration with information on the implementation of the budget. The organizational structure of budgets is adjusted to the structure of the public authority.

2. Inspection tasks are of help in checking the reliability of public finance units by comparing their accounting situation with the facts. Properly kept accounting records prevent appropriation of property, its destruction, and its improper management.

3. Reporting-analytical tasks involve the preparation of reports based on accounting data and allow for the implementation of the budget.

In a military unit, accounting provides its commander with information on:

- assets and sources of their origin (their financing) and all the changes arising in the course of activities,
- the use of assets in the course of activities,
- exercising economic tasks specified in the plans, e.g. in the financial-economic plan of a given unit (the plan of wages, benefits, supplies, etc.),
- the use of allocated funds in the course of activities.

Accounting also creates the conditions conducive to the protection of the entity's assets. It contributes to the proper use of assets owned by the entity and also provides the numerical data used for the purposes of:

- management of – through the assumption of information coming from records as a starting point when making decisions by the management concerning the use of assets and sources of their financing – the unit's own funds or loans,
- control through records of assets and sources of their origin and their changes [Stańczyk 2004: 11].

From the point of view of managing a military unit, it is essential that the commander is liable for the performance of accounting duties defined by the accounting Act, including, by virtue of supervision, also in the case when the accounting duties – with the exception of liability for conducting an inventory in the form of a physical inventory – are entrusted to someone else with his or her consent. Failure to comply with the provisions of the act is punishable by a fine and/or imprisonment of up to two years [The Accounting Act 1994].

Military units are obligated to keep accounts in accordance with basic rules called “accounting principles”. These principles should be applied in the correct manner providing a fair and clear presentation of the entity's financial situation.

The scope of the military unit's accounting involves the following elements:

1. Current, approved by the commander, description of the accounting principles which consists of:

a) **corporate chart of accounts**, including a list of general ledger accounts (synthetic records), adopted principles on the bookkeeping of business transactions, the valuation of assets and liabilities, as well as, the principles of keeping subsidiary ledger accounts (sub-ledger records) and their links to general ledger of accounts,

b) **a list of accounting books used**, and where they are being kept by using a computer – a list of collections which are accounting books on data carri-

ers (magnetic data carriers) including their structure, interrelationships, and their functions in the organization of accounting books and the processes of data processing,

c) **documentation of the data processing system, with the use of a computer**, and its changes, which, apart from the description of accounts, contains at least:

- a list of programs together with a written statement of consent to use each new or revised program by the business entity,
- a description of the purpose of each program, the way it works (rules of calculation, records, checks, and printouts of data), and its use during data processing,
- the ways of ensuring the proper application and use of the programs,
- data protection principles and record keeping principles for data processing,

2. Keeping books of account which consist of:

a) **a journal**,

b) **a general ledger of accounts** (synthetic records), which comprise of a collections of records on paper kept according to the principle of double-entry book-keeping – kept in the form of books, registers, or loose cards, or even data transferred from computer storage media,

c) **a subsidiary ledger of accounts** (sub-ledger records)

d) **a trial balance** of general ledger accounts and balance of subsidiary ledger accounts,

e) **a list of assets and liabilities** (inventory),

3. Periodic determination or conducting an inventory of the actual state of assets and liabilities consisting in the physical inventory, determination of balances with contracting parties or data verification of accounting books in comparison with relevant documents,

4. Valuation of assets and liabilities,

5. Preparation of financial statements and others, whose data are derived from the accounting books,

6. Collection and storage of accounting records,

7. Submission of financial statements to study and publication in the cases provided by law.

### 3. The Organization of Accounting

The proper functioning of accounting and the implementation of its various tasks depends largely on its organization. Organization of a military unit's accounting is a set of ways of linking together various activities and measures in

order to ensure the proper operation of the accounting system and the implementation of its tasks.

In order to properly organize a military unit's accounting one must meet certain requirements and have an adequate knowledge in this field. The commander and chief accountant (command, chief accountant's department) should be familiar with:

- applicable laws defining the principles of keeping accounting records for business and budgetary units, including military budget units,
- tax laws which must be taken into account regarding the creation and operation of the unit's accounting system,
- all unit-related issues (organizational structure, working conditions, number and type of units being supplied),
- the nature, type, and scope of the financial-accounting information necessary to direct the work of individual cells, and the entire unit, along with the units being supplied,
- accounting form and technique, especially the computer technique,
- work organization principles for the chief accountant's department.

For business practices, outlining the organization of accounting is of paramount importance. In the military unit it usually involves:

1. Organization of accounting records (issuing, filling, and controlling the circulation and storage of documents) – which, in units, takes the form of "Instructions for the circulation and control of accounting documents." These instructions establish uniform rules for drawing up, controlling and circulating of documents in the field of financial and economic operations performed in military units. Usually, the instructions cover the following issues:

- accounting books,
- internal control,
- assignment of accounting documents,
- responsibility for assets,
- records of current assets of the military budget unit,
- value records,
- fixed asset records,
- quantity and value records,
- value records,
- registration of new assets to the warehouse,
- disposal of assets from the warehouse,
- monetary economics,
- remuneration and salaries,
- pre-numbered forms,
- investment activity (repair activity).

2. Corporate chart of accounts – including a corresponding list of names and symbols of accounts designed to keep records of all assets, their sources of origin, as well as, the occurring changes and economic processes. It is complemented by a commentary on the content and its linked accounts. In a military unit, this is developed on the basis of the “Uniform corporate chart of accounts for budget units, budgetary establishments and auxiliary facilities subordinate to the Minister of National Defense.” The uniform corporate chart of accounts of a military budget entity include the following groups of accounts:

- group 1 – “Cash and bank accounts,” used to record business transactions related to cash and value marks,
- group 2 – “Settlements and claims,” used to record business transactions related to settlements and claims,
- group 3 – “Materials and goods,” used to record business transactions related to the settlement of materials, goods and services, and records of tangible current assets,
- group 4 – “Costs by type and their settlement,” used to record expenditure in accordance with the section and line item of analytical classification of budget revenue and expenditure, as well as, other incomes and expenses of the Ministry of National Defense,
- group 7 – “Revenues and costs of revenues,” used to record business transactions related to revenues and the cost of revenues,
- group 8 – “Funds, reserves, and financial result,” used to record business transactions related to funds and the determination of the financial result and its settlement,
- group 9 – “Budget expenditure,” used to record budget expenditure of a current period in accordance with the sections and chapters of the budget.

3. Division of labor and organization of activities within the chief accountant’s department – usually defined by the “Work schedule of chief accountant’s department,” and each employee has a specific “Range of duties in the workplace” which he is obliged to follow.

4. Selection and application of an appropriate accounting technique – individuals use computer techniques and uniform IT accounting systems introduced for use within the entire military economy. Currently in the military budget unit, there are IT fixed assets register systems (MSI SR-TR), off-balance sheet fixed assets systems (MSI EW-PB), and reserves of material systems (MSI MAG MAT). They are so called auxiliary ledgers which are part of the general ledger using the SI KRAB system, which has been replaced by MSI ŚREDNIA-K.

5. Organization of inventory – proper preparation, organization, conduct, and settlement of inventory requires developing, in each entity, specific internal rules devoted to the above mentioned issues. More often than not, these rules are called Inventory instructions. Factual content of such instructions should cover:

a) a description of the types and methods of conducting an inventory, including:

- physical inventory,
- confirmation of balances,
- verification of documents.

b) specificity of inventory, lands, and buildings in a given entity,

c) rules for the preparation of plans and inventory schedules,

d) rules for appointing inventory committees and count teams,

e) tasks of inventory committees and count teams,

f) rules for checking the accuracy of inventory,

g) proper documentation of inventory information,

h) circumstances of the cancellation of inventory, conducting an additional or supplementary inventory,

i) ways of reconciliation and valuation of data included in the inventory sheets,

j) determination and valuation of inventory differences,

k) drafting of inventory protocol and an inventory report [Winiarska & Wołoszyn 2002: 100].

6. Internal financial-accounting control, which according to the “European Union internal control standards” includes the rules and procedures provided and adopted by the management of the entity to obtain an assurance that:

a) the entity achieves its objectives in an economical, efficient, and effective manner,

b) the entity operates in accordance with the law and internal acts, as well as, management guidelines,

c) the entity’s physical and information resources are protected,

d) errors and irregularities are prevented and detected,

e) financial and management information is reliable and timely prepared.

The accounting organization of a military unit should provide fast, smooth, and orderly achievement of the objectives faced by this system with the least possible effort and resources. The selection of well qualified staff, professional competence, and proper division of responsibilities in the chief accountant’s department facilitate this process [Sawicki 2002: 90]. The manager, and commander of the unit, is responsible for the accounting organization and also determines the structure of the chief accountant’s department [Ziętowska 1999: 10].

The manager, and commander, of a military unit entrusts a chief accountant with keeping the accounts. His obligations include:

– keeping accounting records in accordance with the applicable rules and regulations,

– analyzing of the use of public funds,

– conducting control of accounting records,

- directing the work of subordinate employees,
- the preparation of internal regulation projects regarding accounting, e.g. instructions for the circulation of accounting documents [Potoczny 2001: 11].

It is extremely significant that in every military unit, the scope of tasks, powers, and responsibilities is transparent and consistent, has been defined in a written form, and that each employee is presented with the scope of his duties, powers, and responsibilities in a written form as well.

#### **4. Reporting**

The system is structured in a way that guarantees making certain commanding decisions only on the basis of credible and reliable information. Undoubtedly, in a military unit, the most formalized sources of data from accounting used for decision-making by commanders are all sorts of figures arising directly from accounting records and calculations.

Nevertheless, the figures themselves are not a sufficient source of information for the command of military units. Only organization of the data, their presentation in the appropriate sections, and their juxtaposition with other figures (e.g. planned, or from previous periods), give a proper view on the financial position and business activity of the unit, creating the basis for its analysis and evaluation, and facilitating decision-making in the future.

Reporting involves numerical data prepared on a one-off basis or periodically for statistical purposes and control of activities, which is disseminated externally in the form of completed reporting forms and reports [Sawicki 2002: 296].

Reporting on a military budget unit consists of a numerical statement prepared in accordance with the division of budgetary classification in sums accruing from the beginning of the year to the end of the reporting period based on data resulting from the accounting of a given unit [Potoczny 2001: 129].

This report is included in the preparation of reports on the implementation of processes concerning:

- collecting and accumulating revenues,
- spending public funds,
- incurring liabilities involving public funds,
- management of public funds.

As far as the management of the military budget unit is concerned, reports showing the course of activities become an instrument of exchanging economic information sent periodically for the use of different levels of management. The information may, and should, also serve to satisfy the internal needs of the military budget unit. It depends on the compliance with rules for the preparation of budget reports which involve:

- reliability,
- completeness,
- detail,
- correctness,
- timeliness.

Reports are prepared in a reliable way if the basis for their preparation was data from the ledgers of a given unit kept in accordance with the applicable accounting principles. The commander of the unit and the chief accountant bear responsibility for the correctness and reliability of the information contained therein. The principle of the completeness of reporting requires the preparation of all the unit's applicable reporting forms. The principle of detail requires drafting the reports following the patterns of forms included in the annexes of applicable legal regulations. The principle of correctness requires the preparation of reports using the appropriate forms in such a way that the information contained in them is legible, indelible, and ensures its comparability. Military budget units are obligated to prepare them in a correct manner with regard to factual, formal, and accounting requirements.

Formal requirements involved include the:

- name and address of the military budget unit,
- reporting event,
- reporting date,
- signatures of the persons responsible for the reliability and correctness of the data which should be put on each separate form in designated spaces,
- name seal of the person signing the report,
- seal with a coat of arms “for financial and economic documents” and a number from the unit's registry office.

The principle of timeliness is connected with compliance to the applicable deadlines for the submission of reports. The foundations for preparing the reports are figures resulting from accounting records. The amounts shown in the reports should be consistent with the data resulting from the accounting records or separate financial statements. The status of current accounts at the end of the reporting period should be confirmed by the bank.

Military budget units are obligated to prepare the following reports [Department Budżetowy MON 2015]:

- monthly:

Rb – 23 **on the status of funds in bank accounts of state budget units.** This report consists of three pages. The first page shows total revenues and expenses, and information on salaries paid. The second page presents liabilities with the distinction of liabilities falling due on account of: salaries, social security contributions, labor fund contributions, supply of goods and services, and other. The third page of the report contains information on the liabilities regarding total invest-

ment expenditures, including those falling due, and the data concerning the status of funds in the accounts for financing of investments as of January 1<sup>st</sup> til the end of the reporting period. Liabilities falling due at the end of the period are liabilities whose deadline has passed before the end of the reporting period, but which have not expired or been remitted.

Rb – 25 **on revenues and budget expenditure**. This report is prepared on separate forms that include the data for income and expenditure. Both revenues and expenditure are demonstrated in planned amounts (after changes) and also shown are the amounts incurred since the beginning of the year.

– quarterly:

Rb – 70 **on employment and remuneration**. This report characterizes the employment structure in terms of quantity and amount of remuneration by specific groups of employees, e.g. civil employees, civil service employees, and professional soldiers. Its purpose is the control of expenditure incurred on remuneration (salaries) and its comparison with the limit of expenditure allocated for remuneration as defined in the financial plan.

– half yearly:

Rb – 27 **on budget revenues**. This report is made in a different way for the entity's own revenue resulting from its financial plan, and for revenue from different sources.

Rb – 28 **on budget expenditure**. This report is prepared on the basis of sub-ledger records regarding a sub-account of budgetary expenditure.

– yearly: balance sheet. The balance sheet fulfills essential functions in records, reporting, and the management of a business entity.

In the military unit, it fulfills a two-fold function:

– it is an accounting document that serves as a closing balance of the end of a financial year and as an opening balance for the next reporting year,

– it is a financial statement defining (at the given balance sheet date) assets and sources of their financing (liabilities).

The balance sheet is of great value for the assessment of business activity and decision-making in the unit. It is the most important source for determining the financial situation, and the basis for assessing the correctness of the use of military units' budgetary resources.

## Conclusion

To recapitulate, it can be concluded that accounting in military economic entities fulfills informative and controlling functions providing data for the management (the command) of the unit and supervisory organs. Furthermore, it is a basis for verifying the correctness of settlements concerning budgets, since only the

correct classification of assets and sources of their origin in the reports allow for reliable, correct, and timely provision of data necessary for making business decisions at various levels of management and command of the military economy.

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### Wykorzystanie rachunkowości w zarządzaniu podmiotem gospodarki wojskowej

**Streszczenie.** Współczesne osiągnięcia rachunkowości wykorzystywane są przez dowódców jednostek wojskowych do podejmowania wielu decyzji, szczególnie tych o charakterze gospodarczym, przeorientowując dotychczasowe podejście w jednostce wojskowej – z ustawowo określonego obowiązku w kierunku możliwości wykorzystania danych księgowych do podejmowania racjonalnych decyzji zarządczych. W artykule przedstawiono zadania i zakres oraz organizację rachunkowości w podmiocie gospodarki wojskowej. Prezentowane treści dotyczą rozwiązań ogólnych z zakresu rachunkowości podmiotów gospodarczych, z uwzględnieniem specyfiki działalności tych podmiotów w środowisku gospodarki wojskowej. Odnoszą się przede wszystkim do komendantów wojskowych oddziałów gospodarczych, dowódców oddziałów zabezpieczenia, dowódców baz lotniczych, komendantów portów wojennych, szefów terenowych oddziałów lotniskowych, dowódców brygad logistycznych, komendantów rejonowych baz logistycznych, szefów rejonowych zarządów infrastruktury oraz ich współpracowników i podwładnych, w tym zastępców i głównych księgowych wraz z personelem.

**Słowa kluczowe:** ekonomika obronności, ekonomika bezpieczeństwa, rachunkowość budżetowa, finanse publiczne, finanse wojska