

# THE ROLE OF MANAGERIAL ACCOUNTING IN THE MANAGEMENT PROCESS

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**Abstract:**

*The process of accounting is in charge with identifying, measuring and communicating economic information in order to allow its users to make the correct decisions and judgments.*

*First of all, it is important to distinguish between the two branches of accounting: managerial accounting, which deals with internal users of accounting information, and financial accounting, which provides information to external users. On the other hand, the concept of cost accounting is different from the one of managerial accounting, because it deals with the aggregation of costs that are used in valuation of stocks in order to meet external reporting requirements.*

*Considering the functions of the management process, management accounting plays an important role in helping managers to lead the organization in an efficient way, regarding any of these functions.*

**Key words:** *accounting information, cost accounting, financial accounting, managerial accounting, management process*

**JEL classification:** M40, M41, M49

## INTRODUCTION

There are many definitions of management accounting, but this paper will only present the one formulated by the American Accounting Association. It refers to accounting as “the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information”.

In other words, accounting is used for providing information (both financial and non-financial) to those who will make decisions in order to make the best possible ones.

The terminology used in this definition indicates that a grasp of the accounting process requires an understanding of the attributes of economic information and of the following actions: identification, measurement and communication of the information. Furthermore, we need to understand the decision-making process and be able to identify the users of the accounting information.

The objective of this paper is to study each component of the definition of accounting to provide a framework that will allow a more thorough understanding of the issues and aspects that are involved in the accounting process.

The first important aspect is to start looking at the users of accounting information and identify their requirements.

## THE USERS OF THE ACCOUNTING INFORMATION

Accounting is a language that communicates economic information to those who are interested in an organization - managers, shareholders, potential investors, employees, creditors and the government.

Managers request the information that they need in the decision-making process and control activities. Shareholders ask for information on the value of their investments and profits. Employees need information in order to be sure that the company is capable

to meet various requirements and avoid redundancies. Creditors and banks request information on the company's ability to sustain its financial obligations and liabilities. Government agencies collect accounting information necessary to establish macroeconomic development policy.

This doesn't apply only to the business organizations. Accounting information about individuals is also important and is used by other individuals.

Therefore, there are many users of the accounting information that need information in the decision-making process. The main goal of the accounting is to provide sufficient information for different users in order to fulfill their needs with lower costs. However, the benefits of using an informational system for decision-making must be greater than the costs of the operating system.

There are various users of the accounting information, but they can be classified in two big categories: internal groups within the organization and external groups outside it. It is important to distinguish between the two branches of accounting, based on the existence of these two types of users of the accounting information: internal users and external users.

Managerial accounting, which provides information to people inside the organization in order to make the best decisions, is different than the financial accounting, which deals with providing information to persons outside the organization who request it.

### **COST ACCOUNTING AND MANAGERIAL ACCOUNTING**

Managerial accounting is aimed at providing information to managers in order to make the best decisions, while financial accounting provides information to parties outside the organization.

Financial accounting compares expenses with revenues to calculate the profit. Usually, any unsold finished goods or production in progress will not be included in the cost of goods sold which are compared with the sales revenue in a given period of time. In an organization that produces a wide range of different products (or services), it will be necessary in order to evaluate stocks to divide expenses on each type of service or product. Costs are divided on each product according to the needs of financial accounting, in order to allocate costs over a period of time, between the cost of goods sold and stock (inventory). Cost accounting was developed in order to provide this kind of information. The production costs that have been established for financial accounting were also used by executive managers for decision making. During the 1950s, emphasis switched from external users to internal users of cost accounting data, which made the cost data used by management to be collected in a different manner than that used in financial accounting. This difference in emphasis has led to a new type of accounting, managerial accounting. Currently, it is possible to distinguish between cost accounting and managerial accounting.

Cost accounting deals with the aggregation of costs that are used in valuation of stocks in order to meet external reporting requirements, while managerial accounting refers to providing the adequate information to the staff within the organization in order to make the best decisions, for managerial activities such as planning and control decisions.

### **THE MANAGEMENT PROCESS**

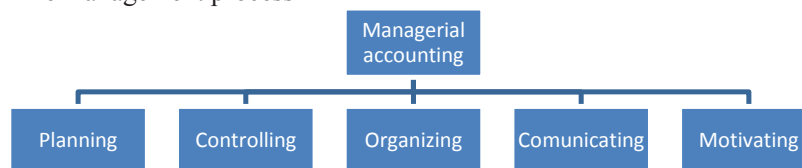
Considering the functions of the management process, managerial accounting plays an important role in helping managers to lead the organization in an efficient way, regarding any of these functions.

Table 1. The Management Process

Management functions	Description	Managerial accounting
Planning	<ul style="list-style-type: none"> <li>- the planning process can be done both on long term and short term;</li> <li>- long-term planning centralizes the future management expectations, for a period of three or five years, or even longer;</li> <li>- later, long-term plans are converted in immediate needs and detailed plans in the form of an annual budget.</li> </ul>	<ul style="list-style-type: none"> <li>- helps establish future plans, providing accounting information used in the decision-making process, about which products should be sold, on which markets and at what price, and evaluating proposals for capital spending.</li> <li>- plays a very important role in the short-term planning process.</li> <li>- provides data on past performance which could be particularly useful as a model for future performance.</li> <li>- establishes budget (planning) procedures and prepares schedules and coordinates short-term plans on all business sections and makes sure that the plans harmonize with one another.</li> <li>- centralizes the various plans into one general plan for the whole business (the master budget), and takes the plan for approval by the upper management.</li> </ul>
Controlling	<ul style="list-style-type: none"> <li>- a comparison between achieved and planned performance, so that deviations from the plan can be identified and corrected.</li> </ul>	<ul style="list-style-type: none"> <li>- is useful for the control process because it draws up performance reports that compare the actual to budgeted revenue for each responsibility center.</li> <li>- managers are warned about those specific activities that are not according to the plan</li> <li>- assist the control function providing immediate action measures and identifying problems.</li> </ul>
Organizing	<ul style="list-style-type: none"> <li>- establishes the internal frame in which the required activities must be carried out and designates who will perform them</li> <li>- requires a clear definition of managerial responsibilities and lines of authority</li> </ul>	<ul style="list-style-type: none"> <li>- identifying the elements of an organizational structure more relevant and essential for proper functioning of the management accounting system allows the preparation of an internal reporting system for this structure and suggest a more appropriate organizational structure.</li> <li>- whereas, the organizational structure is dealing with authority, responsibility and expertise to ensure actual performance, managerial accounting is designing and implementing accounting system to better define and strengthen these connections.</li> </ul>
Communicating	<ul style="list-style-type: none"> <li>-involves decentralization</li> <li>- departments are linked in a hierarchy of formal communication structure(vertically) and a staff relation-ship (horizontally).</li> </ul>	<ul style="list-style-type: none"> <li>- establishment and maintenance of an efficient communication and an efficient reporting system.</li> <li>- the reports about performance prepared by accountants communicate important information to a manager, show him how well he manages his activities and highlighting those issues that require a more thorough investigation by the “management by exception” activity.</li> </ul>
Motivating	<ul style="list-style-type: none"> <li>- influencing human behavior so that participants can identify themselves with the goals of the organization and make decisions that align to them.</li> <li>- a good manager is able to motivate his subordinates to achieve objectives established by the upper management.</li> </ul>	<ul style="list-style-type: none"> <li>- the budgets (planning) and performance reports that are prepared by accountants have an important influence in motivating organization staff.</li> <li>- the budgets are targets intending to motivate managers to achieve organizational objectives.</li> <li>- performance reports plan to motivate individual performance, by communicating performance information linked to the targets</li> <li>- the accountant participates in staff motivation by providing valuable assistance in identifying the area with potential management problems and highlighting those issues for a detailed investigation.</li> </ul>

As seen in the table above, managerial accounting has an important role in each function of the management process: planning, controlling, organizing, communicating, motivating.

Figure 1 The management process



All these functions play a significant part in the decision making process and therefore, any manager should know how to use the accounting information that the managerial accounting provides.

### CONCLUSION

As a conclusion, it is important to understand the differences and to distinguish between three concepts: cost accounting, managerial accounting and financial accounting. A good manager must know the usefulness of each of these concepts.

It must be pointed out that managerial accounting is a complex process mainly used in the decision-making by managers in order to achieve the organizational objectives. Therefore, it is necessary to learn how this process influences each one of the management functions: planning, organizing, communicating, controlling and motivating.

It has been established that the role of the management accounting in an organization is to support the information needs of management. The type, size, structure and form of ownership of the organization will influence the management role, and thus, determine the complexity of the management accounting. Such differences in size do not change the basic role of the management accounting, nor the basic work which he or she does. However, the size of the organization may change the degree of formality or sophistication with which the function is carried out, or the level of resources devoted to management accounting. But, the management accounting function remains essentially the same.

Managerial accounting plays an important role in the management process, mainly in providing information to internal users (persons inside the organization) in order to make the right decisions. Without a thorough understanding of this concept, managers can't be certain of the results obtained in the decision-making process.

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