

# IDENTITY AND ROLE OF MANAGERIAL ACCOUNTING FOR THE ENTITIES IN ROMANIA

ROF LETIȚIA MARIA

„1 DECEMBRIE 1918” UNIVERSITY OF ALBA IULIA

letitiamariarof@yahoo.com

## **Abstract**

*The most important knowledge capital of a Millennium III entity is information. The future of each entity is determined by the production and owning this inexhaustible resources. The central objective of this article is to demonstrate that ignoring the organization and management accounting leadership can be very expensive for the entities in Romania. Although this is one of the most important sources of information for entities' managers, they avoid recourse to the database provided by management accounting. The result of this study is emphasizing that its information and knowledge are two resources with a key role in the success and survival of an entity in a fierce competition and continuously changing environment.*

**Keywords:** *information system, accounting management, decision, management.*

**JEL classification:** M40, M41

## **1. Introduction**

In the management of an entity, the most important "raw material" is **information**. It is obtained and supported by an information system capable of providing the right level of information in an entity. Storage and processing of this raw material must ensure the adoption of decisions on the activity of the entity.

Construction of accounting information is based on observation of an entity and its specific activities. Information activities specific to accounting are those concerning the production and use of accounting information and are translated into actions aimed at creation, collection, storage, transformation and then dissemination of information (Minu, 2002).

The information is generated by the **information system** of an entity. Information system plays an important role in the life of a modern entity since it directly influences the decision-making process. Information is essential to management, with its help, the decision maker has a permanent vision of the processes carried out in an entity, as a whole, but also in every sphere of activity.

## **2. Entities' information device**

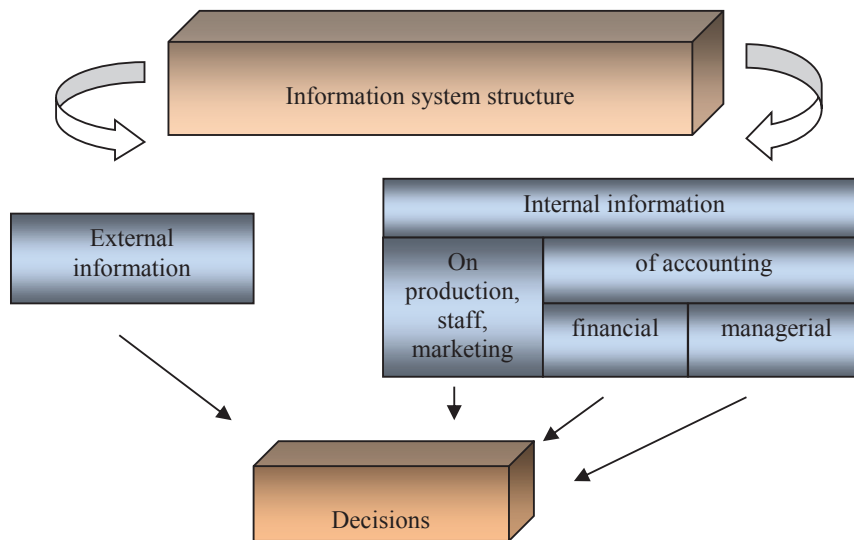
The best use of economic information is only possible within an entity's information system designed to provide a reasonable amount of information on which modern entities, which today operate under conditions of risk and uncertainty, make relevant decisions to all organizational levels.

The studies undertaken show that approximately 80% of circulating information within an entity's information system is economic, and therein the significant share is assigned to accounting information.

Information system can be understood as an organized grouping of resources (material, logistical, human, procedural) allowing the appeal, treatment, storage, communication of information (as data, images, text etc.) in the organization (Colasse, 2007).

Information system means all data, information, information flows and circuits, procedures and methods of treatment of information designed to help set and achieve organizational objectives (Nicolescu, 2001).

The entity's information device (figure 1) is as follows:



**Figure 1. The entity's information device**

Source: own processing after M. Radu, *Management Accounting*, Bibliotheca Publishing House, Târgoviște, 2010, p.12.

Increasing complexity, size and importance of information system, has mirrored in shaping the so-called information management. Regardless of the definition of information system, what is important is its organization and development, appropriate to the specific of the entity and ensuring of the fulfillment of the functions that it has within the entity. In relation to the management, information system serves as **decision-making**, this ensuring all information necessary for initiating, funding and adopting management decisions. In relation to performers, the information system acts as the **operational function**, which consists of ensuring the entity staff with sufficient information needed for the achievement of the activities involved in the performance of assigned tasks. Besides the two functions, information system also has the **documentation function**, providing information whose valorization in entity's interest, determines entity's long-term effectiveness. As the deepening of complexity and dynamic activities, the decision-making function of the information system distinguishes itself as the most important in the present context.

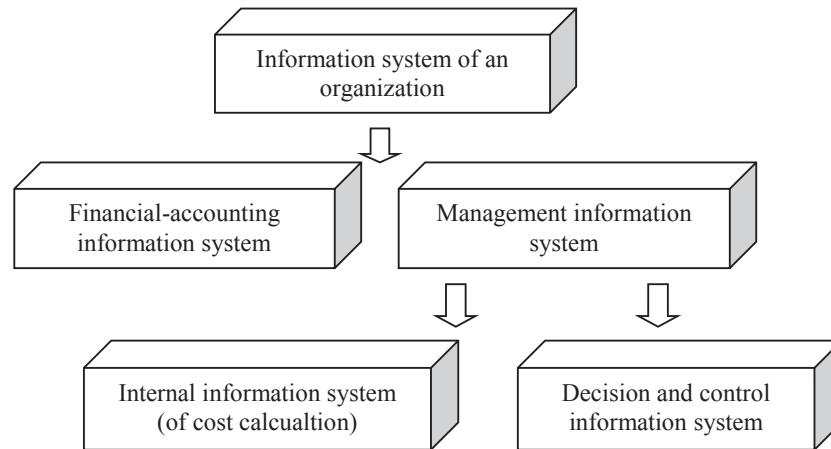
An entity's information system consists of two components: financial-accounting information system and management information system.

**Financial-accounting information system** is a subsystem aimed at providing information required by external users of the entity. The accounting system provides useful information for analysis and decision making on a medium and long term, processing the data provided by the operational and technical evidence to present economic and financial results in a given period (month, quarter, year).

**Management information system** is a subsystem whose purpose is, essentially, to provide information to internal customers, using information inputs and processes designed to meet management objectives, administrative (Pelin, 2010). Thus, it takes the form of a network of horizontal and vertical information and communication, in which managers are key points of the relations. Its purpose is to provide managers at all

organizational levels useful information for effective decision-making in forecasting activities, organization, coordination and control.

Illustration of an entity's information system components is as follows (figure 2):



**Figure 2. Information system structure of a business organization**

Source: processing after D. Hansen, M. Mowen, *Cost Management*, Thomson Learning, London, 2000, p. 34.

Management information system has in turn two sub-components, both of which are organized according to the specific of performed activity. *Cost calculation information system* has the reasoning of determining product, works and services costs, while *decision and control information system* supports decision making process with information on all of the entity's internal processes.

### 3. The role of management accounting in an entity's information system

Under a competitive economy, an important issue of modern entity is maximum satisfaction of the needs of the consumer with a minimum income and maximizing profit with minimal effort. Achieving this goal is influenced by the accounting organization and management, with the purpose of an information system oriented towards knowledge and management of economic values separated by property (Oprea and Ristea, 2000).

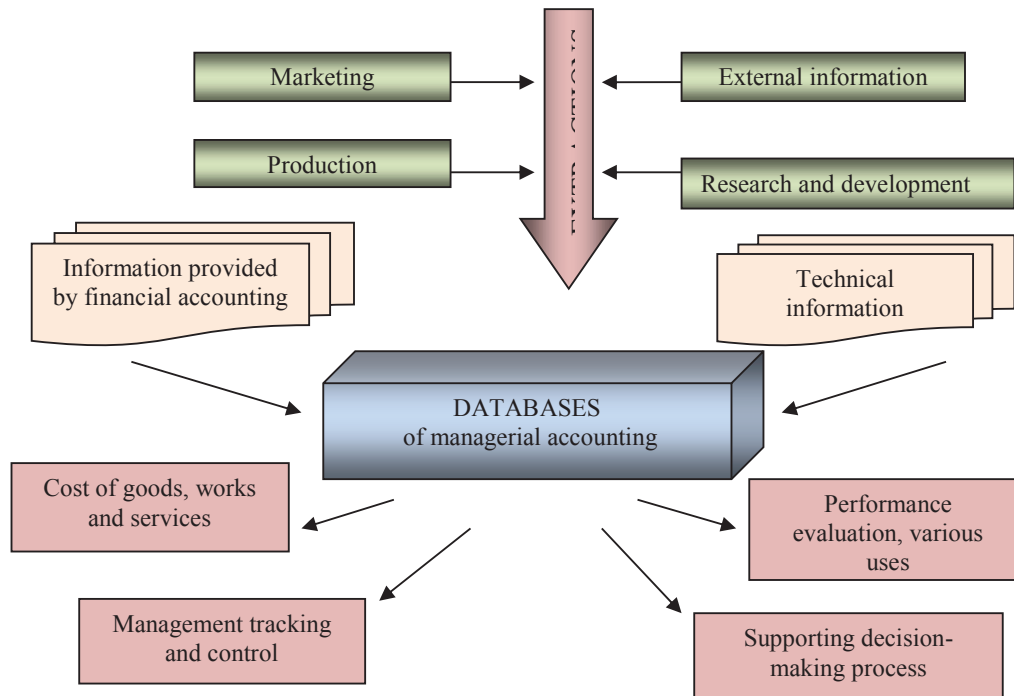
Accounting represents a specific information system, due to its multiple valences, among which there are: providing real, comparable, synthetic and analytical information for analysis of various aspects which economic phenomena take; information disclosure from the production place to the place of their use; amplification of control function on economic phenomena; considerable growth of forecast role etc. (CENAR, 2011).

Accounting is an old invention still evolving (Siegwa and Cassio, 2008), an information system that enables the production and dissemination of information for decision making. It is considered the most important component of the information system for the following reasons: most decisions made within the entity are provided by accounting; it allows managers, based on information, to have an overview of all activities; links to other information system components (marketing, production, staff etc.) (Briciu, 2006).

In French specialized literature, management accounting (management or analytical) is assigned several roles in the external entity-environment relation: informational role, decision-making role, relational role, cognitive role. Following the

development of information technology and automation of some tasks and routine accounting, accounting has become increasingly decentralized, to integrate more in business entities. Thus, most decisions related to accounting device are mostly made by managers than accountants (Cheffi and others, 2011).

Diversification of internal information volume and its use in solving problems faced by managers makes management accounting a valuable tool of the management team, regardless of the delegation information degree. Using this "database", entitled management accounting, it is schematically as follows (figure 3):



**Figure 3. Uses of management accounting "database"**

Source: own processing after D. Budugan, I. Georgescu, I. Berheci, L. Bețianu, *Management Accounting*, CECCAR Publishing House, 2007, p. 24.

Managerial accounting is mainly intended to control production factors to obtain quality goods, works and services, at a reasonable cost (Budugan and Georgescu, 2003). It appeared as a result of information need felt by managers.

#### 4. Objectives and information sources of managerial accounting

Managerial accounting is not subject to rigid rules, it is adaptable to users' needs. The main beneficiary of information provided by managerial accounting is the manager. The manager governs the future and constantly reports the present to it. He must possess the necessary knowledge of management accounting data interpretation, to serve him in the management, the rest of specialized information remains in the professional accountant's care. Managerial accounting professionals must meet a series of ethical standards imposed by the IMA (*Institute of Managerial Accounting*): competence, confidentiality, integrity, credibility.

The initial objective of managerial accounting was determined by calculating the costs, but this has gradually broadened the horizon considerably, providing coherent information on supply-production-sales-receipt complete circuit to the management system.

The objectives of managerial accounting (table 1) involve appropriate decisions, which are as follows:

**Table 1. Managerial accounting objectives and their corresponding decisions**

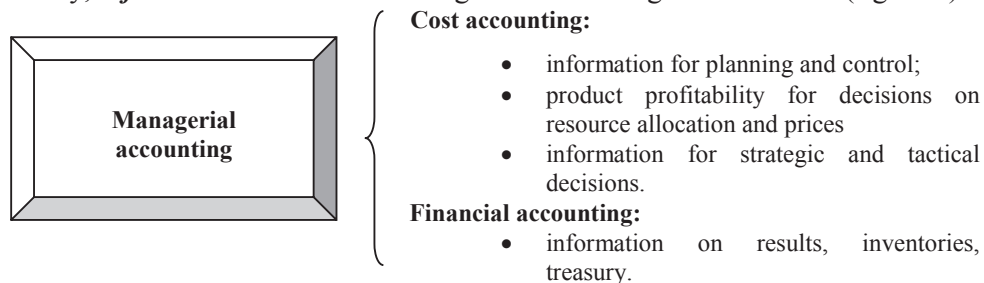
Managerial accounting objectives	Decisions and actions
<b>1. Knowledge of costs:</b> - by functions of the entity; - by goods, works and services; - by sectors of activity.	= to have a “traditional” decision basis
<b>2. Assessment of balance sheet items:</b> - stocks; - assets.	= to “honestly” assess certain balance sheet items
<b>3. Analysis of results:</b> - by functions of the entity; - by goods, works and services; - by sectors of activity.	= to define priorities and establish responsibilities
<b>4. Establishing forecasts:</b> - by functions of the entity; - by goods, works and services; - by sectors of activity.	= to evaluate and plan the objectives
<b>5. calculation of differences:</b> - by costs; - by turnover; - by volume; - by outturn.	= to commit to economic activities

Source: processing after D. Budugan, I. Georgescu, I. Bernea, L. Bețianu, *Management Accounting*, CECCAR Publishing House, București, 2007, p.17

Depending on the specific activity, managerial accounting provides:

- collection and distribution of expenses by purpose, respectively by activities, profit centers etc.;
- calculating the cost of acquisition, of production, of processing goods, works and services;
- providing information on the costs of goods, works and services, products, costs of sold products, works and services, information necessary for financial analysis used in the decision-substantiating process and any other information required to achieve an efficient management.

Schematically, *information sources* of managerial accounting are as follows (figure 4):



**Figure 4. Information sources of managerial accounting**

Source: processing after Chirața Caraiani, Mihaela Dumitrana, *Management Accounting & Management Control*, InfoMega Publishing House, Bucharest, 2005, p.22.

Characterized as flexible accounting, i.e. adaptable to all units, regardless of their size, activity and structure (Matiş and Pop, 2007), management accounting covers financial accounting deficiencies in the entity's internal management, especially regarding calculation of production cost. In turn, managerial accounting is the main tool providing reliable information to cost management in order for management companies to make effective decisions (Căpuşneanu, 2008).

Management control, with managerial accounting, is also an indispensable partner for the manager. The role of management control is not so in the decision making, as to optimize the present and project the future (Albu and Albu, 2003). Management control should become a performance management tool. It has its source in the strategic field, but its role varies considerably (Mignon and Teller, 2009). Performance is inextricably linked to the strategic objectives of any entity. Performance measurement is an attribute of management control, that cannot be addressed outside prefigured objectives by each organization (Caraiani and Dumitrana, 2005).

### **5. Insufficient regulations of managerial accounting in Romania**

First Romanian author who addressed, in our literature, the issue of formation of production cost and distribution of general expenses on the produced values was Professor Constantin Petrescu in his *Treatise of accounting and administration* (Iaşi, 1901). Related to costs, he also adopts from foreign literature the classification of production expenses in fixed costs and variable costs (Oprea and Cârstea, 2002). Since then and until today, there are continuous concerns to improve the practice and theory of accounting and cost calculation.

Since the 90s, the problem of managerial accounting and cost calculation began to be treated separately, the basic treatment applied, being a full costing type, doubled by accounting registration technique by using class 9, Management accounts, provided in regulations issued by the Ministry of Finance (Davies and Calu, 2008). Over the following two decades, in Romanian accounting, closely related to managerial accounting problem, the control management problem started to take shape. An even more prominent occurrence of managerial accounting role as management information tool led to the adoption and use of this notion, on a larger scale.

For decades, managerial accounting was mandatory for entities engaged in production or service activities (Pântea and Bodea, 2011). Nowadays, art. 1 of ***Accounting Law no. 82 of 24 December 1991***, with subsequent amendments and completions, abolished this binding, it states that companies, national companies / societies, autonomous administrations, national research-development institutes, cooperative societies and other legal persons are required to organize and conduct **financial accounting**, under this law, noting that by 2011, the provided requirement was of organization and management of **own accounting**, namely financial accounting and **management accounting adapted to specific of the activity**. The person responsible for the organization of managerial accounting, according to Article 10, paragraph (1) of the Accounting Law no.82/1991, republished, is the administrator or other legal person who is liable of managing that unit.

Since 2011, the only internal legal reference that provides the conditions of accounting organization and management covers only financial accounting, and not the managerial accounting.

The main law in our country, governing organization and management of managerial accounting, ***Order no. 1826 of 22 December 2003***, makes the following statement: management accounting provides information needed to compile reports and internal analysis, used by the management in decision-making. The requirements for disclosure and analysis of information provided by management accounting are not

restrictive. To the organization of management accounting, it will be taken into consideration that the information obtained to satisfy the existing information needs of and the changing ones.

Modern practice of managerial accounting is facing *a series of problems* (Budugan and others, 2007), in terms of:

- stating the bodies performing managerial or administrative accounting works (resorting either to separating the activities of cost calculation from those of analysis and substantiation of decisions, or to concentration of costing calculation works in a single functional compartment);
- choosing the organization method of analytical records of production costs and cost calculation and also of budgets framing, that best meets the entity's management;
- stating the periods of cost calculation works and cost budgeting, aspect especially pointing their timely execution, in order to make timely decisions regarding future work.

Currently, there are a number of factors that influence the forms of managerial accounting organization. These factors are multiple and related to the specific of technological process, of functional and operational entity's structures, of complete or partial interference of managerial accounting objectives in the process of assisting the decision making act, of flexibility or rigidity of an account system or another to achieve these objectives.

Insufficient regulations of managerial accounting in Romania make it possible to being disregard by most entities in the economic area, although many economic agents recognize its usefulness.

## **6. Conclusions**

The entity is in a triple aspect: information generator, information consumer and information carrier. For developing the information activity, a proper *information system* should be designed and organized within the entities. Information, whether it takes the form of an essential production factor for the entity, or an intangible resource, or a specific form of organizational knowledge representation and capitalization, it represents the core of information process. The information process is organically bound to decision-making process, being subordinated to the objective of solving all problems concerning optimal functioning of an entity. The main intrinsic attribute is the quality of that information to include new elements related to some prior knowledge.

We considered appropriate to emphasize the managerial accounting concept in this scientific approach, as it falls within the objectives and the specific of processing accounting information for the following reasons: managers are first class users of accounting information, its processing for internal and external use carries the prerogative of decision-making act; managerial accounting provides a reconciliation of grouping expenses by their economic nature and by destination in order to achieve the management objectives of economic entities.

*The purpose of managerial accounting* to provide relevant and reliable information to carry out the decision-making act is done as follows: it grows on several levels and collects information on the costs it will take from cost accounting, information on sales it will take from marketing, information on risk management it will take over and process by the use of statistics and probability theory tools, investment information that it will process by the use of investment finance tools, interpretation of technical information will be made using specialized technical expertise, and the processed information format and all judgments resulting from them will be made by the use of management.

## REFERENCES

1. Albu, N., Albu, C., *Performance management tools*, volume II, Economic Publishing House, București, 2003, p. 97.
  2. Briciu, S., *Managerial accounting, theoretical and practical aspects*, Economic Publishing House, București, 2006, pp. 13-14.
  3. Budugan, D., Georgescu, I., *Basics of accounting*, Sedcom Libris Publishing House, Iași, 2003, p. 15.
  4. Budugan, D., Georgescu, I., Berheci, I., Bețianu, L., *Management accounting*, CECCAR Publishing House, 2007, pp. 18-19.
  5. Caraiani, C., Dumitrana, M., *Management accounting & management control*, InfoMega Publishing House, București, 2005, p. 261.
  6. Căpușeanu, S., *Elements of cost management*, Economic Publishing House, București, 2008, p. 12.
  7. Cenar, I., *Guiding marks regarding the reasoning of scientific research in accounting*, Annals of the University of Petroșani, Economics, 11(1), 2011, p. 52.
  8. Cheffi, W., Nekhili, M., *Rôles assignés à la comptabilité de gestion par les managers et changement comptable: question d'adéquation ou simple désillusion?*, Compatibilité-Contrôle-Audit, Tome 17, Volume 1, Avril 2011, pp. 67-98.
  9. Colasse, B., *Les fondements de la comptabilité*, La Découverte Publishing House, Paris, 2007, p. 103.
  10. Dumitru, M., Calu, D. A., *Management accounting and calculation of costs*, Contaplus Publishing House, Ploiești, 2008, p. 31.
  11. Hansen, D., Mowen, M., *Cost Management*, Thomson Learning Publishing House, Londra, 2000, p. 34.
  12. Matiș, D., Pop, A., *Financial accounting*, Alma Mater Publishing House, Cluj-Napoca, 2007, p. 40.
  13. Minu, M., *Accounting as a tool of power*, Economic Publishing House, București, 2002, p. 20.
  14. Mignon, S., Teller, R., *Le contrôle de gestion pour un pilotage intégrant stratégie, cognition et finance*, EMS Publishing House, Paris, 2009, p. 54.
  15. Nicolescu, O., – coordonator, *Management information system*, Economic Publishing House, București, 2001, p. 25.
  16. Oprea, C., Cârstea, G., *Management accounting and calculation of costs*, Genicod Publishing House, București, 2002, p. 16.
  17. Oprea, C., Ristea, M., *Basics of accounting*, Național Publishing House, București, 2000, p. 50.
  18. Pelin, A., *Cost management-theory and case studies*, University of the West Publishing House, Timișoara, 2010, p. 5.
  19. Pântea, I. P., Bodea, G., *Financial accounting*, Intelcredo Publishing House, Deva, 2011, p. 27.
  20. Radu, M., *Management accounting*, Bibliotheca Publishing House, Târgoviște, 2010, p. 12.
  21. Siegwa, J.-L., Cassio, L., *Introduction à la comptabilité*, Nathan Publishing House, Paris, 2008, p. 17.
- \*\*\* Act No. 82/1991 republished in 2008, Official Gazette No. 454 of 18 June 2008, updated 2 June 2011 with the provisions of OUG nr. 37/2011.
- \*\*\* Order No.1826 from 22 December 2003 approving the back part on certain measures relating to the organisation and management of accounting, published in the Official Gazette of Romania, part I, no. 23 of 12. 01. 2004.