# THE IMPORTANCE OF MANAGERIAL ACCOUNTING IN MANAGERIAL ACCOUNTING SYSTEM

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**ABSTRACT**

In order to determine the role of Managerial Accounting in a company's information system we must start with a systematic approach. According to systematic approach, this system is a structure that produces:
- transformation;
- self-adjusting;
- synergy (the principle of totality).

Therefore, considering the above, the total is higher than the sum of the component parts, when we are referring to plus- value creation.

**Keywords:** *managerial accounting, role, accounting system.*

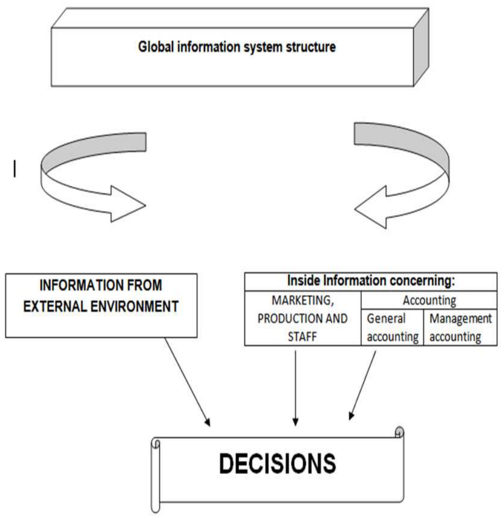
## 1. INTRODUCTION

The research of an entity in a systematic vision involves the following phases:
- establishing the system requirements and formalizing the stake in time and space
- the identification, analysis and evaluation of flow constraints
- identification and analysis of subsystems assembly
- ensuring value of the internal dynamics of each subsystem
- interdependence and coherence value of the functional system
- flow analysis results
- system control
- system pilotage

## 2. THE INFORMATIONAL SYSTEM AND THE ACCOUNTING WITHIN THE SYSTEM

In order to achieve the objectives of each entity, the accounting management is one of the main sources of information and data, presented in a performance report enabling decision making. The use of management accounting is very important for the management act because the external environment contributes to increase the interest in accounting information and data. These conclusions lead to information on resources, on human and material staff usage, market placing, the company place on the market compared to other companies on the competitive system.

In order to establish market selling prices according to the request and to achieve expected margins, the company has to build and use a knowledge of the cost of their products of their services and their workers.




## 3. MANAGEMENT ACCOUNTING - DEFINITION

In the specialized vocabulary, management accounting can also be found under the name of analytical accounting, managerial accounting, or internal management accounting. Under this aspect we believe that a diffrence should be made between management accounting and managerial accounting, because the first one is a component of the second. Management accounting should be viewed as a system that includes specific elements of general accounting, managerial accounting, managerial control and internal audit - all of this are pursuing the enterprise objectives and systemic evaluation , improving risk management, control and process management.

In a schematic presentation, the components of managerial accounting system can form the diagram below:

| | |
|---|---|
| **Financial accounting**<br>Financial statements (financial position, financial performance, changes in capital and their cash flows) | **Management control**<br>Controls efficiency and effectiveness of achieving objectives. |
| **Managerial accounting**<br>- Organizing a system for measuring the activity<br>- cost calculation<br>- providing information<br>- facilitating taking decisions | **Internal Audit**<br>Systematic reviews |

In these conditions, management provides to the manager "those elements strictly necessary to make him understand the phenomena and processes that are occurring in the entity to provide operational information on which to take relevant decisions, to be able to foresee the repercussions of taken decisions, to have the levers for making a permanent and effective control.

## 4. GENERAL CONSIDERATION ON MANAGERIAL ACCOUNTING

Revolution of 1989 was a milestone in the evolution of Romania as a state from all points of view – economically, socially, and scientifically. The transition period from the communist market economy was extremely complex and it was impossible to be established as a period of time because it is economically and socially dependent on the specifics of each country. Socio- economic difficulties are important and they depend on the measures taken to overcome them.

The distinctive feature of the market economy- that is competition (an element missing entirely from the old social order) are the manifestation of freedom intitiative and the determining factor that makes a company viable on the new market is regulated by supply and demand.

Along with this, through the transformation of the company's organizational scheme, because of enterprise restructuring and elimination of state economic control. Free enterprise could occur and it raised the possibility that informational products provided by the accounting system to meet the requirements of internal and external users according to their interests. By adopting the new accounting law in 1991, major reforms have started , accounting reforms having as a main objective the placement of the accounting component in a higher position, that corresponds to the economic environment.

## 5. THE CHARACTERISTICS OF MANAGEMENT ACCOUNTING

Management accounting is a process through which a company prepares reports for the top management. The company bases its major executive decisions on these reports. Management accounting facilitates short-term decision-making.

Management accounting is often referred to as "managerial accounting" or "cost accounting". The reports prepared show the cash the company has in hand, the sales amounts, amount of sales returns, the purchases of materials, the purchase returns, the value of the work-in-progress and the payables and receivables. But its characteristics could be summed up by the following:

- Cause and effect analysis: Financial accounting is limited to the preparation of profit and loss account and finding out the ultimate result, i.e., profit or loss management accounting goes a step further. The 'cause and effect' relationship is discussed in management accounting. If there is a loss, the reasons for the loss are probed. If there is a profit, the factors different expenditures, current assets, interest payables, share capital, etc. So the study of cause and effect relationship is possible in management accounting.
- Use of Special Techniques and concepts: management accounting uses special techniques and concepts to make accounting data more useful. The techniques usually used include financial planning and analysis, standard costing, budgetary control, marginal costing, project appraisal, control accounting, etc. The type of technique to be used will be determined according to the situation and necessity.
- Taking Important Decisions: Management accounting helps in taking various important decisions. It supplies necessary information to the management which may base its decisions on it. The historical data is studied to see its possible impact on future decisions. The implications of various alternative decisions are also taken into account while taking important decisions.
- Achieving of Objectives: In management accounting, the accounting information is used in such a way that it helps in achieving organizational objectives. Historical data is used for formulating plans and setting up objectives. The recording of actual performance and comparing it with targeted figures will give an idea to the management about the performance of various departments. In case there are deviations between the standards set

and actual performance of various departments corrective measures can be take at one. All this is possible with the help of budgetary control and standard costing.

- Increase in Efficiency: The purpose of using accounting information is to increase efficiency of the concern. The efficiency can be achieved by setting up goals for each department. The performance appraisal will enable the management to pin point efficient and inefficient spots. An effort is made to take corrective measures so that efficiency is improved. The constant review of working will make the staff cost – conscious. Every one will try to control cost on one's own part.
- Supplies Information and not decision: The management accountant supplies information to the management. The decisions are to be taken by the top management. The information is classified in the manner in which it is required by the management. management accountant is only to guide and not to supply decisions. 'How is the data to be utilized' will depend upon the caliber and efficiency of the management.
- Concerned with forecasting: The management accounting is concerned with the future. It helps the management in planning and forecasting. The historical information is used to plan future course of action.

## 6. A PARALLEL BETWEEN FINANCIAL ACCOUNTING AND MANAGERIAL ACCOUNTING

Analysing the two sides of the accounting system we can establish with a maximum of objectivity both the differences and the common elements of the two sub-branches of Accountancy.

### *6.1 Differences Between Financial Accounting & Managerial Accounting*

Financial and management accounting are both important tools for a business, but serve different purposes. A business uses accounting to determine operational plans in the future, to review past performance and to check current business functions. Management and financial accounting have different audiences, as investors are not usually involved in the day-to-day operations of the business but are concerned about their investment, whereas managers need information quickly to make daily business decisions.

- **Financial Accounting**

Financial accounting is used to present the financial health of an organization to its external stakeholders. Board of directors, stockholders, financial institutions and other investors are the audience for financial accounting reports. Financial accounting presents a specific period of time in the past and enables the audience to see how the company has performed. Financial accounting reports must be filed on an annual basis, and for publically traded companies, the annual report must be made part of the public record.

- **Management Accounting**

Management or managerial accounting is used by managers to make decisions concerning the day-to-day operations of a business. It is based not on past performance, but on current and future trends, which does not allow for exact numbers. Because managers often have to make operation decisions in a short period of time in a fluctuating environment, management accounting relies heavily on forecasting of markets and trends.

- **Differences**

Management accounting is presented internally, whereas financial accounting is meant for external stakeholders. Although financial management is of great importance to current and potential investors, management accounting is necessary for managers to make current and future financial decisions. Financial accounting is precise and must adhere to Generally Accepted Accounting Principles (GAAP), but management accounting is often more of a guess or estimate, since most managers do not have time for exact numbers when a decision needs to be made.

### *6.2 Similarities Between Management Accounting & Financial Accounting*

Accounting is a vital part of every business. Accounting is used to create budgets, keep track of a business' assets and liabilities and provide an overall picture of the business' financial health. There are several types of accounting a company uses, two of which are financial and managerial accounting. Although both serve the same purpose, the audience for each is different.

- **Financial Accounting**

Financial accounting is used to generate reports and statistics to detail a company's financial health to external interests. These external parties include stockholders, silent partners and mortgage holders. It enables those external stakeholders to see how their investment is faring and can help a current stakeholder decide to remain a stakeholder, invest more into the company or remove his assets and invest elsewhere.

- **Managerial Accounting**

Managerial accounting is completed for internal stakeholders, such as the management team. Managerial accounting is used for the day-to-day operations of the business. This information would be used to determine sales prices, employee bonuses, raises for employees and other general operation decisions.

- **Similarities**

Both financial and managerial accounting methods present the general health of a business. Financial accounting reports are more formal and have a strict format for presentation to external stakeholders. Managerial accounting reports are more informal since they are used in-house. But even with these differences, both methods allow the reader to make a conclusion on the health of the business, allowing them to make financial decisions that must be made.

## 7. THE NEED TO ESTABLISH NEW GOALS

Economic modelling must take into account the strategic development needs so that the management can identify and provide all the necessary information. The traditional analysis was modified due to the technological program, which sometimes introduces information that is not necessarily about costing operations. Quantitative and physical data play a higher and higher role, and current cost structure is influenced by data that doesn't consider manufacture cost itself. In this context we find reverse relations between costs - indirect costs exceed direct costs and structure costs approaches the material costs.

Changing boundaries of management accounting is influenced by a number's factors:

- Activities decentralization and emergence of a new type of management
- Changing market policies by directing economic power to customer
- the emergence of new methods in production organizing.

## 8. CONCLUSIONS

Management Accountants have far advanced from their tradition role of preparation of financial and non-financial statements. The Management

Accountants are now a members of management itself which take part in decisions making.

The managerial account information should be relevant, accurate, timely and cost effective.
Managerial accounting should adopt itself to the changing circumstances.

The management accounts re member of cross-functional teams which seeks ways and means for strengthening the position of its company or organization to boldly face the competitive environments and dynamic conditions in the industry.

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