Managerial Accounting - A Necessity For Business Success

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Abstract: Managerial accounting is a very useful tool in decision making given that managers need various information about the evolution of the economic within organizations they lead, from detailed knowledge of costs and to modeling the behavior of decision makers. Managerial accounting has therefore become an integral part of the management process by providing critical information for managers who must plan, supervise and decide in a changing business environment, highly competitive, characterized by imperfect information, disparate objectives and control problems within the organization.

Key words: managerial accounting, financial accounting, costs

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1 Introduction

Managers need information on business, not simply rely on strict data, technical or quantitative, but especially valuable data, which measure performance, information on which the managers are also evaluated by owners and higher authorities.

The financial accounting has lost the informational war on the business because it is considered to be less able to meet informational needs of users, too general and sometimes irrelevant for this reason, seeking to create information channels to resolve these inabilities of financial accounting. Managerial accounting attempts to depart from these and to get closer to the true extent of performance: money - moment when they must pay and when they return as revenue. A problem that managerial accounting has the answers is the future. If financial accounting informs us about the past and what happened, the managerial accounting is concerned with the future and what will happen (Diaconu, 2006).

2 The Role of Managerial Accounting

Today the role of managerial accounting is very different than it was even a decade ago. In the past, the accountants have operated in a strict department, usually physically separate from the managers for whom they provide reports and information. Nowadays managerial accountants serve as internal business consultants working on the same side with the manager, into functional management teams in all areas of the organization. Now companies tend to convert accounting departments into operational departments in which professional accountants work together with other managers to make decisions and to solve problems.

Financial managers assume leadership roles in their teams and are wanted for valuable information that they provide. Currently the role of accountants in an organization "*has been transformed from number cruncher and financial historian*

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to being business partner and trusted advisor" (Siegel, 2000). Managers are looked upon as business advisors, more than just accountants, and that has a lot to do with the additional analysis and the forward-looking goals. (Hilton, 2008). And the manager should not be seen necessarily as a director, leader; is a decider-administrator, who receives from managerial accounting an information system that helps him to understand the future, and to influence behavior by modeling the relationship between resources consumed and purposes pursued (Bouquin, 2004).

The manager - engineer, doctor or economist - should at the same time, to have knowledge of managerial accounting data interpretation, which would serve him in the management. The remaining information strictly professional it remains for the accountant, which processes and interprets them. He shows to the manager, the consequences of decisions made and / or to be taken, but also proposed solutions for improving business. Professional accountant should not only have tasks and new skills, but also new responsibilities, should not stand waiting in decision making, but to intervene to criticize what was done, to be part of collective action (Briciu & Căpuşneanu, 2011).

Development of information systems has made the role of managerial accountants to change and move on: they are no longer ordinary employees, "*scorekeepers*" or "*number craunchers*", "*watchdogs*", but rather are viewed as "*business partners*", "*business advocates*" or "*financial analysts*", and are involved in decision making and taking a leading role in strategic and operational decisions of organizations. Managerial accountants have tasks such as work in interdisciplinary teams, involvement in internal processes and decision-making, integration of financial and non-financial information at operational and strategic level (Pete & Cardoş, 2011).

Cost accounting is an important objective of managerial accounting, which gives managers the key data for planning and control, data that come in costing products. By recording and analyzing costs and performance of the organization, it shows how these costs are related to objectives of the organization and management issues. For example, which is the cost of implementation for each product or a service cost, or which is the profit from the sale of a product?

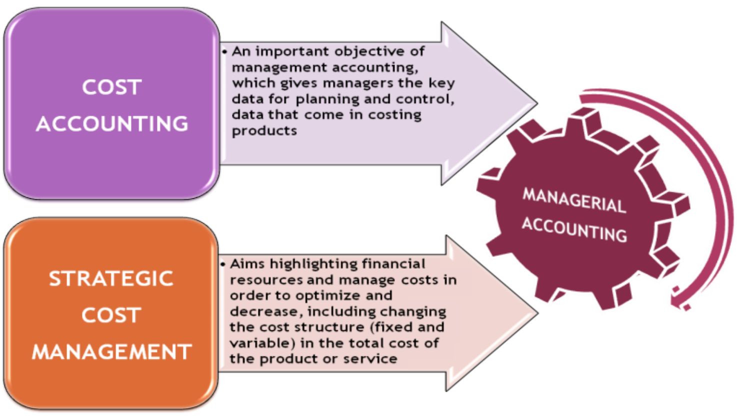

Figure 1. Managerial accounting components
(own presentation)

Unlike cost accounting, managerial accounting covers a wider scope and uses more advanced techniques than costing. However, a basic requirement for managerial accounting is the existence of a solid cost information system, able to provide fundamental data. To be efficient in the current environment involves using a cost calculation and management system. Manager expects from managerial accounting a permanent assistance before, during and after the action, to define objectives, to understand whether the objectives are relevant and to measure performance (Albu & Albu, 2003).

Cost, as managerial accounting tool, plans to inform decision makers, managers, enabling them to form an overall opinion on the company and also manage relationships with customers through prices. Combined with other tools (budgets, standards, etc.), a *cost information becomes a powerful tool of managerial accounting* (Ionaşcu, Filip & Stere, 2006).

Strategic cost management primarily aims to highlight the financial resources necessary to complete the activities. Based on cost calculation, cost management is a system that manages these costs to optimize and decrease, including changing the cost structure (fixed and variable) in the total cost of the product / service. Also, cost management must take into account the effect of decisions that affect production and use costs of the product developed. Ability to influence costs is crucial in early stages of activity. Strategic cost management includes those processes required to ensure implementation and completion of a project of the approved budget: resource planning, cost estimating, budgeting and ultimately, cost control. Those steps will allow the manager to take the right decisions at some point, decisions which if delayed, will incur much higher costs.

3 The relationship between managerial accounting and financial accounting

Managerial accounting and financial accounting pursue different goals:

Financial accounting, known as general, ensures information on asset management, necessary for internal decision-makers, and information on financial results, necessary for external users (exogenous), including the state.

Managerial accounting is one that tends to decompose analytically as possible the activity of an entity and serves managers at different organizational levels for their information needs (Briciu & Teiuşan, 2006).

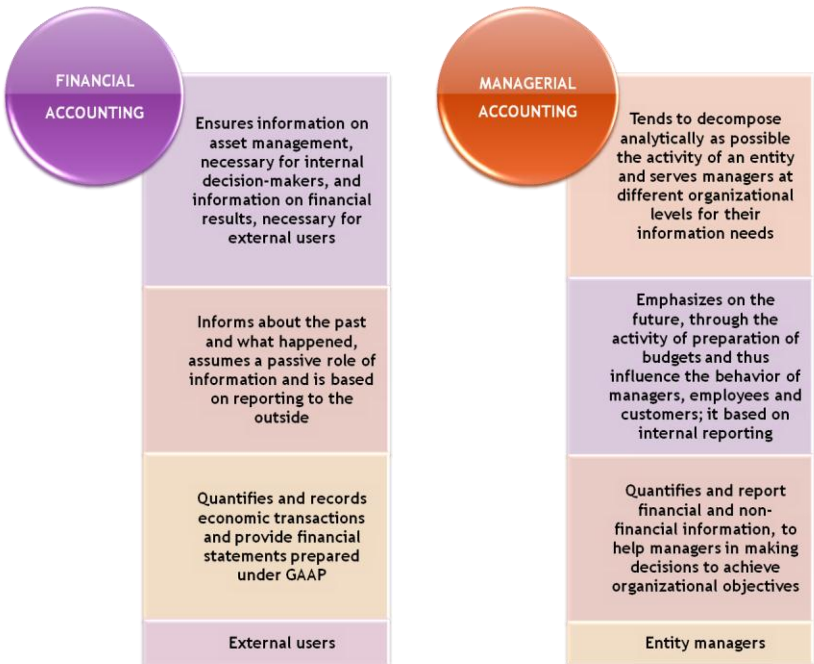

Figure 2. Financial accounting versus Managerial accounting
(own presentation)

Financial accounting assumes a passive role of information, and is based on reporting to the outside. It quantifies and records economic transactions and provide financial statements prepared under GAAP. Managers are responsible for financial statements available to investors, state and other interested parties outside the entity. Often the management remuneration is directly conditioned by the information contained in these financial statements.

Managerial accounting quantifies and report financial and non-financial information, to help managers in making decisions to achieve organizational objectives. Managers use managerial accounting information for selection, communication and implementation strategies, but also for product design, activity, and decision making.

Another difference of managerial accounting refers to the emphasis on the future, through the activity of preparation of budgets and thus influence the behavior of managers, employees and customers. Financial accounting information are very complex and difficult to understand for people who have no accounting training, and managers often avoid contact with this binding component of accounting. Not always the standardized financial statements prepared in accordance with legal regulations, through their structure and content, correspond to the real needs of business management.

On the other hand, by type of connection between financial and managerial accounting in theory and practice of modern managerial accounting, there are two conceptions on its organization:

a) *Monistic conception (integralist*) in organization of managerial accounting, which consists of a connected system, integrated with financial accounting, achieving a single circuit accounting information, which integrates the two components;

b) *Dualistic conception* in organization of managerial accounting, which consists of a completely autonomous circuit with financial accounting.

In the view of international accounting, managerial and financial accounting are carried out simultaneously, without splitting them rigorously. Solution of integrating managerial accounting in financial accounting is quite tricky, as it involves combining the functionality of accounts specific to managerial accounting, with the functionality of expense accounts (class 6) and income accounts (class 7) specific to financial accounting. The *monistic accounting* critics argue that this solution is difficult to practice due to interfering the financial accounting records with those of managerial accounting. It has the advantage of reducing the workload for accounting, but also the downside of leaking information considered confidential. *Dualistic accounting* consists in separate processing of information by the two accounting, each pursuing its objectives specific validation, so it can go up to organization and management of each accounting in different departments. This approach requires the use of managerial accounting systems accounts independent of financial accounting, accounts-pairs using the same name, with opposite structure and reflected "as in a mirror". It has the advantage of high confidentiality of accounting information, but also the downside of considerable work and cost, because the primary documents are processed twice, once for managerial accounting needs, and second for financial accounting (Creţu & Iova, 2011).

For these reasons it is necessary for managers to understand the link between commercial and management components of business, on the one hand, and financial and accounting information, on the other hand, time when the accounting becomes an ally in business management.

4 The objectives of managerial accounting and its role in management of organizations

According to the website CIMA Chartered Institute of Managerial accountants, the world's largest professional body of managerial accountants:

«*Managerial accounting combines accounting, finance and management with the leading edge techniques needed to drive successful businesses. Managerial accountants:*

- *advise managers about the financial implications of projects*
- *explain the financial consequences of business decisions*
- *formulate business strategy*
- *monitor spending and financial control*
- *conduct internal business audits*
- *explain the impact of the competitive landscape.*

In addition to strong accounting fundamentals, managerial accountants have strategic business and management skills, such as:

- *Analysis - they analyse information and using it to make business decisions.*
- *Strategy - they formulate business strategy to create wealth and shareholder value.*
- *Risk - they identify and manage risk*
- *Planning - they apply accounting techniques to plan and budget.*
- *Communication - they determine what information management needs and explain the numbers to non-financial managers.*»

The role of managerial accounting is detailing, analysis and interpretation of information provided by general accounting in an accessible form for organization management. The resulting financial information are confidential, addresses to internal users, management team respectively, and are presented as standardized periodic reports, adapted to the needs of internal management. This internal nature and confidentiality of information provided by managerial accounting, is a recognition of decision-making autonomy of organizations in a competitive market economy.

Managerial accounting goal is to convert its information and techniques in a tool orientation, a "*dashboard*", an advisor to determine the conditions in which the entity operates inside, as well as in the macroeconomic context.

In this regard, managerial accounting offers techniques aimed at adding value through efficient use of resources, techniques related to (Albu, 2006):

- costs / use of resources and profitability through its use;
- use of resources - investment and allocation;
- decisions relating to resources and its control;
- wasteful use of resources;
- performance, profitability, value - as a result of resources use;
- measurement, calculation, design - costs and profitability associated with resources;
- resource planning.

A managerial accounting system is "*created*" by selection, depending on objectives. Thus, the main challenges of a managerial accounting system can be formalized as follows (Guinea, 2006):

- What is the strategic objective of the organization?
- What resources the organization needs, and from where expected to get them on short-term and longer term?
- There is an operating system to alert the organization in difficulty, that corrective actions are required?
- How to prove that the organization has achieved its objectives?
- How the organization evaluates and rewards the manager's performance?

All these elements can be summarized under the value chain in management decision (figure 3):

Figure 3. The Management Control Value Chain
(Adapted from Gray, Salter & Radebaugh, 2001)

Presentation of managerial accounting as serving the decision is required to describe the concept of this decision. Herbert Simon, Nobel Prize for economics (1978) and author of the famous works devoted to systems of decision identified what managers expect from implementation of a managerial accounting system (quoted in: Johnson & Kaplan, 1991):

- *Score-keeping*: accumulating data & reporting reliable results to all levels of management → *"Things are good or bad?"*;
- *Attention-directing*: making visible opportunities & problems on which managers need to focus → *"Which problem they should inquire?"*;
- *Problem-solving*: conduct analysis of alternatives in relation to the organization’s goals → *"Between different solutions, which is the best?"*.

Since 1960, the U.S. developed the accounting of responsibilities, accounting which according to some authors (Gray & Johnson quoted in: Ţânţă, 2006) is a managerial accounting system adapted to the organizational structure so that each manager to view only aspects that is directly responsible and who owns them and they influence.

An effective system of managerial accounting enables organizations to manage daily operations, to detect and solve problems, make plans for short and long periods and to evaluate progress.

5 Conclusion

Any manager, to leading a business, needs managerial accounting tools that allow him to shape the future, to transform it from an unknown uncertain and risky into predicted and planned one, with an uncertainty and risk understood and evaluated in financial terms (Diaconu, 2006).

Managerial accounting is a guide tool, a management advisor providing necessary "database" for management decision making. The information thus provided, gives managers a choice for optimal programs and setting a specific economic policy guidelines (Talpeş, 2010).

Both managerial accounting, in its entirety, and cost information system are aimed at providing information, often with a high degree of detail in support of planning, control, making decisions, focusing on the cost of products, activities, functions (Budugan & Georgescu, 2005). Implementation of managerial accounting benefits will be felt in controlled development of business and increasing the company's financial performance.

The objective of implementing a managerial accounting in an organization is, therefore to provide managers relevant information to enable them to effectively evaluate its actual performance, to quantify the goals and objectives of the organization in budgets and medium and long term plans, to improve decision making at both operational and strategic level, to take corrective actions to comply with organizational performance objectives.

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