

**THE ROLE AND THE IMPORTANCE IN CHOOSING THE  
PROPER MANAGERIAL ACCOUNTING CONCEPTS  
REGARDING THE NEED FOR INFORMATION ON THE  
DECISION MAKING FACTORS WITHIN THE COMPANIES**

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**Abstract**

Both the theory and modern practice of the management accounting took over two general concepts regarding its organizational process, structuring accounting in either an integrated system or a dualist one. We aim at emphasizing the characteristics, the role and the importance of these concepts in regards to the calculation process and the accounting entries of the costs generated by economic entities with an eye at gaining profit. Choosing one of the previously mentioned concepts must be done taking into consideration the specific of the company in question as well as the information necessary to the manager who needs to find out the optimum solution in order to achieve the rehabilitation and efficiency of the activity which is supposed to be carried out. The subject of this work is approached both theoretically and practically, relying on the following research methods: the comparison method, the observation method and the case study method.

**Key words:** managerial accounting, the duality concept, the concept of the integrated accounting system, decision-making factors, the need for information.

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**1. Introduction**

The aim of any economic entity is obtaining high returns. The factors which influence profitability are extremely important for an effective orientation of the business. The premise of achieving high returns consists first in a low production cost and the main attention should be directed towards multilateral knowledge on production costs (David D., 2012).

A company's profitability is influenced by one important external factor which is the selling price of the manufactured product and its memory is required to substantiate given that the selling price starts from the product cost (Olariu C., 1971). In order to obtain an optimal return it is required to focus on internal factors that influence the levels of the costs and on which the company can act directly, as the external factors cannot usually be acted on directly. Hence, an

acknowledgement of the internal factors is necessary as well as the study of their characteristics in order to prevent their negative effects on production costs.

Lately, the study of the costs experienced a serious development and as such their modern management means more than simple financial calculations on the assets and liabilities related to the company, as well as on those determining the profit or loss for the period. The accomplishment of the management accounting entails the demand of correlations on costs and other statistical information that can provide the difference between efficient and inefficient activities respectively between profitable products and unprofitable, inefficient ones.

The purpose of managerial accounting is not represented only by the knowledge on the cost of a product, as the attention should be rather oriented towards ensuring that the determined costs are suitable for the business strategy (Dumitru M., Calu D., 2008). The pieces of information offered by the management accounting help managers in making decisions about the objectives of the economic entity. In conclusion, the management accounting concerns that information needed to conduct an economic entity in regards to: planning and controlling activities, economic policy formulation and decision making in the context of various trends.

In this context we want to emphasize how important it is when choosing the organization design of the management accounting with an eye to the need for enterprise information management.

## 2. Literature review

Internationally, there are several models of organizational management accounting looming. Regardless of how particular an organization may be, there are two main types: the integrated-system and duality concepts.

a) *The integrated management accounting* is distinguished by the same accounting framework that ensures consistency between the two accounting types (the financial and the managerial one) without the need of two different accounting systems. According to this view, the financial accounting and the managerial one are achieved simultaneously by combining the functionality of the accounting systems specific to each accounting circuit (Cotleț D., Albu A., 1999).

It can be organized in two ways, either as an extension of the financial accounting or as its core (Ebbeken K, Possler L. Ristea M. , 2001).

A1 ) *The extending version of the financial accounting* is characterized by the fact that analytical accounting records are followed by those belonging to general accounting, applying the same data handling methods. Therefore the accounts of the group 90 " Internal Settlement " will not be used while the accounts belonging to the Classes 6 " Expense accounts " and 7 " Revenue accounts" are accounts that record expenditure and revenue passing classified by nature and will be paid to the Class 9 accounts, respectively to the " Management accounts " by their destination.

A2 ) *The Integrated Accounting* – the kernel version does not use group accounts 90 " Internal Settlement ", the accounts in Classes 6 " expense accounts " and 7 " Revenue accounts " do not work during the period , being used only at the end ,

when they take over income and expenses awaiting to be reviewed and grouped by their destination.

*b) The management accounting within the duality concept*

According to this conception, there are different account systems used with the purpose of organizing the financial and managerial accounting, each pursuing its specific objectives, being able to perform the organization and accounting management in distinct functional compartments (David D, 2012). By following this procedure, the accounts within the management accounting do not enter in correspondence with the financial accounting. The consistency between financial accounting and management accounting is achieved through the use of so-called "mirror or reflective accounts" system components specific to those accounts belonging to management accounting.

These accounts are designed to take over the expenditure incorporated into costs and revenues which form the turnover recorded in the financial accounting, the management accounting, without ending the balance of the expenditure and revenue accounts, at the end of the cost-calculation period (David D., 2012). From the perspective of this concept "the expenditure reflection accounts" are credited through the expenditure taken over from financial accounting while "the income reflection accounts" are debited through the income which is taken over from financial accounting (Sabou F., 2007).

In Romania, accounting is organized into two distinct circuits, in financial accounting by the use of the accounts from the classes 1-7 and in management accounting by using accounts in Class 9. Currently, laws that underlie the organization of management accounting entail the Accounting Law no. 82/1991 republished and OMPF 1826/2003. These laws make no statement about the general concept underlying the organization of management accounting. As in the "General Chart of Accounts", the Class no 9 is for management accounts, it can be considered that it is about a duality concept applied in a simplistic way, which needs to be perfected in the economic practice and developed according to the characteristics and profile each company in order to become operative.

We will further study the application of the two concepts within an economic entity in order to highlight the impact that they have on the need for information of the company management.

### **3. The Research Methodology**

The thesis will be based on the deductive approach, starting from theory to practice, with several inductive research tendencies consisting of practical case studies designed to verify whether the theoretical aspects mentioned above are valid from a practical standpoint.

In order to achieve the objectives formulated on the subject matter, the study will be based on certain methods of scientific research: the comparison method, the observation method, the method of economic analysis, case study, and comparative analysis. The case study is another method of achieving the emphasis of research and its results. It is a method of empirical research oriented towards practice. A

comparative case study will be conducted in order to highlight the advantages and disadvantages of the two views on the organizational process of the management accounting in Romania.

#### 4. Results

We consider a production unit that manufactures two types of products A and B. The quantity produced by the two products is: A- 3000 pieces and B - 4000 pieces. The expenses incurred to manufacture the two products are the following:

**Table 1. Centralization of production costs - lei-**

<b>The expenses with the raw materials</b>	<b>11.000</b>
A	5.000
B	6.000
<b>The common expenses of the section</b>	<b>4.000</b>
<b>The administration expenses</b>	<b>5.000</b>

Source: authors

These products will be sold at the price of 5 lei/ piece - product A and 6 lei / piece-product B.

##### I. The duality concept

According to the duality concept regarding the organization of the managerial accounting, the calculation and the accounting records shall be the following:

The takeover of the acquisition expenses and income in financial accounting will be done properly by the account groups 90 "Internal Settlement" respectively 92 "Calculation Accounts".

a) The collection of the expense:

%	=	901	<b>20.000</b>
921		„Internal transactions	<b>11.000</b>
„Costs related to core business”		relating to expenses”	
A			5.000
B			6.000
923			
„Production overheads”			<b>4.000</b>
924			
„Administrative overheads”			<b>5.000</b>

b) The breakdown of the general administration expenditure on the expenses common to the department:

923	=	924	5.000
„Production overheads”		„Administrative overheads”	

For allocation of indirect cost we will use process of supplementing - classical form.

We will disperse the overheads of unit costs based on:

- The sharing basis is the cost of the raw material
- The calculation of the additional coefficient

$$K_s = \frac{Chr}{\sum_{i=1}^n br_i} = \frac{9.000}{11.000} = 0,818\%$$

- The share of indirect expense correspondent to each product is:

$$Ci_A = K_s \times br_A = 0,818 \times 5.000 = 4.090 \text{ lei}$$

$$Ci_B = K_s \times br_B = 0,818 \times 6.000 = 4.910 \text{ lei}$$

Where: K<sub>s</sub>= additional coefficient  
 Chr = total expenditure allocated  
 br<sub>i</sub> = allocation basis  
 Ci= indirect expense rate product

	921	=	923		<u>9.000</u>
	„Costs related to core business”		„Production overheads”		
	A				4.090
	B				4.910

The calculation of the actual cost per product unit:

$$CuA = \frac{9 \cdot 090}{3 \cdot 000} = 3,03 \text{ lei} \qquad CuB = \frac{10 \cdot 910}{4 \cdot 000} = 2,7275 \text{ lei}$$

The selling price for the three types of products is as it follows:

Price/unit	P <sub>A</sub> =	5 lei
	P <sub>B</sub> =	6 lei

c) The registration of the product at the sale price:

- Product A – 5 lei/piece \* 3.000 pieces = 15.000 lei
- Product B - 6 lei/ piece \* 4.000 pieces = 24.000 lei

	931	=	902		<u>39.000</u>
	„Cost of output”		„Internal transactions related to costs of conversion”		
	A				15.000
	B				24.000

- d) The determination of the actual cost for the obtained production:
- Product A – 3,03 lei/piece \* 3.000 pieces = 9.090 lei
  - Product B - 2,7275 lei/ piece \* 4.000 pieces = 10.910 lei

	=		
902		921	<u>20.000</u>
„Internal transactions related to costs of conversion”		„Costs related to core business”	
A			9.090
B			10.910
903	=	902	-19.000
„Internal transactions relating to price differences”		„ Internal transactions related to costs of conversion”	
A			-5.910
B			-13.090

- e) The clearance of the accounts belonging to management accounting:

	=		
901		%	<u>20.000</u>
„Internal transactions relating to expenses”		931	39.000
		„Cost of output”	
		903	- 19.000
		„Internal transactions relating to price differences”	

## II. The integrated management accounting, the version of the extended financial accounting

The accounting records in accordance with this version are the following:

- a) The registration costs by nature:

	=		
6xx		28x,29x,3xx,4xx, 5xx	20.000
”Expenditure accounts”		“Balance sheet accounts which condition the of the consumed factors”	

- b) The registration costs by destination:

	=		
921		6xx	11.000
„Costs related to core business”		”Expenditure accounts”	
923	=	6xx	4.000
“ Production overheads ”		“Expenditure accounts”	
924	=	6xx	5.000
“Administrative overheads ”		” Expenditure accounts ”	

- c) The record of the achieved production:

345	=	711	20.000
„Finished goods”		“Revenues associated with the costs of the completed production“	

d) Recording the revenue generated from sales :

5311	=	%	48.360
„Petty cash in lei”		707	39.000
		„Sale of goods purchased for resale”	
		4427	9.360
		„Output VAT”	

The discharge of the products sold at production cost occurs simultaneously:

711	=	345	20.000
“Revenues associated with the costs of the completed production“		„Finished goods”	

e) The construction of the analytical results account:

- for the sale price:

707	=	999	39.000
„ Sale of goods purchased for resale”		“ Analytical results”	

- The settlement of the production costs for manufactured products to determine gross margin:

999	=	931	11.000
“ Analytical results”		“ Cost of output “	

and simultaneously

931	=	921	11.000
„Cost of output”		„Costs related to core business”	

-The settlement of the period cost:

999	=	%	9.000
“ Analytical results”		923	4.000
		„Production overheads”	
		924	5.000
		„Distribution costs”	

f) The construction of the 121 “ Profit and Loss Account”

999	
D	“ Analytical Results”
C	
20.000	39.000
Sfc 19.000	

  

999	=	121	19.000
“ Analytical results”		“ Profit and Loss Account”	

### The Case Study findings:

➤ Within the version of the managerial accounting organization from the perspective of the duality concept, we notice the ability to track the costs for the two types of accounts: the ones specific to financial accounting and the ones specific to management accounting. In the conducted case study, it can be seen the compliance of the methodological stages with the costing calculations and the record of these values in accounting. On the other hand, the emphasis is on the cost calculation and thus we can observe the profitability or unprofitability of each product obtained through production. In the analyzed case, it can be seen that the economic entity obtained profit from the production and sale of the two product categories, but there might be circumstances when the products are unprofitable or one of them is unprofitable. These cases should be reported accurately to the users of the accounting information, i.e. to managers, so that they can make informed decisions in the future, regarding the business activity. In case the products are cost effective, there is a possibility that managers seek to increase profits and then have to find an appropriate strategy of promoting products or lowering production costs. If a product or all products prove to be unprofitable, the economic entity needs to change the current strategy to involve a relevant decrease in costs (ex. by decreasing those raw material costs necessary for the production process, by finding lower priced suppliers for similar products, by reducing operational costs, by reducing labor costs, etc.).

➤ Within the version of the integrated management accounting, the accounts belonging to financial accounting enter in correspondence with those existent in the management accounting. There is a new account in Class no 9 "Management Accounts", respectively the account 999 "Analytical Results" , where the focus is on determining the outcome of the exercise. The expenditure was collected in the debit of the accounts belonging to the Group 92 "Calculation Accounts" while the accounts of the Group 90 "Internal Settlement" were not used. The result is a profit earned by the company but it doesn't show bounded on products.



**Conclusions:**

At the moment, in Romania, the accomplishment of managerial accounting is a legal obligation. The enforcement of the accounting rules provides that, other accounts can be introduced in accordance with individual business needs, fact which remains at the discretion of each undertaking.

Being reported to the management information needs of an economic entity, a professional accountant is supposed to be able to choose the correct management accounting model for the organization, model grafted on the one governed by the accounting rules in force.

As a result of the study performed within this paper, it can be stated that performance of management accounting is very difficult to apply in practice because of the financial accounting records which overlap those belonging to managerial accounting. But the method can be practiced successfully, where economic entities bring to the fore the issue of determining financial results and not the one of the cost calculation.

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