

**INFORMATION PROVIDED BY MANAGEMENT ACCOUNTING THROUGH
MANAGERIAL DECISION MAKING**

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Abstract

In our research we have highlighted the connection between managerial decision-making and managerial accounting information. In the scientific approach, specifically cost analysis, we have identified that it provides the defining management information that underpins good decision making. This approach is supported by the literature, which provides us with a set of definitions that help us understand the meaning of the term decision.

Keywords: *managerial accounting, decision, cost calculation method, management, management team.*

Classification JEL: *M41, M21, F38.*

1. Introduction

I would like to dwell on the information that the author Fătăcean Gheorghe gives us in his book, Managerial Accounting and Management Control, where we can create a definition according to which "decision is a dynamic, rational process, in which, based on appropriate information, a course of action is chosen from a number of possibilities in order to influence the activity of the executors and to achieve a certain result" [7]. We believe that this view correctly reflects the reality of the problem presented by the author.

In order for the decisions taken by the management team to be among the best, the management team must have a clear criterion for the selection of cost information to be analysed in order to make a decision. The accuracy of this cost information will have a decisive influence on management decision-making.

Strategic decisions are key to the success of an organisation and when thinking about strategies in general we need to consider the levers we choose and more importantly how we monitor and supervise their implementation. And in the case of strategic decisions, the management accountant makes a significant contribution to the development of these strategies by providing the necessary information to the management team. From this we can deduce the major influence and contribution of management accounting in strategic decision making.

2. Research Methodology

The aim of the methodology is to facilitate informed research in a particular field. Scientific research could be defined as a process of broadening knowledge through careful and objective observation, investigation and experimentation in order to discover or interpret new observations.

Research should be approached from several perspectives: the philosophical approach, which classifies it into empirical and theoretical research, and, functionally, a distinction is made between basic (pure) research and applied research. From an epistemological approach, the work can be assimilated into research that lies at the interface between positivism and constructivism.

The documentation method is one of the most important. Through this method we will highlight the importance of the subject, we will analyze the existing legal framework of the topic studied.

In order to achieve the chosen general objective, the paper aims to achieve the following operational objectives:

- ✓ definition of the procedure;
- ✓ the influence of the management information system on accounting management;
- ✓ influence of managerial accounting on the decision-making process.

3. Findings

Strategic decisions are key to an entity's success and when thinking about strategies in general we need to consider the levers we choose and more importantly how we track and oversee their implementation. And in the case of strategic decisions, the management accountant makes a significant contribution to the development of these strategies by providing the necessary information to the management team. From this we can deduce the major influence and contribution of management accounting in strategic decision making.

Decisions are the expression of rational acts, succinctly formulated with the aim of finding a direction designed to lead the management team to achieve the defined objectives.

It essentially aims to identify the most rational paths for future action in order to achieve the best results from management actions.

Decision-making should be seen as the essence of management. For decisions to be among the best, the management team must have a clear criterion for selecting the information to be analysed in order to shape a decision.

Decision making is seen as an essential feature of management seen as a defining instrument of expression. The qualitative level of an entity's management is demonstrated by the decisions they make and their implementation.

The managerial decision translates in practice as a decision-making act. The management team, according to its capacity, but always taking into account its knowledge of the problem in question, analyses and formulates the decision as quickly as possible. The manner in which the decision-making process is carried out depends significantly on the type of decisions.

Decision-making should be seen as an essential feature of management, being a defining instrument of expression. The quality level of the management team is demonstrated by the decisions they take and the follow-up of the implementation of these decisions in all processes.

This translates in practice as a decision-making act. The management team, according to its capacity, but always taking into account its knowledge of the issue in question, analyses and formulates a decision as quickly as possible. The way in which the decision-making process is carried out depends significantly on the kind of decisions.

Decision-making is defined as a self-contained mechanism that can be integrated within an entity. This activity must be carried out and coordinated by specialists who know exactly how to prepare, disseminate and draft the control activity of a decision, this activity being carried out according to easily understandable instructions. This approach reinforces our perception of the direct link between the decision and the verification of how it is implemented, which is the responsibility of managerial accounting.

Through the decision-making process, the aim is to find the most rational levers for actions that will lead to maximum results with minimum effort for the management team.

Decision-making is defined in the legal dictionary as "an activity of logical thinking, carried out within a certain organisational and legal framework and carried out over time by management bodies, with the involvement of departments and specialists, in connection with the preparation, drafting, implementation and control of a decision" [9].

A defining element of the decision-making process is the transition time from thought to action, if the supporting information provided to inform the decision is correct. The length of this transition period is influenced by a number of factors, including the experience of the management team and the complexity of the situation requiring a decision.

The cost information needed by management to perform its functions often requires predictions of future behaviour, which involves the use of mathematical models such as the cost function.

Managerial accounting provides the management team with only that information which is considered essential for them to be able to understand how processes are running at a given time in the business entity they manage, and then this information helps them to make the best decisions to improve processes and even to check later on whether decisions have been correctly implemented.

The management team, in order to be able to interpret, analyse and issue a decision on the basis of the information received from management accounting, must have the necessary knowledge to be able to filter and issue decisions with a macroeconomic impact for the entity they manage, even if strictly accounting-specific information remains the responsibility of the accounting specialists.

The continuous collaboration that managerial accounting must achieve with the management of an entity is aimed at adopting optimal decisions and strategic concepts on sources of competitive advantage.

A successful decision making process is largely determined by the way the management team follows up the implementation of the decision implementation steps in practice by those responsible. Frequent review and monitoring of how the measures agreed with process owners are being implemented and followed up is vital to achieving the targets set by the implementation of decisions.

Inflects the management information system for accounting management

Within an economic entity, the information system plays an essential role in its organisation and management.

In Romania, the products in the SAP package are distributed through the SAP Romania programme, which is the standard delivery system, adapted to local market specifications.

In the literature, opinions have been expressed that "SAP R/3 (Systems, Applications and Products in Data Processing) is one of the reference solutions in the field of integrated business entity systems of the enterprise resource planning type adapted for enterprises of the most diverse sizes and specialisations. The system currently has 12,000 beneficiaries in 22 application domains and over 100 countries, 20,000 program product installations, 1.7 million licensed users. It is worth noting that about 50% of R/3 installations are for medium and small businesses. At the same time, the existence of a large number of versions of the system, adapted to the local specificities of the various countries (accounting rules, taxation, currency, including translations into their languages) ensures conditions for use in an international context, in large companies or in global collaboration chains" (SAP R/3- By using SAP R/3, the technical infrastructure can be freely chosen. R/3 can work with a wide variety of systems and applications, a facility that is due to the system's strategic architecture. R/3's innovative technology does more than just ensure optimal information flows within the system.). We believe that this view correctly reflects the reality

Starting from the claims related to the characteristics of the managerial information system, of the author Ovidiu Nicolescu, in his work "The managerial information system of the organization", claims with which we agree, he argues that, "the characteristics of the system from a conceptual point of view, is the integration based on work flows, ensuring the definition and modeling of processes in

functional departments, providing information and stimulating teamwork, to all those involved in the process. And from a functional point of view, the main feature is openness, both in terms of the ability to extend the scope and the potential for connectivity with external systems and applications" [10].

Technologically, the system is supported by a number of solutions:

- ✓ facilitating application linking- provides support for robust deployment through transparent access to data and processes for both applications and models in the in-house system and the external system;
- ✓ Intermediary documents - are structured information as a standard form of data transfer between the SAP system and partner systems;
- ✓ business application programming interface - providing an object-oriented mechanism for accessing data and processes described in the system's business object dictionary.

In our opinion the author rightly said that "the functionality of the system is tailored to the requirements of an integrated enterprise management system. This functional area is structured on three main areas: financial, logistics, human resources" [10].

| Functional component of the SAP system | |
|--|---|
| Financial field | <ol style="list-style-type: none"> 1. financial accounting 2. treasury 3. company monitoring 4. investment planning 5. management control 6. business travel management |
| Logistics | <ol style="list-style-type: none"> 1. production planning 2. materials management 3. service and maintenance management 4. quality management 5. project system 6. sales and distribution 7. product data management 8. environmental protection and safety |
| Human Resources | <ol style="list-style-type: none"> 1. personal development 2. salary policies 3. human resources management 4. payroll calculation and accounting 5. updating personal data by employees |

Table nr.1. Functional component of the SAP system

Source: designed by the author, on basis of Ovidiu Nicolescu, op.cit., p. 441.

Advantages of using SAP

The SAP system is one of the most sought after software solutions on the market today because of the following advantages:

- ✓ Adaptability to implementation:- Functional consistency across the system;
- ✓ Flexibility in operation - applicability and quickest possible solution of current activities;
- ✓ Potential for use - covering enterprise requirements;

- ✓ Integrated nature- implementing sequences of events and business processes that cross functional departments and provide real-time, up-to-date information and documents to users;
- ✓ Portability - the possibility of inserting on different programs;
- ✓ Connectivity - linking supplier and customer information systems, ensuring coverage of the entire production cycle;
- ✓ Extensibility - expanding the workload;
- ✓ Quality of solutions - adapting quickly and meeting partner requirements;
- ✓ Openness to the digital economy - rapid implementation of web presence possible [10].

In addition to these advantages the ASAP (accelerated SAP) solution offers the advantage of a unified approach to this process, leveraging the expertise of SAP consultants, business support and technical leadership. The ASAP solution is based on a five-stage implementation cycle: project preparation, business process design, system implementation, commissioning preparation, operation and maintenance.

After more than 40 years the chart of accounts structure of the analysed business entity in the automotive components industry replaces the old chart of accounts that had been used until now. All the entities belonging to the group under review, legally consolidated worldwide started using this chart of accounts in mid-2008. This was done in order to best meet future objectives and to use a "common language": adaptability for future requirements, including company acquisitions, accounts to match the structure of the entity, to support parallel accounting in accordance with International Financial Reporting Standards and generally accepted accounting principles; for a classification of accounts used, for year-end closings.

All the accounts and cost types used in the SAP system (management information system used by the business entity) have been replaced by the accounts in the chart of accounts of the analysed business entity in the automotive components industry (Chart of accounts of the analysed business entity in the automotive components industry).

Verification also aims to measure and verify the results achieved during the reporting period, to identify the causes that prevent the proper achievement of the proposed targets or deviations in the decision-making process and to find measures to ensure that such deviations do not occur again. By carrying out a complex check at the right time, it helps us to ensure that the system or sub-system is adjusted to the targets originally set.

As we will show below from the cost analysis a series of appropriate information results which helps the management team to choose a course of action when it comes to making decisions regarding the supply of raw materials, hiring of labour, contracting suppliers from the local market to the detriment of those already existing, relocation of new production divisions to the analysed location, specialisation of the workforce, construction or renting of premises to carry out their activities.

In the following we will try to answer the question: What decisions can management make that are influenced by costing?

The logistics department monitors the stocks under its management on a monthly basis and regularly produces a report including their value and fluctuation during the month under review. At the monthly meeting the management receives the information and observes that it is facing stocks that exceed the requirements. It is requested to check the reason for the purchase decision as well as the production demand for products using purchased raw material. Since stocks do not other than locking up cash, and increasing its value makes it difficult to implement certain efficient technologies management decides whether or not to decrease the level of safe stock based on the information provided. In the long run management also considers the issue of inventory organization, and a large stock of raw materials makes it difficult to run the inventory properly and increases the likelihood of easy mix-ups in counting and this leads to inventory losses. This is also true for the stock of finished products and spare parts which are closely analysed. According to the local legislation, for the amount of the non-attributable inventory loss, after offsetting, the business entity is obliged to collect

VAT on the loss. Moreover, both the expense of the adjusted stock loss and the adjusted VAT are non-deductible in the calculation of the income tax, all of which are an additional cost for the business entity and have a decisive influence on the management decision.

The possible state aid that can be attracted for the analysed entity provides the management team with significant information that influences their decision to invest by purchasing fixed assets in the analysed location and the costs incurred by the entity are decreased by the amount of state aid received. This benefit also comes with a number of obligations on the part of the business entity, including: providing the workforce for a required number of new employees and paying taxes and contributions to the state, a minimum amount of profit required and the non-investment of fixed assets for a required period of years, etc. If the company decides to apply for this aid, it does so by assuming the obligations imposed in the contract and must consider returning the aid provided plus a number of penalties and surcharges. All these calculations are included in the investment plan on the basis of which the management team takes the decision to invest and apply for state aid.

If the costs for a certain production division increase unjustifiably, the management team asks for an accurate identification of the cost centres in order to be able to analyse which product has the highest losses. Transparency and accurate and timely identification of costs helps to make the right decisions for the entity.

The management team when they are informed of a considerable increase in labour costs in the first instance it is appropriate to ask for a number of information as follows:

- ✓ the real reason for the increase as well as the amount of the additional cost;
- ✓ the possibility of increasing productivity through further training and the cost of such training;
- ✓ the possibility of automating production lines and thus reducing the labour required for production;
- ✓ the cost of reorganising production stations, which could reduce labour requirements;

All these costs and ways are put together by the specialists in order to predict several scenarios with the forecasts and costs involved in each decision and finally the management team takes the best solution based on the costs involved in the decision to be implemented.

Another sensitive issue for the business entity under analysis is the construction or renting of premises to carry out its activities? At first sight the answer would be obvious, i.e. construction. But the management team asked for a 10-year forecast versus the cost of production or rental. The controlling team took into account when calculating the forecast cost of production the following: the actual cost of land acquisition, the actual cost of construction, the cost of annual taxes paid to the state, the cost of maintenance and repair, etc. Based on all these decisions over a 10-year period it is much more advantageous to rent.

Also unforeseen expenses will unsatisfactorily influence the performance of the entity and the decision making process. A margin should always be considered and this margin should be included in the reports presented to the management and thus the negative effects will be substantially mitigated.

We may wonder what the differences are between the ABM and ABC method, and why it is recommended to choose the ABC calculation method over the other. The answer can be found by comparing the two methods, first by looking at the benefits offered by the two methods to the management team. The need of the management of a modern business entity is to use a complex calculation method that satisfies as many expectations as possible, i.e. in addition to the measurement of the value of costs, to analyse the elements that make up costs, to determine activity-based performance, to measure functional costs and much more.

Even if the workload using the ABC method is high, it allows to calculate profitability margins, to right-size capacity and to estimate internal transfer prices based on real costs, the ABC method allows to identify the optimization potential of processes, indicating redundant activities,

activities with the highest costs and facilitating internal and external benchmarking, which the AMB method cannot determine.

Managers, if they decide to implement ABC systems, must automatically identify a cost driver for each activity. They must also take into account the level of detail, accuracy, feasibility and cost of estimating cost functions.

The economic climate is prompting managers to look more closely at the level of decreasing costs in each category and to try to lock their allocation to processes, which requires the use of a modern calculation method.

Economic performance indicators, which result from the processing of economic information, aim to quantify the values in the economic and financial management of the commercial entity. Knowledge of these performance indicators provides a financial balance for commercial entities, including: working capital requirements; value added, management reserve, gross operating surplus, trading margin, production for the year, net cash, self-financing capacity, and working capital.

Managerial accounting helps to determine the economic performance indicators, with which we measure whether the economic entity has achieved its objective.

4. Conclusions

The management team asks for a real identification of the sources that generate costs in order to know the implications of taking one decision over another.

As we have detailed so far and as we will observe throughout the paper, the department with a very important role for the commercial entity, seen through the prism of the information provided for analysis to support a decision, is the controlling team.

In order for the decisions taken to be among the best, the management team must have a clear criterion for selecting the information to be analysed in order to make a decision. Commercial entities, in order to be able to survive the global challenges, must have their management accounting strategically organised and led by the management team so that they can then successfully face the challenges of the economic context of the sector to which they belong.

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