

MANAGEMENT ACCOUNTING: CONCEPTUAL APPROACH AND IMPROVING SOLUTIONS

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Abstract

Managerial accounting takes on a new dimension after 1987. With the evolution of the economy and the major changes that occur after this period, managerial accounting reorganizes towards new methods of application. The development of costs and costing methods had a major influence on the development of technology. Another aspect that influenced the evolution of costs was also influenced by the increasing competition in the economy.

In the scientific approach we will pay particular attention to the ABC method which is considered the most developed and accepted method in management because of the information it provides and its ability to make connections between the various elements encountered in the entity's activity, such as activities and cost objects, resources, activity factors, responsibility centres, etc.

Keywords: cost calculation method, ABC method, management, management team, managerial accounting.

Classification JEL: M41, M21, F38.

1. Introduction

We propose to present below different solutions to improve managerial accounting in order to help the management team to make the best managerial decision for the business entity.

The concept of the method is based on the idea that it is not products that consume resources, but activities. With the advent of activity-based costing, it was discovered that the traditional costing methodology can create significant differences in the costs of final products. These, experts say, stem from the way traditional accounting allocates expenses.

Differences in cost allocation can shape the final price of outputs and also lead to misguided management decisions, say the promoters of this methodology, which is applied today mainly by large companies that are attentive to any possibility of reducing and controlling costs.

2. Research Methodology

The ABC method should be seen as a solution for improving managerial accounting that best suits management needs.

In order to get a clearer picture of the considerable benefits that the ABC method provides to the management team compared to what traditional methods could offer, the author Kaplan R. S. outlines the comparison between traditional methods and the ABC method.

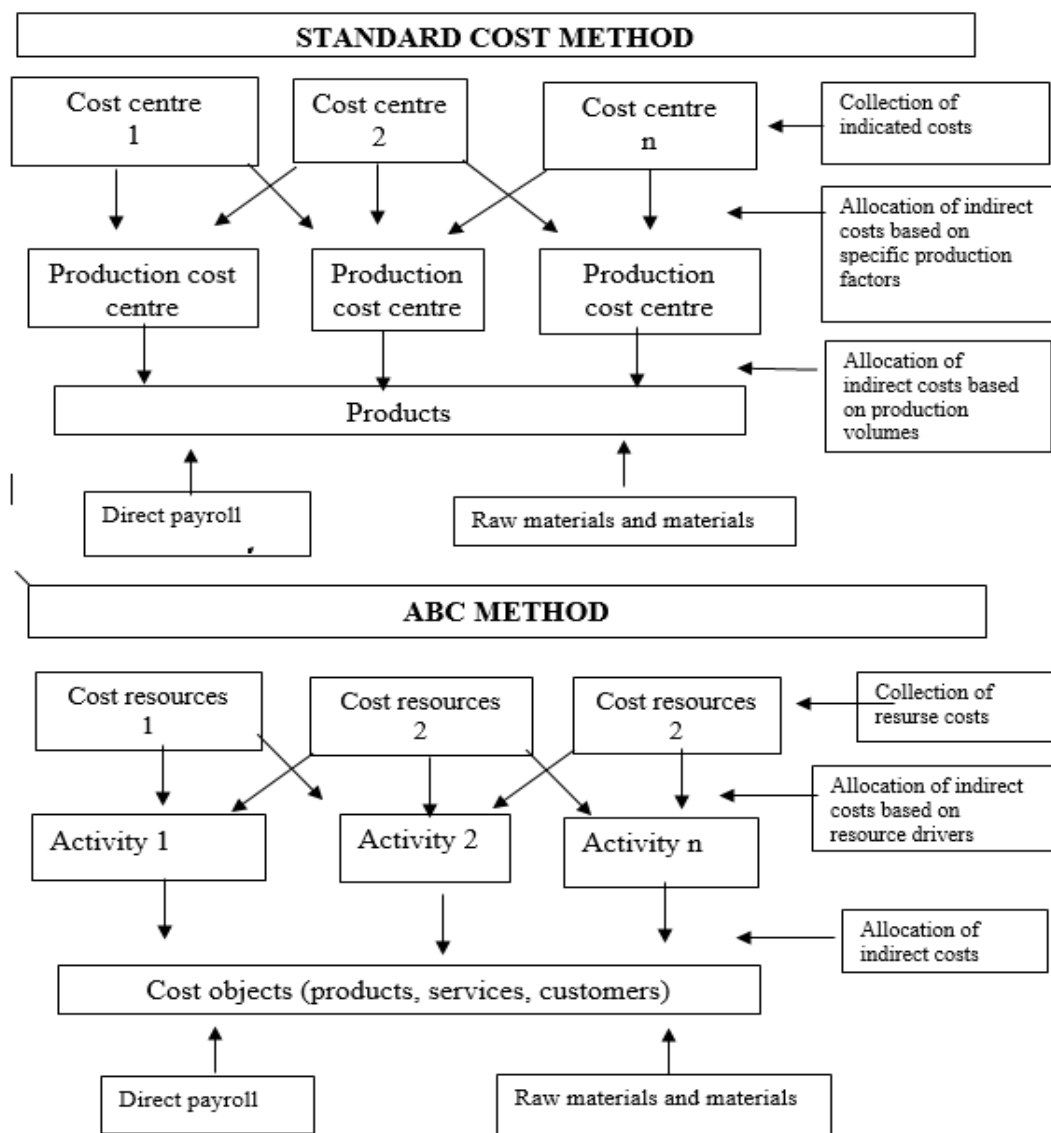


Figure nr.1. Comparison between the standard cost method and the ABC method

Source: designed by the author, on basis of R.S. Kaplan , Cooper R., „ Management accounting:text, problems and causes, 4th edition, Tata McGraw-Hill, New Delhi, 2007, p.45-51.

By analyzing the above diagram we can see the close links between the cost information taken separately for each activity, from here it is easy to visualize how the costs associated with a strategy can be determined.

The ABC method goes hand in hand with strategic management because of the benefits this method offers in terms of contributing to the formation of strategies and managing their implementation.

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:

- ✓ outline the current state of knowledge on managerial accounting and
- ✓ to treat through a comparative perspective the application of the costing method;

3. Findings

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.

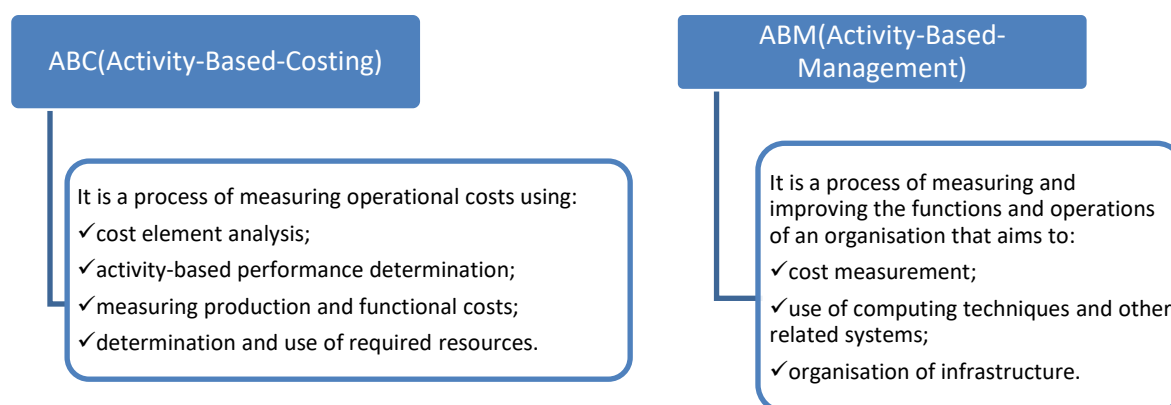


Figure nr.1. ABM versus ABC method

Source: designed by the author, on basis of Sorinel Căpușneanu., Fundamentals of management accounting and costing using the ABC method”: București 2006, p.90.

Although the ABM method is considered to be the basis for the development of the ABC method, it provides much more relevant information costs, obtained with much greater accuracy than ABM, which focuses on making it possible to direct actions concerning long-term objectives.

We believe that the ABC method meets the needs of entities to correctly determine production costs. The method provides relevant cost information, offers solutions for cost reduction but also for determining the performance of the entity.

Having analysed the point of view of the author Sorinel Căpușneanu in his work, "Elements of cost management", I tried to make my own systematisation of the disadvantages of using the ABC system. In our opinion, the author has rightly emphasised certain disadvantages that come with the benefits of implementing the ABC calculation method. The disadvantages of the ABC system described by Sorinel Căpușneanu are:

√ "Implementing an ABC system is a project that initially requires some dedicated resources. Once implemented, such a system needs to be maintained and the structure of its account allocation model will need revisions. Input data sources need to be collected, verified and entered into the system;

√ Managers are still used to using traditional systems, which cost less to run;

√ Activity-based cost information can be easily misinterpreted and should be used with caution in analysis and decision-making. Before making any significant decisions using activity-based costing data, managers need to identify which costs are really relevant to those decisions;

√ The reports generated by these systems are usually not in accordance with generally accepted accounting principles. Therefore an organisation using ABC/ABM will have two cost systems, one for internal use and one for preparing external reports" [2] [4] [5].

But like any other method, the ABC method also has limitations. Among the method's main weaknesses are the burden of identifying value-producing activities and cost drivers. Another criticism of the method could be that it remains difficult to apply when some companies have problems identifying hidden costs, when others claim an interest in physical indicators, and when most use only financial indicators.

Another disadvantage of the ABC method comes from the large amount of data involved in using this method due to the breakdown of costs into many distinct activities.

The ABC method is particularly useful in determining the cost of standardized, repetitive processes. From this point of view, it has wide applicability in mass production environments or standardized service providers.

Another benefit of implementing the ABC method is the possibility of estimating the actual resource requirements by comparing existing capacities (e.g. number of operators in a department) with the capacities needed to perform the current workload. As a result, the organization will be able to size its resources more accurately according to actual needs.

In addition to being able to calculate profitability margins, right-size capacity and estimate internal transfer prices based on real costs, the ABC method allows the identification of process optimization potential, indicating redundant activities, activities with the highest costs and facilitating internal and external bench-marking.

The importance of updating costing methods in the automotive components industry

In the following we will highlight the importance for the economic entity of updating costing methods. Our idea is supported by current research on management accounting recommends and promotes modern costing methods.

Entities in the automotive components industry need to change their approach to the importance of the information that management accounting can provide and by implication the calculation methods used which must be aligned with the entity's business, but at the same time provide only the type of information that the management team needs to be able to steer the entities towards success.

The size of the entity is not a criterion when it comes to applying modern costing methods. Any business entity with a significant amount of accounting information automatically entails the

need to implement and organise management accounting. The information that is provided by the management reports drawn up differs depending on the training of the specialist who produces these reports. These reports also depend on the specialist who requests them and, therefore, makes decisions on the basis of them.

In general, companies in the automotive components industry are foreign-owned, which means that they are reconciled with other divisions within the group to which they belong. In order to be able to reconcile, these entities have their management accounting very well set up so that it can provide information at any time to the manager of the division, and therefore to the group. On the basis of this information, the group takes decisions on future investments, adjustment of expenses, etc.

4. Conclusions

We believe that many Romanian entities, for which management accounting is not familiar, could take the example of these entities so that they can then implement them within their companies and adjust them according to the complexity of the report.

In order to be able to change our vision of management accounting and accept its purpose, which is always oriented towards supporting managers in their decisions, we need to analyse the benefits and limitations of one method or another. Analyzing and implementing the best costing method will always lead to decisions that will guide the business entity towards success.

The essential goal is to implement the best method for our business entity, so that we can then improve the costing methodology by setting clear targets towards which the business entity is oriented. The practical steps should not be limited to just following the classical steps of the chosen method, but should be adjusted and improved as market trends and targets and management team changes.

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