

ISSUES OF MANAGERIAL ACCOUNTING METHODOLOGY

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ABSTRACT

This article deals with management accounting, its role and objectives during financial planning process. Research of on American, German and Russian scientists are also considered. Author formulates his own definitions of aims of management accounting, highlighters that object of financial accounting have to include economic costs, economic revenue and economic added value, economic interest. More over Author defines methods of management accounting.

UDC & KEYWORDS

■ UDC: 657.2 ■ Management accounts ■ Reporting ■ Costs
■ Depreciation ■ Profit ■ Economic value added ■ Methods
■ Managerial accounting

INTRODUCTION

Nowadays the interest to controlling and the management accounts has considerably increased in the economic literature. Frequently we can see the mixing of these concepts.

So, the recently published edition translated from germane language is called "The conception of controlling: Management accounts. System of Accounting. Budgeting."

By the title authors identify the parts of controlling and define eight basic steps to effective system of controlling, such as:

- Accounting system and company planning testing,
- requirements profile to controlling system definition,
- management accounts system formation,
- transition from management accounts to annual planning and budgeting system,
- long-term planning system creation,
- strategy development and its implementation,
- complex data ware system creation,
- controlling organization formation.

Functions of controlling

The basic functions of controlling are the following:

- Assistance at company's purposes development,
- planning and budgeting activity coordinating,
- creation of data system, which contains information about planned, actual and prospective quantities,
- timely execution of collation the plan-fact on revenue, costs, profits,
- reporting to management about deflections in target values of the basic indicators,
- variance analysis and discussion of the results with heads of the responsibility centers,
- efficiency calculating,
- value analysis of indirect costs in all divisions.

We can see the coincidence in management accounts and controlling functions, which is understood as a system of providing managers with information, that helps to control the organization's activity:

- Accounting for insiders,
- providing with relevant information for making prospective decisions,
- providing with timely information about subdivisions.

Functions of the financial management

Financial management can be defined as the flexible system of managing the money flows by the subject of economy on the basis of making effective decisions on forming and using the financial resources, assets and liabilities, incomes and expenses in the conditions of uncertainty and risks of the market environment.

The functions of the financial management are the following:

- Financial analyses and making decisions on its basis,
- earnings and financial resources forecasting and planning,
- managing the tax burden,
- managing the liabilities,
- evaluating and managing risks,
- the supervision over administrative finance solutions accomplishment.

Despite some coincidence in functions of management accounts, controlling and financial management, it is possible to draw a conclusion, that management accounting, being an informational system for controlling, is at the same time its object. Also management accounts is the subsystem of financial management.

The users of controlling information are company's managers, also financial managers. However, financial management includes broader range of tasks than controlling, and that is why the circle of users increases with external users.

It is impossible to agree with D.Slinkov [1], who defines the following purposes of management accounts:

- Strategy stating,
- planning and organization of business activity,
- assistance in decision making,
- resource utilization managing,
- the financial reporting generation support,
- preserving the assets.

Here we can see a clear example of mixing management accounting and financial management objects.

Strategy stating and business planning are the tasks of financial management.

Informational resources for financial management

Financial management as the organizational managing system operates with the data of the following informational resources:

- Accounting data,
- the financial reporting,
- indicators of budgets,

- data of statistical reporting,
- regulations and specifications,
- legislative acts,
- agreements and contracts.

This information can be used both for long-term planning and for short-term managing the economic activity of business entity. If there is the Internal Audit service within the organization, it uses the same data for exercising the financial control functions. It is known that, the function of control is one of the basic functions for the system of financial management, though according to organizational plan this service reports directly to the CEO.

Large businesses consider that it is necessary to form this structure within the organization.

The Internal Audit service can be responsible for managerial analyses, analyses of entity's financial performance. Managers can also oblige this structure to prepare company's budgets. In this way the Internal Audit is also the subsystem of financial management.

The administration can oblige internal auditors to be engaged in processing of the information for reporting under the IFRS, but for today IFRS application by the Russian enterprises isn't legalized. The project of such law is already developed. Application of standards on the one hand causes the set of methodological character questions, on another - allows to look at the organization of financial management and the management accounting at the enterprise in a new way.

Adaptation Russian financial reporting to the international standards

One of the urgent problems in the Russian financial reporting is its adaptation to the international standards. It is an important economic problem at the state level: the more PBU (Russian accounting standards) reporting is approached to the international rules, the less expenses on transfer it in the international accounting standards (IAS) will incur the enterprises. In our opinion, one of the basic differences between national standards and international are:

1. Any analogs identical to the IAS framework absence.
2. The recognition of the financial statements elements in the Russian accounting absence;
3. Difference in the measurement of the financial statements elements;
4. The conception of "professional judgment" absence.

There are also the other basic differences.

Long enough time (since the moment of PBU1/94 "the Accounting policy of the enterprise" forthcoming) the Russian accounting diligently adapts the international standards in the accounting theory and practice of the domestic enterprises. Those Positions in accounting, which "are adhered" to the tax accounting are improved in due course and really applied in practice. Postulates of those, standards which have no "access" to the tax accounting, lead separate life, without finding of practical application. So, for example, PBU 6/01 "the Accounting of fixed assets" took from IAS 16 only those rules, which according to PBU developers, are clear enough for the Russian accountant and, of course, are realized in practice.

It concerns first of all ways of fixed assets depreciation, such as:

- Straight-line depreciation (results in a constant charge over the useful life if the asset's residual value does not change).

- The diminishing balance method (results in a decreasing charge over the useful life).
- The units of production method (results in a charge based on the expected use or output).

These depreciation methods are progressive enough and very necessary from the technical upgrading point of view. But the cut off from the practical mechanism realizations, the second decade "live" only on the pages of the financial accounting textbooks. But only the straight-line method is used, because its application is imposed by the Tax code of the Russian Federation.

In the Russian accounting there is no recognition of the financial statements elements. Framework for preparation and representation IAS have defined them as:

1. Asset: An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
2. Liability: A liability is a present obligation of the enterprise arising from the past events, the settlement of which is expected to result in an outflow from the enterprise' resources, i.e., assets.
3. Equity: Equity is the residual interest in the assets of the enterprise after deducting all the liabilities under the Historical Cost Accounting model. Equity is also known as owner's equity. Under the units of constant purchasing power model equity is the constant real value of shareholders' equity.
4. Revenues: increases in economic benefit during an accounting period in the form of inflows or enhancements of assets, or decrease of liabilities that result in increases in equity. However, it does not include the contributions made by the equity participants, i.e., proprietor, partners and shareholders.
5. Expenses: decreases in economic benefits during an accounting period in the form of outflows, or depletions of assets or incurrences of liabilities that result in decreases in equity.

In our opinion, the normative base of the Russian accounting should be based not only on the Law "About accounting" (as it is now), but also on the document similar to the Framework for the Preparation and Presentation of Financial Statements, where various kinds of reporting clauses measurements are explained. It would allow to advance further practice of the international standards application, including fair value.

In the literature there are given different treatments of fair value, the types of which can be: initial historical cost; substitution cost; liquidation value; discounted value. It is the least developed part of the framework. For each concrete case the accountant, guided by his professional judgment, should prove application of this or that measurement. In practice the incorrect measurements concerning certain statement elements are applied, they are named the fair value. In different standards different definitions of fair value types are given. The different measurement techniques for fair value determination can be doubtful, as the preset result is modeled beforehand, that leads to information qualitative characteristics disorder, misinforming the user.

The basic idea of IAS is providing with the information the general groups of external users. Therefore we consider expedient disclosing of fair value calculation ways in notes to the financial statements, so that each user could understand what means the each type of measurement. The Framework for the financial Statements preparation and

representation is necessary to supplement with the certain standard devoted to definition of the fair value, with examples of the financial statements certain elements.

At the present time, when forming and improvement of the accounting normative base still proceeds and there are various treatments of concepts and approaches to the business transactions accounting and the objects of accounting, we consider it necessary to include the concept of "professional judgment" in the Russian accounting theory and practice. More than ten years there is training for Russian professional accountants who in ambiguous (for accounting practice) situations make decisions according to their vision and experience. Therefore the standard should regulatory fix the already available practice of the "professional judgment" concept.

Application of IFRS allows to look at such concept as "economic benefits" in new way, and to ask such a question: what is it? After all such information is extremely necessary for proprietors and managers for the efficient management the entity. The management accounting should carry out this problem.

Theory of the management accounting

The theory and methodology of the management accounting still is not the developed enough scientific problem. The name "management accounting" means itself that it is a type of the accounting intended for the purposes of the enterprise management. No one among the researchers can deny it. Problems arise, first of all, concerning the accounting in a management, secondly, in the determination of the management accounting object, thirdly, in the determination of management accounting methods.

Let's consider these problems, but first it is necessary to remember that accounting in general (accounting, tax accounting, Fiscal accounting, management accounting) is urged to contain the already made (not planned, but already made) facts of the entity's financial activity and only on this basis to be an information source about this activity for the financial activity analysis, the computation of taxes estimation, audit, the control and for making management decisions, finally the data of any type of accounting is used for the management purpose, that doesn't make the management accounting exclusive, the only one type aimed on production, financial management and the internal financial control. This is the very important methodological position which should be considered in the development of the management accounting framework.

According to the Chartered Institute of Management Accountants (CIMA), Management Accounting is "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. [1, c.15].

Harrison, Norin, Brewer mark that: "Administrative accounting-is a system of providing with the information the managers, who direct and supervise the activity within the organization, unlike the management accounting the financial accounting provides with the information the shareholders, creditors and other concerned persons who doesn't work within it" [2, c.15].

Such interpretation of the management accounting accurately enough determines the mission, tasks and its place in the accounting system, financial information space and financial, relating to the planning processes, estimations and management. Americans endow the management

accounting (in whole and its specialists inter alia) with the unusual functions of planning, budgeting, regulating, strategic management, efficiency management, resource utilization, risk management, etc., that Russian economists and tallymen try to do in different variants, even to shift the financial management main functions onto the management accounting, and the CEO's functions - onto the accounting-service people.

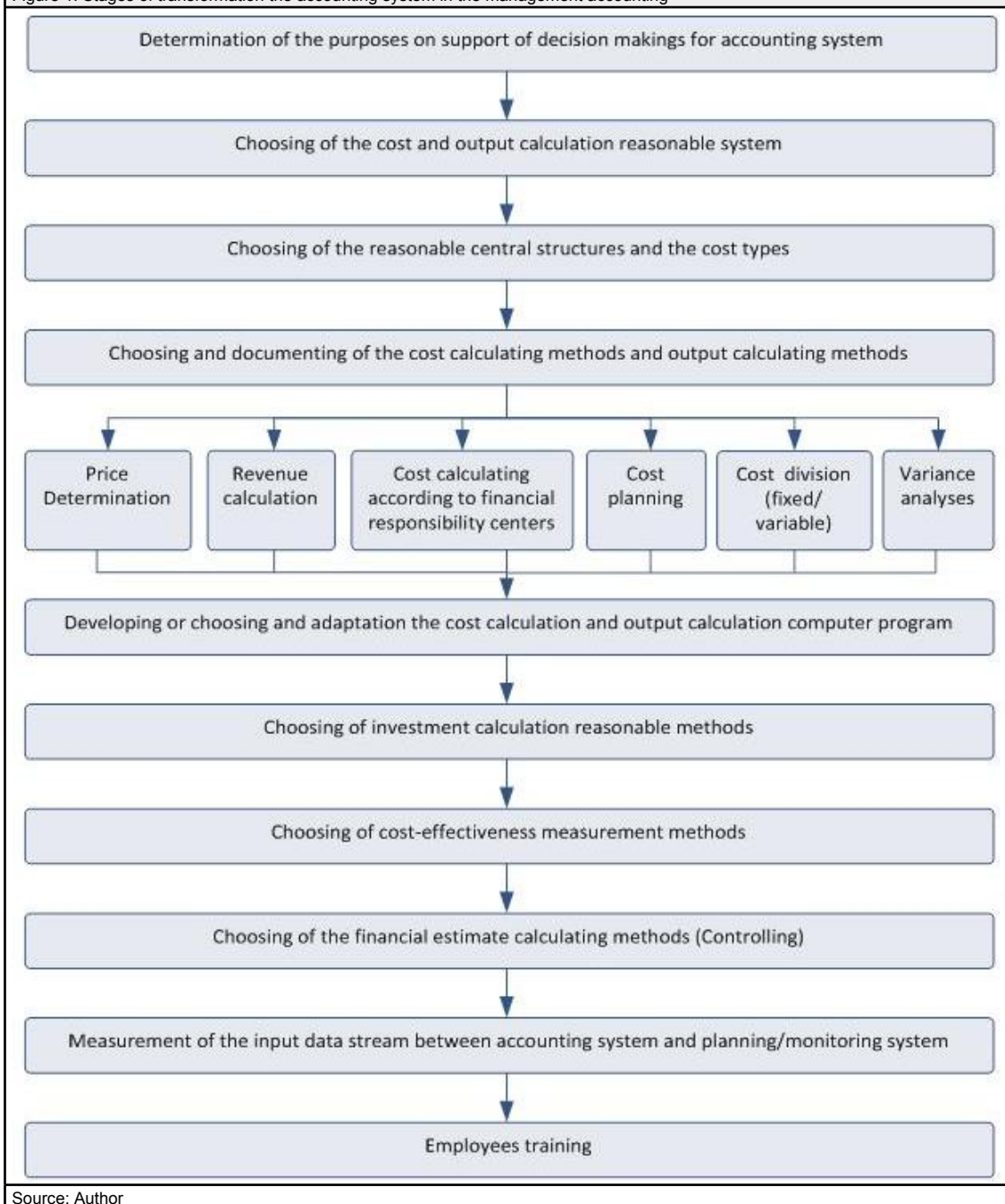
If in the earlier works of the Russian economists there is offered the more moderate approach to the management accounting (V.F.Paly, O.N.Volkova, I.JU.Tkachenko, Karpova, A.D.Sheremet, V.E.Kerimov, C.A. Nikolaev), assuming the inclusion the elements of budgeting, accounting, control, analysis, making the management decisions in the system. By the development of this approach, the functions, tasks and structure of the management accounting become wider.

For example, D.Slinkov considers that the management accounting - is an authentic plan, supported with eloquent figures, that it concerns three areas of management: strategic management, performance management and risk management, and the purposes of this accounting are: Strategy formulation, planning and the organization of business - activity, the help in decision making, resource utilization managing, financial statements support, assets preserving [1, c.15].

A little distinct from the others approach to the management accounting forming is offered by German scientists. (P.Horvat, B.Gajzer) [3, p. 81-83]. For remedial action in the classical system of accounting within the enterprises (orientation to accounts department, a lack of the necessary information, aiming at the subsequent justification, instead of help in decision making, the stress is made on costs measurement, instead of revenue measurement). They suggest supplementing this system of accounting with planned and total statements to displace the stress from past documenting to support the management in decision making. The efficient management accounting, in their opinion, should consist of the following basic elements: costs calculation and output calculation, focused on enterprise management; investment calculation; financial calculation. Transformation the system of accounting to management accounting are presented by authors on fig. 1. In the approach considered above, despite moderation (conservatism) in interpretation of the management accounting structure, there is no accounting per se, the term "calculation" substitutes for it, as central one in this system, but the information component of the management accounting system is worthy. Determination of the management accounting by V.Tolkach is rather impressive, under which controlling and the management accounting are identified as the systems of "collection and handling the internal financial information about assets, liabilities and equity (balance sheet), income and expenses (profit and loss statement), receipts and payments (cash flow statement)" [3, c.9]. Generalizing approaches to the interpretation of the management accounting, it is possible to say as Tolkach, concerning controlling (in an opening address to P.Horvata's work): "the widest treatment of the term controlling hypertrophies a verb variant of translation" to control ("to manage"), and according to it, the controller is identified, as a matter of fact, with the manager who generally speaking, also "manages" [3, c.9].

This conclusion is also correct for management accounting as it constitutes one of the basic components of controlling. Besides, the accounting should be the central link of any kind of accounting, id est the objective reflection of the

Figure 1: Stages of transformation the accounting system in the management accounting



economic activity facts or providing the users with the information, but what certain facts and for whom they are intended depends on the types of accounting, differing with objects and methods.

Any type of accounting has the purposes and tasks, objects and methods which constitute its features and the content. Unfortunately many elements of management accounting definitively still aren't specified, and it is impossible to consider undeniable what is offered in the literature as objects and methods, it is a subject of discussions among specialists - tally keepers, and among financiers often

causes quandary. We will try to present our vision of management accounting framework.

Basic theory and methodology of the management accounting

Undoubtedly the management accounting is the internal accounting, used to provide with trustworthy information managers and services of financial management for making management decisions on outputs and structure of production, sales, prices, expenses, costs, profit and investments, etc. management accounting Services, accountants and inspectors document business - processes

with a view of financial screening, perform costing per unit of goods, constitute the financial reporting, and also participate in current and strategic planning, control, perform the analysis and an estimation of various aspects of financial activity for management, develop accounting policy and choose methods of cost calculation, income and expenses calculation, etc., at last state and arrange the professional judgment. This is the help to the enterprise management in making the administrative, strategic, planned and subsequent decisions - one of the purposes of this accounting type, which is impossible to disagree with. The basic theory and methodology of the management accounting, in our opinion, should be:

1. Giving the information about all the business - processes by their documenting with a view of planning, analysis and control within the financial accounts department.
2. Drawing up the profit and loss statement for management.
3. Choosing, determination and documenting the system (methods) of cost calculation and the cost and output accounting, measurement of costs, cost calculation between the centers of responsibility and their division on fixed and variable costs, analysis and control of costs and output for budgeting, decision making, planning.
4. Choosing, determination of methods of calculation, documenting and accounting, the analysis and control of profit and other financial indicators for planning, budgeting and decision making.
5. Choosing the methods of investment calculations, documenting, accounting and the analysis of investments, planning, investment and investment decisions making.
6. Forming of an input data stream for management accounting.
7. Choosing the input data stream between operational accounting, management accounting, external financial and tax accounting.
8. Input data stream forming between management accounting and a plan system, execution and the control.

Now some points about the objects of the management accounting.

As it was already noticed, any type of accounting should reflect the real facts of economic activity, so that for management accounting the planned targets, reflected in financial plans and budgets are not suitable. Planning and budgeting, execution of plans and budgets - is one of the management functions, but not the management accounting function, which urged to help management with the information and calculations, making and execution of strategic and current management decisions. Therefore we offer essentially new approach to determination and a content of management accounting objects. Indicators of the enterprise activity, calculated on the economic approach basis should be suitable.

Thus the objects of the management accounting should be the economic costs, including transaction costs, the economic salary, economic depreciation economic profit, economic value added, economic percent (dividend), etc. These economic indicators differ from their accounting analogs. Methodologically such distinctions are based on accounting in economic indicators not only obvious (accounting), but also implicit (not reflected in business accounts) elements or, on the contrary, in accounting of the certain accounting facts. To justify the validity of our approach it is possible to give , at least three arguments:

first, economic indicators, despite their difference from accounting indicators, reflect the real facts of economic and financial activity; secondly, economic indicators are used by management (financial management) and on their basis effective economic decisions about income and expenses, assets and liabilities are made; thirdly, calculation and accounting of economic indicators will allow to provide management with the authentic management information and will increase their value management decisions making. Thus the written above functions (tasks) of management accounting should be adapted to the economic indicators and methods of the calculation.

Methods of management accounting

Complexity of realization the offered methodological approach in management accounting forming appears because, firstly, there is still no unified standard calculation procedure of a considerable part of economic indicators, secondly, there is a need for developing the system of special management accounts and requisites, thirdly, it will be necessary to create special forms of the reporting for the management accounting, adapted under economic indicators. Named above problems still should solved by realization and development of the new philosophy of management accounting. Besides, it is necessary to specify with methods of economic indicators management accounting. We consider that such methods should be:

- The general for management, traditional accounting methods (documenting, debits and credits accounts, a method of balance sheet generalization, etc.),
- methods and procedures of economic indicators, costs, profits, depreciation, payment, value added calculation etc., including methods of determination the limit values and transaction costs,
- methods of the economic analysis,
- methods of the current and operative monitoring,
- methods of drawing up the financial statements.

Development of economic indicators calculation procedures, management accounts and Essential Elements, forms of the management financial reporting - is the topic of special applied researches. Therefore here we will review only two methodological issues, concerning such important objects of management accounting, as transaction costs and economic value added.

Transaction costs are directly connected with economic costs as the part of these costs which is not included in accounting costs, availability of such costs reduces the efficiency of finance decisions, but it is necessary to include them, if not in accounting, then in the management accounting.

In the Oxford economic dictionary transaction economic costs are determined as expenses at carrying out of agreements within the company and between the companies in the market which arise due to the limited rationality, information problems and opportunism. Such costs take the form of potential losses due to insufficiently irrational decision making, the additional expenditures connected with reception necessary authentic information, real losses of opportunistic behavior (any behavior characterized by evasion from conditions of contracts).

E.Furubotn and R.Richter interpret the transaction costs as the expenses connected with creation of institutes and the organizations [3]. D.Nord considers transaction costs as a payment for inefficiency of ownership rights. (If there was no transaction costs, market traders would always have

because there is no opportunity for considering all the factors, including psychological).

Transaction costs are alternative and can be subdivided into fixed and variable, and also on expenses on transaction (on information gathering, its analysis, preparation, contracts etc.) and on expenses after transaction (on the control over execution of conditions, monitoring, potential losses, non-execution of agreements conditions etc.) [3].

T.Eggersson treats transaction costs as the expenses arising during exchange by individuals the ownership rights on economic assets and at provision of their exclusive privileges [3]. This approach concretized also by A.Olejnik, he includes in transaction costs the all costs which are connected with an exchange and protection of competences and classifying them according to stages of the agreements on expenses on information gathering, negotiating, an estimation and the making up the contracts, and also on expenses after the contracts conclusion in the form of monitoring the opportunism prevention costs, specification and protection of the ownership rights against the third parties [3].

Conclusion.

Thus underestimation or ignoring the transaction costs can lead to distortion of adopted financial decisions and to decrease in efficiency of planned changes. That is why the integration of transaction costs in the management accounting system is very important.

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