

THE ACCOUNTING MANAGEMENT: AT THE LIMIT BETWEEN TRADITIONAL AND MODERN

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Abstract

The profound mutations of the Third Millennium Society have transformed the informational administrative accounting system into a "black box", the most important source of information in a socio-economic context. The administrative accounting is a guidance tool, a management adviser providing the "database" needed for leadership in decision-making.

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1. Introduction

The technical progress requires the advanced production technology, thus revolutionizing, besides the way of making the products, also a remodeling of administrative accounting. Under these circumstances, it is absolutely necessary to abandon the traditional calculation systems in favor of modern costing calculation systems. This hypothesis is pertinent in the context of efficiency, effectiveness, and rationality of information systems tailored to the requirements of modern management. But we currently live in a world of limited resources, which also requires a rigorous analysis of the social, economic, cultural, historical context of the entity that implements a particular costing calculation method. Making use of the only inexhaustible resources, creativity and intelligence, we need to decide in an objective manner the opportunity of a particular calculation system.

The change is beneficial to any organization when it is one of substance, a profound restructuring and not just an imitation of the form on an inexistent basis. An analysis of the current trend of adopting modern calculation systems to the detriment of traditional ones and the adaptability of this reform in general practice, and especially in Romanian practice, is relevant. Thus, the theory, the ideal state, must be adapted in an appropriate manner to practice, the actual state, in fact.

The Society of the Third Millennium is a universe of uncertainties, limited resources, speculation, of drastic overturning of the situation, being in general the equivalent of an unfavorable situation, which pushes us to the permanent identification of salvation solutions, that is to capitalize on the unique inexhaustible resources, creativity and intelligence in order to be able to break into this luscious and perverse environment.

The technical progress, the environmental instability and the complexity of the information circuit are required for the need to establish the concept of flexibility in the context of a real change management. The management of economic entities in charge of ensuring the vitality and robustness of the organization towards change, thanks to the constant coordination of its activities, efforts and resources, comes to their support, being the absolutely necessary guide to finding your own way in confusing circumstances, to strive to give meaning to ambiguous messages, read the signals, look around and listen all the time, deal with conflicts, and strive to accomplish your tasks by establishing and maintaining a network of relations and relationships. In order to manage the future and to report consistently to the present, managers need to have an efficient information system, a true reliable tool, enabling them to know at any time the situation of the enterprise, its objectives, as well as the

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situation of its competitors. An important source of information is provided by accounting in general and by administrative accounting, in particular.

Administrative accounting is accounting beyond appearances, beyond the curtain and the limitations highlighted by the financial accounting, in its depth, at the origin of its implementation in an organizational system. Administrative accounting is attempting to identify a part of the solution and remove a part of the problem. This is the foundation, the basis of any entity operating in the economic environment, so that any imbalance generated by various internal or external disturbing factors can only be rectified by a reassessment, in another perspective, of administrative accounting.

The continuous globalization of the markets and the rapid technological changes in the field of production have created a fierce competition everywhere in the world. In order to achieve any competitive advantage, the functional entities in a society must adopt strategies that integrate the opportunities of the environment, the market, and the advantages of the technique in the most efficient way. In this context, there is the issue of modernization, administrative accounting transformation, an adaptation to the realities and requirements of the present, to the modification of the tools, processes and methods of work so that they correspond to current technical and scientific progress.

The following problem arises: the traditional calculation systems have become totally inefficient, remaining only a theoretical part in the evolution of management accounting history, leaving place to modern calculation systems to suit the current requirements. Many would unambiguously support this current trend, but it is always good to be aware of the fact that the theory is the ideal, pure state, while practice gives rise to real, actual state. So we need to know our past very well in order to move forward with certainty.

Every type of calculation system, both traditional and modern, has their place well deserved. However, administrative accounting is currently at the limit between traditional and modern, being a well thought-out mix, tailored to the specificity of each entity, representing the "internal cuisine", in which the chef always manages to surprise by adding a new spice to a traditional culinary specialty.

2. The Administrative accounting - a fundamental tool of the management activity

Accounting is the unparalleled judge of the past, the necessary guide to the present, and the indispensable advisor of the future in every enterprise. Under the current conditions of the market economy, the administrative accounting is an up-to-date approach and a real interest for both specialists and managers of companies. In the current context, managers need to assimilate elementary knowledge of administrative accounting, consisting not only of specific terminology but also of some essential techniques in this field regarding the efficient use and management of information available for decision-making, but especially the understanding of the boundaries of these information.

Businesses, once entering the market, are required to create a management information system designed to provide their protection and the ability to react to competition shocks as well as the exacerbation of the turbulences in the external environment, makes it imperative to assimilate the essential knowledge of the administrative accounting by the managers so that they can base their decisions on a real basis in order to ensure the survival of the entity whose leadership they are responsible for and last but not least, to ensure the desired performance. Currently, the need to manage a complex set of complex problems faced by any organization makes administrative accounting one of the most handy tools available to the manager, which he can use to evaluate opportunities, orientate directions of action, and develop company strategy.

Administrative accounting is an accounting information system that aims to help managers and influence behaviors by shaping the relationships between allocated and consumed resources and the goals pursued. So managers use accounting information to trace the general trajectory to be

followed by the entity, by implementing an optimal strategy for the pre-defined purpose of managing each of the activities or the functional spheres they are responsible for, and to coordinate these activities or functions within the organization as a whole. In order to cope with the technological process, competition from the market and, above all, the achievement of the fundamental objective of any organization, namely to strengthen its market position, decision makers will have to organize, implement, supervise and improve an internal information system. It takes the form of administrative accounting and is the foundation of the management act.

In the past few years, the role of an accountant in an organization has passed from numbers' processor and financial historian, to a business partner and trusted consultant. It follows the obligation to correlate the administrative accounting information provided by the entity's objectives, only in this way can the administrative accounting be a useful tool in the decision-making process. In this respect, both the managerial accounting and the management of an organization need to develop a genuine solid business partnership. Administrative accounting should aim at both knowing the costs and shaping the decision makers' behavior. Of course, in a complex, turbulent and uncertain environment, managers' information needs grow and diversify, and administrative accounting, as a privileged source of information for the management system, can meet management requirements, provided they permanently adapt their tools and practices to decision-makers' requests.

Unlike the price, which is a "reality" corresponding to a transaction, cost is "a choice": the enterprise has the freedom to decide in setting its costs. This choice is fundamental because it directly affects the result of the exercise and the amount of inventory in the balance sheet. Cost reduction is an effect of experience. In Romania, the Accounting Act stipulates the obligation of the administrative accounting, the concrete way of organizing it remaining at the discretion of each undertaking: companies have the obligation to organize and manage their own accounting, namely financial accounting and administrative accounting adapted to the specifics of the activity.

Full cost accounting is based on the sharing of costs in direct costs and indirect costs, on cost carriers. This differentiation does not take into account the dependence of costs on activity (variable costs and fixed costs), consequently cost reimbursement, on cost carriers is not done rationally, ie in relation to their occurrence.

Under these circumstances, there are presented the errors of consequence, by not taking into account the dependence on activity, respectively the functional relations between costs and achievements. It appears as follows:

- a proportionality in terms of the fixed cost allocation technique by treating identically (common) fixed and variable (indirect) costs, to cost relocation;
- an arbitrary proportionality of fixed costs, not related to the appearance of the reference sizes in the enterprise (for example, according to the holding capacity or the cover contribution).

Obviously, in an informational plan, the results based on these errors hide the danger of the wrong direction of the company's management in assessing and controlling economic efficiency and decision-making processes. The full cost of a product derives from phenomena that often vary independently:

- the volume of production and sales;
- price of inputs used;
- the technical factor of the production factors.

In this optics of management accounting, it is essential that the respective influence of each factor is carried out with the specific purpose of assessing the responsibilities. The rational imputation of fixed costs is a means to carry out this analysis as it tends to neutralize the effect of volume on costs. Both the Accounting Act and IAS 2 Inventories refer to the necessity of "rational distribution of indirect costs on manufactured products, labour and services rendered." By applying the complex costing method to the rational imputation of fixed expenses, the full cost is determined, which represents the full cost traditionally corrected with the incidence of activity level variation.

3. The limits of traditional calculation systems

The aspects of traditionalism and conservatism found in the field of cost calculation have become increasingly apparent during the course of technical progress. As a result, there has been an acute need to improve the processes and calculation techniques by formulating computerized systems appropriate to the state of evolution of production technology.

Thus, in the specialized literature, it is blatantly advocated abandoning traditional or classical systems for processing cost information, considered to be inadequate to current requirements, and the introduction of modern and advanced methods whose effectiveness would be much higher. The traditional calculation systems on-order (job-order costing), per phase (process costing) and the calculation of standard costs, still widely used, have been adopted in the first part of this century to calculate the costs of production in the types of enterprises that existed, characterized by the predominant share of the total costs of direct expenditure, by the promotion of uniform and standardized products, by the tendency to preserve products, and also the calculation methods. According to classical systems, all indirect expenses are cost-related, sized according to the volume of activity.

In the economic entities in our country, the cost calculation is in most cases conservative, as the methods used are the same as three decades ago, despite the fact that the character of production in our country has seen an upward trend. Thus, the cost calculation is based exclusively on the method by orders or the phase method, sometimes combined with different procedures specific to the unique conditions of each entity. The ante-calculation practiced at the section level or at workshop level, is completed with a post calculation performed within the accounting compartment. The classical computerized systems present the disadvantage that they offer a reduced information capacity, not having the potential to provide operational information to the company's management in order to make optimal decisions in time. The post-calculation within the traditional methods leads to obtaining tardive information, lacking operability and to the reflection of certain aspects of production that can no longer be interfered with.

Due to these inconveniences, the actual cost is called historical cost in the specialized literature. The continuous evolution of the technical progress, the obvious changes in the conditions of competition in the internal and external markets have put their mark on the traditional computerized systems, characterizing them to some extent as inefficient. In the new current environment, the entity is automated and computerized, the products have a short lifecycle, the services evolve, constantly adapting to consumer requirements.

In the sphere of competition one can see an evolution of the criteria that characterize the way it manifests, from purely quantitative criteria (price) to qualitative criteria (product quality, security of services offered, etc.). However, it is obvious that the administrative accounting information system integrates, to a small extent, the qualitative aspects, generally limiting to the quantitative ones. Another aspect highlights the change in the structure of production costs, in the sense of increasing the share of indirect costs to the detriment of direct production costs, which vary in the long run according to the range and complexity of the manufactured products.

Concluding, it can be said that the rigidity of the current accounting information system makes it difficult to track costs, set standards, analyze product and service deviations, as part of the changes in the current economy. This makes it required the acute need for true cost management by building a pertinent information system, tailored to current requirements.

4. Evolutionary Trends in Cost Accounting

The unprecedented evolution of the production technologies, the changes especially manifested in the new competitive environment, have proliferated in the specialized literature a series of new theories and concepts that reflect, in addition to the novelty aspect, also a special purpose in terms of efficiency at the level of the entities in which they found their practical applicability.

The converging studies and concerns of accounting professionals with those in other related fields such as marketing, management, etc. have generated a real revolution in the costing systems methodology. Thus, the way in which products are made is characterized by drastic changes based on the use of advanced production technologies, especially in the case of world-class producers.

The concept of advanced production technology includes automated production technologies, computer-aided design and production, robotics, flexible production systems, total quality control, total quality management, and so on. By finding these methods, techniques and programs at the level of an entity, depends its success or failure, its existence on the market or its bankruptcy.

According to accountancy specialists, traditional costing and measurement systems are practically incompatible with the use of advanced production technologies. Johnson and Kaplan assert that almost all of the accounting management tools appeared until 1925, and Peter Drucker drew the attention, since the 1960s, on the risk of using traditional cost systems that were losing pertinence in an environment that had nothing in common with the time when these systems were designed and developed. Professor R.S. Kaplan argues that traditional managerial accounting simply produces wrong measures. It directs the company in the wrong direction, rewards managers for endangering the business, and does not provide any improvement. The best thing we can do is deactivate it, stop it!

Given the radical plea to exclude traditional systems from practice, it is desirable to refine the cost system by better appreciating the uneven consumption of resources. This has resulted in two types of costs that primarily concern the overall management of resources and the behavior of those involved. These are costs per activity (by process) and target costs. The Activity Based Costing system highlights the causal link between resources, activities and the object of calculation, according to the principle, activities consume resources and products consume activities.

Such an approach assumes the abandonment of the vertical leadership of the enterprise with cutting on functions and the adoption of a cross-cutting approach along the value chain, a concept developed by Michael Porter. Activity-by-process costs do not only meet the ultimate goal of costing, they can serve as much as inventory valuation, but also as decision-making. The ABC system is much more complex, promising a cleaner and more cost-effective way for managers.

Thus, the question is: is ABC the solution?

Target Costing is part of a broader approach to analyzing the cost carrier throughout its lifecycle, especially at the conception stage. The target costing system is a market-oriented approach that is applied from the design phase of the product. The design of the product takes a long time because it is still being pursued at this stage to eliminate any further changes that are more costly to implement.

The target cost is determined by deducting from the sales price of the product/service, a profit margin that the enterprise wishes to obtain. Target costing is not just a cost control method, but also a profit and cost planning approach.

Advantages of using the ABC method mainly refer to providing two ways to reduce costs: helps identify opportunities for real cost reduction (through cost inductors) and provides simulations of the cost reduction impact. By the causality established between activity, cost inductor and resource consumption, the cost of quality and non-quality can be quantified and controlled. In addition, cost management should not go down to the level of the product but act at the level of the cost inductor. Key terms are cost inductor, activity sheet, added value, cost simulation. This method is not only content to allow full cost calculation; it can also be seen as a means of managing the performance of the enterprise.

The use of the ABC model raises the issue of defining cost drivers and the difference between the notion of inductor and that of activity measurement unit. The difference between the two concepts is mainly related to the time horizon considered. According to an analysis by

Brimson, the cost stimulator is a factor whose emergence is at the origin of the cost. The activity measurement unit is the factor by which the cost of an activity varies most directly, as activity measurement unit it is a dependent variable in the sense of regression analysis.

In fact, certain conditions appear to be necessary:

- first of all, the activity must be characterized by a genuine stimulator and not just by a measurement unit (which translates only through a correlation and not through a real causality);
- the stimulator determined for an activity must correspond to a decision variable of the process of conception and development of the new product. These decision variables can be articulated around several important areas:
 - product and market-related decisions that rely heavily on defining product functionalities;
 - decisions related to product technologies that rely on the capabilities that the company is looking to gain competitive advantage with;
 - decisions relating to product architecture, which refer to the definition of product subsystems and their interfaces;
 - decreases related to production technologies and processes.

According to Lorino, for a new product it may be difficult to opt from implementing the ABC method for the assessment of the activity which corresponds to the decision variables in terms of conception and development. In this situation, an ad hoc analysis should be conducted to determine the cost stimulators of activities, provided that these stimulators correspond to true design parameters. Actually, certain stimulators may be determined by choosing technologies or by previous decisions in terms of development strategy and, in this case, they are not genuine control variables of the project considered.

One reason for using the ABC method instead of traditional calculation methods is the need to obtain a more effective cost. The accuracy with which full cost can be analyzed in accounting, by activities, depends on the level of fineness of the model, so its complexity. Anderson proposes an analysis of the production costs generated by the design of a new product in terms of complexity costs and distinguishes two types of complexity:

- the external complexity, perceived by consumers, which can be the source of value, if appreciated;
- internal complexity, which refers to parts, raw materials, machinery and processes.

This complexity is not generally exploited by the consumer and generates costs. Consequently, diversity needs to be reduced using standardization procedures.

The main cost incentive for Anderson is the batch size, which is determined by the number of changes in production. Increasing batch size leads to increases in the cost of the following:

- stocks of products in progress;
- the space required for production;
- recurrent costs of non-quality: the larger the batch, the higher the cost of a possible quality problem;
- transports and internal repairs.

On the other hand, the costs of diversification are inversely proportional to the size of the batches in regards to the following two elements:

- the rate of use of the equipment, provided that the turnaround time is negligible;
- working costs for installing production batches.

One of the objectives of mass production is to reduce internal complexity to the point where products can be made flexibly, without incurring the costs and times of change of the series. For Anderson, this can be achieved through the standardization of parts, raw materials, installations and

manufacturing processes during the product design phase. Standardization can be applied to the various elements mentioned in order to reduce the costs of diversification.

One of the means of encouraging standardization is to have a costing system that favors the reduction of raw material consumption, the number of parts, machinery (obviously, all costs related to diversity, especially indirect costs, will emerge). From this point of view, one of the advantages of the ABC costing system is to highlight the heterogeneity of resource consumption laws on products, especially from the use of activities on individual products. Instead of retaining only volume-related consumption laws, the implementation of the ABC method allows for the retention of different types of variables that explain costing.

The large complexity reflected by the computerized system brings a high degree of accuracy, but also a more cumbersome use and higher implementation costs. Data is also changing more easily. In conclusion, the high complexity is only justified if the strategic margin analysis on products is critical, sensitive and a priority.

For fixed costs, rational imputation is required to obtain a manageable figure. The ABC method allows for easier calculation of the cost of the sub-activity. The cost of the sub-activity is the part of the fixed expense that is not absorbed by the variable volume of activity.

5. Conclusion

From the extensive theoretical plea, overflow the net superior advantages of modern costing systems, promoting the idea of transforming traditional systems into a history page in the specialized literature. The spirit of abandonment of traditionalism is unanimously sustained, but that wise note of thought must always be kept even under theoretical ecstasy because we risk for any economic advantage to be ephemeral and any bet on the future to be extremely risky. So, according to Herbert Simon, Nobel Prize-winner for economics, the question arises obsessively: Which of the different solutions is the best?

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