WAYS TO RECONCILE FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING

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Abstract: *Reconciliation between financial accounting and management accounting should always be possible, whether or not the two systems are integrated. Management accounting can take, depending on the degree of integration, three forms, namely: Integrated in financial accounting; Independent or autonomous in relation to financial accounting; Extra. In our country the organization and leadership of management accounting is governed by OMPF 1826/2003. It foresees that the management accounting can be done using specific accounts (independent accounting), by developing the accounts in financial accounting (integrated accounting), or by using its own operational and technical evidence (extra-). Integrated or independent accounting management are intra-accounting solutions which are expected to adhere to the regular registration of accounting of a firm. For this reason there may be constraints contradictory to the management needs consisting in obtaining relevant data as soon as possible.*

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1. Integrated management accounting

Integrated management accounting involves the development of plan of accounts of financial accounting, and to match their needs. We also add accounts required to provide information on the production process and to highlight differences of incorporation and estimate for certain costs or products.

The organization of accounting on a single circuit is typical to Anglo-Saxon countries.

Used accounts meet the information needs of both management accounting and those of financial accounting. Revenues and expenses are recorded in the accounts of classes 6 and 7 of the financial accounting, according to their nature and economic content, being centralized in the same Ledger. Development of analytical accounts of expenditure related to synthetic production activity is influenced by the information wanted [Feleagă, 1999]

According to authors B. Apoteholtz additional accounts that should be added to the chart of accounts of financial accounting require fulfillment of a minimal structure, namely [Apothéloz, et al. 2007]:

- Products under financial accounting;
- Products allocated under management accounting;
- Allocated products;
- Expenses under financial accounting;
- Expenditure allocated under management accounting;
- Allocated costs;
- Supporting activities and main activities;
- Manufacturing costs of production in progress;
- Manufacturing costs of finished products
- Production in progress and finished products;
- Manufacturing cost of products sold;
- Costs of distribution of sold products;
- Allocation differences;
- Incorporation differences;

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- Operating results of first degree, second degree and third degree.

When management accounting is integrated in financial accounting, one must respect general logic of the latter. Therefore, this solution is difficult to implement and administer and has certain disadvantages, such as [Richard, 1996]:

- Periods of recovery and analysis of information are not the same (financial accounting reports at regular intervals (monthly, quarterly, half-yearly, annually), while management accounting requires real-time and nonstandardized information.
- Information processing in financial accounting requires great precision, while management accounting uses approximate sizes that are relevant and timely for decision making.
- Because real, effective values are recorded in the financial accounting, based on justifying documents, and accounting management often uses values provided, it is necessary to make certain procedures tailored to the end of the period.

All these disadvantages can be eliminated by using an information system integrated in financial- accounting system.

2 Autonomous management accounting

Autonomous management accounting consists of organizing an independent accounting system with two independent circuits, each with its own rules of operation and distinct sets of accounts. This form of organization has two significant drawbacks, namely: first, a hard chart of accounts, secondly economic events should be recorded both in financial terms and in terms of cost.

These drawbacks can be overcome if independent accounting organization is done respecting the overall consistency of accounting based on dualistic overlook.

Consistency between financial accounting and management accounting requires the use of reflective accounts. It is easy to understand that a reflective account from the autonomous management accounting works mirrored in relation to the appropriate account of financial accounting [Bogdan, 2004].

In the literature some authors consider that to achieve the objectives, management accounting has to develop, based on accounts of class 9, a plan of their own accounts, more detailed and customized to activity conducted.

The management accountant has the role to devise this plan of cones, of the methodological norms, correlation scheme of accounts, as well as accounting monograph record in management accounting of the main operations. The Chart of Accounts prepared "should meet the needs of application of the method of calculation chosen to implement for future use, including here the processes and techniques used in the calculation of costs, and also to be sufficiently detailed to enable ordinate recording of all specific operations." [Neamțu and Teiușan, 2006]

Management accounting is disconnected from financial accounting, so it can be held in a manner independent of the others and at other times. Because of this it will be held in advance by data provided in the budget. At the general closing, it is obvious that all the differences will be recognized and the two accounts reconciled [Feleagă, 1996].

Organization of management accounting autonomously from financial accounting has certain advantages, such as: independence of organization (eg when registering), independence of the structure (eg changing the system of cost calculation has no impact on financial accounting), independence of financial events (eg the possibility of using data budgeted and obtaining provisional results without being recorded effectively in financial accounting), independent of location (management accounting could be kept at the place of production) and the existence of a formal security provided by requiring final reconciliation with the final results of financial accounting.

3 Management accounting based on own technical-operative records

Extra-accounting form requires collection of expenses on the basis of statements or tables (operating accounts) and calculation of costs on activity centers.

Operating account allows decoupling of management accounting from financial accounting and has a high degree of rigor, which allows reconciliation of final results. In addition it benefits from the flexibility and power characteristic of spreadsheets.

These tables are called extra-accounting because they are not related to the Ledger that develops based on the opening balance sheet to closing balance sheet. However, rigorous and regular treatment of these tables needs to reconcile the results of each system. The rules that are the foundation for spreadsheets offer the exact same security features as arithmetic equality debit = credit from the double entry bookkeeping. Despite this, if the reconciliation with General Ledger spreadsheet cannot be done, all financial accounts can be closed immediately. This includes expenses and inventory values missed from the management accounting, and other evaluation methods [Ebbeken, 2000].

This type of solution is often admitted in practice, the spreadsheet is considered a management tool that can speed up the production of approximate information particularly for determining an offer on time or making the decision to purchase from the outside, to the detriment of domestic production.

Using extra-accounting procedures has some advantages, such as: independence from financial accounting, a great adaptability (the calculation method of costs can be relatively easily changed), the possibility of using the table as a model to analyze the influence of certain variations, as well as offering a synoptic image of evolution of costs and margins.

Therefore, extra-accounting procedures are relatively simple, easy to elaborate, easy to analyze, especially when using software (including Excel).

Here are some of the disadvantages of using an extra-accounting form:

- It provides little control and verification keys in relation to financial accounting;
- Difficult to use in large enterprises with complex manufacturing processes and a wide assortment range.

4. Conclusions

In any enterprise, organization of management accounting and cost calculation, to meet the information requirements of managers and their subordinates, requires the study of all previous factors that exert influence (which are conditioned, intertwine or, conversely, is acting contradictory), their implications, and then, taking them into account to proceed to choose the most appropriate form of organization of management accounting and cost calculation.

Regardless of the enterprise, the organization of work of management accounting and costing depends, no doubt, on several factors, namely: size of company, organizational structure (functional and of production), production type and mode of organization, technology and degree of automation of production.

The organization of management accounting and cost calculation are each undertaking a series of principles. Until recently only found in the literature, these principles are now subject to legal provisions, among which we find listed and described.

In conclusion, an accounting management at the enterprise level requires reliance on a chart of accounts, documents, methods, rules, procedures and appropriate means of this accounting subsystem, which are required to be observed and used / applied after drafting or adoption. This is achieved through a process of internal standardization and normalization, and in pole position at the start of this race and the leader of his platoon during the course must be the management accountant (Annex to the Order of MPF no. 1826/2003).

In the competitive conditions of the market economy managers need varied information about the evolution of economic phenomena in the companies they run. And the one that can ensure the provision of such information is the management accounting by its information system.

Since managers of each business are the ones who know what information they need, about what, how detailed, what time intervals, according to them, they will resort to a specific organization of an information system of accounting management in order to meet its needs for information.

5. References

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