



The System of Management Accounting and Cost Optimization in Order to Improve the Financial Result

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Abstract

If we want better and more effective management and organization of enterprises it is necessary to have an organized management accounting. Normally this accounting is part of the accounting information system of a business entity. Accounting information system includes a number of accounting subsystems. But management accounting, or, managerial accounting has its own special features. In fact, its purpose is to provide financial and non-financial data for managers, and other internal and external stakeholders. Managerial accounting is in constant correlation with financial accounting and cost accounting. Hence, it can be confirmed that in the reports of management accounting, the data are intertwined from more accounting aspects.

Keywords: Accounting; management; planning; cost; result.

1. Introduction

The use and usefulness of the financial statements presented by financial accounting are inevitable. But managers need more detailed non-financial information that is not involved in these statements.

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People - managers of businesses also have a great need for constant monitoring and allocating costs. This need to identify them in places and bearers is of paramount importance in view of the preparation of long-term strategic plans. Namely, strategic plans contain a number of earlier decisions.

"These plans show the analysis of competition, the prediction of new competitors, the development of equivalent products, the possibility of suppliers and the power of buyers", says authors Markovski S. and Nedev B [4]. Also, for management needs, strategic plans can be reduced to medium-term and short-term plans. Regardless of the term of the plans the board of directors along with managers propose and decide on the future directions of the enterprise, create new products or services, win new and retain existing markets and so on. Also, included in the plans are the future capital assets and investments. This confirms that management has a constant need for various information which will be useful for planning, organizing, leading and controlling the activities of the enterprise.

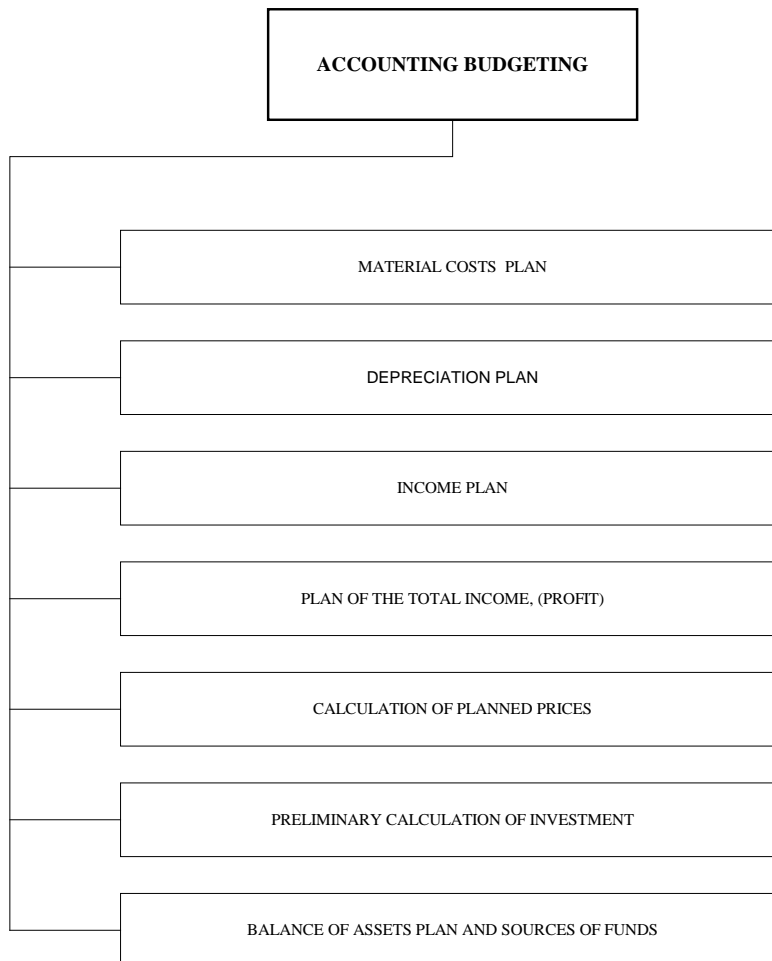


Figure 1: Accounting planning [1].

Therefore, in management accounting of the production enterprises also can be found the report on production (production report) together with other reports such as balance sheet, income statement and statement of current activities.

This confirms that the success of a company or enterprise cannot be guaranteed, if it does not own a successfully organized managerial accounting system.

2. Planning, Control and Concepts of Management Accounting

"Planning is an important ongoing process for organizations. A review of the current use of available resources for financial, investing, and operating activities is necessary to plan for the efficient use of future resources. Budgeting is the process of identifying, gathering, summarizing, and communicating financial and nonfinancial information about an organization's future activities" [5]. Managerial accounting systems have a major impact on the decisions, as well as on the activities of employees themselves and the users of the reports. The purpose of management accounting is to provide information, above all for the internal beneficiaries of the business entity, whereas the information to have feedback.

The Certified Institute of Management Accountants (CIMA) of UK defines the term "Management Accounting" in the following manner: management accounting is an integral part of management concerned with identifying, presenting and interpreting information for:

- ★ formulating strategy,
- ★ planning and controlling activities,
- ★ decision taking,
- ★ optimizing the use of resources,
- ★ disclosure to shareholders and others, external to the entity,
- ★ disclosure to employees,
- ★ safeguarding assets [8].

From the above definitions, it is clear that the management accounting is concerned with that accounting information, which is useful to the management. The accounting information is rearranged in such a manner and provided to the top management for effective control to achieve the goals of business" [2]. Namely, each business entity collects data from their activities. These data are grouped and processed in the accounting information system. In fact, management reporting system as a subsystem of AIS classifies the data from management accounting and submits it in a report to the different groups of users.

"Therefore, the cost of assets that are components of the cost price of a new product, at the same time, are both economically significant, but also a significant accounting problem. Namely, based on their accounting records it is necessary to obtain the necessary data and information on the individual types and sizes of costs in the process of decision making and management of the business entities." [9]. So here we will emphasize the latest definition of the Institute of Management Accountants of the United States, according to which "management accounting is an activity that involves a partnership in decision-making, adopting strategic plans and systems for measuring corporate performance, providing expertise in financial planning and control aimed at assisting management in the process of formulating and implementing organizational strategy" [8].

Of course, these financial and non-financial indicators are primarily intended for managers who are responsible

in the adoption and implementation of quality decisions regarding the activities of the enterprise.

The fact is that the future of the enterprise is being planned and therefore managers make decisions to overcome certain problems. Long-term planning represents expectations that need to occur within 3 to 5 years, and possibly for more years than that. While the short-term planning is filled with elaborate plans and objectives for the current operations. Also, in the interest of the company and the employees is to make efforts to improve opportunities for efficient and effective engagement of staff in carrying out their tasks and activities.

"To create value and to satisfy customer needs for quality, reasonable price, and timely delivery, managers must:

- ★ work with suppliers and customers,
- ★ view the organization as a collection of value adding activities,
- ★ use resources for value - adding activities,
- ★ reduce or eliminate nonvalue - adding activities,
- ★ know the total cost of creating value for a customer" [3].

Hence, managers require not only comparable financial indicators and information, but also the specific data that will further enable easier way of planning, decision-making and control of costs and overall operations. It is thus required that the information received from management accounting is timely and useful, although the accuracy is not 100%.

In planning and decision-making managers based on their experience and acquired skills need flexible information that will be used in their "predictions".

In fact, in many cases it is confirmed that with good planning and control of work operations as well as costs, we will have an excellent operation of the management accounting.

"Internal control provides reasonable assurance that:

1. assets are safeguarded and used for business purposes;
2. business information is accurate;
3. employees comply with laws and regulations" [6].

3. Determining the Activities and Classification of Costs

One of the key objectives of management accounting is to determine the costs (the various types).

In achieving this objective the management has a clear picture. But also it is important to allocate costs in places and carriers.

"Many industrial processes involve joint costs relating to the costs incurred in production or acquisition of two or more products at the same time.

When a joint cost has been made, this raises the question, whether it is to be allocated to the various products deriving from it? The answer is, when managers want to estimate the cost of individual products, the joint costs are included and must be allocated between these common products.

But, when managers need information that will help determine whether to sell a product at a certain time of the manufacturing process or to continue with production, joint costs are ignored" [7].

Today cost allocation is performed according to the cost objects. They can be expressed in different ways, depending on their nature. Because of the great importance of costs in determining the cost of the products, the persons responsible in the enterprise require specific information about them.

Therefore, managers in the system of management accounting need to classify expenses based on:

- ★ Their behavior (volume production),
- ★ Keeping track (determining the path of their occurrence),
- ★ Controlling (costs),
- ★ Relevance, and
- ★ Their function.

In practice, despite these grounds there are other ways to divide costs. But it is common knowledge that the costs are divided into fixed and variable. Namely, the fixed costs are those that when the volume of production changes they remain unchanged. While the variable costs are opposite of fixed, they change proportionately with the change in volume production. This division of fixed and variable costs is in the group of costs based on their behavior. In the group of their monitoring costs are divided into direct and indirect costs. Direct costs are those costs for which it is accurately known for which product they arise. Meaning, the cost object is directly identified with the cost.

Whereas the indirect costs are specific because it is not easy to determine for which object the spending incurred.

In fact, their monitoring refers to common things or objects, and then they are allocated in places and carriers.

In managerial accounting system also depending on the hierarchy of the company there are costs that can be controlled and costs that cannot be controlled. Senior level managers are responsible for costs that are made regarding investments in capital facilities and equipment. While the daily cost of supplies and other needs are left in the care of other managers. Ethics and character of the accountable manager is a requirement of which cost control will depend. In the activities and operations of the company appear relevant costs.

In fact, they are costs that can be irreversible or cash (directly paid expenses). Namely, irreversible costs are

costs that can neither be avoided, nor modified. An example of this is a previously ordered equipment. With cash costs are essential relevant decisions when spending cash. This means that if there are any future procurements of equipment they will include direct costs paid by cash. Also, the relevance of costs is closely linked to opportunity costs. And they represent a certain loss in the selection or decision making between two or more alternatives. The classification of expenditure according to function are costs capitalized as inventory costs and are called cost of product (production costs).

They are necessary costs (direct materials, labor and indirect costs - overheads) and are an integral part of the finished products. But in this classification, there are expenses of the period.

Namely, the costs recorded in the cost account are called costs of the period. These costs must be divided into administrative and selling expenses. For these costs must be pointed out that they relate to activities that are not part of the production process. Here, managers need to know that the costs of the period appear as an item in the income statement.

Whereas, the costs of product are an item in the balance sheet as part of the inventory.

From all previously stated, we can affirm that management accounting aims to provide information close to the company's activities closely associated with individual employees, plants, products and so on. But, very important in the organizational structure of an enterprise is the role of those responsible - the managers.

In fact, the system of providing partial data and full cost control allows managers insight into work in order for better decision-making, both in current operations and future period (planning).

4. The Concept and Importance of the Production Report

The overall operation of enterprises is different. Depending on its activity, depending on the enterprise in question (e.g. production, trade, service) such type of activities are recorded in reports.

Therefore, in addition to the balance sheet, income statement, current balance in manufacturing enterprises, there is the report on production.

Namely, this report is called scheduling of production activities or timetable of costs of manufactured products. This means that in this report are collected all costs that arise in the manufacturing process.

In fact, the production report shows the calculations of direct materials i.e. the initial inventory plus newly purchased materials for the current period all resulting with the total amount. With the census carried out at the end of the accounting period is obtained the final stock. Additionally is established the total cost of raw materials used in the manufacturing process such as the direct materials. Also, this report shows the cost of direct labor, which also includes the cost of taxes and salaries. Overhead costs are recorded and published in the report for production. It may be total amount or, layout of individual items of overhead costs.

In the final part of the production report are calculated and displayed the costs of finished products. The manner of their calculation is performed through the sum of direct materials, direct labor together with overheads. This amount is added to the initial inventory and the total inventory is calculated. From the amount of the total inventory is deduced the amount of the final inventory (the sum of direct materials, labor and overhead costs). These costs are called net costs of finished products.

Table 1

Business entity NN^a			
Production report			
Prepared on the day 31.12.2016			
	<u>Direct materials</u>		
1	Initial supply of raw materials (31.dec.2015)	5.540	
2	Supply of raw materials	60.000	
3 (1+2)	Raw materials in use		<u>65.540</u>
4	Supply of raw materials (31/12/2016)	4.500	
5 (3 – 4)	Used raw materials		<u>61.040</u>
	<u>Direct labor</u>	<u>40.000</u>	
	<u>Overheads</u>		
6	Indirect labor	7.000	
7	Oversight	5.000	
8	Communal services	1.100	
9	Repairs	1.500	
10	Used inventories	250	
11	Completed	500	
12	Expenses for depreciation - tools	50	
13	Expenses for depreciation - equipment	1.500	
14	Expenses for depreciation – buildings	1.400	
	<u>Total overheads</u>		<u>18.300</u>
	Total production costs		<u>119.300</u>
15	Inventory from 12/31/2015	1.200	
	<u>Total cost of goods in process</u>		120.540
16	Inventory of goods in process (12.2016)	3.300	
	<u>Cost of finished goods</u>		<u>117.240</u>

From the example of the production report is perceived that the initial stock is added to the newly bought raw materials for 60,000 den. An amount is received from the total quantity of raw materials amounting to 65,540

^a An example of a production report shown in "Denars" * (Macedonian currency).

den. The balance shows the direct workforce in excess of 40,000 den. Then we can see the total overhead costs amounting to 18,300 den. These costs together with direct workforce (40,000 den.) plus raw materials (61,040 den.) give us data on total production costs in the amount of 119,340 den.

Finally, from the report we can see the cost of finished products amounting to 117,240 den.

The production report is helpful for managers in view of the planned activities and in terms of control of the activities in the manufacturing process.

In fact, the need for such a report appears monthly or weekly, and if necessary daily. Management accounting is much more than records and presentation of financial statements. Its accountants provide managers with financial and non-financial information useful in their assessments, decisions, projections etc.

5. Conclusion

The paper elaborates on management accounting, its nature of work and its main objectives. Also, it presents certain costs and their classification, and the importance of the production report. Primarily, the purpose of management accounting is the transfer of useful information to the internal users and therefore it is oriented inside the enterprise. And that is done by summarizing information from the so-called "Bunch of data and information," collected and received through the financial accounting and cost accounting.

In the system of management accounting itself are set databases with recorded information that is not presented through financial statements. But their role is achieving the goals of the managers in the business entity. With the use of this unpublished information managers have the possibility to make decisions that will be carried through the work operations in an easy way. In fact, the usefulness and comparability of information, and information about the places and the carriers of the costs and the time of their occurrence, allows management and heads of the company to plan and budget objectives and tasks with no major deviations. Also very important is the monitoring and control, regarding the operation of individual parts of the company, as well as the decisions made and their realization in full. In fact, the management has the obligation to assess the activities of the business entity and also to value its employees. Through monitoring and control full inspection of the actions, procedures and results of operations is allowed. The importance of the control of operations implies a reduction in adverse effects. This means that certain employees who do not respect the code of ethics and are able to make certain manipulations and fraud will be prevented early. If there is no control the deliberate abuse for personal gain will cause problems in operation. For example, the deliberate increase in costs, performance of theft and so on, could cost the owner of the business entity a lot. Therefore, this monitoring task is to control operation and includes measurement and evaluation of operations, actions and working of employees. After the obtained scores and results, management performs revision of plans, comparing of results in periods and departments, and they have greater insight into the genesis of the cost. The lack of insight in costs creates certain negative implications. The need for their classification and control provides managers with good decisions in the formation of the cost. In the production process a quality production mix is created and there isn't a misleading picture of operations. That is why in the system of management accounting as subsystem exists the internal cost

control. Because the cost is very important for managers in terms of their impact on the financial position of the company and on the profitability of operations. Lastly, we would like to confirm the importance and role of production report, its necessity, and this is confirmed in the period when it is to be prepared on a daily basis. Namely, the managers use the production report while planning, as well as in controlling the tasks and activities of the business entity. It represents the fixed and variable overheads that allow management more detailed information useful in the implementation of work tasks. Also, its importance is evident through its involvement in the adoption of various internal decisions. From here, we can conclude that fluctuation of costs is vital as well as their dynamics and therefore in the system of management accounting their records and classification is pointed out. Because keeping control of spending, reduction of optimal costs while retaining quality of products and services will have a positive financial result at the end of the period.

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