



# ACCOUNTING - A KEY ELEMENT IN COMPANY MANAGEMENT

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## **Abstract**

*The modern conditions in which companies conduct their business activities are characterized by dynamics and uncertainty, which stem from the international business environment, formed in recent years, giving rise to transnational economy. However, the main striving of any business organization in its activities is to achieve the most efficient use of resources and meet goals. Realization of the objectives in such an environment can be achieved only by effective, management which is adequate to changes in environment.*

*Implementation of the general management of the business unit is associated above all with the presence of the necessary information for this activity. The need of information in quantity and quality has changed during the years of economic development of mankind. The more advanced economic development is, the larger range of necessary information becomes for managers to make adequate to environment and efficient for the enterprise managerial solutions. If in the 20s of last century for this purpose achievement accounting information was primarily necessary and enough, nowadays the need of information is undoubtedly beyond confines of accounting data: that is the managerial decision making relies not only on accounting data but also on market information, information about company as a whole (structure, specifics, changes), statistical information, forecast data regarding possible scenarios of business environment changes, etc.*

*However, regardless of this expanding information needs for enterprise management, the provision of accounting information remains the basis for management decision-making. It shows the current situation, and outlines its place in the sector, and also in the general economic environment. However, it is the basis for making an analysis of various aspects of subsequent planning. This report aims to present accounting and in particular its information product as an intransitive key element in company management. In support of this, the report outlined the place and importance of accounting in the management of company, by analyzing its informative and controlling function.*

**Keywords:** *accounting, management, enterprise management, financial accounting, managerial accounting, accounting information*

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## **1 INTRODUCTION**

Modern conditions at which companies implement their business activities are characterized by



dynamism and uncertainty. These characteristics result from formed in recent years international business environment giving rise to transnational economy. At the same time, the prime objective of any enterprise relating to its activities is the striving of most effective use of resources to achieve goals. Realization of the objectives within such an environment can only be achieved by effective and adequate to changes of business environment management.

In such a scenario, the management can generally be defined as a set of activities impacting on the elements of company in a way that secures achievement of its objectives through effective use of resources (people, equipment, materials, money, information, knowledge, etc) within a changing environment.

Management implementation at all of any business unit is firstly connected with the presence of necessary information and knowledge about this activity. The necessary Information (in quantitative and qualitative terms) has changed during the last years of the economic development of mankind. Evolutionary development of the economy is linked to expansion of the volume and structure of information that is necessary for managers to take adequate to the business environment specifics and effective for the company managerial solutions. If in the 20s of last century for this purpose achievement accounting information was primarily necessary and enough, nowadays the need of information is undoubtedly beyond confines of accounting data: that is the managerial decision making relies not only on accounting data but also on market information, information about company as a whole (structure, specifics, changes), statistical information, forecast data regarding possible scenarios of business environment changes, etc.

In other words, the mankind is witnessing the emergence of information society and formation of information and electronic policy described by the Russian scientist N. Kondratiev in his book "The main economic cycles" in 1925. However, regardless of expanding information needs, the accounting data remain fundamental information in respect of securing effective managerial solutions. Accounting information shows the ongoing economic state of company and outlines

its place within the respective economic sector and business environment in general. At the same time, it is a basis for analysis of various aspects of pany's activity and its further planning. Accounting information represents about two thirds of the total flow of information within a company and is more than fifty percent of entire managerial information. The main sources of accounting information are: financial statements, various reports for fixed assets, claims and liabilities of company, owned securities, participation in the capital of other undertakings, financial performance, exceptional incomes and expenses, etc.

Accounting has always been and obviously will always be a major source of information about business activity of an enterprise and of great importance in making management decisions. As such, it occupies an important place in the overall management system. It would be unthinkable to imagine the functioning of any enterprise without the primary and secondary documents and records, publication of annual financial statements, information about various accounting references, etc. Therefore, the matter related to the analysis of accountancy role and importance for the management of the enterprise is extremely topical.

This report aims to provide the accounting and in particular its information product as a key element in company's management. In support of this, the report outlines the role and importance of accounting in the management of enterprise, by analyzing its information, analytical and control functions.

## **2 NATURE AND IMPORTANCE OF ACCOUNTING INFORMATION FUNCTION FOR ENTERPRISE MANAGEMENT**

To be successful, companies must use their resources properly targeted and relevant, which in practice is achieved with effective business management. From the perspective of management theory, company is a system that contains two major subsystems - managing and managed. The managed system is related to the material flow. As inputs of the managed system are the different types of resources - human,

material, financial. As a result of their conversion a consumer product is obtained which is designed to meet specific needs.

The managing system is connected to the information flow and management cycle. This system gets a variety of information and as a result of its operation, new information is obtained but having another quality. There is a continuous connection between the managing and managed systems in both directions - forward and backward links. This connectivity contribute to the implementation of the management cycle. Management of the enterprise (as a complex process) needs rich and varied information.

Considered in general terms, information is a set of data giving knowledge about facts, events and processes in the world around us. In more specific term (related to artificial systems created by man - as well as company is), information is just a purposeful set of data with cognitive value. If there is no targeted data processing, these data have only potential informational capabilities for company management.

The information which is necessary for the management of economic systems is a result of human labor. It reproduces the subjective perception of individuals about objective reality. This information is internal and external, technical, legal, etc., and especially economic. Within the last mentioned kind of information, the accounting information takes a primary place, not only because of its great coverage, but also because of its specific qualities. In this vein, it could be argued that the information needs of management define the meaning and requirements for accounting information providing. The last determines the timely, objective, true and accurate representation of the financial state and performance of its activity. The accounting information and its further analysis give possibility to manage company's capital.

Well known all over the world is that accounting is the first formal economic knowledge. In its evolutionary development, accounting evolved from ordinary "serving bookkeeping" into a fully built and completed "toolbox of methods and analytical tools". This allows, the immediate ongoing observations to be summarized on the

basis of established principles and leads to forms of thinking and definitions, reflecting the full nature of observed objects (Pergelov, 2005). Accounting is "a scientifically established system for full, continuous, and documentally justified (in monetary terms and in specific ways) reflection of the specific economic phenomena, facts and processes within overall business of the particular company. The aim is to provide economic information for reporting, monitoring, analysis and evaluation of company's activity and for active back impact on it, i.e. for the needs of business management" (Totev & at all, 1987).

In relation to these definitions of accounting several conclusions can be made:

- as a result of application of special methods of accounting, accounting data about overall company's activity and individual economic units are obtained as a final product.
- accounting information is used to analyze and monitor the activities of the enterprise;
- Accounting is deemed from one hand as a standalone system and secondly as a subsystem of the entire management system.

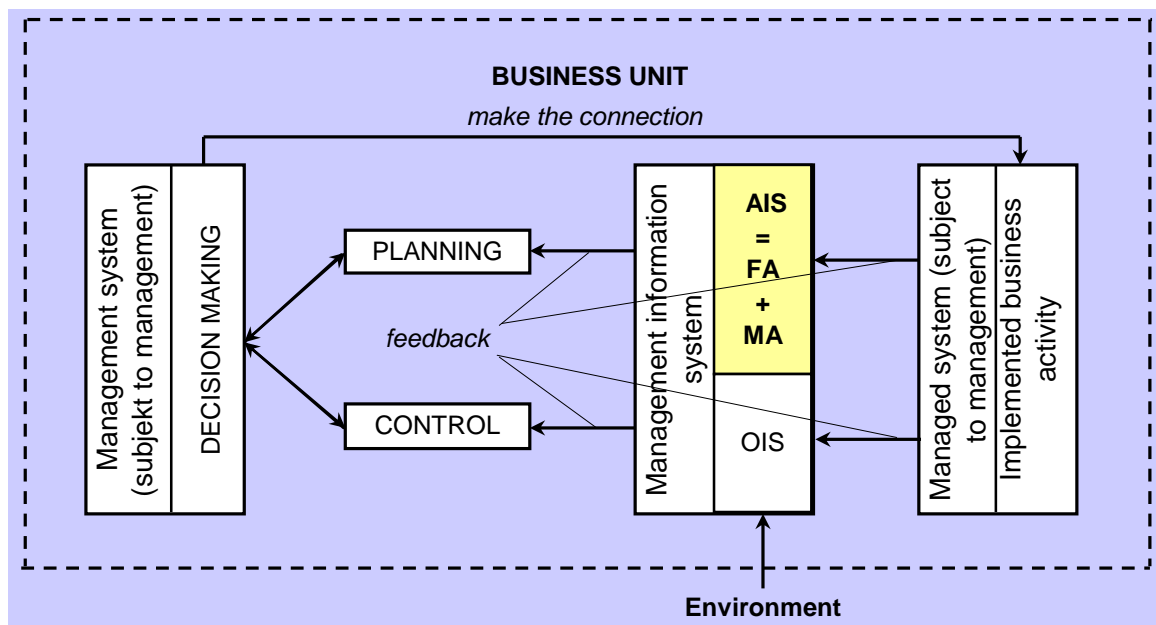
The creation of accounting information has the most cognitive nature. Such a circumstance arises from the fact that the accounting converts the data through its specific, scientifically established methods. This in turn provides a particularly valuable quality of accounting information - its analytical nature. Not surprisingly, some authors note that "this analytical nature is genetically embedded in the evolvement of information process as a whole" (Dinev & Zlatareva, 2012). At the same time, accounting is the system that provides complete and continuous monitoring of the reproduction process in the enterprise, and provides an opportunity for systematic and effective control simultaneously with the registration of economic facts and phenomena. Accounting information system is claimed to be highly organized and together with that informed and knowledgeable.

Accounting information is to a great extend authentic and objectively informed, because it is based on mandatory norm, standards and rules, without being influence by subjective wishes of

managers and its creators – accountants. The latter are legally obliged to observe the credibility and objectivity of the created information. Informative role of accounting information system manifests in the provision of general (according to different criteria) information on various levels of management in the enterprise. In this case the information is created on the basis of already existing accounting data, without application of specific accounting methods. This information is necessary of the various structural units within the enterprise.

Due to these all features, the accounting information has a leading, prominent role in the management of the enterprise. In other words, accounting information is a tool of the

management. It is a significant part of the management information system and an interface between the business and management. In this respect, the statement that "accounting can be seen as a financial center of the management information system". In practice, accounting is a source of two information resources: firstly - statistical data about all accounting items and implemented business operations, and secondly - resultant, effective, analytical information about the same objects and processes. The location of accounting in performance of the management cycle is shown in figure 1. Practically, the feedback between subject and object of the management is implemented through accounting information. It is the basis for prediction of the future development of enterprise and monitoring of its targets.



Legend:

AIS – Accounting Information System  
 FA – Financial Accounting

MA – Management Accounting  
 OIS – Other Information Sources

Fig.1 Management cycle

Accounting information could be divided into two categories: current and periodic (expressed by the preparation of financial statements). What is typical for this information is that it contains facts that are quantifiable. Monetary Indices are applied to this information that allows comparison with similar economic units within or outside company.

In the competitive and dynamic economic environment within which contemporary companies operate today, the accounting

information is a major factor and resource. The company's ability to organize this information as its key resource and use it as an important competitive advantage is a prerequisite for successful management and prosperity. In this connection it should be noted that the accounting information system (shown in Fig.1) is a combination of two components - financial and managerial accounting. The information generated by the two types of accounting is intended for different stakeholders - owners,

managers, creditors, government agencies, financial analysts, employees. Logically, these stakeholders need different information. The necessary information for external of the company individuals and business structures is provided by financial accounting. For managers, the required information is secured by management accounting. One of the main differences between the two types of accountancy is under the regulatory framework. The information generated by financial accounting is legally regulated and standardized. Managerial accounting creates unregulated and informal information intended only for enterprise management. It is important to note that too often it is based on already established by the financial accounting information.

Accounting information produced by management accounting is extremely important and is needed to make effective management decisions. The latter could be considered as current decisions and predictive decisions. Positive or negative deviations can be assessed by analysis of accounting information created, i.e. based on the performance of a diagnostic accounting analysis. The latter supports managers to use in the most effective manner its financial, material, human and other resources. The diagnostic analysis is directly related to the objectives facing the organization. It supports the definition of the development strategy, measures and guides company's performance. The diagnostic accounting analysis, logically developed into predictive accounting analysis. Thus, the accounting information on the one hand is used for new solutions and on the other hand for assessment of the degree of forecast implementation. Accounting, creating accounting information in practice does not work for itself. This information, as already explained, is designed for the needs of company's management or external users. Given that the main purpose of accounting information is to support company's management this information could be requested to respond to some requirements:

- Timeliness - this requirement is a condition of opportunely creation of accounting information.

- speed and operability - these conditions are related to and interact with timeliness. They stem from the need for managers to monitor changes that occur in the processes and operations within the turnover of assets, equity and liabilities of company;
- reliability - this condition guarantees that the decisions made on the basis of accounting information will affect the results in a positive direction, i.e. information is accurate and does not contain considerable errors.
- flexibility - it is expressed by the ability and capability of accounting to be changed, updated, transformed organizationally and technologically according to the information needed of the management.
- Relevance - it is expressed by the ability to influence on decision-making on the part of the managers, helping them evaluate past, present or future events (and also confirming or correcting their previous evaluations).

Not rarely, from a practical point of view, a balance or compromise between the qualitative characteristics of accounting information is required. Such a balancing act is necessary for managers to achieve their objectives through its decisions. For example, it is too often necessary that accounting information to be rethought and presented in a transformed format to be useful for management. In implementation of certain decisions-making process within any enterprise, the needful information has to be defined. Managers should concentrate on key data from which the decision depends on. The information should be provided as quickly and often as the character of management decisions require. Sometimes situations occur (caused by dynamic economic reality) requiring fast and adequate solutions to specific problems. This implies a really fast providing of necessary information. In this sense, the main requirement to the information is to be timely provided rather than precise, accurate and detailed. In this connection, the so called signaling function of the information turns up which has a significant role and importance in company's management. The implementation of this feature of the present stage of human development is ensured by the use of software for comprehensive management of the business,

called ERP systems. These systems provide the necessary information to management in real time, help to respond quickly and appropriately to changes in the market environment. In practice, they support the realization of one of the main functions of the management - the regulation, which influence the structure, behavior and dynamics of the controlled system and in such a way its dynamic equilibrium is achieved. Researches in this area show that the usage of these business management systems help reducing the costs by about 10% (and increase the revenue with the same dimension). The application of different accounting software turns accounting information into operational information. This is a trend that in the conditions of modern world is accelerating. The current accounting information permanently grows on account of the reduced information about past events.

The cost-effectiveness and benefits of creating managerial information is also of great importance. The usefulness of created information should not exceed the cost of its creation. The amount of information should be optimal, i.e. just to meet the demand of managerial information.

Modern economic environment in which the businesses operate at both national and international level (increasingly growing globalization and increasing competition), continuously increases the requirements for securing of accounting information. He created and recorded accounting information has variable character and has various uses. In some cases, this information is used for an ongoing monitoring of business development and achieved economic results. Therefore, by the usage of accounting information, the influencing factors on the trends of company's development is analyzed. After determination and extrapolation of the extend of their impact, the prognosis about future development of the enterprise becomes possible (i.e. implementation of predictive accounting analysis).

In other cases, the accounting information is used to monitor the business activity - current, preventive or subsequent monitoring.

In all cases, the necessary information for the management of an enterprise is provided mostly by management accounting. Some sub functions of the accountancy which are main functions of the management are inherent to management accounting, namely: analyzing, planning and control.

### 3 ANALYTICAL, PLANNING AND CONTROL SUB-FUNCTION OF ACCOUNTING IN ENTERPRISE MANAGEMENT

As already mentioned in the previous part of the paper, in terms of the management, the providing of information is the main function of accounting. Along with this basic function, accounting (and especially managerial) has a number of sub-functions supporting the management of the enterprise. The most significant ones are: analytical, planning and control sub-functions. It could be said that they are not absolutely independent, contrary, they influence each other. For example, the analytical function may be regarded as the final stage of the information function. Even there are some opinions that information and analytical functions should be considered as a general information-analytical function. Analytical function in turn is very closely related to the implementation of control functions. Furthermore, the information function provides such an information that is as a basis for realization of control function. Based on the accounting information, the planning of future activities of the enterprise is fulfilled. In this respect, it is said that due to accounting information "the main tasks of a business organization for a longer period of time is defined and necessary economic predictions (and adjustments) are implemented - thus, optimal effectiveness and proportionality of the production process is secured" (Pergelov, Intenzifikatsiyata na narodnoto stopanstvo i usavarshenstvane funktsiite na schetovodnata otchetnost, 2002).

Supporting the main management activities (analysis, planning and subsequent control) is a key priority of the managerial accounting.

*Analytical subfunction.* In managerial accounting, the analysis of accounting information is done

through various methods and models. Some of them are inherent in accounting science and some are typical of other scientific fields (e.g. certain mathematical, statistical and econometric methods could be applied). The essential thing is that when analyzing the accounting information a resultative information is obtained.

*Planning subfunction.* Managerial accounting facilitates the planning process and creation of plans for the future, providing information on what products need to be produced and sold, which markets to be used and at what price. This information is important in evaluation of proposals for capital expenditures. Simultaneously, managerial accounting provides data on the performance of past plans. They in turn are essential to design future planning. Managerial accounting develops procedures and regulations relating to the budgeting and coordinates short-term plans for all departments of the company, as well as ensures consistency between them. This is achieved by combining the individual plans into a single plan which within the world economic practice is called Master Budget for the development of the enterprise.

*Control subfunction.* The process of control is assisted by managerial accounting by reporting on the performance of tasks, comparing actual results to plans for each point of responsibility. Managerial accounting plays an important role in the process of control by focusing managers' attention to those specific activities that do not conform to previously devised common plan. In other words, managerial accounting helps control function, providing accurate measures of activity and identification of bottlenecks. Through managerial accounting, the enterprise

management gains information about specific points, disagreements and controversies in the plans of the various departments and point of responsibility. Not unreasonably, it is argued that managerial accounting is "design" and "tools" of the accounting system and contributes to a better definition and consolidation of relations between the structure of enterprise and accounting system (Trifonov, 2000).

## 4 CONCLUSION

Management of any business organization requires a rich and varied information about the internal and external environment. Accounting is what affects the course of all business processes, i.e. it gives a clear picture of the internal environment of the company. It reflected all activities, actions and events, even the influence of economic environment over the activities of the enterprise. It is comprehensive to those objects which creates information. It does not create information in general but makes it specific and individualized.

Given those characteristics of accountancy (with main function - informative and sub-functions - analytical, predictive and control) it may be summarized that it is the basis upon which management decisions are made. The quality and effectiveness of decisions will depend on completeness and quality of accounting information. The accounting, by creating its informational product, is an important and inextricable component of the management information system and key element of the system of governance.

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