

CONVERGENCE BETWEEN FINANCIAL AND MANAGEMENT ACCOUNTING AND THEIR IMPACT ON THE ORGANIZATION'S COMMUNICATION PROCESS

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Abstract

It is well known the role of accounting entity in the „measurement, evaluation, knowledge management and control of assets, liabilities, equity and the results obtained” during a period of management. The accounting regulations distinguish between financial accounting and management accounting. Detection convergence of financial accounting and management accounting stirs debate on a larger scale when it comes to integrating information from both types of accounts and their efficient use decision context. This study aims to emphasize the necessity of using integrated information provided by the accounting and financial management so that users of such information, managers can take contact with natural depth of potential investments, provided with the possibility of making an informed decision.

Keywords: *accounting information, financial accounting, management accounting, convergence*

Introduction

Slow evolution of the accounting system in Romania until 2003 that does not appear in legal terms no document specifying clearly how organized and how to drive management accounting made that the information provided by it to be close insignificant.

Minister of Public Finance Order no.1826/2003 for the approval of details concerning the organization and management accounting management brings clarification on how management accounting organization and specifies three possibilities, economic entities free to choose any of this. These three possibilities are: leadership management using specific accounts or accounts in financial accounting by developing a compiling technical and operative record of its own.

None of these options is detailed so that economic entities can consider it as an autonomous organization, bookkeeping emerged financially, imposed, implying that it is not mandatory preparation of such evidence, more not provide for sanctions failure to produce them.

However domestic market opening to Western capital, plenty of medium and large foreign companies in the Romanian economic cycle, need information homogenization in the European Union and beyond, make research into the convergence of the two accounting, measuring the impact of information provided by the mechanism to be one of major interest.

Researcher interest in practice is essential because as a provider of accounting information processed must ensure client the best solution to the needs of decision-making, to answer specific questions about bookkeeping sector organization-operational and financial.

These are some reasons why we aim, through this study, to emphasize the most important aspects of the points of convergence between the two types of accounting and communication process in organizations.

Theoretical framework

This study tries to find an answer to the following questions:

A) Can financial accounting coexist with managerial accounting within an integrated System and which is the role of this convergence in defining the managerial decision?

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B) What is the degree of understanding and implementation of this mechanism at this moment within the Romanian economic entities?

Organization, information and quality

Finding convergences between external accounting and internal accounting generates more and more ample debates when raising the issue of integrating the information provided by the two types of accounting and of using it efficiently within a decisional context.

This study intends to emphasize the need to use the integrated information provided by the management and financial accounting so that the users of such information, the managers, should be able to get in touch with the natural deepness of potential investments, while having the possibility of making decisions with full knowledge of the case.

The accounting information, under its evolved form, transforms the cognitive element while systematically processing the reports of a productive process and putting them into a numerical, significant message of results.

From ancient times to present, the main manifestation of accounting has been the activity of professionals well-known for their competency to produce, explore and authenticate quantified economic data, submitted according to normalized conventions.

The accounting professional, while observing professional norms, for the improvement of accounting information, covers a cyclic and determining way in order to obtain, filter, measure and expose such information. Therefore, the accounting information becomes the processing object both of financial accounting and of management accounting, the determining references being as follows:

- Rules, drawings, reports required by the decisional framework, used for the elaboration of the best decisions;
- Improving, monitoring informatics means, while providing control filters and the coherence of the information delivered by the different operational systems;
- The need to extract synthesis reports required by internal and external users, monitoring the course of the operational life in order to validate post-factum the current flows of information;

The quality of the accounting information, determined by its pertinence, accuracy and reliability, provided to users, results from the accounting documents integrated in the production process of such information. The more it fulfils certain pre-established features, the more the accounting information becomes more credible.

The accounting function of any entity makes sure that the accounting information complies with generally accepted norms in strict accordance with professional deontology.

The accounting information has the quality of exact image defined through a correct implementation of the accounting conventions of the economic reality.

The proximity of accounting systems, marked by the market internationalization and globalization, by the activity of economic entities, through the increase of direct international investment, shall determine more and more the standardization of accounting information.

The need for this proximity derived from the need of international investors, who wish to compare, in a natural, normal, correct manner according to equivalent criteria, the opportunity area for capital placement.

Either at national or international level, the accounting rules do not result mainly from an academic scientific elaboration. We can only approve what a university practitioner has written: *"The elaboration of accounting rules is a complex political-strategic process where each of us defends its own interests"*¹.

¹ Broussard D. – *The second communication research seminar French Accounting Association*, Grenoble, January, 1981.

All the performances proposed by specialists may make it difficult for the accountants and managers who aim the advantage to the competition. There is a tendency to use consultants who have a “product” to sell, a product which reflects their understanding of the advantages and difficulties of the methods provided.

In such circumstances, chief accountants are made to take over the task of strategic positioning as well, not only the activity of transactions’ accounting.

The significant, continuous improvement of the company’s strategic positioning accounting also considers an exploitation process of its actual limits and its creation means for an extended research program for the relevant universities, the accent being put on quality and not on quantity elements.

For the client, the value represents an important element in the management of quality. From this perspective, the notion of quality may be approached, including the means used for monitoring it.

The management control determines the structuring and synthesizing of accounting information and economic rationalism, thus the capitalization of the accounting information at high quotas recognizes its inexhaustible nature.

We can say that an upper form of collecting and structuring the information, consistently processed and analyzed, generates the definition of economic intelligence.

For this purpose, it is necessary to use specialized programs and control systems which enable the achievement of significant indicators.

It is not the amount of information which determines its value, but the facts of having it before competitors do.

We consider that all these challenges constitute solid grounds for any researcher interested in the accounting field, who uses particularly the gross information from practical activity, to search for the convergence points of its various manifestation forms, while looking for the theoretical and practical answer.

Two levels of accounting: financial accounting & management accounting

There are many things that distinguish management accounting and financial accounting it from different goals that they have. We present in the following table, the most significant differences between these “two sisters” of the information system.

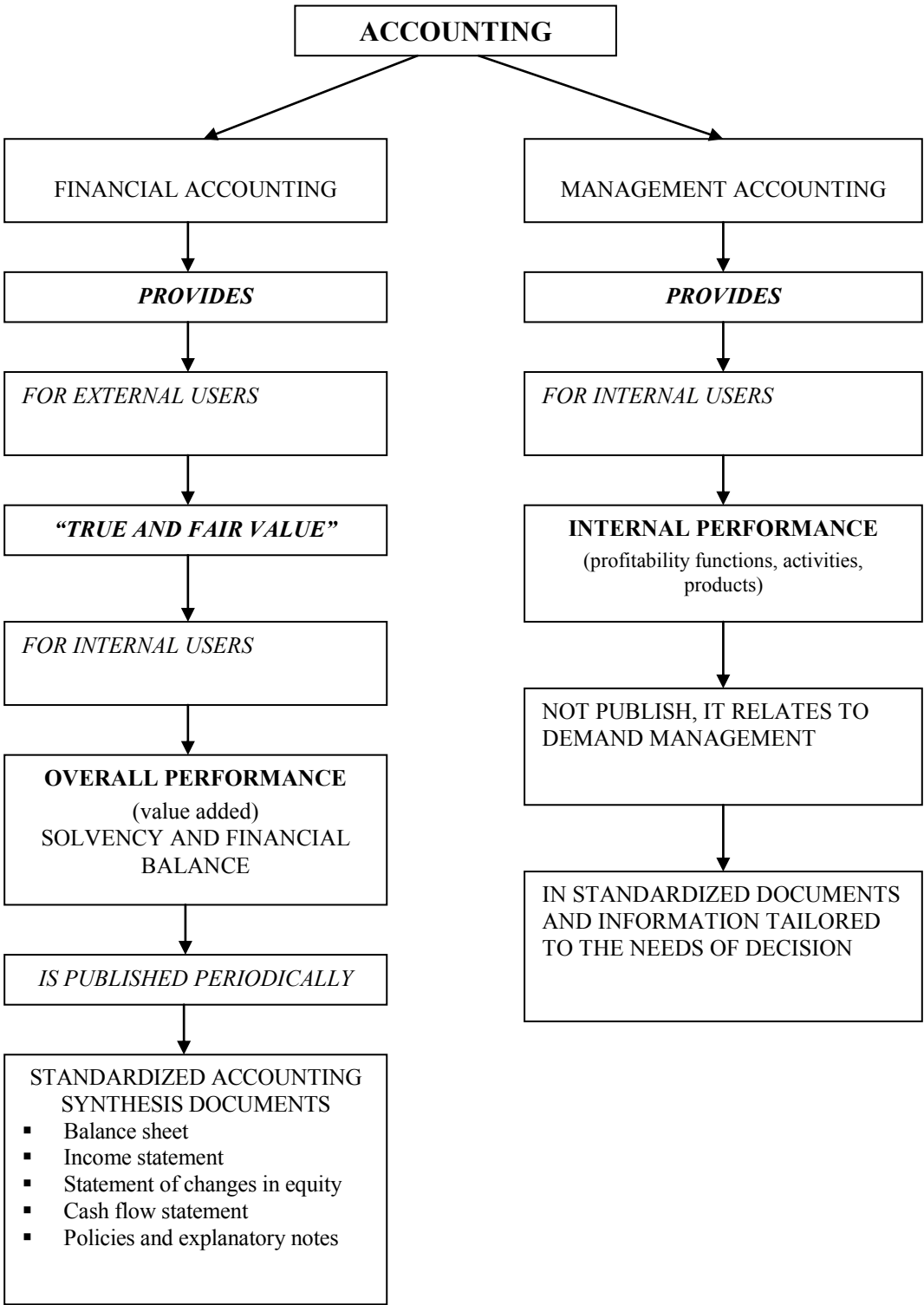


Figure 1. Summary information on accounting objectives

Financial accounting is to record the transactions of an organization with her environment to determine the regular and systematic economic and financial situation and results of operations performed.

Produces most of the *management accounting* information for decision-making processes of financial accounting can be extracted, in addition, data for the current management of relations with customers or suppliers, to base investment decisions and financing activities, to correct the effects of inflation on management decisions. Financial accounting information products within the scope of economic and financial analysis, will help to support decision management².

Management accounting and financial accounting serve different purposes. Management accountings quantify and report financial and non-financial information that helps managers make decisions that will enable an organization's goals. Managers use management accounting information to choose, communicate and implement strategy. They anticipate that information and to coordinate decisions on product design, production and marketing. Management accounting is based on internal reporting.

Financial accounting reporting is based on the outside. It quantifies and records economic transactions and provides financial statements prepared under GAAP. Managers are responsible for financial statements issued for the attention of investors, governments and other interested parties outside the entity. Often enterprise management remuneration is directly conditioned by the information contained in these financial statements.

Another difference is the fact that management accounting focus often on the future through budgeting activity and influence, on this occasion, the behaviour of managers and employees.

Type reports balance sheet, income statement, cash flow statement are used by management accounting. It covers an area much larger but it developed into a more advanced topics such as developing and implementing strategies and policies, preparing budgets, studies and forecasts predetermined purpose, providing financial and non-financial information³.

Solution for improving accounts communication in organization's

Like any component of the economic system, and accounting had to undergo changes and adjustments to the new trend of globalization, harmonization and integration, trying to adapt to changes in both regional and adaptation resulting from Romania's EU integration, as well as changes internationally.

In the context of the phenomenon of international accounting harmonization, financial and accounting information quality has improved considerably in recent years. The abundance of information allows organizations to increase their competitiveness parameters in terms of information relative to competitors in the domestic and international market, representing only inexhaustible resource information, a true power factor, directly influencing a good degree of prosperity of nations.

The need for a national information system, which creates prerequisites for a correct diagnosis of the organization, to support decision makers in choosing the optimal variants of solutions to various problems of management, detect anomalies and dangers surrounding the organization, has resulted in its management accounting system.

Type and methods of the latter are selected according the organization's activities and its financial news in the absorption of management techniques, methods of determining costs, etc.

² Boghean F. – *Cost Management*, online course for distance learning, Stefan cel Mare University of Suceava, 2008, p. 6.

³ Seal W., Garrison R.H., Noreen E.W., - *Management accounting*, Mc Graw Hill Education, London, 2006, p.126.

Management accounting serves no communication with outsiders, therefore, is not normalized as a "business modelling tool" to reach their managers in the complex processes of "piloting" of organizations.

Mechanism and methodology of reports, internal communication and the exchange of information between these two circuits are very important for organizing and conducting the accounting of any organization.

Efficient financial management and accounting concerns, required in the current context, double accounting system with an effective reporting, accounting structures to provide for flexibility, collaboration and coordination with other departments in the organization's overall objectives.

The strategy presenting the results of accounts subject to attention, being a central part of the communication of an organization's accounts.

In general, at the organizational level there are two types of communication: information and offer voluntary legal accounting information.

In the first case, of information transmitted regulated by law and accounting standards, the presentation is not always "friendly" and is more difficult to interpret by non-specialists.

The second type is fully available to the management of an organization and illustrates, on a voluntary basis, any forecast or other types of sizes, usually when they occur, or might occur significant changes, extensions or restrictions the activities of an organization.

To improve accounting and financial disclosure, transparency and creating a healthy business environment and credible efforts are being made globally. Thus, since 2002, the European Union seeks to align European accounting standards to International Financial Reporting Standards (IFRS) and also use a single language in the conduct of business by finding a point of convergence between European and U.S. accounts.

Internationally, the normalization accounting is the process of harmonizing the presentation of summary documents, accounting methods and terminology and involves the development of rules or regulations applicable in whole or in part, to a group of countries, a set of entities or as a group of specialists from the accounting profession⁴.

At the same level through harmonization/convergence of international accounting rules by national standards, differing from one country to another, sometimes divergent, are refined to be made comparable.

In this context, the general accounting and auditing continuously improving its quality of accounting information through the application of accounting regulations in accordance with E.U Directives (Directive to IV and VII).

The need for compliance is required by: globalization of national economies, Romania's access to international capital markets, transparency and simplification of financial reporting.

To achieve these objectives in recent years have been a number of changes legislation which included :

- accounting amend Law 82/1991;
- accounting regulations in accordance with Directive IV and VII to the European Union;
- adoption of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), by Order of the Minister of Finance.

Harmonization/convergence of accounting by the Fourth Directive establishes the principle of true and fair view as the main element of the group accounting principles, considering that the other principles are derived and its subordinates. Fourth Directive of the European Economic Communities explains the need to adopt uniform accounting policies for the Member States in the following situations:

⁴ Hennie Van Greuning, Darrel Scott, Simonet Terblanche, - *International Financial Reporting Standards. A Practical Guide*, the sixth edition, IRECSO Publishing, Bucharest, 2010, p.33.

Member States companies work often extends beyond the national territory, providing them as collateral for third party only capital;

- competition between companies may be unfair due to legal conditions conducive to certain activities in some countries;
- present a “true and fair view” of business.

VII of the Directive of the European Union presents itself as a continuation of European accounting harmonization process, a process started by the Fourth Directive, with the following objectives:

- to ensure comparability of information provided by the consolidated accounts for external users, especially investors and third parties;
- creation of uniform conditions for the operation of a common capital market, by eliminating national differences on how to draw of these consolidated accounts;
- developing a “true and fair view” in terms of assets, financial condition and results of the group companies.

In a market economy, the harmonization/convergence and normalization accounting rules that organize the functioning of accounting information, financial and communication in order to optimize the utility, provides:

- comparing the information in time and space;
- control and centralization of information;
- rigorous substantiation of the decisions of users of information;
- increasing trust between social partners using a standardized and understandable language⁵.

The existence of a market requires the existence of a product. The accounting information is exchanged at the market of product accounting. This product exists only by the rules and regulations that define it.

In this context, national destinies are influenced by global forces of global competition, so that operating decisions, financial and investment have significant international implications. How many of these decisions are based on accounting information, knowledge of regional and international rules is crucial.

Conclusions

The researches made in the field of managerial accounting in order to obtain information, new knowledge and results are useful for practice and practitioners. Moreover, the purpose of researches in the field of both financial and managerial accounting is to describe, explain and disseminate the techniques and practices used for the clarification and improvement of the generally employed existing organizational practices, opening thus the gates of practice oriented researches.

The need to obtain real-time clear and concise information regarding the evolution of an economic entity, useful to deciding factors, has lead us to the attempt to identify, study and develop the convergence points between the two types of accounting and the way we can solve the issue of introducing them into an operable, efficient and especially less expensive circuit.

Thus, through research topic chosen, we tried to find a possible answer to the following questions:

A) Can financial accounting coexist with managerial accounting within an integrated system and which is the role of this convergence in defining the managerial decision?

The beneficiaries of the research results obtained this way are:

(1) *Managers* – the answer to this question is concretized in making clarifications and improvements to the existing practices. In this approach, pertinent solutions and results are obtained for the settlement of quality issues of the decisions made;

⁵ Feleaga, N., L. Feleaga, *Financial Accounting – a European approach and international*, second edition, vol.I, Economic Publishing, Bucharest, 2007, p. 207.

(2) *Accounting professionals* – who, being willing to provide concrete and complete solutions to their clients, will use the results of this approach; we would also like to mention their interest and the need for continuous improvement;

(3) *Education* – using the results of researches to better understand modern methods, phenomena and theories which meet the needs of an efficient management.

B) *What is the degree of understanding and implementation of this mechanism at this moment within the Romanian economic entities?*

The answer to this question is meant to highlight the need that decision factors and accounting professionals should consider the scientific and integrated organization of the accounting of the entities which they manage so that the efficiency of the decisions to be adopted is maximum.

This perspective has allowed us to make a few suggestions:

– The introduction and use of an integrated accounting module at the level of

SMEs so that this is the main platform in the management and legal activity of entities. We also purpose the use of a specific common balance sheet document, called integrated balance sheet;

- The second phase of this process is the establishment, from the perspective of the price-expense-cost correlation, of the correct organization of the management accounting adapted to the main scope of activity of the economic entity;

In terms of improvement of the quality of managerial decisions, the process aims the introduction of a controlling compartment in the flowchart of the economic entity which should be the “interface” between the execution and decision compartments, a compartment which should take over the information processing tasks from the financial and management accounting and transpose them into projects and solutions at the management requests.

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