

MANAGEMENT ACCOUNTING AT THE BOUNDARY BETWEEN CLASSICAL AND MODERN

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Abstract

Deep changes in actual society have transformed management accounting information system in a "black box", the most important source of information on socio-economic context.

Management accounting is a tool of counselor guidance providing management "database" necessary management decision making.

In these conditions, it is imperative abandon classical costing systems in favour of modern costing tailored to the requirements of modern management. But now, we live in a world of limited resources which require a rigorous analysis of the social, economic, cultural, historical entity that implements a specific systems costing.

In this context, we believe it is useful to analyze the current trend of adopting modern costing systems at the expense of classical and adaptability of this reform in Romanian practice.

Keywords: *management accounting, classical, modern, changing, decisions.*

1. Introduction

Technical progress, environmental instability and complexity of information flow have made the concept of instilling a need for flexibility in the context of a genuine change managers phenomenon.

Management of economic entities tasked to „ensure the vitality of the organization’s robustness to change, due to the constant coordination of activities, the efforts of its resources”¹, comes in support of the guide imperative in „find your own way in confusing circumstances, you strive to make sense of ambiguous messages, read signals to look around and listen all the time to cope with conflicts and strive to achieve your tasks by establishing and maintaining a network of relationship”².

In order to „manage future and constantly report at this managers”³ must have at their disposal a powerful costing system, a truly reliable tool, allowing knowledge at any time of the firm, its objectives, and competitive situation.

Through management accounting is trying to identify a part of the solution and removal of part of a problem. This is the basis, the foundation of any operating in the economic environment, so any imbalance caused by various external or internal disturbance may be amended only by a rearrangement in a different perspective of management accounting.

Continuing globalization of markets and rapid technological changes in production have created fierce competition throughout the world. To achieve any competitive advantage

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¹ Tabara N. – *Management control in the new competitive environment*, Review Accounting, Expertise and Business Audit, No.2, 2004, p.5.

² Watson T.J. – *In search of management*, New York, International Thompson Business Press, 1998, p.8.

³ Budugan D. et al. – *Management Accounting*, Publishing House CECCAR, Bucharest, 2007, p.383.

a company functional entities must adopt strategies that integrate environmental opportunities, market and technology advantages in the most efficient way.

In this context, the question of modernization, transformation management accounting to adapt them to the realities of the present, changing instruments processes and making methods to meet current scientific and technical progress.

This raises the following problem: traditional costing systems have become inefficient leaving only a theoretical part in the evolution of management accounting history, leaving the place of modern costing systems designed to meet current demands properly ?

Many world argue unequivocally that the current trend, but it is always good to be aware that the theory is the ideal state, pure while eliciting real state practice, actually. Thus, we need to know very well the past to step into the future with certainty.

Each type of costing system both traditional and modern ones have their right full place.

But management accounting currently lies at the boundary between classical and modern, being a mixture thoughtful and tailored to the entities representing „international cuisine” where the chef always manages to surprise by adding a new spice in a traditional dishes.

2. Management accounting – a fundamental tool of management activity

„Accounting is the impartial judge the past, guide and counselor of this essential need of every enterprise future”⁴.

In the current conditions of market economy, the management accounting approach is topical and of real interest for both specialists and especially for those responsible entities.

In the present context, managers are forced to assimilate basic knowledge related to management accounting, consisting not only in the specific terminology but in some essential techniques in this field regarding the use and efficient management of information available to decision-making, especially understanding the limitations of information.

Entities, „once inside the game market, it is necessary to create their management information system designed to ensure their protection and the possibility of competition in response to shocks”⁵.

Deepening turmoil manifested in the external environment makes assimilation of essential knowledge required heady own management accounting by managers to be able to base decisions on a real basis to ensure the survival of the entity whose management are responsible and not least, to ensure performance desired.

Currently, the need to manage a complex set of issues facing any organization, make one management accounting tools most readily that it can wear out to assess opportunities, targeting pathways and strategy development company.

Managers use accounting information to draw general path followed by the entity by implementing a predefined optimal in order to „manage each of the activities or functional areas they are responsible and to coordinate these activities and functions within the organization taken as a whole”⁶.

To cope with technological process, fierce competition in the market and especially to succeed fundamental objective of any organization, is to strengthen its position, in the market, policy makers will have to organize, implement, monitor and improve internal information system.

⁴ Hindle T. *Management*, Publishing House Nemira, 2008, p.18.

⁵ Aslău T. – *Management control beyond appearances*, Economic Publishing House, Bucharest, 2000, p. 93.

⁶ Horngren C.T. – *Cost accounting. A managerial approach, 9th Edition*, Publishing House ARC Chisinau, 2008, p.2.

It takes the form of management accounting and is the foundation of leadership.

In recent years, the role of management accounting in an organization has gone from „worked the numbers and financial history, the business partner and trusted advisor”⁷.

It is necessary that both managerial accounting and management of an organization to develop a true „business partnership”. Management accounting needs to target both cost and modeling the behaviour of decision makers.

Of course, in a complex, turbulent and uncertain information needs of managers grow and diversify and management accounting privileged information source management system can meet the needs of management providing tools to adapt permanently and practices requests makers.

3. The limits of traditional costing systems

Aspects of traditionalism and conservatism found in the cost calculation become increasingly apparent during the evolution of technical progress. By this was an urgent need for improving the processes and calculation techniques by formulating appropriate computer systems of the production technology.

Thus, the literature strongly advocates the abandonment of classical or traditional information processing cost, considered inappropriate to current and introduction of modern or advanced whose effectiveness would be superior.

Traditional costing systems in order, job-order costing, process costing and standard costing still widely used, were adopted in the early part of last century to calculate production costs in the types of companies that were characterized by predominant share of total costs direct costs, product promotion uniform and standardized trend conservation products, and the methods of calculation. According to the classical, all indirect costs are affected cost, sized according to the volume of activity.

In the economic entities in our country, costing preserves in most cases a conservative character, because the methods used are the same as three decades ago, despite the fact that the new production character of an upward trend.

The cost calculation is based only on command method or method steps, sometimes combined with different specific procedures specific conditions of each entity. Predefined and practiced at the station or workshop filled with a post-calculation made in the accounting department.

Traditional costing systems have the disadvantage that provides information capacity reduced, not having the potential to provide information for decision-operative enterprise management in timely and optimal decisions. Post-calculation of the traditional methods to obtain information leading to late, lack of efficiency and coverage of certain aspects of the production of which no longer intervene. Because of these drawbacks called actual cost of literature historical cost.

Continual evolution of technical progress, changes in the conditions of competition in the domestic and foreign markets have influenced traditional costing systems, characterizing them in some degree as inefficient.

In the current average, new entity is one automated and computerizing the products have a short life cycle services evolve, constantly adapting to consumer demands.

In the field of competition is seen an evolution of the criteria that characterize the expression of it, the only quantitative criteria (price) to the qualitative criteria (product, quality, security services, etc). But it is obvious management accounting information system integrates a little quality issues, limiting generally quantitative.

⁷ Siegel G. – *The Image of Corporate Accountants*, Strategic Finance, no.2, 2000, p.8.

Another highlights the changing structure of production costs, raising the share of indirect costs to the detriment of direct production costs, varying according to the varieties and complexity of products.

In conclusion, we can say that the rigidity of the current system of management accounting information make a difficult tracking costs, setting standards, analysis of deviations regarding products and services, changes occurred in the current economy⁸.

This is done felt the acute need of a real management costs by building an information system relevant and adapted to current requirements.

4. Evolutionary trends in costing systems

Unprecedented development of production technologies, changes manifested especially in the new competitive environment, have proliferated in the literature a number of new theories and concepts that reflect besides the appearance of novelty and a great finaliate the light efficiency recorded in the entities in th which have found practical application.

Studies and concerns of specialists in accounting converging with those in order related fields such as marketing, management, generated a revolution in systems costing methodology.

So, the way to achieve drastic change known products based on the use of advanced production technology, especially in the case of „world-class manufactures”.

The concept of advanced manufacturing technology includes automated production technology, computer-aided design and manufacturing, robotics, flexible manufacturing systems, total quality control, total quality management, et.al.

The retrieval of these methods, techniques and programs the entity is dependent its success or failure, its existence in the market or bankruptcy.

According to experts in the field of accounting, costing systems is traditional and practical measurement results are incompatible with the use of advanced manufacturing technologies. Johnson and Kaplan says that „almost all management accounting tools appeared until 1925”⁹ and Peter Drucker points out in the 60s, the risk of using traditional cost systems, that loosing relevance in an environment that does not have anything in common with that of the period in which these systems were designed and developed.

Proffessor Kaplan said that traditional managerial accounting produces „simply the wrong size. She directs the company in the wrong direction, reward managers for endangering the business and provides no solution improvement. The best thing you can do is to disable right to stop!”¹⁰

Given the radical plea for the exlusion of traditional practice, wants refining system cost through a better appreciation of the uneven use of resources. Thus emerged two types of costs that primarily targets overall resource management and responsible behaviour involved. It’s about the cost of activities (the process) and target costs.

The calculation of activities (Activity Based Costing) highlights the causal link between resources, activities and subject to calculation, according to the „activities consume resources and products consume activities”. Such an approach requires abandonment of entreprised vertical pilotage to cut the functions and adopt a transversal approach, along the value chain concept developed by Michael Porter.

Costs of activities (the process) not only respond watched last goal in classification costs, they can serve equally stock assessment, and decision making.

⁸ Budugan D. et al. – *idem*, p.382.

⁹ Johnson H.T. & Kaplan R.S. – *Relevance Lost. The Rise and Fall of Management Accounting*, Boston: Harvard Business School Press, 1991, p.25.

¹⁰ Lucey L. – *Management Accounting*, 3rd Edition, London, 1992, p.320.

ABC system is more complex, „promising” cost more „clean” and useful to managers. It envisions such questions: Is ABC solution ?

Costs target (Target Costing) are part of a boarder project that aims at analyzing the wearer’s cost throughout its life, but especially in the design phase. The target cost is a market-oriented approach and is applied since the design phase (design) of the product. Product design requires a long time because it follows from this very stage remove any subsequent changes, the implementation of which is more expensive.

Target cost is determined by deducting from the sale price of the product the service has a profit margin that now wants to achieve. Target costing is not only a method of cost control, but also an approach to planning profit (outcomes) and cost management.

From extensive theoretical plea result superior advantages of modern costing systems, by promoting the idea of transforming the traditional systems in a page of history in literature.

The spirit of the classic drop is universally supported but must always keep the note of a sound advantage to be ephemeral and any bet on the future extremely risky”¹¹.

Thus, according to Herbert Simon, owner of the Nobel Prize for Economics, is born haunting question: Which is the various solutions is the best ?

5. Classic or modern in Romanian accounting: a case study to SC FOREST SRL

The mission of any company reflect management’s opinion on what organization is trying to achieve or become long-term.

The mission it self is a form that states who is making and direction of the organization. Mission requires a strategy by managers in order to achieve these objectives, inserting the desired finality.

Management accounting is the manager that supports when designing a strategy, providing information on sources of competitive advantage (eg productivity or efficiency advantage in that it has now from the competition, et al).

The role of management accounting is decisive because it helps considerably of a build the foundation of an entity, which, like the foundation of a building, if not solid, craks and collapses immediately appear shortly.

Wanting to reflect the major role of management accounting, the accountant proposals in adapting a system of costing linked to management decisions, we developed a case study suggestively at SC FOREST SRL.

In the initial phase entity has as main activity the marketing of forestry and wood. The expansion of markets profile and attracting a loyal client (customer orientation), SC FOREST SRL has decided to diversify its object of activity, thus opting for wood processing, wood products, except furniture.

In consequence was done designing adequately able to provide managers with information it needs to efficiently and effectively manage the entity. Here comes the natural question: where is found the design of an ideal system costing ? Interference between theory and practice, the boundary between classical and modern ?

The achieved proved extremely laborious and difficult. Initial approach resulted in launching and economic study which requires knowledge of relevant legislation, followed by a thorough documentation regarding peculiarities which shows the sector within which the entity operates. Then, knowing the environment in which enterprises operate, the competitors faced, the existing and potential market outlets for the products/services is useful information when designing and implementing a costing system.

¹¹ Tabara N. – *idem*, p.6.

Once completed the study of the economic environment, the next phase of the study focused entity, based on two fundamental elements-structure and strategy. Strategy guide is any account in the design of costing systems. Fundamental desire of the management entity was considered that the implementation of the costing system to come to his support by providing relevant information to guide him in determining a sale price in the long-term decision making and represent an optimal adjuvant for financial reporting. Also took into account the size of the entity (for small, six employees, turnover of 1 444 765 lei) and desire as the cost of the new management system to fit into a budget investment.

The accountant has the difficult task to design and implement a costing system effectively, but with limited resources.

The accountant is forced to consider the following fundamental goals in designing a costing system:

- the cost-advantage;
- systems of accounting and costing are those that have to adapt to operating activities and not vice versa;
- systems various cost calculation records in order to facilitate decision making.

Besides theoretical basis, a significant contribution in the design and implementation of an appropriate calculation is the practical experience of the accountant in the activity analyzed.

The wood industry is one as complex as it is vast. Success lies in their ability to connect with the accounting technical knowledge.

Manager communicated to accountant the success of European funds in order to purchase the necessary production machinery and equipment (saw, chainsaw, circular pendulum, circular multiple machine calibrated central thermal), which contributed to lower acquisition costs by 50%) the rest being subsidized from EU funds.

Analysis is performed market research concluded that there are many customers in the country and outside border whose demand is rising. He then designing to lead to obtaining a relevant production cost such that, based on full cost manager to set a competitive price in order to ensure long-term profitability.

Comes fundamental question: *where do we go now ? to classical or to modernism time ?* The answer is as complex as it is hard to argue.

Globalization, emerging phenomenon has led to the innovation of existing costing systems in each country, sometimes by their own creation, but often by imitation. Japanese culture, because of innovative well known world wide success experts a great influence in the implementation of costing system. Of course, implementing an Activity Based Costing calculation (the activity) or Target Costing (target cost) going up the steps to the essence of Japanese management Just in Time (production in real time) or Total Quality Management would be ideal. But it would have to become more pragmatic, let's not forget the real state of their own culture, opportunities and characteristics of each country in general, the individual features of each entity analyzed in particular.

Words on the agenda are organizational restructuring, remodeling processes reengineering in order to remove the classical accounts that produce „just the wrong” according to Professor Kaplan.

Does so much we have disfavored traditional costing systems that we want to turn a page of history evolutionary scale ?

We support the effectiveness and efficiency of the new costing system, but unanimously should not commit the common mistake to deny our past. Will history be written in a collective momentum madness or small steps and forethought, so handy to have a noteworthy legacy account ?

Of course we cannot remain rooted in the past, but much more effective would be to find an old method and system adaptability to the current environment, a mixture of old and new, a blend between traditional and modern accounting. Permanent care management accountant has resulted in a sound mind to propose a cost calculation to be based on a stable foundation, not just an imitation failed, because change is one of substance and not just one form, as failure would be imminent future.

Referring to the case study, believed to be pertinent proposal management accountant who decided to implement costing systems on controls and designing a folded accounting program with a specific activity of IT companies.

In the initial stage, management accountant has used expertise of a forestry, who later occupy the responsible production technology in the design process for the four categories of manufactured products: timber, flooring and panels.

Then have provided production accountant recipes that just highlights the amount of finished product and of waste, loss of technology, consumption norms for supplies, each products custom made. IT firm contracted specialists have designed and implemented the software necessary entity and folded on specific activity. By analyzing information flows and circuits were designed and implemented entrances computer system resulting in final statements and reports to management review.

In the final stage, given the new organizational structure, management accountant proposes 13 people (10 workers skilled in woodworking, one charge of production with specialization in forestry and wood processing experience, one mechanical and 1 fireman for heating) for the development of the productive process under optimum conditions according to established manufacturing recipes accurately.

In the analysis performed (Table 1) entity SC FOREST SRL justified proposal management accountant, proving to be folded on the realities of the economic environment and local real support in the decision making process.

It justified the choice of costing the orders (classic costing system) as the share of direct costs is superior share of indirect costs (see Tabel 1).

Thus, because of the type of wood production-processing component of direct costs (raw material direct, direct manufacturing labour, energy technology, materials supplies-gasoline, diesel, glue, incidental expenses – electric motor winding, sharp knives, machine, abrasive belt replacement, et. al) is the upper value of indirect costs (staff salaries service and management of the productive sector, depreciation expense, energy consumption in the overall interest of the productive sector).

Although indirect production costs are related to the execution of a specific command, they cannot be directly attributed to it. Therefore we chose as the basis for allocating the number of direct labor hours to make the connection between indirect costs and orders executed. Why? Because it is considered that there is a strong relationship between the number of cause-effect direct labor hours to order the part (cause) and indirect manufacturing resources consumed by that command (the effect).

Of course there are many other key distribution (hours-machine production units, direct materials costs, et.al.). Used in practice and supported in theory. Each has advantages and disadvantages. Should be moved efficiently support a specific base distribution over another, because each entity according to its specific and cause-effect relationship grounded implements its own distribution keys.

Then calculate the full cost (production cost + cost period) is an adjuvant in the negotiation of the sale price, directing long-term decision making.

I highlighted and gross margin calculation unit to compare the profitability of different production orders to determine why some commands have lower profitability. They wasted direct materials?

Too much direct manufacturing labor ? Is there any way to improve efficiency of these commands ? Or simply, the price fixed for such orders production was too low ? Besides being established initially in a special recipe of production some consumption norms, and so on, it is absolutely necessary to analyze the cost of production orders because it provides the information necessary for evaluating performance and for making future improvements. Today it is considered reasonable gross margins for each command executed, yielding a benefit/order considerably entity.

Table 1. Analysis of efficiency of production for the month of August 2013

Explanations/Order	Currencies	Beech timber	Oak elements	Beech parquet	Oak panel	Cherry timber
Quantity produced and sold/order	cubic meters	50	80	51,852	43,636	30
<u>Cost of production</u>	Lei/cubic meters	<u>481,672</u>	<u>1 363,464</u>	<u>662,9</u>	<u>2 481,033</u>	<u>2 255,788</u>
- direct costs		451,055	1 329,048	636,17	2 397,754	2 126,52
- indirect costs		30,617	34,416	26,73	83,279	129,268
Complete unit cost	Lei/cubic meters	582,256	1 514,216	778,91	2 756,612	2 661,584
Negotiated price/order	Lei/cubic meters	750	2 500	2 300	7 560	2 800
Benefit unit	Lei/cubic meters	167,744	985,784	1 521,09	4 803,388	138,416
Benefit/order	Lei/cubic meters	8 307,2	78 862,72	78 871,58	209600,638	4 152,48
Turnover	lei	37 500	200 000	119	329 888,16	84 000
- cost of production sold		<u>-24083,6</u>	<u>-109077,2</u>	259,6	<u>-108262,35</u>	<u>-67673,64</u>
= Gross margin on sales		=13416,4	=90922,88	<u>34372,69</u>	=22162580	=16326,3
- cost period		-5 029,2	-12 060,16	=84886,9	-12 025,16	-12 173,8
* cost distribution		1 315,52	3 157,28		3 129,792	3 192,24
*general administration costs		3 713,67	8 902,88	-6 015,35 1 574,29 4 441,056	8 895,373	8 981,64
The result of Operating	lei	8 387,2	78 862,72	78 871,55	209 600,63	4 152,48

According to our opinion, the solution presented for the entity studied is the optimum moment, but it is obvious that the future will bring notable changes necessary and pertinent always correlated with local environmental variation imposed by the effect of massive globalization.

6. Conclusions

Choosing optimal system cost calculation represents great dilemma entities. *What is the ideal path in a turbulent and uncertain ? For what you are going: classic or modern ?*

The literature has long campaigned for the abandonment of classical, projecting mainly disadvantages. The optimal solution is looming in the adoption of modern calculation systems, the benefits of which are outlined in a frenezy.

Nothing really should say followers of this idea, ready to argue revolutionary system costing the activities clear disadvantage of a system command or phases.

In our opinion, the approach is beneficial and right but up to a certain point. It wants access to modernism in the context of the traditional obsolete, but it seems that you no longer realize the true significance of the impact of cultural, economic or social.

In this context, the ABC method is not illusion solution ?

In literature, there is recognition that „ABC knows dissemination slow below expectations in several countries (UK, Canada, Sweden, Finland, Norway)”¹² because of the time difference between user expectation of ABC eventual promotion speeches by hand, press conferences: „success stories”. *Does reality match the company ?*

Study have shown that the ABC has a good reputation, as business take their ideas even partially, even if they are few organizations that apply completely.

„Home reluctance seems to be the date of presentation of the method as a panacea, because businessmen have learned that management no recipes”. It’s time to stop overselling ABC – said Johnson in 1992, as Brimson in 1998 noted that this method exposes man show to obsolescence¹³.

Apparently not in the distribution of indirect costs by finding the correct base allocation for each activity excel ABC, but by ABM (Activity Based Management), a kind of corollary much less formalized. And then it all grounded opinion that a cause of onsolescence of traditional calculation systems of the type inductor chosen for allocation of indirect cost ?

In Romania most companies apply traditional costing systems, particularly calculation systems or costing order phases.

It would lend implement modern calculation based on this fund ?

The answer can be a definite as interval an external factors influence is particularly striking.

Opt for small steps policy because succes is more certain mod uncertain as if not adopting extreme solutions.

First, referring mainly to the shere of production, entities should focus their attention towards technological progress, namely to renew old machines, physically and morally worn with other topical designed to streamline the production process in a concrete manner. Then the computer system of the organization is another key success factor that helps in better management, processing and storing flows, and not least efficient manufacturing of products traded recipes and a recording system and the calculation of specific activity costs folded help decisively to ensure and maintain success in an increasingly aggressive and turbulent. Of course no solution is not free, but the desire to succed and maintenance in the field of activity, each entity will use its professional judgment to find adequate solutions to cost as diminished.

Obtaining accurate cost should not be an end in itself for any calculation system. To try to determine the exact costs involved, on the one hand, a long time processing an rendering of information and, on the other hand, a risk in terms of loss of substance, at the expense of form.

Johnson and Kaplan referred to this situation wondering: „in fact, when the product cost is played with five or six decimal places, who will suspect the first digit is incorrect ?”¹⁴

To address a problem of choice that cost management is necessary and will allow for the best solution, so that cost of appropriately analyzed context. Ideally, the information given is both relevant and accurate, except that, in reality, the cost of such information often exceeds the benefits they generate information itself. Thus it is preferable that the information is relevant and with a degree of “accuracy” reasonable.

The role of managerial accounting and calculation systems has been pointed out by Kaplan and Johnson again after twenty years: “Poor managerial accounting systems, by themselves, cannot lead to the failure of an organization. Besides, no excellent managerial accounting systems does not ensure success. But surely, they can contribute to the decline or survival of the organization”.

¹² Diaconu P. et.al. – *Managerial Accounting Depth*, Economic Publishing Bucharest, 2003, p.89.

¹³ Ibid, p.90.

¹⁴ Johnson H.T. & Kaplan R.S, idem, p.187

A calculation system cannot exist, he has designed universally and implemented taking into account the realities of the environment in which the organization operates and especially internal conditions and requirements management system.

Best calculation system is achieved by balancing the “cost of errors resulting from incorrect cost estimates more accurate measurements”¹⁵.

Where are we heading ? to classical and/or modern ? The answer is somewhere on the boundary between plates of scales at the limit of what we think, justify, and apply the result...deserve.

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¹⁵ Diaconu P. et.al , idem, p.90