THE MANAGERIAL ACCOUNTING AND ITS ROLE IN REGULATING FINANCIAL REPORTING

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Managerial accounting is an integral part of management which provides information that is used by management to formulate strategies, plan, coordinate and control the activity, make decisions, optimize the use of resources and safeguard assets. By reporting variances from planned costs, managerial accounting enables managers to control costs and take corrective action. Financial statements should present fairly, give a true and fair view of an enterprise's financial position, performance and cash flows for the past year.

1. ABOUT ACCOUNTING AND THE AVAILABILITY OF ACCOUNTING INFORMATION

Accounting is an information and measurement system that identifies, records and communicates relevant information about the activities of an organization.

The primary objective of accounting is to provide useful information for making decisions, such as assessing opportunities, products, investments, social and community responsibilities. Another important objective is related to stewardship, that is, accounting reports how managers have used the resources entrusted to them by the owners.

To achieve its objectives, accounting includes activities such as: identifying, measuring, reporting and analyzing business events and transactions. Accounting also involves interpreting information and designing information systems to provide useful reports that monitor and control an organization's activities. The accounting department designs a system of internal controls for the organization's use in order to promote efficiency and prevent the unauthorized use of the company's resources.

Accounting provides information only about transactions and events that can be expressed in monetary terms. The consequence is that important information like the capabilities of the management team or the imminence of a strike, although essential, cannot be translated into accounting language. Despite its limits, accounting offers to interested parties information that is synthetic and unique about an organization.

In the Anglo-Saxon world the financial statements of sole traders and partnerships are completely private and are not seen by others than the trader or partners concerned, unless they choose to show them to third parties. In the United Kingdom the financial statements of all companies, both private and public should be published a copy of the financial statements is sent to the Registrar of Companies where they are released to the public for a small fee. In the developed world the financial statements of listed companies are available to the public via the internet.

Romanian company law requires that public and private companies should file their audited and approved financial statements with the Registrar of Companies (Registrul

Comerţului), where the public has access to them. Accounting regulation also provide for the possibility that any member of the public may obtain the annual report (financial statements, director's report and auditor's report) from the company's headquarters, for an amount not exceeding its administrative cost. However, the regulations are not clear on this point, apparently allowing the presentation of a shortened version of the financial statements.

2. THE REGULATION OF ACCOUNTING

Company accounts do not necessarily satisfy the needs of all users. First, even within one user group, there are unlikely to be identical needs. Secondly, as accounting has many of the features of a public good, users may prefer to be free-riders and not reveal their preferences. Thirdly, there is the corporate governance debate and the difficulty of making directors act in the best interest of shareholders. Fourthly, some stakeholders may not have their informational needs met as their relationship with the company is simply a contractual one. Because of this, there is a role for a regulator.

The accounting information has many of the qualities of a public good.

Public goods are goods and services such as prisons and police forces which either would not be supplied or would be inadequately supplied if left solely to market forces. These public goods have qualities different from other goods and services. First, supplying a public good to one person in effect supplies that good to all others at little or no extra cost. Secondly, the consumption of part of that good by one person does not reduce its availability to others.

There are three clear reasons emerging to explain why accounting information should be regulated. First, accounting information has many of the qualities of a public good. Secondly, there is the difficulty of getting directors to act in the best interest of the shareholders at all times. Lastly, there is a need to consider the interests of other stakeholders, a need which cannot find expression when financial reporting is dictated by the property rights of the equity shareholders.

Despite these strong arguments, it does not automatically follow that regulation leads to an improvement in financial reporting. Nor does it give any guidance as to whether regulation should be through the law or through some other agency. All that regulation does is transfer the question of the scope and type of information to be provided from the directors and the market-place to the regulator. It does not overcome the issue of judgement and the choice of which groups to benefit and which groups to penalize. Having said that, the regulation of financial reporting is a feature of most countries as has been the increasing demand through time for more and more financial disclosure.

Accepting that accounting information has many of the properties of a public good and that there is a potential conflict between directors and shareholders begins to explain why its provision is not simply left to market forces. What it does not explain is why some legislatures play an active role in the provision of financial information while others leave it mainly to the private sector. At the one extreme is the situation which existed in the UK until 1981 whereby the government laid down a very general company law framework and left it to the private sector in the form of the accounting profession's ASC to fill in the detail. At the other extreme are countries such as France and Germany whose governments dominate the regulation of accounting, even to the extent of specifying allowable accounting policies and valuation rules.

There are benefits and limitations to both approaches. Given that the provision of accounting information involves making judgements about what to disclose and how to value transactions, some users will gain while others inevitably will lose. Forcing firms to immediately write off research expenditure, for example, deflates not only the profits of firms carrying out a great deal of research, it may actually cause them to cut back on the amount of research undertaken. As a result, such firms would be penalized relative to firms undertaking very little research. Choosing who to favour and who to penalize in this way is essentially a political judgement based on values. It might therefore be argued that resolution of such issues that cannot be resolved by the market should be by the democratically elected legislature rather than some unelected or self-appointed body.

Private sector regulation tends to be a mirror image of the advantages and disadvantages of public sector regulation. By far the major issue is determining the authority of a private sector regulator to impose “quasi laws” on the financial community. Until the passing of the 1989 Companies Act and the establishment of the Accounting Standards Board one year later, the authority in the UK was mainly implicit.

To make their statements as authoritative as possible, private regulators attempt to obtain the backing of informed opinion, generally in the form of the accounting profession and the stock exchange.

A second way to increase the authority of private sector standard setting is to carry out as wide ranging a consultation process as possible to encourage general acceptance and reduce the likelihood of non-compliance. Without sufficient enforcement powers, private sector regulators need compliance to demonstrate their authority and justify their existence.

Any strong objections to a proposal or threat of non-compliance would deny the standard setting body its role and hence threaten its survival.

There is a third way to regulate accounting which combines the authority of state control with the flexibility of a private sector regulator. This involves governments forming or supporting an agency to regulate accounting standards. Such an agency would have a proper mandate from Parliament and the backing of the courts. It would probably be more effective than straightforward central control by government, partly because of the expertise of its staff, partly because it can take a wider view than the narrow technical aspects to standard setting and partly because it can react faster to emerging issues than any legislature. Equally important, it will have greater independence and greater authority than a self-regulating body. Such advantages though do have a cost.

3. FINANCIAL ACCOUNTING AND MANAGERIAL ACCOUNTING

Financial accounting provides information to decision makers not involved in the day-to-day operations of an enterprise. Financial accounting is concerned with the production of general purpose financial statements for users such as investors, present and potential, lenders, government agencies, employees, suppliers and customers and the general public.

A complete set of financial statements includes: the balance sheet, the profit and loss account, the statement of changes in equity, the cash flow statement and accounting policies and explanatory notes. The responsibility for issuing the financial statements belongs to management. [Duțescu Adriana, Olimid Lavinia, Financial Accounting, Editura CECCAR, Bucureşti, 2004, pg. 18]

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The following table shows the main differences between financial and managerial accounting: [Duțescu Adriana, Olimid Lavinia, Financial Accounting, Editura CECCAR, Bucureşti, 2004, pg. 19]

Financial Accounting	**Managerial Accounting**
• regulated	• not regulated
• mainly concerned with past performance	• mainly concerned with predictions, includes future expectations of the management team
• historical financial statements, disclosed at year end	• a budget system based on historical information but also on predictions, frequent reporting, not disclosed
• prudence is enforced: providing for all potential losses, but recording revenues only when they are earned	• relevance is enforced: revaluations, changes of depreciation rates, flexibility in working with historical records

The objective of financial statements is to provide decision-makers with useful information about the financial position, performance and changes in financial position of an enterprise. All three aspects relate to the generation of cash in the future.

The financial position of an enterprise is characterized by several aspects: the resources controlled, its financial structure, liquidity and solvency. The relevant information on these topics is primarily found in the balance sheet with details presented in the explanatory notes. The balance sheet lists, in money terms, all assets owned and controlled by an enterprise and all liabilities owed, along with shareholders' interest in the business at a particular date. It is a snapshot of the financial position of the business at a point in time.

Information on performance reflects the enterprise's ability to obtain profit, in other words, to obtain revenues that exceed expenses incurred. Information about performance is contained mainly in the profit and loss account and the related explanatory notes. The profit and loss account is a record of revenues generated and expenses incurred over a given period. The statement of changes in equity brings in additional information about the performance of the enterprise as some gains and losses are sometimes included directly in equity without passing through the profit and loss account first.

Information regarding changes in financial position discloses the enterprise's ability to generate cash, the ultimate condition to continue the activity in the future, and the use of this cash for operating, investment and financing activities. Information on this topic is typically found in the statement of cash flows and in the explanatory notes to this statement.

4. FINANCIAL STATEMENTS AND THE ROLE OF MANAGERIAL ACCOUNTING

The development of strategic management accounting is at an early stage. Nevertheless it is possible to identify an outline framework. Initially, the activities which create consumer value such as quality and operating performance need to be identified. The next stage is to identify costs and other resources associated with these benefits and to determine their cost drivers. In business strategy, the ultimate cost drivers are the benefits provided to customers by products. Customers are prepared to pay for these benefits.

Conventional cost systems say little about the cost aspects of those strategic success factors which a firm must sustain if it to survive. Therefore there is a need to determine the cost of the company's strategic activities. The cost of most strategic activities cannot be deduced from existing accounting reports. One reason is because such costs are often subsumed within enterprise-wide overheads. A second reason is that the cost of strategic activities often crosses the formal responsibility accounting structure. But a third reason relates to the conventions of financial accounting.

Although the information is distributed primarily through financial statements. Financial statements describe the condition of the enterprise, the events that have occurred during the year and should give a true and fair view of the enterprise's financial position, performance and changes in its financial position.

A complete set of financial statements includes the following statements:

- the balance sheet lists, in money terms, all assets and liabilities of an enterprise, along with the shareholders' equity in the business at a particular date;
- the profit and loss account is a record of revenues generated and expenses incurred over a given period. The statement shows the performance or non-performance of business in terms of profit or losses;
- the statement of cash-flows discloses the cash flows of the business, generated from an enterprise's operating, investing and financing activities. This statement supplements the accrual based information disclosed in the profit and loss account with the enterprise's capacity to generate cash;
- the statement of changes in equity shows the causes and effects of equity modifications within the current period, in order to help owners and potential investors to better assess the risks and rewards of their investments;
- accounting policies and explanatory notes disclose information about the basis of preparation of the financial statements, accounting policies used and information which is not presented elsewhere in the financial statements but necessary for a true and fair presentation.

But, accounting reports do not capture all of the information. The need for more internal information might lead to the organizational structure of the business being revised. Estimating the cost for each user department will be fraught with difficulty. If this is an important element of cost, the organization might be changed by closing down the central facility and attaching individual operators to specific user departments where costs can more accurately be collected.

This shows management accounting in a new light. As part of the management control system, it serves two functions. The first function is a form of financial planning and control, concerned with providing quantitative information, mainly in money terms, of plans, their results and any deviations. As such it borrows techniques from classical economic theory. This has been the traditional focus of management accounting. The second function sees a more interactive role for management accounting. It is at least partially concerned with determining the organizational structure of the business and in modifying the behaviour of employees towards the goals of the enterprise.

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