UDC 651.02

MANAGEMENT ACCOUNTING SYSTEM'S FUNCTIONAL ELEMENT RESEARCH

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In this paper management accounting system and it's functional elements are analyzed. Results of this paper revealed that management accounting system consists of three main elements: cost accounting, budgeting and accounting of responsibilities. All of the mentioned elements are connected by management accounting policy.

Introduction. In today's global market, when competition is growing exponentially, companies' management decisions are becoming more complex and the amount of data that needs to be processed is endlessly increasing, it is very important for the company to know what steps have to be taken to reduce the risk of unqualified management solutions. That is because each company has to take economically justified decisions in order to reach its goals. To make these decisions companies use information provided by management accounting system.

Many different questions related to management accounting were already analyzed by many Lithuanian and foreign authors: Gerdin (2005) evaluated the influence of organizational structure and relations between departments when creating management accounting system, Gliaubicas (2008) conducted a research on management accounting techniques in Lithuanian companies, Kalcinskaite (2009) examined elements of management accounting used in small and medium size companies, Strumickas, Valanciene (2010) analyzed the development of modern management accounting, Odar, Kavic, Jerman (2015) analyzed influence of management accounting system for decision making.

However, there are not many researches related to management accounting system itself and functional elements that are part of this system. That is why it is very important to identify and analyze this system and its functional elements.

The object of this paper is to analyze functional elements comprising management accounting system.

To achieve this, Lithuanian and foreign literature was analyzed, compared, described and then the obtained information was processed, systemized and summarized.

In today's world accounting is understood as an economic information recognition, measurement and presentation process which allows a company to make measured decisions in its economic activity. Based on this system, the financial and non-financial information for the management of the company can be analyzed, measured, processed and forwarded.

Tamuleviciene, Subaciene (2013) state that for a long time it was enough to use only one accounting system, but due to fast development of the market and rapidly changing business world, accounting system had to be divided into two systems: financial accounting and management accounting.

Every author interprets the management accounting differently, but most of them agree that the main purpose of this system is to help manage the company. In Lithuanian accounting law (2001), such definition of management accounting is provided: "Management (internal) accounting is the accumulation, systematization, evaluation and presentation of information that is used for entity management." By summarizing the ideas of various authors Gliaubicas (2008) describes management accounting as a system in which information is collected from various sources of information – both financial and non-financial – then it is processed in accordance with appropriate methods into a final result which satisfies the needs of the users. He also points out that well-maintained and processed management accounting information allows the users to make reasonable decisions and manage a company.

Different author highlight different management accounting functions (Table 1) which can be described as functional elements. It is these functional elements that collect and process information, which is needed for decision-making.

However, it is important to note that each company selects individual management accounting model and therefore it is appropriate to combine functional elements into three main groups: cost accounting, budgeting and responsibility accounting. It should be highlighted that decision-making function should not be assigned as a functional element, because all management accounting elements are oriented towards providing information for decision making and it should be considered as another system that combines information from all elements to help company achieve its goals.

Every company aims to produce and sell more goods at the lowest cost possible. Knowing and being able to control their cost allows companies to move faster towards their goals and therefore one of the functional elements of the management accounting system is cost accounting. According to Tamuleviciene, Subaciene

(2013) definition of cost within management accounting in particular is very important, as companies are interested in reduction and planning of their costs, because regardless of their income, all companies will always want to reduce their costs.

Table 1 – Classification of management accounting system elements by Lithuanian authors

Author	Functional elements
Tamuleviciene, Subaciene (2013)	Cost accounting; Planning; Control; Measurement of performance; Calculation of cost.
Meskeliene (2011)	Cost accounting; Budgeting, Calculation of cost.
Strumickas, Valanciene (2010)	Cost accounting; Planning; Control; Budgeting; Decision making; Measurement of performance; Strategic analysis.
Kalcinskaite (2009)	Cost accounting, Control. Budgeting, Calculation of cost.
Mackevicius (2003)	Planning; Classification of cost; Control; Cost Calculation; Evaluation of Departments activity.

Companies during their business activities face various expenses. As Lakis, Mackevicius, Gaizauskas (2010) state, to have a better understanding and control of its costs, it is very important for the company to classify it properly. However, due to diversity of company's structures, differences of their activities and objectives pursued, different classification of costs may be relevant to every company. Proper classification of the company's cost allows to provide company managers with detailed information which helps them make better and more effective decisions, assess company's costs incurred during the company's activity better, understand which costs have the greatest impact on the company's operations, as well as reduce the costs. Depending on what kind of information about company's costs the managers need and what goals they seek, they can classify costs by impact on the amount of production, by the type of costs, by composition of costs, etc. As it is shown in table 1, Mackevicius (2003) even distinguishes the classification of costs as a functional element of management accounting system. However, such distinguishment is not fully justified, because the classification of costs is one of the initial stages of cost accounting and therefore it must be identified as a part of a cost accounting element.

Cost accounting information is closely related to the calculation of the production cost. Despite that some authors (Tamuleviciene, Subaciene, 2013; Meskeliene, 2011; Kalcinskas, 2009) offer to consider calculation of cost as a separate management accounting element, such separation would be difficult because it is very hard to find a clear boundary between cost accounting and calculation of cost. That is why it is appropriate to regard the calculation of cost as one of the elements of cost accounting.

Production cost can be calculated in different ways. For every company it is very important to choose the most suitable product cost calculation method. Cost calculation depends on various organizational aspects. Lakis, Mackevicius, Gaizauskas (2010) state that it is important to pay attention to the nature of the company's product, the number of species of the product and what is the scope of each type of product when choosing the cost calculation method. According to the authors, it is necessary to breakdown the costs of the period which is being calculated into the costs type, the source of the costs and the object which costs are calculated, when using each of cost calculation method.

As many authors noticed (Lucey 2002; Kalcinskas, Jagminas 2005; Needles, Powers, Crosson 2007; Meskeliene 2011), there are two most common cost calculation methods: job-ordered costing and process costing. According to Tamuleviciene, Subaciene (2013), the most important cost calculation component is the production costs. These costs can be seen in three stock accounts: raw material account, work in progress account and finished product account. All production costs incurred during the production process (direct and indirect product costs) are stored in work in progress account.

However, in order to carry out management accounting information analysis, it is not enough to know only the costs of products that were produced and sold. Appropriate reports must be filled in so the information would by analyzed more effectively and later used. With reliable information on product costs it is possible to make important decisions related to production planning, pricing, and company‘s activity and find solutions to many other questions.

The second element of the management accounting system is budgeting and control. It can be said that in management accounting system, budgeting is the most important instrument of planning and control. When summarizing information from literature (Klimaitiene, Kanapickiene 2009; Kalcinskas 2009; Lakis, Mackevicius, Gaizauskas 2010; Tamuleviciene, Subaciene 2013; Odar, Kavic, Jerman 2015), it can be said that the budget is a monetary quantitative expression of an action plan of a certain period which provides certain performance indicators for achieving company‘s goal. Also, it should be mentioned that this action plan is written on the basis of both long-term and short-term objectives so this is the reason why budget reflects company‘s strategic and operational plans. What is more, according to many authors (Drury 2000; Mackevicius

2003; Klaimaitiene, Kanapickiene 2009; Kalcinskaite 2009; Strumickas, Valanciene 2010), budgets allows not only to achieve company's goals, but also to control and organize company's financial resources.

As Kalcinskaite (2009) states, budgets allows companies to plan their activity efficiently and to ensure the maximum benefit because the budgets allow to use resources efficiently, optimize costs, increase effectiveness of different operations. Lakis, Makcvecius, Gaizauskas (2010) say that the main purpose of budgets is to coordinate and to keep whole activity process balanced in order to ensure profitable operations by using all possible resources.

Budgeting system is not able to function as a planning system without an effective and efficient control system. According to authors of management accounting literature (Drury 2000; Klimaitiene, Kanapickiene 2009; Kalcinskas 2009; Jagminas 2005; Odar, Kavic, Jerman 2015), it can be said that control of budgets includes different norms, standards and criteria determination for evaluation of achieved results, deviation calculation and decision-making for eliminating deviations. Budget control allows managers to monitor the company's current condition and the company's activity results. Regular comparison of actual results with plans allows evaluating not only the company's performance, but also the effectiveness of the decisions made. What is more, it allows to monitor company's activity and take action before any serious risks could happen and to react quickly before anything could cause damage to company's results.

Another very important management accounting system's functional element is responsibility accounting. In management accounting system, responsibility accounting collects information about the segments of an organization (responsibility centers) and analyzes received data to provide reports about segments. Mackevicius, Tamuleviciene, Subaciene (2016) provide such definition of responsibility accounting: "Responsibility accounting is management accounting providing information about the company's responsibility centers, their performance and efficiency of resources provided.". After analyzing this definition, we can highlight these responsibility accounting features: it is one of management accounting elements; it uses information about responsibility centers; it analyses efficiency of resources provided to the segments; it provides information to the management which is later used for decision making.

Crucial part of responsibility accounting process is the formation of the responsibility centers. The purpose of establishing responsibility centers is to put responsibility on them for their activities and allocate power to take appropriate decisions for operations (Mackevicius, Tamuleviciene, Subaciene 2013). "There are various ways to distribute responsibility centers, but in practice the most appropriate is to form them according to responsibility areas, such as costs, revenue, profit and investment centers." (Mackevicius, Tamuleviciene, Subaciene 2016).

Once a company introduces proper responsibility accounting system, it is possible to ensure the company's flexibility and prompt reaction to problems, as well as increase company's operational efficiency. By concentrating on a specific area, each of the segment can provide the most valuable information for the managing a specific area of the company. I will be easier for the managers provided with this information to make important decisions.

Each functional element of management accounting provides specific information about the company's current situation and its position regarding its goals. Having such information, the company's management is able find solutions to any situation and enhance the company's economic position in the market, as well as work towards future goals.

Cost accounting, formation of budgets and the control of their implementation, responsibility accounting are the three main functional elements of a management accounting system. However, when introducing and developing management accounting system, it is very important to properly prepare fundamental base of the system that is management accounting policy (fig. 1).

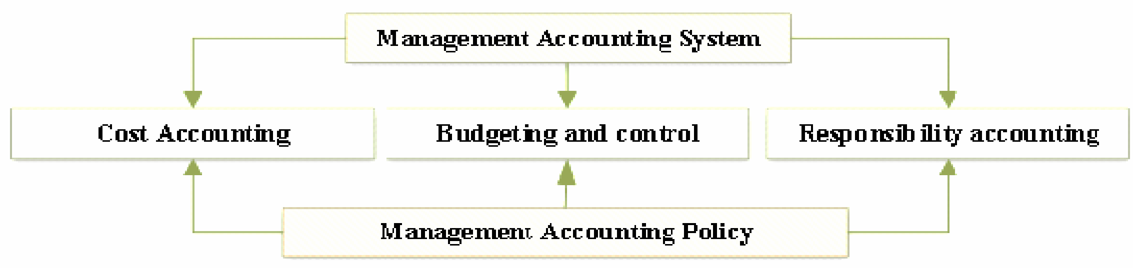

Fig. 1. Management accounting system's functional elements
and their connection with the management accounting policy

As it is shown in figure 1, management accounting policy affects every functional element. Depending on what kind of management accounting policy the company has, structure and functioning of functional elements may vary. Without properly prepared management accounting policy the system and functional elements are not able to function properly and provide important and most valuable information for decision-making.

Conclusions. The analysis of the management accounting system structure showed that various authors point out different functional elements of this system. However, taking into account the fact that it is hard to point out a clear boundary between them it is not appropriate to consider them as separate functional elements of a management accounting system. Thus, it was highlighted that management accounting system structure consist of three main functional elements: cost accounting, budgeting and budget control, and responsibility accounting. Each of the three elements provides the information that is used in decision-making process related to long-term and short-term plans. It is these functional elements that provide valuable information which allows to increase company's profitability and to ensure operational effectiveness.

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