

CONTENT AND IMPORTANCE OF MANAGERIAL ACCOUNTING POLICIES IN THE DECISION-MAKING PROCESS

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Abstract

At the present moment, the entities are operating under conditions of tough competition, which imposes the need to organize a viable management accounting system. Currently, in most of the entities in the Republic of Moldova, managerial accounting is not kept or only unreliable attempts are made to organize it. The created situation can be explained by the lack of a basis and some methodological recommendations regarding its organization. In this context, it is proposed to develop at entity level a managerial accounting policy that would include three key compartments: organizational, technical and methodological.

The article proposes the basic elements that must be included in each of its compartments. As a result, the managerial accounting policies will help to ensure the efficient management of financial resources by internally regulating the principles, methods and procedures used to record, report and analyze accounting information needed by management in the decision-making process.

Keywords

managerial accounting, managerial accounting policies, management control, internal regulations, basic elements, basic compartments, decision-making process.

JEL Classification

M 40, 41

Introduction

Currently, management accounting policies are an important internal document used in the management process of the entity. They play a key role in the implementation of its basic strategies and contribute to various management decisions.

According to art. 3 paragraph (1) from the Accounting and Financial Reporting Law no. 287 of 15.12.2017, *management accounting* is a system for collecting, recording, processing and transmitting information for the planning, control and analysis of the entity's activity, in order to draw up internal reports for managerial decision-making.

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In the following we will use the term "managerial accounting", being a more correct English translation (Law no. 287 The Accounting and Financial Reporting, published on December 15, 2017).

As a continuously developing science, management accounting, as a rule, is treated differently in terms of its essence, principles and methods used. But it is certain that its implementation or non-implementation within the entity primarily depends on the internal management policy. In certain cases, the methods used in managerial accounting can be requested for management purposes and by foreign investors.

The goal of this article consists in the research and examination of the notional and applicative issues, related to the key aspects regarding the content of managerial accounting policies, according to the requirements provided in the National Accounting Standards (hereafter - NAS), and the objective lies in the investigation and clarification of the problem mentioned above.

Therefore, there were studied the provisions of the national accounting regulations as well as the works, research and viewpoints of local and from other countries economists and scientists for the formulation of conclusions and recommendations on the issues approached.

1. Review of the scientific literature

In the specialized literature the aspects of managerial accounting policy structure are analyzed by various authors. Thus, according to the economists Liana Grigoryan and Arpine Hakobyan the managerial accounting policy is a reflection of the ideology aimed at achieving the operative and strategic goals of the organization. It is an important internal regulation. Unlike the accounting policy, which is drawn up in strict compliance with the requirements of certain legislative and regulatory documents, the structure and elements of the managerial accounting policy are different for each organization and are determined by a number of factors, such as the organization's branch affiliation, management structure, operational and strategic goals, dimensions, technological features of production, etc.

Managerial accounting policy includes the set of regulations for collection and generalization of information necessary to manage the activities of the given organization. A managerial accounting policy prepared in accordance with the objectives of the organization and with the proposed structure will contribute to increasing the efficiency of information management within organization (Grigorian & Hakobian, 2024).

In the opinion of the economists Kalugina I, Tarasenko O, Bunina A, Pavluchenko T. N managerial accounting policy is largely oriented towards accounting of income, expenses and formation of the financial statement. In an ideal case, the data of financial accounting necessary for cost accounting and calculation of prime cost shall be formed simultaneously, however, in practice, such a variant is rare, thus, more attention shall be paid to obtaining information on expenses during the reporting period. The authors consider that this goal shall form a foundation for the provisions on managerial accounting policy in the enterprise (Kalugina et al., 2020).

Thus, we observe that these authors consider that in the process of the elaboration of managerial policy not only the internal procedures of managerial accounting, but also

other aspects that are relevant for decision making such as revenues, expenditures and financial result will be taken into account.

In certain industries, such as the pharmaceutical industry, aspects of managerial accounting policies have been examined in the light of current modern technologies. The software and applications of accounting and financial policy and procedures are a new initiative overall performance of pharmacy practice services. Electronic accounting and financial administration strategies are used for error prevention and easy, accurate, quick versions in pharmacy practice. Various factors such as program features, cost, and friendly use might affect choosing electronic applications.

The software and applications of accounting and financial policy and procedures are encouraged to be implemented in pharmacy administration and services in Saudi Arabia (Alomi et al., 2023).

Another authors Jelena Raičević and Marija Stojiljković consider that the quality of the financial information is the basis of the financial system stability, which can encourage the development of national economies and attract investors. Information is especially important in the functioning of the capital market. Namely, a developed and stable capital market, a developed private sector and credit institutions contribute to economic effectiveness and efficiency, and generally to an increase in social well-being.

Each business's operations are a unique confluence of objectives, dealings, constraints imposed by the political, social, and economic environments, risks, and uncertainties. Therefore, the way of evaluating materially significant balance positions is decided by the company's management in accordance with the objectives of the business.

Additionally, when it comes to management decisions, the accounting treatment of specific transactions and the established disclosure strategy impact the quality of financial reporting (Raicevic & Stojiljkovic, 2022).

2. Research methodology

The research method results from the analysis of the theoretical and practical materials on the problematic aspects related to the content of managerial accounting policies. The theoretical foundation was based on analysis, synthesis, deduction and the inductive method used for a clear and representative interpretation. The importance of this article's investigation consists in reaching the above-mentioned goal by the examination of the provisions of the national accounting regulations as well as the works, investigations and opinions of the local authors, scientists and researchers in view of improving the content of managerial accounting policies.

3. Results and discussion

Managerial accounting is important for drafting accurate and complete financial statements for internal use and crafting a company's long-term strategy. Without good managerial accounting, corporate leadership can struggle to make appropriate choices or misunderstand the firm's true financial picture.

Management accounting is different from financial accounting. While financial accounting focuses on external reporting, management accounting focuses on internal decision-making. It is concerned with providing information to owners and managers that helps them to make informed decisions about the future of the business.

Management accounting provides data on the costs of producing goods and services, the profitability of products and services, and the performance of business units.

In accordance with art. 18 paragraph (3) from the Accounting and Financial Reporting Law, the persons responsible for keeping the accounting and financial reporting *are obliged*:

a) to ensure the organization and keeping of accounting continuously from the date of state registration of the entity until the date of its liquidation;

b) to ensure the development, approval and application of accounting policies in accordance with accounting standards and other normative acts developed in accordance with art. 8 paragraph (1) letter b);

c) to ensure the development and approval of:

– the entity's working chart of accounts, as the case may be;

– internal procedures regarding management accounting;

– forms of primary documents and accounting registers;

– the rules regarding the circulation of documents and the technology of accounting information processing. (Law no. 287 The Accounting and Financial Reporting, published on December 15, 2017).

Therefore, entities must develop accounting policies, starting from the provisions of the aforementioned Law, as well as contribute to the development and approval of internal management accounting procedures. These procedures may vary from one entity to another depending on several factors: the organizational structure and size of the entity; the nomenclature of manufactured products (services provided); the particularities of the technological process; degree of automation of records, etc.

In practical activity, for the implementation of managerial accounting procedures, the entity must undertake several actions, namely:

- examination of internal and/or external circumstances that influence the organization of managerial accounting within the entity;

- establishing an internal management structure for responsibility centers or activity segments by establishing the responsible persons at the level of each center or segment;

- detailing the information on consumption by places of occurrence and centers of responsibility, which must be carried out taking into account the principle of intelligibility;

- drawing up budgets (consumption and expenditure budgets) according to the centers of responsibility, drawing up instructions for drawing up and operational control of the indicators within them;

- drawing up the forms of primary documents and internal reports, as well as methodical instructions on how to complete, circulate and analyze them;

- description of the method of recording consumption and calculating costs;

- elaboration and description of the content of the analytical accounts of managerial accounting by following the balance between the reasonable level of the analytical record and the expenses related to its organization, etc. (Caraman & Cușmăunsă, 2015).

The actions described above are welcome to be systematized within a managerial accounting policy, which must be developed and approved separately from the accounting policies, which regulate the rules for keeping financial accounting according to NAS and/or IFRS. This is explained by the fact that, although some aspects examined in the financial accounting policies are, on the one hand, also the prerogative of managerial accounting (choosing the methods of current valuation of stocks, the method of establishing and settling provisions, etc.), however, there are aspects inherent only to managerial accounting, such as:

- establishment of consumption record objects and calculation objects;
- enumeration and classification of responsibility centers;
- determining the nomenclature of consumer items;
- choosing the method of recording consumption and calculating costs for different centers of responsibility;

- argumentation of the nomenclature of indirect production consumption items by dividing them into variables and constants;

substantiating the basis for the distribution of indirect production consumption by types of manufactured products (services provided, works performed), etc. (Order of the Ministry of Finance of the Republic of Moldova regarding the approval of National Accounting Standards no. 118, The National Accounting Standard "Accounting policies, changes in accounting estimates, errors and subsequent events", published on August 06, 2013).

Thus, *Managerial accounting policies* (hereafter - MAP) mean all the basic concepts, qualitative characteristics, rules and procedures, approved by the management of the entity, for keeping managerial accounting, which ensure its continuity and consistency and contribute to the realization of the potential of its elements (budgeting, calculation, control and analysis) for the purpose of managing the entity. The development and approval of the MAP is carried out voluntarily, according to the decision of the entity's management, and has a recommendation character (Cuzimina, 2007).

The investigations carried out reveal that the purposes of the accounting policy within financial and managerial accounting differ essentially, namely:

- the purpose of the financial accounting policy consists in the option for a procedure from those stipulated by the SNC or IFRS (in the case of alternative) and its acceptance as the basis for keeping the accounts and drawing up the financial statements;

the purpose of the managerial accounting policy resides in determining the basic principles of managerial accounting within the entity and its subdivisions in order to make managerial decisions based on the information presented in the internal reports (The Official Monitor of the Republic of Moldova no. 233-237, Methodological indications concerning the accounting for the cost of finished products and calculating the cost of finished products and services, published on October 20, 2013).

In the current conditions of the market economy, the managerial accounting of costs must contribute to the solution of various problems, such as: establishing the prices of the manufactured products or the services provided; identifying the types of products to be manufactured further or suspended; production or procurement of assembly items;

acceptance or rejection of special orders. In this context, cost accounting presents itself both as an informational tool by providing useful information on costs and results by responsibility centers, as well as a management tool in ensuring an optimal level of activity. Thus, the information provided by cost accounting has a considerable weight in the decision-making process and the continuity of the entity's activity by obtaining benefits in the future largely depends on their quality.

Accounting policies are the main tool for implementing the provisions of the NAS.

Accounting policies are the document that governs the principles and options for keeping the accounts of each entity.

Accounting policies are the totality of basic concepts, qualitative characteristics, rules, methods and procedures, approved by the entity's management, for keeping accounts and preparing financial statements" (Vatrușina & Lealicova, 2008).

The persons responsible for accounting and financial reporting are obliged to organize and ensure the accounting on a continuous basis from the moment of registration until the liquidation of the entity and to ensure the preparation and compliance with the accounting policies in accordance with the requirements of the legislation in force, and directly with the provisions of the IFRS and the NAS.

Investigations reveal that the accounting policy goals in financial and managerial accounting differ fundamentally, namely:

- the purpose of financial accounting policy is to opt for one of the procedures stipulated by the NAS or IFRS (in the case of the alternative) and to accept it as the basis for keeping accounts and preparing financial statements;

- the purpose of management accounting policy is to determine the basic principles of management accounting within the entity and its subdivisions for the purpose of making management decisions based on information presented in internal reports (Order of the Ministry of Finance of the Republic of Moldova regarding the approval of National Accounting Standards no. 118, The National Accounting Standard "Presentation of financial statements", published on August 06, 2013).

In today's market economy, managerial cost accounting must contribute to the solution of various problems such as: pricing of products manufactured or services rendered; identification of types of products to be further manufactured or discontinued; production or procurement of assembly items; acceptance or rejection of special orders. In this context, cost accounting presents itself both as an information tool by providing useful information on costs and results by responsibility centers and as a management tool in ensuring an optimal level of activity.

Thus, the information provided by cost accounting has a considerable weight in the decision-making process and the quality of this information depends, to a large extent, on the continuity of the entity's activity by obtaining future benefits.

The studies carried out allow us to establish the following interconnection between the financial and managerial accounting policies in the decision-making process (figure 1).

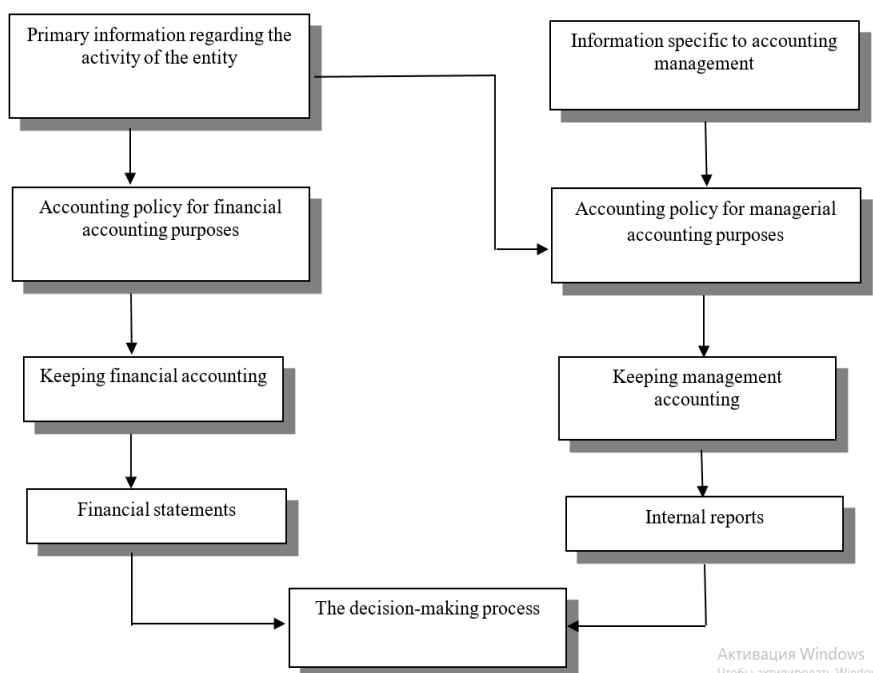


Figure no. 1: The role and place of the accounting policy for the purposes of financial and managerial accounting within the information assurance system of the entity's management

Source: own processing based on data from The Management Accounting, course notes (Caraman & Cușmăunșă, 2015).

One of the main tasks of the MAP consists in performing the management control, as well as in determining some indicators of staff stimulation at the level of the different centers of responsibility. To solve it, it is necessary to coordinate the provisions of the MAP with all the responsible persons within the structural subdivisions of the entity. In this context, the managers of the subdivisions are requested to determine the totality of the principles, quality characteristics, rules and procedures that must be the basis of the MAP.

Special attention must be paid to the *personnel motivation system*, by reflecting the respective indicators in the MAP, as well as the way of determining and controlling them. The information on the motivation involves determining the rules for reflecting the operations of the subdivision in question within the MAP.

The approval of the MAP will be carried out, based on the decision of the entity's management, in the form of an official internal document, which will be brought to the attention of all responsible persons.

The managerial accounting policy must include three compartments:

- *organizational* - within it, it is necessary to describe the way of organizing managerial accounting within the entity, namely: the organizational structure of the

managerial accounting department; the chosen version of managerial accounting (autonomous or within financial accounting); the stipulation of the applied terminology; the method of information cohesion between the financial and managerial accounting sector; the way of organizing the budget; classification and selection of responsibility centers; designation of responsible persons in each center;

- *technical* – it includes all the means and techniques used by the entity to keep managerial accounting, such as: the circuit of documents starting from primary documents and ending with management reports, the chosen way of keeping managerial accounting on paper or in electronic form (in the case of the application of the electronic form, there may be a single program for both financial and managerial accounting, as well as two completely autonomous programs). In the case of keeping the information in electronic form, the degree of ensuring the security of the information must also be stipulated;

- *methodological* – this represents the most significant compartment of the MAP, in which the methodology applied by the entity in the organization of managerial accounting is found. In particular, the nomenclature of consumption by calculation items must be described here; methods of keeping records of consumption and calculating costs; the method of distributing overhead consumption in different production sectors; the indicators that serve as a basis for making management decisions according to the data provided in the management reports. This is also where the entity's policy regarding the detection and recording of waste, waste, by-products, etc. must be established (Caraman & Cușmăunșă, 2015).

- In the managerial accounting policy, only the basic elements inherent in each compartment are stipulated. Their broader description is reasonable to be carried out within special internal documents (internal regulations, instructions, nomenclatures, classifiers, etc.), starting from the specifics of the entity's activity. The latter must be attached to the MAP in the manner shown in table 1.

Table no. 1. The basic compartments of managerial accounting policy and its elements

Basic elements of MAP	The basic compartments of the MAP and the description of its elements	MAP appendices
1	2	3
1. The organizational department		
The organizational structure of the managerial accounting department	essence of the organizational structure and its component parts, the functional structure of the entity (offices, sections) and the production structure (factories, sections, workshops), the functions and the role of each subdivision within managerial accounting	The regulation regarding the organizational structure
The concept of applied organization	Stipulating the purpose, tasks, principles and way of introducing changes in the MAP, describing the concept applied by the entity, defining the terminology used in managerial accounting	MAP Regulation

Structure by centers of responsibility	Highlighting the centers of responsibility (consumption, income, profit, investment), establishing responsibility at different hierarchical levels	Regulation on centers of responsibility
Budgeting organization (by responsibility centers)	Planning the activity of each responsibility center, establishing budgets, to be developed and executed within the responsibility centers	The budget regulation
Organization of the control procedure	Designation of the persons responsible for the control of the execution of budgets by centers of responsibility	Regulation on internal control
2. The technical department		
Chart of the internal circulation of documents	Forms of primary documents developed by the entity, storage terms and method of transmission of primary documents, form and structure of internal reports, document circulation schedule	Regulation of the internal circulation of documents
The level of detail of information on analytical accounts	Synchronizing information between analytical accounts, describing the content of analytical accounts of management accounting and arguing the need for their application	Nomenclature of analytical accounts
Automation of the data collection and processing process	Description of the information processing method applied by the entity, distribution of functions among users of the automated program	Technical regulation
Ensuring the preservation and confidentiality of information	Methods of ensuring the confidentiality and integrity of management accounting information within the automated program (by passwords or other methods)	Technical regulation
3. The methodological department		
The methods of recording patrimony and debts	They will be described when the entity applies methods and procedures within managerial accounting, which differ from those applied within financial accounting (for example, stock valuation methods, such as: LIFO, FIFO, etc.)	MAP Regulation
The methods of recording consumption and calculating costs	Establishing the nomenclature of consumption items, stipulating the method of recording consumption, selecting the optimal basis for the distribution of indirect consumption, establishing the method of evaluating production in progress, waste, scrap, selecting the appropriate method of calculating costs, etc.	MAP Regulation
Budgeting and reporting systems	Description of the stages of developing budgets, establishing their structure and composition, determining the basic components of reports intended for managers at different levels	The budget regulation Regulation of the internal

		circulation of documents
The way management control is carried out	Description of the main indicators used to evaluate the activity of each responsibility center (determining relevant and irrelevant data, etc.), establishing the methods of calculating the indicators for the achievement of which managers from different centers are motivated	Regulation on internal control

Source: processing based on Vatrășina & Lealicova, 2008.

As can be seen from table 1, the managerial accounting policy will include three key compartments (organizational, technical and methodological), and within each compartment several component elements are distinguished which in turn are disclosed in various regulations, which either represent a component part of managerial accounting policy, or can be annexed to it. The nomenclature and structure of the proposed regulations will vary depending on the managerial needs of the entity, the volume of activity and the possibility of obtaining and processing the information according to the specifics of the information system.

Conclusions

The need to develop and implement the managerial accounting policy is the prerogative of the entity's management and depends on several factors such as: the volume of activity, the assortment of manufactured products, the informational needs of the management, the specifics of the informational system, the periodic training of the staff, the continuous monitoring of management and management processes and so on.

The development of management accounting policy is a rather complicated issue. Its solution depends largely on:

- how management accounting is organized within the entity;
- the means and techniques used by the entity for management accounting;
- the method applied by the entity in organizing management accounting.

Thus, the design of managerial accounting policies by three departments (organizational, technical, methodological) will contribute to the realization of the potential of the elements of managerial accounting (budgeting, calculation, control and analysis) for the purpose of efficient management of the entity.

Generalizing the above, we conclude that one of the basic problems currently being structured is to highlight the role of managerial accounting, especially cost accounting, in solving various management problems. In our opinion, this can be achieved by positioning them in the form of a single document (MAP), which contains internal procedures with a considerable impact on the achievement of the entity's managerial accounting goals.

The managerial accounting policies will provide management with accurate data and analysis, which will enable a more accurate assessment of financial and operational performance, supporting short and long-term decision making. Thus, by implementing a well-structured accounting policy, management can monitor departmental performance and adjust strategies based on the financial results achieved.

The effective management by management accounting policies will help to identify and manage financial risks by providing clear information about the company's liquidity, solvency and profitability. In this way, the internal management accounting policies not only supports management decisions, but also contribute to increasing organizational efficiency, maintaining good financial governance and achieving long-term objectives.

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