INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH & DEVELOPMENT

ISSN: 2278 – 0211 (Online)

Managemant Accounting Gaining Importance In The Era Of Globalisation

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Abstract:
This paper explores the idea of management accounting gaining importance in the era of globalization. Globalization is an important trend that affects the world deeply in new millennium. It is seen that a new era starts and nations face huge changes in their social, economic and cultural ways. New concepts and values come into our lives and they carry new problems and perspectives for the nation in the process of globalization. Management Accounting is another important concept in global world. The business environment in world has changed rapidly over recent decades, and continues to change. Globalization has brought new technology and made the business environment in world open to greater competition. It has identified those changes in both external and internal organizational. Factors have influenced changes in management accounting practices in the organizations. When business organizations respond to challenges by embarking on a change management path, they are faced with the choices of which ones of the many management methods, techniques and systems would be most effective. This is important as the management accounting system plays an important role in providing useful information to management, especially in the decision making process.

Keywords: *Management Accounting, Globalization, Global world, Organization.*

1. Introduction

The term of globalization was first used in the field of economy. But the process of globalization has deeply affected the economic, social, cultural and technological sides of societies in world order. Globalization has been seen as basic concept in directing the economic, social and cultural policies. Globalization has been a “magic” word that identifies and expresses and change in every field, from economy to politics, from social policies to culture. Globalization has been thought as a fashion expression that opens all doors dealing with both fast and future times.

Management accounting defines the discipline in terms of its decision making role. It is generally stated that since managerial functions involve using information for better planning control, therefore, management accounting is very important for effective and successful management at all levels. In this paper, we review the role of management accounting gaining importance in the era of globalization.

1.1Management Accounting and Decision Making

Almost all definitions identify two important elements of accounting. First, ‘processes, Where accounting is said to identify, measure, analyze and report economic information. Second, ‘purpose’ which is stated to be helping the users of that information make better provider decisions (American Accounting Association, 1996). As opposed to financial accounting which provides economic information from the perspective of many external users, management accounting focuses on mainly upon the needs of internal managers of an organization. Management accounting has grown out of cost accounting which had been in the curriculum since 1940s. The discipline of management accounting, however, promised to make up for two important deficiencies in the then cost accounting. First, the cost accounting focused on entirely on numbers and second it was only interested in working out full cost of products. The existing discipline of management accounting was developed after the Second World War and soon it became so popular that it emerged as a standard course in all business schools. They very succinctly summarized the inadequacy of management accounting to cope up with the demands of modern management by starting that the information that the information generated by management accounting was:

“Too late, too aggregated and too distorted to be relevant for managers ‘planning and control decisions”

This paper also examines that the business environment has undergone significant changes due to globalization and developments in information and production technologies. These have collectively resulted into significant changes in the management and organization of companies. These changes have indirectly and radically affected the field of management accounting, especially its information functions with in an organization. These unfolding realities have generated the need for management accounting to shift concern from its traditional preoccupation with numbers and accounting measures and instead focus on value addition and integration with in a company.

1.2 Nature of Management Accounting

This paper investigates about the nature of management accounting. The term management accounting is composed of 'management' and 'accounting'. The word 'management' here does not signify only the top management but the entire personnel charged with the authority and responsibility of operating an enterprise. The task of management accounting involves furnishing accounting information to the management, which may base its decisions on it. It is through management accounting that the management gets the tools for an analysis of its administrative action and can lay suitable stress on the possible alternatives in terms of costs, prices and profits, etc,. but it should be understood that the accounting information , management tasks into consideration or weighs and other factors concerning actual execution. For reaching a final decision, management has to apply its common sense, foresight, knowledge and experience of operating an enterprise, in addition to the information that is already has.

The word 'Accounting' used in this phrase should not lead us to believe that it is restricted to a mere record of business transactions i.e., book keeping only. It has a indeed a 'macro-economic approach'. As its draws its raw material from several other disciplines like costing, statistics, mathematics, financial accounting, etc., it can be called an interdisciplinary subject, the scope of which is not clearly demarcated. Other fields of study, which can be covered by management accounting, are political science, sociology, psychology, management, economics, statistics, law, etc. A knowledge of political science helps to understand authority relationship and responsibility identification in an organization. A study of sociology helps to understand the behaviour of man in groups. Psychology enables us to know the mental make-up of employers and employees. A knowledge of these subjects helps to increase motivation, and to control the actions of the people who are ultimately responsible for costs. This builds a better employer-employee relationship and a sound morale. The subject of management accounting also encompasses the subject of law, knowledge of which is necessary to find out if the management action is ultra-virus or not. It is, therefore, a wide and diverse subject.

Management accounting has no set principles such as the double entry system of bookkeeping. In place of generally accepted accounting principles, since the management accounting is managerially oriented, its data is selective in nature. It focuses on potential opportunities rather than opportunities lost. The data is operative in nature catering to the operational needs of a firm. It details events, monetary and non-monetary. The nature of data, the form of presentation and its duration are mainly determined by managerial needs.

Management accounting is highly sensitive to management needs. However it assists the management and does not replace it. It represents a service phase of management rather than a service to management from management accountant. It is rather highly personalized service. Finally, it can be said that the management accounting serves as a management information system and so enables the management to manage better.

1.3 Functions of Management Accounting

The basic function of management accounting is to assist the management in performing its function effectively.. The functions of the management are planning, organizing, directing and controlling. Management accounting helps in the performance of each of these functions in the following ways:

- Provide Data: Management accounting service as a vital source of data for management planning. The accountants and documents are a repository of a vast quantity of data about the past progress of the enterprise, which are a must for making forecasts for the future.
- Modified Data: The accounting data required for managerial decisions is properly complied and classified. For example, purchase figures for different months may be classified to know total purchases made during each period product-wise , supplier -wise and territory-wise.

- Analyses and Interprets Data: The accounting data is analyzed meaningfully for effective planning and decision-making. For this purpose of data is presented in a comparative form. Ratios are calculated and likely trends are projected.
- Serves as a Means of Communicating: Management accounting provides a means of communicating management plans upward, downward and outward through the organization. Initially it means identifying the feasibility and consistency of the various segments of the plan. At later cases it keeps all parties informed about the plans that have been agreed upon and their roles in these plans.
- Facilitates Control: Management accounting helps in translating given objectives and strategies into specified for attainment by a specified time and secure effective accomplishment of these goals for attainment by a specified time and secures effective accomplishment of these goals in an efficient manner. All this is made possible through budgetary control and standard costing which is an integral part of management accounting.
- Uses also Qualitative Information: Management accounting does not restrict itself to financial data for helping the management in decision making but also uses such information which may not be collected from special surveys, statistical complications, engineering records, etc.

1.4 Scope of Management Accounting

Management Accounting is mainly concerned with presentation of accounting information in the most useful way for the management. Its scope is, therefore, quite vast and within its fold almost all aspects of business operations. However, the following areas rightly be identified as falling within the ambit of management accounting:

- Financial Accounting: Management accounting is mainly concerned with the rearrangement of the information provided by financial accounting. Hence, the management cannot obtain full control and coordination of operations without a properly designed financial accounting system.
- Cost Accounting: Standard Costing, Marginal Costing, Opportunity cost analysis, differential costing and other cost techniques play a useful role in operation and control of the business undertaking.

- Revaluation Accounting: This is concerned with ensuring that capital is maintained intact in real terms and profit is calculated with this fact in mind.
- Budgetary Control: This includes framing of budgets, comparison of actual performance with the budget performance, computation of variances, finding of their causes, etc.
- Inventory Control: It includes control over inventory from the time it is acquired till its final disposal.
- Statistical Methods: Graphs, charts, pictorial presentation, index numbers and other statistical methods make the information more impressive and intelligible.
- Interim Reporting: This includes the preparation of monthly, quarterly, half-yearly income statements and the related reports, cash flow and funds flow statements, scrap reports, etc.
- Taxation: This includes computation of income in accordance with the tax laws, filing of returns and making tax payments.
- Office Services: This includes maintenance of proper data processing and other office management services, reporting on best use of mechanical and electronic devices
- Internal Audit: Development of a suitable internal audit system for internal control.

1.5 The Management Accountant

This paper also examines the management accountant. Management Accounting provides significant economic and financial data to the management and the management accountant is the channel through which this information effectively and efficiently flows to the management. The management accountant has a very significant role to perform in the installation, development and functioning of an efficient and effective management information system. He designs the framework of the financial and cost control reports that provide each management level with the most useful data at the most appropriate time. He educates executives in the need for control information and ways of using it. This is because his position is unique with respect to uniform about the organization. Apart from top management no one in the organization perhaps knows more about the various functions of the organization than him. He is, therefore, sometimes described as the chief intelligence officer of the top management. He gathers information, breaks it down, shifts it out and organizes it into meaningful categories. He separates relevant and irrelevant information and then ranks relevant information in an intelligible form to the management and sometimes also to those who are interested in the information in the information outside the company. He also compares the actual performance with the planned one and reports and interprets the results of operations to all levels of management and to the owners of the business. Thus, in brief, management accountant or controller is the person who designs the management information system for the organization, operates it by means of interlocked budgets, compute variances and exhorts others to institute corrective measures. Mr. P. L. Tandon has explained beautifully the position of the management accountant in the following words.

" The management accountant is exactly like the spokes in a wheel, connecting the rim of the wheel and the hub receiving the information. He processes the information and then returns the processed information back to where it came from".

1.6 Functions of Management Accountant

It is the duty of the management accountant to keep the all levels of management informed of their real position. He has, therefore, varied functions to perform. His important functions can be summarized as follows:

- Planning: He has to establish, coordinate and administer as an integral part of management, an adequate plan for the control of the operations. Such a plan would include profit planning, programmes of capital investment and financing, sales forecasts, expenses budgets and cost standards.
- Controlling: He has to compare actual performance with operating plans and standards and to report and interpret the results of operations to all levels of management and the owners of the business. This id done through the compilation of appropriate accounting and statistical records and reports.
- Coordinating: He consults all segments of management responsible for policy or action. Such consultation might concern any phase of the operation of the business having to do with the attainment of objectives and the effectiveness of the organizational structures and policies.

1.7.Other Functions

- He administers tax policies and procedures.
- He supervises and coordinated the preparation of reports to governmental agencies.
- He ensures fiscal protection for the assets of the business through adequate internal control and proper insurance coverage.
- He carries out continuous appraisal economic and social forces and the government influences, and interprets their effect on the business.

1.8. Management Accounting and Its Evolution

This paper study about management and its evolution. The basic purpose of accounting information is to help users make decisions. Management accounting is branch of accounting that produces information for managers and forms of important integral part of the strategic process within an organization. It involves the process of identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating information that helps managers fulfill organizational objectives. Chartered Institute of Management Accountants (UK) views management accounting as an integral part of management which requires the identification, generation, presentation, interpretation and use of information relevant to:

- Formulating business strategy;
- Planning and controlling activities;
- Decision-Making;
- Efficient resource usage;
- Performance improvement and value enhancement.

Johnson and Kaplan (1987) argued for a ‘Relevant Lost’ in management accounting. They pointed the issue of inappropriateness of conventional management accounting techniques which offered little capacity for providing useful and timely information for better decision and control in the contemporary environment of rapid technological change and vigorous competition. Management accounting techniques had rapidly developed for better decision-making and management control.

To promote a better understanding of the change in management accounting practices, the International of Federation of Accountants (IFAC) (1998) provides a framework explaining the development of management accounting. This framework explains the evolution in the management accounting through four recognizable stages.

1.7.1 Stage 1 (prior 1950)

During this period, most companies were focusing on cost determination, which was related to stock valuation and the allocation of overheads. Some of the management accounting techniques that were developed for cost estimation were Last in First Out (LIFO) and First in First Out (FIFO). Cost estimation was justifiably emphasized because by estimating the cost, managers were able to control their financial position.

1.7.2 Stage 2 (1965-1985)

By 1965, companies had moved into generating information for the purpose of management planning and control. This was important because only valuable information could induce managers to make correct decisions. Management accounting techniques such as managerial costing and responsibility accounting were introduced during this stage to help managers to choose the correct course of action or create strategic business units respectively.

1.7.3 Stage 3 (1985-1995)

Increased global competition accompanied by rapid technological development is in the early 1980s affected many aspects of the industrial sector. During this stage, the management cost focus remained on cost reduction, but more process analysis was made possible by cost management technologies. The aim was basically to reduce waste when processing the product because this could reduce the expenses incurred, thus increasing expected profit. Some of the techniques popularly practiced by companies at this stage include Just in Time (JIT) and Activity-Based Costing (ABC).

1.7.4 Stage 4 (1995 onwards)

In the 1990s world-wide industry continued to face considerable uncertainty and unprecedented advances in manufacturing technologies, which further increased and emphasized the challenge of global competition. In this stage, companies focused on enhancing the creation of value through the effective use of resources. Basically, managers tried to identify factors of drivers that could potentially increase shareholder value. As such, non-value added activities were deliberately eliminated. Among the popular techniques introduced during this stage were Total Quality Management (TQM), Activity-Based Management (ABM), Benchmarking and Reengineering.

Even though the management accounting evolution can thus be distinguished into four stages, it is important to note that the techniques used in previous phases continued to be used in subsequent stages. This is consistent with a view that traditional and advanced management accounting practices tend to complement each other.

1.9 Management Accounting Change

Management accounting change is not a uniform phenomenon. Consequently one might expect the causal factors of change to be varied and this has indeed been confirmed by management accounting researchers. It is evident that both the external factors (environmental) and internal factors (relating to the organization concerned) have influenced the recent development of new management accounting systems and techniques. According to Shields (1997), the potential change drivers are competition, technologies, organizational design and strategies. These drivers of change also indicate the differing roles which causal factors can have in the process of change. Change in environment also implies uncertainty and risk which create a demand for further management accounting change in the form of 'non-financial 'measures. Less attention has been given by researchers to the management accounting change process."little research attention has been given to understanding the processes through which new management accounting systems and practices have emerged (or failed to merge) through time".

Change can be addressed in a variety of dimensions. According to The American Heritage Dictionary, 4th Edition, change includes all of the following aspects: becoming different or undergo alteration; transformation or transition; going from one phase to another; making an exchange; modifying; substitution; giving and receiving reciprocally; replace with another; abandon. This definition illustrates different types of change and shows that, in general, it is not a uniform phenomenon. Wickramasinghe and Alawattage (2007) suggest change in management accounting as a learning methodology to understand how environmental factors shape internal process within organization. According to them, the process of change reflects on the question of how management accounting techniques emerged, evolved and were transformed when new demands from the changing environment are in place.

From a management accounting perspectives, different types of change can be researched upon. For example Sisaye (2003) study change with respect to the integration of Activity Based Costing (ABC) into strategy to manage organizations. operating activities. It is suggested that ABC can contribute to improve organizational performance if implemented as part of the overall organizational change strategy. Perera, McKinnon and Harrison (2003), examined changes in term of introduction, abandonment and reintroduction of transfer pricing in government trading enterprise as it moved from protected monopolistic status to commercialization.

1.10. Impact of Globalization on Management Accounting

With the activity toward globalization strategy, the changes introduced by it can change the way organizations in the U.S. to see their economical advisor. First, there are two types of accounting companies, economical accounting companies and managing bookkeeping. Meaning of economical bookkeeping, taken from Merriam-Webster, is the methodical research of details on the economic matters of an company for the use of individuals outside the company. Merriam-Webster goes on to describe control bookkeeping as “the development of reviews for planning and decision making” … “The purpose is to provide straight answers supervisors regarding managing expenses and requirements by which these expenses can be compared, to be able to assist them in budgeting”. The key distinction to take away from these two explanations is that economical bookkeeping provides details to individuals outside the company, and control bookkeeping is targeted at helping supervisors within the company create choices.

Become more international U.S. will improve competitors for household organizations, thus creating the control economical advisor is more useful to the company. To understand how improved competitors would do to U.S. organizations and their accounting companies, one must first take a look at how organizations in the U.S. looking at the control economical advisor in evaluation with other nations. In a research content eligible “Management Accounting Methods in the U.S. and Japan: Relative Study Results and significance of Research (1991)” by M. Protects and C. Chow, observing variations in the objectives set by the U.S. and Japanese individuals accounting companies. Laptop computer revealed that U.S. accounting companies "emphasizes the use of requirements to control development expenses after the fact", while distinct Japanese individuals accounting companies use practices that look towards the long run. This distinction here can be found in the objectives set by the company. While organizations in the U.S. looking at what they can do now to reduced expenses, Japanese individuals companies look to the long run to reduced expenses for products that may no longer are available. This kind of thinking for U.S. organizations is undesirable, and declares that the company is in currently less than sufficient due to the present condition of control bookkeeping in the wrong route.

Management accounting companies look to the long run, they set costs, predictions, and guiding the company toward a modern right. In the growing competitors, especially for U.S. organizations, the company will require that supervisors create the right choices for the excellent of the company. In an content by B. Pounder, "How Globalization Impacts U.S. Accounting (2006)," Pounder said that one of the significant reasons of clear control bookkeeping in this country is that United states supervisors are more likely to create a "gut feeling" choice (usually for individual gain) instead of creating a choice choice would be excellent for the company in the long run. It can be connected back to the research survey of Protects & Chow, see the company and the purpose of each. It is more common for businesses in the U.S. to show the activities for individual obtain rather than in Asia, and in the era of globalization and improved competitors the company can not endure with this kind of attitude and structure.

A review by N. Miculescu, "Current Styles Production Cost Accounting (2011)", Miculescu determined that the company has expanded significantly responsibility to take action as quickly as possible to be able to contest with the improve in competitors due to globalization. The present condition of control bookkeeping in the U.S. prize administrator and put the company as a whole is in risk, and with improved competitors comes close is in the passions of the company 's best to seek the services of control accounting companies to create choices in the best interest of the company.

1.11. The Evolution of Management Accounting

Two types of accounting exist in the business environment: financial and management. Financial accounting represents the public accounting industry, which is responsible for providing professional accounting services or auditing a companies financial statements. Management accounting is an internal business function responsible for analyzing a companies financial information. Management accounting has gone through a significant evolutionary process during its life span. Many types of businesses use management accounting in their operations.

Management accounting was often known by its cost accounting function. Cost accounting is the process companies use to allocate business costs to various goods or services. Manufacturing and production companies are the primary users of cost accounting. These companies allocate direct material, labor and manufacturing overhead cost from various production processes to the individual products. While management accounting did provide other functions in business, cost accounting was perhaps the most common function.

1.12. Current Status of Management Accounting

Throughout the past several decades, management accounting has undergone a major evolution. Many companies have begun to use management accountants in a decision/support capacity rather than just straight accounting functions. Management accountants provide business owners and managers with various financial information regarding current production processes and new potential business opportunities. Business technology has also increased the need for financial analysis: Business owners can receive information quicker than before, which often increases the need for management accountants who can review and analyze this information.

Companies often improve production output and profitability through the use of management accounting. for instance, management accounting can help business owners discover where improvements are needed in their company. Improvements may require business owners to find new suppliers for business inputs or develop new production techniques to reduce waste. Hiring management accountants with backgrounds outside of accounting can provide business owners with additional insight into improving business operations.

1.12 The adoption of operating budgets and company performance

Adopting management accounting systems are important events in the life of young and growing companies. Using a sample of 78 startup companies, we document cross-sectional differences in the adoption of operating budgets as well as seven other management accounting systems. We find that our proxies for agency costs, perceived benefits and costs, complexity of the firm, and culture explain cross-sectional differences in time-to-adoption of budgets. In particular, the presence of venture capital, CEO experience, firm size, and the culture of the organization are associated with this adoption decision. We further investigate the effect of hiring a financial manager as an endogenous variable. In the first stage of a two-stage model, we find that CEO total experience, the presence of venture capital funds, culture, and firm size are associated with cross-sectional variation in this hiring decision. When treating this decision as endogenous, time to hiring a financial manager is unrelated to operating budget adoption. The paper also examines the association between the time-to-adoption of operating budgets and company performance. We find a significant increase in the size of the company around the adoption of operating budgets; moreover faster adoption of operating budgets is associated with faster growing companies. We extend the findings to additional management accounting systems including: cash budgets, variance analysis, operating expense approval policies, capital expenditure approval policies, product profitability, customer profitability, and customer acquisition costs. The influence of industry choice (biotechnology, information technology, or non-tech) is examined in each stage of the research.

2.Conclusion

Management accounting systems are an important aspect of startup company evolution. This paper makes several contributions to our understanding of management accounting gaining importance in the era of globalization. This paper is revealing factors ranges from about management accounting and decision making, examine about nature of management accounting, third i regarding functions of management accounting, study about management accountant and functions, listed management accounting and its evolution, discussed impact of globalization on management accounting , discussed about evolution of management accounting and current status of management accounting and finally this paper examine about the adoption of operating budgets and company performance. Assuming management accounting systems are important in the growing companies. The choose of operating budgets moreover is faster when associated with faster growing companies, and the findings of additional management accounting systems including: cash budgets, variance analysis, operating expense approval policies, capital expenditure approval policies, product profitability, customer profitability, and customer acquisition costs. The influence of industry choice, for example: biotechnology, information technology, or non-tech, etc. is also more. We find a significant increase in the growth of the company in the window around the adoption year. Furthermore, companies' adoption of operating budgets is associated with their future growth. Management Accounting is another important concept in global world. The business environment in world has changed rapidly over recent decades, and continues to change. Globalization has brought new technology and made the business environment in world open to greater competition. Therefore management accounting system is inevitable.

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