

Opportunities for Improvement and Implementation of Management Accounting in Public Cultural Institutions

Gabriela Andreescu
Museum of Natural Sciences in Prahova county
Gabi_andreescu2002@yahoo.com

Abstract

The role of management accounting in a public cultural institution is not itself to know the cost of cultural services but especially to help the intention to act on it. Under a production environment as a public cultural institution, where the services are heterogeneous and delivery processes are complex, it is very difficult to determine the cost of each cultural service provided. Therefore it becomes essential to know not the cost of the service but more important its cost of supply. Extent that a public cultural institution achieves its objectives are reflected through a several financial indicators of which is determined largely based on data from management accounting.

Key words: management accounting, cost accounting, cost calculation methods, public cultural institutions.

J.E.L. classification: M 41, M10

1. Introduction and the reason for research topic

The issue of financing culture is vast, and while controversial, with pros and cons sufficient to state support of culture in general, and the proportion of funds allocated to various cultural fields, depending on the strategies adopted by each country.

The role of culture in the public debate on the future of humanity is sustained by political arguments. This requires an understanding of culture as a factor of social development and not as a consumer finance public sector. In this sense, culture is a tool for achieving other social and economic (economic and educational benefits, social cohesion) and must be understood as a value with transectorial dynamics.

More and more research points out that public institution alike private organizations should also be market-driven and consumer-oriented. In this context, public institutions must adopt strategies from the business world to better understand profitability in a competitive market and how to better serve all the parties implied. Culture consumption is growing and growing and public institutions need, more than ever, to turn to the expectations of their customers. These institutions require great financial resources to operate. Attracting, allocation of resources is not sufficient, is necessary to pursue the opportunity, necessity and effectiveness of their use.(Albu *et al*, 2003, p.53).

This research started from the premise that the implementation of management accounting in public cultural institutions have become a practical and indispensable activity of these institutions as it not only allows a better understanding of the costs but it also enables forecasts respectively provide the means and tools to further execution decisions, to to achievement of projections established and organizational performances expected. (Cristea, 2003, p.20)

2. Research context

Cultural institutions have increasingly greater need to evaluate and communicate to all parties involved the value of the cultural product or service. Faced with reduced public funding institutions have become more aware of the cost issue. Costing and financing of these costs is the main

objective of public cultural institutions that play a fundamental role in society and the economy. (Albu *et al*, 2003, p.132).

It is necessary to emphasize the overwhelming importance of management accounting, which is the one that should help management of cultural institutions in making decisions and solving internal problems that occur during the "life" of it.

The role of management accounting in a public cultural institution is not itself to know the cost of cultural services but especially to help the intention to act on it. Under a production environment as a public cultural institution, where the services are heterogeneous and delivery processes are complex, it is very difficult to determine the cost of each cultural service provided. Therefore it becomes essential to know not the cost of the service but more important its cost of supply. Extent that a public cultural institution achieves its objectives are reflected through a several financial indicators of which is determined largely based on data from management accounting.

Although the application of management accounting in public institutions is not regulated in comparison as it is for economic agents, nothing prevents leaders of public institutions to organize their management accounting on the assumption that management accounting is suitable in respect to planning, control and evaluation of programs and services of the public institutions. Its purpose is to provide information to meet the specific needs of different hierarchical levels of management and decision making in their field, and to ensure appropriate and responsible use of resources. (Hilton, 2003, p.7).

Researcher's interest in practice is essential because as a user of financial accounting information processing, management of these institutions should provide the best solution to the needs of decision-making, to answer specific questions regarding the organization filing financial sector - accounting.

3. Research objectives

Driven by the desire to create more value in a field that represents a high interest but little researched in Romania - the management accounting in public cultural institutions, with desire to provide managers, researchers, students, students, professional accountants useful information, this scientific approach aims to achieve the following operational objectives:

- Knowledge of need for management accounting and cost calculation in public cultural institutions in Romania;
- Knowledge of opportunity for organize of management accounting and cost calculation in public cultural institutions in Romania;
- Knowledge of organizational benefits derived for a good management accounting and cost calculation in public cultural institutions in Romania;
- What are the forms of implementation of management accounting, management accounting methods, how to record income and expenses. (Alecuc, 2009, p.83).

4. Research hypotheses

The research in this paper was an empirical study based on the investigation conducted using a questionnaire addressed management of cultural institutions in Prahova, Buzau and Dambovita, Arges and Bucharest.

Questionnaire includes 24 questions with predetermined response options and was prepared taking into account the requirements of form and content, mode of expression, question formulation rules imposed so that questions are clear and easily understood by all respondents surveyed, and so the data collected to be valid and reliable answers.

To meet the objectives of the paper, I propose the following research hypotheses:

I1.Public cultural institutions in Romania deemed necessary and appropriate organization of management accounting and cost calculation;

I2.Public cultural institutions in Romania know the benefits of organization management accounting and cost calculation;

I3. There is a preference for abc method as a method of management accounting;

I4. There is a significant association between class institution in terms of type of work performed

on the one hand, and types of management accounting methods that could be applied, how to record income and expenditures and why would implement methods costing, on the other hand;

I5. There is a significant association between class institution in terms of the financing, on the one hand, and the importance of cost information provided in managerial decision making, types of management accounting methods that could be applied and how to record income and expenses on the other hand

5. Research results

To verify the first hypothesis, I proceeded to analyze the replies of the institutions that were included in the sample studied, answers to questions regarding the necessity and the opportunity of organizing the management accounting and the cost calculation. 68 institutions from 70 (97,1%) declared, that organizing the management accounting and the cost calculation is a necessary and appropriate process, though the opinions regarding the main reason for implementing cost calculation methods, were quite divided. Thus, 36,8% believe that, this is necessary for obtaining more accurate and clearer information on production costs; 29,4% believe that the main reason is more accurate allocation of indirect costs, while 29,4% state that the reason is improving control and cost management. Reducing costs and developing strategies of price fixing, were cited by 10,35% of the respondents, as reasons for implementing methods of cost calculation. Although the organization of management accounting is considered a very important process, there were only attempts, made by 5,9% of those interviewed, of implementing it.

These responses lead to the acceptance of the hypothesis that, the public cultural institutions from Romania, consider as necessary and opportune the organization of management accounting and cost calculation.

The verification of the second hypothesis. The public cultural institutions from Romania know the benefits of organizing the management accounting and cost calculation.

Over 90% of the institutions caught in the sample, believe that the information provided by costs, are of great importance in making management decisions. Only 7,4% of these companies give a medium importance, thus confirming the hypothesis that the cultural institutions from our country know the advantages of the organization of management accounting and cost calculation.

More than half of the respondents (52,9%) believe that in terms of management, the implementation of management accounting would improve the quality of the decision by control. 20,6% of them believe that this implementation would improve the quality of the decision by planning and 16,2% by reducing costs. Less than eight percent (7,4%), are those who think that this process of implementation would improve the quality of the decision by increasing service quality. Each respondent perceives to an extent, the usefulness of the information obtained, by applying the calculation methods to determine the production costs of the services and products. 45,6% of the surveyed, consider that this information is useful in a very large measure; 26,5% in a large measure; 19,1% in an average measure and 8,8% believe in their utility in a small measure.

The most common use of management accounting regarding cost control, is considered to be, by 60,3% of the respondents, the establishment of income and expenditures budget. 26,5%, believe that the most important application of management accounting could be for maintaining a balanced budget, while 13,2% use it as an aid to perform other activities. According to the respondents, the ranking of the most important results obtained by implementing the management accounting is: a better substantiation of necessary funds for obtaining them from the funding bodies (36,8%), cost reduction (32,4%), obtaining more accurate information, necessary for making strategic decisions (16,2%) and increasing customer satisfaction (14,7%).

The verification of the third hypothesis. There is a preference for the ABC method as part of the management accounting. Answering the question regarding the types of methods used by management accounting, 64,7% of the institutions included in the study, consider that the ABC method could be used as a management accounting method. There are also other opinions. Thus, 14,7% think that the global costing method could be applied, 10,3% believe in the usage of the commands method, 5,9% in the standard cost method and 4,4% in the method of direct costs.

The high percentage of those that have chosen the ABC method, confirm the hypothesis that the public cultural institutions prefer this method.

The verification of the hypothesis 4. There is a significant association between the category of institutions depending on the type of activity performed, on the one hand, and on the other hand, the methods of the management accounting that could be applied, the recording mode of incomes and expenditures and the reason why costing methods would be implemented.

The results obtained from the chi-square test, show us a significant statistical correlation ($\chi^2=66,114$, $df=16$, $p=0,001$) between the category of institutions depending on the type of activity performed and the methods of the management accounting that could be applied. The ABC method is preferred by museums (80%), theaters and operas (60%), philharmonics (60%), cultural houses and centers (53,8%), whereas the libraries prefer the standard cost method (80%). Also, the result of the chi-square test ($\chi^2=18,182$, $df=8$, $p=0,020$) indicates the correlation, that exists between the category of institutions depending on the type of activity performed and the recording mode of incomes and expenditures. So, in museum and cultural houses is preferred, to a greater extent, the recording mode of incomes and expenditures on cost centers, while theaters (66,7%), libraries (100%), and a good number of philharmonics (40%) prefer the recording mode of incomes and expenditures on calculation objects.

It is also statistically significant, the association between the categories of institutions depending on the type of activity performed and the main reason why the costing method would be implemented. Institutions like museums and libraries have as a main reason, for implementing the costing method, the management control and improvement, while for the ones like theaters, philharmonics and operas, the reason is, obtaining accurate and clear information regarding production costs.

All the information presented above confirm the hypothesis that, there is a significant association between the categories of institutions depending on the type of activity performed, on the one hand, and the methods of the management accounting that could be applied, the recording mode of incomes and expenditures and the reason why the costing method would be implemented, on the other hand.

The verification of the hypothesis 5. There is a significant association between the categories of institutions depending on the type of funding, on the one hand, and on the other hand, the importance of the information provided by costs in managerial decision making, the types of management accounting methods that could be applied and the recording mode of incomes and expenditures.

The institutions partially financed from the budget consider more than the ones fully funded, that the information provided by costs in managerial decision making, are of great and very great importance. A fairly large number of institutions fully funded from the budget (40%) give a medium importance to these information. So, the results of the chi-square test ($\chi^2=8,454$, $df=2$, $p=0,015$), also confirms that there is a differentiation of the importance granted to this kind of information by cultural institutions, depending on the method of financing.

As in the case of the relation between the categories of institutions depending on the type of activity performed and the methods of the management accounting that could be applied, the relation between the category of institutions depending on the type of funding and the methods of management accounting, is statistically significant ($\chi^2=53,654$, $df=4$, $p=0,001$). So, while the fully funded institutions (80%) consider that the standard cost method could be applied, the ones partially financed (63,3%) incline towards the ABC method.

We can also observe a relation of moderate intensity, statistically significant, between the category of institutions depending on the type of funding and the recording mode of incomes and expenditures ($\chi^2=7,710$, $df=2$, $p=0,009$). While the institution fully funded, agree with the recording mode of incomes and expenditures on calculation objects, the ones partially financed (54%) agree with the registration on cost centers.

Through this information, we can say that it exists a significant association between the category of institutions depending on the type of funding, on the one hand, and the importance of the information provided by costs in managerial decision making, the types of management accounting methods that could be applied and the recording mode of incomes and expenditures, on the other hand.

6. Conclusions

The test result helped us to conclude the following:

- Only a very low number of public cultural institutions have organized the management accounting, at this moment;
- The overwhelming majority of public cultural institutions believe that the organization of management accounting and of cost calculation is necessary;
- Until now there have been only minor concerns for the implementation of management accounting and cost calculation;
- The opportunity of organizing the management accounting and cost calculation, is an opinion unanimously accepted by all the respondents;
- For implementing the management accounting, the majority of institutions believe that is necessary the use of analytical accounts for the accounts of incomes and expenditures per cost bearer;
- We can observe a preference of the institutions for the usage of special implementation software for budgetary accounting in management accounting
- The information provided by costs in managerial decision making, are considered of great and very great importance by almost all the respondents;
- 64,7% of the institutions included in the study, consider that the ABC method could be used as a method of management accounting;
- The respondents' opinion is unanimous, regarding the usefulness of the information obtained by applying the calculation methods for detailed analysis of expenditures. The information is useful and very useful;
- The quarterly transfer of information from the financial accounting to the management accounting is preferred by 70,6% of the institutions included in the study;
- Institutions like, museums and libraries use the management control and improvement, as a main reason for implementing cost calculation methods, whereas, institutions like theaters, philharmonics and operas use as a main reason, the obtaining of precise and clear information regarding the production costs;
- The ABC method is preferred by institutions like museums (80%), theaters and operas (60%), philharmonics (60%), cultural houses and centers (53,8%), while libraries prefer the standard cost method (80%);
- The majority of institutions included in the study, consider as a main usage of management accounting, the substantiating of incomes and expenditures budget. Only in the case of libraries, the majority (60%), considered that the main usage, would be maintaining a balanced budget, but the rest of 40%, mentioned the substantiating of incomes and expenditures budget;
- While the institutions fully funded from the budget (80%) consider that the standard cost method could be applied as a management accounting method, the institutions partially financed from the budget (68,3%) believe that the ABC method could be used;
- Referring to the type of method that could be applied, we observe that small institutions, with a reduced number of employees, are inclined to use the global costing method, while, the institutions with a large number of employees, prefer the ABC method;
- As the institutions fall in a category of higher own revenues, we notice, also, a preference for the ABC method.

7. References

1. Albu N., Albu C., 2003. *Instruments of Management of Performance*”, tome I, Economic Publishing House, Bucharest;
2. Albu, N., Albu, C., 2003. *Business Administration Accounting*, Economic Publishing House, Bucharest;
3. Alecu G., 2009. *Convergences and Harmonizing in Accounting of Public Establishments*, Ph.D's Thesis, Bucharest;
4. Cristea, H., 2003. *Accounting and Calculation in Company Management*, Publishing House CECCAR, Bucharest;
5. Hilton, R.H., 2003. *Cost Management –Strategies for Business Decision*, McGraw Hill Irwin;