

# Changes and Historical Evolution of Management Accounting

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## Abstract

*Since the 1980s, it has been found that the existence of cost management and control systems for almost all economic entities, in a global competition, is remarkably unfortunate. In recent decades, it has been noted that the conventional practices of cost management and accounting have been the vast majority severely critical for the failure presented by them to be in line with the changes manifested in the external and internal environment, but also for their inability to help innovations, management accountants to adequately respond to the demands of an environment in continuous transformation. The current research punctuates this discussion by analyzing the evolution of innovations in the field of cost and accounting management from the previous century and investigates whether it has had a remarkable impact on the way of managing accounting. Research shows that management accounting is constantly changing.*

**Key words:** evolution, management accounting, cost, traditional, changes

**J.E.L. classification:** M41

## 1. Introduction

The universal academic literature was decisive for the conventional systems of management accounting, notably for their absence at the capacity and efficiency of providing updated and complete data because it ensures possible users of this data and the decision makers.

An extended debate has recently taken place years over the extent to which the leadership accounting changes. Johnson and Kaplan, claimed that it did not have management accounting changed from the first part from the previous century they were no longer marked for this purpose in the decisions taken by the managers. As answers to these numerous critics have been discovered in a number of industries and a variety of techniques that have brought innovation in management accounting. The most relevant contributions were the accounting of strategic management, the activity based on techniques and a balanced score.

The techniques have been used to propose modern tools and new management processes, such as timely production systems (JIT) and total quality management (TQM) to find competitive advantages in responding to the challenge of outstanding global competition. It is noted that these recent techniques affect the entire process of management accounting and have brought a change from a simple role of cost calculation and financial control to a more sophisticated role, namely to bring value through much research greater resources. It has been found that the environment in which management accounting is used has changed greatly, bringing about changes in information technology, competitive markets, discovering different organizational structures and new management practices. Through this research, we try to think of the challenges that can be encountered within an economic entity and which are factors that determine that it needs such criticisms brought in to deepen the management accounting practices that they constantly need. Therefore, the evolution of management accounting practices throughout the universe with the idiosyncratic characteristics they have, also been verified to offer a better understanding of their improvement. In this regard, the following questions were asked:

- ✓ What management accounting systems are used in economic entities?
- ✓ Do you find management accounting systems in the local economic entities that have changed a lot in the last decade?

## 2. Theoretical background

The criticized aspects brought to conventional management and accounting practices, found in the last two decades, for their ability and inefficiency to respond to requests from the changing environment, refer precisely to the collapse of these practices in order to provide accurate and complete data on the activities which are needed in an economic entity.

In 1990, these arguments are supported by a probe sample regarding the dissatisfaction between two management accountants and managers with regard to the accounting and cost management techniques that will be used in the various industries. Some authors reiterate these observations, which means that conventional accounting and management systems have not succeeded, currently keeping up with the demands that are growing and that have been noticed with the technological changes in the production environments. For this reason, it is very obvious that the management accounting literature places more and more significant emphasis on the study of flows of innovations in the field of management and cost accounting. Research on changing management accounting refers to the practices used in the developed countries.

Literature from around the world has warned of the portability of these practices between nations (Kaplan, 1983; Johnson and Kaplan, 1987; Bromwich and Bhimani, 1989; Wallace, 1990). Some authors argue that only changes in new management accounting systems perfected in the foreign environment to cope with changes in business environments are not absolutely reasonable because the divergent conditions in which they operate are different in certain economic entities (Bromwich and Bhimani, 1989).

In addition, they argue that we must take into account the fact that both the political, as well as the social, economic, cultural environment of an economic entity. In the point of view of developing countries information about the "imported" systems can be obtained by starting those studies on how foreign economic entities work to determine operations in developing countries, by adapting management accounting systems to the context of the constantly developing world (Wallace, 1990).

## 3. Research methodology

The objective of this scientific work is to present the evolution recorded by the traditional management accounting, as well as the changes over the years. These researches present the result of using different management accounting techniques from different countries. The research is based on the information on the previous researches and on the accumulated results of these studies thus, therefore, it is based only on the secondary level, method of data collection.

## 4. Findings

Managerial accounting in a global business environment has the specific, which is of interest, to combine two sciences. The first, accounting, addresses the technical part of communication and information processing. The one to two, the management, provides a perspective on the behavioral problems specific to the control on an entity. The communication of information through accounting language starts from the idea of allocating resources in order to reach for a purpose or objective, in the broad sphere of resources using both financial, technical means and resources human. The resources are managed by a manager who decides both the allocation and the use thereof and who it needs information on the consequences of resource allocation in order to optimize the resource ratio consumed - results obtained. The information also concerns the need to compare the actual allocation with the one foreseen, of the real consequences with those foreseen.

In year 1998, the International Federation of Accountants, in order to better understand the changes registered in the accounting practices, provides a framework that has the role of explaining how management accounting has developed. The evolution of accounting is explained in this framework through four recognizable stages. As Omar et al explained, the main focus of each stage is:

- ✓ Stage 1 (previous 1950) - During this period, most companies focused on determining the

costs, which was related to the assessment of stocks and the allocation of overheads. Part of the leadership the accounting techniques that were developed to estimate the costs were First In First Out (FIFO) and Last In First Out (LIFO). The cost estimate was justifiably underlined because estimating the cost, the managers were able to control their finances position.

- ✓ Stage 2 (1965-1985) - By 1965, companies were turning to information generation for this purpose management planning and control. This was important because only valuable information could induce managers to make the right decisions. Administration there have been accounting techniques such as marginal cost and debt accounting introduced at this stage to help managers choose the right course of action or, respectively, to create strategic business units.
- ✓ Stage 3 (1985-1995)-Increased global competition together with a rapid technological improvement in the 1980s, it affects many aspects of the industrial sectors. At this stage, management remained focused on reducing costs, but a larger process analysis was done made possible by cost management technologies. The purpose was basically to reduce waste when processing the product, as this could reduce your expenses increase in expected profit. Some of the techniques popularly used by companies at this stage include Just in Time (JIT) and Cost-Based Activity (ABC).
- ✓ Stage 4 (1995 onwards) in the global industry, continuously, in the 1990s has to deal with multiple uncertainties and unprecedented progress in the manufacturing industry, technologies, which have grown even more emphasized the challenge of global competition. In this stage, companies have focused on improving value creation through efficient use of resources. Basically, managers tried to identify the drivers that could increase shareholder value. As such, activities with no added value were deliberately eliminated. Among the popular techniques introduced in this regard the stages were Activity Based Management (ABM), Total Quality Management (TQM), re-engineering and Benchmarking.

Although the evolution and development of management accounting, can be differentiated in this way four steps, it is important to mention that the techniques used in the previous phases continued to be used in subsequent stages. This is in line with the point of view traditional and advanced management accounting practices tend to complement each other.

It is noted that the number of articles regarding managerial accounting is associated with an increase in the number of profile faculties existing between 1950-1980.

US reform efforts have had three effects on research:

- ✓ importing ideas from other external disciplines;
- ✓ using the methods typical of other disciplines;
- ✓ the use of experimental, empirical or modeling approaches.

In the UK, improving the need for cost control to increase productivity efficiency in industry has given management accounting an important place in scientific management.

In the 1930s, a group of economist specialists approached business accounting procedures, with an emphasis on accounting costs. These theories have been applied in practice and have been updated in traditional accounting. In the UK specialty literature, managerial accounting appears which produces changes in accounting practice. These changes have led to new solutions for the modern management of the economic entity. In year 1887, the first British paper in this area was untied of costs, where it is emphasized the interest for the costs allocated to the product. When the twentieth century began, the research starts from reality that the managers used the information from the accounting records to analyze the previous situation of the company, but they also needed information about the consequences of the decisions taken. Thus, specialists are trying to replace the traditional methods of calculating costs based on collecting and allocating historical costs with approaches of costs oriented more towards the economy.

Managerial accounting in France is based on two contradictory but at the same time complementary approaches: a cost analysis for evaluation and an approach used for decision making, called table on board. Unlike the US, where only industries are Government related and must follow certain rules for calculating costs, the French approach requires application in all industrial sectors, whether they are related to the state or not.

After the World War is necessary, focus on managerial management to facilitate cost determination the full cost (production cost and sales expenses) for the care product is based on negotiation prices sale. Such a procedure was used until the 1960s, when the outdated application can be ensured supply and production capacity was used to the maximum. After the 1960s, when applying for a deposit, full costs and delimited in direct costs and variable costs.

In France, in 1885, the first books of managerial accounting, prepared by M. Nikitin, appeared.

Managerial accounting has been permanently adopted the management need:

- ✓ be able to approach a coherent approach and generate different needs;
- ✓ focuses on the needs of managers;
- ✓ uses future-oriented information.

The evolution of costs in Sweden is due to the permanent development of industries after the First World War. Large, well-managed economic entities have been disbanded and can be granted on certain industry areas related to international plan, correlated with the small size of the internal market, an external generation of industrial activation. This is an impulse.

Leading companies are dependent on niche strategies for activating on international domestic markets and being flexible with other cultures.

The first step in promoting cost calculation was developed by some authors in 1927.

The calculation and management of the full cost in Sweden is described in three stages:

- ✓ determining the cost elements;
- ✓ allocation by cost center;
- ✓ allocation on cost bearers.

In Sweden, a study of contract research and cost management aims at classification some problems:

- ✓ before establishing the calculation methods;
- ✓ ways to allocate indirect costs;
- ✓ evolution of calculation systems and cost management.

Changing management accounting is not a uniform phenomenon. Consequently, one could expect the causal factors of change to be varied and this was indeed the case confirmed by management accounting researchers. It is obvious that both the external factors (environmental) and internal factors (related to the organization in question) have influenced the recent development of recent management accounting systems and techniques. According to Shields in 1997, the potential changers are competition, technologies, organizational design and strategies. These drivers change also indicates the different roles that causal factors may use in the procedure change. Changing the environment also involves uncertainty and risks that create a request to modify the subsequent management accounting in the "non-financial" form measures.

The researchers paid less attention to the researchers the process of changing management accounting. (Burns and Scapias, 2000, p. 4) observed that little attention was paid to researching process understanding which new accounting systems and practices have emerged (or have not succeeded) through time. Change can be approached in a variety of sizes. According to The American Heritage Dictionary, the third edition, the amendment includes all of the following: becoming different or undergoing changes; transformation or transition; starting from one phase in another; making an exchange; the modification; substitution; giving and mutual reception. Replace with another dropout. This definition illustrates different types of changes and shows that, in general, it is not a uniform phenomenon. Some authors suggest a development of a management accounting as a learning methodology to understand how environmental factors form internally process within the organization.

According to them, the process of change is reflected on the question of how they appeared, evolved and were the management accounting techniques transformed when there are new demands from the changing environment. Environmental and technology changes are used as motivational factors in detailing the change of organizational and accounting management changes factors (structure and strategy). In addition to this, the organizational structure and the strategy (organizational factors) are considered as contextual factors within the company which may have to do with changing management accounting. Financial factors are used as the result recorded by the management accounting and change of organization. Some authors suggested that low financial performance can put economic pressure on the company to change its MAS to increase its

performance. The authors suggested that if management accounting changes it is accompanied by a greater reliance on accounting information, it may result improved performance. Thus, financial performance can be a background or a year the resultant factor of the transformation and development of management accounting. Many companies have experienced significant changes in their business environment advances in information technology, highly competitive environments, new management strategies and a greater focus on quality and customer service. The relevant studies of management accounting have highlighted the significant changes of these operating environments. Management accounting research has used a variety of theoretical frameworks for explain the changes. This study uses both contingency and institutional theory explains a need for a good match between MAS, external environment and organizational aspects, to improve the performance. This is similar to other researches certain changes in organization and accounting that also use contingency theory.

Some people have pointed out multiple factors that influence the permanent change of the management accounting, but the most important is the competitive economic situation registered in the 90s and, in particular, the global competition. The degree to which the claims made by a larger competition are metaphorically not relevant to the actual economic effects. It presents the importance for the accountants and managers of an economic entity and the perception of how they define the economic climate in which they carry out their activities. In the situation where at a more advanced level there is a perception competition, it is likely, at that moment, to focus on the customers and the market. In addition, an elementary change is the advanced information technologies that have been carried out in recent years. The period in which the technological changes made in the last decades have produced significant effects on the economic entities. A significant predominance registered in the last 5-10 years is the extent of the dispersion of information technologies, but also of the computing capacities within the economic organizations. The large use of computers has had a great effect on the work of nature, relevantly the information flows and the clerical works within the economic units.

## 5. Conclusions

Management accounting is at the beginning. Historically, it has a secondary role of financial accounting, but now in many economic entities, it is much more than a by-product of the procedure through which finances are reported. However, although the events carried out, over the years, have stimulated a development of management accounting, they are increasingly recognized and widespread as constituting the area of maximum expertise separated from the field of financial accounting. The new innovations brought in the field of accounting and cost management in the last decades, are greater in comparison with those achieved in the last two decades, namely those from the years 60-70. This fact underlines the situation that the lack of innovations registered and the costs calculated in the field of management accounting in the last two decades will not materialize to constitute a difficulty. This point of view (Kaplan, 1994), is emphasized from the 80s-90s, which have undergone multiple revolutions regarding the innovations brought to management theory and accounting procedures. Thus, in the specialized literature, from this observation it was found that in the last two decades there has been a wide range of innovations in the field of management accounting. And about 50 years ago, in the management accounting there was no notoriety.

Through a research of the changes around the last 50 years, certain functions are unchanged, and at present it is found that they have changed the functional responsibilities to the professional ones. The developments clearly refer to the degree of professionalization of the positions held by accountants and managers. Therefore, around the last part of the twentieth century, aspects of management have changed a lot. As a result, the problems related to the speed of the environment or the technologies used, the decisions taken promptly, even the actual partners that have changed very radically, have changed a lot. The domain of management consisted of obstruction, a command and the control by which almost all the decisions made brought prompt results. The reports that are decentralized and the decision-making structures are highly developed. Economic entities are currently facing a wide range of challenges and options. They constantly require management accountants to guarantee success and to work at any level required.

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