JOURNAL OF ACCOUNTING, FINANCE AND AUDITING STUDIES

http://www.jafas.org

The Use of Managerial Accounting as a Tool for Decision Making By Manufacturing Companies in Albania

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Keywords

Managerial accounting, Decision making process, Manufacturing sector, Albania.

Jel Classification

M41, M10, M11.

Abstract

Accounting is the information system that measures business activity, processes the data into reports, and communicates the results to decision makers. Managerial accounting provides proper ways to understand the activities of companies particularly have manufacturing activities. It helps the managers and the owners of companies to get a better view of the financial data of the company.

This paper aims to identify the managerial accounting techniques used in the manufacturing companies in Albania. In order to collect data, semi structured interviews have been done in major manufacturing companies in the main industrialized areas of Albania. The paper is divided into four chapters. First chapter presents an overview of some basics of managerial accounting. Following chapter discusses techniques of managerial accounting in decision making process that are subject in decision making process of manufacturing companies in Albania. In chapter three, the degree and level of awareness of managerial accounting techniques used by Albanian manufacturing companies are discussed. Last chapter focuses on conclusions and giving some suggestions on the use of managerial accounting techniques in Albania.

Introduction

Accounting helps the managers and business owners to take the right decision while providing necessary information about a company's financial performance and position. Managerial or management accounting aims to provide financial information relating to cost of the goods and services, relations between sales volume and profit or some performance analysis. The distinguished aspect of managerial accounting is that, it provides information for internal decision making. This is importance since the use of managerial accounting is not obligatory for the businesses.

The main objective of this study is to find, how much do Albanian manufacturing businesses use managerial accounting techniques in their decision making process? The methodology used in this study was a semi-structured interviewing with the business people and the finance managers of manufacturing companies in Albania's most industrilized areas: Tirane and Durres cities. Semi-structured interviewing is a data collection method where the questions are the same for all respondents. On the other hand, sometimes the questions come up through discussions. There are ten companies sampled in this research (Smith, 2011). There are also some data taken from the free discussions from some managers and other people who are involved in manufacturing companies.

This study is divided into four chapters: Chapter one discusses the background and some fundamentals on managerial accounting. In chapter two, a literature review is run. Chapter three elaborates on the research design and the methodology used in this study. Lastly, the conclusion makes a summary of the study and some suggestions are given for further research.

Chapter 1: The Basic Information on Managerial Accounting Techniques Asked in the Study

1.1The Use of Financial Statements in Managerial Decision Making

Financial Statements (FS) are being kept in the organizations. There are four compulsory financial statements, which are income statement, retained earnings, balance sheet and the cash flows. Each statement has its own important role in the financial reporting. Due to the fact that FS have the role of providing information about financial position and financial performance, they should be understandable, relevant, reliable and comparable. It should be easy to be understood by managers or by the business people who need that information. FS is very important for owners and for managers to take a better decision which is related to the operation of the organization. It is also very important for the investors in taking the decision of the investment in that particular organization (Horngren et al., 2012).

1.2 Cash Flows Analysis

Cash Flows Analysis (CFA) is one of the most important techniques in decision making. Many managers focus only on the balance sheet and the income statement, but cash flows analysis nowadays is very important. CFA is divided in three parts. Part one is the daily operation activity which deals with the cash in from the clients and cash out to the suppliers, employees and other expenses. Second part involves the cash from investment activities, the purchase or sell of the some particular assets. Third part involves the cash from financing activities which deals with the issuing of stocks or borrowing funds. It helps you to see the ability of the cash to pay back and to collect the cash. Nowadays, many Albanian businesses are applying the clearing system (buying and selling goods with goods, there is no cash involved in this system). This is also known as the barter system. In this case, looking only the income statement and the balance sheet will not provide the enough information for the decision making. It is nice to see the income statement with high profit, but when you see that cash in is very low, it changes all thoughts regarding that particular company. By looking at the CFA, a better picture will be seen about the cash outflows and inflows of the company. As a result of cash flows analysis, we clearly determine the solvency and liquidity of the companies (Warren et al., 2009).

1.3 Marginal Costing

Marginal Costing (MC) is a technique where only the variable costs are considered while computing the cost of a product. The fixed costs are met against the total fund arising out of excess of selling price over total variable cost. This fund is known as contribution in marginal costing. Marginal costing system is however not a system of cost finding such as job, process or operating costing, but it is a special technique concerned particularly with the effect of fixed overheads on running the business (institute of cost and works Accountants of India). MC is the cost of the last unit produced. An example of MC is that, if the company produces X units at cost of 100 Euros and X+1 units at the cost 110 Euros, the cost of the additional unit is 10 Euros, which is the marginal cost. As long as MC is the technique of presenting cost data wherein variable costs and fixed costs are shown separately for managerial decision making, it should be clearly understood that marginal costing is not a method of costing like process costing or job costing. Rather, it is simply a method or technique of the analysis of cost information for the guidance of management which tries to find out an effect on profit due to changes in the volume of output (Noreen et al., 2011).

1.4 Opportunity costing

If an asset is used for one purpose, opportunity cost of using it for that purpose is the return foregone from the best alternative use of it (Davidson et al., 1985:25). In addition to the accounting costs that are explicit as labor, raw materials, supplies, rent, interest and utilities, some implicit costs are also required for managerial decision making purpose. The objective in such case is to determine the present and future costs of resources associated with various alternative courses of action. Such an objective requires that one considers the opportunities foregone whenever a resource is used in a given course of action. The implicit costs, however, consist of the opportunity costs of time and capital that the owner manager has invested in producing the given quantity of output. This technique is important in decision making because it helps managers and owners in a process which involves two or more alternatives. Each alternative rejected as an opportunity cost, so before taking the right decision, managers calculate all the forgone costs which sometimes could be not the correct decision made (Gitman & Zutter, 2010).

1.5 Activity Based Costing

Activity-based costing (ABS) is a method of assigning costs that calculates a more accurate product cost by identifying all of an organization's major operating activities. The goal of ABC is not to allocate common costs to products, but to measure and then price out all the resources used for activities that support the production and delivery of products and services to customers. ABC is important when the organization has more than one product (Noreen et al., 2011).

1.6 Differential Costing

Usually the organizations compare two or more alternatives whether to buy this or that, to use this service or the other, to keep the same product or to produce a new one. All these decisions are made by managers. All alternatives given will have costs and benefits. The best alternative which will maximize the profit can be obtained by determining the differential costs and revenues. Differential cost (revenue) is the difference in total cost (revenue) between two alternatives (Horngren et al. 2012). This technique shows clearly that, before taking the decision, managers should take in consideration the cost of all alternatives. Choosing the lower cost and higher profit alternative clearly states the correct decision.

1.7 Target Costing

Target costing (TC) is a costing tool for decision making. In the target costing approach, management estimates how much the market will be willing to pay for the new product even before the new product has been designed (Brewer et al., 2005). Target costing continually motivates the management to reduce or not to exceed target costs.

1.8 Just in Time (JIT)

Business enterprises are now showing an effort for creating attention to reducing stock levels to a minimum by creating closer relationship with suppliers and arranging more frequent deliveries of small quantities. The objective of just-in-time (JIT) purchasing is to purchase goods so that delivery immediately precedes their use. This ensures holding of stocks as minimum as possible. With this system of purchasing, the company and the supplier work in close cooperation. The company generally guarantees for large quantity of purchases. The suppliers, on the other hand, guarantee proper quality of materials at reasonable or lower prices as and when needed. With this arrangement, there is no need to move goods received into stores because the goods are delivered direct to the shop floor. Moreover, it is unlikely that raw material stock will consist of different consignments of materials purchased at different prices. Thus, FIFO, LIFO and average cost issue prices will be the same. JIT technique has many advantages, such as reduction of cost because you do not have to keep much stock in your warehouse. By keeping stock, it is cost of keeping, cost of not to be sold because it might come in a new substitute product in the market. It is cost of freezing much cash etc. There are few companies asked from the sample which apply this technique and find very beneficial (Horngren et al. 2012).

Chapter 2: Literature Review

Daley et al., (1985) did a multinational research on the use of managerial accounting techniques by the 500 large companies in USA and Japan. They conducted a survey to find out attitudes of managers and controllers towards budgeting and control systems. Their study presents that, Japanese controllers and managers 1) prefer less participation, 2) have a more long-term planning horizon, 3) view budgets as more of a communication device, and 4) prefer morebudget slack than their American counterparts.

Coenenberg and Schoenfeld (1990) studied on the development of managerial accounting in Germany. Germany, as an important continental European country has influences in the development of managerial accounting in Albania. Authors analyzed the development of managerial accounting in Germany in several time periods such as:
(1) the time before 1900, (2) the period of early academic efforts until mid- 1930s, (3) the period of government standardization and control until 1945, (4) the period after WWII leading up to today's decision-oriented management accounting. In these different time periods, they found a paradigm change from production-function based cost theory, to cost volume relationship and depth cost behavior analysis.
As a result of literature review on the use of managerial techniques in Albania, only one study has been found. In early research done by Naco, Cela and Dollani (2010), they used a sample of 150 people (Members of Certified Accountants on Albania CAA). The focus of their study was the practices related with traditional systems of cost accounting and new approaches used in cost accounting, mainly those focused on the decision making function. They investigated the recognition use and assessment of activity based costing (ABC). Also, target costing and the "costing of quality" were introduced as tools for confronting increased competition. To find out about the extent to which practitioners applied their costing system to provide more accurate cost information for decision making purposes, respondents were asked to indicate how often and how important are for them seven techniques related to costing systems. The results of the sample investigated shows lower levels of importance and usage of ABC and other full costing techniques. Budgeting for planning and control is either "important" or "moderately important" for more than 83% of companies. It was interesting that a high proportion does not flex or amend their budgets for changes in volumes or other factors, but work only with fixed budgets. "What if" analyses were fairly frequently applied. Activity based budgeting and activity based costing have higher ratings of importance than actual usage. We can get an impression here that it is more talked than done. Accountants find the techniques useful and beneficial for the organization, but they are not used by the managers.

Chapter 3: Research Design and Methodology

3.1 Data Collection Methods

A qualitative methodology used in this study was a semi-structured interviewing with the business people and the finance managers. Semi-structured interviewing is an interview where the some questions are the same for all interviewees. Sometimes the questions come up through discussions (Bryman & Bell, 2011). There are ten companies sampled in this research from Albania's most industrialized areas: Tirane and Durres cities. There are also some data taken from free discussions via some managers and other people who are involved in manufacturing businesses. The interviews are conducted in the working places. There are some interviews conducted in the public places as well.

3.2 Data Analysis

Table 1: Techniques used in decision making and number of organizations applying these techniques

Techniques used in decision making	Number of organizations applying these techniques
The use of financial statements	10
Cash Flow Analysis	3
Marginal Costing	1
Opportunity Costing	0
Activity Based Costing	0
Differential Costing	6
Target Costing	0
Just in Time	3

Source: Own Study

The sample size investigated for the purpose of this research includes ten companies. As observed from the table above, only financial statements seem to be the most applicable and well known for the Albanian decision makers. All of the companies included in sample which were asked about this tool responded that they use FS as an important tool in their significant decisions. Differential costing is also determined as a widely used technique. Cash flows analysis, just in time and marginal costing are used only by a few number of manufacturing companies. While other techniques such as opportunity costing, activity based costing and target costing are not applied at all by the sample chosen in this research.

3.3 Findings: Why managerial accounting techniques are not widely used in Albanian manufacturing companies?

The results show that, there are certain reasons given by the interviewees why these techniques are not widely used in Albanian manufacturing companies as follow:

- Not knowing the importance of the accounting techniques
- Thinking and considering them as a waste of time
- Lack of skilled staff
- Most of the decisions are taken by the owner himself alone

3.3.1 Not knowing the importance of the accounting techniques

Most of the managers asked why they do not use the accounting techniques in their decision making process replied that, they do not have enough information about the accounting techniques. They proceed with the same system which their previous colleagues have followed. There is a wide lack of information for the Albanian organizations about accounting techniques. Training the managers from time to time to cope with the rough competitiveness will make organizations more strong in the market.

3.3.2 Thinking and considering them as a waste of time

Taking an efficient and correct decision sometimes consumes a great deal of time. Albanians managers interviewed for the purpose of this research think that, they experience a waste of time because of analyzing all the techniques in their decision. They are more for an instant decision rather than analyzing things as should be analyzed.

3.3.3 Lack of skilled staff.

Taking a right decision takes time and needs professional staff. Most of the sampled and interviewed companies face lack of trained staff.

3.3.4 Most of the decisions are taken by the owner himself alone

There is another phenomena happening in Albania, where most of the decisions are taken by the owner of the organizations. The owners do not listen much to their managers and they do not leave much space to the managers to talk regarding a problem. They think that they do the right thing themselves and they prefer to take the decisions themselves.

Conclusion

Living in a globalized world, the business competition has become very harsh. In order to survive and achieve the goals, businesses should manage the cost in the best way possible. To take a better decision, management accounting techniques are designed to provide useful information. The important thing is to understand the techniques, adopt them and apply them in the right time and the right place. Albanian companies seem to be far behind the expected situation due to the lack of information of using the managerial accounting techniques in order to benefit from these techniques in the decision making. Managers should be aware of these techniques as soon as they can in order to be competitive.

Training should be organized by the organization in order to have specialized staff. Qualified staff is very important for the organizations. Managers should also have more freedom in terms of the decision making process. They should be free to take the decision of course based on the reports given to them. In order to increase the use of managerial accounting in the businesses, the qualified managers must be more participative in the decision making process.

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