

Methodological Foundations of Managerial Accounting Policy

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Abstract — This paper presents methodological aspects of forming a set of information for development of a managerial accounting policy. It considers the main managerial issues and provides concrete content for the system of managerial accounting in the part of application of the managerial accounting policy. Elements of the managerial accounting policy are individualized.

Keywords — managerial accounting, accounting policy, methodology, agriculture, bookkeeping, internal documents.

I. INTRODUCTION

A primary task for managers of any enterprise is optimization of the production program. As a rule, immediate solution of cost optimization problems is a very complex task, as the management does not often have complete and credible information on the main directions of retirement of resources. In that case, construction of a system of managerial accounting may serve as a solution for the problem. A correctly constructed system for gathering and generalization of information for company management will allow not only timely obtaining necessary amount of information for each business process, but also reveal the cost structure for support of each business line.

Despite clear advantages that the company gets from implementing managerial accounting, it has not yet become widespread; only large companies feature the managerial accounting as an independent subsystem of accounting and analysis service. Simultaneously, small and medium enterprises that form a large cluster of economy choose not to implement the managerial accounting as its effect comes short of its implementation costs. Besides, currently managerial accounting is not formalized in legislative and regulatory framework of the Russian Federation [5].

Managerial accounting is introduced on decision of a manager and regulated by documents developed in-house. Application of internal rules of managerial accounting in an enterprise is a relevant issue nowadays. Thus, an accounting policy developed in-house for managerial accounting may

regulate and systematize management information in the company.

The goal of this study is to justify necessity of forming the managerial accounting policy.

II. METHODOLOGICAL ASPECTS OF A MANAGEMENT ACCOUNTING POLICY

Accounting policy for managerial accounting is an important internal local regulation. It should be noted that unlike the accounting policy for financial accounting, where sections are rigidly linked to requirements of individual legislative and regulatory documents, the managerial accounting policy contains a set of instructions for gathering and generalizing information that is necessary exclusively to manage the enterprise.

The managerial accounting policy is mandatory only for personnel of finance and economics service, company managers or business line managers; accounting personnel is not required to follow the provisions of this accounting policy, as a conflict of interests may arise during the accounting.

From the above, it is recommended to provide information in the managerial accounting policy that will explain the managerial issues. Such issues may include:

- listing and grouping of responsibility centers in the company's managerial accounting.

A center of responsibility is a large area of activities headed by a responsible person duly authorized and enabled to make correct and rational managerial decisions.

In economic literature, several types of responsibility centers are identified [3].

Cost center is a managerial accounting element that exists separately or as a part of other centers of responsibility, where responsible persons are responsible only for expenses and bear no responsibility for financial results or other indicators of the company's activities. The cost center may be a workshop that

does not produce finished or unfinished goods, plant management departments, social services, etc.

Investment center is a center of financial responsibility within the enterprise and simultaneously its business line that controls and regulates investment expenditure, income levels and investment assets value. Such centers are responsible for success and efficiency of the investment activity of the enterprise. An indicator characterizing the efficiency of an investment center is profit gained from employing the investment capital.

Sale center is a business line in an organization involved in marketing and sales activity for profit. Thus, the head of this business line is responsible for formation of income, while having no responsibility for costs. This may be the enterprise's sales department.

Profit center is a business line the head of which is responsible not only for costs, but for income from the company's activities as well. Such centers may be branches of a large enterprise.

The internal managerial reporting of an enterprise differs from the accounting reporting, as it is formed upon an initiative of a manager and is an important component of planning. Its constituent documents represent data that are important for predicting calculations and rational management decision-making for the future.

The forms of internal managerial accounting may contain data considering calculation of prime cost of manufactured products, unfinished goods, production of goods, stocks of raw materials, parts, etc. [5]

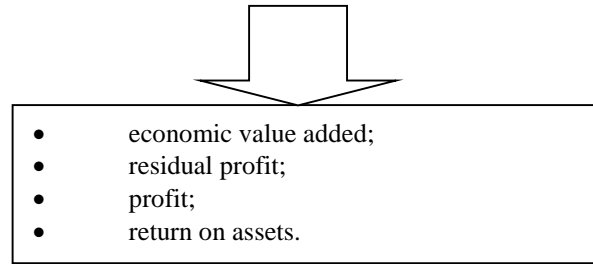
- definition of controlled and uncontrolled statement items of responsibility centers.

The main distinctive feature of the managerial accounting system considering responsibility centers will be the presence of management control, which is characterized as the process by which managers influence the executors with the aim of attaining organizational goals by monitoring the effective implementation of the organizational strategy and prevention of crises [6]. The head of the business line is responsible only for costs and incomes that they may control. Thus, identification of controlled and uncontrolled statement items is an important task of managerial accounting. The internal documents of managerial accounting shall be personalized, that is, they shall include the name of a manager or employee responsible for the given cost and income items. Besides, the reports of responsibility centers may include uncontrolled costs that may influence the policy of the top management with respect to the status of the responsibility center of the organization.

- identification of financial and non-financial criteria for assessment of activities of the responsibility centers.

Currently, determination of financial and non-financial criteria for assessment of activities of responsibility centers is a major managerial control task faced by organization's manager. Its solution involves primarily establishing the main characteristics and distinctions between financial and non-financial criteria.

Economic literature most commonly contains the following four indicators of financial nature:



We hold that these indicators do not sufficiently reflect the efficiency of operation and control over the activities of responsibility centers, as only the first indicator may be actually used.

M.A. Vakhrushina holds that the main task of the managerial accounting is an aspiration to syncretism of interests of all the participants of entrepreneurial activity when using the residual profit as an activity assessment criterion for responsibility centers, as it directs activity of the managers towards linking the goals of the organization and those of its separate business line [2].

Non-financial assessment criteria for activities of responsibility centers are not regulated, thus they are much more numerous than the financial ones. They may include the speed of order fulfillment, compliance with the quality standard requirements, analysis of responsibility centers' activities in comparison with competitors, level of customer satisfaction, etc.

From the above, managers experience a certain difficulty in assessment of non-financial indicators, selection of assessment methods, as well as the order of their application, that is, which non-financial criterion shall be assessed first.

- selecting a method for costing and prime costs calculation;

The issue of selecting a method for costing and prime costs calculation for a given enterprise plays an important role in the process of its financial and business activities and is determined by its industry, type of production, the nature of production process, the range of products, organizational structure of production management [2].

Thus, the main tasks in selecting a method for costing and prime costs calculation are as follows:

- detailed and timely registration of cost of production for a certain group;
- correct calculation of prime costs per unit;
- gathering information enabling rational managerial decision-making;
- analysis of expenditure and control over compliance with regulations during production;
- efficiency and relevance of costs, etc.

The way to calculate prime cost is defined by the enterprise depending on available method of prime cost calculation, which depends on numerous criteria of production process implementation [4]. The authors are of an opinion that these criteria shall include:

- description of production process: content of the processes, availability of unfinished goods, carryback, etc.;
- availability of work in progress: cycles of production, duration of the production cycle (day, week, month, year);
- description of the product range: type of products produced, works or services performed;
- description of production output: piece-work production, batch production;
- description of regulatory environment in information formation.

In economic literature, one may find that the methods of costing are divided into process-oriented, job order, process and other types [3].

The process-oriented method of costing classifies the production costs per business lines or production processes [3]. The average value of costs (unit cost) is calculated by dividing total cost by the production output of the cost center. The process-oriented method of costing is convenient for such production industries – oil and gas, coal, chemical, textile, paper – which produce uniform products by performing a chain of operations and/or processes.

The job-order method of costing is used in both piece-work and batch production; it may also be used by experimental producers, repair and maintenance companies in most industries. In addition, this method of costing is widespread in machine engineering with individualized manufacture of complex equipment, machinery, apparatuses, reactors, etc. Thus, the object of costing in these types of production may be separate job orders for a single piece of goods or a series of goods. In the job-order method of costing, direct costs are included with the orders, while indirect costs are distributed proportionally to an established base through individual orders.

Process method of costing and prime cost calculation is used in such enterprises where raw materials are consequently transformed into goods by means of complex use of the raw materials, where the production process consists of separate process stages with independent technology and production organization. The above-described method of costing is used in production of ferrous and non-ferrous metals, chemical and consumer goods industries, processing of oil and gas, construction material manufacturing and others.

Currently, grouping of costs by the method of their inclusion into the prime cost of the product is important for the organizational practice. In this case, the costs are divided into direct and indirect. When using this classification of costs, the total cost and prime cost of unfinished goods are determined. Direct costs are proportional to rates that are developed by employees of economic planning and technical department of

the enterprise. Distribution of indirect costs during the accounting process at the enterprise is a stepwise process:

- at the first stage, the indirect costs are distributed in accordance with the location of their appearance (between business lines or branches);
- at the second stage, the costs are redistributed depending on the type of produced goods. The redistribution assumes selection of a method for distributing the costs to the prime cost of the produced goods.

Managerial accounting provides two alternative methods for costing accounting: without using accounts and double-entry bookkeeping, as well as with application of a chart of accounts. Usually, the managerial accounts are supplemented to the chart of accounts already in use at the enterprise, using unoccupied positions (accounts from 30 to 39 in the Chart of Accounts for Bookkeeping).

The nature of distributing the costs onto the prime cost of produced goods is in the redistribution of costs acquired from the system of bookkeeping accounts onto the following groups of costs: variable, semi-variable and standing costs. This division of costs allows for application of more progressive methods to costing – for instance, calculating prime costs using the variable cost base Direct-Costing, as well as optimizing the production program of the company.

Definitions of transfer pricing may be found in both Russian and foreign literature and practice. Transfer prices are the prices established for certain goods, services or works between affiliated parties.

Therefore, the transfer pricing is a process of documenting, controlling and using such prices. This concept provides the fullest and most optimal form for optimizing taxation and thus reducing the tax burden of the company.

Transfer pricing may be used not only by large tax payers, but by some segments of small and medium business as well.

According to the law, relations between the contractors shall be by means of drawing contracts, while payment for goods and services shall be in accordance with the market prices. However, in practice this is not always true. Thus, in order to optimize taxation and reduce the tax burden, some contractors may fall back on transfer pricing, leading to subsequent reduction of their tax burden [1].

A positive point in forming managerial accounting policy is the lack of general recommendations for its development in regulations. Due to this, an enterprise may use various approaches and methods taken from any accounting systems. The accounting policy formed for managerial accounting is oriented primarily towards individual needs of management of the economic entity, making it unique. The accounting policy formed for managerial accounting shall cover organizational, technical and methodological aspects. The following sections need highlighting as the most important for management: transfer pricing, methods of cost grouping, costing per responsibility centers, budgeting, as well as a list of internal reporting documents (Table 1).

A smart accounting policy shall simultaneously provide solution to three most important tasks for the organization:

- formation of relevant information facilitating managerial decision-making;
- provision of continuity with the financial accounting data;
- formation of information for the purpose of taxation.

These tasks are solved by means of selecting costing methods provided for:

- calculation of total and shortened prime costs of production or service;
- acknowledgment of rated costs in the prime cost structure.

TABLE I. MAIN ELEMENTS OF THE ACCOUNTING POLICY

no.	Elements of the managerial accounting policy	
	Name	Description
1	Schedule of managerial accounting accounts	using accounts 20-29, 30-39 of the Chart of Accounts to systematize expenditure by accounts, responsibility centers and other properties;
2	Procedure for acknowledgment of enterprise's income	general rules and principles are introduced for acknowledgment of income on sale of goods, determination of revenue for internal transfer of goods and for long-term works;
3	Procedure for liabilities estimation	this section includes a procedure for determining a fair price for liabilities of the economic entity, rules for acknowledgment and reflection in accounting reports of estimated liabilities and accounts payable;
4	Procedure for determining business expenditure	determines general rules for accounting of expenditures of the economic entity related to production and sale of products, goods, works and services;
5	Procedure for asset estimation	this part contains a description of approaches to evaluation of assets (property, stock, etc.) on their initial acknowledgment, in subsequent accounting, as well as contains information for reflection of the assets in accounting reports of the economic entity;
6	Responsibility	methods are established for distribution of direct and indirect costs, distribution of overheads, approaches to systematizing the costs per accounting entities;
7	Procedure for establishing direct and indirect costs of business lines	this section contains information on distribution of responsibility for content, changes and application of accounting policy for managerial accounting.

When forming elements of the managerial accounting policy one should first bear in mind that it performs the role of a tool in organization management, thus, it shall not be excessively detailed or overloaded [7].

Introduction of managerial accounting, unlike financial and tax accounting is a right of the organization, but not its duty. The rules of managerial accounting are not regulated by the current regulations; they are developed in accordance with the financial structure of an organization and are mandatory only for the company that had developed them.

Despite the fact that introduction of the managerial accounting is voluntary, the accounting policy developed for managerial accounting is an internal local act, which shall be authorized by the order of the head of the company. A lack of official status may provoke employees to take it into account only for reference, not using it in their activities, which may lead to deterioration of quality of the information provided, erroneous decisions on behalf of the management and loss of resources on behalf of the organization.

As the lack of an authorized order of the head of the organization on managerial accounting policy negatively affects the quality of information on business processes performed during the business activities, the authors think that there are good reasons for development of a local document, Regulation on Managerial Accounting Policy.

This Regulation shall be developed on the basis of information demands of the management of the economic entity. It shall equally satisfy the needs of the top management of the enterprise, as well as those of the managers and heads of the centers of financial responsibility within the organizational structure of the organization. At that, it is necessary to remember that a part of financial information necessary for management may be obtained from the accounting service, thus, there is not need to duplicate the requirements for acknowledgment of assets and liabilities. All this facilitates subsequent use of the accounting policy by the organization's employees in their day-to-day activities [8].

The recommended project of the managerial accounting policy is given in Table 2.

Subsequently, when the managerial accounting is being implemented, the methods of managerial accounting are established for costing of agricultural production and calculation of its prime costs.

From the results of studying the existing system of production cost accounting in agricultural enterprises during its stepwise introduction, the principal cost account were determined in plant crop farming and animal husbandry; main objects of cost accounting in those industries are recommended for use at the analyzed enterprises.

In order to improve controlling and analytic functions of the accounting information and for timely identification of deviations, a stepwise transition method is suggested for agricultural enterprises. It will allow on-the-spot managerial decision-making to prevent negative results during the business activities.

Subsequently, forms are developed, as are content and composition of the managerial accounting, that is, internal reporting of the enterprise, necessary for timely analysis, internal monitoring and qualified managerial decision-making.

The next stage assumes organizing a system of budgeting and internal control at the enterprise.

Finally, a software solution is selected that completely fulfills the requirements of the organization to implement automated managerial accounting.

TABLE II. PROPOSED MANAGERIAL ACCOUNTING POLICY

no.	Principal sections of the managerial accounting policy	
	Name	Description
1	General Provisions	At the beginning of the financial year. Executive Director approves a registry of centers of financial responsibility necessary for managerial accounting of income, costs, liabilities and assets.
2	Income accounting	For the purpose of managerial accounting, the incomes are accounted in the context of: - groups and items of income; - elements of the financial structure; - projects (separate income items).
3	Costs accounting	For the purpose of managerial accounting, the costs are accounted in the context of: - groups and items of costs; - elements of the financial structure; - projects.
4	Project accounting	In the system of managerial accounting, all the projects are registered, together with all the information related to them concerning changes in assets and liabilities, income and expenditure, cash flow.
5	Prime cost calculation	For each type of product, a cost-information report is made.
6	Accounting of financial results	For all the projects of the reporting period, financial result is calculated with a margin to account for non-operating income and non-operating expenses. Then, the Statement of Financial Results is formed.
7	Budgeting	Using and correcting the budget data from the previous period and taking into account the production technology, the master budget is developed.
8	Internal managerial reporting	Reporting forms necessary for managerial decision-making: - production reports by centers of responsibility; - prime cost calculations by types of production.

As the accounting policy of the enterprise may one way or another influence the elements of managerial accounting, additional attention shall be paid to the methods of accrual of depreciation for principal assets and non-tangible assets, evaluation of consumption of material and production stocks, accounting of production costs, formation of costs by operational activities on the accounts of the dual-entry system.

Depreciation of the fixed assets and non-tangible assets and methods of its accrual are reflected in the same way in the accounting policy of financial and managerial accounting.

In order to evaluate the consumption of material and production stock, the managerial accounting policy allows a wide selection of methods: by purchase price, by today price, FIFO and LOFO methods, permanent assessment, fixed prices. All these methods are permitted to use in the territory of the Russian Federation and are actively used in the international accounting practice.

As elements of the accounting policy for costing in production and release of products, costs are installed for each cost center, persons responsible for costs are selected for each cost center, the methods of grouping and recovering costs are defined together with a list of calculation accounts, estimation

methods for unfinished goods, finished goods and shipped goods. Transfer prices are selected as well as a variant of expense distribution sheet and method for distribution of indirect costs between individual objects of accounting and calculation.

The existing Chart of Accounts allows using the accounts of the double entry system in case of managerial accounting policy to form expenses for operational activities of the enterprise. At that, accounts 30-39 are proposed to be used for accounting of costs by elements of costs.

Subsequently, a budget and a budgeting procedure are defined for each center of financial responsibility.

III. CONCLUSIONS

Thus, managerial accounting policy is largely oriented towards accounting of income, expenses and formation of the financial statement. In an ideal case, the data of financial accounting necessary for cost accounting and calculation of prime cost shall be formed simultaneously, however, in practice, such a variant is rare, thus, more attention shall be paid to obtaining information on expenses during the reporting period. The authors hold that this goal shall form a foundation for the provisions on managerial accounting policy in the enterprise.

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