



ROLE AND IMPORTANCE OF MANAGERIAL ACCOUNTING INTO BANKING SECTOR

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Abstract *In the last decades, following of the global systemic crisis, commercial banks have problems with the lack of operative and truthful information about the effective functioning of its subdivisions. So, appear the necessity of imposing, for banking system, implementation of managerial accounting inside of accounting evidence for reducing the loss that may arise from lack of internal qualitative information. The aim of our study is to present the factors that confirm the need of managerial accounting for commercial bank and to define the benefits that may result from this.*

Key words:

Managerial accounting, commercial banks, operative information, reports activity, responsibility center

JEL Codes:

G24

1. Introduction

In conditions of Moldova's integration into the world economy, problems of keeping of national bank, competitive facilities, present an increased actuality. An effective management of commercial bank is one of the main factors of its safety, profitability and high capacity of competition on the financial market.

2. Role and importance of managerial accounting into banking sector

Making correct and managerial decision is possible in case of assurance managers, heads of departments and management of commercial bank with the operative and truthful information about the activity of the financial institutions. That's why, introducing the managerial accounting and the reports activity will give the possibility to obtain the informations on the all managerial levels.

One simple definition of management accounting, says Burns, Quinn, Warren & Oliveira (2013) is the provision of financial and non-financial decision-making information to managers.

According to the Institute of Management Accountants (IMA): "Management accounting is a profession that involves partnering in management decision making, devising planning and performance management systems, and providing expertise in financial reporting and control to assist management in the formulation and implementation of an organization's strategy" (Institute of Management Accountants. 2008. Retrieved 4 December 2012).

The American Institute of Certified Public Accountants (AICPA) states that management accounting as practice extends to the following three areas:

- Strategic management—advancing the role of the management accountant as a strategic partner in the organization.
- Performance management—developing the practice of business decision-making and managing the performance of the organization.
- Risk management—contributing to frameworks and practices for identifying, measuring, managing and reporting risks to the achievement of the objectives of the organization.

The Institute of Certified Management Accountants (ICMA) states "A management accountant applies his or her professional knowledge and skill in the preparation and presentation of financial and other decision oriented information in such a way as to assist management in the formulation of policies and in the planning and control of the operation of the undertaking".

Thompson et al. (2009) note that management accounting develops ideas for both manufacturing and service organizations. Hence, management accounting practices may provide strategies for efficiency and cost effectiveness which could be used as a competitive tool for growth and profitability especially in the banking sector.

Durand (2003) suggests that management accounting remains largely unexploited as a powerful approach to accounting for a competitive advantage.

Frank (1990) views management accounting as the preparation of financial and non-financial reports for non-management groups such as shareholders, creditors, regulatory agencies and tax authorities. He outlines management accounting as a practice that covers three areas which are explained as follows:

- Strategic management: Advancing the role of the management accountant as a strategic partner in the organization;
- Performance management: Developing the practice of business decision-making and managing the performance of the organization;
- Risk management: Contributing to frameworks and practices for identifying, measuring, managing and reporting risks to the realization of the objectives of the organization.

Hilton (2008) argues that management accountants take a leadership role in their teams and they provide valuable information that guides the organization towards achieving its strategic goals.

According to the order of the National Bank of Moldova about the accounting organization in banks of Republic of Moldova (2002), managerial accounting is organized by every bank, depending of specific of own activities and necessities, having the following objectives:

- determination of incomes, expenses and result for every subdivision; results of activities and services provided by the bank;
- making the budget of incomes and expenses for subdivisions and activities;
- prosecution and controlling their execution in order to know the results and to obtain information necessary for the management.

In the national commercial banks, managerial accounting can be realized, practical, in different ways, depending of the goals proposed by each bank, implementing managerial accounting. For example, commercial bank, with a diversified network of subsidiaries can give to managerial accounting control functions on the activity of subsidiaries and function of increasing the level of coordination and interaction between the central office and subsidiaries, a universal bank with the medium size can give to managerial accounting optimization function of the administrative expenses and operative control upon effective functioning of departments (subdivisions).

In international practice, management accounting has the role of internal control for banks and include:

- planing, organization, evidence and control of activity;
- reports improvement;
- analysis of activity based on dates obtained;
- evaluation of results and presentation of recommendations;

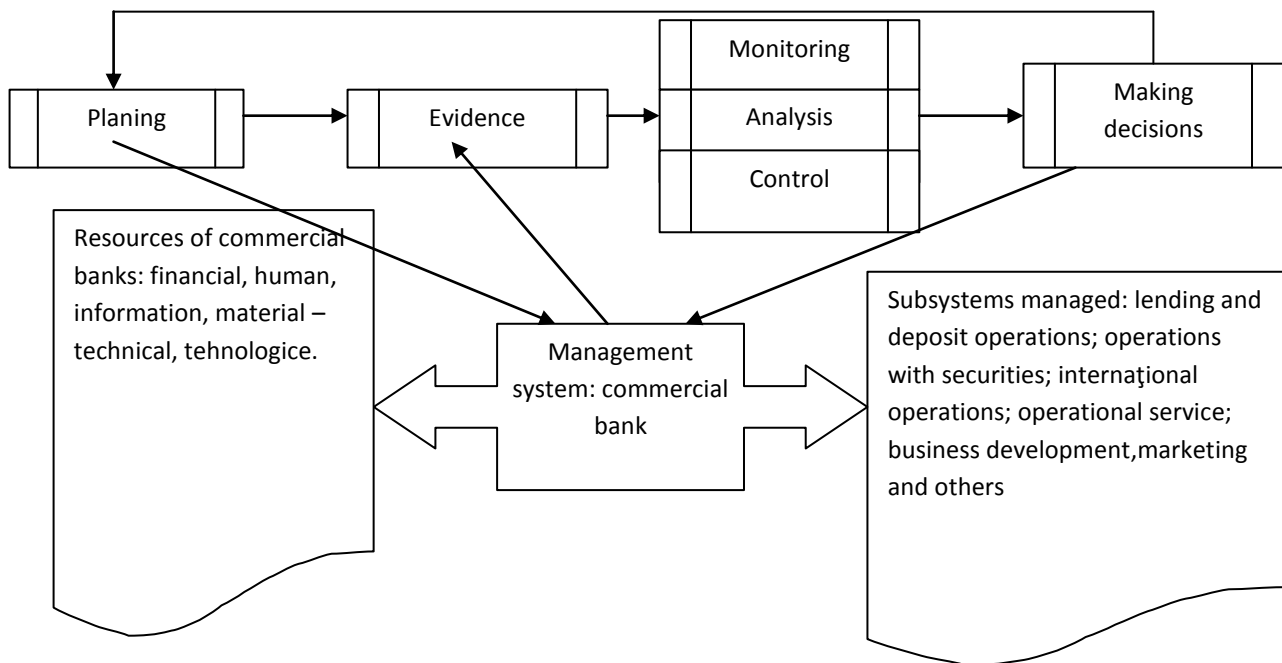
The problem of managerial accounting was a basis for researchers of many scientists, like: Caverina O., Condracov N., Atchinson A., Rouz P. and others.

Managerial accounting permits to bank management, based on received information and on comparing the current situation with the planned situation, to make decisions on managerial information and to react quickly to changes from the external environment.

It's preferable that all stages of management accounting to be integrated into a single management system and to use the same dates based on unique automated informational system.

Figure 1. Functional scheme of commercial bank management

Source: adapted by the author after Королев, О. Г. (2006)



Significant factors that determine the need for using management accounting in the bank are:

- further support of development and planning;
- the need to obtain operative information about real results of activity and expected results;
- the need for comparative analysis of banking products;
- the need for current risk management;
- making decisions about price forming for bank products and about purchase of new investment packets.

Managerial accounting system and the reports activity allows getting to all levels of management analytical information, needed for making decision:

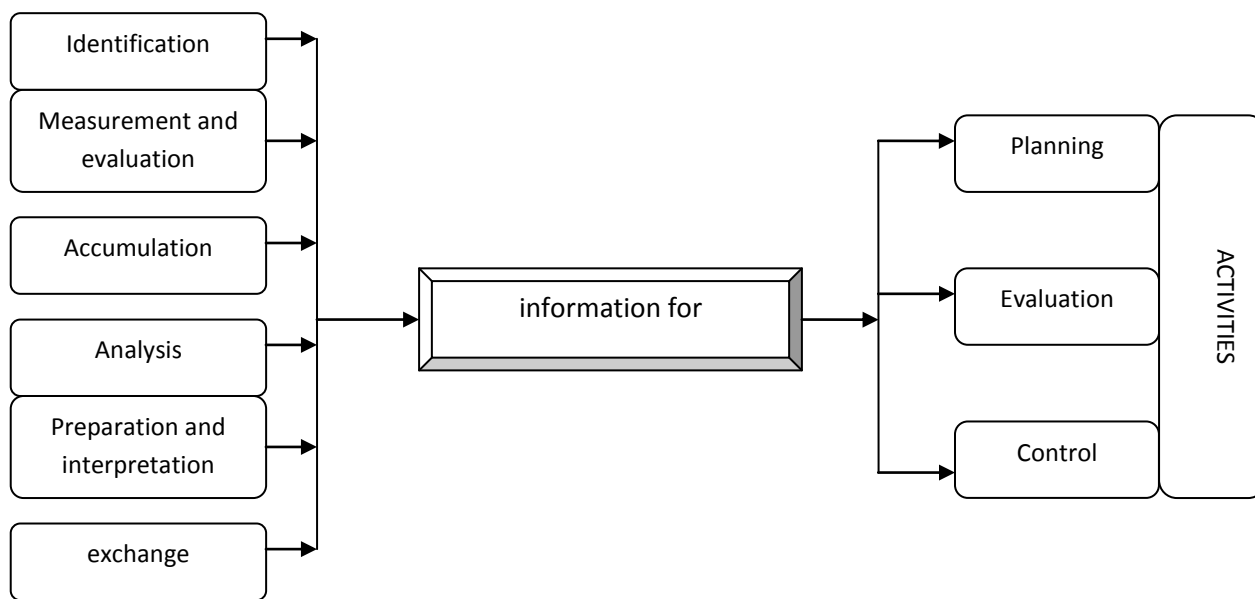
- about own capital of the commercial bank and its ditribution;
- about correction of banking products;
- about clients;

- about increasing or decreasing the risks that affect the profit and capital;
- about stimulating of subsidiaries and departments from the commercial bank and their employees;
- about increasing of risks characteristic for current structure of the balance sheet;
- about the credit risk.

Also, managerial accounting and report activity permit strengthening information, necessary for strategic and budgetary planning, resource distribution, determination the cost of financial instruments, ensuring operational control over influence of management decisions, indicators of activity of the bank.

Now, we will illustrate basic procedures of managerial accounting, that provides a clear picture about the functional determination of managerial accounting and its role and place in the bank management system.

Figure 2. Stages of managerial accounting and its functional determining



Source adapted by the author after Королев, О. Г. (2006)

Problems that are resolved by using management accounting are: building an optimal process, of planning and budgeting for the bank; control of profitability depending on different products, business directions, departments, subsidiaries; control of structure of assets and liabilities by volume, maturity; control risk levels and capital adequacy; making managerial decisions based on real information, about, both separate transactions and the situation in the bank; modeling the consequences, that appears as result of making some operations, making analysis; improving processes of making decisions about price forming on banking products; optimization relationship with clients, including the assessment of quantity indicators and clients quality; other expenses; creating an efficient system of managers's responsibilities for results of activity.

Building managerial accounting system is closely linked with the organizational structure of the bank and with major problems of achieving the potential benefits of the managerial accounting for efficient management of commercial bank. Based on aims of managerial accounting, like: increasing the efficiency of resource management, separately analysis of profitability from departments and directions of activity, operational monitoring of banking risks, providing information for the budget process, appear the notion of commercial

bank's financial structure, being like totality of responsibility centers. Compared with the commercial bank's financial flows in its structure can be highlighted divisions (subdivisions) of attraction and placement of resources. Subdivisions of attracting resources provide forming bank's resources by attracting resources from clients.

Subdivisions of resource placement performed assets operations and provide bank with income and profit.

Bank segmentation in subdivisions of attraction and placement of resources is determined by the existence of cash flow in the bank, when financial resources are transmitted from the centers of attraction to the placement centers, namely between responsibility centers.

In such an approach, responsibility center can be defined like a structural subdivision, that produces unique products and services, or like management unit with specific goals, budget and reporting.

Concluding functional differences of directions of activity of structural subdivisions, place and role of subdivisions in structure of financial management, tasks of managers's departments and the level of responsibility, is distinguished centres of incomes, expenses and profits.

Such a situation can be appreciated like being a normal one, because both the financial and organizational

structure and methodology of organization of managerial accounting is individual for each bank and depends on the peculiarities of bank specialization, traditions already formed, managerial practice, goals and objectives of managerial accounting.

Construction of responsibility centers into the financial structure depends on the size of the bank, directions of activity, number of personal and other factors. That's why, number and composition of responsibility centers is determined separately for each bank taking into account the specific of financial institution.

In addition it can be said that separation of responsibility centers depends on the goals and methodology of management accounting and analysis of bank. As responsibility centers can be commercial bank subdivisions, agencies, representative or departments. Responsibility centers can be built based on direction of activity of the commercial bank or banking segments services under which the bank operates, for example retail business, corporate, and other. So, construction of responsibility center can be based on any profitable activity of the bank.

Along with traditional services provided by commercial bank with management goals, can be developed new classification of services provided by the financial institution, according to the directions of activity, grouping operations that form a single network operating system.

For the purposes of management accounting and analysis is necessary to strictly delineate the link between operations, because from this depends delimitation of commercial bank in responsibility centres, correct identification of incomes and expenses and forming opportune management recommendations. That's why, appear the necessity to develop a classifier of operations performed by the bank indicating the links that may arise between them.

A special attention of the managerial accounting should be directed to the bank expenses in case of evolution its base activity. Respectively, a correct management of expenses allows to influence on price of banking services and on banks income.

As rule, bank has no problem with disabilities in determining the place of occurrence of one or another type of income. As the income for all kinds of activities can be identified follows: interest income from the resources placed; commissions for services rendered; fixed rates for services rendered.

More difficult situation is to determine expenses and their distribution to one of the banks services. As rule, it depends on banking practice in classification of expenses.

All bank expenses for the current activity can be classified into expenses related to passive operations and expenses made during active operations. Bank expenses are a stable component of the operational activities of the financial-banking institution and its functioning. As we know, as the basis for calculating the cost of banking products appear passive operations, so reducing costs for these types of operations provides attraction of cheaper financial resources, contributing to the efficient bank management.

Koch and MacDonald (2006) point out that proper management of loan transactions may reduce the risks associated with lending.

Management accounting can supply skills that can create competitive advantages through transaction processing in particular the banking sector, where it can be an important issue for the development of competitive advantage.

Summing all that we exposed, we can conclude that implementation of management accounting and the reports will give the bank the following advantages: is forming a mechanism for early warning of problems in efficient organization of activity, price and sales forming; appears possibility to understand who, what and measure of bringing profit or loss for bank, namely: it highlights activities profitable (or unprofitable), products, departments, customers; is forming new system for supporting management decisions; is made a foundation for effective planning and budgeting; is improving the ways of employees's rewarding, assessing the contribution of each department to develop commercial bank.

3. Conclusions

In fine, the main question for the bank is not in need of managerial accounting and reporting but how it can be implementing in the short term with minimal costs and in accordance with the needs of the commercial bank.

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