
Study regarding the creative accounting techniques in management accounting

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Abstract

Once implemented, a managerial accounting system will also attract the manifestation of creative accounting phenomena, especially in times of crisis and fiscal pressure. Having a more relevant set of information at their disposal, managers are tempted to employ more or less ingenious, questionable or legal techniques, in order to improve the presentation of the financial statements. In the current Romanian economic context, a direct link may be observed between the creative accounting practices, the incompetence of managers, the decline in activity, the crisis periods and the fiscal optimizations. A national emphasis is placed on the use of creative accounting in order to mislead the users of the financial statements. The study of the Romanian managerial accounting system is characterized by a relatively small number of field research studies, especially with regard to organization and implementation. In fact, our research intends to warn about the major challenges in the perceived benefits of organizing a modern system of management accounting in the Romanian context. Although management accounting has evolved continuously during recent decades, its progress depends highly on the extent to which the academia and managers will be able to improve various methods and the effectiveness of decision processes. Implementation difficulties should be identified in a manner that is much clearer and without neglecting the social and behavioural implications. Emphasis should be placed on the central role of the behavioural issues in managerial accounting.

Keywords: Managerial accounting, creative accounting, production cost, change in managerial accounting, altering costs, removal from stock.

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Introduction

Managerial behaviour is able to affect the practices of the managerial accounting systems, which is mostly visible at the national level. Managerial decisions are able to determine the shaping of the accounting information, according to a specific set of objectives. The managerial strategy which is erroneously focused on the short-term (and the very short-term) leads to mutations in the production of accounting information. The tendency to invent and use creative accounting techniques (on the nefarious side of the phenomenon) becomes a mandatory concern of Romanian managers, raised to the level of common practice. A manager's perception of the accounting system as a whole generally comes down to the idea that anything is possible, and the consequences can be easily minimized. Finally, the cash flow route dictates over the shape of the accounting information and also over the performance level.

Managerial accounting has a rich history, closely related to the changes in organizational strategy. After World War I, the advances in managerial accounting actually happened only in terms of an increase in the external financial reporting. For over 70 years, managerial accounting is subject to the requirements of the financial reporting. The managerial accounting reform should be based on the idea of a development process which is highly independent, but at the same time, closely related to the strategic management of the organization.

Managerial accounting systems must revolve around the principle that a product, by means of all its attributes, rather provides value to the customer, than to its manufacturer. Managerial accounting remained isolated from the other functions of the organization for too long. Classical methods have practically diseased organizations by means of excessive and rigid structures, acting in dynamic economic environments.

Managerial accounting, through its classic methods, leads the organization to the wrong direction, rewards managers for business failure and provides no incentive for the actual performance (Kaplan, 1988). The accounting professional is stuck in the trap of the innovations made in the field of management accounting 60, 80 and even 100 years ago (Kaplan, 1986).

The traditional methods of cost calculation become obsolete. The loss of relevance in the case of traditional cost calculation systems is mainly due to the existence

of a gap between the current model of organizational control and the analysis centres model, as well as the difference between the structure of the actual cost and the image thereof, as provided by the managerial accounting. The perspective over the company that was the foundation of the analysis centres method no longer corresponds to today's reality.

The capital may have alternative uses, so managers should be concerned if the return on capital exceeds the cost of capital, which can be measured by means of the profitability generated by alternative uses. The second reason for measuring the return on capital is the promotion of control and analysis in the organization of capital budgeting. In the absence of some form of effective measurement of the actual return on capital in the process of investments budgeting, there may be a reduced incentive for managers to accurately estimate future cash flows.

The main mission of the managerial accounting was "to track the absolute truth", where "the absolute truth" was defined as achieving the most accurate value of the cost. But managerial accounting began to evolve, which fixed a large number of deficiencies, including the concern for determining a unique cost. The most important contribution was the focus on the potential benefits of making decisions based on accounting information. The idea of different costs for different purposes has spurred concerns to define a conditioned truth, or a decision model. Decision models occur when outsourcing information for various purposes (Horngren, Foster and Datar, 1997).

The approach of our study captures a complex and delicate issue of contemporary management accounting systems, pursuing as objectives the motivational complex for the development of creative accounting techniques, and also the identification of some creative accounting techniques placed at the boundary between legality and fraud, including their impact on the quality of the accounting information.

The study's contributions are highlighted mostly at the applicative level, obviously due to the types of research conducted. One of the fundamental objectives of our study is to spark interest in the practical possibilities of "protection" from the dangers of creativity in a managerial accounting system.

The limitations of the study are generated by the characteristics of field research, recalling in this regard

the possible subjectivity of the researcher in the context of direct access to the research topic, as well as the smaller number of organizations that can be analysed in a certain period of time.

The importance of this study mainly aims at accounting professional and auditors, mostly through the perspective of reliability and reality of the information presented in the financial statements.

From a structural point of view, the next section depicts the state of knowledge in the field of creative accounting techniques specific to managerial accounting. The second section highlights the research methodology used in the study, followed by the presentation of the study results in the third section. The last section captures our findings and conclusions.

1. Literature review in the field of managerial accounting

International literature is replete with descriptions explaining the multitude of approaches and models that can be used in an effective managerial accounting system. Most studies present the idea of experiencing a prolonged crisis of the managerial accounting, exceeded by the transformations in the organization's internal and external environment. They also reveal numerous ways of reforming managerial accounting, by practices and techniques able to support organizational changes.

Empirical studies conducted by specialists, particularly in the UK, USA, Japan and France, discusses transitions in management accounting from many countries. These studies attempt to explain the implications of the recent technological developments, organizational and management procedures on management accounting systems.

The state of knowledge at international level provides a detailed overview of the latest techniques. The studies assess the need to use these techniques, the weaknesses and strengths of each technique in the current organizational and economic context, as well as the ability to face future challenges. In fact, many of these techniques represent a breakthrough in the management of the organization.

Invariably, the most relevant works capture the current challenges of management accounting (Bromwich and Bhimani 1989, 1994; Bhimani and Bromwich, 1996; Armstrong, 1987; Albu and Albu, 2003a, 2003b; Aston,

Hopper and Scapens, 1995; Clemens 1991; Coates and Longden, 1989; Drucker, 1990; Johnson, 1992; Johnson and Kaplan, 1987; Kaplan, 1985, 1994; Scapens and Roberts, 1993; Woods, 1989; Drury, 2000; Horngren, Foster and dated 1997 ; Bromwich and Hopwood, 1986; Vámosi, 2000; Bartolomeo et al., 2000):

- Overtaking of the financial accounting objectives, by using arbitrary allocation methods, which do not reflect the reality of cost drivers inside a modern system of production, and hence the black accounting (or double record) syndrome, aimed to obtain reports that are useful for the adoption of certain decisions;
- Traditional cost assessment methods do not reflect the causal relations of resources consumption inside organizations that use modern production and supply technologies, distorting the value of production costs and profits. Managerial remuneration schemes stimulate wrong decisions as revealed by conventional techniques;
- Excessive focus on the existing cost systems and their inability to generate relevant and useful information in the decision making process;
- Empirical studies on using the ABC method confirm organizations' hesitation regarding the implementation of new managerial accounting systems;
- Maintaining the classic hypotheses on the concept of performance, as well as the excessive and exclusive focus on short-term objectives;
- Positioning managerial accounting in the organizational chain so that it can exercise a more important role;
- Monitoring and planning performance can be improved if non-financial indicators are used alongside financial ones. Some costs are difficult to define and measure, although there is a significant set of non-financial information available. The performance of just-in-time systems is measured, for example, in terms of elapsed time, distance travelled, degree of space occupancy, product complexity. Other examples are the dashboard and the balanced scorecard;
- Introduction of a strategic dimension in managerial accounting. An increasingly stronger need is stated to determine the costs associated with the

organization's strategy and monitoring the cost structure of competitors. Currently, costs of operations that add value in the customer's perspective (production flexibility, quality, delivery times, after-sales service) are invisible, hidden in the mass of overheads, and subsequently incurring arbitrary allocation. Strategic management accounting has the advantage of making those costs perceivable for the management of the organization;

- The adoption of techniques used in the context of other countries is generally problematic. However, some Japanese techniques have been successfully implemented by British companies (cost tables, target cost). Many organizations remain faithful to traditional methods. New techniques do not seem to elicit universal interest, and there are differences between organizations in the same geographical area regarding the risks assumed by the implementation of modern techniques. North American and UK studies reveal there is a pronounced openness towards progress where organization is informal and simple, which gives flexibility and adaptability to a dynamic environment.

National literature can be characterized only in recent years by a production of works that capture some topics of managerial accounting, including those close to our study, concerning the techniques of creative accounting (Malciu, 1999; Feleagă and Malciu, 2002; Ionașcu, 2003).

2. Research methodology

The privileged position in the study is taken by the experiment type research, which involved direct access to research subjects, as well as the case study type research, involving the analysis and interpretation of some existing features. In other words, a clinical or action-type research was employed. These belong to the field research family, their major advantage being the better perception of relationships and processes within an organization. Data collection and analysis were conducted from a total of 20 Romanian companies in the field of construction and civil engineering. The duration of the research and case study type experiment actually covered five financial years in the 2010-2015 timespan, involving the active participation on the part of the subject of the knowledge process. Experiments and case studies were built on real sources of information.

The field research mainly followed:

- Identification and possible solutions for the issues related to the implementation of a management accounting system, or to the change of an existing one (when applicable – if a management accounting system already existed within the company);
- Designing a management accounting system, by involving the entire organization in the process, and choosing an instrument which is suitable with the implementation environment;
- Perception and understanding of the change by the stakeholders;
- Deficiencies and reticence arising from the implementation process;
- Trends in the alteration or biasing of information produced by the implemented system.

Our research hypothesis was the fact that in the current Romanian economic context, a direct link may exist between creative accounting practices, incompetent managers, the decline in activity, periods of general economic difficulty and the urgent needs for fiscal optimization. It is actually what the British researcher Argenti mentioned in 1973. National emphasis is placed on using creative accounting in order to mislead the users of financial statements. Malo and Giot (cited by Malciu, 1999) stated that originally, creative accounting is a virtue, providing the accounting process with means to keep pace with the growing development of the markets and the proliferation of financial products. The major issue is caused by the rapid manifestation of the instinctive perversity of businessmen.

3. Research results

By analysing the creative accounting techniques or pseudo-techniques in the context of the undertaken field research, the following motivators were found:

- Costs arising from the conflict of interests.* Romanian managers are tempted to enforce the use of those techniques that reduce results in order to avoid fiscal pressure on income tax. Zimmerman's hypothesis that large firms bear political costs higher than small firms always checks.
- Managers' incompetence.* When companies do not perform, they use various creative accounting techniques in order to retain customers, trade credit

from suppliers, and to ensure the level of financial indicators requested by investors. In this situation, this type of behaviour suggests psychological implications such as the non-acceptance of failure and the delay of the financial collapse.

- c. *Uncertainty and risk.* Conditions manifested in a weakened economic environment is an undisputable factor of the widespread use of creative accounting policies, even to the level of fraud. Salustro and Lebrun (cited by Feleagă and Malciu, 2002) believe that times of crisis are trial tests for businesses. They impact company treasury and generate risks that accounting only translates in an imperfect manner. Consequently, managers are tempted to use more or less ingenious methods in order to improve the presentation of financial position and performance.
- d. *The variety of economic activities.* The industry in which the analysed set of companies operates is construction – civil and industrial engineering. Construction is a particularly complex and complicated activity, difficult to control, which allows a permanent adjustment of the results. Using creative accounting techniques in this field is sometimes very difficult to detect.
- e. *The weaknesses of the production cost concept.* Using production cost as a basis for measuring inventories and work-in-progress is always suspect. Most costing instruments are open to criticism. There is no accurately calculated production cost, each of its values representing only an opinion (Ionaşcu, 1997).
- f. *Insufficient national accounting rules on accounting and management control.*

Ionaşcu (2003) insists on the distinction between creative accounting and accounting fraud. Adapting accounting policies to the economic developments should not be confused with those techniques that more or less bypass the accounting rules. The border between creativity and illegality is sometimes difficult to establish. The unclear distinction is often maintained by the promoters and users of the negative side of creative accounting.

The identified creative accounting techniques can be considered as more or less sophisticated and questionable, some of the being situated placing it in the obscure area between creativity and illegality. They were found in management accounting systems implemented

in the companies analysed as part of the current research.

I. The technique of altering the costs of the production sold involves distorting the information regarding the value of the removals from stock in order to achieve a certain objective. The objective is achieved by means of certain income fluctuations induced by the amount used to record the removal from stock. This malicious alteration of the real values is very well disguised in the context of large scale projects, with a very complex cost structure and whose removal from stock records are, by default, as complex. The correction will be hidden in the removals from stock of the following periods.

II. The technique of simultaneously misleading the users of accounting information using production costs. The cost manipulation technique is derived from the technique of altering the production costs. The selected objectives depend on what is intended to present to some users of accounting information, and the objectives must be achieved simultaneously. These users require financial information to be delivered by the means of the financial statements and, therefore, there cannot be built a separate image for each user. Technically, manipulating the information on removal from stock of the production invoiced to the beneficiary is preferred, taking advantage of the certain projects' complexity, as well as the lack of intelligibility of technical information and the perpetuated deficiencies in the implemented management accounting system.

III. The syndrome of "gift" production costs. The Romanian economic environment is far from benefiting from the effects of fair competition. Actual production costs of a project do not take into account the costs of obtaining the contract. We are not referring to the visible costs involved by the process of conceiving a price offer and bidding on a project, but to the costs that remunerate the more or less legal efforts of intermediaries. These costs are visible in the accounting records but they are not linked to the income that should be generated normally. The "gift" costs will always be considered non-deductible, thus increasing the company's overall tax cost. Consequently, these costs are hidden and scattered across the projects for the obtaining of which they were incurred, or the projects which offer generous monthly profit margins. The accounting production cost is therefore heavily distorted, hiding the actual company performance.

IV. Transfer pricing manipulation technique. Transfer price is the price paid for a product or service provided by another company belonging to the same group. The analysed companies are generally not linked together by capital participations, with few exceptions. In fact, it can be considered that certain companies are linked by the main shareholder, a natural person. Limiting the transfer price produces effects both at the level of the companies within a group, and the affiliates. This technique is a variant of the “round trip” technique (capacity swaps or capacity purchase agreements), mentioned in literature by Pastré and Vigier (cited by Ionaşcu, 2003). The round trip technique involves the increase of turnover by product transactions between companies in the same field, without effective payments or exchange of products. In the cases studied in the context of the field research, the artificial increase of turnover was also a consequence of the amounts circulating between affiliated companies. Not only turnover becomes fictitious, but also the costs generated artificially in other companies.

V. The technique of manipulating the coefficient used to allocate overheads. In the context of implementing a management accounting system, the management of certain companies did not entirely agree with the determination of production costs based on the direct costing method. These companies have required the identification of overheads and their allocation to cost objects. The associated risks and disadvantages relate to the difficult identification of overheads, the sometimes unclear distinction between overheads and general administrative costs, as well as the conventional nature of allocation coefficients. Determination of the allocation coefficient is affected both by the more or less real value of overheads, and by the selected allocation base - the value of direct production costs. Or maybe it is this vulnerability of the allocation coefficient that led to the adoption and implementation of such a system. The used technique consists in stimulating certain slippages in the space between overheads and administrative expenses. In other words, the essence of this technique is to create the possibility to include or not to include certain expenses in the production cost, depending on certain objectives. Clearly, company performance and tax costs will vary from case to case. For this purpose, various simulations are carried out with different values of the allocation coefficient, which yield different images of the company's production cost and the one that is best suited a given time is chosen.

VI. The technique of intentionally erroneous accrual accounting. The company's performance can be manipulated by the technique known as the “strategic management of operating result” (Ionaşcu, 2003). The levers used are the calculated costs and revenues or those that do not generate cash flows, and the deferred expenses and revenues. Deferred revenues and expenses are recognized initially in the balance sheet, and will be fully transferred to the income statement, at a given time or gradually, over a certain period of time. The deferred revenues and expenses method conceals the actual performance using the fictitious application of the connection of costs to revenues principle. Production costs associated with construction contracts are recorded monthly in the account “332 Services in progress”. Production invoiced to the beneficiary is erroneously recorded in the account “472 Deferred income”, disguised in the form of an advance payment from the beneficiary, or under the pretext of the inability to accurately determine the stage of completion. In fact, experience shows that the stage of completion is still determined from time to time, usually when the income tax needs to be determined (coincidentally or not). The arguments conveyed refer to the fact that the result is difficult to measure on the basis of estimates regarding the stage of completion. In reality, the result is adjusted depending on the image that is intended to be supplied to different users using the removal from stock and the transfer of deferred income from the balance sheet to the income statement techniques.

VII. The technique of double accounting records of production costs. It is a fact that information on production costs does not reveal an actual performance, individually (for each cost object) or globally (for the company/project). Although this reality is accepted and even imposed by managers, they feel the need of an accurate image of projects' profitability. As a result, they will require the construction of a parallel system for determining and presenting costs, pushing the accounting professional into the trap of double accounting records, even if the accounting departments suffer from restrictions regarding the allocated human and time resources. The analyses were carried out outlined some of the grounds of using double accounting records:

- The gap between the moment when the products are obtained and the moment they are invoiced to the beneficiaries;

- Invoicing of expenses that represent production cost in a period other than that in which they were incurred;
- Invoicing of fictitious services, which are included in cost of production of certain projects;
- Including "gift" costs in the production cost of other projects;
- Using different techniques of earnings adjustment, such as altering costs, misleading the users of accounting information, settlement accounts, deferred income and expenses accounts;
- Forced inclusion of certain general administrative expenses in production costs;
- Use of services for which no contracts have been concluded and whose costs are invisible or absent from the income statement.

VIII. The parasite production costs method. The parasitizing method is already a model to make a fortune in Romania, successfully tested after 1990 and based on the principle "parasitize and bankrupt what you manage". The method has enjoyed great success in the context of damaging the state-owned companies, but has extended to the private sector, with all the associated risks. This technique generates the bankruptcy of a company by hijacking contracts, inducing unreal production costs, moving income to other companies, using under or overvalued transfer prices. The most interesting is the way the contracts are carried out by a parasite company that collects revenues, and the costs are transferred to the parasitized company. In fact, projects are carried out using the production means of the parasitized company. This is also possible because of the absence of an effective managerial accounting system that would ensure transparency and the control of dubious transactions. A chaotic organization of accounting records can be added, along with the denial to provide information on production recipes, methods of calculating production costs, contracts with major trading partners, reports on services provided by suppliers or invoiced to beneficiaries.

IX. The paradox of production costs related to clone projects. Ideally, the implementation of identical projects by the same organization should engage about the same production efforts and generate the same revenue. The price offer, the project, budget, execution

schedules are identical. In reality, more or less justifiable differences were found in terms of production costs related to the cost of identical cost objects. Among the explanatory factors of variation in production costs there can be included: different geographic locations in which the projects are implemented; different timeframes and environmental conditions; use of different materials, equipment and services; logistical conditions; fluctuating acquisition costs depending on the supplier; different professional qualification levels of employees involved in the projects; different professional competences of project managers; different conditions of project management; quality of services provided by different subcontractors; different remuneration of direct productive staff; different materials and workmanship consumptions; different project execution timeframes.

X. The method of invisible costs and the need for dual accounting records. We consider this technique to be a questionable one, as it over exceeds the limits of accounting creativity in its positive sense. There are times when a company incurs (operating) expenses that are not certified by support documents. There are obvious fiscal reasons, such as avoiding the tax on non-deductible expenses or the tax on salaries. We identified situations where part of the salary remuneration is not declared, because the tax cost is particularly high (but this is not a justification); situations in which purchases of materials and equipment were made without support documents; situations in which certain services provided by third parties are paid without any contracts or invoices; cases in which the effort of those who facilitate certain transactions must be rewarded. From the manager's point of view, all these expenses represent a production effort, even if this effort is not budgeted, nor invoiced to the beneficiary. They are considered invisible expenses, because they are not included in the income statement, but in the balance sheet. Their existence in the balance sheet is only temporary, because eventually everything will be charged to income statement (by drawing up fictional or real, but overstated acquisition or services contracts) or justified under the guise of dividends payments. From an accounting perspective, these costs usually are hidden using accounts such as "409 Advance payments to suppliers", "461 Sundry debtors", "542 Cash advances". From our point of view, placing amounts in the accounts 461 and 542 is risky, these being two of the most popular accounts in the context of the various external checks and inspections. The accounting records of production costs will not

include these invisible costs, but the company's management believes that the situation is incomplete. Accordingly, the management will require an adjustment of costs in the accounting records and, hence, the double accounting records syndrome.

In order to exemplify the technique of altering the costs of the production sold, we present below the trial

balance of expenses (before calculating the income tax), the income trial balance and the situation of production costs for the month of September in the year N, for the M1 company. The objective is a tax-related one, namely to have a payable income tax of maximum 50,000 lei for the third quarter. All sources of information are real.

Table 1. Trial balance – expenses. September, N. Company M1

Account symbol	Account name	Current amounts		Total amounts	
		Debit	Credit	Debit	Credit
<i>Class 6 Expenses related to</i>					
602	Consumables	1,067,226.23	1,067,226.23	3,147,901.01	3,147,901.01
6021	Auxiliary materials	1,067,226.23	1,067,226.23	3,147,890.81	3,147,890.81
6028	Other consumables	0.00	0.00	10.20	10.20
603	Materials in the form of small inventory	3,202.48	3,202.48	39,902.46	39,902.46
604	Materials not stored	4,294.60	4,294.60	16,571.91	16,571.91
605	Electricity, heating and water	771.92	771.92	1,005.06	1,005.06
607	Goods for resale	118.40	118.40	27,509.83	27,509.83
611	Maintenance and repair expenses	60.00	60.00	11,988.12	11,988.12
612	Royalties and rental expenses	58,209.60	58,209.60	111,390.21	111,390.21
613	Insurance premiums	10,157.56	10,157.56	22,786.22	22,786.22
622	Commissions and fees	3,347.70	3,347.70	12,391.70	12,391.70
623	Entertaining, promotion and advertising	485.36	485.36	3,797.27	3,797.27
623.01	Entertaining. Invoice	218.81	218.81	1,864.81	1,864.81
623.02	Entertaining. Fiscal receipt	266.55	266.55	1,401.21	1,401.21
623.03	Promotion and advertising	0.00	0.00	531.25	531.25
624	Transport of goods and personnel	4,178.08	4,178.08	40,041.14	40,041.14
625	Travel	482.10	482.10	1,482.51	1,482.51
626	Postage and telecommunication	68.32	68.32	397.26	397.26
626.1	Postage	68.32	68.32	392.16	392.16
626.2	Telecommunication	0.00	0.00	5.10	5.10
627	Bank commissions and similar charges	2,025.68	2,025.68	56,354.74	56,354.74
628	Other third party services	2,233,186.94	2,233,186.94	5,410,754.29	5,410,754.29
635	Other taxes, duties and similar expenses	2,045.00	2,045.00	34,160.07	34,160.07
641	Salaries	14,702.00	14,702.00	133,349.00	133,349.00
615	Personnel training	0.00	0.00	400.00	400.00
645	Social security contributions	4,124.00	4,124.00	37,121.00	37,121.00
645.01	Company's contribution to social security	3,006.00	3,006.00	26,983.00	26,983.00
645.02	Company's contribution to unemployment fund	147.00	147.00	1,332.00	1,332.00
645.03	Company's contribution to health insurance	809.00	809.00	7,337.00	7,337.00
645.04	Company's contribution to medical leave of absence	125.00	125.00	1,134.00	1,134.00
645.09	Company's contribution to salaries guarantee fund	37.00	37.00	335.00	335.00
658	Other operating expenses	22,528.17	22,528.17	79,767.82	79,767.82
6581	Compensations, fines and penalties	817.13	817.13	24,845.60	24,845.60
6583	Net value of assets disposed of and other capital transactions	-83.06	-83.06	-83.06	-83.06

Account symbol	Account name	Current amounts		Total amounts	
		Debit	Credit	Debit	Credit
6588.01	Other operating expenses	872.80	872.80	7,664.66	7,664.66
6588.02	Other non-deductible operating expenses	20,921.30	20,921.30	47,340.62	47,340.62
6651	Foreign exchange losses	25.89	25.89	555.33	555.33
666	Interest expense	11,953.74	11,953.74	42,866.86	42,866.86
668	Other financial expenses	-129.00	-129.00	578.20	578.20
681	Depreciation and provisions; adjustments for impairment losses - operating expenses	20,598.95	20,598.95	80,575.62	80,575.62
6811	Depreciation of non-current assets	20,598.95	20,598.95	80,575.62	80,575.62
691	Income tax	0.00	0.00	31,845.00	31,845.00
	Total class 6	3.463.663,72	3.463.663,72	9.345.492,63	9.345.492,63

Source: Author's processing.

Account symbol	Account name	Current amounts		Total amounts	
		Debit	Credit	Debit	Credit
<i>Class 7- Revenue accounts</i>					
704	Services rendered	3,085,846.28	3,085,846.28	8,348,931.45	8,348,931.45
706	Rental and royalty income	9,000.00	9,000.00	9,000.00	9,000.00
707	Sale of goods purchased for resale	123.00	123.00	28,392.43	28,392.43
708	Revenues from sundry activities	22,083.32	22,083.32	32,707.96	32,707.96
712	Revenues associated with the cost of services in progress	3,376,244.13	3,376,244.13	9,009,925.21	9,009,925.21
722	Capitalised costs of tangible non-current assets	2,248.50	2,248.50	77,768.93	77,768.93
758	Other operating revenues	0.00	0.00	751.74	751.74
7588	Other operating revenues	0.00	0.00	751.74	751.74
7651	Foreign exchange gains	0.00	0.00	173.31	173.31
766	Interest income	208.64	208.64	256.99	256.99
	Total class 7	6.495.753,87	6,495,753.87	17,507,908.02	17,507,908.02

Source: Author's processing.

The initial situation and actual situation of determining the income tax for the third quarter of the year N is as follows:

Total revenues from the trial balance (class 7)	17,507,908.02
- Revenues associated with the cost of services in progress (total amounts)	- 9,009,925.21
- Debit Revenues associated with the cost of services in progress (D712)	- 6,825,347.56
+ Revenues associated with the cost of services in progress (C712)	+ 8,640,871.36
= Total revenues	= 10,313,506.61
- Total expenses (class 6)	- 9,345,492.63
= Result (121)	= 968,013.98
Non-deductible expenses:	
+ Income tax expenses (691)	+ 31,845.00
+ Other taxes, duties and similar expenses (635)	+ 295.87
+ Compensations, fines and penalties expenses (6581)	+ 458.00
+ Other operating expenses (6588.01)	+ 1.93
+ Other non-deductible operating expenses (6588.02)	+ 47,340.62
= Total non-deductible expenses	= 79,941.42
Taxable income	1,047,955.40
Income tax owed	167,673.00
Income tax recorded	31,845.00
Income tax to be recorded	135,828.00

In order to achieve the objective of maximum 50,000 lei tax profit for the third quarter, the reverse reasoning is performed:

Target income tax	maximum 50,000.00
Income tax owed	50,000 + 31,845 = 81,845.00
Taxable income	81,845 / 0.16 = 511,531.25
Income (121)	511,531.25 – 79,941.42 = 431,589.83
Total revenues	431,589.83 + 9,345,492.63 = 9,777,082.46
Revenues to be discarded	9,777,082.46 – 10,313,506.61 = 536,424.15

Table 3. Situation of production cost. September, N. Company M1

Account	Project										Location	Total account
	X2	X3	X5	X6	X7	X8	X9	X10	X11	X12		
602	533,082.36		6,810.69	204,612.31	48,139.59		123,965.48	107,601.81	1,528.50	27,536.39	13,949.10	1,067,226.23
603	363.90							640.38			2,198.20	3,202.48
604					337.08	92.41		1,157.30			2,707.81	4,294.60
605	771.92											771.92
607											118.40	118.40
611											60.00	60.00
612	16,896.70			37,364.78	1,200.00			2,445.12			303.00	58,209.60
613				8,383.32				611.28			1,162.96	10,157.56
622											3,347.70	3,347.70
623				50.21							435.15	485.36
624	1,178.08			2,000.00				1,000.00				4,178.08
627											2,025.68	2,025.68
628	184,878.42			1,974,672.94	23,704.60			49,516.98			414.00	2,233,186.94
635											2,045.00	2,045.00
625											482.10	482.10
626											68.32	68.32
641											14,702.00	14,702.00
645											4,124.00	4,124.00
6581	56.63										760.50	817.13
6588				872.80								872.80
6589											20,921.30	20,921.30
6583				(83.06)								(83.06)
665											25.89	25.89
666											11,953.74	11,953.74
668											(129.00)	(129.00)
681	754.04	2,248.50		244.48							17,351.93	20,598.95
TOTAL	737,982.05	2,248.50	6,810.69	2,228,117.78	73,381.27	92.41	123,965.48	162,972.87	1,528.50	27,536.39	99,027.78	3,463,663.72

Source: Author's processing.

Revenues in September can only be adjusting using the "712 Revenues associated with the cost of services in progress" account, either by increasing the amount of removals from stock, or increasing the production costs. A possibility to increase costs is the inclusion of some

general administrative expenses into the category of expenses directly related to productive activities. As it is highlighted in the situation of production cost (Table 3), the amount of general administration expenses is insufficient (99,027.78 lei).

The only remaining available option is altering the value of removals from stock. The project chosen for this operation is the most complex and highest in value, namely the X6 project. Also, from the production cost situation for the month of September it can be noted the significant value of services provided by third parties: 1,974,672.94 lei, of which 1,344,537.81 lei represents services rendered in July, but invoiced in September. The production for the project X6 in July was invoiced for the project in September. Consequently, the removal from stock of the production from July which was invoiced to the beneficiary in September is already more nuanced and includes:

- The amount of 402,077.95 lei, representing the actual production cost for the month of July (excluding services provided by third parties in July, but invoiced in September, amounting to 1,344,537.81 lei);
- The value of 1,344,537.81 lei, representing accounting services performed by a supplier in July, which were invoiced in September.

This structure of the amount removed from stock encourages its artificial increase, in order to achieve the objective, on the basis of the difference in the amount of

services provided by third parties: 1,974,672.94 – 1,344,537.81 = 630,135.13 lei (in fact, services received from and invoiced by suppliers related strictly to the month of September). The increase is performed with the amount of 560,413.89 lei (a random value slightly higher than the one resulting from the calculations, of 536,424.15 lei, because a round amount of income tax may be considered suspicious anytime). The technique relies heavily on the shortcomings arising from the mismatch of classifications and units of measurement used in the preparation of standard consumption sheets, statements from suppliers regarding the completion of a proportion of the contract work, surveys of work performed for the beneficiaries.

The erroneous amount removed from stock is corrected in October, by reversing the increased amounts from September. Performing those operations (increase or correction) is avoided at the beginning or end of the period. The effect of the technique is valid for a very short period of time, being obvious that, ultimately, the amount of income tax will increase significantly.

The final version of the determination of the income tax for the third quarter is as follows:

Total revenues (10.313.506,61-560.413,89)	9.753.092,72
– Total expenses (class 6)	– 9.345.492,63
= Income (121)	= 407.600,09
+ Total non-deductible expenses	+ 79.941,42
Taxable income	487.541,51
Income tax owed	78.007,00
Income tax recorded	31.845,00
Income tax to be recorded	46.162,00

Conclusions

Accounting information required for decision-making is not always found in the adopted decision. There are situations when, after it is made, management accounting is requested to support the already taken decision. Under these conditions, managerial accounting is given an unwanted role, that of “numerical burial” of the decision process. The reasoning is “upside down” and sometimes arises even in modern management accounting systems, either because of the need to achieve goals that need to bypass reality, or because of a rejection reaction of the new system.

Some of the most important issues of management accounting tools are the processes of traceability and rational allocation of costs. Obtaining accuracy is permanently limited by the cost of obtaining information. This issue is increasingly counterweighted by computer technology, which eliminates barriers in achieving accuracy. The cost of designing information systems that are suitable and adapted to the organizational needs is placed far below the advantages that such systems are able to generate. Limits show up in terms of cost accuracy, especially in the minds of those whose motto is “different costs for different goals”. Costs considered to be useful in particular situations do not

represent actual costs. Cost accuracy is regarded more from a decisional perspective than from an objective perspective. Subjectivity of the criteria for overheads allocation remains in force even if the transition to advanced manufacturing systems is performed. The effect is a decrease in direct labour and an increase in overheads. Replacing traditional allocation base (direct labour) with measures specific to new technologies (machine hours, occupied space, installed capacity etc.) does not solve the problem. There still is no causal link between the amount of resources consumed and the generating elements of these consumptions. The ABC method is not always a solution, either due to difficulties in its implementation, or because of its inadaptability to certain organizational environments. Moreover, this method also keeps alive a certain conventionality in allocating overheads.

Managerial accounting systems implementations in a national context primarily suffer due to the acute lack of professionals in the field and the lack of appropriate managerial vision. The assimilation of innovative ideas of managerial accounting into the Romanian business environment is extremely difficult, and these ideas are regarded with wariness. The academic environment still lacks enough force to facilitate the process of knowledge. The economic, political, legal and fiscal contexts represent genuine incentives to adopt practices contrary to the concept of real performance. Our opinion is that the implementation can only succeed amid the authority of multinational companies with tradition in the organization of managerial accounting systems. Only the knowledge and skills of the multinationals can “force” the Romanian practice to act within the limits of what should actually be an effective managerial accounting system. Legislative authority is rudimentary and easily defeated.

National mentality created and maintained by the environment in which it manifests itself is oriented towards extremely short-term gains. The mirage of immediate liquidity obtained by any means destroys any intention of efficient functioning for a system of management accounting. Survival strategies in the current conditions completely misrepresents the quality and relevance of accounting information. Stiffness, reluctance, hostility, inertia, ignorance are the viruses that the managerial accounting body is struggling with. Forced implementation leads to the exploitation of vulnerabilities in the implemented systems and the creation of a spotless functionality image. All these factors working together successfully places us in a stone age in terms of managerial accounting. On the opposite side, a few lights are perceivable, successfully lit by multinational companies.

There is a need to stimulate organizations to be more responsive to the innovations in managerial accounting. Professional accountants and the academic environment must act forcefully on this line, requiring additional empirical studies and field research. Research should aim at identifying and evaluating new managerial accounting systems, and also the analysis of motivational factors regarding the inertia manifested in the process of change. Aspects regarding the implication of the human factor in the implementation processes should not be ignored, requiring an intense demarche to increase familiarity with behavioural manifestations. A major goal should be represented by the “production” of an overview of the issues in managerial accounting, even if some of them are not yet clarified or will be never clarified. Thus, by means of these “warnings”, we will be ready to combat behavioural issues and avoid them before choosing a certain accounting system.

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