

Accounting and Management Controlling System of Indian Companies

YOGESH.K.J. Asst Professor of Commerce, Janatha Govt First College, Basavapatna.

Abstract

The management accounting control system play a vital role in the organizational performance. The performance of organization improves in different way that is when management accountant provide the effective information it ultimately affect the decision process.so it is clear that if there is need to understand the decision making process than first to understand the management accounting. In order to compete in the competitive environment companies becomes customer oriented. The customer always demands the high quality of service, reliability, delivery and innovation in new products. Management accounting control system highly influences the business environment. The role of management accounting control system providing the information to accountant and control managers for planning, controlling and measuring the performance in the organizations. The important changes in the environment are highly influences by management accounting control system. Without effective management accounting control system no organization can be flourishing. Now there is a need of every organization in Pakistan to adopt new techniques in management accounting control system to compete in competitive environment. The traditional techniques are not enough to competing the environment because there is need to change the organizational environment and it is ultimately enhance the organizational performance. So it is clear that there is a positive relationship between management accounting control system with organizational performance.

Management accounting control system is basically conditional base studies. Researchers tried to explore the nature of management accounting control system. The conditional studies basically give view about the management accounting control system and the impact of effective management accounting control on organizational environment. This paper explores the objective and important factors of management accounting control system and their impact on meaning of relating variables. The management accounting control system play very important role in development of organizational performance

Keywords: *management accounting control system, organizational performance, control system, MCS.*

Introduction

The key word for successful business is efficient management. Professional management plays an important role in proper functioning of any organization. One of the main functions of management is to control the activities of the enterprise. Management control is a must in all organizations practicing decentralization. Management control system measures what is actually happening, detennines significance of what has actually happened and alters behavior if needed. Management control involves planning, co-coordinating, communicating, evaluating, deciding and influencing the activities of the organization. Management control systems are tools to implement strategies.

Management control in service organization is different from that in other organizations. Service organizations are labour intensive and output is the effectiveness of the services. It may be difficult to control quality in any service organization. Personal motivation gives very good results in such type of organizations. Service organizations must have perfect systems established for most of the activities and procedures to ensure best quality of work by the execution team. Management system is a way of carrying out an activity.

A system should be framed in such a way that it will definitely lead to proper attainment of the goals of the organization. It is the primary responsibility of every management to establish and maintain an adequate system of internal control considering the size and nature of the business of the entity. Internal control is a necessary prerequisite for efficient and effective management of any organization. "The system of internal control means all the policies and procedures (internal controls) adopted by the management of the entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information." The system of internal control extends to all such matters, including those which relate directly to the accounting system. Thus, internal control means a plan of organization which lays down appropriate division of functional responsibilities, and a proper authorization and record of business transactions by persons discharging the assigned duties. The scope of internal control is wider.

It covers the control of the whole management system. The control may be financial or non - financial. But its main objectives are to safeguard all the assets of the company, to run the business smoothly and to have accuracy and reliability of all the records. For this, the control may be in respect of production or quality of work or books of accounts. Internal controls are integrated in the system to keep the company on track toward profitability goals, achievement of its mission and to minimize losses. Internal controls help to adjust with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, ensure reliable financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there is increasing demand for better internal control systems and internal control is looked upon more and more as a solution to a variety of organisations' problems.

Objective:

This paper seeks

- To know Management accounting control system;
- To discuss the management accounting control system that provides relevant information for decision making, planning, control and performance measurement;

NATURE OF ACCOUNTING

The various definitions and explanations of accounting has been propounded by different accounting experts from time to time and the following aspects comprise the nature of accounting :

i) Accounting as a service activity Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions, in making reasoned choices among alternative courses of action. It means that accounting collects financial information for the various users for taking decisions and tackling business issues. Accounting in itself cannot create wealth though, if it produces information which is useful to others, it may assist in wealth creation and maintenance.

ii) Accounting as a profession Accounting is very much a profession. A profession is a career that involve the acquiring of a specialised formal education before rendering any service. Accounting is a systematized body of knowledge developed with the development of trade and business over the past century. The accounting education is being imparted to the examinees by national and international recognised the bodies like The Institute of Chartered Accountants of India (ICAI), New Delhi in India and American Institute of Certified Public Accountants (

(AICPA) in USA etc. The candidate must pass a vigorous examination in Accounting Theory, Accounting Practice, Auditing and Business Law. The members of the professional bodies usually have their own associations or organisations, where in they are required to be enrolled compulsorily as Associate member of the Institute of Chartered Accountants (A.C.A.) and fellow of the Institute of Chartered Accountants (F.C.A.). In a way, accountancy as a profession has attained the stature comparable with that of lawyer, medicine or architecture.

iii) Accounting as a social force In early days, accounting was only to serve the interest of the owners. Under the changing business environment the discipline of accounting and the accountant both have to watch and protect the interests of other people who are directly or indirectly linked with the operation of modern business. The society is composed of people as customer, shareholders, creditors and investors. The accounting information/data is to be used to solve the problems of the public at large such as determination and controlling of prices. Therefore, safeguarding of public interest can better be facilitated with the help of proper, adequate and reliable accounting information and as a result of it the society at large is benefited.

iv) Accounting as a language Accounting is rightly referred the "language of business". It is one means of reporting and communicating information about a business. As one has to learn a new language to converse and communicate, so also accounting is to be learned and practised to communicate business events. A language and accounting have common features as regards rules and symbols. Both are based and propounded on fundamental rules and symbols. In language these are known as grammatical rules and in accounting, these are termed as

accounting rules. The expression, exhibition and presentation of accounting data such as a numerals and words and debits and credit are accepted as symbols which are unique to the discipline of accounting.

v) Accounting as science or art Science is a systematised body of knowledge. It establishes a relationship of cause and effect in the various related phenomenon. It is also based on some fundamental principles. Accounting has its own principles e.g. the double entry system, which explains that every transaction has two fold aspect i.e. debit and credit. It also lays down rules of journalising. So we can say that accounting is a science. Art requires a perfect knowledge, interest and experience to do a work efficiently. Art also teaches us how to do a work in the best possible way by making the best use of the available resources. Accounting is an art as it also requires knowledge, interest and experience to maintain the books of accounts in a systematic manner. Everybody cannot become a good accountant. It can be concluded from the above discussion that accounting is an art as well as a science. (

vi) Accounting as an information system Accounting discipline will be the most useful one in the acquisition of all the business knowledge in the near future. You will realise that people will be constantly exposed to accounting information in their everyday life. Accounting information serves both profit-seeking business and non-profit organisations. The accounting system of a profit-seeking organisation is an information system designed to provide relevant financial information on the resources of a business and the effect of their use. Information is relevant and valuable if the decision makers can use it to evaluate the financial consequences of various alternatives. 9 Accounting generally does not generate the basic information

raw financial data), rather the raw financial data result from the day to day transactions of the business. As an information system, accounting links an information source or transmitter (generally the accountant), a channel of communication (generally the financial statements) and a set of receivers (external users).



Theoretical framework

Accounting Control

Internal controls include accounting controls, administrative controls or operational controls such as quality control, work standards, budgetary control, periodic reporting, policy appraisals, quantitative controls etc. They are all parts of overall internal control system. "Accounting controls comprise primarily the plan of organization and the methods and procedures that are concerned with the safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of accounting records, and timely preparation of reliable financial information. The accounting controls have a direct and significant bearing on the reliability of financial information." Accounting controls are designed, implemented and maintained to deal with identified business risks that threaten the achievement of the entity's objectives of reliable financial reporting; effectiveness and efficiency of operations; compliance of the applicable laws and regulations; and safeguarding of assets.

Administrative control includes all other managerial controls concerned with the decision making process. For example : The maintenance of records giving details of suppliers contacted by the purchase department for getting best quotations. Administrative controls have an indirect relationship with financial records. Organization should have appropriate division of functional responsibilities and a system of authorization and record procedures to monitor reasonably the assets, liabilities, revenues and expenses. Accounting controls should be incorporated in the accounting system itself so that the work performed by the staff members will be automatically counter checked in the procedure itself An accounting system is the series of tasks by which transactions are processed to maintain financial records. Such a system should recognize, calculate, classify, analyze, summarize and report transactions.

Internal Audit

Internal auditing is "an independent appraisal function established within an organization to examine and evaluate its activities, as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed." Internal auditing aims at discovering errors and frauds. Internal Auditing is the independent activity within an organization for the review of the accounting, financial and other operations. It is a basis for protective and constructive service to the management. It functions by measuring and evaluating the effectiveness of other types of control. Internal auditing is not a function of authorization and recording.

Instead, the function of internal auditing starts after those two functions are complete. It is concerned with procedures and transactions, when they are completed and recorded. In other words, internal auditing is appraisal and verification of the procedures and transactions. Internal audit team must know clearly and explicitly the objectives on each assignment given to it from time to time. Internal auditors can investigate any phase of activities of the organization at any time and under any circumstances. Internal audit reviews various operations and records

of the company. This review may be periodical or continuous. Many large organizations conduct internal audit. They have a separate internal audit department. Internal audit formerly used to audit financial transactions and financial records only. However modern internal audit covers such matters also which are not directly of a financial or accounting nature. It has become a major control function.

Features of data		Provided by Financial Accounting	Provided by Management accounting
1.	Period	After a stated period	At frequent intervals
2.	Time	Historical data	Current and future data
3.	Unit of expression	Money only	Any statistical unit
4.	Nature	Actual data	Projected data
5.	Specificity	Aggregates	Detailed analysis
6.	Description	Money consequences	Events
7.	Reality	Objective	Subjective
8.	Precision	Pie to Pie accuracy	May be guess-work
9.	Principles	Double entry system	Cost benefit analysis
10.	Legality	Obligatory	Optional
11.	Purpose	Overview of entire Business activity	Analytical details of such activities as call for decisions

Limitations of Accounting Control.

Thus internal audit and internal checks are important components of the overall accounting control system. If they are implemented professionally they will definitely avoid losses to the organization. However, there are inherent limitations of accounting Control.

Controls have to be cost effective. Some controls may not be installed merely because they are not cost effective. Transactions of an unusual nature might escape being subjected to routine controls only. The possibility of human error remains in any system of control. Any system of control can not prevent frauds through collusion between two or more persons. A member of management can himself override the controls. Management itself can manipulate transactions or estimates.

§ Transactions are executed in accordance with management's general or specific authorisation;

§ All transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which they are executed. This permits preparation of financial reports according to recognized accounting policies, practices and relevant statutory requirements and to maintain accountability for assets;

§ Assets are safeguarded from unauthorized access, use or disposal and § The existing assets are compared with the records at reasonable intervals and appropriate action is taken with regard to any differences.

Internal Users of Accounting Information.

Internal users of accounting information are those persons or groups which are within the organisation. Following are such internal users :

1. Owners. The owners provide funds for the operations of a business and they want to know whether their funds are being properly used or not. They need accounting information to know the profitability and the financial position of the concern in which they have invested their funds. The financial statements prepared from time to time from accounting records depicts them the profitability and the financial position.

2. Management. Management is the art of getting work done through others, the management should ensure that the subordinates are doing work properly. Accounting information is an aid in this respect because it helps a manager in appraising the performance of the subordinates. Actual performance of the employees can be compared with the budgeted performance they were expected to achieve and remedial action can be taken if the actual performance is not upto the mark. Thus, accounting information provides "the eyes and ears to management". The most important functions of management are planning and controlling. Preparation of various budgets, such as sales budget, production budget, cash budget, capital expenditure budget etc., is an important part of planning function and the starting point for the preparation of the budgets is the accounting information for the previous year. Controlling is the function of seeing that programmes laid down in various budgets are being actually achieved i.e. actual performance ascertained from accounting is compared with the budgeted performance, enabling the manager to exercise controlling case of weak performance. Accounting information is also helpful to the management in fixing reasonable selling prices. In a competitive economy, a price should be based on cost plus a reasonable rate of return. If a firm quotes a price which exceeds cost plus a reasonable rate of return, it probably will not get the order. On the other hand, if the firm quotes a price which is less than its cost, it will be given the order but will incur a loss on account of price being lower than the cost. So, selling prices should always be fixed on the basis of accounting data to get the reasonable margin of profit on sales.

3. Employees. Employees are interested in the financial position of a concern they serve particularly when payment of bonus depends upon the size of the profits earned. They seek accounting information to know that the bonus being paid to them is correct.

Evaluation of the Accounting Controls

The preliminary evaluation of the accounting controls should be made on the assumption that the controls operate generally and that they function effectively throughout the period. The purpose of the preliminary evaluation is to identify the particular controls on which the management can rely. To have effective and efficient accounting controls, the existing procedures of accounting should be examined for their merits and demerits.

The evaluation of accounting control system helps in modification of the procedures. If it is found that accounting controls in certain areas are inadequate, management may decide to apply more effective procedures. Deviations from prescribed controls may be caused due to changes in key personnel, significant sizeable fluctuations in volume of transactions, and human error. The management should make specific enquiries for these matters, particularly as to the change over of staff in key control functions.

Conclusion

Accounting can be understood as the language of financial decisions. It is an ongoing process of performance measurement and reporting the results to decision makers. The discipline of accounting can be traced back to very early times of human civilization. With the advancement of industry, modern day accounting has become formalized and structured. A person who maintains accounts is known as the accountant. Even though the development of the framework is its early stages, however, it incorporates the emerging control components with the previous conventional control factors. It is hoped that the incorporation of different control elements, both conventional and contemporary control factors will enable us to understand the role of social, political and economic factors on MCS design and use in the different environments. In this framework, control components are categorized into: cultural, administrative and process controls. The main purpose of the framework is to capture the major MCS areas with the consideration of internal and external, social, economic and cultural aspects of an organization's activities.

Similarly, the framework was intended to cope with socio-political, economic and cultural circumstances of the developing countries. Finally, it is perceived that this theoretical framework would be beneficial for the future researchers to broaden the focus of MCS functions to include both conventional and contemporary control elements as well as other emerging MCS themes that have explored by the recent MCS literature. The information generated by accounting is used by various interested groups like, individuals, managers, investors, creditors, government, regulatory agencies, taxation authorities, employee, trade unions, consumers and general public. Depending upon purpose and method, accounting can be broadly three types; financial accounting, cost accounting and management accounting. Financial accounting is primarily concerned with the preparation of financial statements. It is used on certain well-defined concepts and conventions and helps in framing broad financial policies. However, it suffers from certain limitations

Accounting controls are very important for efficient management and optimum utilization of the resources of the organisation. Due consideration is required to be given in understanding as well as installation of effective accounting system and the inbuilt accounting controls. The systems must be periodically evaluated to understand their existence and effectiveness.

References

1. Anthony, R. and Govindarajan, V., 2007. Management Control Systems, Chicago, Mc-Graw-Hill IRWIN.
2. Simons, 1995, Levers of Control, Boston: Harvard Business School Press, p. 5
3. Lowe, Ernest A. "On the idea of a management control system: integrating accounting and management control." Journal of management Studies 8.1 (1971): 1-12.
4. Otley, D., 1994. Management control in contemporary organizations: towards a wider framework, Management Accounting Research, 5, 289-299.

5. Maciariello, J. and Kirby, C., 1994. Management Control Systems - Using Adaptive Systems to Attain Control, New Jersey, Prentice Hall.
6. Anthony, R. and Young, D., 1999. Management control in nonprofit organizations, Boston, Irwin McGraw-Hill.
7. A., Merchant, Kenneth. Management control systems : performance measurement, evaluation and incentives. Van der Stede, Wim A., (Fourth ed.). Harlow, England. ISBN 9781292110554. OCLC 965154191.
8. Chenhall, R., 2003. Management control system design within its organizational context: Findings from contingency-based research and directions for the future, Accounting, Organizations and Society, 28(2-3), 127-168.
9. Vera, A. and Kuntz, L. 2014. <http://www.sciedu.ca/journal/index.php/jha/article/view/5427> "Finance-oriented vs. operations-oriented management control in public hospitals" Journal of Hospital Administration, 3(6), 190-204 (DOI: 10.5430/jha.v3n6p190)
10. Horngren, C., Sundem, G. and Stratton, W., 2005. Introduction to Management Accounting, New Jersey, Pearson.
11. Henri Fayol (1949). General and Industrial Management. New York: Pitman Publishing. pp. 107–109. OCLC 825227.
12. Robert J. Mockler (1970). Readings in Management Control. New York: Appleton-Century-Crofts. pp. 14–17. ISBN 978-0-390-64439-8. OCLC 115076.
13. Richard Arvid Johnson (1976). Management, systems, and society : an introduction. Pacific Palisades, Calif.: Goodyear Pub. Co. pp. 148–142. ISBN 978-0-87620-540-2. OCLC 2299496.
14. Samuel Eilon (1979). Management control. Boston, Mass.: Harvard Business School Press. ISBN 978-0-08-022482-4. OCLC 4193519.
15. James G March; Herbert A Simon (1958). Organizations. New York: Wiley. pp. 9–11. ISBN 978-0-471-56793-6. OCLC 1329335.
16. Robert N Anthony (1970). The management control function. Boston, Mass.: Harvard Business School Press. pp. 14–17. ISBN 978-0-87584-184-7. OCLC 18052725.
17. Richard Arvid Johnson (1976). Management, systems, and society : an introduction. Pacific Palisades, Calif.: Goodyear Pub. Co. pp. 241–244. ISBN 978-0-87620-540-2.