

MANAGEMENT ACCOUNTING FROM THEORY TO PRACTICE

Mohsen Nodast¹, Fatemeh Saraf², Abbas Alimardany Karafsi¹
and Zhaleh Nodast³

Abstract: *Despite the emergence of accounting management in academia as a social science in recent decades, in practice its application in solving problems and issues related to decision-making has not been considered in Iran and researchers and experts have not been able to use and execute it properly. One of the most important reasons for the inefficiency of accounting management in practice is that systems and methods have been adopted from systems of the developed countries and the dominant conditions of the target society have not been taken into consideration. This study examines the stages of development and evolution of accounting management practices as well as its restrictions and weaknesses and then challenges of converting theory to practice in Iran. Furthermore, evidence indicates that there is little use of accounting as a tool for management in Iran. Therefore, researchers should make an attempt to create necessary conditions for the implementation of the accounting techniques.*

Key Word: *management accounting, theory, practice*

INTRODUCTION

Globalization and development of information technologies in manufacturing caused significant changes in business environment and also in managing and organizing companies. These changes had an indirect and substantial impact on management accounting, particularly on its informational tasks within the organization (Nikbakht & Bahromi, 2014). Among them we can mention Japan, i.e. a country equipped with a proper understanding of the role of cost and its philosophy and finding the solutions of managing and reducing costs, which have been derived from the management accounting technology, acted miraculous. This success has been undoubtedly a result of the proper interaction of theory and practice (Nonahal & Rahmati, 2011).

¹. Master student of Accounting in kar Higher Education Institute, Qazvin, Iran
Email: Mohsen.Nodast@yahoo.com

². Faculty Member (Assistant professor in Accounting of kar Higher Education Institute, Qazvin, Iran)

³. Master of Accounting

Some accountants consider management accounting as a totally practical branch and don't consider any relationship between its theory and practice. While no Practical branch cannot be affected without the backing of a strong theoretical and no theory without practical, in recent years Accounting scholars to make effort to compile a theoretical basis for management accounting. They mainly use theoretical studies of psychology, economics, probability and appropriate, history and sociology in their researches (Nonahal and Rahmati, 2011).

LITERATURE

Competition, globalization, technological change, customer satisfaction and the change in their needs are obvious phenomena in business that have been globalized as they entered the third millennium. Survival in such a situation is considered as an important issue. Proper decision-making and managing affairs in a constantly changing environment requires increasing Knowledge-based capabilities. Through providing information, management accounting as a new business knowledge can help managers in successful interaction with a changing environment (Rahnama, 2009)

The current field of management accounting was developed after World War II and became popular so quickly that emerged as a standard area of study in all the business schools. After a while, however, many accounting thinkers and scholars began to express dissatisfaction with this new field and criticized its inability to do what was promised (Nikbakhat & Jahraomi, 2014).

Training courses in advanced societies are a result of interaction between experimental fields and educational environments. This interaction is to the point that the latest scientific and research achievements have roots in the operational needs of sciences, and on the other hand, those who use science and expertise, in an intertwined connection with educational environment, are responsible for retraining of Science and knowledge.

This interaction both causes the quality of technology and operation to be improved in a continuous process and the educational environment to be conceived as the scientific models of operations, and students in such environments be prepared to provide connection between theoretical concepts and practical aspects in the shortest time.

In developing countries such as Iran, this situation is different since it is felt that as far as academic degrees and the images of alumni cannot be easily accepted by experimental activists, there is a potential gap between such environments.

In fact, the students, especially students of accounting should be trained in such a way that make them prepared for the present and future status of the

organizations, and the primary goal of this study is in the same direction. This means that, whether or not is there a distance in practice between the education and application of management accounting techniques.

This issue will be catered for through determining the importance of the subjects that are included in the curriculum of management accounting from the viewpoints of university professors and practitioners (Nonahal & Rahmati, 2011)

A Review of Research on Management Accounting

In the recent decades, the substantial changes have occurred in the performance of management accounting and the role of management accountants' in business firms that shows that this field may lose its suitability for management and the other users of information derived from it. For this reason, a lot of research has been carried out with respect to the systems, techniques and methods of management accounting.

Scapens (1983), in addition to focusing on the gap between theory and practice in management accounting, criticized the sophisticated tools and methods of management accounting, which are mostly introduced in a mathematical form, and he also referred to their limited application. He believed that the practitioners in this profession should understand the relevance and appropriateness of these methods and tools. He also believed that the tools of the management accounting should be designed in a way that is effective and significant for the profession as well.

Edwards & Emmanuel (1990) studied academic publications in two Journals of Accounting and surveyed the concerned practitioners to prioritize the topics of management accounting. The results showed that there is a gap between theory and practice, and the reason behind such a gap is the academics' emphasis on theoretical framework rather than organizational and social aspects.

Dyer (2000) believed that technology has increasingly impacted the management accounting so that its role has changed from data gathering to data analysis. He believed that management accounting training will move from a technical manner to a non-traditional one, such as creative thinking skills and the aural-oral communicative skills. This shift from data collection to data analysis has caused management accounting practice in organizations to be referred to as business partners. The prerequisite to achieve this purpose is a shift of emphasis in management accounting education from a computational approach to an interpretive one.

In his research, Lytynn (2002), studied the future of management accounting. In this study, the trend of changes in the environment and the characteristics of

the business have been predicted from a management accounting dimension. He has also predicted the changes in the operational environment, objectives of organization, effective and strategic decision-making, the processes of decision-making, management accountants' tasks, change management, research and development activities, and value chain and network for the future, and thus has provided an overview of the future of management accounting.

Another study was conducted by Chan (2002) in Singapore and aimed to assess the extent of implementation of management accounting practices at companies in the country after 1997. The results showed that from 1997 onwards little development has been achieved in the implementation of management accounting. Moreover, it was found that Singapore companies could neither use costing tools effectively nor implement the methods of advanced management accounting. This is because of the fact that the advanced methods are very complicated and resource-intensive.

Coble et al. (2009) in their study, "Training Future Management Accountants", and in the section titled "gap between theory (education) and practice still exists", explained the results of their own research and showed that there is a deep gap between management accounting theory, such as what is educated in University, and the management accounting procedures used in practice.

Baldoinet et al. (2010) pointed out that in the recent years Innovative management accounting has emerged as an innovative, and consequently, hidden tool for researchers, and has performed a supporting role in refining and improving the practical methods, and eventually led to the introduction of new practical procedures. In order to fulfill that role, independent academic researchers can benefit from this research.

Madalyana mahaya (2014), in a research on management accounting and decision-making, introduced management accounting as a branch of accounting which supports the company's management in planning, decision making, monitoring and analyzing. Effective application of this tool by management guarantees profitable growth and optimizes business and trade. For making commercial decisions, business owners or managers need relevant and structured financial information according to their needs in order to analyze their data sources and business results.

Namazi (2008) reviewed the evolution of management accounting and expressed the fact that despite technological changes and economic developments in the past decade, the methods employed by this branch of accounting knowledge, irrespective of the ups and downs, have not enjoyed significant improvements. The conclusion of this study was that for management accounting to meet the existing needs, it is necessary to pay more attention to the issues such as human

and behavioral factors and their role in management. One of the preconditions to meet the existing needs is the promotion of management accountants' professional and ethical qualifications.

Dastgir and Arab yarmohamadi (2010) studied barriers on the way of applying one of the management accounting concepts (i.e. target costing) in the firms listed in the Tehran Stock Exchange. In their research, they studied the grounds for the application of this system in Iran. Barriers examined in this study were five factors of target pricing, focus on customer, the spirit of teamwork, activity-based costing and value engineering, and the results showed that the lack of any of these factors is an obstacle to the application of this concept in Iran.

Nonahal Nahr and Rahmati Ghorolou (2011) studied the gap in the views of academics and executive practitioners of management accounting in prioritizing its concepts and techniques in manufacturing firms listed in Tehran stock exchange. The results showed that there was a significant difference between the practitioners' views regarding the importance of the 60 per cent of examined management accounting concepts, thus supporting the hypothesis that implied the existence of a gap between theory and practice in management accounting in the firms listed in the Tehran stock exchange.

Hassas yeganeh et al. (2011) examined the state of management accounting in companies listed in the Tehran stock exchange. In this study, a sample of 105 listed companies was selected. The results obtained from the responses of 72 managers, indicated that 73.6% of surveyed companies were placed in the first, 51.4% in the second, 45.8% in the third and 15.3% in the fourth development stage. Regarding this issue, the results of the present study are very close to the similar studies conducted in other developing countries. Moreover, providing information for annual financial reports, allocation and control cost cases, such as risk management, strategic decision making and planning are respectively issues which received the most and the least amount of attention in the examined companies.

Kanani and Farajzade (2013), in a research titled "Examining the role of management accounting in the planning processes", studied the relationship between the characteristics of the management accounting used in the firms under investigation and their conceptual continuity in developing the planning process. The results of this study showed that each of the acted with a different method for comprehensive planning processes. Some of these companies placed emphasis on strategic planning, some on budget, while still some others on both. This fact shows different ways of getting harmonized with the management requirements. The substantial and significant conclusion is that the formation of planning processes is always resulted from the configuration of the characteristics of the management accounting.

Taef Nia and Bahrami (2015) studied the improvement of management performance through management accounting and business strategies. Results of this study showed that the accounting information which existed in the company impacted the improvement of the effective managerial performance. Influential business strategies can balance the impact of accounting information on management performance. Discovering the business strategy can help to increase the effectiveness of the accounting information on managerial performance.

RESEARCH PURPOSES

So far, a lot of research is done in the field of financial accounting and its related issues. However, lack of scientific research in the field of management accounting and its application in Iranian companies can be a sign of a lack of sufficient attention to this branch of accounting even in academic communities.

The ultimate goal of this study is to explain the gap between the theory and practice of management accounting. However, the following particular objectives can be enumerated as well:

- Studying the stages of development and evolution of the management accounting practice
- Studying the limitations and weaknesses of management accounting
- Studying the challenge of Converting theory into practice in management accounting

MANAGEMENT ACCOUNTING

Management accounting includes the development and application of financial and non-financial information within a business organization, in which the informational needs of internal user are attended to and it is tried to help management in achieving the objectives of the organization (Shabahang, 2005).

Business management accounting systems can help the company's managers to recognize its weaknesses and shortcomings, suggests strategies for overcoming the unsuccessful performance of organization. Moreover, through improving the organization's performance, they can increase the efficiency of the economic resources and their optimized allocation.

Changes in management accounting usually include the introduction of new accounting information and the leadership styles of the managers of the organization that can affect the usefulness of the new accounting information (Taef nia & Bahrami, 2015). In contrast to the financial accounting that set up economic information from the perspective of external users, management accounting focuses

primarily on the needs of managers within the organization (Nikbakht & Jahromi, 2014). In fact, accounting management is a system of measuring and collecting financial and operational information that controls the management activities and motivational behaviors, and creates and supports the required cultural values to achieve the organization's strategic goals (Gholi Zade et al., 2010)

This branch of accounting, unlike the other branch (i.e. financial accounting), that receives great amount of attention, has no legal backing with regard to its application and observance, and depends on conditions such as the level of managers' beliefs in the proper use of the relevant information in decision-making, planning and control, their theoretical knowledge and their understanding of the impact of management accounting techniques in business success of organization (Hassas Yegane et al., 2011)

Since the financial statements provided by professional accountants contain economic contents, they are both difficult to understand and insufficient in understanding the sources of revenue and losses in business or identifying the ways to stabilize the financial and economic optimization of the business. As a result, the development of the business management accounting is essential and this means developing a system for recording the financial and non-financial data to monitor the sources of revenue and losses of the business, developing basic reports, analyzing revenues and expenses, debts and commitments, financial needs and business resources and their continued compliance with management plans (Madanila Mahaila, 2014)

Accounting is in nature a measurement process.	Nature
It includes operational information, such as cost or financial information, etc.	Range
The purpose of the management accounting is to help the organization to reach its strategic objectives.	Aim
To enhance the understanding of the phenomena of measuring and gathering information for strategic decisions	Technical index
To encourage activities which are consistent with the organization's strategic goals.	Behavioral index
To create or support a series of cultural values and shared beliefs in the organization and society	Cultural index

Criticism Against the Management Accounting

Johnson and Kaplan (1987) criticized management accounting in following respects: (1) incompetence and inadequacy of management accounting systems for

the area of new accounting ceased the relevancy of these systems, and (2) among the growing capabilities in information processing, management accounting systems in control process, product costing, and evaluation of the performance of managers were not useful enough.

In the following statement, they summarized the incompetence of management accounting in satisfying the demands expressed by the managers in a clear and concise manner: "The information generated by accounting management were so delayed, cumulative, and manipulated that they were not relevant to the planning decisions and controlling managers".

One of the biggest criticisms raised in recent years, especially by Americans, is that current education of management accounting does not have the potential to be always considered appropriate for the practitioners in the profession. In fact, advances in technology caused increased complexity of the new economical units, and this will lead to the failure of academics in the proper education of accounting graduates, unless changes in management accounting curriculum will happen (Albrecht & Sack, 2000; French & Coppage, 2000)

Some researchers claim that the creation of advanced manufacturing technology in companies cause a change in the level of competition in the market. Some of the surveyed organizations have stated that their current management system not only fails to help the installation of the advanced technology, but also prevents the creation of the changes. These statements have led to the claim that the current systems of management accounting are outdated and require revising (Molla nazari & Davar, 2013).

Limitations of Management Accounting

Management accounting has three main limitations as follows:

1. The management accounting information is acquired from the existing financial accounting informational systems; as a result, the overall focus still remains on the annual and periodic objectives, and accounting systems are not successful in (a) providing accurate and comprehensive information that reflects the technology, products, and the complexity of the operational processes, and (b) integrating them to act in a competitive environment.
2. The cumulative form of the presented information leads to the decrease in their usefulness for a manager who wants customized information based on the specific needs of management.
3. The time span which financial accountants spent to provide information seems appropriate to external users, but reduces the reliability of the

information for managerial decision-making (Nikhbakhat & Jahromi, 2014).

The root of these weaknesses can be: lack of legal requirements for the implementation of management accounting methods, the need to have an appropriate level of other sciences, such as economics, mathematics, software, sociology and others, the lack of an appropriate structure for the decision-making process in some of Iranian companies, major differences between various companies, and maybe the fault of national professional bodies in the promotion and education of management accounting in Iran (Hassas yeghaneh et al., 2011)

Evolutionary Stages of Management Accounting

In technical writings, the stages of the evolution of management accounting are classified based on two approaches: Western approach and Eastern approaches. According to the Western approach or American Angel, four stages of evolution have been considered for management accounting information, including the information needed to determine the cost and financial control, controlling and managerial planning, reducing the waste of sources in production, and creating value through the effective use of resources. Figure 1 indicates the evolution of management accounting from this viewpoint.

Step one is related to the years prior to 1950. The main focus at this stage was placed on the costing and financial control, and the main source of information at this stage was the financial statements in which the use of analytical ratios, financial statement analyses and the other techniques for computing the costs have been very common.

Stage two covers the period until 1965, in which the attention was paid to the information for decision-making and managerial planning, and controlling through the use of techniques such as decision analysis and responsibility accounting. Among the methods used at this stage, which are somehow considered as the traditional methods of management accounting, standard costing, analysis of cost, volume of activity, profit, and analysis of break-even point can be mentioned.

Step three is related to the years before 1985, when attention was focused on reducing the waste of resources used in production. This was done by eliminating “non-value added activities” and using mathematical formulas such as: economic order quantity model (EOQ) or multivariate regression analysis.

In stage four, the emphasis is on value creation through effective use of resources, and value-driven techniques for customers and shareholders, as well as organizational innovations are taken into consideration. At this stage, application of advanced methods of management accounting, such as the just in time system

(JIT), balance score card, level meter and strategic management accounting is prominent and common.

On the other hand, the Eastern- Japanese approach, due to Japan's economic development introduced four stages in the field of development and evolution of management accounting:

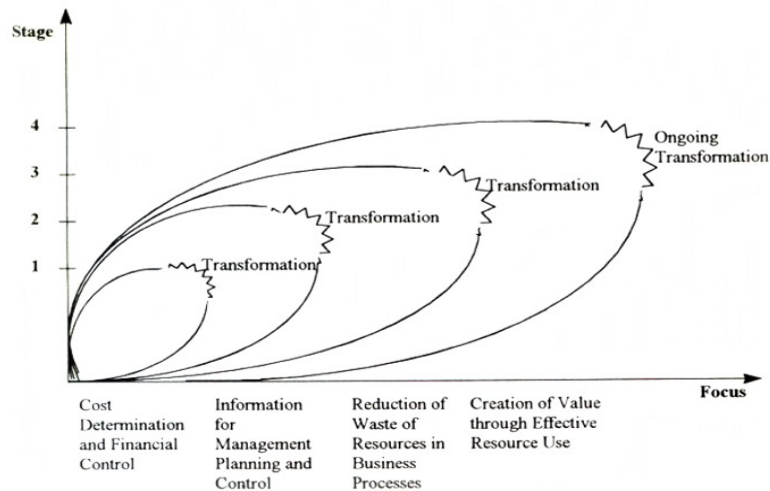
1. Transition stage
 2. Traditional stage
 3. Quantitative stage
 4. Integration stage
- The first stage or the transition stage is for an era in which firms and business affairs are managed through considering the financial accounts and with the intention of expanding the position. No independent system for management accounting has been established, and managers tend to use financial ratios and comparative figures.
 - The second stage, named as traditional management accounting, refers to periods in which the significant effect of government budget on that particular period is visible. In this period, using traditional methods, such as budget control, standard costing and variance analysis have been common.

Then in the 1970s, management accounting in Japan faced the third stage, in which the use of mathematical formulas to manage affairs was very useful. Much of activities in that period were devoted to the controlling, planning and forecasting the future business. (Hassas yeghaneh et al., 2011)

Control and monitoring System is a process that compares what is with what should be, what is available with what is favorable, and what is performed with what is predicted (Brayson, 2010).

Ultimately, the highest level of management accounting in this approach is the fourth stage that is known as "integration stage". At this level, it is believed that management accounting information is unified with other mechanisms of management control that ultimately result in an effective costing and management accounting system, which is in of accordance with the principal policies of the management. Among the proposed tools of this stage, we can refer to Costing target and just in time and total quality management system (TQM) (Hassas yeghaneh et al., 2011).

Evolution of Management Accounting



Challenges of Converting Research to Practice in Management Accounting

In practice, management accounting is discipline-oriented, it deals with ways to help managers in planning and controlling the time, and also how the methods become effective, and whether the relationship between theory and practice caters or the interests of management accounting users (Van Helden et al., 2010).

Converting research into practical guide is faced with a challenge, because the practitioners in this profession do not have the necessary time and skills for the job, particularly when they encounter problems in terms of mathematical, statistical and theoretical aspects of accounting research. These aspects increase the scientific nature of the work but reduce the probability of its access to the world outside the university (i.e. the world of action).

This means that academic researchers have not an incentive to prescribe (unless, for example, research findings are related to showing the impact of study). As long as there is no mechanism for addressing this issue, research and action in management accounting may remain independent, i.e. without any communication or assistance by suppliers and users.

Moreover, if the research is conducted by Academic researchers for Academics, we will see a closed cycle of studies in academic communities. If explanation and understanding be chosen as a target in themselves, the justification of accounting researches outside the academic community will be difficult, and as a result, the proper assessment of their significance and importance will be difficult, as well.

The results probably indicate the application gap of the knowledge, i.e. the gap between the theories of learning and understanding what needs to be done (Solomons, 1965)

DISCUSSION AND CONCLUSION

The evidence suggests that the use of accounting as a management tool has unfortunately not been employed much, and the culture of seeking help from the management accounting trends have not been promoted among Iranian managers.

Despite the fact that over the past years, embracing of new concepts of decision-making has been growing, but it has been very little compared to the rate of the development of the new technologies in constructing the products, the pace of changes in production processes, the rate of increasing competition in a global scale, the increased number of manufacturing companies in the country, and the number of newly proposed approaches in management accounting.

According to experts, there is difference between theory and practice, and management accounting is no exception. In some cases, theorists disagree with practitioners, and academics in the universities should try to teach subjects that cover the issues which are needed in practice. Therefore, academic researches should be planned and implemented in a way that ultimately be useful for the profession in practice.

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