

IMPORTANCE OF ACCOUNTING DOCUMENTATION FOR COMPANY MANAGEMENT

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ABSTRACT

In Hungary, the act on accounting emphasizes the reporting requirements, that is to provide reliable, authentic and real picture about the activities of the given enterprise. In this regard, it is inevitable to observe the principles laid down in legal regulations when the financial report and accounting is being made. In the frames of bookkeeping, records should be permanently made about the economic events occurring during the activities and having impact on the assets, financial and income situation of the firm.

The objective of enterprises is to operate efficiently and economically. In order to reach the profit targets the enterprises set up for themselves, they should closely follow the costs and intervene in processes if necessary. The management can collect the volume and composition of costs and the direct costs required for production from the information system of the company.

Therefore, in order to ensure the efficient and fruitful work of management, it is inevitable to keep precise, accurate and orderly accounting documentation, that is recording of economic events within bookkeeping. Genuine and reliable picture about the company and data corresponding to reality from the accounting system can be provided to the management only this way.

There is a distorting effect often mentioned in connection with accountancy, due to which the management gets wrong data which does not correspond to reality.

That's why it is my objective to examine how the management of the company can utilize the data and sequences received from the accounting information system by using principles and evaluation processes regulated by the act.

KEY WORDS: real picture, accounting principles, operate efficiently and economically

INTRODUCTION

Accounting, which is an information system, has been implemented as a tool for the support of measuring economic activity. The events affecting the asset and results of the economic unit are recorded here in the course of book-keeping activities. The stakeholders of the market require available, reliable and real data concerning the financial and income situation and tendencies of enterprises in order to support their decisions. [Helgertné et al. 2004]

Accounting should provide information about the results and assets of the enterprise, the changes in asset and effects in different structure and breakdown as well as in different time intervals. Accounting can perform its tasks – and meet the expectations – if the changes in the asset of the enterprise and the impacts of changes are completely recorded, tracked and communicated independently from the requirements. [Baricz 2009]

As regards the practical implementation of accounting standards all the enterprises should develop their own rules of methods and processes – on the basis of accounting principles and evaluation provisions - which fit into their characteristics and economic processes in order to implement the principle, guiding rules of accounting, compiling the report and keeping the books. [Korom et. al. 2005] The accounting system developed and operated this way ensures

the real economic content of information and supports decision-making which is based on real (factual) data.

The provisions of the accounting act shall be applied therefore own accounting policy should be formed as well as corporate system of accounts supporting book-keeping in order to operate accounting information system. The aim of accounting policy is to provide a system for the business organization on the basis of which the annual reports can be prepared offering reliable and authentic data and information. These requirements, however, will be met only if the accounting system of the enterprise meets the provisions of accounting principles and accounting law concerning book-keeping and accounting documents. [Korom et al 2005]

In our days, information is increasingly important due to the accelerating development and it has become a resource by our days. Producing, conveying and utilizing information has a growing role to which information technology and the development of information systems also contributes. Those enterprises get advantageous positions in the business sector which are quicker to access the key information required for their decisions. By the expansion of modern electronic dataprocessing, not the collection of information is the main problem – because it can be found in the different databases – but the production of information which is needed in the given situation of decision-making. Reliable, relevant and genuine data are needed because these give basic information for decision-making, therefore false and unreliable data will lead straight to failure.

MATERIAL AND METHODS

The basic objective of business enterprises is to meet the demands of customers and achieve profit. Therefore profit-orientation distinguishes enterprises from all the other types of organizations (which also serve human needs). Profit is the condition of survival for business enterprises. Growth indicates viability and success of an organization.

On the basis of the roles in an organization, the individuals can be grouped like owners, managers and employees according to Chikán.

The aim of an owner is to increase the value of the enterprise by the invested capital. The condition of value increase is the profitable operation of the enterprise thus the profit growth is a tool for the owner to achieve his objectives. This group together with the chief board makes strategic decisions concerning the regulation of the main directions of company operations.

The objectives of managers are closely related with the process of company operation especially the everyday operation. The daily task of this group is to make management decisions including decisions which actually regulate the operation of the company in the frames of the strategy.

Employees are thinking mostly of personal objectives in regards to earning wages. The salary paid to employees is an expense for the organization which reduces profit thus there is a natural conflict here with the other groups. The implementation of operative decisions is also made at this level.

Information has a key role in business life, especially in the operation of a company. It is an inevitable resource for the company management because enterprises use as well as produce information. Information is an element of processes integrating the operation of the company.(Chikán 2008)

The information needs of companies include the collection and processing of internal and external information, as it is described by Table 1.

Table 1: Information need of a company

Information	
External information	Internal information
<ul style="list-style-type: none"> • economic situation • legislation • market environment, etc. 	<ul style="list-style-type: none"> • past performance of the company • current situation of the company concerning the „whole” and some parts – e.g. production, marketing • future development of the company

Source: Zörög 2012

The external information is given and it is inevitable for the companies to have the latest information. As regards internal information, the data of the past, present and future are equally important, since they are closely related to each other and to the utilization of external information. The exploitation of available information can only be efficient if the right person obtained it in the right time and form. (Chikán 2008)

It is also supported by the corporate information system where the accounting and management information systems send the data.

The basis of the information system is traditionally provided by the accounting system because it records the economic events thus the movement of assets can be followed. In addition to this, of course, the reporting obligations should also be fulfilled and the company-specific needs of management should be met in order to support the implementation of more efficient and economical planning and control. (Chikán 2001)

The two branches of accounting, namely financial accounting and management accounting, have been developed as the consequence of the above mentioned different requirements. The comparison of them is described by Table 2.

It does not mean that companies should have two separate accounting systems. It means only that more attention should be given to the specific features of the sphere of activities at the given company and to the needs of management when the administration systems is implemented. Of course, the provisions of Act No. C of 2000 shall be strictly observed, as well.

The difference between financial accounting and management accounting comes from the group of users as well as weight and depth of information by applying the same methods and tools. (Laáb 2011)

Table 2 reveals that financial accounting deals with the recording of economic events, preparing reports and compiling declaration of income for tax return and special reports (for state authorities). Management accounting provides data to the executive heads and boards for the operation of the company and strategic planning, enhancing the rational and cost-efficient use of costs and inputs and exploring the sources of losses. (Tóth 2010)

Table 2: Financial and management accounting

	Financial accounting	Management
Target	external: creditors, authorities	internal: chief executives, executive board
Aim	introducing past performance to external stakeholders	support and preparation of internal decisions, feedback about performance
Basic task	management of general ledger, preparing annual report, mandatory reporting	cost and performance calculation efficiency calculations plan-actual analysis
Time orientation	past	future oriented
Approach	accounting oriented: reporting, controlling	management oriented: decision support, monitoring
Scope	concerns the company as a whole	detailed, adjusted to the support of specific decisions

Source: own edition on the basis of Chikán 2001 and Chikán 2008

The tasks of management accounting include the analysis and systematization of the company's costs in order to support strategic and operative decisions. This part of management accounting is often called cost management. Therefore the executive board of the company gets the required data from this branch of accounting. Cost management is the main source of information for controlling, which is a management supporting subsystem because it coordinates planning, monitoring and information supply tasks for the whole company. (Chikán 2001)

Management accounting, which supports cost management, should provide information required for the economic decisions of the executive board. Laáb (2011) distinguishes three areas of information utilization: cost calculation, measuring efficiency, justifying planning and managing activities.

Data collected from the accounting information system affect further operation of companies, thus they should be reliable and real. It is ensured by the accounting principles laid down in the related law and the evaluation processes.

By observing the accounting principles, the economic events in the life of the company are recorded according to the reality. The economic processes can be fully traced in book-keeping, thus the results received can be led back to the underlying cause that is the affecting economic events. It is due to nothing but the consistently developed principles. It is obvious that there is a very close interaction between principles and the reflection of economic processes according to reality.

Evaluation is a key part of reporting because – in addition to the introduction of the asset at its value – it basically determines the picture about the income generating capacity of the company. The result of the company is the counter value of output decreased by the value of output according to the books. [Korom et al 2005] It is clear that the result of the companies are substantially affected by the sum of mid-year and year-end evaluations of specific assets. Thus the values are truly reliable (and cautious) and reflect real values.

In order to maintain the economic operation of enterprises it is inevitable to permanently measure and control the efficiency, profitability and liquidity of their activities. The datasets from the accounting information system (financial accounting) are essential for this because the indicator systems are based on the data obtained from the accounting system. Therefore the data of accounting are major for the analysis, too. That's why it is important that the

economic events are recorded by observing the principles and applying the evaluation processes because without these the picture about the enterprise is false and untrue which might significantly influence decision making if the decision-makers get false information. The essence of accounting documentation is that the exact date of the event is recorded, the subject is shortly defined and the relevant feature from the aspect of observation is noted. The common feature of economic events is that they can be described not only by quantity criteria but also in cash value. [Laáb 2006] Since they can be expressed in cash value, the degree and pace of growth regarding the enterprise can be traced by comparing the different periods. For this reason it is necessary that the evaluation in regard to the specific balance items is made according to the reality that is by applying the principle of authenticity.

RESULTS AND DISCUSSION

The aim of business enterprises is to meet the demands of consumers profitably. The aim of owners is to increase the value of investment. The executives want to maintain and increase the viability and success of the organization. Their task is to make management decisions.

Knowing the necessary information is essential for decision-making. The utilization of the available information is efficient if the right person gets it in the right time and form. Out of internal information, the data of past, present and future are equally important and they are closely related to each other. They can be mostly obtained from the accounting information system. The task of accounting is to give a precise and useful picture about the asset, financial-economic performance and results of an organization/enterprise. (Laáb 2011)

The management accounting provides the necessary data for the executives. This system is not only the user, but also the primary „producer” place of some decision-supporting executive information. Laáb (2011) says that management accounting has reached outstanding results in two fields: the field of cost management and information for controlling system.

The management decisions in business life are in close interaction with property, financial and income status because most of these decisions result changes in asset. The impacts of the decisions are revealed by the annual reports prepared in the frames of financial accounting (profit and loss account, cash-flow account). (Laáb 2011) Therefore there is strong interaction between financial and management accounting, as it is demonstrated by Figure 1.

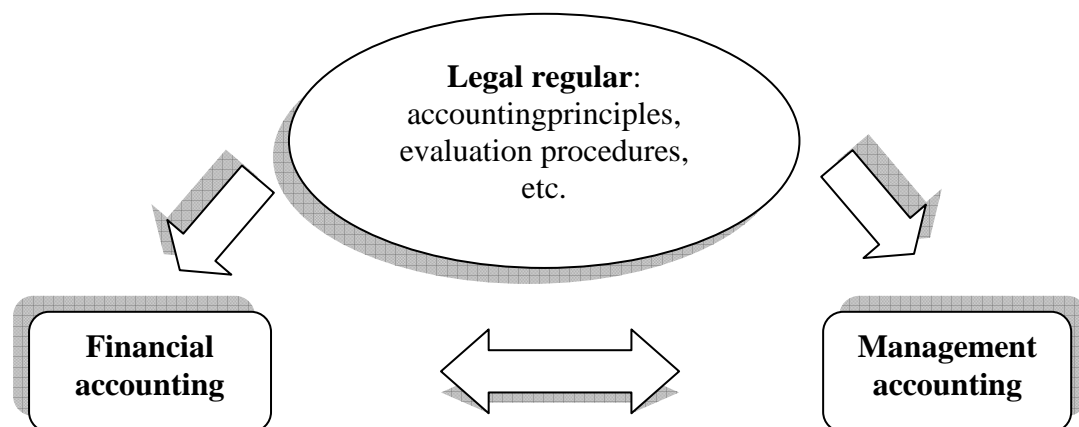


Figure 1: Impact of legal regulations
Source: own edition

The economic events should be accounted according to their actual economic content. If the accounting work is made by considering this, the principles are applied and the requirements

imposed on accounting information system, that is the reliability and authenticity of information is guaranteed. The data stock of accounting information system will be able to reflect the actual reality of economic processes and to provide objective and genuine information for the stakeholders.

The application of evaluation processes considerably determine the output of the company, thus the degree of growth. The reality content of data recording and the information from the data contribute to the evaluation of economic processes thus to the development of business activities. The economic events are recorded according to the principles and evaluation methods laid down by the accounting law, thus these events are included in the data set of accounting information system and the data of decision-making information as a reflection totally corresponding to the processes which take place in reality. This process is described in Figure 1.

CONCLUSION

The quality, reliability and authenticity of information received from accounting system has an important role from the aspect of evaluating business activities. The accounting principles and evaluation methods – which are also laid down in law – are designed to serve these purposes. The conscious, professional and consistent use of principles and evaluation methods affect the decision-making at the company, thus influencing the future of the business.

Accounting is part of decision-making because the data from the accounting information system affect the future operation of companies, so they should be reliable and real. It is ensured by the accounting principles and evaluation methods fixed by law.

The operation of accounting system on the basis of uniform principles enable the production of objective information. The reality content of data recording and the information from data sets contribute to the evaluation of economic processes, thus to the development of business activities. On the basis of the above, the accounting system (both the financial and management accounting) can also be defined as a factor affecting competitiveness.

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