

## ACCOUNTING MANAGEMENT INFORMATION USED FOR STRATEGIC DECISIONS

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*Accounting information is becoming ever more important within the contemporary conditions of business and free market activities. In order to facilitate company development and its survival in the market environment, high-quality accounting information is needed. Company management is interested in the information contained in the essential financial reports. These reports describe and explain the fundamental characteristics of a company's financial position and business success. Accounting information is used as a basis for strategic, technical and operational decisions, and these in turn depend on the level of management. The different levels of management can be distinguished in many ways and not only by making one particular kind of decision. Sorting accounting information according to the type of decision is a very delicate job. Top management should, as a rule, make the highest strategic decisions which ensure company growth and development according to the structure of the decisions. The use of computer technology contributes to the new quality of accounting information, which is of great support to management in its activities.*

**Keywords:** accounting information, business decisions, management, computer technology.

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### 1. INTRODUCTION

Today accounting information is becoming more and more important in the business decision-making process. In a large number of business decisions it is necessary to have access to quality information which can be made available only through modern accounting. It has to be organised in such a way that it can at all times meet all the management needs for information of an appropriate kind.

Within the process of managing the overall business activities of a company, a manager has a great deal of authority. Within contemporary economic conditions, a successful manager needs a lot of reliable accounting information in order to be able to make quality business decisions. Information is very important for making strategic, tactical or operational decisions. Sometimes the same information serves as a basis for making two decisions, strategic and tactical, or for all three decisions. A manager today faces growing demand for the skilful use of the information in the decision-making process as well as in the supervision of all the areas of business activities.

## **2. ACCOUNTING INFORMATION PROCESSING FOR MANAGEMENT NEEDS**

Information delivered to management has to be appropriate, in that it facilitates business decision making and its realisation, while also making it possible to control business activities. "One of the key human activities is management. Since the time when people formed groups in order to achieve goals that could not be achieved individually, management appeared to be indispensable during the coordination of individuals' work. As society started to count on group work more and more, and it started to have larger organised groups, the manager's role has become more important." [7, p.4]

A manager's role is to make decisions of the utmost importance for the company, and in turn allow the managing of a vigorous company, capable of adapting to complex economic conditions. A manager is responsible for both defining the aim and achieving company success.

Making business decisions is a complex and, most importantly, a responsible job where experts are necessary. This is particularly the case nowadays when profit making is the fundamental and essential motive, not only of an individual but also the company as a whole. Although all managers make decisions, they are not all equally competent. The manager's capability as a supervisor and decision-maker is one of the most important factors affecting quality decision making. The manager's competence in making the right decisions depends on many factors including [4, pp. 78-79]:

- the manager's knowledge and experience
- his/her capability to understand and comprehend a problem
- his/her capability to analyse and synthesise and
- his/her personal qualities.

Experience can be of great importance to a manager while making decisions and obviously, it carries a certain amount of weight in the process of decision making.

A good manager should combine qualities such as experience and intellect. The manager's competence in making good decisions also depends on his/her staff's willingness to accept and support him/her. Creativity is also a very important factor and this refers to the capacity and possibilities of creating new ideas. Processing accounting information for managerial needs is based on the following forms of accounting:

- financial accounting
- cost accounting
- management accounting.

Financial accounting is mainly of a synthetic kind, giving synthesised data about the whole company. It covers all the assets, liabilities and capital, financial results (revenue and costs) of every single business process and also the business as a whole. Financial accounting processes the data displayed in the basic financial reports,

namely the balance sheet, the profit and loss account, the cash flow statement and any annotations accompanying the financial reports.

Cost accounting covers the internal accounting because it initially offers information to the internal users. Costs and effects are analyzed from different perspectives. Different systems of cost accounts are applied in cost accounting.

Management accounting processes data of those business transactions which are not subject to financial accounting, such as data derived from plans, various predictions and valuations, data of other similar companies or interest groups, the market fluctuation of prices and other data coming from the accounting area. Various operational records supply the data necessary for managerial information.

Making the accounting information for managerial use is based on the data and information from financial accounting and cost accounting plus information from other sources of data and information which come from outside of accounting. "Within the process of management accounting and information creating for use within managerial accounting, elements of estimation (assessment) and comparison are added to the financial accounting and cost accounting data, which then together serve as a basis for supplementary processing, resulting eventually in new information of a completely different quality." [1, p. 330]

The joint activity of both these kinds of accounting is more prominent in the data-gathering phase than in the data processing phase. An example that illustrates this is when financial accounting data and data from various auxiliary records partly serve as the data to be processed for managerial accounting. The process of managerial information processing is aimed at meeting managers' needs, where internal input information and supplementary information from the accounting area is processed into output information.

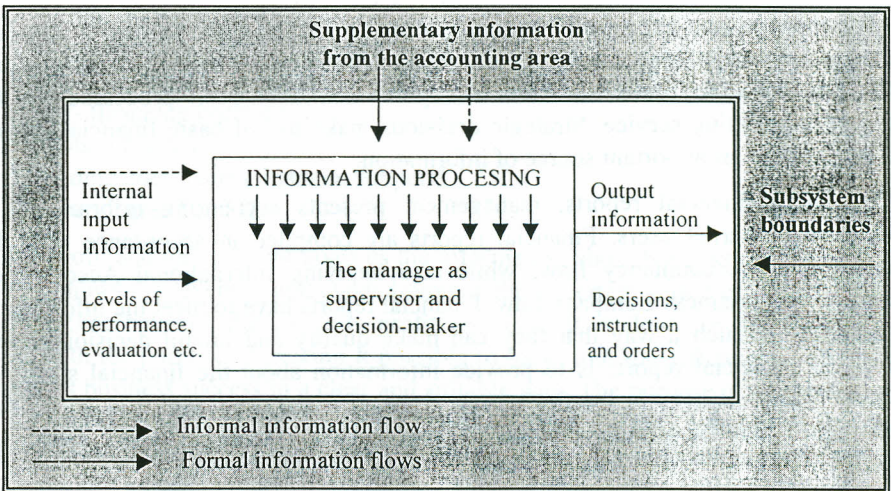


Figure 1. The processing and use of management information [1, p. 329]

Creating managerial information is a complex task which requires expert knowledge and skills along with computer data processing. "Preparing information for managerial use demands that, while reports are being made and depending on the report contents, the memory stored data are also carefully selected, and supplementary explanation of the information is given. For this purpose external data are compared to the internal ones but also various analyses and controlling procedures resulting in the past events evaluation and future predictions for the business activities are carried out. This sort of information has the potential to support managers in their activities". [2, p.12].

Overall business record keeping, business transaction control and deciding on a company's future activities are all conditioned by this accounting information. Since management operates on different levels of decision making (therefore having different degrees of responsibility for the undertaken actions), information has to meet all the management requirements, in other words it should be prepared for managerial use. This means that this information offers alternative decisions and choices enabling managers to make the best possible decision. This also appears to be the hardest part of the manager's job.

### **3. ACCOUNTING INFORMATION FOR STRATEGIC DECISIONS**

Strategic decisions are among the most distinctive decisions in a company. They are used for determining the goals and direction for long-term company development. Top management make this sort of decisions. They decide on company policy, long-term and annual business plans and the organisational structure, i.e. anything that is linked to the future of the company. "A wrong strategic decision may have far-reaching, negative effects on the company, which in turn places a lot of responsibility on the shoulders of the strategic decision maker". [4,p.36].

Top management expect information systems to support them in such a way that strategic decision making can be greatly facilitated. Decision making is unthinkable without information based on financial reports that have been processed by the company accounting service. Strategic decisions make use of basic financial reports and use them as an important source of information.

By using financial reports, management presents accounting information to internal and external users. Financial reports are compiled in accordance with the regulations of Accountancy Law, while also applying International Accountancy Standards and Business Company Law. Financial reports have to meet the information users' needs in such a way that they can make quality and lawful decisions. "The purpose of financial reports is to provide information about the financial situation, efficiency, and changes in the financial position of a company, and it is hoped that these reports may be useful to a wide range of users in making economic decisions" [8, p.31].

Achieving a goal, in the sense of gathering information about economic resources, is ensured by the balance sheet. It shows the financial position of the company, the

accounting position and the assets structure, and the capital and the liabilities on a certain date. The main characteristic of a balance sheet is that it consists of assets, and this is where items are entered according to the criteria of functionality and liquidity, on one hand; then you have liabilities, and this is where items are entered according to the ownership, i.e. payment date, on the other hand. At any moment assets have to be equal to the source of assets, i.e. there must be a balance. Using the data from the balance sheet, managers can make important decisions, which can be directed towards the optimisation of future balance sheets.

Top management should always make strategic decisions related to the company strategy, its development and its survival in the market economy environment. According to some surveys, top management should also make tactical and operational decisions, which means that it should deal with questions and problems which are normally found in the lower level management domain.

Some useful information and indicators that can be obtained from the balance sheet, which is used for strategic decisions, are as follows:

- assets position and structure
- fixed assets structure
- current assets structure
- individual asset subforms position and structure
- structure of assets and liabilities
- assets and reserves position
- long-term liabilities structure and terms
- short-term liabilities state and terms
- other information from the balance sheet.

Indicators:

- current liquidity coefficient
- accelerated liquidity coefficient
- financial stability coefficient
- self- financing coefficient
- debts coefficient
- funding coefficient (financial support)
- cover degree I and II.

The profit and loss account gives us the information about business profitability. It not only shows the revenues and expenditures within a certain period of time, but also the difference between the two, i.e. profit and loss. It is done for the accounting period, with the purpose of making it possible to look into the different aspects of a company's business success in a clear and suitable way. The purpose of the profit and loss account is to show all the important components of the net company profit. The business profitability information given in the profit and loss account is important in predicting any possible future profitability. The important information and indicators shown in the profit and loss account, which are used to help make strategic decisions, are as follows:

- the revenue structure from the source of the generation aspect
- the revenue structure from the method of the utilisation aspect
- the profit structure (generation and utilisation)
- the expenditure structure by function and sort
- the amount of after-tax profit ( dividend – retained profit)
- other information about revenues and costs.

Indicators:

- general efficiency (of overall trade)
- the efficiency of business activity
- the profitability (return)
- the profit margin (gain margin)
- the gross profit margin
- the operating profit margin
- the before-tax profit margin
- the net profit margin.

Fundamental financial reports should be considered an integral part of the whole. “The integral parts of financial reports are linked together because they reflect different aspects of the same transactions or other events. Although each report offers information which is different from the other, it is unlikely that they serve only one purpose or, at the same time, provide all the information necessary for individual users’ needs. For example, a profit statement gives an incomplete picture of efficiency unless used along with the balance sheet and the reports about changes in the financial position” [8, p.32].

Company management is interested in all forms of business activities and in this context the information and the indicators are important because they serve as a set of analytical instruments derived from financial reports as a whole. Along with the listed indicators, management also uses the indicators of activities which assess the efficiency in the utilisation of resources, investment indicators showing profit and dividend per share and share profitability. In order to rationally make decisions in accordance with the company goals, managers should have at their disposal certain analytical instruments that enable them to control results of individual transactions.

The cash flow report is based on the business financial base, in other words the investment and financial activities of a company. Fundamental categories of this financial report are cash origins or, cash inflows, and the use of cash, also known as cash outflows. Reports on cash flows supply managers with information on the inflow and outflow of money within an accounting period, as well as information on the result of their mutual relation. Along with the data and information from the balance sheet, the profit and loss statement can give an overall picture of the economic strength of the company and its capacity to make money and money equivalents in the future.

#### 4. COMPUTER TECHNOLOGY SUPPORT FOR MANAGEMENT

The development of an efficient accounting information system for managerial use is conditioned by computer technology application. "The use of information technology in a company can be viewed developmentally through several phases. The first phase makes use of developed transaction systems, which ensure a covering of all the business events and other events happening in the system, and follow their financial consequences in detail (e.g. direct and indirect expenses resulting from it). Different forms of summary reports, having always been a part of traditional managers' information systems, now appear to be the information summary about the transactions" [5, pp.193-194]. For this reason computer data processing seems to be indispensable and it contributes to the new quality of information for decision making.

Generally, computers can be considered more advantageous in information processing because they are characterised by the following properties:

- a large number of interactions among variables
- speed is an important factor
- high processing precision is needed
- output precision is particularly important
- operations occur repeatedly (they are repetitive)
- a large amount of data is processed.

Apart from these characteristics, it is important to determine the direction of its movement as well as its designation, since we have different levels of management in mind. With regard to the information structure intended for different management levels, not only the quantity of information to be processed in the computer system is determined, but also the quantity to be processed by hand. Therefore, as a rule, it is not possible to process all the range of relevant managerial information by computer.

The possibility of a managerial information application for computer processing with regard to the different management levels is shown in Figure 2 [3, p.196].

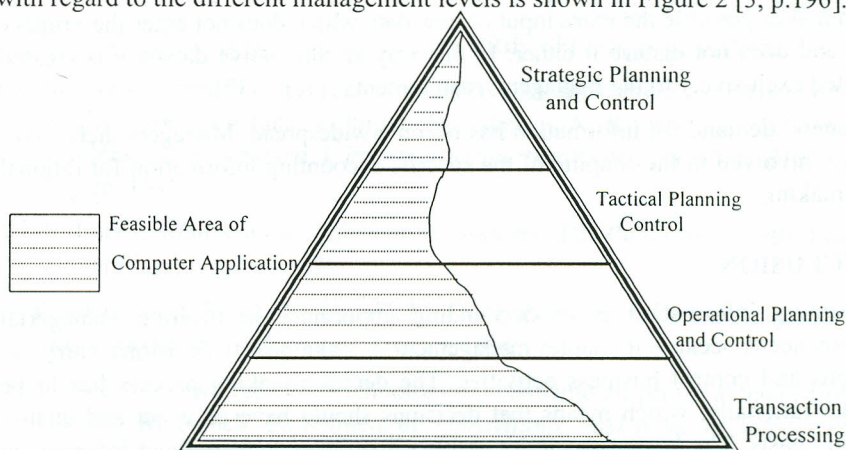


Figure 2. The feasibility of a computer application for the management level

In order to build the management information system based on accounting data, it is necessary to structure properly three basic subsystems [1, p. 333]:

- the data processing system
- the decision making support system
- the database system.

Data processing systems serve the daily processing of business transactions. This sort of processing is of importance to financial accounting so as to obtain the basic accounting data and information for decision system support. Within the current information processing, data are recorded daily, and this allows you to create fundamental reports and other information for management needs.

Decision-making support systems help managers make quality decisions. Managers can develop their own system of processing the information that they consider essential for decision making. These systems help managers partly solve structured problems, with the help of data and problem solving models. The importance of decision support systems is growing because of an increased demand for quick decision making. "A DSS is an interactive, flexible, and adaptable computer-based information system that utilizes decision rules, models and a model base coupled with a comprehensive database and the decision maker's own insights." [6, p.833]. The reality of accounting information generation requires the introduction of expert systems since they are the most remarkable and practical product of artificial intelligence. They are applied in those fields where the process of analysis is relatively complex, since they are capable of justifying and explaining their conclusions and suggestions.

The stated subsystems should be optimally defined, with regard to their range and contents, and should be interlinked to a contemporary database. "Modern systems for database operation are so advanced that they can create their own database which reacts to all the changes in the primary base. This kind of system for database operation makes possible the extra input of new data which does not enter the primary database and does not disturb it either. In this way an alternative database is created and adapted exclusively to the managers' requirements" [1, p. 337].

Managers' demand for information has become widespread. Managers themselves have to get involved in the shaping of the specific accounting information for rational decision making.

## **5. CONCLUSION**

Accounting information is of outstanding importance in meeting managerial information needs because it enables management to make quality decisions, carry out transactions and control business activities. The decision-making process has to be carried out rationally, which means that decisions should have an exact and quality information basis. The business activity process is unimaginable without information based on financial reports processed by a company's accounting service.



Company management is the most important internal user of the information from these financial reports, which in effect, provide information on the financial position of a company and its business efficiency. These two fundamental criteria can be understood by using these financial reports. Financial report information combined with the other information processed within and outside of the accounting system, enables management to make business decisions that are important for a company's strategy.

Those different indicators that can be worked out, such as liquidity and liabilities are, in effect, indicators of business stability. Profitability indicators are indicators of business efficiency, while activity indicators influence the liquidity and business profitability.

Information from financial reports makes possible the assessment of the financial situation and business efficiency in the near or the distant future, and this is very important while making a strategic decision. It influences the future financial efficiency of the company, and in turn the development of a company. Financial reports are a source of information for predicting management decisions and they act as a basis for these management decisions.

Computer technology facilitates the introduction of totally new approaches in the structuring and generating of information, so as to allow managers to make decisions. The possibility of data and information manipulation and the possibility of creating a report with very little effort, in order to single out the necessary information for managers, represents a significant advantage.

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## RAČUNOVODSTVENE INFORMACIJE MENEDŽMENTU ZA STRATEGIJSKE ODLUKE

### Sažetak

*Računovodstvene informacije postaju sve značajnije u suvremenim uvjetima poslovanja i djelovanja slobodnog tržišta. Za razvoj poduzeća i njegov opstanak u uvjetima tržišnog okruženja potrebne su kvalitetne računovodstvene informacije. Menedžment poduzeća zainteresiran je za informacije sadržane u temeljnim financijskim izvješćima. U tim izvješćima opisuju se i objašnjavaju osnovne značajke financijskog položaja i uspješnosti poslovanja poduzeća.*

*Na temelju računovodstvenih informacija donose se strategijske, taktičke i operativne odluke zavisno od razine menedžmenta. Pojedine razine menedžmenta ne razlikuju se po tome što donose samo jednu vrstu odluka. Razvrstavanje računovodstvenih informacija prema vrstama odluka veoma je delikatno. Vrhovni menedžment treba u pravilu prema strukturi odluka donositi najviše strategijske odluke koje osiguravaju rast i razvoj poduzeća. Uporaba računalne tehnologije doprinosi novoj kvaliteti računovodstvenih informacija koje su potpora menedžmentu u njihovom djelovanju.*

**Ključne riječi:** računovodstvene informacije, poslovne odluke, menedžment, računalna tehnologija.