

THE ROLE OF MANAGEMENT ACCOUNTING AND COST INFORMATION IN DECISION-MAKING

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Abstract. *Management Accounting and Cost Information are crucial areas in decision-making. Management accounting is finding and implementing a project or job correctly. This includes planning, estimating, budgeting, financing, funding, management, control, and comparison between costs to complete the work within the specified time and budget. Meanwhile, cost information is the result of the cost accounting process which provides data and analysis about costs that are relevant for managerial decision making. The purpose of this research is to explain that management and cost accounting information is very influential in decision-making by management in a company or organization to reduce and control costs without reducing the quality and quantity of the product or service itself.*

Keywords: *Management Accounting, Cost Information, Cost Accounting, Internal and External Environment, and Decisions*

Introduction

The application of information to guide economic decision-making has been identified as one of the main functions of management accounting systems. In a management accounting system, the product costing system must report product costs accurately to make decisions relating to, for example, pricing, introduction, discontinuation, and response to competing products. (Brierley, J.A., 2013).

In France, management accounting is defined "as a technical analysis" of an entity's activities and the products produced by it that has an objective evaluation of products, works, and services as well as control of the internal conditions of production through costs.

(Dan Topor, Dorin Ioana, Alina Putan, 2021) Another definition of management accounting we found in the US National Association of Accountants (NAA) which defines management accounting as "the identification, measurement, collection, analysis, preparation, interpretation and transmission of financial information that used by the management of a company to plan, evaluate and control the use of its resources appropriately and responsibly." The management process is based on a wealth of information drawn from the field of management accounting. As part of this information, a very important role in the management of economic entities is the concept of costs and presenting them in different structures or different levels of

responsibility. In planning the future activities of an entity, the decisions taken by managers within the entity (purchasing decisions, pricing decisions) are closely related to knowledge of costs. Cost accounting has a major impact on the quality of decisions made by managers.

To be a counselor and partner in management decision-making, management accounting must pay special attention to cost studies and consider that management accounting systems may be applied across many entities. (Adzim, Faidul, 2017) Regarding the definition and functions of management, namely planning, organizing, directing, and controlling, these functions arise from different and related processes. In management, decision-making plays a very important role because the decisions taken by managers are the result of final thoughts that must be implemented by their subordinates or those concerned with the organization they lead. Important because it concerns all aspects of management. Mistakes in making decisions can be detrimental to an organization, from image loss to money loss. And also in a competitive business environment, cost management is the key to maintaining or increasing competitiveness. Without proper cost analysis, companies may lose the ability to adjust prices or improve operational efficiency to remain competitive in the marketplace

Although previous research has considered how cost management information influences decisions and pricing decisions, it has not specifically considered the use of product costs as information that directs attention directly in decision-making in an industry. A product profitability analysis (or

profitability map) is a scorecard of information that provides a primary source of data about a product's profitability. This information can be used to identify, for example, whether a loss-making product should be discontinued. Product discontinuation decisions can be made directly using product profitability analysis for companies selling up to three or four products. To generate a variety of different relevant costs for direct use in decision-making relating to a large number of products because of the large number of possible decisions and the large number of possible costs that must be applied. in these decisions. When a product discontinuation decision is made in a multi-product company for three or four products, the decision will likely have no impact on additional fixed costs and the decision will be based on the additional direct costs of the individual products. (Alfaried, Mochamad et al. 2023).

The Role of Management Accounting and Cost Information for Management.

Definition of Management Accounting (Doloksaribu, A., 2020) Management accounting is a system designed to provide very valuable information for management in identifying opportunities for improvement, planning, strategy and making operational decisions regarding the procurement and use of resources needed by the organization. An advanced management accounting system consists of all the tools, techniques and methods that together form a management accounting system. As a result, if something undesirable happens, such as a loss or error in financial recording, the manager can make the right decision.

Definition of Cost Information

(Ticoalu, Solomon Rocky, 2020) Costs are sacrifices or expenses made by a company

or individual to obtain more benefits from the activities carried out. Cost accounting is the process of recording, classifying, summarizing and presenting costs, manufacturing and selling products and services, in certain ways, as well as interpreting them. Cost information in calculating the cost of production plays a role in determining, analyzing, and reporting cost items that support financial reports so that they can show reasonable data. (Prayogi, Joko, S Pd, and M Ak. 2021) Cost information is a tool for management in carrying out company activities, namely as a planning, monitoring, and decision-making tool. It can be concluded that the object of activity in cost accounting is costs, where the information produced from cost accounting will be used as a guideline in decision-making by internal company parties.

Objectives of Management Accounting

Management accounting aims to produce financial information for management. The type of information required is different from the information required by external parties. Generally, the information produced is in-depth and is not published by outside parties. The general objectives of management accounting are:

- Providing information needed to determine the cost of services, products, and other purposes desired by management.
- Provides information used in planning, controlling, evaluating, and continuous improvement.
- Provide information for decision-making. Management accounting information helps identify a problem, solve it, and evaluate performance. So, management accounting information is needed and used in all stages of

management, including planning, controlling, and decision-making.

- The main function of management accounting is to present important data and information related to historical data for management. (Fulan, 2009).

Purpose of Cost Information

(Alfaried, Mochamad et al. 2023) Cost information is a network of procedures used to collect and present cost reports. In manufacturing companies, this accounting system is a network of procedures for collecting and presenting reproduction costs, marketing costs, and general and administrative costs.

A comparative and systematic cost information system, as well as data analysis regarding costs and profits, is needed by management, namely to:

- Determining profit achievement
- Determine targets for each department.
- Evaluate the level of factory effectiveness.
- Determine success or failure precisely
- Identify and have a strategy.
- Deciding to make adjustments or improvements in the organization.

Each cost information must describe the authority of each division so that managers can be held accountable for what has been done.

Types of Costs Based on Behavior

Costs based on the Main Functions of the Company's Activities:

- Production Costs, the accumulation of all expenses required in the production process to produce a product or item.
- Marketing Costs (Marketing Expenses), Expenses that must be

incurred to ensure that all products are purchased by consumers.

- Administrative & General Expenses (General Administration Expenses), Expenses used to coordinate product production and marketing activities.

According to (Fulan, 2009) based on the object financed:

- Direct Costs are costs that occur in a segment and occur because of the existence of that segment. These costs are costs that can be traced clearly and concretely to the particular segment that will be analyzed.
- Indirect Costs, "A cost that is directly traceable to a particular department is called an indirect cost of the department". Indirect costs are costs that are not directly related to a segment. Examples of indirect costs are company salaries and executives.

Relationship between Management Accounting and Cost Information

Management accounting has the main objective of providing financial information to management that is useful for making certain decisions. For example, a marketing manager needs relevant information before deciding whether the company needs to give discounts to buyers for products to be sold, or whether the company needs to give gifts or bonuses to buyers for purchasing a certain amount of products. To make this decision, the company needs information that is relevant to the decision to be taken, namely information on production costs. This production cost information is processed and presented by cost accounting. (Brierley, John A. 2013) In planning the future activities of an entity, the decisions taken by managers in the

entity (purchasing decisions, pricing decisions) are closely related to knowledge about costs. Cost accounting has a major impact on the quality of decisions made by managers. defines costs as "an expense or amount of expenditure associated with (and recognized) the consumption of resources, place of business, products produced, or reporting period". Costs are a monetary expression of the effort an entity must exert to achieve its goals.

The Role of Management Accounting and Cost Information in Decision-Making

Management accounting plays an important role in developing and substantiating decisions in an entity because management accounting information helps managers how to allocate resources entrusted by investors to achieve set goals. The management process is based on a wealth of information drawn from the field of management accounting. As part of this information, a very important role in the management of economic entities is the concept of costs and presenting them in different structures or different levels of responsibility. (Sue Hrasky, Michael Jones, 2016).

How Managers use information in the external environment

Profit-oriented companies will try to use the natural resources they have as maximally as possible to obtain profits for the survival of the company so that without realizing it, the impact it has on society is quite large and is getting bigger and harder to control over time. If a company wants to maintain its survival, then the company must pay attention to

"3P". Apart from pursuing profit, companies must also pay attention to and be involved in fulfilling the welfare of society (people) and actively contribute to preserving the environment (planet). This kind of thing then inspired an idea to develop the science of accounting which aims to control corporate responsibility. (Doloksaribu, A., 2020)

As a form of corporate social responsibility for the extraction of natural resources, companies must disclose the environmental costs as a consequence. Environmental costs are impacts, both monetary and non-monetary, that must be borne as a result of activities that affect environmental quality. Based on this, the company has taken concrete steps to integrate various integrated environmental preservation functions into company policy in the form of disclosing environmental costs (Doloksaribu, A., 2020).

(Arando Lasagabaster, Mairer, and Luis Otero Guerra. 2019) The external environment is known to have a large role in influencing managerial decision making including competitive factors. Subscriptions, labor markets, financial institutions, suppliers, government representatives, technological developments, socio-cultural environment, politics/law, international dimensions, and the external environment are important to always monitor and analyze. (Prastiti, Elsa Dian, et al, 2019) environmental analysis is the initial process in strategic management that aims to monitor the company's environment, both internal and external. Therefore, environmental observation is an important process in strategic management, because observation is the

first link in the chain of actions and perceptions that enable an organization to adapt to its environment. (Niluh Putu & Kadek, 2017)

Management Accounting Information can be carried out in all industries

(Arando Lasagabaster, Mairer, and Luis Otero Guerra. 2019) An accounting information system is a system in an organization that is responsible for preparing information obtained from collecting and processing transaction data that is useful for all users both inside and outside the company. This system prepares information for management by carrying out certain operations on all source data it receives and also influences the relationship of the company organization with its surrounding environment.

As some examples of industries where Management Accounting information is very important:

- **Manufacturing:** The manufacturing industry uses management accounting information to manage production costs, calculate inventory costs, optimize production capacity, and improve operational efficiency.
- **Trade:** The retail and wholesale trade industry requires management accounting information to manage inventory, calculate profit margins, analyze store or branch performance, and identify sales trends.
- **Services:** Service industries such as banking, insurance, consulting, and tourism use management accounting information to manage operational costs, measure service profitability, and evaluate employee performance.
- **Information Technology:** The information technology industry uses management accounting information to calculate software development

costs, manage IT projects, calculate customer support costs, and evaluate technology investments.

- Health and Care: The health and care industry uses management accounting information to manage healthcare costs, calculate drug and medical equipment inventory costs, and analyze the performance of hospitals or other care facilities. (Ticoalu, Solomon Rocky, 2020)

In every industry, management accounting information helps management in effective decision-making, strategic planning, cost control, and performance evaluation. Although applications may vary, the basic principles of management accounting remain a strong foundation for efficient and effective management in all industries.

Research Methodology

The research method used is the literature method. Literature is a term used to refer to research methodology or certain research and development carried out to collect and evaluate research related to a certain focused topic.

Using the literature study research method, this method can be adapted to specific research contexts such as business, industry, and management as material for our analysis of management information in decision-making. The use of appropriate analytical techniques and careful data collection will ensure the accuracy and success of research in understanding the role of management accounting and cost accounting in a decision.

Results and Discussion

Result

Description of Observation Results on Strength Aspects of Main Journals

- ✓ Management Information can be used in all industries.
- ✓ Production costs in income and expenses are monitored every day at every work point (allowing general managers to access real information during the production process)
- ✓ Cost management information has a major impact on the quality of decisions made by managers.

Description of Observation Results of Weak Aspects of the Main Journal

- ✓ The data used focuses on only one industry.
- ✓ Minimal information on the role of costs in the main journal.
- ✓ Major journals focus on the influence of cost information in the internal environment but do not pay attention to how external factors influence decision-making.

Discussion

Strength

1. Management Information can be used in all Industries

Management information can be used in all industries, not just in one industry. Agency/company management is a group of people who have the responsibility and authority to manage the activities of the agency/company and must be accountable for the results of their work. Management is needed by all organizations because without management everything will be in vain, and achieving goals will be more difficult. (Prayogi, Joko, S Pd, and M Ak. 2021) (Ayu Prananda, Agitha, and Christian Datu. 2016) (Adzim, Faidul. 2017) (Akbar, A. 2023) (Ayu Prananda, Agitha, and Christian Datu. 2016).

2. Production costs in income and expenses are monitored every day at every work point (allowing general managers to access real information during the production process)

Operating units use product costs over time in decision-making in profit/investment centers to support the profit motive and in cost centers to control costs. In the profit/investment center, product costs are required to match product sales to calculate product profits. They are used all the time to support the profit motive. In a management accounting system, the product costing system must report product costs accurately to make related decisions. For example, pricing, introduction, discontinuation, and response to competing products. In decision making: to highlight loss-making products for special studies to identify further information required, as market-based information has an important role in decision-making and when product costs are not accurate enough to be used directly in decision-making. Operating units use product costs directly in decision-making because they are confident in the accuracy of the costs or because they are unaware of using that information as information that directs attention. (Brierley, J.A., 2013).

3. Cost management information has a major impact on the quality of decisions made by managers

Cost management information is very important and influential because this information will produce further information for decision-makers and become better. Management refers to "to manage" which means to organize or handle, where management is a process in

an organization or company to achieve a goal. Management can be more developed with the management function itself which is important because it concerns all aspects of management. Mistakes in making decisions can be detrimental to an organization or company, the most impactful of which is the loss of money. Decision-making is also used to determine a series of activities to achieve the desired results. Every person's position in a company or organization involves various degrees of decision-making, even for routine work. (Dan Topor, Dorin Ioana, Alina Putan, 2011).

Weaknesses

1. The data used focuses on only one industry

We agree with the author's statement which says "We consider that this management accounting system can be applied in many entities, not only entities from the mining industry" but it is unfortunate that the author has not proven this statement because the statement is stated in the conclusion, and the author only explains one industry only the mining industry. Using more than one data source can increase the validity of research by providing confirmation or triangulation of the findings. By comparing data from different sources or data collection methods, researchers can ensure that their findings are consistent and reliable.

2. Minimal information on the role of costs in the main journal

The title is a foreword that can attract readers to understand what the author wants to convey from the contents of the journal provided. The main title of our main journal is "The Role of Cost Information in Decision Making", but in the abstract, the author explains this journal aims to understand how information obtained from management accounting impacts the development and basis of new decisions and therefore to

better understand the relationship between management accounting and information. This means that the title and objectives are contradictory even though management accounting information and costs are related to each other.

3. Main journals focus on the influence of cost information in the internal environment but do not pay attention to how external factors influence decision-making

Major journals indicate that research focuses on the influence of cost information in an organization's internal environment on decision-making. However, this research does not seem to pay attention to or does not explore how external factors influence the decision-making process. External factors such as:

- **Government Regulation:** An understanding of market dynamics and how an organization can adapt strategies.
- **Market Changes:** Consider regulations/regulations in decision-making regarding Compliance, tax planning, etc.
- **Industry Trends: Engaging Technology** to create new opportunities for innovation.

(Setyowati, Novita Wahyu. 2016) The existence of dynamic changes and competition in an industry can find opportunities that are tailored to the company's capabilities. Apart from that, external environmental analysis can help entrepreneurs determine market needs and wants. On the other hand, internal environmental analysis shows what the company should do.

Ignorance of these external factors can be a weakness in research because it does not provide a complete picture of the factors that influence decision-making as a whole. Information that is limited to the internal environment alone may not cover all relevant variables that can influence the decision-making process holistically (a

holistic approach means that everything is interconnected and influences each other in a context). Therefore, more comprehensive and in-depth research can consider both internal and external factors to obtain a more complete understanding of decision-making in organizations. (Setyowati, Novita Wahyu. 2016).

Conclusion

- ✓ In the main journal, the case study example used is the mining industry. However, this does not mean that Management Accounting cannot be used in various industries. Management accounting is very important and relevant in almost all industries, including manufacturing, financial services, health, education, technology, and many more. Each industry has unique needs when it comes to decision-making, resource allocation, operational control, and strategic planning. Therefore, management accounting must be adapted to the specific needs of each industry.
- ✓ **Strengths:** Cost management information has a major impact on the quality of decisions made by managers because, with accurate information and a good understanding of the costs involved in various business activities, managers can plan appropriate strategies and control operations to achieve goals. company.
- ✓ One of the weaknesses in the main journal is that there is minimal information on the role of costs in it. Although the journal presents the topic of the role of cost information in decision-making, more detailed information about how these costs are

identified, measured, and used in the decision-making process is not very well presented.

- ✓ On the other hand, the main journals focus on the influence of cost information in the internal environment but do not pay attention to how external factors influence decision-making, even though we know that ignorance of external factors can be a weakness in research because it does not provide a complete picture of the factors involved. influence overall decision-making.

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