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THE ROLE OF MANAGEMENT ACCOUNTING IN THE APPLICATION OF THE ECONOMIC ETHICS JUDGMENT

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Abstract

In this article I want to present the perspective on management accounting in applying the judgment of economic ethics. The economic ethics combines economics and ethics, uniting value judgments from both disciplines, for to predict, analyze and model the economic phenomena.

The economic ethics tends to incorporate the notion of morality and the quality of cultural values, taking into account the barriers imposed on the economic sciences, but also the fact that the ability to make decisions is not limited only to rationality. So, the purpose of this article becomes to answer the research question: How the judgments of ethics and management accounting, like economics disciplines and one accounting of rational decisions, can be combined, as economic ethics?

Key words: economic ethics, management accounting, rational costs, morality values

1. Introduction

The perspective and dimension of economic ethics highlights a combination between the two disciplines economics and ethics, but not business ethics, as the ethics of economic entity (Bebeșelea, 2022).

The economic ethics tends to incorporate the notion of morality and the quality of cultural values, taking into account the barriers imposed on the economic sciences, but also the fact that the ability to make decisions is not limited only to rationality (Hicks, 2019).

Economics can't disregard morality from the cultural environment. For this reason, studies which include economic analysis of morality and moral analysis of economics must be done, (Ciani Scarnicci, 2012). The management accounting, like economics disciplines, is one accounting of rational decisions.

The role of management accounting was in a continuous change, from the simple method of calculating product costs to an essential source of information in management business (Zidaru et al., 2014).

The management accounting enables the integration of cost analysis into the strategic approach of entities, contributing to make decision-regarding the portfolio of products and services and to an ensemble of decisions leading to the transformation of the corporate strategy.

Management accounting is a branch with a high degree of importance within any entity. It represents an “integrated part in management, what deals with the identification, presentation and interpretation of the information used in developing strategies, making decisions, optimizations resource consumption planning and control of activities (Briciu & Căpușneanu, 2011).

In conclusion, the management accounting component is composed of three parts:

➡ Cost accounting represents the allocation of expenses on outputs such as cost of goods sold

- ➡ Cost reporting and analysis represent perspectives, inferences and analyzing what happened in a business to track performance.
- ➡ Decision support with cost planning involves substantiation and making the decision (Cokins et al., 2012).

So, in this case the role of management accounting in the application of the economic ethics judgment consists in supply to management with rational information regarding costs. Thus, ethics judgments (the notion of morality and the quality of cultural values) are combined with management accounting judgments (rational costs).

2. Research Methodology

The article is positioned to answer to this research question: RQ: How the judgments of ethics and management accounting, like economics disciplines and one accounting of rational decisions, can be combined, as economic ethics?

This answer is considered the purpose of the research, and will result from exploratory research by formulation and investigation of the following hypothesis: the management accounting, like economics disciplines and one accounting of rational decision, has a role in the application of the economic ethics judgment.

Complementary to exploratory and instrumental research is the conclusive research, which allowed us to test and confirm the hypothesis.

3. The rationality quality of the management accounting

The main objective of Management accounting is the cost of production. Therefore, management accounting, through its fundamental object of cost calculation, gives meaning to the synonym between the concept of cost and expense (O.M.F.P. 1826, 2003).

Costs of production refer to all the expenses incurred in the process of creating and delivering a product or service. These expenses can include raw materials, labor, equipment, rent, and marketing costs. In simple terms, it is the sum of all expenses necessary to produce and sell a product or service.

Once the expenses are taken from the financial accounting, for studying the complex issue of production expenses, the management accounting classifies them in its own criteria, such as: Traceability, Behavior (O.M.F.P. 1802, 2014).

Traceability criterion

This aspect one of the most important classification of expenses, into direct expenses and indirect expenses. This classification is based on the degree of traceability to the final product of the firm.

Direct expenses: So, these are the costs which are easily identified with a specific expenses unit or cost centers. Some of the most basic examples are the materials used in the manufacturing of a product or the labor involved with the production process.

Indirect expenses (overheads): are all the indirect costs incurred in running a business, such as rent, utilities, and insurance. Overheads are indirect costs since these can't be directly linked to the production of goods.

The five main types of overheads in manufacturing: indirect labour (the cost of all the workers who are not directly involved in manufacturing the product), indirect materials (used in the production process but are not directly involved in the production of the final product), utilities (the cost of electricity, water, and gas used in production), physical costs (all the costs related to maintaining your factory, such as rent, insurance, and property taxes), financial cost (any legal, accounting, and banking charges).

Behavior criterion

The way a specific expense reacts to changes in activity levels is called **cost behavior**. Expenses may stay the same or may change proportionately in response to a change in activity. Knowing how a expenses react to a change in the level of activity makes it easier to create a budget, prepare a forecast, determine how much profit a new product will generate, and determine which of two alternatives should be selected.

Fixed expenses are those that stay the same in total regardless of the number of units produced or sold. Although total fixed costs are the same, fixed expenses per unit changes as fewer or more units are produced. Straight-line depreciation is an example of a fixed expenses. It does not matter whether the machine is used to produce 1,000 units or 10,000,000 units in a month, the depreciation expense is the same because it is based on the number of years the machine will be in service.

Variable expenses are the expenses that change in total each time an additional unit is produced or sold. Direct materials and salary is a variable expenses.

If the variable indirect expenses with the variable direction are fully included in the production cost, the fixed indirect expenses are only partially included. Thus, on criteria of rationality, the cost of the subactivity is deduced from the fixed direction, which is determined with the relations (Accounting Law No82/1991, 2024):

$$\text{Subactivity cost} = \text{Fixed direction} \times \left[1 - \frac{\text{Real capacity}}{\text{Normal capacity}} \right] \quad [1]$$

After deducting the subactivity cost, the remaining fixe indirect expenses distributed by sectors and cost carriers through the supplementing procedure. The process used by the management accounting for the rational distribution of indirect expenses, are the additional/distribution procedure, whose applicability we present below:

Table 1. Rational distribution procedure of indirect expenses

Data	STEPS	FORMULA
Indirect expenses 150,000 from which Fixed 22,300 u.m Normal capacity 500 hours Real capacity 480 hours Direct expenses 300,000 from which: A product 200,000 B product 100,000	Calculation of subactivity cost	$22,300 \times 1 - \frac{480}{500} = 892 \text{ u.m}$
	Determination of the indirect expenses that can be incorporated in cost of production	$150,000 - 892 \text{ lei} = 149,108 \text{ u.m}$
	Choosing the common distribution base for all products	Total direct expenses, direct wages, direct materials
	Determination of the distribution rate coefficient (RAI)	$RAI = \frac{Chi}{\sum b_j} = 149,108/300,000 = 0.49702$
	Determining the share of indirect expenses that belongs to each product	$C_i = RAI * b_i$ CiA product = $0.49702 \times 200,000 = 99,404 \text{ u.m}$ CiA product = $0.49702 \times 100,000 = 49,704 \text{ u.m}$

Source: by the author

4. Managerial decision and the role of the management accountant in the decision-making process

The costs of production are the costs that a company incurs when it produces goods or services, sells those goods or services, and delivers them to its customers (Full commercial cost), such as fig no. 1.:

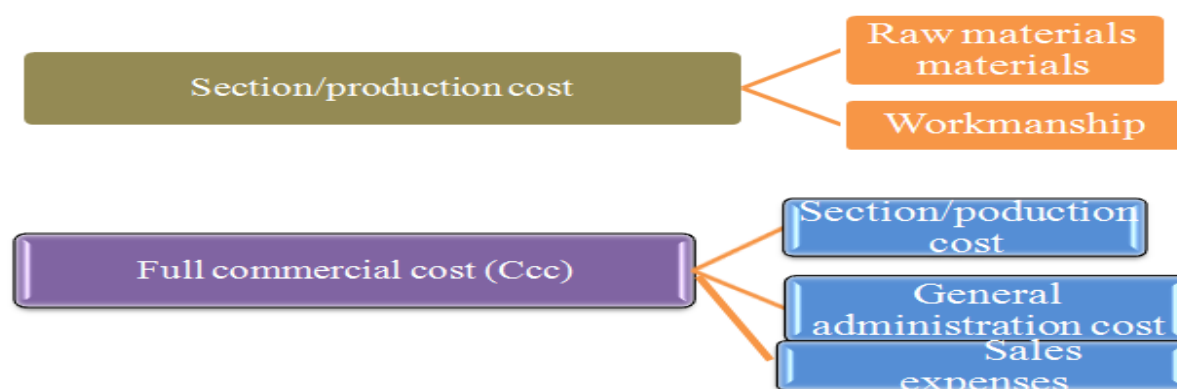


Figure 1. The formation of full costing (commercial cost)

Source: by the author

That cost is an absorbing cost which includes all costs associated with manufacturing a product.

What types of decisions are made with the help of management accounting information?

Table 2. Initial product data

Products	Unit sale price	Unit variable cost	Maximum sale quantity
A	1,000	400	70
B	850	360	60
C	500	270	40

Table 3. Situation of costs, revenues and results

Products	Revenues	Variable expenses	Fixed expenses of the section	Fixed expenses of the entity	Profit
A	70,000	28,000	27,000	10,000	+5,000
B	51,000	21,600	18,000	2,500	+8,900
C	20,000	10,800	9,000	5,000	-4,800

Looking at the data in Table 3 and wanting to make a bigger profit at the section level, which makes the three products, the managers can propose elimination of product C which it considers unprofitable.

Analysis of relevant costs for decision in a controlling system effectively highlights the following conclusions (Tulvinschi, 2010): The total result of product C shows a loss of -4,800. The product C but contributes with 9,200 lei (20,000-10,800) to cover the costs fixed, which would have intervened and if this product had been removed from production schedule.

If product C is eliminated, revenues will decrease by 20,000, variable costs would decrease by 10,800 but fixed expenses would remain the same.

Consequently, simple elimination of product C is not a solution because it would lead to reducing the result by 9,200. The elimination of the product C would be effective only if it were accompanied by the reduction of fixed expenses

5. Conclusions

In this article we wanted to show that economic ethics is not the same as business ethics. The economic ethics combines economic judgments with ethics judgments (the notion of morality and the quality of cultural values). In this context, we asked our research question (RQ): How the judgments of ethics and management accounting, like economics disciplines and one accounting of rational decisions, can be combined, as economic ethics?

From the presentation of the answer to the research question established results the validation of the research hypothesis, respectively the viability and reliability of the research, as follows: the management accounting, like economics disciplines and one accounting of rational decision, has a role in the application of the economic ethics judgment. How? by the fact that it is a rational accounting and which helps in the decision-making process.

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