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Strategic Management Accounting in Organizations' Cash Flow Control

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Abstract

The article deals with the various interpretations of the term "strategic management accounting". The role and importance of strategic management accounting in the organization's cash flows control are investigated. The accounting and analytical models of strategic management accounting are analyzed**.** The territorial scope of this article covers the Russian Federation. The study concludes that the system of assessment parameters of organization's financial condition should cover all its aspects, namely, financial sustainability, solvency, liquidity and business activity. Hence, strategic management accounting of cash flows makes it possible to correctly set information base to monitor financial flows of a company which responds the tends of market economy and allows to make optimal management decisions.

Keywords: Management accounting, Strategic accounting, Financial management, Accounting analytical system, Management solutions.

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1. INTRODUCTION

A wide application of modern management techniques is of great importance in increasing of organizations' competitiveness. This is impossible without accounting and analytical support required for the collection, processing and presentation of information not only for operational but also for strategic solutions. In this regard management accounting methods acquire particular relevance. The combination of these methods is to be called modern or strategic management accounting. Strategic management accounting is a part of management accounting in which information support of strategic management solutions is carried out. In turn, management accounting is a sub-system of accounting and analytical system which provides its administrative apparatus with information used for planning, directing and controlling the activities of a company. Nowadays in addition to operational management decisions, enterprises must obtain information for long-term or strategic management solutions which are of priority due to increased competition and new types of information.

2. STRATEGIC ACCOUNTING

A lot of Russian and foreign scientists have studied strategic accounting.

Table 1. Different interpretations of the term "strategic management accounting"

Author	The essence of the concept
K. Simmonds	Strategic management accounting is a way to analyze your own business and business rivals which is used in the development and monitoring your business strategy.
M. Bromwich	Strategic management accounting is a method of analyzing financial information on the product markets, companies, competitors' expenses, expenses structures and tracking of enterprise policies and strategies of competitors of several accounted periods on the market.
J. Innz	Strategic management accounting is providing information that supports the organization's strategic solutions.
B. Ryan	Strategic accounting is a certain way to track the financial and

	accounting issues.
I.N. Bogataya, A.N. Shchemelev, N.Y. Salov, V.E. Kerimov	Strategic accounting is a system that combines financial and management accounting and provides executives and staff of an enterprise with production information to make effective decisions as well as investors to assess the company activity.
I.Y. Yurasova, D. Voloshin, V.A. Terekhova, O.E. Nikolaeva, O.V. Alekseyeva, O. V. Mitina, G.I. Maltseva, S.I. Krylov, N.V. Valebnikov	Strategic (management) accounting is a system necessary to ensure the information needs of strategic management.

Strategic management accounting consists of three main elements: strategic planning, strategic analysis and strategic control.

Conducting strategic analysis is aimed at determining the state of organization’s economic activity for a certain period of time as well as at assessment of its strategic goals and objectives to verify the clarity and reality of their implementation.

Strategic planning is aimed at developing long-term plans. Its result is to create a program of long-term business development. Finally, strategic control is designed to carry out monitoring of the process of strategic goals and objectives achievement as well as the return to the stage of making the administrative decision in case of its correction. After considering the term "strategic management accounting" and its elements we are to analyze its role in the organization’s cash flows control.

3. THE ROLE AND SIGNIFICANCE OF STRATEGIC MANAGEMENT ACCOUNTING IN ORGANIZATIONS' CASH FLOW CONTROL

The necessity to develop an independent concept of strategic management accounting of organization's cash flows as a part of its strategic management accounting is due to the fact that almost any management decision, such as production modernization, retraining or development of a new technology can be realized only if it is ensured by appropriate means. That is why the financial aspect plays a crucial role when choosing a particular variant of the decision, thus, making financial management an essential component of the whole system of organization's management. In addition, the significance of financial management as a subsystem of organization's management process is determined by the coordinating role of finance in its business activities.

In practice the organization's financial management is to control its cash flows. Thus, organization's cash flows are to be considered not only as its financial flows, but also as organization's other assets in value terms, the sources of liabilities of the organization as well as the organization's financial results and their determinants (income, expenses, tax payments).

Properly organized strategic management accounting of cash flows ensures the most efficient solutions for the organization's financial management which leads to the achievement of the main objective of organization's financial management that is maximizing the welfare of its shareholders (Krylov, 2005).

If the company experiences various financial difficulties, the strategic management accounting of cash flows becomes a means of its financial recovery program justification.

Strategic management accounting of cash flows can be characterized as a part of the strategic management accounting in which the information support of decision-making on the organization's cash flows for the long term period is formed (5 and more years).

Conducting the strategic management accounting of cash flows presumes a thorough study of internal and external factors. These factors influence the financial flows and, as a result, the financial condition of an organization.

Classification of cash flows arising in the course of organization's financial activity is presented in Table 2.

Table 2. Classification of cash flows in the financial activity of an enterprise

Classification sign	Types of cash flows
Scale of service	Cash flows of the whole enterprise Cash flow of individual structural units Cash flow for individual business transactions
Cash flows direction	Positive cash flow Negative cash flow
Calculation method	Gross cash flow which characterizes the receipts or outflows in the considered period Net cash flow defined as the difference between positive and negative cash flows
Time assessment method	Present cash flow Future cash flows
Volume sufficiency	Excessive cash flow Optimal cash flow Deficient cash flow

Implementation of strategic management accounting of a company's cash flows is carried out by calculating the relative indicators (ratios) of assessing the financial condition of an organization and development the cash flow model.

The system of relative indicators (ratios) of assessing the financial condition of an enterprise should cover all its aspects:

- Financial stability,

- Solvency and liquidity,

- Business activity.

Indicators of financial stability assessment reflect the composition, structure and dynamics of enterprise's liabilities and help to estimate the degree of independence from loan sources.

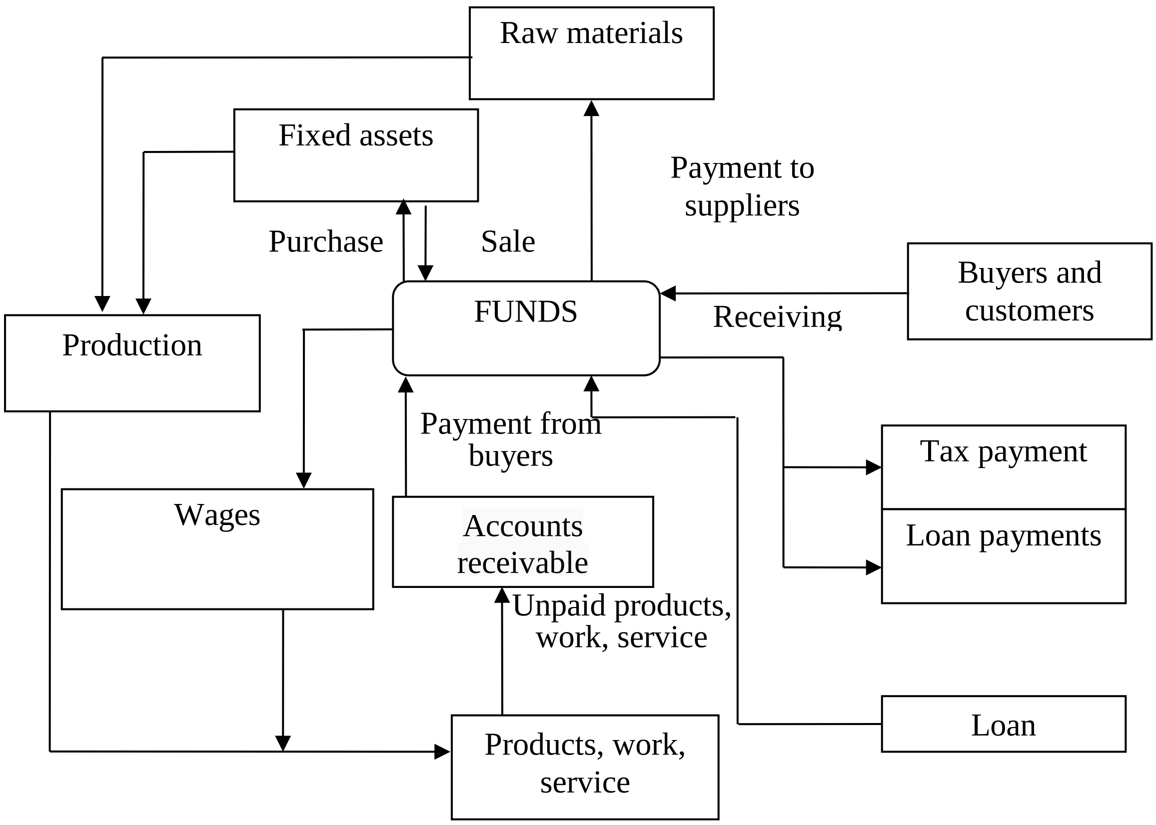
Indicators of solvency and liquidity characterize organization's ability to pay in a timely manner for all obligations (solvency) and its ability to repay current liabilities and the implementation of contingency (liquidity).

Indicators of business activity are to assess the proper use of company's resources, thus, it is necessary to calculate the turnover ratio.

It should also be noted that all the aspects of organization's financial condition are related as some indicators developed to assess one of its aspects can also be used to assess the others (Krylov, 2011).

4. ACCOUNTING ANALYTICAL MODELS AS THE ELEMENTS OF STRATEGIC MANAGEMENT ACCOUNTING

One of the elements of strategic management accounting of cash flow is a cash flow model which reflects the movement of organization's financial resources in value terms (Figure 1).



The model describes the cash flows and their interrelations and determines opportunities to optimize them and, consequently, to increase the efficiency of financial and economic activity of a company.

Cash flow control is, in essence, the accounting subsystem of organization's accounting and analytical system. The accounting is an orderly system for collecting, recording and generalizing information on assets in money terms, organization's liabilities and financial assets movement through solid, continuous and documentary control of all economic operations. This definition presents the entire economic activity of a company as a complex of cash flows.

Forming of the necessary reports on cash flows is carried out using 2 methods:

- Direct;

- Indirect.

While using the direct method the cash flow calculation is carried out on the basis of accounts, whereas the indirect method is on the basis of the balance sheet and the profit and loss account.

When using the direct method the main sources of cash inflows and outflows and their sufficiency are determined.

The indirect method shows the interrelation of various activities and the impact on profit, changes in assets and liabilities of a company.

The process of strategic management accounting of cash flows of a company covers not only accounting for cash flows but also a set of elements presented in Figure 2: strategic analysis of cash flows; strategic planning of cash flows; strategic control of cash flows.

At the same time, it is difficult to distinguish between one component of strategic management accounting and the other one.

Strategic analysis of the cash flows involves the study of the following major cash flows characteristics of an organization (5 or more years): volume, structure, dynamics, duration, frequency and synchronicity using appropriate methods of economic analysis.

At the end of the strategic analysis of cash flows proposals to optimize them are made to improve the financial condition of a company if needed.

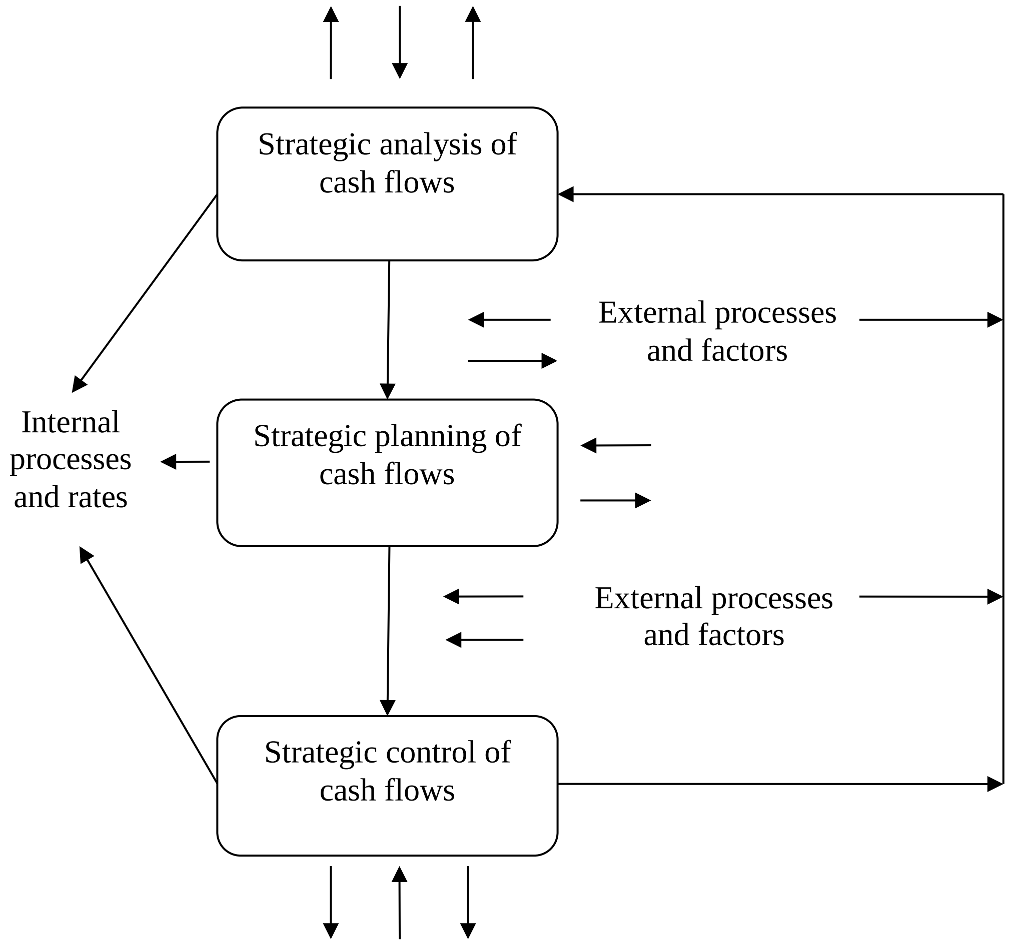


Figure 2. Model of organization's strategic management accounting based on process-oriented approach

The strategic planning of cash flows is defined to prepare the long-term financial plans. It is aimed at organization's strategic objectives in the field of finance (Krylov, 2005).

The result of strategic cash flows planning is enterprise's financial strategy that is long-term action program (more than 5 years) in the field of finance. It is obvious that the financial strategy requires a thorough study involving strategic management accounting of cash flows mainly in terms of its focus on increasing of market value of the whole enterprise and on sustainable production growth.

The above-mentioned factors are to ensure long-term sustainability of organization's financial condition and, consequently, its financial prospects. Therefore, strategic planning of cash flows can be concentrated on sufficient values of preferred indicators of assessing organization's financial condition in the long run.

Strategic control of cash flows consists in monitoring the results of certain financial activities and ensuring a return to the decision-making stage. This is necessary to correct financial definitions and to return to intended objectives to modify (adjust) them if needed (Krylov, 2005). Thus, strategic control of cash flows should be considered as a tool for solving complex tasks set while implementing the strategic planning of cash flows.

The calculation and verification of the planned values with actual financial rates are carried out in the process of monitoring. The detection of irregularities of any ratios, their causes and proposals to eliminate them by correcting the long-term plan of financial flows are determined. Thus, the financial strategy of enterprise is set.

Characteristic features of strategic management accounting of cash flows are as follows:

- supporting of decision-making when managing organization’s finances;

- providing the staff of the organization with information on its cash flows;

- changing the system of cash flows data reporting if the existing methods do not meet the organization's needs.

Effective implementation of these functions ensures the effectiveness of the system of organization’s strategic management accounting of cash flows which consists in:

- professional interpretation of the data obtained by each expert in strategic management accounting of cash flows to ensure that financial managers are provided with the necessary information;

- forming the set indicators and disclosure of necessary changes in financial strategy which are to draw conclusions on such changes in future.

5. CONCLUSION

Considering the role of strategic management accounting in the management of financial flows it should be noted that an important part of organization’s financial activity is financial relations, that is, the economic relations between the subjects connected with the forming, distributing and using funds in order to meet their different needs. The system of assessment parameters of organization’s financial condition should cover all its aspects, namely, financial sustainability, solvency, liquidity and business activity. Consideration should be given to the fact that all the aspects of organization’s financial condition interact, so some assessment parameters are related.

The accounting analytical model of cash flows describes the cash flows and their relations to each other, and also determines the direction and possibilities of their optimization and, consequently, improves organization's financial and economic efficiency.

Formation of the necessary accounting of cash flows is carried out by using the following methods: direct and indirect.

The attention to cash flows is not paid in the accounting and analytical system, as cash flows is not its independent object. Therefore, it is necessary to allocate cash flows as an independent object of the accounting and analytical systems and, thus, the formation of an integrated system which provides business process implementation and including administrative, financial, and strategic accounting of cash flows.

The process of strategic management accounting of cash flows of a company includes not only the accounting of cash flows, but also a set of elements: strategic analysis, strategic planning and strategic control. All this will provide the long-term stability of organization's financial condition and, accordingly, its financial prospects and competitiveness.

Thus, the important direction of this type of accounting is strategic management accounting of cash flows of a company. It is strategic management accounting of cash flows that makes it possible to correctly set information base to monitor financial flows of a company which responds the tends of market economy and allows to make optimal management decisions.

6. CONFLICT OF INTEREST

The authors confirm that the data do not contain any conflict of interest.

7. GRATITUDE

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