

MONISM OR DUALISM IN ACCOUNTING?

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Abstract: We are trying to answer in this paper at the question: “Monism or dualism in accounting?” thru analyze of the dimensions and characteristics of the two systems, and also, thru, which the advantage of each system individually offer to different type of users. Also, we simultaneously analyze the both levels at the dualist concept, the managerial accounting and the financial accounting. The meaning of these analyze is to identify the possibility and the opportunity to process thru just one circuit the information’s offered by the two accountings, therefore to pass to a monist system of organizational accounting.

Key words: monism, accounting dualism, globalization

The idea that made this article come to life was the request of the german company where we keep accounting records, which asked us to keep a “daily” accounting that will offer the possibility of daily patrimony check and company results. Since an accounting company keeps accounting records, we stated that the request was impossible to be fulfilled and offered as solution operative recordings of the structures that needed daily update of the balance and activities.

Out of this example we conclude that in nowadays Romania there are two accounting levels: financial or general accounting and administrative or managerial accounting. Such an accounting organization is typical for a dualist concept. The question that arises is whether or not this type of organization is in the best interest of the user? If it is, for what kind of users, internal or external? We ask these questions because accounting is not a purpose in itself, as it has to serve the interests of accounting data users. What follows next is the question that sets the name of this article, monism or dualism in accounting?

The question creates controversies as professor Feleagă stated in his book “Accounting treaty”, the monism – dualism controversy being one that conveys “good taste to accounting”.

The analysis of contemporary accounting, especially under the aspect of destination and of the way of treating and representing accounting data, revealed the fact that accounting doctrine established two concepts of organizing accounting: monism and dualism concept.

Although the meaning of the two concepts has historical roots, their presence in Romanian accounting literature is rather new. The introduction of accounting monism and dualism, with their extended meaning, belongs to Feleagă Nicolae and Ionașcu Ion in the book “Financial accounting”, printed in 1993.

As proof of the importance specialist give to the two concepts is the controversy between them, which fundamented numerous studies, professor Jacques Richard, quoted by Feleagă Nicolae in the book “Accounting controversies”, introduces three dimensions of monism and dualism, defining a formal monism and dualism, a material monism and dualism and an informational monism and dualism.

Formal monism is characterized by simultaneous processing, in a single circuit, of changes determined by external economic fluxes and by internal economic fluxes. The formal monism has two practical forms: complete formal monism and reduced formal monism. In complete formal monism (the most radical form of monism) accounts play the main part. This type of monism characterized Romanian accounting until 1989, with branch accountings, without external users and applicable in a strict centralized economy. Reduced formal monism is characterized by the fact that certain accounting parts are treated “outside accounting” through tables.

Formal dualism separates accounting on two levels: financial or general accounting and administrative accounting. This form of organization characterizes present Romanian accounting.

Material monism represents accounting system organization through which only a type of evaluation is used, usually the economic one. Unlike material monism, material dualism uses additional economic evaluation and other types of evaluations: fiscal, financial evaluation etc.

Informational monism is characterized by directing accounting data to a single user, usually part of the organization's management. The characteristic was also present in Romanian accounting until 1989; in it the unique user of accounting data was the state.

Informational dualism or pluralism is that communication expression through which accounting data is oriented towards two or more types of users.

Professor Feleagă Niculae and his contributors in the book „Financial accounting – an European and international approach”, identify four categories of data produced by a company:

- Operational data;
- Financial accounting data;
- Administrative accounting data;
- Data to fulfill fiscal needs.

In this case we can talk about informational pluralism in accounting, not about accounting dualism.

Financial accounting deals especially with recording the changes in the company patrimony and results determined by external fluxes. This type of accounting is characterized by: obligativity, normalization, precision and permanence. Administrative accounting is addressed exclusively to inside users of the company and analyses especially internal fluxes. It is a type of accounting, restriction free, in simple or double party, permanent or temporary, rather operative than precise and its main characteristic is the fact that it can be set up at management's wish, the only objective being to offer useful data.

As a consequence there are similarities and differences between financial accounting and administrative accounting. Although the differences are numerous, certain profound similarities can be identified. Not by chance, in other accounting systems, the data of the two types of accounting form a single functional, integrated circuit (accounting monism in the USA or compromise accounting systems between accounting monism and dualism).

The similarities between the two accounting branches refer to the fact they: are mandatory by law, use the same data from the same documents and periods of time, have as common research object the patrimony and as main objectives its efficient administration and profit increase, use accounts from the same General Account Plan (GAP), etc.

At manager's request, according to data needs and specific company conditions, administrative accounting can be organized in one of the following variants:

- Analytically developing accounts of the financial accounting (classes 1 – 8 of the GAP);
- Using specific accounts (class 9 of accounts in GAP);
- Keeping a personal technical-operative record.

In order to be useful, the accounting data must have the same quality characteristics, even if it is about administrative or financial accounting, namely clarity, relevance, credibility and comparability.

Next we will try to establish if these quality characteristics have the same valence for the two accounting categories.

Clarity is a feature all accounting data must have, indifferently of the level. Debates regarding this characteristic could be toned according to the knowledge level of users, as certain data could be clear to some users while in other cases users may need more details. For instance, in the case of internal users, the main beneficiaries of administrative accounting, who are supposed to have complete data about the company, in many cases less data, are enough for understanding, impossible in the case of a person from outside the company.

Relevance or pertinence represent confirmation and prevision capacity, namely judicially choosing the right meaning level for accounting data, choosing what is really important and what is not. Opportunity and under unitary cost – profit report play an important part in ensuring relevancy. Here, too, the meaning level is different for administrative accounting, where, although details are important, the operativity comes before accuracy and financial accounting, which generally offers less detailed data as it addresses external

users. Also the report concerning the cost paid for obtaining the data and the profit brought by using it is addressed to internal users only and the company that pays for it. For an external user that makes a request for certain information, the effort the company makes in order to obtain that information is irrelevant. From this point of view, the situation of the state asking companies through its fiscal institutions, numerous situations, statements and reports that, in most cases, are irrelevant for the company but entail effort, is representative. We shall not mention the cases in which different public institutions request the same data but in a different format. Obviously in this case the relevance of the accounting data remains only a concept.

Credibility is given by the merged influence of faithful representation characteristics, prudence and integrity (complete presentation of economic reality), by propitious balance between quality and quantity features of accounting data. The main role of the accountant, as accounting data producer, is to make it credible, believable for those who use it. This characteristic is very important on both accounting levels set upon the dualist concept.

Comparability is necessary in order to compare data from one period to another and from one company to another. It is the consequence of constantly measuring and presenting the financial effect of the same operations and events within a company and along the time for that company as well as for other companies. The main way to ensure data comparability in accounting, in the case of financial and administrative accounting, is to apply the principle of method permanency.

Another similarity between the two accountings is that explicitly or implicitly, they change what needs to be changed, and are guided by the same accounting principles.

So, explicitly, legal reglementations stipulate the following general principles of administrative accounting: the principle of expense separation, the principle of expense limitation in time, the principle of expense limitation in space, the principle of delimiting productive expenses of those non-productive, delimiting expenses of finished production from those not finished yet, etc.

The principle of expense separation in administrative accounting supposes the separation of expenses that involve obtaining the goods, works, services from the expenses that do not involve the acquisition, production or processing, etc. them.

The principle of expense limitation in time in administrative accounting is found in financial accounting as well as the principle of exercise independency.

In order to apply these principles, OMFP 1.826/2003 suggests using rational methods, consistently applied, which can be wholly assimilated to the principle of method permanency in financial accounting.

Also in administrative accounting, other financial accounting principles can be applied: the principle of prudence, the principle of activity ongoing, the principle of non-compensation, the principle of historic cost, the principles of recording and book-keeping, the principles of quantification (measuring and evaluating), the principles of observation, the principles that establish what and how to organize that part of the accounting that fulfils the need of information of internal users?

Going back to the beginning of the paper, what the german manager requested were in fact operational data as well as administrative accounting data. Accounting data producer must organize his administrative accounting so as to be able to produce data when, how and as many as the manager asks for. What if the manager has no requests? This situation is commonly met in small Romanian companies, where the manager believes that accounting data are unnecessary for a good management. Unlike Romanian companies, the American ones believe in the importance of analyzing administrative accounting data in order to improve the functionality and rentability of different company activities. In this case the manager's exigency regarding the rhythm of data reporting, the monthly, weekly or even daily rhythm, is enhanced when the activity characteristics impose it.

The passage from accounting monism to accounting dualism is nowadays followed by an opposite dynamic: the reverse to an accounting monism, under the effect of globalization, on one hand, and because of IT system perfecting at the level of companies and societies, on the other hand. It has to be mentioned that it is a formal monism (reduced type) because at a material and informational level accounting remains dualist (even pluralist).

A single obstacle obstructs Formal monism: fiscality. In this case quoting the following idea printed in a recent fiscal paper is appropriate: "...financial accounting will become more and more transparent and capable, through standardized financial situations, being able to notify involuntarily cases of fiscal evasion,

while at the level of administrative accounting there is still place for the so-called creative accounting...” We should remark the expressions “involuntarily” and “the so-called creative accounting”.

As a conclusion we may say that even if the tendency is to pass to accounting monism (at least at a formal level), it will not happen until accounting will be discharged of fiscality and over-reglementation.

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