

THE ROLE OF ACCOUNTING INFORMATION IN UNDERLYING ECONOMIC DECISIONS

Associate Professor Florin-Constantin DIMA, Ph.D.

“Constantin Brâncoveanu” University of Pitești, Romania

E-mail: dimaflorin_constantin@yahoo.com

Abstract: Accounting can be regarded as the universal economic language of the business world since it is a tool that allows the communication of economic information. Accounting has the role of providing useful information for underlying decisions at the level of economic entities. The accounting information is based on the activity specific to each economic entity. The accounting information is obtained by processing the economic-financial data of the entities using the means specific to the accounting system. Accounting is the most appropriate source of information for the management of economic entities due to the particularities and qualitative characteristics of the information they provide, in relation to any other source of information.

Keywords: accounting information, qualitative characteristics, relevance, credibility, significance threshold, opportunity.

JEL classification: M41.

1. Introduction

Within the accounting system, the creation of the accounting information starts from setting certain objectives of the accounting and from establishing certain clear rules.

Accounting information is a product of “intelligent knowledge” and it has emerged as a result of information activities specific to the accounting field. These are those that concern the production and use of the accounting information and consist of actions aimed at creating, collecting, storing, processing the data and transmitting the information. The informational activities specific to the accounting field involve recording and calculation operations, as well as analyzing, interpreting, grouping and using the information during decision making.

Accounting is, in fact, the formalized language of business through which the internal and external representation of the economic entities is achieved. In other words, accounting is the universal language of the business world.

2. Specialized literature

The subject approached, being one of topicality and of great interest regarding the underlying of the decisions regarding the running of the current activity of the entity is often found in the specialized literature.

“The managers’ information needs are mainly covered by reports that are not published to other categories of users. These reports are usually prepared both on the basis of information from the management accounting and on the basis of the information in the financial accounting” (Feleagă and Feleagă, 2007).

“Accounting arose from the need to respond from an informational and decisive point of view to the issue of managing the separate economic values on patrimonial entities” (Ristea, 2004).

In order to be able to answer the needs of substantiation of the managerial decision, accounting is based on a system of principles, concepts and rules, and regarding the organization of the information-accounting system of an enterprise, “in the specialized literature two concepts are delimited: the accounting monism and the accounting dualism” (Vișan, Burada and Luță, 2006).

Given the essential role that accounting plays in substantiating managerial decisions, it becomes “an essential institution of capitalism” (Colasse, 2009).

3. Research methodology

The approach starts from the importance and the role that accounting information plays in substantiating decisions at the level of economic entities and not only. Thus, the following aspects are analyzed:

- the fundamental qualitative characteristics of the accounting information;
- the amplifying qualitative characteristics of the accounting information;
- the accounting information and the decision-making process;
- the organization of the accounting information system.

4. The qualitative characteristics of the accounting information

The qualitative characteristics of the accounting information, also called attributes, that determine the usefulness of the information provided by the financial statements are divided into two categories: fundamental qualitative characteristics and amplifying qualitative characteristics.

In order for the accounting information that emerges from the financial statements to be useful, it must fulfil, according to the General Conceptual Framework developed by the IASB, two fundamental qualitative characteristics represented by relevance and accurate representation.

The information from the financial statements is relevant when it has the ability to influence the economic decisions of the users, helping them to evaluate past, present or future events, confirming or correcting their previous evaluations. Financial information has this ability to make a difference in making decisions whether it has predictive value, confirmatory value, or both.

The predictive value of the financial information is given by its ability to be used by users to predict future results.

The confirmation value of the financial information appears in situations where it certifies previous evaluations.

The financial information is relevant if its omission or misrepresentation can influence the decisions that the users make based on the financial information about a particular entity. In this regard, the significance threshold is very important, whose value depends from one user to another.

The exact representation takes into account the fact that the financial statements represent economic phenomena in words and figures, and in order to be useful, the financial information must represent exactly the phenomena that it intends to represent. In order to be an accurate representation, the financial information must meet three characteristics: to be complete, neutral and error free.

According to the General Conceptual Framework developed by the IASB, a complete description includes all the information necessary for a user to understand the described phenomenon, including all the necessary descriptions and explanations, and a neutral description is one that does not bear influences in the selection and presentation of the financial information.

The usefulness of the relevant and accurately represented financial information is enhanced by the following amplifying qualitative characteristics: comparability, verifiability, timeliness and intelligibility.

Comparability facilitates the identification and understanding of the similarities and differences between the structural elements of the financial statements by the users of the financial information. In order for the financial information to be comparable, the same measurement and evaluation methods for the same elements within an economic entity must be used consistently during one or more reporting periods.

Verifiability is the qualitative characteristic that allows the users to be assured that the information represents exactly the economic phenomena that they intend to represent.

Opportunity considers making the financial information available to decision makers in a timely manner so that they can substantiate their decisions.

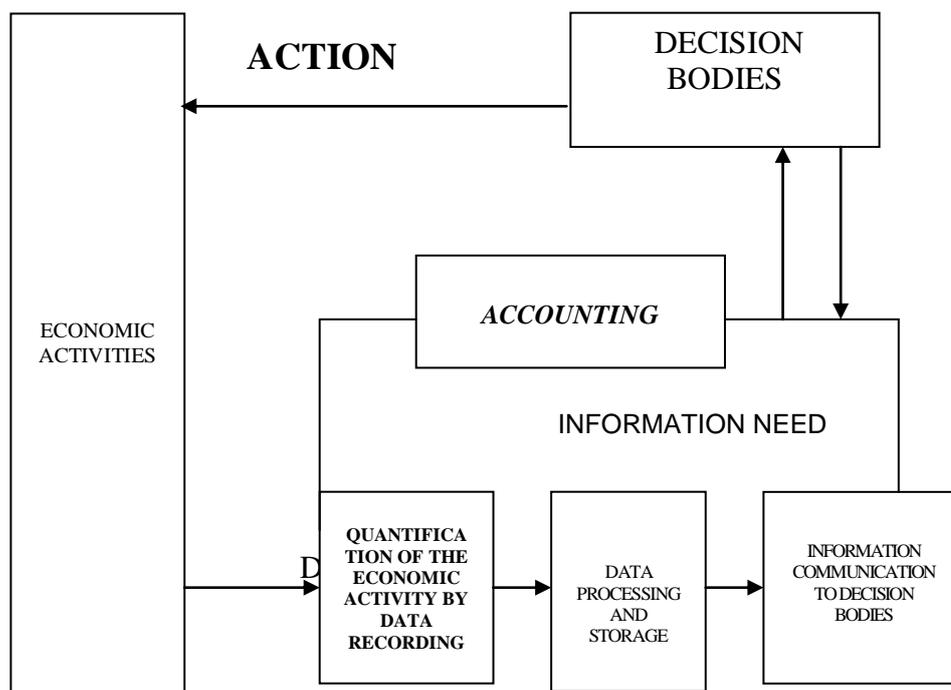
Intelligibility of the financial information is given by its classification, characterization and presentation in a clear and concise way.

The financial information released from within the financial statements is intended for users who have sufficient knowledge of economic affairs and who study and analyze this information with due attention.

5. Accounting information and the decision-making process

Within the information system, the role of accounting is overwhelming in order to substantiate decisions by decision makers. Accounting makes the connection between the economic activities and the decision-makers, as shown in the following Figure 1:

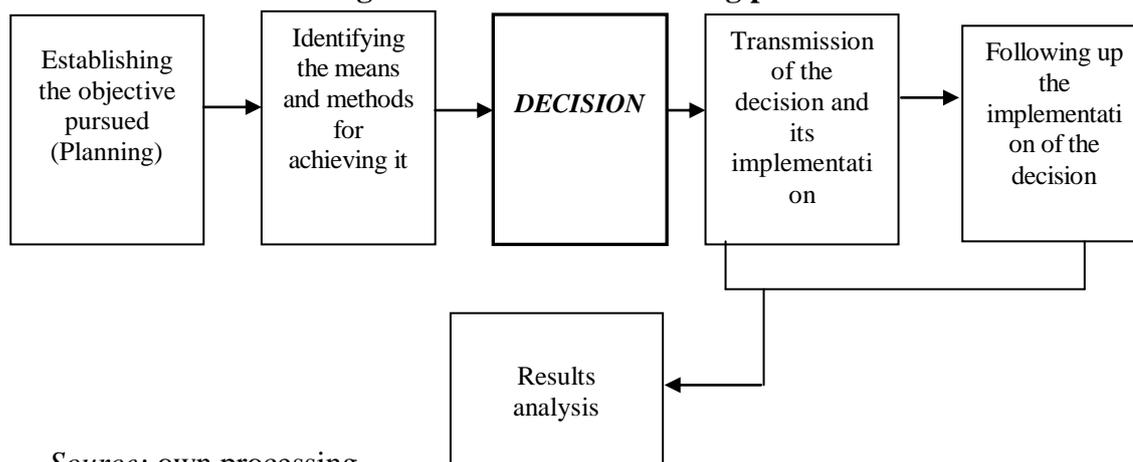
Figure 1. The connection between the economic activities and the decision-makers



Source: Epuran, M., Băbăiță, V. and Imbrescu, C., 2004. *Accounting Theory*. Bucharest: Editura Economică.

In order to substantiate a decision as correctly and efficiently as possible, the decision makers must establish the objective pursued, identify the means and methods for achieving it, choose the alternative considered to be optimal, put into practice and follow its application, as well as analyzing the results. Schematically, the decision-making process can be presented as follows (Figure 2):

Figure 2. The decision-making process



Source: own processing.

The prevalence of the financial-accounting information over any other type of information used in the decision-making process comes from a series of particularities, among which we mention:

- due to its qualitative characteristics, the financial-accounting information has a degree of certainty, relevance and credibility superior to the other information systems;
- the financial-accounting information allows correlations between: expenses, revenues and results; receipts and payments; assets, liabilities and equity;
- the financial-accounting information allows both the global and analytical knowledge of the elements of the entity;
- the financial-accounting information allows the analysis of the degree of liquidity, solvency, liquidity and profitability of an economic entity;
- accounting, through specific processes and methods of calculation, ensures the calculation of production costs, their budgeting, revenues, expenses and financial results;
- the financial-accounting information due to the high degree of certainty, relevance and credibility is the basis of the substantiation of the future economic strategies starting from the results obtained in the current period or in previous periods;
- the financial-accounting information being complete and neutral, records in an integrated and analytical way the assets, liabilities and capitals of the entity in terms of their size, structure, provenance and destination.

6. Organization of the accounting information system

The organization of the accounting information system is based on the way in which the accounting information is constructed and disseminated.

Accounting achieves both the internal representation of the entity and the external representation, which leads to the existence of two components in the accounting information system of the entity (Ionaşcu, 1997):

- a component that plays, above all, the image of the company abroad – the financial accounting, considered the “external face” of the entity;
- a component that describes the internal processes of the entity – the management accounting, considered the “internal face” of the company.

The two major systems of organizing the accounting information circuit are known as formal monism or accounting in a single circuit and formal dualism or accounting in two circuits.

The formal monism is specific to the economic-social systems in which the dominant power factor has been imposed without the counterparties exerting an influence and requesting information other than that desired and agreed upon by the main user. The monist system is specific to authoritarian controlled economies and countries with a liberal economy, but marked by the presence of large multinationals.

Formal dualism is specific to the economic-social systems in which the dominant power factor and the counter-powering factors have managed to harmonize their interests and reach a compromise regarding the information needs of the various users categories of the accounting information. Formal dualism implies the existence of the two accounting circuits generically called financial accounting and management accounting.

While financial accounting is intended to meet the accounting information needs of a wide range of users, management accounting is intended to provide information only for the management of the economic entity.

Regardless of how the accounting information system is organized, it is based on observing the principles of the double party:

- the principle of double representation;
- the principle of double registration.

Observing and implementing the two fundamental principles underlying the organization of the accounting information system is achieved through the accounting method. The accounting method uses both accounting-specific procedures and common procedures to other sciences as well. The specific procedures for accounting are represented by: the balance sheet, the accounting account and the balance of the checking the accounts. Among the procedures common to accounting, but also of other sciences, both from the economic field, but also from other fields, there are: documents, inventory, evaluation, calculation, observation, analysis, reasoning, classification, comparison, synthesis etc.

7. Conclusions

Considering the above-mentioned, we can say that when a decision concerns economic issues, accounting provides information for three managerial functions: planning, controlling and assessing.

Due to the high degree of certainty, relevance and credibility, as well as the qualitative characteristics that must be fulfilled, the financial-accounting information is the most important and reliable source of information for the decision-makers in the business world. Essentially, the financial-accounting information helps to substantiate the economic decisions and allows the identification of the means and methods of achieving the objective pursued.

Regardless of how the information-accounting system is organized, it ensures the construction and dissemination of the accounting information in compliance with the principles of the double party.

In order to obtain the information, the accounting method is used both by the procedures specific to the accounting method, as well as by the procedures used by other sciences.

References:

1. Colasse, B., 2009. *The fundamentals of accounting*. Iași: Editura Tipografică Moldova.

2. Epuran, M., Băbăiță, V. and Imbrescu, C., 2004. *Accounting Theory*. Bucharest: Editura Economică.
3. Feleagă, L. and Feleagă, N., 2007. *Financial accounting. A European and International Approach*. Bucharest: Editura Economică.
4. Ionașcu, I., 1997. *The Epistemology of Accounting*. Bucharest: Editura Economică.
5. Minu, M., 2002. *Accounting as a power tool*. Bucharest: Editura Economică.
6. Ristea, M., 2004. *Financial accounting of the company*. Bucharest: Editura Universitară.
7. The Body of Chartered Accountants and Chartered Accountants of Romania, 2015. *Practical guide for applying the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements approved by the Order of the Minister of Public Finance no. 1.802/2014*. Bucharest: CECCAR Publishing House.
8. The Body of Chartered Accountants and Chartered Accountants of Romania, 2015. *International Financial Reporting Standards – IFRS: official rules issued on January 1, 2015: includes the standards that enter into force after January 1, 2015, but does not include the standards they replace. IFRS Foundation – 7th Edition -a, revised*. Bucharest: CECCAR Publishing House.
9. Vișan, D., Burada, C. and Luță, D., 2006. *Financial accounting*. Pitești: Editura Independența Economică.