

IMPLICATIONS OF MANAGERIAL OBJECTIVES IN THE PERTINENT ELABORATION OF ACCOUNTING INFORMATION WITHIN COMPANIES IN ROMANIA

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Abstract: *This paper aims to examine the factors that influence the quality of the accounting information developed within the companies in Romania. In our opinion, accounting information is developed under certain circumstances, not to reflect the reality of the enterprise's financial position but to provide the desired image for shareholders or management. Accounting is thus challenged because of its ability to alter the company's true representation. The study is based on the analysis of a representative sample of companies listed on the stock exchange and operating in Romania. The analysis of the data revealed a close connection between the role of the actors involved in the production of financial statements, the perception of the existence of an institutional framework for accounting regulation and the quality of the accounting information produced.*

Key words: *Accounting information, Creative Accounting, Managerial Accounting*

JEL classification: *M48, M41.*

1. Introduction

Information is the only inexhaustible resource, a real power factor, a good that directly influences the welfare of a nation. In the midst of the informational revolution, the deepest change seems to be related to the collection, processing, production and dissemination of information (Cucui, 2006).

The process of production of accounting information uses a professional judgment on the application of standards, including the decisions taken in the preparation of annual accounts. This is crucial in producing reliable, relevant and sincere information. Several studies about the information content of the financial statements reveals the compliance and control of the legal framework by different stakeholders in the production of accounting information (Krishnan, 2003).

The production of financial statements may involve several parties, such as management, audit committee, board of directors, and external auditor. The management of the economic entity is responsible for preparing the content; the audit committee and board of managers review, approve information and monitor how management performs its accounting information responsibilities; the auditor issues an opinion on the financial statements after conducting an audit in accordance with the standards in force. In this context, the intervention of a large number of actors with divergent interests in the production of accounting information can lead to various forms of manipulation.

Accounting information, which forms the basis for decision-making, must be relevant, complete, neutral, timely and without significant distortions. In order to produce useful accounting information, a rigorous process must be followed to ensure that all these criteria are met. This study was conducted by interrogating accounting practices, the regulatory and control institutional framework and the role of actors involved in the process of compiling accounting information.

The question arises whether the process of preparing the financial statements reflects the accounting reality of all transactions and events that affect the economic life of the company or whether, in concrete terms, the current institutional framework can guarantee the production of reliable and honest accounting information. Therefore, we will

review the literature that will lead to methodological choice. Subsequently, the results will be presented, followed by their discussion.

2. Accounting information

Management is responsible for preparing the entire accounting policy of the company, having the ability to influence the information content of the financial statements of the company. Therefore, the flexibility of accounting rules may allow managers to exercise a random judgment and publish results based on discretionary objectives (Watts, Zimmerman, 1990).

Moreover, as managers are investors who are very well anchored in the economic realities and aware of the prospects of the economic entity's activity, they have the responsibility to communicate real data on the financial statements on the market. But there is a difficulty in assessing managerial orientation. The premise that managers manipulate accounting data is the starting point for a significant number of academic accounting papers.

However, it should be stressed that the reported accounting information is not only a manager's wish, but also a culmination in the process of reporting on the internal validation flow of all actors involved in the accounting information chain. From the above, our first hypothesis finds its foundation.

Hypothesis 1: Manager's accounting choices significantly influence the quality of accounting information produced by Romanian companies.

Governance in the field of accounting information is the responsibility of the board of directors and the audit committee. As a consequence, the audit committee reviews the financial statements prior to their release and recommends their approval to the board of directors. Furthermore, the audit committee must have expertise, which is a necessary condition for engaging in the production of accounting information. It should be remembered that these actors contribute to providing the information produced with a credibility guarantee in terms of reliability, sincerity and faithful image.

Several studies identify the competence or expertise of the audit committee as a criterion of effectiveness. This results in a reduction of discretionary practices regarding the financial expertise of the audit committee, management expertise and commercial banks' interference (Xie, Davidson and Dahalt, 2003). The expertise dimension, in particular the audit expertise of an audit committee, appears to be an important element in preventing the manipulation of results and hence a factor in the quality of accounting information.

Empirically, recent work has focused on the relationship between financial communication and the presence of the audit committee. In terms of presence, many authors find a positive relationship between the existence of an audit committee and the level of disclosure of voluntary information (Arcay and Vazquez, 2005).

However, other authors do not identify significant links between the presence of an audit committee and the quality of accounting information (Kent and Stewart, 2008). This seems surprising given the role that this body has to play in improving the quality of accounting information. From the above, the following assumptions can be assumed:

Hypothesis 2: The presence of the audit committee in the board of directors is positively correlated with the quality of the accounting information produced by the companies in Romania.

Hypothesis 3: The presence of a strict and rigorous regulatory and control institutional framework for accounting information has a significant impact on the production of quality information within companies in Romania.

The existence of a strict and rigorous institutional framework would favor the production of quality accounting information. The legal, policy and regulatory institutional system is an external governance mechanism whose efficiency varies according to the role that these institutions play in the economy. Numerous studies have examined the disciplinary role of national and legal systems of governance (Boughanmi and Deffains, 2006).

Generally, institutional control activity enters into a macro-governmental analysis framework with coercive tools that can discourage fraudulent practices. From the above, the views of the authors are unanimous about the need for the state to equip itself with an institutional arsenal that oversees the production of accounting information within companies.

3. Applied methodology

The study sample consists of companies operating in Romania, namely limited liability companies, including companies that are under pressure to certify the financial statements by a statutory auditor. The sample was selected following the collection of disclosed statistical, financial and business data, published by target audience companies on specialized sites or public institutions. Thus, the company's characterization was aimed at identifying issues such as business age, industry, management experience within the company, etc. Data analysis also aimed to question the production of accounting information in the companies in the sample.

4. Sample description

The description of the study sample considers the behavior of companies in the production and use of accounting information.

A number of difficulties have been identified in describing companies participating in the study because knowledge of the characteristics of these companies is essential to have a good understanding of the factors that can influence the quality of the produced accounting information.

All the observed businesses were created after 1990, aged between 5 and 25 years. The companies in the sample produce the majority of domestic financial statements (84.5%). Similarly, when this production of accounting information is carried out internally, 90% of accountants follow managerial decisions. Accounting choices applied by most of the companies in the sample indicate an increase in company spending, which paves the way for significant accounting manipulation.

The companies surveyed are mostly satisfied with the summary financial statements drawn up, this observation reinforcing the usefulness and confidence in the accounting information produced by the companies in Romania. The accounting information produced is generally important for business management. The first purpose of using accounting information is that it allows management of the company to take decisions. Similarly, accounting information is important for predicting the evolution of the company's business, a utility that seems to be very important to most companies compared to other purposes.

The analyzed sample mainly covers companies with audit committees as leverage (64%). This observation highlights the strong involvement of governance mechanisms and the importance of the audit committee in the process of producing reliable and honest accounting information. Moreover, in the vast majority of the sample companies audited (90%), the auditor reports to an international audit firm (KPMG, Price Waterhouse Coopers, Ernst & Young and Deloitte). This suggests an external quality audit due to the reputation of the auditors and the reputation of the audit firms. Regarding the functioning of the audit committees, the results of the survey show that the audit committees meet

twice a year. In addition, most companies perceive the existence of a regulatory framework and control of accounting information produced in Romania. This analysis gave us an overview of the characteristics of the companies studied.

5. Construction of study variables and model specification

The quality of information is assessed by its ability to reproduce a reality that is not influenced by the perception and judgments of the emitter or the form that makes this reality understandable. The concept of quality is therefore defined by qualitative characteristics, based on a dual function assigned to accounting information - a utility function and a social function. In his study, (Michailescu, 2009) measures this quality through a list of broadcast elements or indicators associated with a weighting system. Other studies have examined the use of accumulations to measure the quality of information by using estimation models (Chan, Chan, Jegadeesh and Lakonishok, 2006).

These are the determinants of producing accounting information. Among these explanatory factors, the management's accounting choices, the quality of the audit, the presence of an audit committee, its functioning and independence to address reliable and honest accounting information are addressed in the study.

- **Manager's election choices**

These are the choices made by the manager, allowing them to enhance their personal utility. To this end, the manager adjusts his accounting choices to meet the expectations of the shareholders and may adopt a "maximizing" behavior to deviate his accounting choices in favor of increased remuneration. Indeed, when its compensation is indexed to the accounting indicators, the manager will choose the accounting choices that increases the benefits.

In order to reduce annual depreciation costs and consequently to increase the accounting result, managers often choose the straight-line method of depreciation because they tend to depreciate fixed assets less in the early years. Consequently, it can be argued that the linear depreciation method is an accounting practice whereby financial statements can be manipulated for purposes that serve the interests of the shareholders;

- **Audit quality**

The auditor's independence is correlated with its size, and the latter influences the quality of the audit. In this study, the quality of the audit is measured by the fact that the auditor belongs to an international firm (Big Four).

- **The functioning of the audit committee**

The effectiveness of the audit committee results in continuous monitoring and regular monitoring of the activities of the management bodies. This effectiveness is measured in this study by the number of meetings of the audit committee during the fiscal year.

In an explanatory statement, the degradation of accounting information is an attempt to explain through systemic and environmental malfunctions that are not the only variables that can affect the reliability and relevance of accounting information. Finally, and since the certification of the external auditor is a guarantee of the reliability of the company's financial statements, our control variable would be the quality of the audit. Our conceptual framework is part of the informational perspective of the annual financial statements.

When the method used is linear, the quality of the accounting information seems to be better than when the method is degressive. In addition, accounting information is clearly of better quality when the audit committee holds at least two meetings during a financial year. Similarly, the fact that the audit reports issued by an international audit firm influence the choice of the depreciation method to be adopted.

- Independence of the audit committee

The independence of the audit committee depends on its composition. The presence of external investors, investment banks and financial experts within the audit committee strengthens its independence. In this study, the independence of the audit committee is measured by the presence of bankers and financial experts.

- The perception of the absence of a rigorous regulatory framework for control and accounting

6. Discussion of the results

The presence of internal and external governance mechanisms within Romanian companies guarantees the production of reliable and sincere information. This study has shown that the accounting choices of executive directors, especially the choice of the accounting depreciation method, explain the quality of the accounting information so that our first hypothesis is validated.

Similarly, the presence of an audit committee within the company, the number of meetings held by the audit committee during a financial year, allows the company to prepare financial statements reflecting the real and accurate situation of the assets and the financial position of the company. This leverage of internal governance strengthens our view, and the second hypothesis is therefore confirmed.

The quality of external auditing as measured by the auditor's membership in an international firm has a significant influence on the quality of the produced accounting information. Due to the company's reputation, the importance of the means and the auditors' expertise, the audited financial statements imply credibility in the published information. Similarly, the perception of the existence of a strict and rigorous regulatory and controlling institutional framework explains in this study the quality of accounting information in companies in Romania. The existence of a strict and rigorous institutional framework through the coercive aspect should promote the production of reliable and accurate accounting information.

7. Conclusion

The aim of this paper was to describe the process of accounting reporting and the ability to produce quality information. This observation was specifically motivated by the fact that the existence of internal and external control levers within the company plays a key role in producing trustworthy and honest information.

Finally, in Romanian companies, the production of accounting information is subject to various manipulations. Thus, the production of reliable and accurate accounting information is the result of a harmonious functioning of both internal and external government leverage and the implementation of regulatory and ethical structures in the management options center.

Thus, it is necessary to establish a strong and rigorous institutional framework for monitoring and supervising the production of accounting information. To reduce creative accountability by the various stakeholders, the authorities should make improvements and improvements to the regulations in place.

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