

THE INFORMATIONAL POTENTIAL OF FINANCIAL ACCOUNTING AND ITS USERS

MARIA ISAC, LIMBĂU MARIA CLAUDIA, BOGDAN COTLEȚ, DUMITRU COTLEȚ
WEST UNIVERSITY OF TIMISOARA, FACULTY OF ECONOMICS AND BUSINESS
ADMINISTRATION, 16 J.H.PESTALOZZI STREET, TIMISOARA. 300115, ROMANIA
mariaisac2009@yahoo.com, toldo_bogdan@yahoo.com, cristinanagy2009@yahoo.com

Abstract:

The financial accounting offers financial information to outside users. It is also the reason for its name. But one must remember that it uses an accounting approach to data presented by economical events, for the purpose of offering financial information.

The economical decisions concern the proper functioning of a company, long term, as well as short term. The financial decisions refer to using financial instruments, either to cover financial risks of the company, or for the purpose of speculation. They are active under the conditions of the existence of a capital market where the capital investors negotiate the price of participations offered by companies exchanged on the respective market capital.

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1. Introduction

Many specialist authors that define accounting as a techno-science maintain that the accounting information, due to its predominantly numerical specific, belongs to the perimeter of objectivity and accuracy.

But it is well known that accounting information have as a starting point two sources that are different and unequal from the point of view of quality. Thus, those that result from transactions carried out in different markets are followed from when they appear, during the financial exercise, and are rigorous and objective. Others, known at the end of the exercise, to great extent are the result of estimations and reflect the accounting policies of the company's management.

Even given apparently strict regulations, the accounting expert can make choices, having at his disposal a margin of safety that can lead to a subjective interpretation of this information.

The economical decision maker, at the micro-economical level, needs information coming both from outside, as well as inside. The accounting information is crucial for the taking of decisions by the managing agents. Accounting processes the data delivered concerning economical transactions and events at company level, granting financial information (if it comes in the form of monetarily evaluated information), non-financial (if expressed quantitatively) or/and accounting-wise (if it underwent a data processing procedure typical for accounting).

In their care to deliver a faithful picture in view of assisting the decision makers, the accountants employ a reasoning (the so-called professional reasoning according to the International Accounting Standards/Financial Report), and make decisions in regards to using one treatment or another to provide a good report.

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accounting treatment to data presented by economical events for the purpose of providing financial information.

2. Information, Its Role and Place Within the Managerial System

The unprecedented evolution of human society in our days has propelled information to the status of essential necessity of the decision-making process.

Generally speaking, information is a piece of news, an announcement, a new element concerning an object, a phenomenon, a process, an activity, etc. depending on who is called to make the decisions, measures that must be taken in the future so that the activity they manage be efficient.

Information means new knowledge, proportional to the situation in the past, and is of increased interest to the users.

The main criteria for classification of information are:

- **according to the level of organisational structures from where they originate:**
 - information originated from management (decisions, verdicts, etc);
 - information originated from the execution level of the system (technical, financial and accounting, statistical).
- **according to its evolution in time and the economical phenomena and processes:**
 - Dynamical information – continually evolving, reflecting activities and operations which are in motion and transformation.
 - Statistical information – it spotlights closed phenomena and processes, meaning from the past, which cannot be modified anymore.
 - Periodical information – obtained at certain time periods (monthly, every trimester, yearly).
- **according to the way they are obtained, stored, transmitted:**
 - Oral information – orally rendered;
 - Written information – based on a written document;
 - Audio-visual information – obtained by radio – TV, films, phone.
- **according to their degree of assembly**
 - Analytical information;
 - Synthetic information.

For accounting of special interest is the economical information. In this category included is also the **accounting information**. This is obtained through own methods, procedures and instruments of processing economical data. It is the most real, precise, complete and operative information, and represents the prop of the managerial process. The majority of decisions taken during the managing process are based on information obtained from accounting, and this means that the accounting information has an important place within the economical record system, in general, and within the **economical informational system**, in particular.

In order for the accounting information to be useful, within the managerial system, it must fulfil 4 main qualitative features: intelligibility, relevance, credibility and compatibility.

INTELLIGIBILITY: represents an essential quality in the sense that accounting information should be easily understood by the users. For this purpose, it is assumed that the users have sufficient knowledge regarding business transactions and economical activities.

RELEVANCE: presents the capacity of information to be useful to the beneficiaries in taking decisions. Accounting information is then relevant when it influences economical decisions of users, assisting these in estimating past, present or future events, confirming or correcting prior estimations.

CREDIBILITY: the accounting information has the quality of being credible then when it does not contain significant errors, is not partial, and its users can trust that it renders correctly that which the information set out to represent or what is reasonably expected for it to represent.

In order for the information to credibly represent events and transactions, it is necessary that these be accounted and presented in concordance with their substance and the economical reality, and not only with their legal form. Information must be neutral, lacking influences, faithfully representing events.

COMPATIBILITY: implies the necessity that the users be able to compare information from the financial reports of a company, across time, so as to identify tendencies of financial position and its performances. The users must also be able to compare financial reports of various companies to be able to estimate the financial position, its performances and changes.

3. Financial Accounting, the Source of Information for Compiling Financial Reports

Discussing the role of accounting implies indicating its bases and objectives. Schematically, accounting can be considered as being a technique that allows the interpretation or measuring of economical events, providing thus financial information.

So as to achieve this goal of informing, two additional elements must be presented: definition of accounting rules and norms, specifying the purpose of information and definition of auditing rules and norms that allow the control of emitted information (observing the accounting rules in compiling financial reports).

Accounting, in regards to technique and information, has the objective to measure and ‘translate’ the activities of an entity (legal activities for social accounts and economical activities for consolidated accounts). In this regard accounting is a social and cultural bet, as CAPRONI underlines, highlighting the social consensus at the basis of accounting:

“What is received from accounting, is not an absolute truth, but rather something to which all parties can adhere to, even if only temporarily, and under a certain reserve.”

Identifying the different factors that influence accounting allows for a better understanding of the causes and ways in which accounting is affected by these factors.

The factors that influence accounting are of two types:

1. Factors that are connected to the specific environment of a country or region, thus cultural, historical, economical and religious factors, to which must be added the role that the various users of accounting information play (financial markets, professional organisations);
2. Factors that are connected to the functioning of standardisation authorities and, consequently, to the accounting standardisation process adopted by the respective countries.

The organisational and environmental factors will be studied successively.

4. The Contingency of Accounting and Its Influence upon Accounting Information

These consequences can be seen at the level of accounting principles that are taken as references. Thus, accounting is not a universal language, because it makes reference to principles that differ or the interpretation of which, at least, is different from one country to another.

The first conceptual framework was set-up in the US by FASB, following the conclusions of the Trueblood report, published in 1973. The study of the objectives attributed to financial reports oriented the interest of the Trueblood Group towards:

- users of financial reports;

- informational needs of these users;
- information provided by accounting and their adaptation to the needs of the users; and, finally, the conceptual framework of these accounting information.

The Trueblood Report presents thus a series of objectives that are attributed to accounting *and* which have stood at the basis of all conceptual frameworks drawn-up afterwards.

Following the Trueblood Report, FASB published between 1978 and 1985 the so-called “Statements of Financial Accounting Concepts”, a number of five of them. The five SFAC make up the conceptual framework of FASB:

More exactly, the conceptual framework of FASB is organised around four items:

1. The informing objectives are grouped around a fundamental objective: using the information provided by financial reports.

This implies defining some users – especially financial investors – who will be taken as reference for measuring the utility of the information.

This stance of the FASB was stated in SFAC 1, *Objectives of Financial Reporting by Business Enterprises*. The objectives of financial information must aim at the outside users who do not have the authority to request the exact information they need. We’re talking here mainly about investors and creditors.

2. The qualitative characteristics of financial information and financial reports.

These characteristics have been specified in the SFAC 2, *Qualitative Characteristics of Accounting Information*, published in 1980, and which established a hierarchy of accounting qualities shown in figure 5. This hierarchy of accounting qualities defines the utility of information in conjunction with:

- its inherent qualities (pertinence and finality);
- its relative qualities regarding the accessibility and price of this information in conjunction with the advantages it offers to its users (*the ability of the users to understand financial data influences the utility of accounting and of financial information*).
- especially, the pertinence of information refers to the opportunity of information (... of information) and providing some information regarding future probable evolutions (*the predictive value of information*). Its pertinence depends thus upon the objectives attributed to accounting.

In regards to the accuracy of the information, it refers to the process of obtaining information and especially the necessity to guarantee that the information can be verified, is neutral and is a true representation of reality.

CONCLUSIONS

For taking pertinent decisions, that fully correspond to reality and solve the many and complex issues created by economical and financial activities, quality information, provided by the economical informational system, is needed. For this purpose, during the last decade the goal was the perfecting of this system, contributing thus to the perfecting of accounting.

In view of becoming a member of the European Union, Romania understood the necessity of adhering to the accounting regulations of the communal space and has made increased efforts to adapt to these new requirements.

Nowadays, the management of an increasing number of enterprises is being confronted with the “aggressiveness” of investors in the process of financial informing. The information provided by the balance sheet and profit and loss account is no longer

sufficient for this category of users that orientate themselves mainly towards information regarding the prospects of the respective enterprise.

The informational dissatisfactions granted by the balance sheet and profit and loss account, based on which a detailed analysis of the financial situation, the enterprise's performances and the changing of the its financial position is not possible, explains the desire at a national level concerning accounting to complete the structure of financial reporting with two new reports that shall offer additional information: treasury flowchart and own capital changes report.

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