

THE USE OF ACCOUNTING INFORMATION TO ADOPT MANAGERIAL DECISIONS

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Abstract:

The 21st century is meant to be the century of information obtained in due time with the view to adopt the most adequate economic decisions. The operational and strategic complexities nowadays require a permanent dialogue with investors, tax authorities, clients, suppliers and employees. The report of the obtained results represents a key-ingredient in the building, support and continuous implication of interested partners. In the contemporary economy which is in a perpetual change, the spectacular modifications are achieved in a short time, on the basis of some financial decisions made through the use of accounting information and based on its accuracy and relevance.

Key words: economic decisions, financial decisions, accounting information

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The market of accounting information in Romania

In the present conditions of an informational society, the most important source is information. This stands for the basis of any decision – making process, and as regards the economic field, accountancy is the main source of information, both for the economic entity and its partners. A performant management is achieved by a pertinent information and by a decision made in due time.

Nowadays accountancy can be defined as a modelling instrument of an enterprise, which allows its leaders to elaborate accounts (balance, resultative account, the table of treasury flows notes, annexes) regarding the standing and its achievements to be presented to different economic and social partners, interested parties in its existence, in order to help them in decision making.

In our country, although the market of accountancy information knows a favourable evolution, one cannot state that it operates under optimum parameters. The statement is based on two main considerations that is: on the one hand, the state still remains the main representative of accounting information requirements, followed by banks, because there still prevails the financing – bank system, which consider themselves as being stable and exigent users of accounting information, and on the other hand other external users seem to lack the awareness of the right to information or they do not trust the relevance and reliability of accounting information, and hence their weak manifestation.

The lack of transparency of information published in favour of uniformity and conservatism feeds the informational asymmetry between the producers and users of accountancy information. Having in view who are still the privileged users of accounting information in our country – the State and banks - , the informational asymmetry of the „Anglo –Saxon” type (managers – shareholders) is not really manifested. This aspect is not considered to be a negative one, the problem being the weak manifestation of the share – holders, perhaps caused by a low economic culture, by the naivity with which the information offered by managers is accepted, as well as

by the imitation phenomenon of other users behaviour. The dilution of informational power of the accounting information offer at national level is certainly generated by the permanent changes which took place as regards the normalization of the Romanian accountancy in the last decades. The presentation of accountancy information offer has known changes, in the way that the economic reality has taken place to the legal side, making its appearance the phrase „deregulation financial situations” (made up according to recommendations).

The objective of financial standing is clearly stated – the presentation of information about an economic entity with the view to substantiate the users decisions, - but their final end may differ from a case to another, because of their non conformity with the economic events which generated them, either because they are misunderstood, or because of the variety of factors which influence the making of financial standing (social, economic, juridical), a fact which will lead to different decisions. The users various requirements make difficult the possibility to satisfy the informational necessities. The conflict risk between the accounting information users may be diminished by means of a quality referential, as well as by the audit of financial standing by the financial auditors.

The accounting finalities, its product – the financial standing – and financial decision

The second half of the 20th century was characterized by a channeling of accounting information to the decision – making process, as the sphere of users has extended, having in view the rise of responsibility and of the company’s role in society.

The accountancy has as its aim to measure and model the enterprise asset (first presented by the balance) and the asset accumulated during the financial exercise (presented by the resulting account and through the standing of their own assets). Another main accounting function has in view the satisfaction of shareholders’ interests, in the way that they will allow them to inquire about the actions of the company management. The third main function especially has in view the process of financial communication.

The process of financial communication has a decisive role in the economic life. Different industrial and commercial groups which made research on financial communication showed that financial accounting information represents a central vector of the policy of firms’ financial communication. It shows an interest both the volume of published information and especially its quality. Once with the international accounting harmony which allowed the firms to be in a certain competition relation, from informational point of view with other firms which operate on internal and international level, the quality of accounting information has improved.

At their appearance, the financial standing allowed only a better organization of accounting data, their synthesis, without using them in economic decision – making, accountancy being considered only an instrument for the conservation of patrimony.

The financial communication has in view both a communication imposed by law, and a volunteer communication of financial accounting information. (for example, the forecasting information belongs to the category of free communication and not imposed by law). The objective of financial communication is that of the optimization of company image in the eyes of those interested, sometimes in the detriment of a real information. The firm managers, alongside professional accountants, are real traders of financial accounting information. Even if the purpose of financial communication is to favorably influence the perception of the users of financial – accounting information as there are situations in which communication of some information based on our exaggerated optimism may cause suspicions for receivers.

As a control instrument, the accountancy allows the checking of asset sharing of a company, respectively the distribution of shareholders dividends, a correct settlement

of taxes and duties representing the obligations to different public bodies, as well as the observance of concluded contracts between the firms and various business partners. In other words, accountancy serves as an instrument to detect unlawful actions and fraud.

Being a transaction record, accountancy certainly serves as a means of proof in justice, with the mention that it must be a correct and sincere accountancy that is in agreement with regulations. In exercising the shareholders rights and of the company government, the accountancy provides the share – holders information to allow them to control the actions of firm management, in the same way in which for the company management, the accountancy is a means of justifying their actions and functions.

During the 20th century, once with the separation of shareholder owners from the professional managers, the need for information in decision making has intensified both for the share – holders and managers as well as for other users. In this context, the accountancy informational function is sustained by an internal and external decisional utility. On the basis of information contained in a financial situation, an investor must take the decision to invest in a certain company, to withdraw from this, to increase or reduce the investment. Furthermore, the accounting information is a condition of financial market efficiency, contributing to a better distribution of resources.

Another and maybe the most important role of accountancy refers to the fact that it constitutes the support and the basic material for the diagnosis of performances and financial and economic risks of a company as well as for the determination of its value. As a result but also as a cause of all these finalities, accountancy is also an instrument of social organization, which assures the trust necessary in the companies events and transactions, being normalized, regulated and controlled.

In order to serve to these finalities, the international body of accountancy regulation considers that the financial standing made to provide useful information for economic decisions answers to the most common needs for the users. They take economic decisions:

- to decide when to buy, to keep or to sell capital shares;
- to evaluate the administration skill or management responsibility;
- to evaluate the entity ability to pay its staff and to offer other benefits to its employees;
- to evaluate the guarantee the entity can offer for the credits granted;
- to determine the tax policies;
- to determine the profit and dividends to be distributed;
- to elaborate and use statistics data regarding the national income;
- To regulate the entities activities.

At present, these economic decisions are taken on the basis of financial standing made up according to the accounting model based on the recoverable historical cost and on the concept of keeping the nominal financial capital.

The informational offer assured by the accounting – financial system must be characterized by certainty and coherence having in view its structure based on rules and homogeneous principles, and in the same time it has to serve to all interested users. Therefore in Romania by adopting OMFP no 3055/2009, the financial positions have been adjusted to the provisions of European directions, especially as regards their being approached as synthesis documents with a quite generous covering area and in the same time useful in satisfying the users increasing request of information. Even if the state still remains a privileged user of accounting information, we must however admit that, once with the changes imposed by the mentioned regulation, the accounting information becomes more credible, and the communication function of accountancy gets another dimension.

The researchers who studied the link between the communication theory and the theory of decision – making have concluded that information, generally offers an

interest for the user if it meets the following conditions: it modifies the uncertainty as regards a future event and facilitates decision – making, it allows the elaboration of a decision – making model and facilitates feed – back.

A synthesis of decisions to be taken by the users of accounting information, associated with informational necessities, may be presented as follows:

Possible decisions of accounting information users

| Group of users | Reason for informational needs | Possible decisions |
|---|--|---|
| Share-holders (owners) -mandatory position -investment positions | Monitor of managers performances Shares evaluation | Managers dismissal Selling, buying or further shares keeping |
| Creditors (banks) | The appreciation of strong points and of entity financial stability | Extension or refusal of credit granting |
| Employees -short term -long term | Estimation of possibilities of employees' wages payment Estimation of working place stability | Protests for higher wages Search for a job |
| Clients | Estimation of the company future stability | Contract conclusion on a long term |
| Suppliers | Estimation of company financial power | Extension of commercial credits |
| State | Estimation of tax result and the appreciation of economic performances | Request for tax payment and issue of new regulations |
| Public in general | Contribution appreciation to the general welfare | Lobby to the Government and corporations |
| Management | Determination of the taxation result and of the distribution result | Dividend setting and tax payment |

Source: J. Flower, Global Financial Reporting, Palgrave, 2002, p.68.

Accountancy undoubtedly accomplishes a double role: the information one and the decision assistance. Any decision to regulate a standing must take into consideration two variables: the purpose evaluation or the regulating objective and the probability of decision accomplishment.

At the enterprise level, within any possible decision it can be found the getting of profit, which is not only a condition of an entity performance, but also an essential condition for its survival. The enterprise represents a system which couples human, material and financial means with the aim to produce, and production is meant to the desideratum to achieve profit. The fundamental decisions to sustain this objective can be very easily stated: what, how, in what way and at what cost to produce? One cannot state that there are good or worse decisions, but it is about optimum decisions depending on the means used and on the potential evolution of the surrounding (world) environment.

Making an analysis on time horizon, volume of information and the level at which decisions are made, three types of decisions can be found within an organization: strategic, tactical and operational. The strategic decision is made at the level of company general direction, it has incidents on a long term, and the information necessary for its slow substantiation must be as numerous as possible. Examples of strategic decisions are the investment decisions, financial restructuring, and activity

reorientation. The tactical and fundamental decisions can be substantiated more rapidly, at the level of organization departments and services, on the basis of a restricted number of information and have incidences on a medium and short term respectively (for instance: the budget planning belongs to the category of tactical decisions, and the decision to fix a broken equipment is an operational decision). The rapid way of making operational decisions stands for the organization efficiency and productivity. Not only the quantity of information but also its quality is a condition of a wise decision. Consequently, the stages of decision making have in view: the knowledge and data collection, the data change into information and decision – making proper.

The optimum use of financial resources by an organization lays down a good analysis of all strategical, economic and social components, followed by the substantiation of economic decisions. Within this, the financial decisions take a central place, because any type of decision leads sooner or later to a financial flow. The long term financial decisions represent the organization financial policy. In this category are included: investment decisions, finance decisions and the decisions regarding the distribution of shares. The last one represents a means of communication between the organization and the market, being a signal for the result of the exercise in development. In the category of short term financial decisions are included decisions regarding the administration of interest and exchange risks.

The quality of decision is directly dependent on the quantity and quality of information at disposal, as well as on the relevance and accuracy of procedures to take over the information. The managerial decision having a forecasting character, numerous risks are associated to it, which can be diminished on condition that managers know the main forms of risks the company may confront with.

At present it has been developed the risk management which has in view the risks decrease, in this way assuring better and more exact information to allow the managers using an adequate instrument, to minimize risks and uncertainties, adopting efficient decisions. For the time being, management has at its disposal a greater volume of information which he has to interpret in a shorter time. His role is to know how to use this information and to direct the resources and actions of the organization to favorable occasions to obtain significant results from economic point of view.

Under the conditions of recording some considerable progress in the field of communication, of technology and economy, the interest to adequate accounting information has the tendency to become greater and greater. The continuous diminution of commercial barriers, the increase of international economic competition make the macro-economic data and general information not to be sufficient in the decision – making. The attention is directed to specific information about the organizations which present interest to investors. Without accounting information an efficient management is impossible. Therefore the modern management largely depends on this.

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