

# THE USERS OF ACCOUNTING INFORMATION AND THEIR NEEDS

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**Abstract:**

*The range of accounting information users is a broad one, and it has different information needs, but the same quality requirements in terms of accounting information contained in the financial statements. Even if a number of criticisms and limitations can be brought and attributed to accounting information, it remains the most important substantiation source of economic decisions.*

**Keywords:** *relevance, comparability, verifiability, timeliness, understandability*

**JEL Classification:** *M41 – Accounting*

## 1. Introduction

The accounting information market is actually the meeting of the demand and supply specific to this market. The demand for accounting information is represented by the user's needs and the pressure they exert on the accounting system. The offer of the accounting information represents all the accounting information obtained within the accounting system, as well as the types and ways of disseminating of such information.

As a result of the increasingly important role that the financial-accounting information plays today as “social good”, accounting has consolidated its central place within the information system of any entity, be it public or private, clearly bringing its “contribution in an area of complex social, multilateral and multidimensional relations” [M. Capron, 1994, p. 110].

In principle, the objectives of the financial-accounting information are directly correlated with the users' information – decision-making requirements [C. Toma, 2001, p. 55].

The coverage of the users' needs represents the main conditioned factor that must be taken into account when setting the targets of any information system, given that the exposure of the accounting information goals and the users' needs are always in close relation [V. Montesinos Julve, 1993, p. 691]. On one hand, the users require mainly information to guide their own decision processes, which in their turn serve to exercise effective control over the fulfilment of the legal obligations and of the efficient management of the resources.

Based on the above-mentioned issues on accounting information and accounting information users I shall analyse the quality of the accounting information and the specific information needs of the accounting information users.

## 2. The requirements specific to the accounting information users

Obtaining accounting information takes place after processing and interpreting the data based on certain accounting principles and concepts, using a variety of methods and accounting policies to reflect an entity's economic reality. The accounting information is produced by expert accountants based on the rules and regulations in force.

Both demand and supply of accounting information are subject to a number of factors such as: normalization of the accounting system, the quantity and quality of the accounting information, as well as the costs of production, dissemination and processing of the information.

In order to meet its mission and meet the users' needs, the useful financial-accounting information must meet two fundamental qualitative characteristics: relevance and the exact representation.

Relevance considers the fact that the information is necessary to the users in order to sustain the economic decisions, so it must be significant and have the ability to generate a difference in the users' decisions.

The financial information presented by the annual financial statements are able to generate a difference in making decisions that have predictive value, confirmatory value or both.

The information is significant if its omission or misstatement could influence the users' economic decisions, based on the financial statements. Therefore, the materiality threshold is very important, and it represents a limit below which the information is no longer relevant.

To be an exact representation, a financial-accounting piece of information must be complete, neutral and free from errors.

A complete description includes all the information and explanations necessary for a user to understand the phenomenon described.

A neutral description is one that cannot bear influences in selecting and presenting the financial information.

An error-free description is the one in which there are no errors or omissions in describing the phenomena and the procedure used to generate the information reported was selected and applied without error in the process.

Besides these fundamental qualitative characteristics, comparability, verifiability, timeliness and understandability should be considered too, as they are qualitative features that enhance the usefulness of the relevant information and represented exactly.

Comparability refers to the fact that the information from the financial statements must be comparable over time in order to be able to identify the trends in the financial position and the entity's performance.

Verifiability helps to ensure users that the information accurately represents the economic phenomena they intend to describe. Verifiability means that different independent and informed observers could reach a consensus that a particular description is an accurate representation.

Timeliness refers to the fact that if there is undue delay in reporting the information, it may lose its relevance and the management may need to choose between the relative value of the reporting at a certain time and providing reliable information.

Intelligibility means that the information provided by the financial statements can be easily understood by the users who have minimum information of accounting concepts and knowledge of business and economic activities. Clear and concise characterization, presentation and classification of information make them intelligible.

Regarding the factors that influence the communication practices of the information in the financial statements we can say that these are multiple and we can quote some: the type of economy, the legal system, the political system, the nature of the economic ownership, the social climate, the stability of the accounting rules, the type of economic growth, education, etc.

Identifying and presenting the external factors that influence an entity is likely to influence the supply of accounting information from the entity as well as the quality of the information.

At the same time, the internal stimuli within an entity influence the means and the strategy of disseminating the accounting information and, implicitly, they influence their quality.

### **3. Accounting information users and their information needs**

Accounting information users can be grouped into two categories as follows:

- users of accounting information within the entity: owners, Board of Directors, employees;
- users of accounting information outside the entity: investors, creditors, suppliers, customers, the public, state institutions and other authorities.

The owners, the Board of Directors and the employees are interested in the information about their entity's stability and profitability to support their future decisions. The owners and the Board of Directors are particularly interested in the entity's ability to generate profit, while the employees are interested in the entity's ability to provide remuneration, pensions and other benefits, as well as career opportunities.

The current or potential investors are interested in the risk-benefit relationship in order to make decisions regarding the purchase, sale or retention of stocks, as well as the entity's ability to pay dividends in order to estimate the return on investment.

The financial creditors are interested in the information related to the entity's reimbursement ability, in the due dates, in the financial obligations to decide the increase, decrease or constant maintenance of the level of credits and loans granted or the recovery of credits and loans granted and ending any relationship with that entity.

Suppliers and other trade creditors are interested in the entity's solvency to determine whether the amounts owed will be paid at maturity, as well as to make decisions such as: initiating commercial links, maintaining, increasing or decreasing trade relations, granting or cancelling commercial facilities.

Customers are interested in the information related to the continuity of the entity's activity to make decisions about: the long-term collaboration with the entity, failure to initiate trade relations with it, looking for other providers, if applicable, when customers are addicted to it.

The public is interested in the information enabling the assessment of the economic and social impact of the entity's activity.

The state institutions and other authorities need a wide range of information to: regulate the entities' activities, to determine taxation, to calculate the national income and other macroeconomic indicators, to examine the impact of the entity's activity performance on the environment, etc.

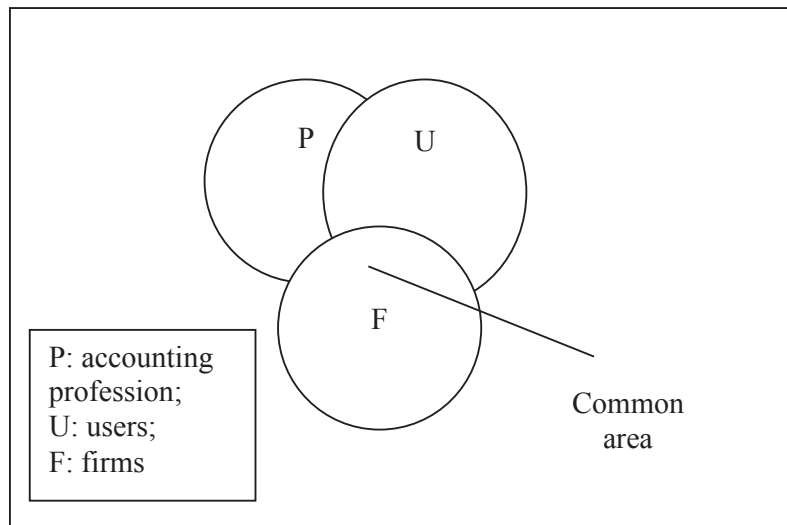
The main responsibility to prepare and present the entity's financial statements rests with the entity's management which has the ability to determine the form and content of the information presented therein. In addition to the information drawn from the financial statements, the entities' managers have access to additional financial and management information that helps in drafting the planning, decision making and control processes.

The financial statements, although not satisfying all the users' information needs, meet the common needs of their majority. We can say this because the financial statements largely show the financial effects of some past events and they do not usually provide non-financial information.

The financial statements also show the results of the entity's administration by the management, including their management method of the resources entrusted to them.

The objectives of the financial statements are influenced by the conflicts of interest that occur on the accounting information market as a result of the interaction of three groups: the firms, the users and the accounting profession [L. Malciu, 1998, p. 47]. The firms are the subject of financial information and, at the same time, the provider of the financial statements with a certain degree of relevance. The users are those requesting the information and who also influence the production of accounting information. The accounting profession has the role of improving the content of the financial statements. The interaction between the three groups can be illustrated graphically as in the figure below:

Figure 1 Conflicts of interest between firms, users and profession



Source: [L. Malciu, 1998, p. 47]

Looking at the figure above we see that there is a common interest information area to all the groups. The accounting information contained in this area is provided by companies with the help of the accounting profession and it meets the users' needs. The other areas reflect the conflicts of interest that may arise and there are three approaches [L. Malciu, 1998, p. 48]:

- the first approach has as central topic the firm and the information it wishes to disclose. If we look at the chart above, this means that the F circle is fixed, and the circles P and U change according to F.
- the second approach considers that the P circle is fixed and the others changes in relation to it, that is to say the accounting profession is the one that ensures the volume and the quality of the information provided to users by firms.
- the third approach aims to maintain the constant of the U circle and the "movement" of the others in relation to it.

I believe that the latter approach is the most important because it prioritises the request for accounting information from consumers and, according to this, it directs the offer of accounting information.

#### **4. The limits of the accounting information drawn from the annual financial statements**

Accounting information users face a number of information shortcomings generated by the limits of the information contained in the financial statements, limits that could be summarised as follows:

- the component synthesis documents of the complete set of financial statements contain information covering the past, and the users employ them to support decisions aimed at the future;
- the most commonly used assessment basis of the elements from the financial statements structures is the historical cost, which is accused of having more and more shortcomings;
- some information from the financial statements are subjective because they are based on estimates of the various dimensions for the component elements of the financial statements structures;
- the existence of accounting options and the freedom to choosing between them lead to creative accounting that can generate the results desired by accountants, and not the real information;
- the accounting-taxation relation often produces distortions of the information in the financial statements;
- due to the fact that some information may not be considered commensurate monetarily (such as, for example, an entity's human resource potential) leads to the fact that they are not included in the financial statements;
- No component of the financial statements fully clarifies the ability of an entity to generate profit or the risks to which it could be subjected.

#### **5. Conclusions**

Despite all these shortcomings we can, however, conclude that the importance and role of accounting within the information system for decision-making is overwhelming because it connects the economic activities and the policy makers.

Accounting information users need to pay special attention to accounting because it plays a crucial role in the financial communication by registering all the entity's economic and financial operations and their synthesis in the financial statements.

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