

# CAPITALIZING ACCOUNTING INFORMATION IN THE DECISION MAKING PROCESS

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## **Abstract:**

*Our purpose in this paper was to provide an overview regarding an entity's information system, through an approach of the current system and future prospects. The role of an information system is to provide the information necessary for the diagnosis of the entity's status and represents a prerequisite for decisions to be taken: it is an instrument to strengthen discipline and increase accountability. Thereby, the optimal capitalization of economic information is only possible within the entity's information systems whose primary function (regardless of their degree of complexity and automation) "is to speculate a reasonable amount of information, based on which to make economic decisions well argued on all organizational levels.*

**Key words:** *Accounting, Capitalizing, accounting information, the decision making process, information system*

**JED Classification:** M41

## **Introduction**

The economic entity can be considered as a hierarchical community of people and objectives, means of production and information channels, a blending of general interests with individual interests, and its management cannot be ensured in satisfactory conditions without systematic knowledge of how it operates.

It is known that the concept of information is wide and that it can be found in absolutely all areas of human activity and in the universe. There is no natural or social system without an exchange of information, both within the system and between its components, and also between the system and other external bodies.

Information is also the raw material for deciders since it is vital in the decision making process, therefore accounting must provide for the management relevant information and useful in making decisions.

The accounting information system plays an important role in every economic entity in the decision making process.

The economic information system (EIS) represents the assembly of means and procedures for obtaining, storing and using information in an area of the economic activity as a result of investment in human and capital resources.<sup>1</sup>

Regardless of the definition of an economic information system taken into consideration, the importance of such a system derives from the fact that "it provides at all times the status and functioning of the patrimonial unit, providing information about

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<sup>1</sup> Oprea, D., *Analiza și proiectarea sistemelor informaționale economice*, Ed. Polirom, Iași, 1999, p.21; (Oprea D., *Analysis and design of economic information systems*, Polirom Publishing House, Iași, 1999, pg. 21)

the manner in which resources are used, about the existence of a deficiency and the necessity to examine it".<sup>2</sup>

Analyzing through the theory of information, accounting information has a double determination: qualitative or identification and quantitative or status. The qualitative determination indicates the type and nature of the patrimonial item to which the information relates, and it is of particular importance because it determines the quality of the decision taken, regardless of the time horizon covered by the decision (short or long term). The quality of a decision is subject to a complex set of preconditions, the quality of information used and managerial competencies held and applied by deciders are decisive. The quantitative determination relates to the state in which the patrimonial item is found.

## **Results and discussion**

From our research we emphasize that all companies surveyed use a computerized accounting program, which provides them accounting information obtained from the processing of documents. But not all managers are very much satisfied by the accounting information provided, and we believe that this can also occur due to some restrictions such as the cost of purchasing information, the decider's analysis possibilities or characteristics of the relations between the decider and the environment.

Therefore, decision quality depends on the accuracy in interpreting information elements, the deciders' level of training and the processing methods used. The main purpose of a decision is to harmonize the objectives with the resources, in terms of obtaining maximum efficiency.

The accounting system collects information, processes them and then provides a useful form to managers that exploit and manage them in the decision making process. Information is the premise of adopting a systemic, prospective and integrating vision in management activities of the company. Information must be perceived by managers as part of the patrimony under their direct responsibility and management.

Through decision, we understand the conscious choice of a course of action for several existing modes of action, so it is considered that a decision represents a current moment of life. It is essential in making a decision the fact that it has to be made so as to obtain the best result.

Decision, as a primary component of the decision making system, represents an essential element of management, being, as stated by many authors, the most important and specific instrument of expression in management. Managerial decision is a product of the company management and represents a line of action, consciously chosen from a number of possible alternatives in order to achieve certain objectives in terms of maximum efficiency.

Making decisions in an entity is and will be a complex problem for the management system, being connected with other areas such as, economic modeling, operational research, decision theory. We consider that the decision making process is complex, requiring competence and responsibility from deciders.

Within an entity, numerous decisions need to be made for its operation, to obtain opportunities or overcome periods of crisis. For the manager to make the right decision and consistent with reality, an important role is played by accounting information. It should be ensured at all times and used for the development and implementation of decisions.

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<sup>2</sup> Mardiros, D.N., Contabilitatea ca sistem informațional , Analele Științifice ale Universității Alexandru Ioan Cuza" din Iași, Tom-ul L/LI, Științe Economice, 2005, pentru conformitate: [www.anale.feaa.uaic.ro](http://www.anale.feaa.uaic.ro); (Mardiros D.N., Accounting as an information system, Scientific Annals of "Alexandru Ioan Cuza" University, Tom L / LI, Economics, 2005 for compliance: [www.anale.feaa.uaic.ro](http://www.anale.feaa.uaic.ro);)

Decision, considered by leadership theories as the manager's supreme act, is expressed by information describing a future action; and as a result of the decision making process it takes a solemn and formal aspect, recognizing the authenticity of the decider for the performer to know its power and comply.

The entity, as an economic body, is characterized by the coexistence of three areas with special features:

- production area, covering issues such as: means of production, workforce and manufacturing technologies;
- human structure area;
- information and decisional area, comprising the collection, transmission, processing and storing information, completed by the decision elaboration act.

In conclusion, the quality of decisions will depend on the accuracy of interpretation of information elements, the training level of decision-makers and the use of modern methods of processing, but the success of an entity, its development and market position strictly depends on leadership style, content and quality of decisional act.

It is known that managers must make decisions in complex and changing environmental conditions that have a significant influence on decisions by the amount of information available, therefore in the decision making process, the important role of accounting is to provide elements intended to facilitate making decisions and has objectives clearly defined, such as:

- knowledge of the costs of different functions assumed by the entity;
- determination of the evaluation basis of certain patrimonial elements;
- explaining the results by calculating the cost for their comparison with the selling price;
- establishing forecasts of expenditures and revenues;
- finding of achievements and explaining the resulting deviations.

Therefore, the accounting system provides information that are designed to assist every step of the decision making process, these being indicators that confirms the manager if the entity's evolution is consistent with its objectives.

As it can be observed from figure 1, the phases of the decision making process are numerous and complex, and may involve time consumption (days or even weeks).

During this period information are collected and analyzed so that it results in adopting and implementing the decision.

Decision quality depends on highlighting the real situation faced by the decider, because if the essence of the problem is not fully understood, inappropriate decisions may appear.

Hence, decision is the piece of resistance of entity's leadership, being an essential part of management, but the primary factors of a managerial decision are the decider and the environment of the entity.

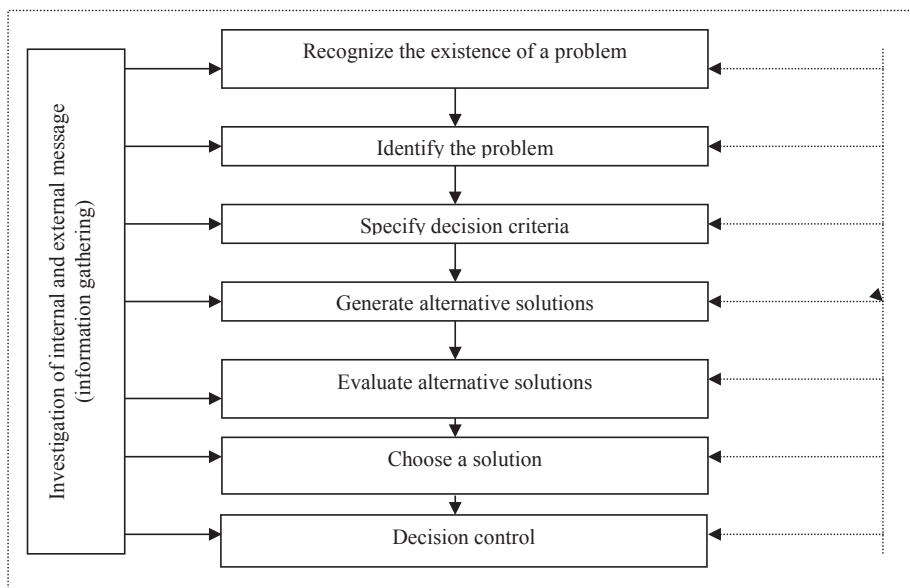
The decider may be even the manager of the entity, if he meets certain requirements:

- possess the necessary knowledge regarding the issues subject to the decision;
- be able to detach and use trends, changes and essential characteristics of the economic environment;
- foresee the reactions of people involved in the decision making process.

The manager, as a person with decisional authority and responsibility, also has other responsibilities:

- should guide the organization in accordance with the established mission and objectives (strategic orientation);

- responsibility to work with people (creating a favorable environment and developing inter-human relationships);
- duty to direct the activity according to the particular domain.



**Figure no. 1** Structure of an effective decision making process

(Source: Nica, P., Iftimescu, A., *Management. Concepte și aplicații*, Editura Sedcom Libris, Iași, 2004, p. 138) (Nica, P., Iftimescu, A., *Management. Concepts and applications*, Sedcom Libris Publishing House, Iasi, 2004, pg. 138)

The environment consists of factors and situations inside or outside the entity, which may influence or not the content and outcome of the decision process.

In addition to the two factors, we should not forget the main role incumbent to accounting information as the final product of accounting, it represents the main source of the decision making process, both inside and outside the enterprise. They help in substantiating economic decisions, being considered assistants of decisions. On the basis of accounting information, objectives are formulated, alternatives are analyzed and then is decided the optimal variant.

### Conclusions

Accounting information underlies the decision making process both inside and outside the company, serving in the substantiation of economic decisions, being named assistant of decisions. Based on accounting information, measures are taken for making decisions, results are established and significant correction decisions are reformulated.

Decision, considered by leadership theories as the manager's supreme act, is expressed by information describing a future action; and as a result of the decision making process it takes a solemn and formal aspect, recognizing the authenticity of the decider for the performer to know its power and comply.

In an entity, numerous decisions need to be made for its operation, to obtain opportunities or overcome periods of crisis. For the manager to make the right decision and consistent with reality, an important role is played by accounting information. It should be ensured at all times and used for the development and implementation of decisions.

In conclusion, to reach a well-founded decision within an economic entity, management must sort the information provided by the accounting information system, in order to use only the ones relevant to the decision making process, it is essential to have quality accounting information, the training of deciders and the use of modern methods of processing are also very important.

Economic information, specific for economic activities can be defined as a communication, news or message containing new elements of knowledge of states, situations, conditions of manifestation of certain phenomena or economic processes.

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