The Information - Connexion Between Financial Accounting and Management Accounting

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Abstract

In the current context of the market economy development and evolution and development of companies' activities it is remarked the proper development of economic and financial information. In this paper we shall present both the qualitative characteristics of the accounting information, from national and international perspective, and their classification according to Statement of Financial Accounting Standards No. 2. The need for information is covered by unpublished reports, statements, which include selective information from the financial statements. In the private sector, managers interested in the entity's performance, turn to financial analysts, who on the basis of economic and financial indicators can give a diagnosis on the health of the entity.

Key words: information, management, quality, relevance
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1. Financial and accounting information

Information, *child of contemporary scientific and technical revolution*, can be considered as a very old concept, its understanding depending on the meaning that might be attributed to it: as support of human knowledge, as bits and other units specific to the computer science (Oprea, 1999, pp. 20-21). The concept of accounting information begins to take shape ever since the 17th century. At that time the accounting was not spread widely, and bookkeeping had no rules and no periodicity. Information can be described as "the only inexhaustible resource, a true factor of power, a good influencing directly the degree of prosperity of a nation" (Cucui, 2006).

Information in general and especially the accounting information are facing a major change in the area of influence, given the current economic situation. Developing accurate decisions that reflect reality and help solve problems caused by the financial and economic activity of the company is based on the quantity, but especially on the quality of information provided by the economic information system.

1.1. Role and taxonomy of the financial and accounting information

This information reflects the financial situation of the company, the way human and material resources are used and also the results of economic and financial activity, both for internal and external needs (shareholders, customers, banks, tax bodies, other individuals or legal entities).

The rapid evolution of modern society, evolution that "lets to foresee a *network civilization* meaning that the main asset subject to exchange will be the information" (Tabără *et al*, 2012, p. 197), requires ongoing improvement of financial and accounting information. This must be set up so as to meet the management requirements for decision making, and also the information needs of company's partners. (Mihalciuc, 2006, pp. 147-148)

Information produced by the financial accounting by content, destination or time of obtaining allow only partially to solve the current management problems of entities. Their insufficiency in relation to the needs of rapid resolution of problems on cost management require the organization of the second circuit of accounting, management accounting, circuit that enjoys freedom of choice of means and methods of information in accordance with the peculiarities of management and specific requirements for information at all hierarchical levels of company's management (Paraschivescu *et al.*, 2007, p.1).

The accounting information provided by synthetic and analytical accounting accounts serve to the economic and financial analysis as raw materials in the development of diagnostics based on economic and financial reality captured accurately by the accounts in question; ... in analyzing the overall efficiency of a company it is very important the quality and quantity of financial and accounting information existing at a particular moment in the company's economic system, preferably at levels of more analytical.

Therefore, financial and accounting information as a means of representation of the economic reality within a company is the key opening and solving economic problems arising at the entity level, by providing the necessary support to take the right decisions at the right time.

The great diversity of economic information allows to classify them according to various criteria, as follows: by the purpose, in relation to the reflection in time of economic phenomena and processes, by form of presentation, by content, by scope, by the vehicular direction, according to the information standards used for expression and by destination.

1.2. Stages of information processing in accounting

In the economic environment, "the production, circulation and use of information represents a conscious process, conducted by the specific laws of the information process established and amended in accordance with the requirements of the knowledge and management of the activities in question".

In accounting, processing of information can be represented by the phrase *"accounting cycle"*. The accounting cycle, or the accounting process (as it is commonly called) consists of a series of procedures for the collection, processing and communication whose purpose is to provide information useful for stakeholders. To get to be exploited, financial and accounting information must go through many stages. These stages must be carefully controlled/monitored because they will have significant impact on the reporting of the company.

The accounting cycle starts with the identification and analysis of the operations of the company and ends up with the accounts closing and the preparation of financial statements.

The stages presented are as follows:

- Identification and analysis of economic and financial operations based on supporting documents.
- Entry of operations in the Chronological Records Journal.
- Systematic posting of the records from the Journal to the Journal Ledger.
- Systematic posting of the records from the Journal to the Journal Ledger at the end of the exercise.
- Preparation of financial statements/financial reports based on the trial balance.
- Closing the accounts in order to end the current period and to prepare the opening of a new accounting period.

2. The quality of the financial and accounting information

The quality of accounting information is evaluated based on its ability to reproduce the reality of the company without relying on perceptions and decisions of the issuer. It even becomes problematic if the accounting cannot build a business reality satisfactory to all. Quality can also be approached from the point of view of users, and must comply with time and cost constraints. Also, the value of information is directly related to how it helps decision makers in achieving the goals of their organization. The notion of quality is inseparable from the conception of the role of accounting information and companies represented.

Over time, the quality of information has been presented in various forms. The characterization of the quality is closely associated with the accounting conceptual frameworks, particularly that of the FASB (Financial Accounting Standard Board), which proposes a definition for the first time.

SFAC no. 2 presents qualitative characteristics of accounting information, features that are designed to help individuals/entities that have funds in decisions to invest resources in a particular company. Thus, four features are required:

- Relevance - reflects the quality of information to provide answers in a given situation.
- Comprehensibility - is an essential quality of information provided by financial statements and means that they can be easily understood by users. To this end, users must possess reasonable knowledge regarding business and economic activities and also accounting concepts.
- Comparability - allows users to compare the information contained in the financial statements of certain companies in order to evaluate their performance, financial position and evolution of the financial situation.
- Reliability - is the ability of the accounting information to provide a true, objective, verifiable and complete image on an economic event.

These four quality criteria are still difficult to be perfectly achieved. It is first necessary to determine the relative importance of information, the quality minimum accepted and compromises to be made to achieve a globally acceptable quality level.

The academic environment was, and still is interested in defining the quality of accounting information: on the one hand, as a reaction to the proposed definitions of conceptual frameworks, secondly, because of the role of accounting information in the optimal allocation of financial resources on the market (and the regulation of agency conflicts).

In Romania, the qualitative characteristics of financial information are provided in the MFO no. 1802 of December 29, 2014. Correspondingly, financial information are useful if they are exactly what must represent and if they are relevant. Their usefulness is enhanced by: comparability, verifiability, opportunity and intelligibility.

Relevance and accurate representation are considered to be fundamental characteristics.

Relevance. Relevant financial information (with predictive value, confirmatory or both) are those that have the ability to support users in making decisions. Information have predictive value if they can be used as inputs in the processes carried out by users to predict future outcomes. Information should not constitute a forecast/projection, being used by users in making their own calculations. The confirmatory value of financial information is closely related to the predictive value. As an example, information regarding expenditure this year, can be used as the basis for forecasting expenditure for future years, but also can be analyzed and compared to projections made in previous years. Through careful study of these comparisons, information users can correct and improve their processes used to make forecasts. Another aspect of relevance, specific to a company, is the significance threshold. It is based on the nature, size or both characteristics of the elements that information reported by the company refers to.

Accurate representation consists of full description without significant errors and neutral of the economic phenomena in figures and in words, the process used in generating the information reported being properly chosen and applied.

A description is complete if "includes all information necessary for a user to understand the phenomenon described, including necessary explanations... For some elements, a complete description may require explanations of significant facts concerning the quality and nature of the items, factors and circumstances that would affect their quality and nature, and the process used to determine numerical descriptions".

Verifiability assures users that the information presented reflect accurately the economic phenomena that propose to represent. Verifiability means that different observers informed and independent can reach a consensus on the fact that a certain description is an accurate representation.

There are situations where verifying some forecasting information is not possible until a future period of time or even at all. In this situation, to help users decide whether they want to use or not these information is required the presentation of fundamental assumptions, methods of compilation of information as well as the factors and circumstances supporting the information.

Opportunity is the quality of the information to be available to decision-makers at the time at which it is required, so that they can make decisions in a timely manner. Usually, information lose their utility during time. To reduce this process of "aging" of information and also the effects induced, conditions should be ensured for shortening the cycle of production-processing-transmission-reception-use of the information.

The opportunity of the accounting information also considers providing an optimum ratio between the timely availability and cost. Providing timely information at the same time offering a true image, involves high costs.

In the event that there is an unjustified delay in the reporting of the information, they may lose relevance, the management being forced to choose between a relative value of reporting at a time and the provision of reliable information.

Intelligibility means that information are easily understood by users with minimal knowledge of accounting. Information may be considered understandable if classified, characterized and presented in a concise and clear manner. However, the exclusion of financial statements of the information on economic events with a high degree of complexity is not possible because it would lead to the situation that these reports may be incomplete.

Insofar as possible, amplifiers qualitative characteristics should be maximized in order to contribute to enhancing the usefulness and quality of accounting information produced and distributed.

3. The quality of the information-decision relationship

Accounting is an essential component of the information system, because it has imposed as such over time. Accounting is the major source of information for the information system and for the companies' managers. Through its data from the financial accounting and internal or management accounting, it covers the information need of the internal managers.

The accounting information system, as information system is one of the important components, perhaps the most important within the group of devices, internal control tools operationalized due to measures aiming a complete, reliable, comprehensive, relevant, useful, timely and non-redundant information system, which meets the decision needs of an institution.

Practice has imposed the existence of modular or integrated accounting systems. In modular systems, information processing is done in several modules. Usually there are two modules: financial accounting and internal accounting.

Financial accounting provides data and *transparent* information on the financial position, performance, changing position.

Internal or management accounting provides *less transparent* data and information on the internal management (goods, services, works), more precisely the cost of production and other information that are not standardized, required nor published, information important in guiding decisions.

Data and information are the main components of the information system, reason for which we will address, tangentially, the definitions of data and information.

Information acquires value when used in decision making process and in guiding decision.

By the decision system of an organization we understand all information flows and decisions adopted and applied within it, properly structured to the system of objectives pursued and configuration of the management hierarchy (Nicolescu *et al*, 2001, p.20).

Decision and the decision-making process lead to the success or failure of an entity's management. Decision is defined by several authors as "the determination to choose for some alternative action of several possible variants associated to the process or phenomenon considered" or "as an option of the manager, selected from several possible, influencing the decisional and operational behaviour of other persons" (Verboncu *et al*, 2005, p. 23).

But the connexion between data, information, decision within the economic activity, be it public or private sector, is assured by the *quality of information* that also prints the quality of decision and decisional processes.

Under current conditions, characterized by a large volume of information and increasing complexity of economic problems, it is necessary to separate the information from decision, the two conditioning mutually in order to achieve effective actions in organizing and managing the economy.

The organic connexion between information and decision lies in the fact that, in order to lead effectively, any decision must be preceded by detailed and immediate study of all occurring phenomena and processes, data and information about them.

The quality of information and therefore of decisions within the flow of information depends largely on the knowledge and skills of the accounting profession in “manipulating” figures, data included in the financial statements to improve the information so that to co-interest managers in using this information.

In reality this communication between accountants (including the entire profession) and managers and thus between information and decision is made with great difficulty, especially in the public sector where the measure of performance, entity position is adjacent to the “abstract” for the managers of the institutions. Sometimes poor training of accountants in the public sector (which continues even after these many years of democracy), and we can say it without a “cover” or sense of degradation, influence negatively this relationship.

4. Conclusion

Accounting information is intended to reflect the financial situation of the company, as it discloses results of the economic and financial activity of the company by internal and external users. Therefore, data must be designed so as to meet both the demands of the management and the information requirements of partners.

On the other hand, we noticed that the information can be considered a *good of market information*, the market being the place where the information demand, came from consumers, meets the information offer, which comes from the producers of information (namely the company).

In the literature we frequently encounter the notion of quality of accounting information. FASB has proposed for the first time a definition of quality, but over time it has been presented in various ways. As regarding the qualitative characteristics of information we encountered different approaches.

Measuring the quality of accounting assumes that the accounting information tends to lose its absolute character, becoming merchandise that can be traded. The economic theory shows that the value of an asset, a commercial service is determined by the utility (satisfaction) delivered to the consumer. This reasoning also applies to the production and communication of accounting information.

Following theoretical research undertaken we have seen that the accounting information is not exclusive for the financial accounting or management accounting, being more an element of connection between these two.

5. References

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