

The Role of Financial Accounting Information in an Entity

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Abstract

The paper aims to present ways to streamline and remedy the quality of financial accounting communication offered to managers. Management decisions on quantity, quality and timing of information depends on the cost and benefits of producing and disseminating accounting information. All differences in the reporting of financial and non-financial information would be generated by the gaps between the benefits and costs of the voluntary provision of information. It is often the case that entities provide more information than required by their managers, being convinced that the benefits outweigh the costs of production and financial accounting reporting. The efficiency of the decision-making process is directly proportional to the nature, quality, periodicity and volume of information that the decision-maker has at his disposal. The financial statements in particular and the financial accounting reports in general are documents that underlie a diagnosis of the financial position and profitability of the entity, they allow the determination to confirm and refute the strengths and weaknesses in the performance of all functions of the entity.

Key words: creation, expertise, inventions, opinions, evolutions

J.E.L. classification: M14, M21, M54, M55

1. Introduction

Accounting has an important role in supporting the decision-making process in the framework to an economic entity; it is no longer just a tool for quantification monetary reality, but a system that aims to provide information for decision making (the main source of information for the management of an entity).

Accounting includes certain activities that involve performing operations recording, calculation, analysis, interpretation, grouping, synthesis and preparation of information for decision making, provides managers with information in order to perform three functions managerial: planning, control and evaluation.

The phenomena of growth and globalization have led to a sharp increase in the need for financial information.

2. Literature review

In the opinion of Prof. J. Richard (1992) the construction of an accounting information system can only be the result of an economic, political, social, legal constraint of the balance of power that is established between the users of accounting information and of the way of normalization and conceptualization of accounting.

Benard Colasse (1995) analyzes the main systems of accounting standardization and regulation, noting that the differences between these systems are due in particular to: the legal framework, the economic system, the level of development of a country and the links between accounting and taxation.

Richard Mattessich (1995) considers that accounting is not a late research and analysis of the past and also "the mechanism for regenerating ideas has been blocked", which has led to a lack of regular innovations.

3. Research methodology

Financial - accounting instruments are those that link economic activities and decision makers, and in order to make correct and effective decisions the manager must have well-synthesized information, information on the basis of which to be able to define its objectives, to be able to analyze the results.

The main means of transmitting accounting products is represented by situations annual financial statements, the information disseminated being obtained following the representation of reality economic development of the entity, by using a specialized language and rules and principles specific.

In addition to financial statements, managers track and consult other reports less standardized reports such as: reports containing economic and financial indicators, information from management accounting.

The tools used by managers in managerial decisions, actions and analyzes are quite diverse, complex and include: financial accounting information, information non - financial, economic and financial analysis, financial statements, and revenue budgets expenses, dashboard, auditors' reports, auditors' reports, accounting information management, business plan, market research, etc.

Economic and accounting information must be as comprehensive, complete, objective as possible, provided periodically, in a form that allows quick and correct decisions to be made presented to management as soon as possible, to be accurate, relevant and cost as much smaller.

Some managers want daily and weekly reports on the value of salaries, sales and production costs, I want the daily transmission of records related to invoices and sales orders for each outlet (if applicable) and sales orders sale of each production point.

Reporting is a process that allows administrators to find out what's going on within the entity through information circulated in records, reports, research or inspections.

The category of procedures specific to the accounting method also includes the checking balance.

It provides information about initial balances, movements or turnovers intervened in a certain management period and the final balances of the patrimonial elements.

Oprea, Ristea (2004) state that the Checking Balance has a particularly important role in analysis of the economic and financial situation, being the only tool that provides information necessary for the operative management of the patrimonial units.

The managerial strategy involves setting long-term goals sense the objectives of the information subsystem are:

- Establishing the way to obtain the necessary funds for carrying out the activity and using a their;
- Preparation of financial statements;
- Communicating the result to the public;
- obtaining statistical information from outside.

The value of information depends on its impact on future decisions, from where the result is a high degree of subjectivism in its interpretation and use.

In determining the value of information, it is necessary to analyze who is its user and who is the purpose for which the information is used. In choosing the sources of information cost is an important element.

Information on past financial statements and performance is used as a basis for forecast of the financial situation and future performance, of the entity's ability to take advantage of opportunities and react to unfavorable situations.

The relevance of the information also depends not only on its quality but also on its quantity their.

Sometimes too much information is provided from which it is difficult to choose the necessary ones, other times the information is insufficient.

Relevance also involves an update of information; it must arrive at the right time. Accounting is seen as an information system, comprising a set of elements (human resources, materials) that allow the collection, processing, storage and communication

Information for decision making.

The costs involved in producing accounting information could be structured as follows:

- costs of collecting accounting information;
- costs of processing accounting information;
- costs of storing accounting information;
- costs of communicating accounting information.

The organization of an accounting system is related to the way it is built and disseminated accounting information.

The accounting program is the one that provides necessary accounting reports to managers in decision making, and its quality depends largely on the detection and notification of accounting errors and the speed with which information is provided (Boiță, Costi and Anghelina, 2014).

Accounting must record, determine, store, verify, provide and to communicate a whole series of information, proceeding to modeling and representation transactions through financial and management accounting.

The construction of accounting information starts from the observation of an entity and of assets specific to it.

The processing of data in order to obtain information is done by operating with language and the means specific to the accounting system, so that it meets the needs of users.

In the process of producing accounting information, human resources, computer materials are consumed, analyzed in the following.

By the information system we mean the set of material and financial resources that uses information technology to collect, process, store, retrieve and transmit visualize the information used in the processes that take place within the perimeter of an entity.

It is known that the basis of a modern information system is the computer system as essential component part and with a constantly increasing share.

The computer system is defined by the literature as representing a set of methods, procedures, equipment and specialized personnel that ensure the collection, verification, transmission, storage and processing of information intended for other subsystems and in particular those necessary for management to make timely decisions.

The entity is considered as an open system with inputs, processes/processing and outputs and with its own self-control system.

The accounting information system covers with information all the other components of information system.

It is known that accounting information represents over 40% of existing information/used in an entity which leads us to the idea that the lack of accounting information in the other subsystems of the entity entail an information imbalance.

The fundamental objective of accounting will be to provide useful information for the purpose making the decision to invest. In this sense, the accounting will be aimed at the communication of information that discloses the profitability of the entity in particular in the form of the benefit of operation. Value is always defined as the ratio of quality to cost.

The main purpose of financial communication is to reduce the cost of capital and maximizing the value of the entities, this also ensures compliance following objectives: increasing the degree of involvement of shareholders as owners, valorization the course of actions as an effect of the quality of information and financial communication, the development of the image and prestige of the entity, of its services.

4. Case study

The main users of accounting information are the shareholders/associates and administrators of the entity, the State (through its authorized institutions), the Banks.

In the present case, the following are considered:

■ Types of expenses: Raw materials Auxiliary materials Unstocked fuel Utilities Goods Maintenance and repairs Rents Third party services Salaries Taxes;

■ Income tax;

■ Types of income: Sale of finished products Revenue services Rental income Sale of goods On September 29, year N, a company sells finished products worth 100,000 lei.

We consider VAT 19%, fiscal period the quarter, income tax 3% whose declaration period is the quarter, declared non-payment of VAT related to rents

There are several methods to record this income depending on the beneficiary of the information and depending on the interest of the operative management of the entity, respectively:

1. If the entity wishes to reflect the operation on time and to constitute the delivery fees (Table 1)

The invoice will be drawn up in full, at the date of the products leaving the unit, ie on September 29, year N. The related management decrease will be made according to the products leaving. The result will be determined on September 29, year N. The VAT calculated for the amount of 100,000 lei will be due to the state

2. If you wish to obtain a deferral of the payment of VAT related to this income (Table 1)

A notice will be issued to accompany the products on September 29, year N, a document with which the buyer will receive the goods, the expense with the decrease from the management will be made on the date of the notice. The invoice will be issued on October 1, year N.

The VAT calculated related to the amount of 100,000 lei will be due to the state on December 31, year N with payment term until January 25, year N 1.

Similarly, the income tax on micro-enterprises is determined due to the state on December 31, year N, with the payment term until January 25, year N 1.

3. If you want to defer the payment of VAT and income tax to micro-enterprises (Table 1)

It is desired to collect the goods in advance, on September 29, year N, the delivery of the goods is made on October 1, year N. The proforma invoice will be drawn up, and on 01.10.N a certain invoice will be made.

Table no. 1. Payment of VAT and income tax to micro-enterprises

DOCUMENT TYPE	VAT PAID ON 25.10.N	PAYMENT DATE ON 25.10.N	VAT PAID ON 25.01.(N+1)	PAYMENT TAX ON 25.01.(N+1)
Fiscal bill	19.000	3.000	0	0
Notice	0	3.000	19.000	0
Proforma	0	0	19.000	3.000

Source: author processing

4. Revenues from rents collected based on the proforma invoice (Table 2).

If on 25.09.N you want to collect the rent in advance for 3 months in the amount of 15,000 lei, but you do not want to set the tax on the date of collection, then the proforma invoice will be made and the income will be accounted as income in advance.

The fiscal invoice will be drawn up at a later date, respectively 25.10.N. The collection in the bank from the client will be registered. A subsequent tax will be established.

5. Revenues from rents collected based on the fiscal invoice (Table 2).

Fiscal invoice drawn up on 25.09.N.

Table no. 2. Income from rents received

DOCUMENT TYPE	PAYMENT TAX ON 25.10.2020	PAYMENT TAX ON 25.01.2021
Invoice	0	450
Fiscal bill	450	0

Source: author processing

6. Interpretation of income and expenses (Table 3).

Certain income and expenses can be interpreted as income or expenses recorded in advance. This fact significantly influences the profit of the unit, as class 4 accounts are used. For example, income from rents for which the related fiscal invoice was prepared for 6 months in advance, value 6,000 lei.

7. Influencing the profit and loss account by recording expenses (Table 3):

a) Auxiliary materials, if they are of low value, and do not exceed the significance threshold established by the company's management, may be storable or transferred to expenses at the time of acquisition, recommended value max. 100 lei;

b) The fuel can be spent on expenses together with the number of kilometers traveled or on the date of its acquisition, recommended value max. 200 lei;

c) The inventory objects, these can be kept in the stock account (ct. 303), as long as the management of the company considers the word, provided that these goods are not damaged, max. legal value 2,500 lei;

d) Maintenance and repairs can be accounted for as ongoing an investment, which means that they will not affect the profit and loss account, is they will directly influence the profit at the date of execution of the works;

e) Expenses with rents for which the fiscal invoice related to 3 months was received in the amount of 4000 lei.

Table no. 3. Accounting information

NAME	MAXIMUM PROFIT	MAXIMUM LOSS
Revenues accounted for in advance, class 4		6000
Revenue accounted for in class 7	6000	
Expenses accounted for in advance, class 4	4000	
Accounting expenses class 6		4000
Auxiliary material account 302	100	
Auxiliary material account 602		100
Fuel account 3022	200	
Fuel account 6022		200
Account Inventory Items 303	500	
Account Inventory Items 603		500
Account maintenance and repairs 231	25000	

Account maintenance and repairs 611		25000
Profit and loss	+6000	-29800

Source: author processing

The table above shows that the interpretation and use of accounting information resulting from supporting documents may have the most important role in the outcome of an entity's activity.

The final result obtained from accounting can be influenced by the role that accounting information has on the beneficiaries.

5. Conclusions

Even if financial statements are considered the main means of transmission of financial accounting information to users however these due to the fact that they use a specific and sometimes difficult to understand language, complex accounting terminology, formalized language of businesses, have lost ground to other tools more accessible to managers such as: dashboard, audit reports, etc.

An indispensable tool, more accessible to them, is the dashboard, the one that synthesizes the information (it is designed as a centralizer of information) necessary for taking decisions and informing decision makers about how phenomena evolve specific to the activity conducted, directs their attention to the key points to be monitored.

With the help of tables and diagrams, the targets are decided and validated achievements compared to forecasts, measures the road traveled, but also the one left to achieve the objectives and takes out highlight the sensitive points of the activity to be analyzed.

The decision-making process and its quality is also influenced by skills, preparation and the involvement of the decision maker.

In conclusion, the decision is a means by which the objectives of the entity are achieved, through it the evolution of the entity is directed, it is a social, rational act of a persons or a group by which the purpose, objective of an action and the modalities are established realization according to a certain need.

The conclusion is that the accounting information provided through specific instruments it is useful if it helps in making managerial decisions.

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