# The Importance of Accounting Information in Decision Making

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**Abstract**

*In the field of accounting, economic information is of great interest, meaning that accounting information plays an important part in the economic book-keeping/registration system in general, but also in the economic information system especially for decision making necessary for the business.*

*Although accounting information are available for a wide range of users - stakeholders (managers, employees, suppliers, customers, financial creditors, government and its institutions, the public, the media, etc.), the investors (shareholders) are recognized as the privileged users of accounting information.*

*Four principal qualitative characteristics must be met for the accounting information to be useful in the management system: understandability, relevance, reliability and compatibility of information. Any economic transaction processing involves collecting, categorizing, summing and analyzing the data.*

**Keywords**: accounting information, decision making, characteristics of accounting information, users.
**J.E.L. classification:** M41, M48.

## 1. Introduction

Economic information is of particular interest for accounting. Accounting information belongs to this category. It is obtained by specific methods, procedures and instruments for processing economic data. It is the most real, accurate, complete and operative information representing in fact the support on which the management process is based. Most of the decisions that are made in the process of work rely on information obtained from accounting.

It means the accounting information plays an important part in the overall economic system of registration but also in the economic information system, especially for decision making necessary for the business.

As pointed out by (C. Greiner, 1998,p.1120), we must not lose sight of:

• Information is a designed item, "information do not grow in nature, they are produced, meaning they are symbols deliberately created by social operators ";

• Information create representations and induce behaviors, making use of complex mechanisms;

• Along with formalized knowledge, the tacit, unexplained one plays a very important part. (Greiner, C., 1998 ,p.1120)

Accounting information can be:
- Current;
- Reporting;
- Provision;
- Execution;

- Internal and external.

Accounting information is produced by specialized structures, organized within the enterprise in the form of distinct functional compartments, or outside the unit as independent legal entities, as well as certified freelancers whose principal activity is to obtain these accounting information.

According to some authors, 46-50% of the economic information are provided by accounting. "The information, as the element around which all human actions gravitates in the social-economic context, has the accounting as the primary provider in the economic - financial context."( Iacob,C.,Ionescu,I., Avram, M., 2011)

Accountancy is an informational discipline that studies the effects of economic transactions and other events on the economic and financial situation, as well as on the performance of an accounting entity in order to inform users. The information provided by this discipline forms the basis on which the organization is evaluated by a group of users from within and outside of it.

Starting from the two types of accounting an entity may have, there are two types of accounting information: financial and managerial.

Financial accounting information is meant for external users, such as investors, employees, creditors, government or general public and is given by the financial statements, consisting of: balance sheet, profit and loss account, statement of changes in equity, cash flow statement and the accounting policies and explanatory notes thereto.

Managerial accounting information is for internal users or the entity's management and includes information on the unit cost of products, cost behavior relative to the volume of business or profitability per product.

Elaboration and publishing of accounting information, able to show in a balanced manner all the qualities listed above, should lead to the achievement of financial statements that reflect fairly the assets/patrimony and financial situation of the company. Informational activities can be described as a set of actions relating to the production and use of information. (Minu, M., 2002)

Meaning of the word information can be explained only in relation with two other terms: data and knowledge. Any data is a sign, a symbol resulting directly from observation of facts. It is a raw material which, by analysis, will be transformed into information. An information is resulting from the analysis of data so that it meets a user's needs in a context that is particular.

Financial analysts take over the raw data and turn it into another type of information, which reflects their ability to understand, synthesize and interpret information in its quality of raw material.

Specifically, financial analysts perform three types of activities relating to information: ( Feleagă, L., (Malciu), Feleagă, N., 2005, p.60)

• searching for private information that is not publicly available;
• analysis, processing and interpretation of information in order to foresight (predictive analysis);
• analysis of past performance (retrospective analysis); thus, we see that their relationship with accounting information is not a simple one.

On one hand, the accounting information is a production factor for analysts and, on the other hand, the same information represents on the market a competitive product for analysis reports.

Although accounting information are available for a wide range of users - stakeholders (managers, employees, suppliers, customers, financial creditors, government and its institutions, the public, the media, etc.), the investors (shareholders) are recognized as the privileged users of accounting information.

## 2. The importance of Accounting Information in Decision Making.

The renowned Romanian writer N. Feleagă ( Feleagă, L.,(Malciu), Feleagă, N., 2005, p.60) stresses that "the mere enumeration of evaluation criteria for the quality of financial information is of great utility for standard setters, practitioners and authors specialized in accountancy, business executives and external users of synthetic documents. These qualities are necessary, especially for standard setters and practitioners, in the preparation of accounting norms that are consistent with the objectives of financial reporting." Therefore, the quality of information provided by accounting truly influence the effective and operative economic decision making and this is the main reason for studying accounting, which is to obtain knowledge and skills needed to participate in major economic decisions.

According to the well-known American scientists B. Needles, H. Anderson and I. Coldwell, "the information provided by accounting represent the basis on which decision-making process rely both inside and outside the company", stating that the purpose of accounting information - "to provide the basic data needed by different users to take fundamental decisions" - is an ideal. The difference between ideal and real ,, is the most interesting and controversial part of accounting " (Nedlees B., Anderson H., Caldwell J., 2000,p.4)

Renowned US economists Ch. Horngren, M. Datar and M. Foster believe that "accounting systems are based on economic events and operations which occurred in an enterprise and process all data contained in these operations to transform them into information useful to managers and other users, such as sales representatives or production departament managers. "

The processing of any economic transaction involves collecting, categorizing, summing and analyzing the data. ( Horngren T.Ch., Datar M.S., Foster G. , 2006,p.2)

To summarize the above mentioned approaches and to acknowledge the role and importance of accounting information in decision making, we shall represent them in Figure 1.

*Figure 1. Role and importance of accounting information in decision making*


*Source: Own projection*

The performances of of any economic system depend on the quality of decisions and the speed with which action is taken to eliminate the causes in this context. For high quality decisions, the decision-making process must be well-founded. We make decisions every day. Some are simple, but others are not as simple, yet all these decisions have something in common: a decision making process.

According to specialists Ch. Horngren, M. Datar and M. Foster, "the decision making process involves gathering information, taking into account future costs and benefits, selection of an alternative or action consistent with this choice and evaluation of the results."

Renowned economists R. Anthony and J. Reece differentiate decisions in two categories:

- Short term decisions;
- Long term decisions – elaboration of investment reports.

They propose some practical recommendations ( Al. Nederiţă & All, 2000,p.93) that can be used in decision-making, "during the selection process, one should limit the possible alternatives since it is possible to block the activity and not reach the proper analysis; pay attention not only to quantitative values; acknowledge the size of the error in case of failure; despite the situation, you should take a decision since not making a decision may be a worse version; most of all, present your proposals in a clear manner so that decision makers can choose an alternative. "

### 3. Characteristics of Accounting Information

The quality of accounting information is characterized by a number of characteristics such as: ( Negescu, M.,D., 2004,pp.147-148)

• Speed - sets the time required for a information to go through from the issuer to the receiver;

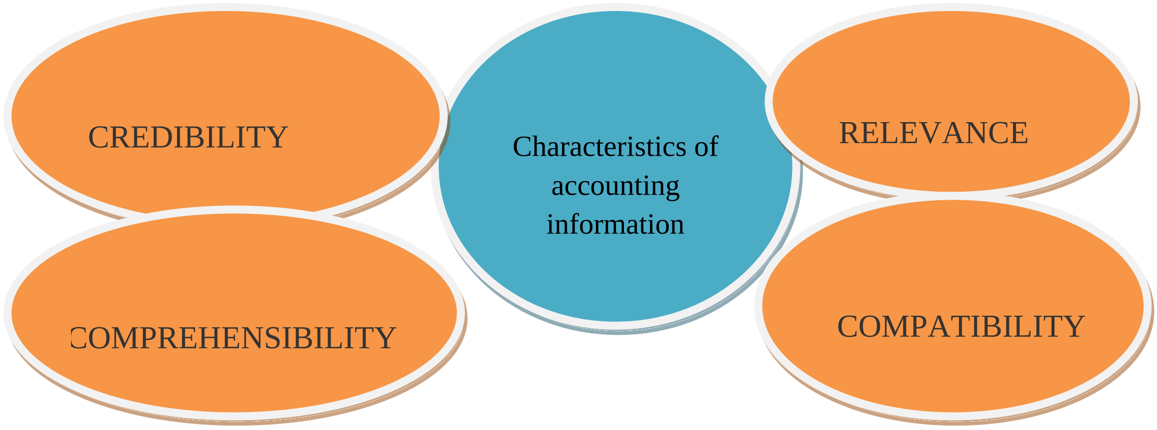
• Frequency - represents the number of information of the same type per a unit of time, causing the rhythmicity of information;

• Accessibility - depends on the means of communication, personnel training level, means of storage, etc.;

• Topicality - is the ability of information to present recent events;
• Comprehensibility - is an information's propriety to be perceived by users;
• Reliability - is the ability of information to provide a true and fair image of an event or object;
• Relevance - implies the capcity of information to give answers in a given situation;
• Age - is expressed by the length of time passed from collecting information until the transposition into action of the decisions based on them.

In the context of contemporary developments of any company's activities, evolution of the market economy(. Avram, M., 2010), its increased complexity led to a corresponding development of the economic and financial information. This type of information characterize the financial situation of a company, the results of its economic and financial activity, the use of human and material resources, both for its own needs and for third parties (shareholders, customers, banks, tax institutions, other natural or legal persons) .

*Figure 2. Characteristics of accounting information*




*Source: Own projection*

Within the managerial system, for the accounting information to be useful, it s necessary the fullfilment of four principal qualitative characteristics: comprehensibility, relevance, reliability and compatibility of information.( OMPF . 1802 of December 29, 2014)

✓ COMPREHENSIBILITY: is an essential quality which implies that accounting information must be easily understood by users. To that end, the users are assumed to have a reasonable knowledge of business and carry out the tasks given by economic activities.

✓ *RELEVANCE*: is their ability to be useful to the beneficiaries in decision making. Accounting information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events, confirming or correcting them.

✓ CREDIBILITY: accounting information has the quality of being reliable when it does not contain significant errors and is not biased and users can trust that the information represents correctly what it aims to represent or what is reasonably expected to represent.

✓ COMPATIBILITY: implies that users can compare the information presented in the financial statements of an enterprise over time to identify trends in its financial position and performance.

Users can only trust in information that is both verifiable, neutral and fair.

*Verifiability of accounting information* is ensured through standardization activities and accounting rules.

*Neutrality of accounting information* means its fairness and the company's managers and producers of accounting information must be neutral as regards the information they process and present.

To be *reliable*, accounting information should truly present the reality.

## 4. Conclusions

In conclusion, accounting information holds the crucial role in substantiating the economic decisions, offering the possibility of an accurate representation of economic phenomena and processes. Users of accounting information act, operate and make decisions constantly, by using and understanding the accounting information provided by financial statements.

The financial statements published by companies are aimed at providing data able to ensure markets' efficiency and the optimal allocation of economic resources.

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