THE PREDICTABILITY OF THE RISKS IN RELATION TO THE INFORMATION PROVIDED BY THE ACCOUNTING MODEL

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Abstract

Just before there was a theoretical system that would formally define its role, information was the engine of development, so that new knowledge builds on the support of the existing one. The multitude of new data is filtered, processed with a conceptual device specific to each scientific discipline, obtaining the final product: the information. Accounting is considered an informational discipline, studying the effects of economic transactions, but also other events, in the economic and financial situation of a company, in order to inform the internal and external users.

Key words: *global outcome, financial stability, non-financial information, financial risk*

JEL Classification: G3; G32; G34

1. Introduction

It can be stated that adequate information results from a harmony between different structural components that complement each other, which can determine the change in the probability with which future events will occur. Accounting information represents the product changed in the accounting information market and this product exists according to the rules and regulations that define it.

The satisfaction of the information needs resulting from the enterprise's relationship with the environment requires the production of relevant and objective information. As new product creators are increasingly attentive to the needs of consumers, accountants should seek to produce the information that responds to the demand of different users, their accuracy and relevance influencing decisively the achievement of the optimum level of expected results. The information activities specific to the accounting field are those that concern the production and use of accounting information. These consist of actions aimed at creating, collecting, storing, processing data and transmitting information. They involve recording and computing operations, as well as analyzing, interpreting, grouping and using information in decision-making.

The financial statements must meet the information needs related to: the evaluation of the overall results, the evaluation of the management (profitability, efficiency), the assessment of future prospects (profits, dividends, investments, financing), the evaluation of the financial stability, the solvency and the liquidity, the evaluation of the risks and uncertainties, facilitating the allocation of resources to shareholders, receivables and public power, making comparisons in time and space, determining the value of borrowed capital and the value of equity, assessing adaptability, verifying compliance with laws and regulations, assessing the company's contribution to the national economy.

Accounting information is an instrument, and like most instruments, it can not be of great help to those who are not capable or willing to use it. Usage techniques can be learned, which means that financial statements could provide useful information for all those willing to learn to use them. Language is one of the important elements of the company's culture and it constitutes a transmission belt necessary for the operation of a system oriented towards the decision-making center of the information.

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2. The accounting information, the main link between the accounting model and the risk analysis

Annual financial statements are an important source of information, carefully scrutinized by all participants in the capital markets. In the past decades, accounting synthesis and reporting documents have undergone a number of essential changes, in form and content, the jurisdiction and rules governing international financial markets increasingly placing an emphasis on the characteristics of accounting information. A market of accounting information must ensure the protection of the interests of associations and third parties by favoring the development of quantitative and qualitative accounting information; publication and intelligibility of accounting information (transparency); increasing comparisons in time and space.

The value of information can be defined as the difference between the net benefit generated by making a decision after obtaining the information and the net benefit obtained by making the same decision, unaffected by the information, and how well it responds to the needs of those who use it. The accounting information describes the economic consequences of the transformation process. The need for information from those involved in decision-making emerges from the multiple relationships that take place in the process of transformation, with the stakeholders: managers, investors, suppliers, employees, customers and the state. Thus, in order for the information to be effectively used in the managerial process, it must meet the following requirements:

▪ utility (verified by how it contributes to the process of adjusting and knowing the functioning of the systems);

▪ the accuracy of the information;

the depth of information, which involves the complex reflection of the cause-effect relationships of economic phenomena;

▪ the age of information (sometimes daily information is needed, for example: supply rhythm);

▪ the value of the information.

Obtaining and capitalizing on accounting and real-time financial information has become a real benefit, especially in the current context and taking into account the risks to which the organization is subjected. Financial-accounting information requires appropriate use to help the company set consistent goals.

We identify two categories in which the accounting information is divided: financial accounting information - intended for external users (investors, employees, creditors, government or the general public) and management. Financial information is represented by the company's financial statements, these being part of the obligations of the company's managers and consisting of: balance sheet, profit and loss account, statement of changes in equity, cash flow statement and accounting policies and explanatory notes thereto. The financial statements are accompanied by a report where the management of the enterprise describes the main components of the operating and financial activity and their foreseeable evolution. They must give a true picture of the company's resources, results, and capacity to generate cash. The notion of "loyal image" is dynamic and reflects the best existing accounting practices at a given time.

Financial statements are unequivocally the information support required for financial analysis (to form a financial diagnosis), but also for risk analysis (to estimate possible exposure). Different categories of users use accounting information for various analyze to substantiate economic and financial decisions. Their elaboration serves the management of the enterprise to observe the economic and financial performance, but also as a basis for future activities. The objectives of the annual financial statements are different from country to country, focusing on the different categories of users, ie external or internal users (those who are also producers of annual financial statements, having an additional asset to external users).

The information provided by the financial statements does not present everything that users need to make decisions, largely reflecting past events. Non-financial information - information from management accounts - is intended for internal users, being non-standardized, often non-monetary. The major role of management accounting is to produce information that allows modeling the relationship between mobilized and consumed resources and the results obtained in counterparty; in a predictive optics, it helps decision-makers, and in retrospect optics, it measures performance.

Risk management activity can be described as the art of making decisions in a world governed by uncertainty, being a complex process of identifying, analyzing and responding to the risks to which the organization is exposed. It represents the totality of certain methods, processes and measures by which the assessment is carried out and, if necessary, calculating the influence of the factors on the risk examined in order to reduce the loss and / or increase of the enterprise's profit. The use of accounting and financial information is particularly necessary to assess the risks to which the company is exposed in market economy conditions. In the process of risk management, one of the most important stages is the process of gathering and processing the necessary information. Thus, on the quantity and quality of the information obtained directly depends the effectiveness of the risk assessment - both quantitative and qualitative.

3. The quality of the accounting information - premise of risk identification and management

The accounting information specific to economic activities can be defined as a communication, news or message that contains new elements of knowledge of certain states, situations, conditions of manifestation of certain phenomena or economic processes. The information flows in the form of specific data, consisting of internal or external sources, but the following aspects must also be taken into account:

- the information is not built objects, they do not grow in nature, they are deliberately created by the socio-economic actors;
- the economic information makes representations and induces complex behaviors;
- along with formalized knowledge, the economic knowledge plays a very important role.

The quality of the accounting information depends on the very evolution of the economic entities, using it to properly assess business risks or opportunities. In order to be useful in the decision-making process, accounting information must meet certain qualitative characteristics. The accounting information has developed in the context of the evolution and development of the market economy and its increased complexity, and it has to be built in such a way that it corresponds to the management requirements for the decision making and informational needs of the other users. The information is made up of data that has been processed in a form useful to the recipient and having real value for planning, control or decision-making.

The usefulness of the information in the decision making process is defined by a set of attributes of quality. Thus, in order to be able to manifest their usefulness, accounting information must meet certain qualitative characteristics that are related to the accounting principles: intelligibility, relevance, credibility, comparability, reliability and opportunity.

The main qualities of the accounting information lead to the conclusion that the financial statements must reflect a clear and true image of the patrimony. For the risk analysis process, the raw information provided by accounting through the financial statements is transformed into another type of information using different models in order to inform about the dangers that may affect the company.

4. The typology of risks in relation to the identification sources

The information offer is the set of information available to different groups of users. We are currently looking at the information provided through the synthesis documents, these performing certain functions that make them particularly useful in analyzing, evaluating and managing risks. These allow the assessment of the accuracy of previous forecasts, and at the same time provide some information that underpins future forecasts. These can also confirm / deny information from other sources and act as an incentive to identify issues that need to be clarified through other sources of information.

The most important consequences of the information provided by the synthesis documents are the effects on the following variables: the distribution of wealth among individuals, the agreed level of risk, consumption and production; the allocation of resources among firms, the level of resources used to produce, divulge, analyze and interpret information, the level of resources used to accept and develop normalization. Due to its systematic nature and the variety of information it provides, accounting is the main source of information needed for financial analysis and hence for risk analysis and assessment. In order to give meaning to the various analyzes, the information in the synthesis documents should be used in correlation with the following factors: the size of the enterprise; the economic, social, political and cultural environment; the business risk; the tendency of the branch the enterprise belongs to.

The financial analysis identifies and classifies the most significant financial characteristics, in order to make a meaningful assessment of the situation and a lucid anticipation of the company's prospects.

The interpretation of the accounting flows is made in a different manner, depending on the expansion, maturity or decline phase of the company. The assessment of the degree of risk has significance to the extent that this is correlated with the strategic step that the enterprise goes through. The risk is inherent to any activity and means the variability of the result under the pressure of the environment. Risk analysis and profitability analysis are not two totally independent processes because the financial balance of the company is heavily affected by the assumed risk, a risk that is dependent on the economic factors, policies and financial policy of the company.

There is a wide variety of risks, each of which is determined by certain risk generating factors, with certain components and forms of materialization that produce the most varied effects as a mode of expression and amplitude. Under the current economy, determining the size of the risks, reflected by the magnitude of the effects they generate, becomes a necessity. The magnitude of the effects of the risks can be expressed by quantitative indicators when it is necessary to highlight some of the risks in the technical and economic spheres, and if the risk concerns areas such as the political and social spheres, the qualitative indicators are used predominantly.

The discovery of the relevance of the attributes of accounting information has been the subject of many researches. Two main approaches that were taken into account to assess the value of accounting information relevance are: association and prediction studies. The second approach is based on the fundamental analysis and therefore constitutes a different perspective. The value of a company is well determined by the information reflected in the financial statements. A concern of the financial analysis is the accurate measurement of the results of past and current trends and in the anticipation of future development trends. From this measurement derives an appreciation of the level, evolution and instability (or volatility) of these results. As noted in the above presentation, the accounting information is the basis for these measurements. This source of information is very useful not only for the potential risk at a certain time, but also in their anticipation. The signals arising from the accounting information can be used in the prediction of certain results, and are used to improve the company's business.

As there is a need in the risk management process, the relevant information has a predictive value and a retrospective value. The information on the financial condition and past performance is used as a basis for predicting the financial situation and future performance, of the ability of the enterprise to take advantage of opportunities and to respond to unfavorable situations. Thus, accounting has to treat the past events in such a way that they can enter the decision-making patterns of the users.

In the process of risk analysis and modeling, we can use different mathematical methods, but also other methods and procedures, which help solve the problems related to risk assessment and develop an optimal action plan for risk situations. Statistical risk assessment methods are frequently used during the quantitative risk assessment based on historical data from previous periods. Another instrument used in the financial risk analysis is the financial analysis, this "Provides a set of concepts, techniques and methods that allows the treatment of internal and external information, their interpretation, the issuance of valuable judgments and assessments of the enterprise's activity in order to formulate pertinent recommendations regarding its evolution, level and quality of performance, the degree of risk in an extremely dynamic competitive environment". One of the basic principles of financial analysis is "vulnerability and risk assessment".

The assessment of a company's performance, financial position and its amendment, of the degree of risk in a particularly dynamic economic and social environment also requires other information beyond the scope of accounting information. Thus, the accounting flow is interpreted in a different manner, depending on the expansion, maturity, or declining phase of the company. The way in which the company manages its financial risks contributes essentially to its performance, reflecting in the company's results.

5. The quality of the accounting information in the view of the IASB and the predictability of risks

The adoption of the international financial reporting standards in 2005, by listed European companies, accompanied by similar regulatory actions across the globe, is one of the most influential changes in the accounting rules in history. The transition from one set of accounting principles to a single common set of accounting standards is affecting thousands of companies that differ in terms of size, management structure, capital structure, culture, legal environment and other features.

These changes have a major influence on the decision-making and risk management processes, thus increasing managers' preoccupation with the predictive value of financial statements. The issue of risk is also addressed by the IASB referential, a sign that its importance is more and more current, and disclosing information about how the company manages certain types of risk in its financial situation helps investors or other stakeholders in the business to create an overview of the company's business.

The accounting information has as its objective satisfying the needs of a diverse range of users, needs that are complex and sometimes contradictory, the dissemination of the accounting information being a source of power, which requires that the dissemination process to be the result of negotiation and compromise between the enterprise and external factors so as to be characterized by dynamism and reason. The main means of transmitting accounting information is by financial statements, but financial reporting is generally not associated with business planning, decision-making, or computerized systems. Managerial and financial accounting are seen as two systems independent of each other, but the process of aggregating financial information for preparing financial statements for reporting purposes can be integrated into other business processes. The same information can be used by the organization's management, marketing, or even legal teams.

The main objective of the financial statements is to provide information on the financial position, performance and changes in the entity's financial position, useful to the wide range of users for making economic decisions. They do not provide all the information that users need, as they represent to a large extent the financial effects of past events and do not provide useful non-financial information. The financial statements also show us the results of the management and the management's responsibility for the resources entrusted to them.

Management can not work and make decisions without accounting information, and managing risk as accurate and close to truth requires accurate, consistent and quality information. Thus, a close relationship has been observed between the information that accounting can provide and the decisions taken after their processing, this time by analyzing the risks to which the company is exposed.

The demand for accounting information depends on their potential to reduce the uncertainty and availability of other sources of information. Accounting information is not the only available source of information for those who manage the risks, but there are some points where they have advantages over other sources, such as:

- the accounting information is highly credible, as a consequence of the auditors' intervention;
- the accounting information is legible for the connoisseurs of the finance and accounting department as their production and presentation are based on relatively homogeneous principles and rules.

Financial Accounting provides a mapping of payment commitments, but does not provide a forecast for the future. Because financial statements do not reflect management's future plans, they can not help users evaluate future events. However, users can be helped in the decision making process by the information in managerial accounting. While the internal financial reporting includes information from both types of accounting, managerial and financial, the external financial reporting is mainly comprised of the information provided by financial accounting. Therefore, very little information in the external financial reports refers to the management planning (decision-making) function.

The interest in the accounting information is evolving from the desire to facilitate the communication in the globalization process, and the creation of a conceptual framework to serve as a reference point and of generally accepted accounting principles that are the subject of debates in international forums.

The analyst's estimates are an important part of the decision-making process, as well as risk management as a basis for these processes. Reducing the asymmetry of the information received by potential investors, lenders and other interested parties, the comparability of the financial statements are also a benefit brought by the implementation of international standards, as shown in a Harvard Business School paper. They demonstrate that most improvements are made in countries whose national standards differ significantly from IFRS.

The decision-making process within the firm is independent of the user decision-making process. Business decisions involve profit planning and risk management. User decisions are factors that affect the future profitability of the firm, thereby affecting the future cash flows of the firm. Thus, it seems logical that the actual impact of the company's decisions should be recognized in the financial statements, and, when necessary, the factors affecting users should be described in the explanatory notes to the financial statements. However, the IASB general framework includes the users' decision (prediction of future situations) as a criterion for determining the treatment points in the financial statements, and encompasses market volatility as an economic reality.

Specifying possible future situations and choosing the most appropriate one is also a point in the decision-making process. These are under the sign of uncertainty, so that what has been considered as the best alternative can turn into the opposite if it fails to materialize. In order to know the consequences of a plan, a measure of performance is required. This is not a measure of future activities because they can not be measured, but only projected. It is a measure of what has happened, a reaction of the past, from which experience is gained in the managerial process.

The major role of management is to plan, and this action involves the existence of future activity. Business continuity principle applies taking into account the existence of the future, and it involves uncertainty. In relation to uncertainty, the concept of measurement, called "achievement", appears. Achieving is a principle of quality control: by reducing uncertainty to an acceptable level in the quantification process, impartiality is ensured among resource providers. The need for interpersonal equity underlines the concept of achievement in financial accounting. For financial reporting, there are criteria to determine what are the necessary conditions for the continuation of the activity which has to be satisfied.

The future also involves risks, and the enterprise's activity experiences them for a benefit. This gain is always expected, and is conditioned by changes in values in the future. By failing to foresee the future without any uncertainty, the realization appears as a necessary condition for measuring the profit generated.

The importance of risk management for the efficient operation of the organization can not be overestimated, being one of the most important goals for corporate governance. Modern risk management practices are a systematic and comprehensive approach, based on transferable tools and various techniques. These core principles are sector-independent, and should improve business resilience, improve predictability and help improve earnings.

6. Conclusions

Accounting information has certain limitations that may interfere with risk management. For example, if there is a delay in obtaining and reporting accounting information, it may lose one of its important characteristics, namely its relevance. Thus, a balance must be sought between respecting deadlines and sufficient credibility. In order to provide timely information, it is necessary to report all aspects of a transaction or event. We thus derive a balance between relevance and credibility, in order to meet the needs of users in decision-making.

The main feature but also the limit of financial indicators in the classical accounting system is that they measure the past and what is easy to measure. Due to the limitations of the financial information and its impossibility to detract from all aspects of performance, more and more non-financial information is required, especially in interpreting the values resulting from the calculation of the formulas for certain risks.

Balancing the benefits and costs of obtaining information is a general restriction, the benefits obtained by the users of accounting information must be higher than the cost of providing it. Also, an appropriate balance between the characteristics of the accounting information and its accurate presentation is necessary to meet the objective of the financial statements, being the result of applying the main qualitative features and appropriate accounting standards.

Other limits to accounting information that can influence decisions are:

▫ The use of historical cost and inflation - the data provided by accounting is expressed in historical figures, not adjusted with the consumer price index, so that in order to ensure the comparability of the data, restatement is required;

▫ Using different stock valuation methods (FIFO, LIFO, CMP) - creates difficulties in making comparisons between entities.

In the case of the standardized accounting model, these limits are eliminated using fair value measurement, this being an important step especially in the relationship with the investors, due to the implications for the credibility and comparability of the financial statements.

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