

# PREDICTIVE ACCOUNTING, INFORMATIONAL SUPPORT OF ECONOMIC AND FINANCIAL POLICIES

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## Abstract

*Accounting information is the raw material and the finished product for any company both for the exercise of functions and for efficient management. The interest of the human community in the research of the future is growing rapidly. Concerns regarding the further development of economic and social systems at both micro and macro level, are nowadays, priority objectives of management. That is why the current concerns are mainly focused on the standardization of accounting work methods, for integrated data processing and the use of new technologies, including in the field of artificial intelligence. From data processing and accounting information, we are moving, rapidly, to knowledge-based accounting and, in perspective, to knowledge society accounting.*

**Keywords:** *model concept, information system, accounting balance, accounting forecasting*

**JEL Classification:** G3; G32; G34

## 1. Introduction

Any activity carried out in the economic, social, cultural, financial field has as its objective a well-defined purpose. Achieving the goal involves the implementation of concepts, scientific determinations of a wide variety, specific to a certain field. For an economic activity, the basic object is, parallel to the satisfaction of a social need, more or less known, more or less ordered, the realization of a profit.

The main objective of an economic activity is, in parallel with the satisfaction of a social need, more or less, the main purpose of accounting is to provide financial information on the economic entity. The financial information provided by an accounting system is necessary for decision makers to plan and control the activities of the economic entity. Financial information is also required from third parties - beneficiaries, creditors, potential investigators, the government and the public - who have invested capital in the business or who have a certain interest in the activity in question, who will use the information on the financial situation and the results of the operation.

In order to provide useful financial information on the company, we need some means to track daily business activities and then to sum up the results in accounting reports. The methods used by a business to keep track of financial activities and to summarize these activities in periodic accounting reports form the accounting system.

Investment and loan decisions require the application of detailed analyses of carefully assessed information. They also require the ability to foresee and predict. The correct information is obtained by understanding the data from which it is derived as well as by applying analytical tools that help to extract and evaluate it. The forecast, which is essential for estimating opportunities and risks, is also rooted in understanding: the elements that comprise data and the factors that can change them.

## 2. Accounting forecast

Starting from the recognition of the role of education as the main pillar in the construction of a European area of knowledge, we appreciate that in the current context we need a broader vision of the educational process in a world more dynamic than ever, that can have the ability to meet all present and future requirements. In the society of the future, education will have the essential role in creating the new way of life specific to a society based on knowledge and learning.

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The knowledge-based society is a term defined for economic rather than sociological reasons. The knowledge-based economy is defined by the fact that knowledge and education are treated as activities that are productive goods of a company and on their basis, "products" can be made, which can then be sold at very high prices and benefits. Moreover, knowledge is considered as the main form of capital, replacing actual labor and fixed capital.

At the turn of the 21st century, the knowledge society tends to take on global proportions. At the same time, realizing the rapid moral wear and tear of knowledge and skills, contemporary society is preparing to adopt a new approach to education to become a lifelong learning society.

Presently we are talking about a global market, favored by the elimination of customs barriers, the practically instantaneous circulation of information, the installation of transnational companies almost everywhere.

The change in the way of thinking changes not only the emotional-conceptual framework, but also the accents of the actions in the plan of the economic process, with direct implications on the strategic priority directions of the economic policy. If in pre-industrial and industrial societies the emphasis is on classical factors of production, in the knowledge economy the qualitative valences of the human factor must be rediscovered, which, not infrequently, appeared quantified in expression as a residual factor.

After all, future knowledge workers and service providers need to have the chance to move on to knowledge-based work, to be able at all stages of life to continue their training, to orient or reorient themselves professionally, depending on the demands of the working market.

The extraordinary increase in the importance of information, the speed and the very low circulating costs, has changed the whole structure of contemporary society. We now live in a world of services, of personalized products that are constantly renewed in a globalized competitive struggle.

With the development of business economic and financial evolution within the exchange company, accounting has developed principles, methodologies, methods, procedures and means of documented recording of phenomena and processes in companies, in standard, predominantly valuable, reflecting, at the same time, on the results of the activities, as well as the legal economic relations between the economic agents. At the same time, data-based accounting has standardized and nominated specific documents, information flow regulations and working regulations. These regulations are also adapted to the requirements of integrating economic information systems with the standards of the European Union, in particular with regard to economic and financial situations that involve new information elements.

Every activity requires a program, which represents a point of reference, a reporting basis. In these conditions, accounting, through its instruments, is necessary to target the future of the company, without affecting its essential function defined by its object. The main purpose of the forecast is to eliminate the situation that, through the present actions, to cause, in the near or distant future, the impossibility to act quickly, operatively, efficiently. Forecasting does not eliminate the unforeseen, but it can eliminate or reduce the negative consequences of the unforeseen. Therefore, in the accounting theory and practice in some countries, the alternative of the forecast accounts and implicitly the forecast balance was conceived. It is also true that in practice various forecasting instruments are used under certain names, such as the "budget system" which outlines cash and non-monetary flows, but without being summarized in a forecast balance sheet.

At the same time, the use of performance-based valuation methods implies the existence of a forecasting balance in its entirety or elements thereof. The methods of elaboration and presentation of the forecast accounting documents are different, there being no unitary methodology in the field. In this context, it is further proposed a variant of elaborating the forecast balance sheet and its capitalization in the economic practice.

The main features of data-based accounting can be distinguished by:

- ❖ The rigor of the processing and the content of specific documents, following strict accounting rules, even in the conditions of using accounting software;
- ❖ Its inflexibility and to a certain extent its rigidity, given the fact that it is more difficult to adapt to organizational structures of change;
- ❖ Accounting autonomy or insufficient integration with the other functional subsystems of the enterprise. The statement is based on the fact that the same operation supports successive records in various registers, and in the operation of computer programs the data collection from the other compartments is done manually, most of the times without automatic processing through other programs;
- ❖ The diversity of ways of applying accounting from the particularities of each category of company;
- ❖ The difficulties of exercising control and economic-financial audit starting precisely from the organizational and size diversity of the companies. Internal and external control bodies are often discouraged by a large amount of data to be verified; frequent legislative changes amplify the workload needed to draw useful conclusions for administrators and managers. Computer programs do not entirely help the correct and complete evaluation, in obtaining the best results;
- ❖ Emphasizing the ascertaining function of accounting and neglecting its predictive function; the mere finding of anomalies, after they have taken place, does not help to rectify the situation by eliminating harmful factors; nor do the positive aspects echo to be perpetuated as a result of the use of accounting information; thus, the economic-financial analyses of the past or future facts have an extremely low weight in the administrative and management activities.

The hypotheses underlying the company's business forecasts must be presented clearly and concisely. Without them, the figures in the forecasted financial statements have no value, in fact demonstrating how the expected results are achieved.

### **3. The concept of model and accounting balance**

Modern accounting is recognized as a basic component of business management. Accounting is the means managers are informed about the financial situation and the progress of their companies, thus contributing to ongoing planning, operation control and decision-making procedures. Accounting provides a method of systematic recording and evaluation of business activities.

Much of the information a business manager needs comes from accounting data. The ability to analyze and use this data helps managers meet their goals.

In all forms of society, individuals and groups make economic decisions that determine the exchange of property at the given price. In order to negotiate the price, it is necessary to have a unit of measurement or a means of exchange, which is known by all the members of the company, and which is thus understood by all. In modern companies, this medium of exchange is almost always defined in terms of money - money is used to designate the prices or values of property.

Due to its widespread application, the use of the common unit of measurement develops a fundamental role in the economic, legal, political and sociological analysis - meaning that due to the continuing need to capitalize and quantify objects, all social sciences require quantitative information.

The above analysis suggests that the definition of accounting depends on what information is required at any given time by several groups within the company. In any case, in terms of accounting, we need to adopt a more practical philosophy - one that allows us to at

least choose certain definitions of operation that we can use as a framework. There are several possible definitions of operation for accounting.

A more detailed analysis of the terms used in the definition of accounting reveals some interesting features. In order to understand accounting, we need to understand the nature of measurement and communication, the qualities of economic information, the decision theories and practices, and we need to try to identify the users of accounting information.

The discovery of connections and legalities that would not be noted otherwise is realized in accounting, through modeling. One can appreciate the modeling in accounting as a tool for knowing the reality of value movements, it contributes to verifying the correctness of the thinking process, which leads to the substantiation of decisions.

The model is a necessary means in linking the theory to the practice and it offers the possibility to operate, verify and control the concrete realization of the decisions taken.

Accounting models can be grouped according to several criteria. According to the function they perform, we distinguish: heuristic models and leadership models.

**Heuristic models** include complex conditions, importance coefficients and multiple conditionings; the solution obtained improves the results, there is at most information regarding the distance in between the solution found and an optimal solution obtained with an optimization model. The advantage of using heuristic models is given by the ability to obtain descriptions that include qualitative aspects of the evolution of systems, and the algorithms contain a volume of processing that makes them operational even if the dimensions of the model are very large.

**Leadership models** are directly related to the needs of the decision-making act, being intended to formulate the answer to a certain problem. This type of model simplifies the real connections of the phenomena reflected in accounting, looks for combinations and performs a certain operation based on criteria chosen by the research specialist in accounting. Management methods facilitate the process of directing an activity by allowing the choice of the optimal option. We include here the models in the sphere of production cost, those of cost optimization, sales, forecasting.

The economic equilibrium appears as a solution of an economic model describing a state of rest and resulting from the opposition between the identifiable desires of people and the obstacles in their realization. Viewed this way, the economic balance becomes a state of concordance between the interdependent elements and all the variables necessary to be correlated in the creative activity. Permanent maintenance of balance is possible through careful planning and personal monitoring.

#### **4. The efficiency of accounting models in managing economic activity**

The object of accounting also circumscribes the complete and uninterrupted pursuit of the movements and transformations of the patrimonial elements of the economic and social units in the phases of the economic circuit.

Accounting must ensure not only the knowledge of the patrimonial elements at a certain time but also the changes in the sense of increasing and decreasing the patrimonial elements during a management period. Accounting materializes its objectives in the process of reflecting and knowing the movements of values, through specific instruments, namely the accounts.

This procedure is designed to allow the successive changes of each means to be traced, as well as their existence at a given time.

The account is the most representative procedure of the accounting method for achieving its object of study. The account was the basis of various economic calculations and led to the crystallization of fundamental concepts in accounting. Through chronological calculation, the science of accounts has managed to maintain the equality between the consumption of production factors and their results.

Accounting performs, in the economy of organisms, periodic synthesis calculations, it offers the management the reconstruction of the past period, using its own means. The trial balance, the balance sheet, the profit and loss account constitute the finished product, but they can also be used to foreshadow the future, through comparative analyses and forecast calculations.

The category of procedures specific to the accounting method also includes the checking balance. It ensures the observance in accounting of the permanent balance imposed by the double registration of economic operations, being an essential instrument in verifying the correctness of the entries in the accounts and for drawing up real and complete balance sheets.

The checking balance is presented in the form of a chart of accounts in the General Ledger Register, which includes columns for the name and symbol of the accounts, initial balances, movements or turnovers within a period, and the final balances. The checking balance architecture is based on the balance  $\text{Assets} = \text{Liabilities}$ . Checking balances can be classified according to the following criteria: depending on the types of accounts that make them up, the number of equalities they contain, the content and the graphic form of presentation.

The control of each synthetic account entered in the synthetic balance is done with the help of the analytical balance. There must be a full concordance between the analytical balances opened for each account and the synthetic balance. Thus, the initial balance, the debit and credit turnover as well as the final balance in the analytical balance must correspond to the amounts transferred to the synthetic one.

The power of knowledge of accounting and the usefulness of its knowledge have been highlighted by specialized literature and confirmed by socio-economic practice. Over time, accounting has revised or changed its concepts and theories, but kept its fundamental theoretical principles intact. This science has always, as time went on, constantly expanded its area of knowledge and action. It had the courage to extend its field of study from enterprises, to institutions, to the national economy.

The cognitive value of accounting modeling consists precisely in the participation of the models in the phases preceding the action of scientific knowledge. In this way, accounting modeling and models acquire the mission of being the rational skeleton of the cognitive process.

## **5. Conclusions**

As a component of the economic information system, accounting provides most of the information for decision making at the micro and macro economic level. The task of management is to make decisions that ensure the continued viability of the organization and to control the implementation of those decisions. It is a part of the total information, valid for management. It is important to know the partial role of accounting.

Accounting represents only one part of the complex set of informational and organizational structures. The role of accounting is to provide relevant financial information within those structures. Accounting will rarely provide sufficient information as to allow an informed decision to be made or to monitor the implementation of organizational plans. Accounting can contribute to the managerial process in several ways. It has a role in identifying and measuring information: that is, in determining how the factors associated with a particular decision are recognized and quantified. The appropriate way to approach these issues may depend on the decision to be evaluated as well as on the available alternatives of the organization. Most accounting deals with techniques and procedures, but our definition also describes accounting as a process. Practical techniques are implemented in a human process, and accounting will be influenced and will influence the human context in which it is located, which in our case is the context of managerial decision making.

The current activity within the company constantly leads to the development of decision-making processes of different magnitude and importance. The finality of each such process consists in the adoption of the decision. Its effective application exceeds, through

implication and effects, the boundaries of the information-decision-making system of the company, involving most of its subsystems. In fact, if we analyze the decision-making process in connection with the other processes that take place within the company, we will find the existence of sequences of procedural cycles.

At the basis of the decision-making process there is an event or a situation whose appearance is interpreted by decision makers as the motive of the decision-making process. It is obvious in this case the fact that an event triggers a decision-making process, only if it receives from the decision-maker the character of a "triggering event".

In any case, it must be emphasized that the interpretation of information is a vital part of an accountant's job, and it is clear that this must be seen as an integral part of the communication process. It should be mentioned that the definition of accounting does not extend to decision making. Of course, many accountants become involved in decision-making, but in such cases they play a managerial role rather than an accountant role. We do not want to say in any way that accountants should not be involved in management, but it is important to differentiate between accounting and decision making. It is important that the information provided by the accountant to be as objective as possible, and if accountants do not have a clear distinction between accounting and decision-making in their minds, there is a high risk that they will unconsciously manipulate the information provided so that the decision they make is the one they want.

In the decision-making process, the role of the accountant is to provide correct, timely, accurate and useful information. In order to achieve this, the accounting officer must collect the appropriate information and report it in a manner relevant to management.

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