THE ROLE OF ACCOUNTING INFORMATION IN MAKING ECONOMIC DECISIONS

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Abstract

Emphasizing the globalization process of national economies, the integration of financial markets and information systems, the need to have unrestricted access to international capital markets imply the protection of investors through information that includes comparable data; access to international funding sources, possibility for pertinent performance appraisal and decision-making.

Applying international financial reporting standards by economic entities involves changes in the manner of recognition, measurement, impairment, in structures of financial statements. In pursuit of objectives, the management of an entity must apply accounting policies so that their financial statements should comply with all provisions of each applicable international accounting standard and each applicable interpretation.

Key Words*: accounting regulations, IAS, financial status, performance, assets, impairment.*

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1.Introduction

The world economy is undergoing a continuous process of internationalization, of tightening economic connections among countries, with the emergence of more and more international or mixed capital companies. Emphasizing the globalization process of national economies, the integration of financial markets and information systems, the need to have unrestricted access to international capital markets imply the protection of investors through information that includes comparable data; access to international funding sources, possibility for pertinent performance appraisal and decision-making.

Under such circumstances, accounting information is increasing its importance, as it has to be characterized by reliability, clarity, completeness and, above all, truthfulness. In order for accounting information users to be certain of such information, it must be the product of accounting that operates in accordance with certain rules and regulations accepted by both accounting data producers and users.

2.Content

The need for accounting harmonization ensues from the work and influence of multinational accounting and tax and financial consulting companies as well as from the relationship with tax authorities as users of accounting information that control the activity of multinational companies. Accounting harmonization requires the production of a unitary conceptual model of financial statements presented by entities. The process ensuring harmonization and uniformity in accounting is accounting standardization.

Accounting standardization results in the *definition of accounting principles and rules* based on precise and identical terminology for all accounting information producers and users, as well as in the *information's practical application* in order to ensure comparability in time and space, relevance and credibility of accounting information.

Accounting principles are accounting hypotheses and conventions that guide normalizers in the development of accounting standards. Accounting standards are defined as rules set up as a reference system for the production of accounting information (evaluation, registration, classification and presentation) and the social validation of financial statements presented (recognition of their validity). It follows that accounting principles are the same for all entities irrespective of their nature, size or legal status. Yet, accounting rules may differ

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from one entity to another even in similar circumstances. In other words, accounting principles have a higher generality degree than accounting rules.

From a spatial perspective, one can talk about the dimensions of accounting standardization at national, regional and international levels. The main dimension of standardization is the national one. The economic, financial and possibly social objectives of some groups of countries have generated the development of the standardization dimension at regional and international levels.

At international level, the standardization process is based on the general framework in compliance with the International Accounting Standards Board (IASB). The International Accounting Standards Board is committed to developing, in the public interest, a single set of high quality financial reporting standards that are easy to understand, applicable and accepted globally based on clearly stated principles. International Financial Reporting Standards (IFRS) aim at *harmonizing* the accounting principles, procedures and treatments used to prepare and present entities' financial statements.

IFRS standards are merely recommendations, they are not imposed on any person, entity or country. They can be used in several ways: in the form of national norms; as useful documentation when dealing with the drafting of national regulations; as reference, in order to ensure the comparability of national regulations with the IASB reference. Multinational economic entities and large companies listed in financial markets must present their accounts in accordance with international standards or recognized international standards.

At regional level, a representative example is the accounting harmonization process achieved in the EU through directives. The scope and characteristics of European Directives are circumscribed to the area of the EU countries and their application is mandatory because it is a source of accounting law[1]. As a result, in order to apply them, each country has the obligation to incorporate them in their own legislation, following the analysis, options and adaptations required by national particularities.

At present, an accounting rule is covered by the 2013/34/EU Directive of the European Parliament and of the Council of 26 June 2013 on annual financial statements, consolidated financial statements and related reports of certain types of entities. The 2013/34/EU Directive repealed the Fourth Directive and the Seventh Directive.

At national level, national or local standards are prepared by each country in relation to International Standards and European Directives. The design, development and adoption of national standards simultaneously takes account of national identities, accounting traditions and cultural domination effects at international level. It is also a political and strategic process within which each country defends its own interests. Romania had to consider the present and future changes in order to fit into the market, the competition rules and the commitments to the European Union. Normalizers in the European Union member states had the obligation to ensure the entry into force of its provisions until 20 July 2015. In this respect, in the beginning of 2015, Order of the Minister of Public Finance no. 1802/2014 for the approval of the ***accounting regulations on individual annual financial statements and consolidated annual financial statements*** came into force.

According to the needs of accounting information users, a distinction has been made between the tradable companies on the capital market, national companies/firms and other legal entities of national importance, towards other commercial companies, micro-entities, small entities, medium and large entities.

The standardization process may be provided by a public authority, an accounting profession body or an independent body.

Depending on the nature of a standardizing institution, there can be the following types of standardizing approaches:

State (public) type standardization where state intervention prevails; the set of rules is defined by a state body and imposed on all entities by virtue of laws and other regulatory texts (ordinances, government orders, ministerial orders). Standardization is state-owned in our country. At accounting level, there is an attempt to combine current accounting legislation with international regulations. Thus, the legal framework for accounting currently has three major components, namely: general accounting legislation; accounting legislation harmonized with 2013/34/EU of the European Union and with International Financial Reporting Standards; simplified accounting legislation harmonized with European directives. The accounting regulatory institution is the Ministry of Public Finance (MPF) through the Accounting Regulation Directorate assisted by the Accounting Advisory Board.

Pragmatic type standardization where the decisive role in the preparation and valorisation of norms is held by the liberal accounting profession; the bodies of the liberal accounting profession take up both the initiative to prepare rules and to implement them.

Mixed type standardization where rules are developed by professional bodies and ”validated” by public intervention, or a mixed approach, a wider process in which norms are the result of the participation of unions, accounting profession, and employers' associations.

An important issue of accounting standardization is the standardizing concept. From this point of view, two concepts are distinguished: one based on the ***general accounting plan***, the other based on the ***conceptual accounting framework***.

The devices of accounting standardization viewed according to their scope are arranged on three levels: national, regional, international.

Standardization at national level is still achieved through the standardization tool that is the general accounting plan. Through its content, it is a theory or a doctrine that guides the accounting practice of a country.

In our country, the general accounting plan is identified by the rule called ”accounting regulations on individual annual financial statements and consolidated annual financial statements” approved by Order of the Minister of Public Finance no. 1802/2014.

Standardization at regional level is a development of the accounting standardization dimension in some groups of countries. Accounting standardization at EU level is achieved through directives. The accounting rule is set out in Directive 2013/34/EU of the European Parliament and of the Council regarding annual financial statements, consolidated financial statements and related reports of certain types of entities.

Standardization at international level is a development superior to regional standardization, with the standardizing conception based on the ***conceptual accounting framework***.

The instruments used in international accounting standardization are the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). The International Accounting Standards Board currently updates its conceptual framework. The project takes place in stages. Once a chapter is completed, the relevant points in the ”General framework for the preparation and presentation of financial statements” that was published in 1989 are replaced. When the project on the general conceptual framework is completed, the Board will have one full comprehensive document entitled ”Conceptual Framework for Financial Reporting”.

The general framework for preparing and presenting financial statements includes the basic concepts and principles underlying the preparation and presentation of financial statements for external users. Financial statements prepared in the spirit of the general conceptual framework are of general interest and their content meets the common information needs of a wide range of users.

The objective of financial statements is to faithfully inform a user about their financial position, its evolution and the entity's performance at a given moment in order to substantiate decisions.

Obtaining information from the economic environment, from both the external and internal environment of a company allows the choice of the optimal economic opportunity to be followed in future actions.

As the main provider of economic information, one can say that the specialists' appreciation according to which: *accounting is not an end in itself, but is a means of business representation, which, after valorization by decoding and interpretation, should correctly underlie the economic and financial decisions of users*[1] proves its validity. The use of economic indicators may be a solution to highlight a company's financial status. *It may be that one's eyes are or are not the mirror of one's soul, as Immanuel Kant suggested, but indicators are absolutely the mirror of a company's financial statements.*

The latest period has been marked by many concerns about defining and assessing an entity's performance. According to the DEX, **performance** means a great achievement in a field of activity. Performance implies victory, competitiveness, progress, success, continuous effort. From an economic point of view, performance is measured by the result: profit or loss. The profit or loss reported by a trader is used in most cases as a benchmark for performance. For this reason, users want to know how the result has been obtained, what the revenues and expenditures have been that have led to the result. In the case of such a need for information, the balance sheet proves to be insufficient. It presents information on the financial position, the result being only a component of company equity. For this reason, it is necessary to prepare a statement showing how the result has been generated, and this is represented by the profit and loss account which provides a view of entity performance.

Performance is regarded distinctly by accounting information users according to their needs. In other words, performance measurement is based on users' goals.

Accounting information producers must attach great importance to how they present their performance due to the impact on the communication process with the outside.

The main accounting information *users* are:

As internal users, *managers* look for information on global performance, they look for information to set a concrete picture of resource management and distribution of results.

Specialized literature appreciates that managers currently incorporate in their decisions everything they know about market, competition, customers, but when they also incorporate financial analysis, decisions are better .... . Relevant financial analyses provide managers with an opening to the future and help them make wiser, better documented choices. When internal information refers to the company itself, its profitability should take into account that development or investment decisions need to be made only on the basis of financial and economic analyses. In this case, the documentation and information activities must provide the following: the expected level of a company's results, the actual level achieved in the current period, the share in which the planned level has been achieved, the size of deviations and their causes, the ways of correcting and enhancing the company, and the company's performance level in the future

As external users:

Current and potential investors are interested in the ability of their investment to generate profits. Investors, as capital providers, want information on the performance of invested capital and the dividends they should receive. According to such information, investors may decide whether to buy, keep or sell "capital". When internal information is aimed at an entrepreneur, the latter must consider information such as (C. Rusu 1993): availability in risk taking, business leadership, professional training level, leadership skills, perseverance, flexibility, predictability and planning. *There are two issues that attract investors into a business, the possibility of future profits and the future development of a company, its potential.*

Bankers, as providers of bank loans and guarantees, need information in order to assess the ability of a trader to repay the loans on maturity dates and to pay the related interest;

Employed staff, as a labour supplier, is interested in an entity's stability and ability to generate economic benefits. Employees want information on the profitability and continuity of the entity's activity, and can therefore appreciate the entity's ability to provide wages, pensions, awards, and other social issues (jobs, health insurance, etc.);

Commercial partners need information on an entity's stability, information on the production cycle, ensuring the continuity of a trader's activity, especially in the case of medium and long-term agreements;

The state and its institutions use information on the construction of certain macroeconomic indicators (national income, gross domestic product, etc.);

The public seeks to know a trader, being a potential investor, supplier, buyer, employee, etc.

3. Conclusions

Normalizing accounting by providing a common language at global level brings important benefits to the entire economic world. Ensuring comparability between different standards systems does not imply that they are identical, but their regulations do not conflict. For example, due to China's economic development, this country will have to set its own set of standards, tailored to the requirements of the national economy, but compatible with International Financial Reporting Standards. At the level of the European Union, the harmonization process must overcome obstacles to: how to regulate accounting in each Member State; different interpretation of the concept of faithful image; the relationship between the tax system and the accounting of each country. Despite these difficulties and the specificities of each country, the EU Member States have started to harmonize accounting, aware of its advantages

The standardization of accounting by providing a single language at global level brings important benefits to the entire economic world. Ensuring comparability among different standard systems does not imply that they are identical, but their regulations should not conflict. For example, due to China's economic development, this country will have to prepare its own set of standards tailored to the requirements of its national economy, but compatible with International Financial Reporting Standards. In the European Union, the harmonization process must overcome obstacles regarding: how to regulate accounting in each member state; different interpretation of the concept of true and fair view; the relationship between the tax system and the accounting of each country. In spite of such difficulties and the peculiarities of each country, the EU member states have started to harmonize accounting, being aware of its advantages.

At national level, in the context of many changes that occur in the Romanian business environment and here reference can be made both to the political ones (every four years there is another vision of how business should take place in Romania, and what legislative changes should be made) and to the changes in the market (customer reorientation, competitors' occurrence, etc.), it is important that the development and adoption of accounting rules should take account of current and future changes, of the commitments to the European Union.

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