USERS OF THE INFORMATION PROVIDED BY ACCOUNTING AND THEIR INFORMATION NEEDS

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Abstract

In this article we are trying to see how the utility of accounting can be justified. In order to do this, we will consider the organizations involved in the business that they seek to make profit from. It is hard to believe that all the information generated by a business can be remembered - however simple it may be. We dare say that bookkeeping is necessary at least because it allows the entrepreneur to remember information, especially digital, without which the business may not be properly led. Bookkeeping is justified by the need for information, the need for a certain rigor in the Administration of a business, large or small, simple or complex, individual or collective.

Key words: insiders, outsiders, IFRS, accounting perimeter, funding sources

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1. Introduction

In Romania, the economic and political developments after 1990 led accounting rules to follow a fairly rapid path from centralized economy accounting to market economy accounting. Since 2000, the body responsible for establishing accounting rules in Romania (the Ministry of Finance) has started a sort of alignment of the Romanian accounting with some international standards: IFRS (International Financial Reporting Standards). This alignment has proven to be useful for joining the EU, an economic space in which IFRS have been mandatory since 2005 (for some categories of entities). Romania's entry into the EU has also been accompanied by new reporting obligations for listed companies. Thus, until 2011 inclusive, listed companies were required to prepare consolidated financial statements in accordance with IFRS. From 2012, the application of IFRS becomes mandatory in the individual bookkeeping of listed Romanian companies. The Romanian accounting approach towards these international norms was welcomed by many authors of Romanian accounting. It began thus, for some, or continued for others, taking over ideas, rules, comments or translation exaggerations specific to international standards. Receipts were made either after the originals in English, or after the Romanian official versions, or after intermediate versions in other languages. After 1990, the main sources of inspiration for Romanian bookkeepers were Francophone, a situation perpetuated to this day, even though English language sources are becoming more and more important.

Our entry into the orbit of IFRS has led to a hasty generalization sometimes, when the users of accounting information are presented, by taking over the list and hierarchy of those users from the above-mentioned international standards. We say that generalization is rushed for at least two reasons: first, IFRS refer only to listed companies whose shares are held by several individuals who usually do not directly participate in the activities of those firms. Thus, the only source of credible and relevant information - financial-accounting information - for many of these investors is the synthetic accounting documents.

A second aspect in this context refers to what users use: they do not have access to all accounting, but only to financial statements, so they are rather users of the financial statements, than users of accounting information in general. In our country most of the companies are not quoted on the stock market, they do not have too many investors, and they have little reason to obey rules similar to the international ones.

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2. Users of financial statements prepared by listed companies

The accounting information can be assimilated and analysed through three aspects: semantic, syntactic and pragmatic. The semantic aspect of information refers to the importance it holds for the element that receives it. The syntactic side highlights how the signs that compose the information remove an element of uncertainty, to determine the phenomenon, and the practical utility of the information for the user synthesizes the pragmatic aspect. Thus, the economic information is customized by expressing explanations of economic resources, production, distribution, the exchange and consumption of results, being formulated on the basis of a set of indicators that together form the "data repertoire" indispensable to the coordination of an efficient economic process.

Based on the general principles outlined on the functioning of the economic systems, as well as the designation of financial accounting information in the establishment of informational links, it can be concluded that while the content of the information is conditioned by the lead system, their form is given by the management system. If, in the process of obtaining information, their form may involve modifications depending on the means and processes used, the content will remain the same, independent of the structure of the lead and leader system.

Until 2010, the international accounting rules designated as external users of financial statements the following: potential and current investors, creditors, employees, customers, suppliers and other commercial creditors, the government and its institutions. In the first place there were the investors and it was even acknowledged that not all user information needs can be met by financial statements, but there are common requirements for all users. Investors, however, were privileged on the grounds that they provided the companies with capital, assuming the risks arising from it - if the investors are satisfied, then it is considered that most of the information needs of other users are satisfied. Many commentators have criticized international rules for the prioritization of investors, so the body that elaborates these norms has mastered its criticism and removed most other users from the list. Thus, in the post-2010 IFRS, it is explicitly stated that the objective of the financial statements is to provide useful information to existing and potential investors as well as to lenders and other creditors.

The investors are interested in the performance of the businesses in which money is placed, the risks to which the business is exposed, the ability of the companies to generate cash flows from which to pay dividends. It is clear that in order to be able to identify, interpret and understand the information in the financial statements, the investors referred to in this context must have reasonable knowledge of accounting, finance, and economics.

Financial creditors are the other major category of users. It is well-known the prudence often demonstrated by such creditors, interested in estimating the ability of the firm they loan money to, to repay the loan in good condition and to pay the appropriate interest and commissions.

The Romanian Accounting Standard, which is applicable to most companies, is more prudent in setting users, avoiding the submission of a list of them, and noting that the objective of the annual financial statements is to provide information on the financial position, financial performance and cash flows of an entity of a broad category of users.

3. Users of information provided by unlisted firms

If we take a generic example, a limited liability company where the manager is the main associate, then the list of users begins with the administrator itself. He/She needs data on the result, the debts, the receivables, the equity, the degree of indebtedness, the level of the stocks, the profit margins, the commercial additions etc. In this context, we can say that the organization and keeping of the accounting of such an enterprise is adapted to the needs of the management, within the limits established by the accounting law.

However, the enterprise operates in a social environment, engages in relationships with all kinds of partners: tax authorities or other authorities, banks and other donors, etc. Some of these partners are interested in analysing the company's situation before conducting business with it - this type of analysis also often calls on accounting data.

The accounting information is not the only one required by financiers, but they can have a decisive place in making the lending decision. At the same time, financiers are often in a strong position, especially in relation to smaller businesses, being able to request all kinds of additional accounting information that is not normally disclosed. Thus, it is important to keep accounting accurate so that the information provided to creditors to lead to the most credible analyses.

Among the financiers there may also be private or public national, regional or international financial institutions, which provide support in starting or developing a business. These bodies provide non-refundable or repayable funding, but under favourable cost conditions. In order to grant such funding, the bodies may impose various conditions, including some more detailed or stricter accounting reporting obligations, possibly performing data retrievals obtained according to the Romanian accounting rules in order to make them compatible with the formats requested by the financiers. At the same time, in such circumstances, an auditor may be required to certify to the financier that the information in the applicant's accounts complies with the norms. Certainly, the accounting of a company that benefits or wishes to receive such funding is kept with some more attention and, implicitly, with somewhat higher costs.

Another user easily identifiable by all administrators or accountants is the tax authority. It seems that an entrepreneur, when employing an accountant or an accounting firm, thinks less of the proper keeping of the accounting than the fulfilment of fiscal obligations: the calculation of the various taxes, the drawing up and submission of tax declarations established by specific regulations. Certainly, the tax authority uses audit information for control purposes, but these bodies are more interested in how the tax obligations are met and less in the manner in which the data from the synthetic accounting documents were obtained.

4. Categories of information necessary for different users

Each of the accounting information users wants to know something. Some requirements are common, others are specific. The concepts most frequently encountered when discussing companies are analysed in chapters 4.1 and 4.2.

4.1. What does accounting profit mean and how can it be measured?

From the information frequently searched by users we chose, for a short development, a widespread and apparently easy to understand indicator: the accounting result - profit or loss. In accounting, measuring profit or loss is difficult. We will see that the amount obtained is not always very reliable, having an important managed component that is the result of choices made by businesses for the more or less visible purpose of manipulating financial information.

However, it is necessary for the non accountant to understand something of the organization's performance. It is very easy for anyone to understand what collections and payments are - for this there is no need for accounting or finance knowledge. An entity's inputs and outputs are not necessarily the best measure of their performance, but their explicit presentation provides a very good basis for assessing the company's situation over a given period. Thus, it has come to require accountants to draw up and provide users with such a cash and payout situation, called the Treasury Cash Flow Statement. This document should show the payments made by destination, as well as the receipts, by origin. Apparently, it is a simple document to understand; the evolution of accounting and financial techniques has nevertheless led to a rather cumbersome way of presenting the main cash flows by reconstituting them on the basis of the net accounting result - this is a so-called indirect method of presentation of operating cash flows.

Performance appraisal on the basis of receipts and payments is very partial and can lead to wrong decisions. It is sufficient to consider credit operations, operations specific to investments in various machinery or other equipment, or even the wage pay to see that the company's effort does not always affect the accounting result when the payment occurs, as the effects are not always taken into account when calculating the result when there is a collection.

Many entities compile a document called The Statement of Changes in Equity where we find exactly the way in which the transition from the original net wealth to the final net wealth was made. It must be stated, even if an additional difficulty is introduced, that the result thus calculated for a period of time is not necessarily equal to the result established as a difference between the income and expenses of that period, the difference can be explained by the rules for the assessment and recognition of various elements of assets and liabilities.

4.2. Leverage and risk seen from the accounting point of view

Users should not be content to know how profitable the business is: this information needs to be complemented with more details. Among the latter, it would be useful to make an appreciation of the business risk. Without going into details about the diagnosis and evaluation of companies, we will only retain here an easy indicator, directly obtained from the accounting data, namely indebtedness. In many financial analysis papers it is suggested that, out of total resources, debts should not exceed two-thirds. Certainly, when considering credit applications, banks also take into account the degree of indebtedness - and even if we can assume that the rules specific to each bank differ from this point of view, the calculated indicators may be decisive in making the lending decision. If we look at a few concrete cases, we see a great deal of diversity in firm rankings by leverage, depending on many variables. It is advisable to compare entities with similar activity profiles and to make an analysis according to the position of the sector average. It can happen that an organization with systematic and persistent indebtedness of 80% to be profitable in terms of profit and market image. In the accounting reports, these debts contribute to increasing indebtedness, but, in many cases, they represent quasi-resources of their own, considering precisely the privileged relationship between the firm and its associates. At a different level, liabilities may arise frequently in the group, i.e. debts to other components of the same group. The cost of borrowing is also worth remembering: how much higher is the reference interest rate, how much is the annual effective interest rate, the proportion of the commissions of all kinds, which guarantee obligations exist.

5. Conclusions

The most common and most representative typology of relationship in the existence of an economic entity is that between its owners and its managers. This has to be correlated and understood in the context of the governance of the company in question. If the relationship between administrators and owners is a primary relationship in the governance of the society, it can be argued that at international level, accounting should meet the needs of a diverse range of users, its offers being increasingly social.

Equally important is that a financially assured economic entity carries out a policy of equilibrium between the recourse to external sources of financing and the generation of own sources (the way of self-financing, by depreciating the various components of the asset and by allocating a representative rate of profit for the formation of reserves). That is why the financiers are represented by investors, creditors (especially bankers), state and government agencies, tenants, etc. As set out in the international accounting regulations, external information users, defined in the processes and financing operations, are the investors and the creditors.

In the case of small economic entities, the manager coincides most often with the owner. In the other types, however, the shareholders are numerous, they cannot directly engage in the daily activity and therefore delegate management authority to a group of managers. The information needs of the managers are mainly covered through reports that are not published to other categories of users. These reports are usually drawn up both on the basis of the information in the management accounts and on the basis of the financial accounting information. Their nature varies from one enterprise to another, depending on the type of activity.

The more complex and diversified the company's activity, the more managers need more information. In addition, the larger the company is, the farther away is the manager from daily activity, which obliges him/her to request additional information on which to be able to effectively control the activity of his/her subordinates.

Also, the specificity of the entity's activity influences the managers' information needs. Managers have immediate and complete access to accounting information. They do not have to wait and are not limited to information published in the financial statements. Although they benefit from information asymmetry in relation to other categories of users, however, managers pay special attention to the way in which published information is perceived by these ones. Such an interest is due to the fact that the published financial statements inform third parties on the management capacity of the management team. In other words, managers use the information in the financial statements to communicate.

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