

# QUALITY OF ACCOUNTING INFORMATION TO OPTIMIZE THE DECISIONAL PROCESS

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*Abstract: This article provides information on business and therefore need managers to obtain information relevant accounting, reliable, clear, accurate and lowest costs to optimize decision making. This need derives from the current economic environment. The survival of organizations in a competitive environment, to which they must adapt, is conditioned by obtaining accounting information which should be qualitative, opportune, vital, and in a short time. This information is related to patrimony, analytical results, the market (dynamics, dimensions, and structure), and relationships with business partners, competitors, suppliers. Therefore focus more intensely on the quality of accounting information. Definition of quality of accounting information but leave the boundaries and features of accounting communication process and aims to determine "quality criteria" or "qualitative characteristics" to develop a measurement tool. Note that the review literature was found that the normalization and accounting doctrine, criteria for definition of quality of accounting information are not identical, their selection and ranking is different. Theory and practice also identifies the fact that information itself is worthless. Instead it is valuable once it is used in a decisional process. Thus, the economic value of the accounting information depends on the earnings obtained after making a decision, diminished by information cost. To be more specific, it depends on the table or on the implemented decision tree, on the informational cost and on the optimal condition established by the decision maker (due to the fact that producing accounting information implies costs which are often considerable and profits arise only from shares). The problem of convergence between content and interpretation of information sent by users also take, and the quality of information to be intelligible. In this case, those who use, say users should have sufficient knowledge about business and accounting. Also were studied data on how the easiest to increase intelligibility provided by management accounting information. It was found that there are different possible behaviors of managers in the dissemination of accounting information in relation to how the organization deals with information about the external environment and as a result of research efectaute have identified some solutions that managers can limit the effects of uncertainty in information dissemination accounting. Therefore the present study, the detailed approach and identify the quality requirements of modern economic information system, comes to effectively support managers in making decisions.*

*Key words: accounting information, relevance, incertitude, decision, costs*

*JEL classification: M40, M41, M49*

## **1. Introduction**

Nowadays, economic organizations can no longer be led through traditional methods based on intuition, experience and talent, manifested by a manager. This phenomenon has been generated by the increasing complexity of elements which are led, by the dynamics of economic process both in production and in other fields of activity. It is necessary to have a specific activity of informing which should connect the leading process to the execution process. *Information* has become not only “raw material”, needed by leaders but also the linking part between the two

processes. Only with the help of information can the deciding party observe permanently the economic processes for the entity as a whole, for each part of the activity and it can also act upon them. That is why treating the *accounting information system* as a component of management is necessary and opportune at present, as managers are aware of their roles.

In the economic context, managers have to answer many important questions, such as: Is there enough cash to pay taxes? What is the production cost of each product category? Can the enterprise afford raising salaries? Which production line is more profitable? etc.

Thus, to find solutions to these problems, the manager must be capable of defining the type of information needed and required, and the informational system should be capable of offering the information.

Practically, things are not exactly as stated, as the manager is forced by circumstances to use available information from all available sources. Peter Drucker underlined that *„the manager will never be able to take over all actions needed. Most decisions are based on incomplete knowledge – due to the fact that information is not available and it would cost too much time and money. Nothing is more painful, more common than the presupposition that we should wait for decisions based on incomplete information”*.

Thus, despite objective difficulties in obtaining, producing information, managers need qualitative accounting information to help them plan, adopt, implement and control decision.

## **2. Evolution of economic thought on criteria and qualitative characteristics of accounting information**

Defining the quality process of accounting information starts from delimiting particularities of the process of communicating in accounting and it aims at „quality criteria” or „quality characteristics” in order to elaborate a measurement instrument.

It is a fact that, *in accounting norms and doctrine, criteria which allow defining the quality concept of accounting information are not identical, as their selection and hierarchy are different* (Minu, M., 2002:111-138).

American norms stated in<sup>43</sup> Statement of Financial Accounting Concepts no.2 identify the following characteristics: intelligibility, pertinence (*relevance*), *feasibility and comparison*. *This concept reveals that „utility of information in making decision” is the first quality. It is ensured by relevance, feasibility of provided information considered primary qualities.*

On a global level, accounting norms<sup>44</sup> have been strongly influenced by the American concept and it has the same characteristics: intelligibility, pertinence (*relevance*), *feasibility and comparison*. The general restriction is identical with the one specified by FASB (Financial Accounting Standards Board): production cost or analysis of information should be less expensive than the cost brought by using information.

In Great Britain, specialized organisms<sup>45</sup> have different points of view from the American ones: *relative importance* is the prime quality for information to be useful; *relevance and feasibility* are main qualities and comparison and intelligibility are secondary qualities.

According to French norms<sup>46</sup>, *„ accounting information should give users an adequate, loyal, clear, precise and complete description of events and situations”*. French norms used to think that accounting information has as an objective a clear image of represented reality and it followed the principles: regularity, honesty, prudence. It did not suppose any hierarchy or articulation of quality criteria. At present, there is a structure of qualitative characteristics and ideas referring to the quality of accounting information, different from Anglo-Saxon ones. Thus, the *object of*

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<sup>43</sup> APB - Accounting Principles Board; AICPA - American Institute of Certified Public Accountants; FASB - Financial Accounting Standards Board

<sup>44</sup> IASB- International Accounting Standards Board; IASC-International Accounting Standards Committee

<sup>45</sup> ASB - Accounting Standards Board

<sup>46</sup> CNC - Conseil national de la comptabilité; OECCA - Ordre des Experts - Comptables et Comptables Agréés

accounting information in annual financial statements is „to offer a useful representation of reality in an enterprise”, and the characteristics of accounting information are: *pertinence, intelligibility* and other characteristics which comprise a series of accounting principles (such as method permanence), as well as relative *importance, cost, opportunity and comparison*.

In Romania, after the changes occurred in three essential stages (1990-1994, 1994-2005, 2006-present) Romanian norms<sup>47</sup> have adopted and introduced quality criteria in elaborating and spreading information as IASC did. Thus, in „The general framework to set up and present financial statements”, elaborated by the Committee for International Standards in Accounting, in the chapter „Qualitative characteristics for financial statements”, point 24 it is stated “*Qualitative characteristics are the attributes that determine utility of information offered in financial statements. The four qualitative characteristics are: intelligibility, relevance, credibility and comparison.*” Also, „*applying main qualitative characteristics and adequate standards has as a result financial statements which reflect a real image of the enterprise.*”

A conclusion on the above points of view may give a definition of qualitative characteristics of accounting information:

-*pertinence (relevance)* → capacity of the information to influence decisions and to allow assessment of past, present and future events, either by confirming them or by correcting past evaluations.

-*feasibility* → presupposes a lack of errors or elements which lead to misinterpretations and is appreciated according to neutrality, prudence, credibility, integrity, allowing a real representation of a situation.

-*intelligibility* → represents the quality to be easily understood by users, if they have enough knowledge on business, economic activity and accounting.

-*comparison* → is the quality to capitalize on information, both in time and space.

At the same time, we can observe a controversy about hierarchy of qualitative characteristics by norm organizations, some of them considering (ASB, FSAB) *pertinence and feasibility* as main characteristics, others (IASB/IASB, OECCA, CECCAR) *intelligibility and pertinence*.

The main common point is given by the fixed objective which can be thus summarized “*accounting information must serve to make an economic decision*”.

In practice, establishing equilibrium between qualitative characteristics is necessary because no information may have all qualities, more often than not, the focus is on a single characteristic. In general, the aim is to realize a balance between characteristics. The relative importance in different cases is a problem of professional rationale.

### **3. The quality of accounting information in the decision making process**

Accounting information does not have intrinsic value, it acquires value when it is used in the decision making process. Thus, the economic value depends on the earnings obtained from making an optimal decision. To be more specific, it depends on the table or on the implemented decision tree, on the informational cost and on the optimal condition established by the decision maker (due to the fact that producing accounting information implies costs which are often considerable and profits arise only from shares).

Thus, quality is appreciated according to two parameters:

- information utility;
- information cost.

These parameters sustain the idea that *production cost or analysis cost of information should be lower than the profit made after using the information*. Thus, according to general economic principles, additional information should be produced only if the value is higher than costs. (Diaconu, P., 2002:78).

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<sup>47</sup> CECCAR – Romanian Certified Accountant Expert Board

There are *differences in the hierarchy of main qualitative characteristics* (Diaconu, P., 2002:10): if information provided by financial accounting is feasible (*credible*) and pertinent (*relevant*), in managerial accounting pertinence (*relevance*) is more important than feasibility (*credibility*).

This controversy is determined and maintained by the modality to carry on a task:

-financial accounting has to provide exact information, and, at the same time, neutral, prudent and exhaustive to all users, not to allow making a decision in an uncertain environment, even if it is affected by the operability to provide information;

-managerial accounting operates with relevant data, based on statistics, which are sometimes incomplete, but can be the base of managerial decision.

Thus, imposing qualitative characteristics, even in a hierarchy is a necessary condition but not sufficient to have the guarantee of quality.

Some authors (Cristea, H., 2003:14-15) think that managerial accounting information is complex and refers to relevance for leaders' responsibilities, relevance in decision making process, in obtaining real-time valuable information.

For information to be produced by managerial accounting and useful in the decision making process, it should have a series of traits (Diaconu, P., 2002:79). It should

- reflect economic reality correctly;
- be relevant for the person who uses it;
- be produced in real time;
- be correct;
- be intelligible.

The problem of convergence between content of sent information and its interpretation by users is also related to the quality of being intelligible. In this case, users should possess enough knowledge about business and accounting. In order to increase *intelligibility of provided information by managerial accounting* we should:

- avoid terminology difficult to understand
  - use diagrams and tables;
  - use reports and comparative figures;
  - use flexible models to present reports;
  - present reports and negative factors together with solutions to eliminate them
- detail the level of reporting.

It is concluded that there are possible behaviours of managers to spread information in accounting based on how they approach the data on the exterior environment, that is:

-if the environment is stable, uncertainty is strong and past actions become irrelevant, managers will try to demonstrate obtaining future performance by presenting actions which allow adapting and controlling the environment;

-if the environment is stable managers sustain the capacity to obtain future performances by appealing to past performances.

Due to these situations, managers' behaviours in spreading information will be different:

*managers who manifest reduced tolerance to uncertainty* propose a less formal spreading and try to present the real situation of the enterprise;

*managers who manifest increasing tolerance to uncertainty* will only offer compulsory information without explaining and controlling uncertainty;

Beyond these considerations, there are some solutions which can limit the effects of uncertainty:

presenting outcomes or outgoings as variation intervals;

using three points of estimation (maximum level, minimum and medium level);

associating probability to a production value to be achieved;

using sensitivity analysis – this process represents the variation of factors that determine a situation (sales volume, unitary cost, inflation rate, sales price per unit, etc.) and registering their

effect on outgoings. Thus, sensitive factors are identified and analysed before making a final decision;

using trustful intervals when elements can vary from a statistical point of view.

If accounting information, as a result of a modern informational and economic system, may efficiently support the manager in making decisions, it has to satisfy the following *requirements*:

- to provide concrete data so that the manager may anticipate the effect of a decision;
- to present the information uniformly, constantly and operatively;
- to identify, structure and quantify significant relationships from the past, anticipating future reports using modern mathematical methods;
- to combine financial data with data on basic activities in order to appreciate achievements, to control expenses and ease the making of decisions;
- to overcome difficulties and threats in an enterprise as a whole;
- to cover information until a certain level, and the degree of details should correspond to the hierarchical level, thus reducing the necessary time to read information reports;
- to use personnel and technical equipment efficiently and effectively to realize speed and precision with minimum costs;
- to present data and information so that it minimizes future interpretations and analysis;
- to ensure elasticity and adaptability to change for the unit;
- to be realized as a whole with minimum costs.

#### **4. Conclusions**

In the present economic context, enterprises are forced to continually adapt to a turbulent economic environment induced by global economic crisis which become increasingly difficult to predict, being, at the same time under the pressure of ensuring the maximum security to all interest factors: investors, banks, clients, suppliers, unions, governmental institutions, etc. This situation, although it complies with the logics of the process, presents difficulties for managers. Accounting information comes as an intrinsic component of the informational system and it is a useful instrument to run a modern enterprise, due to the following factors:

- the majority of decisions in an entity are provided by accounting;
- it has the role of supporting the management by offering information related to planning and control;
- it allows managers to have an image over the whole organization;
- it has the role of helping managers reduce waste and create value;
- it links other components of the information system of the entity (marketing, production, personnel, etc.);
- it is a measurement instrument for the economic performances.

The role of accounting information, its qualities and characteristics have significantly increased in the past decades due to the fact that it influences users' behavior in the process of decision making. It is obvious that each user wants to have relevant qualitative information with low costs, in order to diminish uncertainty and to offer the possibility to make the best decisions, these requirements designating, in fact, the necessity to produce qualitative accounting information.

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