

IS IT IMPORTANT THE ACCOUNTING MODEL USED BY THE ECONOMIC ENTITY IN MAKING DECISIONS BY THE USERS OF THE INFORMATION? POINTS OF VIEW.

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Abstract: *Nowadays it is vital to stay informed. But why is the information so important? The following will present the role and the importance of accounting information in decision-making regarding economic entity. Is accounting information a want or a need? Can accounting information be interpreted correctly indifferent of the accounting model used? Decisions made by the consumers of accounting information would be the same in terms of using the "cash" or "accrual" method? Based on these questions, this paper presents data as a whole for everyone and from where each consumer of information can extract only the part that they are interested in and which is useful for them. This paper follows the interests of users of accounting information regarding the interest, the need for information and the decisions they may take as a result of the information received, and also of the accounting model used by the entity from which the information is expected. This paper does not include all users of the accounting information that have interest in the economic entity, nor does it take into account all the information that are affected by the use of a model of accounting or the other one of the economic entity, but we can conclude that there are situations in which users' decisions are influenced by the accounting model used, and others where there is no influence. We can't rule on any model to be the best; it is good that provides useful information showing the true reality of the economic entity.*

Keywords: accounting information, "cash basis", "accrual basis", decisions, accounting models

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1. Generally Introduction

The information is the main force acting in the social and political development, but primarily in the economic development. By filtering the information, it can be taken the decisions about future actions.

Accounting, as an informational discipline, study and analyses the economic transactions made by the economic entities in terms of cause and effect using the information, but also by providing information to consumers of accounting. In another words, accounting is the only one that can provide information about the financial entity, information that are the basis in the evaluation of the entity by its users, external or internal.

2. Methodology of Research

The general objective of this paper is to identify the main categories of users of accounting information and the information that they need in their decision-making, and whether such information may be influenced by the accounting model used by the economic entity.

In order to achieve this objective, by using the descriptive method of research, I have started with collecting and studying the necessary documentation for analyzing the accounting information and its users, and the two models: "cash accounting" and "accrual accounting" methods.

The documentation consisted in bibliography: books and journals, regulations, reports of the relevant professionals, doctoral theses and last but not least the sites of internal and international organizations specialized in the field of accounting.

3. Literature Review

Much has been written about accounting information from several points of view. What is it? How do I get it? What are the qualitative characteristics that the information must satisfy in order to be useful? Is there a market of accounting information? ... And the other questions like these.

But what does the accounting information? Accounting information is to put face to face the accounting data and the knowledge necessary for their interpretation. For the accounting information to be useful and of quality, it is important that the interpretation of the data should be made in such a way that it can be perceived and understood correctly, to be useful for decision-making, and also for forecast and for retrospective purposes of measuring performances.(Bouquin, 2004: 65)

For the needs of users to be completed with minimal effort, the information turns from "raw material", indispensable in the system of organization and management, in "the connection" between the maximization of profit and the consumer's expectations of fulfillment of accounting information. All this with a minimum of effort and cost.(Tabara and Briciu et al. 2012: 11)

The market of accounting information is the way of putting face to face the offer and the demand in this area. The demand of accounting information is represented by the claims of the consumers of this kind of information, and their pressure on the system that produces it, while the offer is represented by all the accounting information of accounting system developed by the entity, as well as the ways and forms of transmission (Brabete 2007: 16)

The demand of accounting information comes from its economic relations with the environment in which they operate, and as creators of products have their attention directed toward the needs of consumers, so the accounting professionals must take account of the production of information to meet the demand of various users.(Malciu, 1998: 13)

As regards the area of offer of information, it starts from simple verbal answers to questions in the case of annual meetings of shareholders, to written communications of reports and summary statements.(Malciu, 1998: 39)

4. Conceptual Terms

4.1. General Ideas Regarding the Accounting Information

To be informed is to know and to get to know everything that is important for the user of information, in accounting, or in any other area. In the field of accounting, the information offers an insight into the patrimonial situation of the economic entity, the results of the economic and financial activity, the use of human and material resources, both for its own needs and those of third parties. In the present circumstances it is necessary to improve the economic and financial information, to enable it to meet the managerial needs in decision-making, but also for the informational requirements of the partners of the economic entity.(Mihalciuc, 2006)

In their concern to provide useful information in perceiving the image closely, the accounting professionals apply the so-called professional reasoning set out by the International Accounting Standards (Mihalache, 2005) and relying on the accounting principles, you will be able to interpret accounting data in such a way as to be useful for the accounting information consumers, but also in finding solutions for any intervention in the economic activity of the entity. Maybe sometimes the accounting principles are considered unwieldy and incomprehensible, but they are useful in any situation, whether or not foreseeable.

4.2. Basic Knowledge of Accounting Models

Accounting, as a source of information, can recognize the economic transactions taking into account the time of payment or receipt thereof, or when they occur. There are two basic models of accounting: accrual accounting and cash accounting models. In the cash method of accounting ("cash") transactions are recorded only when cash is received or paid, shall not make the difference between a good purchase and payment of expenses-both of which are considered "payments". Accrual accounting ("accrual") recognizes this distinction; transactions are recognized when they occur.

Accrual accounting, from its origins, was defined by the recognition of income in the period in which they were earned, the goods were delivered or services rendered, without conditioning of their collection. In general ledger accounting, the recognition of revenue is linked to the recognition of costs which have resulted in the realization of revenue generated, and the result must be recognized when it was generated.(Lungu, 2007: 239) The fundamental difference between the two models, as it is supported by H.A. Finney and Herbert E. Miller (1963-62) is a matter of time. It shows up often the process of association of income with expenses that have been generated for their accomplishment, this being achieved by the accrual accounting, but not necessarily achieved by cash method of accounting, unless revenues are earned in the same period in which the payment is made and the expenses are incurred in the same period in which the cash payment is made.

4.3. Decision. What is it and how it develops?

Because I started from the question "what is it?" we respond that decision constitutes a choice taken in examining issues, choosing a mode of action, a solution adopted in several possible options, so that by following the path chosen to reach the optimal results. In an entity's economic life, the decisions may be regarding the goals that the entity has, with regard to the structure of the proposed economic activity to be undertaken with respect to the best possible use of the resources available of the economic entity or on the time during which decisions should bring results.

In order to be useful for the entity, the decision must be materialized in obtaining material benefits or social benefits. The usefulness of "a decision can be appreciate depending on how it contributes to the increase of profitability, and the measure of its usefulness it would be expressed by the amount of benefits that it brings to the economic entity."(Bărbulescu, 2000: 268)

To the question "How are the decisions made?" we must say that in determining the strategies it is need to be considered the goods and supplies that the entity has, how they can be used in accordance with the principles and the policies of the entity, as well as the information provided concerning the accounting position and economic performance of the entity.

Looking from a realistic perspective, decision making is a complex process and with full responsibility. Accounting, using a model of accounting or another, will provide the

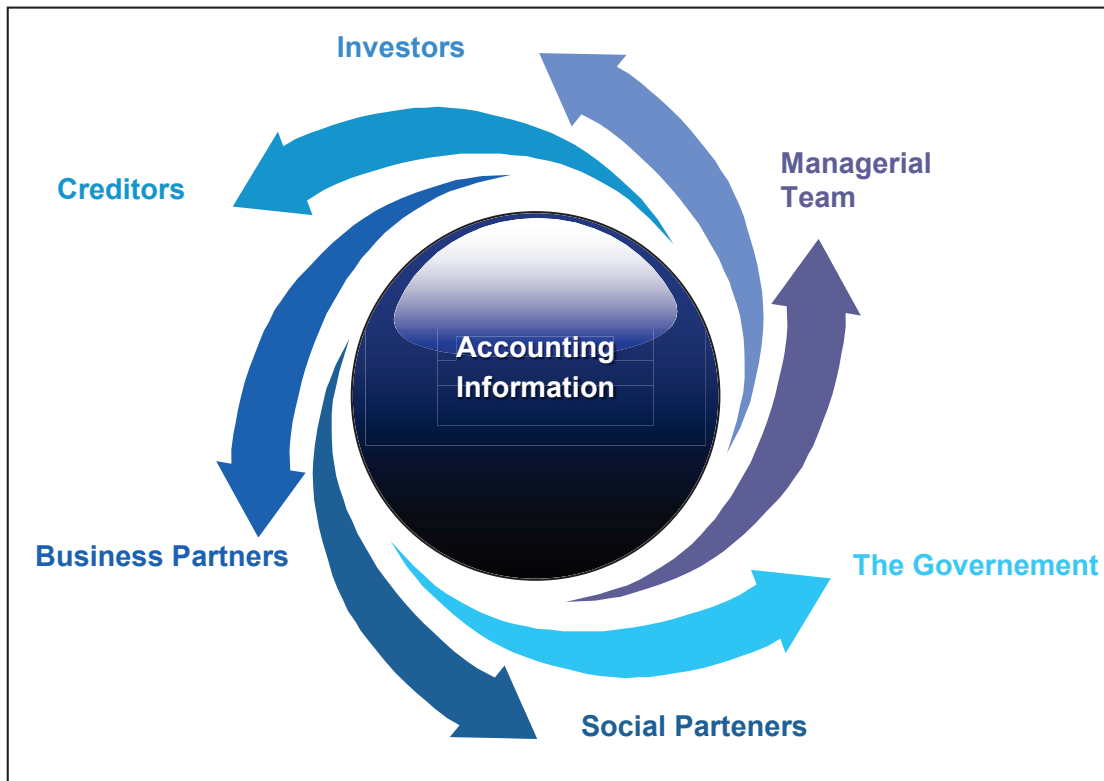
information on which users of accounting information will retrieve and analyze, and then they will decide.

5. The influence of the Accounting Model of Accounting on Users of Accounting Information and Their Decisions

Who are the users of accounting information and what decisions they may take in accordance with the accounting information received? These decisions may be influenced by the accounting model used? Here are some questions that await answers...

Some authors separate the types of users depending on the financial interest which they have in the entity-directly or indirectly- and in relation to the environment of the enterprise-internal or external. The consumers of the accounting information with direct financial interest are investors and creditors, and with the indirect financial interest are the auditors, financial analysts, banks, brokers, press, etc. The internal users of information are those who are in the management of the entity, the external ones being shareholders, associates, and others. (Mateş et al., 2005: 25)

If you were to present the accounting information and its users, in schematic mode, this would look like in **Figure No. 1.** where it can be seen that the accounting information is an unified whole intended for everyone and where each consumer of information can



extract only the part that they are interested in and which is useful.

Figure 1: Accounting Information and its users

Source: own processing

In what follows we will take time and we will analyze in terms of interest, the need for information and the decisions that may be taken as a result of information received, and also of the accounting model used by the entity that expects that information, as follows: *Entrepreneurs (Investors)* -Associates, shareholders, investors, are those who participate in the creation and the financing of the economic entity through the available capital. Their

interest is to get the greatest possible profit from the capital invested. The information that they need is that regarding the profit, dividends, but also the ability of the entity to generate further benefits.

The decisions they may take are about keeping, buying or selling shares of the entity. Keeping actions is the result of the satisfaction of the investor regarding the profit realized, but if these gains are more than thankful he will decide to buy new shares in order to supplement benefits. If, however, the earnings obtained are insufficient or even the result is materialized in the loss, the investor decides to sell shares or to withdraw the invested capital.

What happens if there are not mentioned details regarding the accounting model used? In the case of the use of accrual-based accounting, the profit communicated to the investor is the difference between the revenue and the expenditure, as they took place. The income which has not been received - what determines the claims with lower or higher risk of receiving - and expenses which were not paid - there are debts of economic entity which will have to be paid. There is also a risk that the economic entity does not record all expenses, by using the prepaid expense accounts, by reporting and allocating the dividends unreal, and that determines the investor to do further investment that will not bring the expected benefits over time.

In case of using the model of cash accounting, the profit communicated is actually realized and its distribution as dividends does not assume any risk for the entity or entrepreneur. There is no hidden information from the shareholder for the overview of the entity, he will have the information on the credits and debts of the entity in the near or distant future, and the decisions that he will take on the invested capital will be able to bring the expected benefits.

Lenders (Creditors) - funders-are those who make available the resources that the entity needs for its activity (Bogdan, 2005: 22), repayable loans or grants. Here we can mention: banks, financial companies, nonbanking financial institutions, leasing companies, etc. Their interest is to know if the loans and interest will be repaid at maturity, being interested in the economic entity's ability to generate profit, this will be the source of repaying the interest, but also in its ability to convert cash benefits, which are the source of repayment of the loans received.

These decisions are related to the grant or to the refusal of the loans, but also to the conditions for the granting of loans regarding the interest rate, loan period, warranties, etc.

It is also important to provide information on the accounting model used, since the use of cash accounting method provides additional information regarding the cash flow, in other words those information designed to shed light on the economic entity's liquidity, the ability to generate liquidity and the time required for processing benefits in available cash. When it is used the accrual-based accounting method, the creditor will receive information on the credits and debts of the entity in the future, without identifying the extent to which they participated in the determination of the result reported.

Behold, then, that the decision of the creditor can be influenced by the accounting model used for that, if in the case of the "accrual" the profits show the company's ability to generate profits from its activity, in the case of "cash" the reported profit is indeed the actual, but being the source of interest, it should be reviewed the rate of receiving the revenue or the rate of paying debts, so there are involved other factors that may influence the determination of the result.

The Business Partners -customers and suppliers-are the ones who need information on the ability of the economic entity to honor its financial obligations and to keep working for the continuation of the business in the short term, but also in the long term, when the partnership may be exclusive, unique as a supplier representative on an area or on a

particular segment of the market. The same happens in the case of the client only when the sale is dependent on it.

The service provider will have the interest in the economic entity to be able to pay all its debts at maturity, but also to continue to purchase goods and services that it offers, because its activity depends on the continuity of the economic entity business - business partner.

The customer will have interest, too, in the continuity of the economic entity business - business partner, because in this case it is not disrupted his activity, there is continuity in the supply of goods and services.

Considering that the information regarding debts and receivables do not depend on the accounting model used, the decisions of the trading partners will not be affected by the use of accrual accounting or the cash accounting method as the basis of the accounting information. What can influence their decisions is the additional information that they may require and that most of the time are mentioned in the notes attached to the annual financial statements.

The social partners -employees and unions representing them - are those users of accounting information that need to know if the entity is stable and if it is profitable, if it has the ability to offer higher salaries, if there are opportunities for trade or other benefits. Employees are interested in knowing the profit because if the entity is profitable there is a chance in increasing the wages or in new investment in production that lead to increasing the quality of working conditions. Unions are interested in knowing the useful information in support of its claims, substantiated in getting the image of the entity within the economic sector to which they belong.

Even if at first glance the employees are interested in the information on the entity - the profit differently depending on the accounting model used - the simple value over its information may not change the decisions of the employees or of the unions that represent them. They need and additional information in their decision making, therefore for them does not matter the accounting model used by the economic entity.

The Government – through its representing people - is a major user of accounting information. In terms of fiscal point of view the accounting information are the bases in determining the economic entity's obligations towards the local budgets, state budget, social security budgets and unemployment, as well as other debts to the state.

The obligations toward the local budgets, taxes on property or other different taxes that are not based on the profit reported by different financial statements-we are talking here of land tax, tax on buildings, car tax, taxes on display firm, fees for issuing licenses and permits, etc.-are no different in the case of use of a model or another of accounting. The decision of the local budget, which represents the calculation of taxes and fees paid by the entity; it is not influenced by the model used by the economic entity.

In terms of economic entity's obligation toward social security budgets and unemployment, the situation is similar to those from the local budget. As long as all the social contributions are regulated legally as the obligations based on the wages (regardless of who supports it), the accounting model used has no influence on them. Even if they should be calculated at *the salaries paid* to staff, there would be no influence from the accounting model used. The situation would be different if the social obligations should be calculated on the *salaries expenses* because they are different depending on the accounting model used.

The amounts due to the state's budget are of many kinds and are based on different tax bases. The decisions which the state takes on the manner of determining the fees and taxes are likely to lead to the establishment of different values depending on the accounting model used by the economic entity. We will take just a few examples:

Tax on the value added on the receipt as a first step towards cash accounting method, or just a test-is the most eloquent example that we can bring here. Entity's economic

discontent in collect the tax on the value added at the time of billing or achieving income arose due to the difficulty in collecting receivables and even of uncollectible income. The possibility of collecting TVA only at the moment of receiving the income led to the awareness that the economic entity pays the tax to the state budget for something that has been received.

The micro-enterprises income tax is a tax on income that is calculated at the time of recognition of income, which is a different time from an accounting model to another.

The corporation tax is a tax payable for the difference between revenues and expenses in accordance with the algorithm of calculation that we will not mention here-and we already know that both the income and expenses, and the profits have different values in the case of using accrual accounting method or cash accounting method.

An example is that of the tax on the income from self-employment activities (self-employment tax) where the accounting model used is the "cash" and the determination of the basis of the tax is based on the recognition of revenues when they are earned and the expenses when they are paid. The tax due is the state's part of the independent activity done, but it is also a part of the actual profit earned.

The examples may continue...

Managerial Team -is the one that needs the information in determining the performance of the economic entity but also in making decisions for future activities. When we speak of a managerial team we're talking about a user which can be the manager, the treasurer, the board of directors, the management team, etc., in other words whoever is staying at the helm of economic entity and is giving direction to the development.

For them, the interest is to know the information on the operating activity of the entity, on the funding and investment activity in order to make their decisions. It is true that the information provided by the financial accounts may be different in the case of the use of the cash accounting model or the use of accrual accounting method, but managers have at their disposal the management accounting that provides additional information useful in decision-making.

Therefore, the use of a model of accounting or another is not so important for obtaining the information because there are informational support of management accounting, but if the use of a model or another bring fiscal implications, then decisions are affected, the managerial team has information offered by both financial accounting and internal accounting.

In conclusion, as presented in **Table No. 1** there are users for which the usefulness of information received depends on the accounting model used by the entity, but there are also users that accounting model used does not matter.

Table 1. Users of accounting information and accounting model

No crt.	Users	The decision may be influenced by the accounting model used?
1.	Investors	Yes
2.	Lenders	Yes
3.	Business partners	No
4.	The social partners	No
5.	Local budget	No
6.	The State budget	Yes
7.	Managerial team	Yes, if the management accounting is not kept No, if the management accounting is kept

Source: own processing

6. Conclusion

Regardless of the accounting model used in accounting, the accounting information will provide certainty with respect to the internal environment of the economic entity, but there remain aspects of the external environment of the economic entity that can give a degree of uncertainty or risk in the process of managerial decision.

"The managerial decision should be based on relevant costs recognized by their forecast, which features include hidden costs, social costs and external costs."(Cokins et al., 2012: 28-42)

In conclusion, we can say that when it is placed in front of a choice, the user of accounting information will look carefully at both financial information and non-financial ones, will choose the direction to follow, but, like the pilot of an aircraft, and by the way that you have to go through to get to its destination, so will be the decision to serve the best of his interest.

Noting that this paper does not include all the users of the accounting information that may have interest in the economic entity and that I did not take into account all the information that are affected by the use of a model of accounting or another one of the economic entity, we can conclude that there are situations in which users' decisions are influenced by the accounting model used, but we can not rule on any model to be the best. It is good the one that provides useful information showing the true reality of the economic entity.

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