

Aspects of the Accounting Information System in the Context of the Entity's Management Process

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Abstract: *Within the entity's economic information system, the overwhelming majority of information is collected, processed and exchanged on information-bearing bases that make up the entity's records, divided into three parts, namely: the operational record system, the accounting system and the statistical system.*

This article aims to highlight the role of the accounting information system within the entity's information system, to define accounting and submit its two circuits, that is financial accounting and managerial accounting, as well as the valences and limits of each accounting system in the context of the entity's management process.

The development of financial markets and of competition will stimulate both investors and managers looking for reliable information on the financial position and performance of the entity, recognizing the relationship between the quality of information and the quality of the decision. In other words, information quality is the premise of quality decisions.

As a result, the entity's accounting tends to become an integrated accounting, supplier of high quality accounting information that allow a performing management throughout the economic cycle of entity: input – transformation – output.

Keywords: *entity, accounting information system, decision*

Introduction

The accounting information system as a fundamental structural element of the entity's information system intervenes with specific means and techniques for the true and fair view of the economic process in all stages of the economic circuit. Between the entity's information system and accounting information system there is relationship of the whole to the part and also a functional relationship, the accounting information system having the role of backbone, covering approximately 50% in the total of information.

1. The Accounting Information System: Components and Relations

The appeal to the specialty literature provides both the ground and a generous material necessary to realise our research.

Jesse Barfield, Cecily Raiborn and Michael Kinney presented, in “*Cost Accounting: Traditions and Innovations*”, a suggestive graphical representation of the accounting information system components and the relationships between them. (Figure 1).

We share, to some extent, the conviction of Louis Menard and Nadi Chlala, according to whom accounting is built up of three terms [2, 1-2]:

- provision of services, providing financial numeric information to interested persons, information that helps them make decisions on investment and resource allocation in the entity;
- descriptive analytic science, which through processes of measurement, classification and consolidation transforms the raw data that characterize a significant economic activity in information describing the financial position and performance of entities;
- information system, which synthesizes and structures the economic information relative to entities made available to a variety of users.

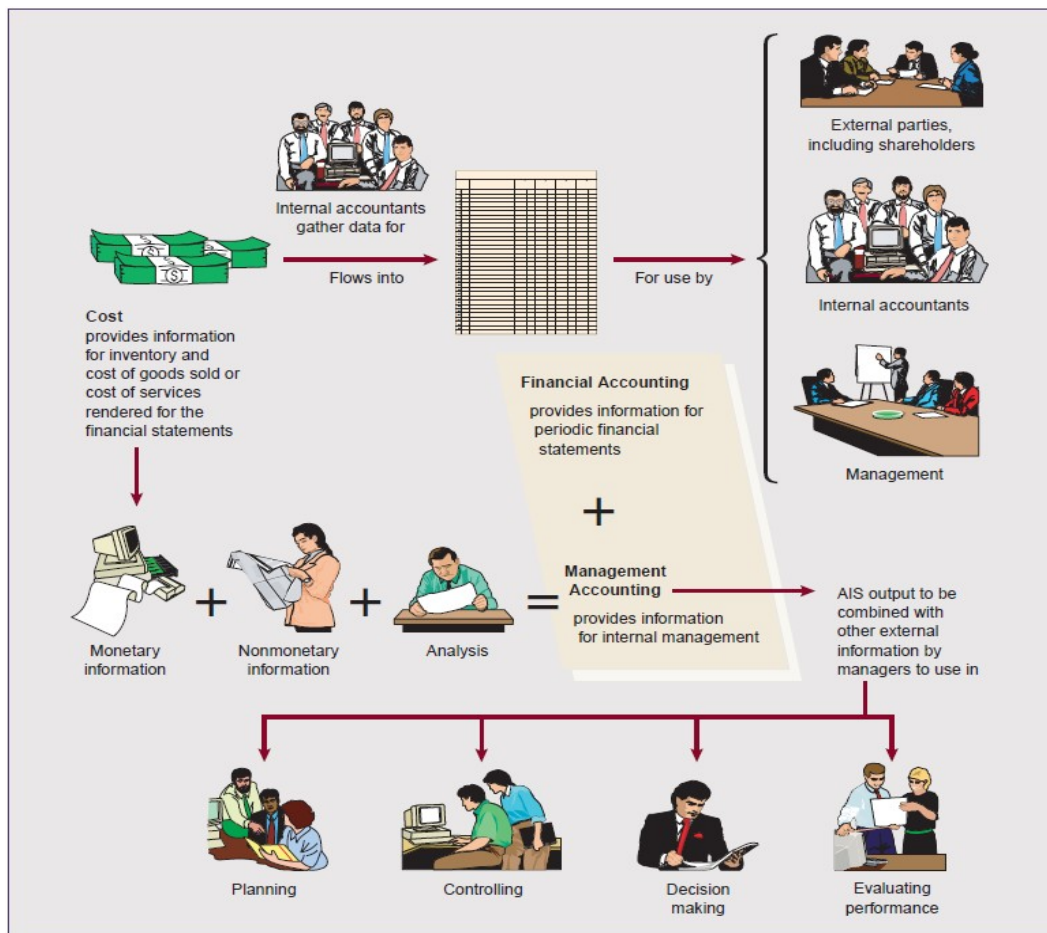


Figure 1. The accounting information system: components and relations [1, 6]

Accounting is approached as an information system, i.e. a set of elements (human and material resources), which allows the collection, processing, storage and communication of information, in order to take decisions.

In the economic theory and practice, accounting is structured on two circuits: financial accounting and internal management accounting, which complement each other and provide information on the knowledge of the patrimony management processes, of the financial position and the recorded results.

The dualism of accounting in the management system of the entity is characterized by the following traits:

- the financial-accounting information system is the interface between the operational system, from which it receives processing and decision-making data, as recipient of the information;
- the supply sources of information are the financial statements, for accounting information, and reports of economic-financial analysis, for financial information;
- the beneficiaries of information are managers responsible for acquiring the physical and financial resources of the entity's environment and their use to create value for investors [3, 3].

2. Financial Accounting

Financial accounting has as objective the production of financial statements for third parties, first of all; it has a normalised character, with national and international regulations on the production, quality certification and dissemination of this information. If in Anglo-Saxon countries, the financial statements supplied by financial accounting are intended primarily for investors who finance the business, in continental European countries, traditionally, this is a legal and fiscal accounting for bank creditors and the IRS, in particular, hence the name of general accounting (*comptabilité générale*, fr). With the increasing role of stock financing in recent years of continental European entities, we witness the frequent replacement of the name of general accounting with that of financial accounting [4, 131].

The valences of financial accounting are also given by the quality characteristics that determine the usefulness of the information provided by accounting statements: *inteligibility, relevance, reliability, comparability*.

Without minimizing the well defined role of financial accounting, we can appreciate that this is not adapted to meet the new requirements imposed by the complexity of the decision-making process.

A first reason is the fact that financial accounting is describes the past, in order to determine a result without analysing, from all points of view, the conditions under which it was obtained.

Secondly, financial accounting does not aim to clarify issues relating to the nature and quality of the products, the technical performance of the production capacities, labour productivity, etc. This information assumes the knowledge of physical data that financial accounting totally ignores, as its objectives as an entity's management tool, although clearly defined, have in view only answers to certain problems.

All future projects and forecasts of an entity's evolution is based on an analysis of the past which financial analysis allows, but, in order to establish the ways of action, it is supplemented by complementary tools provided by management accounting.

3. Management Accounting

Management accounting produces and sends information to internal users, both vertically and horizontally, in support of taking the best decision (information useful for diagnosis, decision-making and forecast of the future).

The definition of management accounting is identical to that of a method of dividing the accounting results, *economically* and *logically*, being accessible to most organisations. In order to remain *economical*, this method must replicate as directly and simple as possible, basis given by general accounting. To present a logical sense, it needs to clearly express and communicate the quality of the actions of each of the actors involved, and for itself, to contribute to the creation of behavioural cohesion among them [5, 179].

Thus, at the level of management accounting, the organization of records involves a number of activities undertaken by the entity in order to achieve an efficient information system, on the calculation of costs, the analysis of the developed activity efficiency, the elaboration, tracking and control of budgets at all levels of the organizational structures.

In accordance with the above mentioned, we present in Figure 2, two logical ways of construction of management accounting:

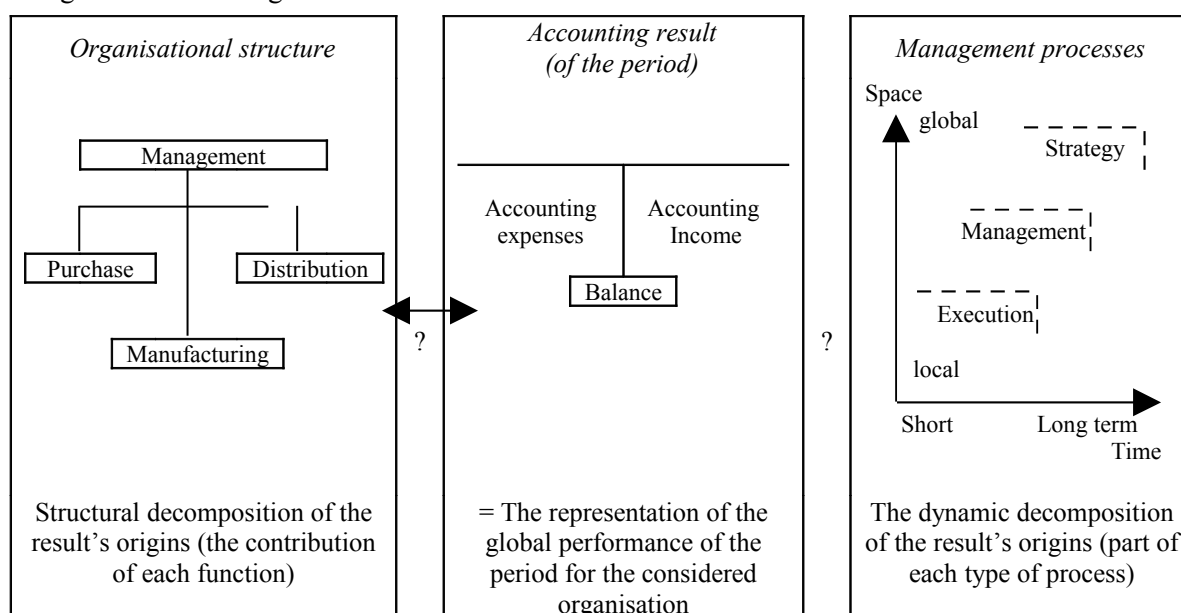


Figure 2. Two logical ways for the construction of management accounting [5, 180]

According to American professors, Johnson and Kaplan, the management accounting system (management) must provide accurate information in a timely manner in order to facilitate the efforts to control costs, to measure and improve productivity and to plan processes to improve production [6, 4].

From the multitude of information provided by management accounting and for the managerial process of the entity, we distinguish the following:

- *the information of costs*, through the implications in determining the current and perspective state of the entity's operating system. The effectiveness of information is intended to measure, analyse, and control costs, but especially understanding the causes that determine a given level of costs and how the costs will be influenced by the future management decisions in accordance with the entity's interests. Moreover, in assessing the performance of the information system, the information on the volume of production, the factorial cost of resource entries (labour force, raw materials, energy, equity, etc.) or the information on social costs (taxes, fees, contributions) present a certain degree of importance;
- *the information of results on products, works and services*, and within them on budgetary structures, show a special importance for the management importance;
- *the information of forecasts on expenses, costs and revenues* materialised in the decision of justification of budgets.

Although many and varied, **managerial accounting objectives** can be grouped as (Figure 3) [7, 48]:

- Knowing the costs of the economic entity;
- Knowledge of internal operating conditions;
- Provision of information becoming more relevant for evaluating certain elements of financial accounting.

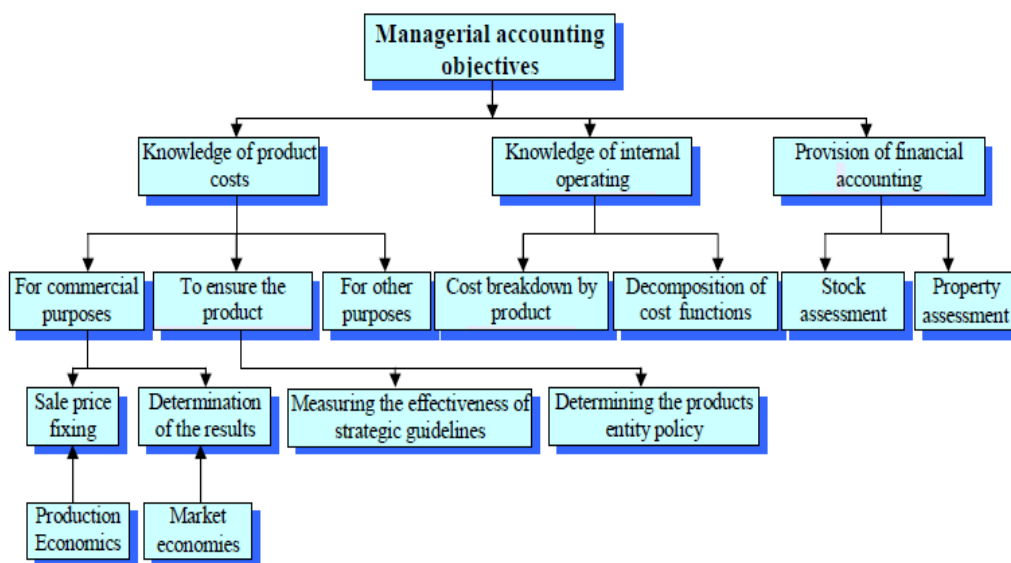


Figure 3. Managerial accounting objectives [7, 48]

The French professor Henri Bouquin believes that managers have as constant concerns: to understand the future, to control (manage) the actions of others. Management accounting requires by name two key problems: to assist in the understanding of future and in influencing behaviour. In order to understand the future, management accounting is built to identify the connections between the goals pursued and the resources used for it; in the true meaning of the term, it helps knowing costs: what they are employed for?, which are the economic laws followed by them? And this gained knowledge allows also the orientation of the actions of those who have a role in achieving objectives. In conclusion, Henri Bouquin proposes the following definition of management accounting: *it is an accounting information system that aims at helping managers and influence behaviours through modelling the relationship between the allocated resources and objectives* [8, 42].

Although management accounting can provide and even provides a lot of useful information, it should be pointed out that it is not an exact science. Much of the information transmitted is based on a subjective judgment. It is only one of the tools that can be used by an entity's management in order to knowingly make decisions [9, 16].

The problem is not the existence of the two information flows of the entity's accounting: in all countries there is a distinction between financial accounting and managerial accounting. The problem that arises is the way of functioning of the two information circuits at the entity's level, which vary in accordance with the economic and social context in which accounting operates [4, 132].

Thus, the accounting monism is mainly applied in economies with very high degree of concentration of production and capital (United States, United Kingdom, Canada, Australia, Japan, Netherlands), and, in turn, the accounting dualism is practised in most European Union countries, which seems to respond to the market economy more appropriately, but it is extensively marked by legal and tax aspects in which entities provide financing more through bank loan and self-financing than through recourse to the stock market.

In the opinion of the French Professor Claude Grenier, the accounting information system corresponds to the meeting of all forms of accounting, in the same assembly. Schematically, it can be represented in Figure 3:

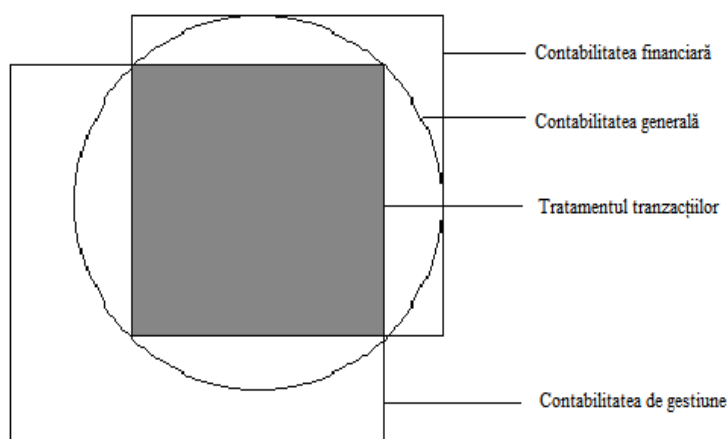


Figure 3 The Accounting Information System [10, 1124]

General accounting and financial accounting overlap considerably. Management accounting owns a wider autonomous part by which it adopts the methods of data treatment which are specific. The negative part is represented by the common aspects of all types of accounting; it has as purpose the records of basic events, of transactions and is the essential source of data. Thus, the accounting information system has the general characteristics of all information systems. It carries out the information activities leading from the creation of data to the communication of information [10, 1124].

4. The Romanian Accounting System

In Romania, the accounting system applied prior to the collapse of communism was an integrated one, which made no distinction between financial accounting and management accounting.

As a result of the first stage of the accounting reform (1991-2001), under French guidance, Romanian accounting has acquired the valences and inconveniences of a dualist system. Beyond the general inconveniences of the dualist system, the failures of the first stage are almost entirely limited by the limits of the accounting normalization process in our country. [11, 25]

The essential benchmarks of the accounting reform in Romania are defined by the following traits [11, 25]:

- financial accounting was disconnected from the management accounting;

- financial accounting was organized on the basis of rules (standards) and had as a central piece a general accounting plan (essentially reduced to an accounting plan);
- in the absence of reform of the entity's management, management accounting remained a bet lost by Romanian normalisers; it limited itself to the cost-calculation problems, most often solved by applying outdated methods;
- for several years, the major entities of Romania, especially those with foreign capital, have been applying modern methods of management accounting;
- it is possible that, in the following years, management accounting together with financial accounting evolve towards an integrated system, taking into account the Anglo-Saxon influence in the normalization and the increasingly evident presence of international accounting reference guide.

To those mentioned above by professors Liliana Feleagă and Nicolae Feleagă, we can add that accounting information, as a support in measuring performances, still has a number of limits: it has a historical character, often out of date, especially when financial statements are published with delay; it exclusively provides the knowledge of past performances; it does not capture the dynamics of events and transactions; it does not ensure reliability in evaluating capital.

A summary of the relationships between financial accounting and management accounting is shown in table no 1.

Table no 1
Synthesis of the relationships between financial accounting and management accounting [12, 14]

Explanations	Financial Accounting	Managerial Accounting
1. Users	External	Internal
2. Data	Historical – for the calculation of annual profit (previous)	For planning, for decisions (for future)
3. Frequency	Annual	Whenever necessary (monthly)
4. Content	Global (total, synthetic)	Analytic (in detail)
5. Format	In conformity with laws and standards	Proper to each entity
6. Purpose	Measuring past performances	Supports planning and decision-making

The development of financial markets and competition will stimulate both investors and managers looking for reliable information on the financial position and performance of the entity, recognizing the relationship between the quality of information and the quality of decision. In other words, quality information is the premise of quality decisions.

As a result, the entity's accounting tends to become an integrated accounting, a supplier of accounting information of high quality that allows an efficient management throughout the entire economic lifecycle of the entity: inputs – transformation – outputs.

The use of accounting information, within the informational-decisional system grows greater nowadays by atomizing the management calculations. Under the new circumstances the accounting information are continuously enlarging their objectives and knowledge directions, plenary manifesting their role and importance within the modern management. [13, 28]

Conclusions

In the management system, between accounting, as producer of accounting information that is, by excellence, recording, there is a binding refining mechanism – financial analysis, producing financial information.

Financial analysis provides an overview of the concepts, techniques and methods for the treatment of internal and external information, interpreting it, the issue of value judgements and assessments of the entity's work, with a view to establishing recommendations concerning its evolution, the level and quality of performance, the degree of risk in a highly competitive and dynamic environment.

The electronic systems for the treatment of various forms of information and communication allow domestic and foreign analysts to study more thoroughly and rapidly the entity's operating activity, as a whole.

In accordance with the mutations produced in the expectations of various partners of the entity, the analysis must provide relevant conclusions on: the financial position and its change; economic performances; management performance; the entity's capacity to generate cash or cash equivalent; the entity's ability to maintain physical and financial capital.

Thus, the analysis becomes an indispensable tool in decision-making, able to provide the identification of development opportunities; the identification of the different types of risk; the most appropriate strategic choice; the identification of factors able to create value.

As a corollary of those presented above, one can say that accounting and financial information is found in all management functions (forecast, organization, coordination, training and control-evaluation) in all the elements of the management system (the methods and techniques of management, the decision-making system, the information system, the organizational system) and in the entire structure and practical materialisation of the functions of the entity's functions (research and development, production, human resources, commercial, and financial-accounting).

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