

## Using Financial Accounting Information for Evaluation and Control

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### Abstract

Making accurate and timely decisions is only possible if management has at its disposal an efficient information system that ensures the necessary data and information on a permanent basis. However, management is required to identify and exploit to the fullest extent possible all possible sources of data and information, and through the compartments to ensure their competent processing in order to obtain the most reliable information, in accordance with economic reality. This article presents the implications and challenges of using financial accounting information for evaluation and control. The results show that the role of financial accounting information is to grasp the needs of company and to create new and attractive solutions.

### Key words

Financial accounting, evaluation, control, information system, decision

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### 1. Introduction and literature review

The decision is the most important managerial tool by which it directs all the subordinate structures to achieve the established objectives (Damayant, 2013). Thus, we can say that management activity is in fact a chain of analyses and decisions that ensure the harmonious management of all efforts of the economic entity to achieve the ultimate goal, to obtain profit, all in a certain environment (environment). For this purpose, the decision is made through a succession of phases (decision-making process) through which the decision is being prepared, developed, adopted and implemented, involving the following factors: the decision-maker, the executing personnel and the general framework ambient).

The specialized literature (Ahmed *et al.*, 2013; Richardson, 2011; Ball *et al.*, 2015; Ball, 2013) contains different views on the economic decision and the requirements that must be met:

- the decision must be scientifically substantiated, that is, it must be taken in accordance with the requirements of the objective economic laws, with the historical conditions of the period to which it refers and with the development trends of the system;
- the decision must be empowered, i.e. it must be taken by that governing body or by the person having legal rights and powers in this respect;
- the decision must be precise, rationally coordinated with the decisions previously taken, should not allow different interpretations and, as such, be not contradictory;
- the decision must be taken in good time when the existing conditions so require;
- the statement or wording of the decision must be duly made to the different socio-professional categories to which it is addressed.

Accounting is to be seen in double hypostasis, namely that the main decision-making element that generates economic decisions, but also as a department at operative decision-making level, which, as a distinct structure, receives information from the other structures, communicates information to them, forwarding reports to senior hierarchies, but also conveying decisions to subordinate microstructures (Ball *et al.*, 2015; Byard *et al.*, 2011).

From this perspective, the accounting system shall pay excessive short-term financial goals, to assess the performance of the company (Dennis, 2014). The emphasis on the profit or loss and the influence of financial reporting is justified and

speculative interest of managers. They often seek to „invent” ways to reach the assigned financial indicators, which are valued based on the underlying activity and paid (Brown, 2010).

This chapter presents the advantages of using financial accounting information for evaluation and control. The results show that it is necessary for companies to use financial accounting information for comparing the effects obtained with the efforts and the resources consumed by the company and operated by the management.

## 2. Accounting as a Basis for Organizing and Implementing Decision-Making

From a conceptual point of view, accounting is the data base of management in the decision-making process, and the source documents are the mirror of the status of the respective economic entity (Lukka, 2010). In order to achieve optimal accounting desiderata (established by law) and for the purpose of using with maximum yield in the decision making process, the modern means of data processing and the technical and scientific progress allowed the creation and exploitation of accounting informational systems, basic tools of operation to any modern economic entity (Schleicher *et al.*, 2010). To this end, it was necessary to identify the sources of information, establish the categories of users and their place in the decision hierarchy, and, on the other hand, to set up the ways of collecting, storing and processing information, establishing the form and manner of presentation and delimitation of the routes that will flow from the collection to the moment of their use. Of course, some of the activities mentioned are set by law (configuration, production and presentation responsibilities at work, periodicity, etc.) and the others are the subject of management activity throughout its hierarchy, as well as analysts and programmers who design and produce software needed (Andon *et al.*, 2007).

Worthy of note, the models taken are at the discretion of each practitioner accountant, but are approved management through decisions on proposals specialists, knowledge of specific activities of the entity in accordance with the objectives set by the strategy adopted by the entity and, not least, lawfully (Jackson and Liu, 2010). It is therefore assumed a freedom which, once approved, may be amended only in special cases stipulated by the concomitant duty to justify accounting regulations in the notes to the financial statements (Chen *et al.*, 2010).

In order to get an overview of the situation of an economic entity, it is necessary to use all component diagnostics that will be coordinated in a unitary effort within a global diagnosis (Bettner & Kate, 2013). This is the most complex situation requiring much skill from both management and expert teams to co-ordinate and substantiate conclusions and final proposals (Ozkan *et al.*, 2012).

Performing the global diagnosis is necessary in the major crisis situations that are carried out by the company as a whole, but also when fundamental changes are expected in the existence and activity of the firm (Holthausen and Watts, 2001).

Regarding the typology of diagnostic analyses, the specialized literature presents various approaches but mostly refers to the results and their role in the appreciation of the organizational and management systems, the company perspective and the realization of the researched domains (Table 1).

Table 1. Typology of diagnostic analyses

Type of diagnostic analysis	Field of reference	Main Aspects (Appreciated)	Observations
Evaluation diagnosis	Objectives of the economic activity or of the field investigated	<ul style="list-style-type: none"> <li>• the effectiveness of the management system;</li> <li>• the quality of products/services;</li> <li>• the use of material and human resources;</li> <li>• ability to unify the efforts of the staff of the investigated entity (department).</li> </ul>	This type of diagnosis is a synthesis of the other types and puts a special emphasis on economic efficiency.
Final diagnosis (results)	Organization and management of the entity (department)	<ul style="list-style-type: none"> <li>• the economic and financial situation;</li> <li>• use of financial resources;</li> <li>• profitability of products/services;</li> <li>• the real estate situation and depreciation;</li> </ul>	It is mainly based on the results recorded in the records of the entity.

Type of diagnostic analysis		Field of reference	Main Aspects (Appreciated)	Observations
			<ul style="list-style-type: none"> <li>the quality of the decisions taken and their effort on the issues concerned.</li> </ul>	
Diagnosis of adaptation		The new situations faced by the activity (different from the previous ones)	<ul style="list-style-type: none"> <li>structural changes;</li> <li>changes to operational procedures;</li> <li>the acquisition of new economic entities;</li> <li>changing market requirements;</li> <li>modifying the object of activity.</li> </ul>	It is practiced in case of important changes in the company's activities.
Relative diagnosis		The system of internal and external relations	<ul style="list-style-type: none"> <li>the state of internal relations (interdepartmental and interpersonal);</li> <li>the state of relations with the external environment (clients, suppliers, collaborators, public authorities, etc.).</li> </ul>	It is recommended when malfunctions are found in the company's internal and external relations.
Specific Diagnosis	Financial accounting diagnosis	Financial Accountant	<ul style="list-style-type: none"> <li>the situation of commercial receivables, in particular those against customers, with breakdown by seniority, uncertainties, litigation;</li> <li>the situation of commercial debts, grouped by payment terms;</li> <li>the situation of financial debts and other debts;</li> <li>the tax debt situation;</li> <li>the entity's balance sheet over a period of 3-5 years;</li> <li>the profit and loss account for a period of 3 to 5 years;</li> <li>the results of analyzing liquidity indicators, solvency, efficiency, profitability;</li> <li>the results of the forecast budget analysis.</li> </ul>	It is advisable when establishing a thoroughly funded financing plan, establishing the optimal project design, establishing the available financial sources, etc.
	Commercial diagnosis	Commercial	<ul style="list-style-type: none"> <li>price policy;</li> <li>state of the specific market;</li> <li>marketing;</li> <li>promotion of marketed products/services;</li> <li>customer status;</li> <li>organizing purchases and distributions.</li> </ul>	It is used when it is necessary to identify the factors that give the structure of the business relations of the company.
	Legal diagnosis	Legal and	<ul style="list-style-type: none"> <li>the situation of the contracts;</li> <li>the state of litigation and cases in the courts;</li> <li>the status of the company;</li> </ul>	It is necessary when problems arise in the legal field and in internal and external relations.

Type of diagnostic analysis		Field of reference	Main Aspects (Appreciated)	Observations
			<ul style="list-style-type: none"> <li>• the status of licenses;</li> <li>• the damage situation and the state of recovery;</li> <li>• Censor Board Reports;</li> <li>• reports of the Audit Compartment Committee.</li> </ul>	
	Diagnostic human resources	Human resources	<ul style="list-style-type: none"> <li>• the organizational structure of staff;</li> <li>• the numerical and qualitative situation of the staff;</li> <li>• the social climate within the economic entity;</li> <li>• the reimbursement situation compared to the degree of motivation.</li> </ul>	It is necessary when social problems, labor-market shifts and when it comes to improving the staffing policy.
	Diagnosis of operational management	Operational level and microstructures.	<ul style="list-style-type: none"> <li>• the quality of managerial activities;</li> <li>• Professional competence of managers at departmental level and microstructure respectively.</li> </ul>	It is used when malfunctions are found in the decision-making and execution process as well as when new projects with major impact on the activities of the entity are planned.

The elements mentioned so far allow us to formulate our view that modelling accounting information arising from accounting transactions economic and financial shows two sides distinct namely that required by regulations for the format to be done and that side variable related to freedom undertaken at the entity, expressing specifics transactions in their methods and procedures applicable to the entity. It follows that we cannot speak of universally applicable models, but models a variety of economic and financial transactions corresponding diversity of each entity, including in terms of vision and professional competence of management.

### 3. Results and discussions

Resumption and deepening of managerial perspective, the issue of treatment of accounting information have highlighted the importance of correct choice of options for organizing and ensuring the functioning of accounting information, as information is the result of a complex process faced the impact of an intense flow of diverse data to be retrieved and processed (Allen and Ramanna, 2013). From this perspective, it is clear the primary role of general management and accounting of the correct configuration and efficient use of information system ever to be seen in its dynamics.

Starting from the configuration and dynamics of the operating cycle of the entity is evident that the options used in data processing and configuration information to accounting, taken as information system must be consistent with the permanent flow of opportunities to be seized and used lawfully interest entity.

In an effort to achieve competitiveness, a wider variety of options in organizing information system to adopt the most favourable circuit "data-information-decision". In this way, it creates favourable conditions to avoid or/and address risks in setting accounting information and ensure that it expresses the truth of accountants. If we take as reference configuration interaction forces of competition, we can highlight some elements of the development and application of accounting policies impact on each of the five forces of competition.

Thus, the negative impact of power suppliers can be mitigated by the quality and clarity of accounting information in the financial statements, based on the application of accounting policies resulted in setting up and providing them with the image entity's performance. In this way, the entity appears to be performing, so solvent, able to secure orders in reasonable quantities, which has an impact on negotiating favourable prices and tariffs and suppliers rhythm.

Customers, in turn, will be attracted to the positive image of the entity and tariffs. Regarding rival entities, significant advantages can be realized through the tariffs and prices, promoting effective image configuration resulting from its own performance and stability.

Therefore, it is an important tool in developing proper accounting, in legal terms and the interest of the company, accounting operations and configuration of accounting information in the financial statements. Also set of accounting policies is an element of control to the correct treatment of professional management for tracking transactions and how forces are influenced competition.

Finally, it follows that the imperative to build a more efficient system for improving knowledge managers on knowledge of the elements of theory and practice accounting related tasks in the organization and management, development and use policies the accounting and tax, the use of accounting principles and tax and the specific elements of a draft decision managerial finance and accounting, by resorting to accounting as an information system.

#### 4. Conclusions

Organizing thorough and efficient use of accounting as information system and decision support management, proper evaluation of the role and place of sources of information and diagnostic analysis in management activities together with identifying and responding to risks, are effective ways of ensuring a high throughput the use of accounting information process. In practical terms, an entity will build an information system in which accounting and accounting will be crucial on information management and decision support. Accounting through its two complementary sides, should be permanently connected structures, supply of inputs, which by processing allows configuring accounting information necessary to make decisions.

In conclusion, avoiding risks in setting accounting information is done by the joint action of several factors. It's about professionalism and rigor in the writing, recording and centralize documents, ensuring the realization of feed-back on the quality of information resulting from data processing, networks and enterprise systems that enable timely identification and correction of errors.

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