# ACCOUNTING IN THE PROCESS OF DECISION MAKING

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*Abstract: This paper aims to underline the accounting's fundamental objective, that of obtaining the accurate image of the economic reality. The normative representation of the economic reality can only be achieved with the help of well-designed financial statements, made in accordance with the rules and regulations, which give users exactly the information they need in the process of decisions making. It is very important to analyze whether today we can speak of the true image or a true image. We know how important the financial statements are for the "life" of an entity and that these are the underpinning of all decisions taken by managers and by other stakeholders. This is why it is very important that at the "helm" of these decisions is a person who knows how to "read" and interpret the annual reports. Managers must have a solid foundation of accounting, precisely because decisions are consistent with the actual situation of the enterprise.*

*Keywords : accounting, decisions, managers, true and fair view, financial statements.*

## Introduction

The transition to a market economy had radical repercussions also on accounting, which has not been "satisfied" just with archiving all the notes and documents regarding a company, but has become one of the most important assets in the "game" of those involved in the business world.

The conditions of the globalization, referring especially to the foreign capital and also to the different ways of analyzing the information, used by managers and accountants, led to a bias in the choice of accounting policies. Due to the growth of the multinational businesses, accountants faced with even more unanswered questions than were used during the time when the company's target was only to satisfy different needs of the population in the territory of a single country. Each country has a unique way of expressing its needs and fulfilling them. This has affected the accounting that needed uniformity, possible to achieve through normalization and harmonization of regulations.

But, in addition, accountants faced with a set of rules by which competing companies showed their identity, due to the expanded economic sector which they related to. The accounting information need occurred much faster and diversified because managers wanted to use it to attract more third parties and to distinguish their company from others activating in the same sector, thus winning both at the image level and also at a financial level.

The success of an enterprise in a market economy depends heavily on achieving some competitive advantages and also on having a greater strength and resistance in the competitive mechanisms. And this requires an effective management of the leadership that understands and manages to apply the methods, principles and techniques of the modern management. Truth and its importance is highlighted by the analysis of the factors that led to bankruptcy in recent years, of which the most important is the managerial incompetence and the errors occurred in the process of decision making.(Onofrei, 2007)

It is very important that at an upper level in the company, there is someone who knows how to "read" and interpret the annual reports. It must be taken into consideration that managers must have a solid foundation of accounting, precisely because decisions are consistent with the actual situation of the enterprise. (Pătraşcu, 2008)

**The Use of the Balance Sheet in the Decision Process**

The most important instrument of accounting, which meets all the information requirements of the users, is the balance sheet, with which all accounting data are transformed into information understandable even by non-specialists, or by persons from outside the accounting field. By using a balance sheet format that is common to all enterprises, the users can analyze more realistically the figures, than if they had various different ways of presenting the information.

The balance sheet is a summary document based on which the management decides where to intervene with various financing to develop practices to improve the financial position of the company, or, depending on the desired results, they can decide what are the next steps in order to fulfill the major objective of the business, that of increasing the value to the shareholders.

It must be highlighted that the financial position of the company is given through the financial balance sheet, as the main financial statement reflecting the risk of insolvency and the capacity of supporting the liabilities of the company through the assets at its disposal.

The balance sheet is the mean by which the management is informed about how the previous financial year ended, in order to discuss and establish plans and objectives for the current year. With these results as accurately represented as possible, the decisions are more suited to optimize and improve future financial results. Moreover, the balance sheet may be considered the most important summary document because it ensures the centralization of the accounting data in a synthetic and unified form, which provides the management a complete overview of the activity, through which managers can control the obtained results.

The economic reality is, in fact, an overlapping of the operations from the economy and its legal representation involves the recording in accordance with the accounting regulations at the moment of the "economic reality", especially in order to represent exactly what took place, also in the best possible way of representation. The Romanian accounting rules define the normalization as the process of deliberately applying accounting rules in order to correctly solve problems regarding the production and the use of the accounting information.

It is essential that the balance sheet reflects the reality regarding the active and passive elements, assuming the registration of all economic operations, at the moment when they occur, and in the right way, as recorded in the justificatory documents.

The role of the balance sheet is to control the accounting information, with a high utility for leading and managing the entity and also for informing all those concerned, this document being drawn up precisely to ensure the authenticity of such information.

The balance sheet provides information on the financial position of an entity, which depends on the resources of the organization, its financial structure, solvency, liquidity, and on the ability proven in the context of various changes occurring in the economic environment where they operate. The information offered by the financial position may disclose the possibilities to generate cash and cash equivalents in the future, may predict whether in the future the company will need outside financing, if it is likely to receive funding, and if there is sufficient availability of cash to meet its outstanding financial obligations.

Also, the balance sheet is a document that shows the most accurate image of the accounting information, offering also an overview of the means and resources available to the firm. (Horomnea et al., 2008)

Also, it must not be overlooked its structure, that of presenting the results from the past year in parallel with the current results, offering the possibility to make comparisons and estimations regarding the evolution of the business. (Petrescu, 2004)

The decision process is part of the "To Do List" of the General Meeting of Shareholders, and also of all meetings in which the financial situation of the enterprise is analyzed, in order to optimize the business activity.

One of the most important decisions that must be taken by the management of a company concerns the investments. The decision to invest not only involves the immobilization of capital, but also an activity by which the company can place itself in a particular market sector, and that creates relationships with companies operating in various industries, and which can positively influence the business evolution.

However, the decision to invest is difficult to make because of the high cost implied and often, because of the insufficient funds the company has at its disposal. This is why, in most of the times, it is necessary to assess the return on investment, which is done by comparing the costs of financing with the expected financial results to be obtained.

Financially speaking, at first, every investment involves a large initial expense, which requires the certainty that in the medium and long term it would bring receivables. It is quite difficult to have accuracy when deciding how to invest, because we can speak about uncertainty all the time, but by comparing the initial inputs with the expected outputs there may be established the degree of risk and also an opportunity that may arise.

It must not be forgotten that the investment decision is made in a context in which it can bring market added value to the enterprise, and also an increase in the return on investment, and the possibility of generating dividends in the future. Also it must be taken into consideration that the choice of investment depends also on the future objectives of the company, on the management style, leadership and on the desired means of accomplishing the company's mission and complying with the policies.

From a financial point of view, the inventory of available resources, self and borrowed equity, self-financing capacity, permanent capitals and their cost, has a great importance.

The information provided by the balance sheet also offers the capital structure and its composition. Also, the percentage of the owned equity in the total is provided, and this proportion being usually quite small, it involves the need of appealing to foreign capital.

It is known that all decisions referring to the capital structure involve both risk and profit. If a company appeals to many external funds it increases the risk of profit and the rate of return. However, high risk and high debt lead to lower share prices, but increasing rate of return. When equilibrium between profit and risk is possible, it can be stated that there is an optimal capital structure, which leads to maximization of the shares' value.

The capital structure is influenced not only by the company, but also by the external environment through the stability or instability of the interest rate, the financial economic situation of the environment in which they operate and the position of the financial markets, the business risk, taxes, and financial mobility. The decisions in terms of capital structure actually imply choosing between the two forms of capital costs. The difference between costs is that the own equity has a cost only in cases when a profit is obtained, while the borrowed capital has costs regardless of the financial outcomes and the company's profitability.

If the borrowed capital has a large share in the structure of the total company's capital, the business will deal with higher financial expenses, which will not allow auto-financing. This way, the managers will be tempted to use more and more loans in order to cover the financing needs. But resorting to new loans is possible only if after a careful analysis, the rate of return exceeds the interest rate; otherwise the company has to wait for the formation of equity.

Accounting should provide information to the equity investors, the fiscal authority, bankers, suppliers and clients, as business partners of the company, the Governmental information synthesis organisms, and to the company's employees.

In relation to these users, accounting must enroll in the coordinate of neutrality and truth, providing accurate information on the economic and financial situation. The accounting is the one that best combines the economic reality with abstraction, resulting in a set of sufficiently broad information to develop correct decisions. It must not be forgotten the fact that this information system must be at a high quality level to ensure the accuracy and correlation of decisions with the economic reality.

Financial reporting is designed to provide the "communication" between the entity and the users of the accounting information, being the one that supports the decisions taken by all those involved in the proper functioning of an enterprise.

**The Profit and Loss Account in the Decision Process**

We must accept the idea that the majority of external users of information in the financial statements of a company outline their decisions based on trying to predict future earnings of the company. The basic elements used in these predictions are related to income and expenses of past periods. Therefore, to ensure the credibility of forecasts, past events must be measured and presented relevantly and credible, with a minimized uncertainty. (Lungu, 2007)

The accounting result (profit or loss) has long been and continues to be considered today the main indicator for measuring a company's performance. And therefore it is said that when a company obtains profit, it is efficient.

The enterprise value or the value of a share is not only calculated as the aggregate of property items but also by data reflecting its ability to generate benefits. Today the balance sheet does not show the same interest as the profit and loss account. (Pătraşcu, 2008)

The decision making for optimum establishment and use of resources requires that the approach through a financial analysis to be directed not only to the ways of achieving a financial balance, but also for tracking the cash accumulation steps. This analysis justifies the state of the financial performance of the company which runs on account of the results. The Profit and Loss Account summarizes the result of economic and financial flows input, processing and output over the period considered. For this reason, financial performance analysis performed on the basis of the profit and loss account is also called firm performance.

The study of the Profit and Loss Account gives a dynamic view of the business because the variables are basically flows arising from the operating cycle, allowing understanding how the results are calculated: income is credited to the account inflows and expenditure shown the flow output streams. (Pătraşcu, 2008)

Most of the users of the accounting information are interested in the fluidity of the activity of a company and especially in its ability to ensure a proper rotation speed for liquidities. To such a request it cannot always be answered with the information provided by the accrual accounting which is focused mainly on profit, a more detailed analysis being necessary.

Also, some very important decisions taken after analyzing the Profit and Loss Account, and of course, the profit obtained by the company, are the ones related to the profit distribution, either as dividends to shareholders, or by reinvesting it. Most times this decision is influenced by the wishes of shareholders and the financial situation of the entity at the time of the decision. If the decision is to distribute dividends, this can be done in cash, in shares or in nature (if the products of the company are desired and accepted by the shareholders). This information, will, of course, be selected from the balance sheet. Another decision that may be taken by the company is to repurchase its own shares.

It should not be overlooked the fact that inflation has an important role in the company's ability to pay dividends in cash. The higher the inflation rate, the more difficult will be for the entity to pay cash. In addition to inflation, another important factor is the policy the company uses to determine the dividend payment: low dividend plus supra-dividend, steady dividend, residual dividend, the constant rate payment being preferred to increase the enterprise value.

We cannot speak about performance, management and decisions, without mentioning the Balanced Scorecard, a very popular management instrument nowadays, used in order to correlate and align a company’s strategy with the expected results or performance. (Kono & Barnes, 2010)

The Balance Scorecard translates a company's strategic goals into clear financial and operational objectives and activities, focusing on four main dimensions: human resources learning and growth, customer satisfaction, financial factors and internal processes related to the activity of the company. (Kaplan & Norton, 1996)

When setting the financial objectives, managers usually establish some desired levels for the following indicators: cash-flow, economic value-added, profitability ratios, growth indices and sales. The levels of these indicators obtained in previous periods are also analyzed when having to take decisions regarding the operational activity, but also regarding investments or financing.

**The Role of the Management Accounting**

Financial accounting provides financial information to the external users. This is also why it is called so. It means that it applies an accounting treatment of the data represented by economic events in order to provide financial information used for making optimal economic decisions on the functioning of the company on both long and short term. The financial decisions are based on the use of financial instruments in order to hedge the company's financial risk or with speculative purposes. They manifest themselves in conditions of a capital markets where equity investors negotiate the price of shares offered by companies listed on the respective stock market. (Mihalache, 2005)

Nowadays companies try to identify all the means by which the revenues can be increased or the ways expenditures can be lowered. This is why, when managers have to purchase something, they will first need to do the analysis of whether it is better to buy that element or to produce it, depending also on the activity of the specific company. (Doinea et al., 2011)

In this analysis process, very important is the part of accounting handling costs, in other words, the management or managerial accounting.

The information provided by this type of accounting refers to production costs, inventory of raw materials and resources, estimated budgets for different activities and also reports regarding the performance of the production activity.

The major role of the management accounting is to produce information that allows the modeling of the relationship between resources mobilized and consumed and results obtained in return. In a forward looking vision, management accounting helps policymakers and in a retrospective view, it measures the performance. (Mihalache, 2005)

Having access to all these information, the managers will be able to make a good estimation about the level of investment needed, the possible increase in costs that may occur, but also about future possible profits. Having clear all the costs, and estimating the selling price based on the prices already used on the market, they will decide if it is better and more efficient to extend the production activity or it is better to purchase the needed elements from other suppliers.

## Conclusions

Efficient decision making depends on the ability to identify relevant information from the mass of data provided, and to adapt to the constant changing conditions. Most times the annual financial statements of an enterprise occupy multiple pages, including annexes and other relevant information. In order for these reports to be useful in decision making, managers must be able to identify relationships between different amounts and compare them over time and between different companies.

Accounting is a tool used in order to know and manage the economic and financial situation of a company, and also to estimate the expected outcomes. Since the company is organically integrated into the market economy, accounting should be also directed towards the economic and social environment, represented by the social actors, consumers of the information offered by accounting.

The most important tool by which accounting satisfies the users' information needs is the financial statements. In this document all the accounting data and figures are transformed into information understandable even by specialists outside the accounting field. By using a financial statement format common to all enterprises, the users can analyze more realistically than if they had various different ways of presenting the information.

The information provided by the financial accounting through the financial statements is used especially for decisions regarding the investments and financing activities on short but also medium and long term, while the information offered by the managerial accounting will support the decisions regarding planning, control and the current operational activity (short term decisions).

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