

Financial Information Purpose in Case of Business Decisions

Viorel Țurcanu*, Eudochia Bajerean**

* Academy of Economic Studies Moldova, str. Banulescu-Bodoni, 61, MD-2005, Chișinău, Republic of Moldova

e-mail: vturcanu@mail.ru

** Academy of Economic Studies Moldova, str. Banulescu-Bodoni, 61, MD-2005, Chișinău, Republic of Moldova

e-mail: josic@ase.md

Abstract

Today, the objectivity of financial information is fundamental to economic activity, because of its capital influence over the managers' decisions precision and efficiency. The accounting differences between countries (the number and content of the accountancy principles, the used evaluation methods, information perception and interpretation, the information presentation within the financial statements etc.) bring some difficulties in using data by internal and external users in decision making. It is important to know the relationship between financial information source, indicators and the decision type.

Key words: *financial information, accounting, financial indicators, business decision*

Within the market economy, the financial information processed in accountancy has a very important role, due to the fact that most of the business decisions are made on the basis of the information contained in the financial statements – accountancy balance, the report regarding the financial results, the report regarding the share amendment, the report regarding the financial means and annexes.

The main objective of financial reports is to supply information about the enterprise financial position, performances and amendments which are useful for a large area within which the economic decisions are made. But, within the economic integration and globalization process when several multinational corporations are created, when the international economic relations are extended, the financial information purpose for decisions making is quite important, especially for the large companies. If the supplied data is real and objective, then the decisions shall be accurate and efficient and vice versa, if the information is incorrect the consequences may be devastating.

The case with the „Enron” corporation from the United States of America when the famous audit company „Arthur Andersen”, gave a wrong conclusion (instead of deficit forecasted profit) causing alarm within business world, clearly eliminated the information purpose.

In this context, a very important role is represented by the accountancy harmonization within the world, which is assured by the Accountancy International Standards. Moldova adhered to these standards since 1998, but sometimes there were certain problems regarding the financial

information interpretation by the country partners which had not started to apply the International standards yet: Russia, Ukraine, and Byelorussia. It is very clear that the economic system from each country has its specific peculiarities, as consequence of the local legislation influence, economic evolution and even of the culture. All these accountancy differences may be grouped as follows:

- with reference to the number and content of the accountancy principles;
- with reference to the used evaluation methods;
- with reference to information perception and interpretation;
- with reference to the information presentation within the financial statements etc.

When the accountancy become a businessmen's language, these and many other differences crate difficulties in understanding, comparing and using the data in order to make decisions.

The character and volume of the requested information depend on who the information users are and on the type of decisions which shall be made. The users' areas are very large one and may be presented as follows:

1. *internal users*: enterprise users (managers, accountants, analysts, internal auditors).
2. *external users*: investors (shareholders, owners), creditors (banks, suppliers), buyers of the public institutions (statistics, taxing), stock exchanges, employees.

On the information basis which is linked to the annual financial results, the real and potential invertors make decisions whether to maintain or to transfer to other companies the obtained amounts of money. It is clear that if the inverted company shall prosper it shall attire as many clients as possible and vice versa.

The creditors analyze the solvability (the payment capacity) of the economic enterprise for making the decision of crediting or not. In Moldova the credit is given before the warranty and a business plan which shall demonstrate the efficiency of using the credit and the payment within the due time of the interest and of the credit reimbursement.

For the sale-buying contract elaboration, the clients shall know all information reflecting the production establishment, products quality, transportation conditions. In this result the enterprise turnover, stocks and claims existence are analyzed. The public institutions and especially the fiscal inspectors check the accuracy of the used accountancy data for the taxes calculation in order to establish if these are correct. On the contrary and if taxes are not paid in the due time, the company shall pay a fine. This is why the enterprises, accountants give a special attention to the fiscal regulations observance and not to the accountancy ones.

As a consequence, as Professor Nicolae Feleagă sustains, the accountancy serves more as a control instrument especially for the fiscal authority. The respective decisions are made especially on the basis of the financial information also by other external users.

But the most important business decisions are made by the enterprise administration, which analyses integrally the annual and quarterly account. Most of them are made on the basis of the financial reports which may be presented in table 1:

Table 1. The administration main decisions on the basis of the financial information

| Type of decision | Information source | Indicators |
|--------------------------------|---------------------|-------------------------------|
| Financial position improvement | Accountancy balance | Liquidation, capital / debts |
| Share increase | Accountancy balance | Net actives (working capital) |
| Goods acquisition | Balance active | Stocks |

Table 1. (cont.)

| | | |
|-------------------------------------------------------|--------------------------------------------------------|-------------------------------------|
| Debts theft before claims | Annex to the balance. | Outstanding Debts length in service |
| Debts payment | Annex to the balance. | Debts length in service. |
| Credit request | Report regarding the financial means. | Financial means balance. |
| Dividends payment | Report regarding the financial statements, annex. | Profit per share. |
| Measures taken for expenses decrease, share increase. | Annex to the report regarding the financial statements | Efficiency, expenses increase. |

In order to make more concrete decisions in the accountancy, the costs grouping is necessary.

Firstly, we shall take into account the distribution in standards and breeches from the standards. The standards are elaborated on the basis of the consumption types (materials, salaries, indirect production consumption etc.). This type of distribution in case of the “Standard-cost” method of calculation is used in the USA and other countries with developed economy. On the basis of the different breaches from the effective consumptions from the standards, the administration obtains concrete signals regarding the additional expenses on certain elements of costs, which are the reasons and the responsible persons who should take the necessary measures. At the same time, the economic agents must use in parallel the direct cost method, used within the occidental countries. According to this calculation method, only the variable production expenses are taken into account, which allows the future expenses and incomes forecast within the company activity. The application of this method eliminates the influence of the stocks changing towards the profit, not making possible the fix expenses capitalization in illiquid stocks.

In order to make decisions some other expenses grouping are very important: such as their distribution/classification in relevant and irrelevant. Such grouping is conditioned by the choosing for the costs calculation in concrete situations only of those expenses being considered rational. The essence of this method consists of the fact that the expenses may be transposed to the period of the future expenses as active, only when these influence positively the cashing. The expenses not influencing the future profits / gains are considered to be irrelevant.

Enterprises must pay special attention to the information analysis which may be used for planning the production volume, investment projects elaboration, prices determination etc.

The decision regarding the production volume favorable for the planned years may constitute the basis of the correlation analysis „cost-volume-profit”: It consists of the sales volume modification influence towards the expenses and profit. The result establishes the sales critical point (efficiency line), meaning that production volume which may ensure the profit.

For this three calculation methods, the following is recommended: the equation method, the contribution part method and the graphic distribution method.

Information analysis regarding the investment projects has as main aim the decisions regarding the efficient investment projects on the basis of different criteria, cash flow correspondent to the accomplishment of different selected investment projects, risks study regarding the investment projects and their diminishing.

The decisions regarding the products prices are based on the accountancy information taking into account the market offer and request conditions. For these two prices calculation, the following methods are proposed: the calculation – plus and the calculation for the expenses. In the first case, we shall start from the expenses, in the second case – the process of prices determination is calculated from the end: first the sale price is calculated, from which the profit

is subtracted din care obtaining the destination calculation. The information analysis is ended with the products efficiency determination which has as main scope the clients' categories.

It is to be mentioned that decisions cannot be made if the aim is not defined. This is why accountancy must elaborate the respective budgets (general and on activity sectors) and establish their way of control.

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Rolul informației financiare în adoptarea deciziilor de afaceri

Rezumat

În prezent, obiectivitatea informației financiare este esențială în activitatea economică, datorită influenței sale hotărâtoare asupra corectitudinii și eficienței deciziilor luate de către manageri. Diferențele contabile existente între țări (concretizate în numărul și conținutul principiilor contabile, metodele de evaluare utilizate, modul de percepție și interpretare a informației, prezentarea informației etc.) creează dificultăți în utilizarea datelor pentru luarea deciziilor de către utilizatorii interni și externi. O importanță deosebită trebuie acordată corelațiilor dintre sursa informației financiare, indicatorii calculați și tipul deciziei adoptate.