

UTILITY OF ANNUAL FINANCIAL STATEMENTS IN THE MANAGEMENT PROCESS

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Abstract

Process knowledge of the financial situation of the economic entity presupposes the use of analysis and synthesis, as indispensable tools of investigation.

Financial management of the economic entity have to belong to the basic role in strategic financial decisions that would solve the problem of effective management of the process optimal growth, balanced and proportionate entity. That is why it becomes necessary and imperative objective analysis of the implications of the current financial management in economic entities familiarize managers with the basic tools with which they operate, acquiring knowledge about planning and financial control, evaluation techniques of investment projects, about how to conduct financial and economic diagnosis and management control of the entity, the key issues in its orientation towards performance.

Key-Words: annual financial statements, accounting information, economic decision, performance management, economic efficiency.

JEL Classification: M21, M41

1. Introduction

The complexity of economic life increases the role of accounting information in current and future decisions.

Accounting plays a key role in guiding and decision making. Manager, manages its area of responsibility and, regardless of where they are, triggers action by consuming resources, lead to achieving economic effects.

If, over time, managers are given the most attention management of material, financial and human, at present, they unanimously recognize the overwhelming importance of other resources namely accounting information produced by activity of an economic entity.

2. Research methodology

The research methodology used in this research combines, in a harmonious way quantitative research with qualitative research, analyzing, while romanian and foreign authors contributions in increasing the role of accounting information supplied in the annual financial statements managerial decisions.

3. The utility of accounting information in economic decision making

In the contemporary period, taking into account the role of information in society, we can say that the economy has become an information economy where economic decision is dependent on segment information. In terms of management, *"accounting information is the raw material base in the development and economic decision making."* [7] In other words, the accounting information is the foundation on which economic decision builds.

Accounting information feedstock in decision-making is key to developing economic entity, the quality of accounting information plays an important role in developing managerial decisions, helping management main objective, namely the continuation of the economic entity.

Accounting information is used in all spheres of activity and is at the same time, an indispensable element of economic progress. There are views that *„information in a general sense, is a story, a novel, a message that comes from any field of knowledge, this concept expressing a written formula capable, to make an acquaintance. Accounting information can be considered a mass consumer product, is used by a lot of users: small and mijlocii, listed companies, investors, state etc".* [11]

Initially, the word information has been entered in the art to refer to the uncertainty removed by the achieving of an event from a set of possible events. Subsequently, the meaning of the term has expanded to knowledge in general, ie

the emergence of a new element, previously unknown to the surrounding reality; for this purpose use symbols that, through their association with reality, providing information, *"information usually is a particular case of reflection as a form of interconnection between the two processes so that the properties of one material (the issuer) reproduce in the second (the recipient)." [4].* The information consists of data that has been processed into a form useful for the recipient and have a real value for planning, control and decision making.

As pointed out by Greiner (2000), we must not lose sight of that: [6]

- information is constructed objects, *"information not grow in nature, they are artifacts, symbols deliberately created by social"*;
- representations are building information and induced behaviors by complex mechanisms;
- formalized with knowledge, tacit knowledge, unexplained, information plays a very important role.

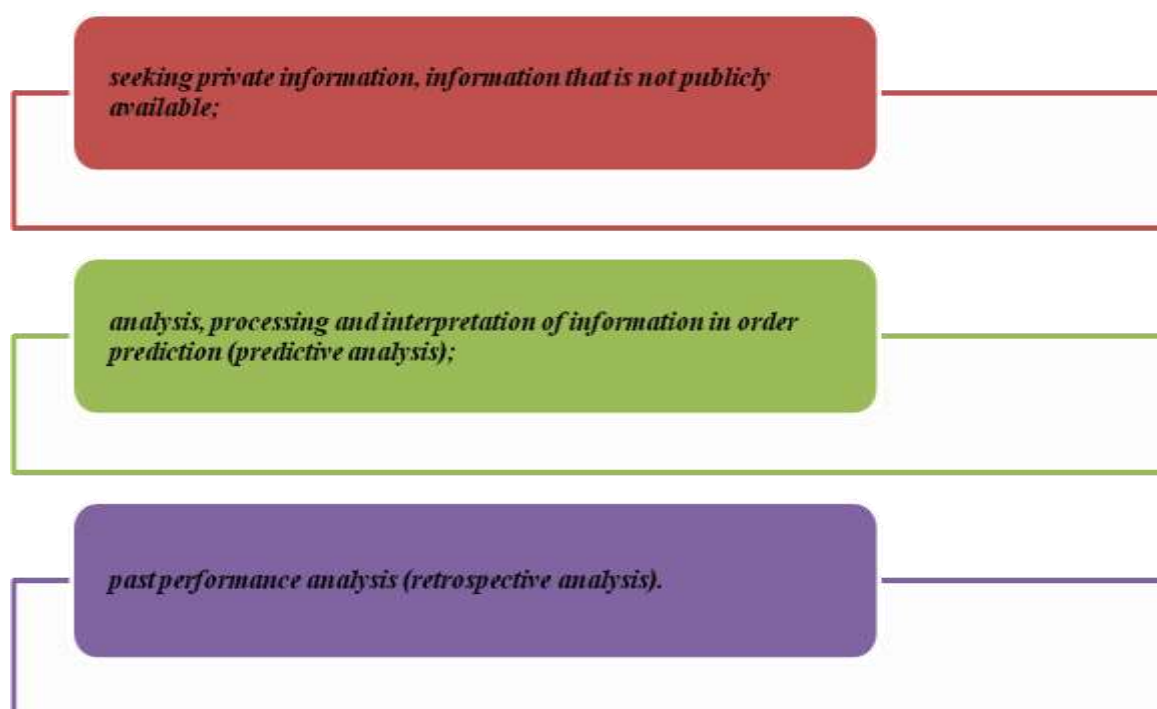
In the context of contemporary evolution of the economic entity's activities, development of market economy, increasing its complexity led to a corresponding development of economic and financial information. This type of information characterizing the financial situation of the economic entity, the results of economic and financial activity, the use of human and material resources, both for its own needs and for stakeholders: shareholders, customers, banks, tax bodies, other natural or legal persons .

We believe that the current developments of modern society require continuous improvement of economic and financial information. It must be so constructed that meets the requirements for management decision making and information needs of the entity partners.

At the level of economic entities, economic information form which is specific data are obtained from certain internal or external sources and serve communication within the organization by some recipients. The road traveled from obtaining information and to capitalization to go through several stages: collection - processing - transmission - reception - use, so *"all methods, techniques and tools used for the collection, recording, transmission, circulation, processing and selling information in a system is the information system"* [12] and *"informational activities can be described as all the activities relating to the production and use of information"* [9].

Meaning information can not be explained other than in relation to two terms: data and knowledge. A date is a sign, a symbol, resulting directly from observation of facts, which is a raw material by treatment, it will be transformed into information. A resulting from the handling of information to meet a user's needs in a context that is proper.

Financial analysts take raw data and turn it into another type of information that reflects their ability to understand, synthesize and interpret information in its quality of raw material. Specifically, they performed three types of activities relating to information, activities shown schematically in **Figure 1**.



Source: taking after Feleagă, L., (Malciu), Feleagă, N. - *Financial Accounting, european and international approach*, vol. I, Infomega Publishing House, Bucuresti, pag. 60

Figure 1 – Activities relating to information

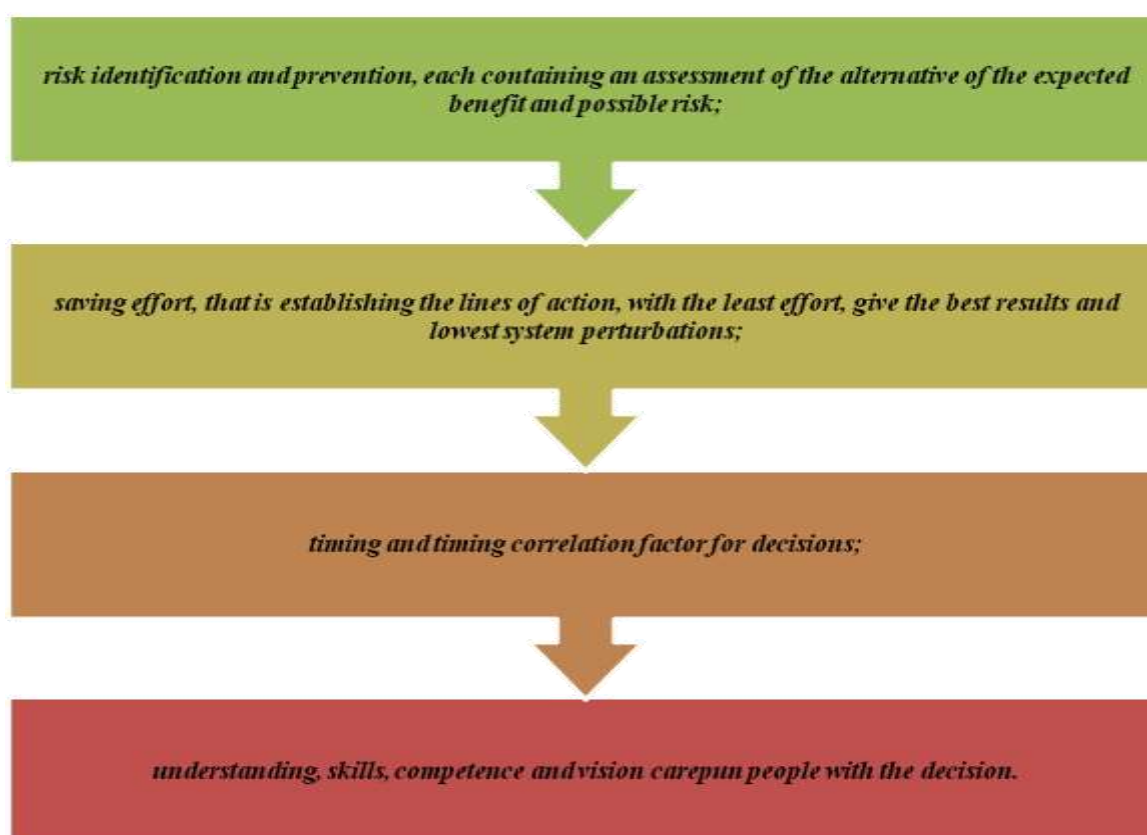
In our opinion the accounting information is a factor of production for analysts and, on the other hand, the same information is in the market for a competitive product analysis reports.

4. The annual financial statements - indispensable tool in the management process

The great importance of information elements in decision making, decision making function to be considered the main function of the information system function can be achieved through operational decisions. G. Langlois, M. Friederich and A. Burland claim that operational function “*provides the possibility of implementing the actions necessary to achieve the goals embodied documentation tool and the information necessary to conduct multidimensional action and decision making.*”[8]

The operational management and strategic approach of the economic entity, decisions play an important role in the survival and functioning. The decision is the driving purpose of any process. Managerial decision is the choice of a path of action of a variety of possible options, taking into account certain criteria that must contribute to the achievement of clearly defined objectives.

Specialists in the field, in order to choose the best solution decision states that certain criteria must be observed that according to Figure 2 can be summarized as follows: [13]



Source: own processing

Figure 2 – Criteria to be met in order to choose the best solution decision

The decision from the economic entity is a product of the managerial whose quality depends on the functionality and performance. The dependency relationship that is established between financial accounting information and decision substantiation process is generated by increasing complexity management and development of improved decision means. Financial and accounting information is an important factor in determining results and analyzes in making decisions and initiate actions in financial accounting role at both micro and macro.

The quality and quantity of financial accounting information provided by companies often depend on the source from which they come and are influenced by the goal that we must achieve them, at their request by users. For an accounting system to be valuable, it must generate reliable, accurate and above all useful. "It is obvious that a manager

to achieve profitable top of all the economic activities which manages the entity must maximize the economic function of profit and to minimize costs." [20] How can this be if not using economic information quality?

The annual financial statements are the link between economic activities and decision-makers, becoming today's most important sources of information on economic activity, both at the company and the national economy. Also, we find that economic activity is a particularly complex, unpredictable action that certain factors can influence in a decisive way the life and performance of the entity. The true wealth of the economic entity are measured today by the quality and quantity of information held at a time, so in our opinion, no modern management can not be conceived outside supply diagnostic information from the review of the financial situation of the economic entity.

Financial statements and accounting is a tool of great importance in the management and are indispensable in the process:

- substantiation of decisions on the allocation, financing, use and recovery of funds,
- organization of control over the implementation of decisions taken,
- laying down rights and obligations and of responsibility and incentives from development activity and property management.

Most representative source of information for managers is the annual financial statements. We must admit that these users are not the only ones who use the information provided by the annual financial statements. It must be said that the accounts are designed to allow investors, current and potential shareholders, general, all stakeholders, formulate a value judgment [19] about events past, present and future of the enterprise, thus providing the basis for confirmation or denial initial forecasts.

Although some of the information provided by the annual financial statements can be used in state "raw" in decision-making, many of them reveal their informational value from the review process, the company's financial diagnosis. Decision making depends on knowing the quality of the undertaking internal and external environment in which they operate, as well as available resources. The information provided by the financial analysis, the financial diagnosis, currently involved in the development, evaluation and control of decisions taken by the executive. The amount of information that must be called in decision-making, has a limit variable, depending on the type of decision concerned. In this regard, there are three types of decisions: strategic, tactical and operational [3].

Strategic decisions are those decisions that survival depends economic entity that requires a complete analysis of its and its environment in order to limit the risk of the occurrence of any kind. In this case, the decision process is long-term and appeals to all possible techniques.

Tactical decisions are therefore segment and in detail, the strategic decision, requiring preparation of budgets and policy development. These decisions are based on limited information, but important.

Operational decisions constitute the most numerous decisions that require the least amount of information.

Effective management requires preparation of accounting policies and determining certain objectives that will ensure profit maximization economic entity. Appealing to the margin options it offers presence in accounting, management entity will be tempted, depending on the interests pursued or to "smooth out" the result or to provide a positive image on it.

We believe that the entity management through elaborate accounting policies set their targets on increasing certain result. The accounting policies have implications for determining the size chosen outcome, being a true strategic management decision. Consequently, the accounting information, accounting applied as a final product, and not least the annual financial statements in the annual financial statements do indispensable tool for targeting the entity's activities both within and outside of it. For this accounting has been called a "compass" of the entity, which leads through value measurement and verification of accuracy through previous trial balances, the starting point for annual financial statements.

According to M. Ristea (2000) accounting management becomes indispensable economic entity only if it offers clear, concise and well structured, useful in making strategic decisions, tactical and operational performance to ensure economic entity [17].

Managerial accounting information is the most important source, a "database" of management in decision making, which gives managers optimal choice of programs and to fix certain lines of economic policy and the *"complexity of economic activities in competitive conditions, imposed by economy market, economic and financial crisis and environmental issues and pollution increases the role of economic and financial information to current and decisions taken in the long term and thus projected business results."* [17]

5. Conclusions

It is evident that in orientation and decision making, the annual play a key role. Their role is to provide quantitative information, primarily of a financial nature relating to economic, internal and external economic entity and supplemented by information provided by management accounting.

In conclusion, the annual financial statements is the leading provider of financial information that allows stakeholders to make informed choices and also reliable financial information and monitoring the efficient use by managers, can avoid going into default economic entity and ensuring national economic welfare.

In an economy which is in a continuous movement, correspond to the same economic entity maintaining balance two key objectives, namely the profitability and business continuity, achievable goals through management, administration and effective leadership.

In our opinion, modern management can not be conceived outside offer information and financial analysis.

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