

ACCOUNTING INFORMATION SYSTEM - QUALITATIVE CHARACTERISTICS AND THE IMPORTANCE OF ACCOUNTING INFORMATION AT TRADE ENTITIES

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Abstract

Financial and accounting information systems, today, no longer are the traditional ones, they are subject to the normalisation and harmonisation, in the idea of globalization, and as a natural consequence of this situation, the users of accounting information require more and more diverse information from these systems.

The economic entities in general, and those in the trade, in particular, performance management, management of the current situation, with multiple phenomena of crisis, require substantiation of decisions on the basis of a system of real information, pertinent, relevant and provided in a timely manner (Radu, 2011) [7].

*Apart from users and goals of information provided by entities of the accounting information system of trade entities, they must have certain **qualitative characteristics** that facilitate the process of interpretation and use of accounting information.*

At the same time they are needed because their accounting information through its better goal, to represent the support base for the elaboration of certain decisions by those interested. In this article I propose to introduce qualitative characteristics of accounting information provided by IASB (International Accounting Standards Board), which, incidentally, have been taken up initially by the Romanian accounting regulations, with their subsequent amendments and additions, so far, because, in the end, as a conclusion, I consider that I should be noted that these qualities cannot be effective unless in turn, the users themselves have the quality to have the knowledge required to understand the information that is intended for them.

Key words: *accounting information system, accounting information, qualitative characteristics, understandability, relevance, reliability, comparability.*

JEL Classification: *M40, M41*

1. Introduction

In an ideal situation, the entities in the trade, for example, managers should be able to define the kind of information they need, and accounting information system should be able to provide them in a timely manner, but in practice this is not always possible.

2. Qualitative characteristics and the importance of accounting information at trade entities

As said (Dumitru, 2009) [2], quoting Drucker, most decisions must be based on incomplete knowledge, either because the information is not available, either because it would need too much time and money to get. However, in order to take the right decision, managers must have at its disposal relevant information that lead to growth of knowledge, reduce uncertainty and are useful for the intended use.

Also my opinion is that, at the same time, extremely important for managers, for taking the correct decision, it is also *information value*, value that derives from changes in the decision-making behavior caused by the availability of information. But in estimating information must be taken into account also the cost of producing them. So, as author, appreciated, the acquisition, handling, recording and processing of data, regardless of the means used, do not produce value but suppose only costs. The value appears only when the data are communicated and understood by their recipient thus becoming information. In the assessment of information in terms of value created, primary importance it holds its user, as well as the manner in which the information is used to improve the decision-making process.

Apart from users and goals of information provided by entities of the accounting information system of trade, they must have certain **qualitative characteristics** that facilitate the process of interpretation and use of accounting information; at the same time they are necessary because their accounting information through its better goal, to represent the support base for the elaboration of certain decisions by those interested.

As the author said, accounting information must be, above all, produced with respect for the rules, and the two principles of regularity and sincerity can be considered quality criteria.

According to American rules, for information used in economic decisions making are required, in particular, the four essential characteristics, as follows:

-*pertinence*-information ability to influence the decisions of users by letting them either to evaluate the past, present and future events, either to confirm and correct previous evaluations;

-*reliability* -is based on the absence of noticeable errors in the information communicated and the representation of reality; this accurate representation depends on the validity and of the absence of the error in the description, the research of the substance, of verifiability, of objectivity, of prudence, of completeness;

-*understanding*- represents the understanding of information by users who do not have specialized knowledge;

-*the comparability* of the information that must be assessed in time and space. Thus, in time the comparability of information allows identifying tendencies position and financial performance of the entity, and in space, the comparability of financial statements of different entities to assess the relative financial positions of evolution and their performance.

But these four criteria are however difficult to achieve; that is why it is necessary, says the author, to determine a threshold of indispensable quality. On the other hand, these four quality criteria are not effective in the presence of a period for the production of information and a cost (financial, political) compared to the benefits obtained and the cost of opportunity is a compulsion for qualitative characteristics. These limits concerning relevant and credible information are reported also by the general framework of the IASB (International Accounting Standards Board), and according to this framework, in order to be useful, accounting information must possess the superior characteristics of pertinence, reliability and comparability.

The Romanian accounting regulations harmonized with Directive IV, of the European Economic Communities and with International Accounting Standards, approved by OMFP nr. 94/29.01.2001, published in Official Gazette nr. 85/20.02.2001 [8], took over the quality characteristics laid down in the general framework for drawing up and presentation of the financial statements prepared by the IASB-paragraph nr. 24, namely: **understanding, relevance, reliability and comparability.**

However, OMFP nr. 94/29.01.2001 presents other features also, namely: **materiality, accurate representation, the prevalence of economic on the judiciary, prudence and integrity.**

- Subsequently, the Romanian accounting regulations shall establish, through OMFP nr. 3055/2009, approving the rules of accounting in accordance with the European directives, published in Official Gazette nr. 766/10.11.2009 [9], that information must have the following characteristics:

Understanding

An essential quality of the information provided by the financial statements is that they need to be easily understood by users. To this end, it is assumed that users have sufficient knowledge about doing business and economic activities, of getting accounting knowledge and have the desire to study the information presented with due care. However, information on some complex issues, which should be included in the financial statements due to their relevance in economic decision-making should not be excluded solely on the ground that it might be too difficult to understand for certain users.

Relevance

To be useful, the information must be relevant for decision-making by users. The information is relevant when it affects the economic decisions of users by helping them to evaluate past, present or future events, to confirm or correct their previous assessments. The relevance of information is influenced by its nature and materiality. In some cases, the nature of the information is sufficient, by itself, to determine its relevance. In other cases, both the nature and materiality are important, and for the purposes of these regulations, it is considered that the information is significant if its omission or misstatement could influence the economic decisions of users, taken on the basis of the annual financial statements. In analyzing the meaning of an element are taken into account the size and/or nature of the omission or of erroneous declaration that is judged in this context.

Credibility

The information is credible when it does not contain significant errors, it is not biased, and users can trust that it represents accurately what it has set out to be or what they reasonably expected to. To be credible, the information must represent with accuracy the transactions and other events that either are intended to be represented, either is reasonably expected to represent them.

In order for the information to present in a credible manner the events and transactions which aims to represent them, it is necessary that they be accounted for and presented in accordance with the fund and their economic reality and not merely with their legal form.

Also, in order to be credible, the information contained in the financial statements must be neutral, meaning devoid of influences. Financial statements are not neutral if, by selecting and presenting information, influence the taking of decisions or formulate a reasoning to accomplish a predetermined objective or an outcome. In the exercise of reasoning needed to make estimates required under conditions of uncertainty, it is appropriate to include a degree of caution, so that assets and income shall not be overstated and liabilities and charges shall not be understated. To be credible, the information in the financial statements must be complete. An omission may render the information to be false or misleading and thus no longer believable character and become poor in terms of relevance.

Comparability

Users must be able to compare the financial statements of an entity over time, in order to identify tendencies in the financial position and performance. Users must be able to compare the financial statements of the different entities, in order to assess the financial position and performance. Thus, measurement and presentation of financial effect for the same transactions and events should be carried out in a consistent manner within the entity and over time for that entity and in a consistent manner for various entities.

An important consequence of the quality of information to be comparable is that users should be informed about the accounting policies used in preparing the financial statements, and of any changes to these policies, as well as about the effects of such changes. Users must be able to identify the differences between the accounting policies for transactions and other similar events used by the same entity from one period to another, as well as different entities. Compliance with these regulations, including the presentation of the accounting policies used by the entity, helps to achieve comparability.

The need for comparability should not be confused with simple uniformity and should not become an impediment to the introduction of improved accounting policies. It is not appropriate for an entity to continue to highlight in the accounts, in the same manner, a transaction or other event if adopted policy doesn't maintain the qualitative characteristics of relevance and reliability. It is not appropriate for an entity to leave unchanged accounting policies then when are alternatives more relevant and credible.

It is also important that financial statements to present the appropriate information for the previous periods.

Finally, in order for the information to be **relevant and credible**, the following are required:

- the information to be appropriate for decision-making by users;
 - the benefits from the information exceed its cost;
 - to establish a balance between the qualitative characteristics of financial information
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- Finally, the Romanian accounting regulations shall establish, through OMFP nr. 1802/2014, for the approval of accounting Rules regarding individual annual financial statements and consolidated annual financial statements, published in the Official Gazette nr. 963/30.12.2014 [10], because the financial information to be useful, they must be *relevant* and *to represent exactly what it* proposes to represent, as the *fundamental qualitative characteristics*. At the same time the usefulness of financial information is enhanced if they are comparable, verifiable, appropriate and understandable.

Relevance

Relevant financial information are those that have the ability to help users of information in decision-making and whether predictive value, confirmatory value or both.

Financial information has predictive value if they can be used as inputs in the processes applied by users to preview the upcoming results. To have predictive value financial information must not represent a prediction or prognosis. Financial information with predictive value are used by users to accomplish their own predictions

Otherwise the predictive value and the value of financial information confirmation are closely linked. The information that has predictive value has often confirmatory value too. For example, at trade entities, information on revenues for the current year, which can be used as a basis for estimating revenues in future years, can be compared with the estimations made in the previous years, for the current financial year. The results of these comparisons can help users to correct and improve the processes that have been used for making those predictions.

In terms of materiality the legislature indicates that this is an aspect of relevance specific to an entity based on the nature or size of, or both of the items referred to in the information reported by the entity; and accordingly, these latter regulations do not specify a level for quantitative materiality and does not predetermine what could be significant in a certain situation.

Exact representation

The economic entities in general, and those in the trade, in particular, the annual accounts describe economic phenomena in words and numbers, and to be an exact representation, a description must be complete, neutral and without error, as follows:

- A complete description includes all the necessary information for a user to understand the phenomenon described, including the necessary explanations. For example, at trade entities, a complete description of a group of assets include at least a description of the nature of the assets in question, a numerical description of all assets and an indication of numerical description (for example, the initial cost or right value). For some items, a full description can impose explanations regarding the significant facts concerning the quality and nature of the elements, factors and circumstances which might impair their quality and nature, and the process used to determine the numerical descriptions.

A neutral description is one that does not support influences in the selection and presentation of financial information. A neutral description is not distorted, weighted, stressed, unstressed or otherwise manipulated to increase the probability of financial information to be received favorably or unfavorably by users. Neutral information does not mean information without purpose or without influence on their behavior. Relevant financial information is, by definition, those who have the ability to generate a difference in decisions made by users.

- Representation without error means that there are no errors or omissions in the description of the phenomena and the process used to generate the information reported was selected and applied without error.

But, for the application of the fundamental qualitative characteristics, the legislator provides for certain *quality features amplifiers*, meaning comparability, verifiability, opportunity and understanding, that must be maximized, insofar as this is possible; but still, the qualitative characteristics, either individually or in a group, there may not use the information if such information is irrelevant or are not represented exactly, since the latter are designed to enhance the usefulness of the information relevant and represented exactly.

Comparability

Information about a reporting entity, in trade, for instance, are much more useful if they can be compared with similar information about other entities and with similar information about the same entity related or to another period and data. Thus, comparability is one of the quality characteristics that allow users to identify and understand the similarities and differences between items. Unlike other quality features, comparability does not refer to a single item, but a comparison requires at least two elements.

In terms of consistency, although it is related to comparability, it is not identical with it. Consistency refers to the use of the same methods for the same elements, either from one period to another within a reporting entity, either in a single space for the various entities. Comparability is the goal and consistency helps to achieve this aim. Comparability does not mean uniformity. For the information to be comparable, similar aspects as nature must be submitted similarly, and different aspects should be presented differently.

Verifiability

Verifiability helps to assure users that information represents exactly the economic phenomena that aim to represent them. Verifiability means that through various independent and informed observers could reach a consensus on the fact that a specific description is exact representation.

In turn, the check may be direct or indirect. Direct verification refers to checking a value or other representations through direct observation, for example, by counting the money. Indirect verification refers to the checking of entries for a model, a formula or another technique and to recalculate the results by using the same methodology. An example, at trade entities, is checking the inventory book values by checking the inputs (costs and quantities) and by recalculating the final stocks using the same assumptions concerning the flow of costs (for example, using the first in, first out).

Opportunity

Opportunity means that information is available to decision-makers as they make decisions in a timely manner. At trade entities, though in general, the older the information, the less useful, however, some information may be pertinent to remain long after the end of the reporting period because, for example, some users may be required to identify and assess industry tendencies.

Understanding

The economic entities in general, and those in the trade, in particular, the classification, characterization and presentation in clear and concise of the information it make them comprehensible. Although some phenomena are inherently complex and cannot be converted into easily understood phenomena, excluding information concerning these phenomena in financial reports would lead to the situation that these reports are incomplete

Financial reports (annual accounts themselves, as well as other documents made public) are drawn up for users who have sufficient knowledge of business and economic activities and studying and analyzing information with due care; however, the presentation of the financial statements must be such as to allow for their understanding of the different categories of users of the information contained therein.

In turn (Oprean, 2001) [6] considers that accounting information must be accurate, homogeneous and verifiable, useful, and timely at the same time. Also, at economic entities in general, and those in the trade, in particular, accounting information must be presented in accordance with their legal and economic basis, applying the accounting rules to be performed with sincerity, and the information to be provided on a regular basis, so that they can be used in the decision-making process, by persons who possess this quality.

In the same idea, if we refer, for example, to the annual financial statements, I also agree with Dima quoted by (Luță, 2010) [4] which states that although the annual financial statements are official documents, drawn up at the close of the financial year and is the terminus for the elaboration of the information about the financial position, performance and changes in financial position of the entity, however, annual financial statements, do not provide all the information users need for economic decision-making, since they, to a large extent, reveals the financial effects of the past events and does not give, as a rule, non-financial information. Also, component parts of the annual financial statements correlate because they reflect different aspects of the same transactions or other events. Finally, although every situation offers different information, it is likely that either do not serve a single purpose or to provide all the information required by the specific needs of users.

On the other hand, (Needles, 2001) [5], mentions that according to SFAC (Statements of Financial Accounting Concepts) developed by the **FASB** (Financial Accounting Standards Board), the most important qualitative characteristics of accounting information are **clarity** and **usefulness**; and for that information to fulfill the requirement of utility, it must have two basic technical characteristics: **its relevance and reliability**.

With respect to the foregoing (Achim, 2009) [1] states that *clarity* can be assimilated with the *understanding* and the qualitative characteristics (relevance and reliability) are linked together with a quality considered secondary that being **comparability**. At the same time the author considers that the FASB does not neglect, but rather, requires that a general restriction on the ratio between the benefits and costs of accounting information in order to obtain accounting information to own quality characteristics listed above, and that report has to be or should be net favorable to the advantages offered.

Considering the foregoing I think that it would be particularly important to present more detailed qualitative characteristics of accounting information provided by IASB (International Accounting Standards Board), which, incidentally, have been taken up initially by the Romanian accounting regulations, as I outlined above, especially since, as can be inferred from the above, there are no significant differences between qualitative characteristics of accounting information provided by the IASB and the FASB.

Understanding

The general framework for drawing up and presentation of the financial statements, drawn up by the International Accounting Standards Board, in paragraph nr. 25, established that the essential quality of the information provided (informational system of trade entities-n.n.) is that they must be able to be easily understood by users. (...) However information on complex issues, which should be included in the financial statements due to their relevance in economic decision-making should not be excluded solely on the ground that it might be too difficult to understand for certain users

I also have the same opinion as (Achim, 2009) [1] and that this characteristic quality of the accounting information at trade entities, in this case, depends on the manufacturer of accounting information and its user, since, on the one hand, the manufacturer must report drafted accounting financial statements and other accounting reports in accordance with the rules and procedures established mostly through normative acts, and which thus drawn up shall be clear, comprehensible by their manufacturer; on the other hand, the conditions under which compliance with rules and procedures established, the understanding, interpretation and use of accounting information depends only on the user.

Relevance

The general framework for drawing up and presentation of the financial statements drawn up by the International Accounting Standards Board, in paragraph nr. 26, lays down that in order to be useful, the information (provided by the accounting information system of trade entities, for example-n.n.), must be relevant to the decision-making needs of users. The information is relevant when it affects the economic decisions of users by helping them to evaluate past, present or future events, confirming or correcting their previous assessments.

As some authors consider, (Needles, 2001) [5], (Oprean, 2001) [6], as well as (Achim, 2009) [1], relevance (pertinence) of accounting information is questionable characteristic, because what is relevant for the manufacturer themselves or to some of the users is not relevant for others, but at the same time the authors consider that certain information is relevant to a large number of users if it has retroactive value, or allow assessment of past performance, predictive value whether it permits making predictions for the future and, accordingly, it is appropriate if the accounting information is offered and accepted exactly when you need it, any faster, but no later.

Also, the general framework for drawing up and presentation of the financial statements drawn up by the International Accounting Standards Board, in paragraph nr. 29, determines that the relevance of the information (provided by the accounting information system of trade entities, for example-n.n.) is influenced by the nature and materiality.

In this sense (Achim, 2009) [1] considers that there are cases when the nature of accounting information is sufficient by itself to determine its relevance, but there are cases, opinion with which I agree, when both are important nature and materiality as accounting information relevance depends on many times of its value component, because the accounting information, for instance, are considered significant if through their ignorance would have taken another decision by users. Materiality of an accounting information is determined by the value of the component reporting the indicators they consider essential, such as turnover, net profit, total assets, etc., but still are situations when certain accounting information have fairly large significance even if their value is below the threshold of significance established, so in the end, opinion which I agree, accounting information producers are those who appreciate the relative importance of a phenomenon, for example, and users of accounting information, in turn, depend on the accuracy of such assessments.

But, considering the general framework for drawing up and presentation of the financial statements drawn up by the Committee for International Accounting Standards as well as those above, I also agree with the mention that the materiality provides a threshold rather than to represent a primary qualitative characteristic that the information must have in order to be useful.

Credibility

The general framework for drawing up and presentation of the financial statements, drawn up by the International Accounting Standards Board sets out, in paragraph nr. 31, that information (provided by the accounting information system of trade entities, for example-n.n.) has the quality to be credible when it does not contain significant errors, it is not biased, and users can trust that it is accurately what information aims to represent or what is expected, reasonably, to represent.

Achim (2009) [1], quoting Colasse, considers, in connection with the accounting information, that the recipients of accounting information cannot confide but only in an information which is verifiable, neutral and accurate.

Detailing, I also have the same opinion with the author, namely that verifiability of accounting information provided by the entity's accounting information system in commerce, for instance, is ensured by compliance with applicable accounting rules and regulations, and such records which shall comply with the accounting rules in force, is verifiable accounts, and which provides verifiable accounting information.

In turn the neutrality of accounting information provided by the entity's accounting information system of trade, for example, would be understood that accounting information should not be influenced by the subjectivity of its producers.

Further, accuracy of accounting information provided by the entity's accounting information system in Commerce, in our case, is the way in which presents reality, meaning that there is a risk of inaccurate accounting information representation of what information is going to present.

Summarizing the requirements presented by the general framework for drawing up and presentation of the financial statements drawn up by the international accounting standards Board, we can say that in order to be credible the accounting information provided by the accounting information system of trade entities should comply with the following:

- a) to report accurately the transactions and other events (paragraph nr. 33), meaning the accounting information presented by accounting reports must represent reliably the transactions and other events that change the financial position, financial performance and cash flows;
- b) to account for and submit events according to their background and economic reality and not merely with their legal form (paragraph nr. 35);
- c) accounting information must be neutral, meaning to be pointless influences (paragraph nr. 36), meaning that the result of a fiscal year shall not be altered, increased or decreased artificially, in order to present a favorable or unfavorable images that would influence the decisions of users;
- d) accounting information must be based on the appreciation of prudence uncertainties affecting the financial position, financial performance and cash flows of the entity (paragraph nr. 37), for the purposes of inclusion of a degree of caution when you make estimates required under conditions of uncertainty, so that assets and income shall not be overstated and liabilities and charges shall not be underestimated;
- e) accounting information must be completed in reasonable limits of materiality threshold and the cost of obtaining these types of information (paragraph nr. 38).

Comparability

The general framework for drawing up and presentation of the financial statements drawn up by the international accounting standards board sets out, in paragraph nr. 39, that users (information provided by the entity's accounting information system in commerce-n.n.) must be able to compare the financial statements of the entities to be able to identify tendencies in the financial position and performance.

In the case of economic entities, in general, and those in the trade, in particular, users should also be able to compare the financial statements of the individual entities, in order to assess the financial position, performance and changes in financial position. At the same time comparability requires consistent application of assessment methods for

ground and accounting procedures that give users the ability to identify similarities, differences that characterize the different time periods or different entities in the same industry.

Finally, as (Luță, 2009) [3], and I agree that in addition to the features listed above, in order to be relevant and credible accounting information must be timely and a good cost-benefit ratio.

3. Conclusions

Finally, in the conclusion of the presentation of qualitative characteristics required of information provided by entities of the accounting information system of commerce, I also agree with the Collase, quoted by (Achim, 2009) [1], which stated that it should be noted that these qualities cannot be effective unless, in their turn, have themselves quality users to dispose of knowledge needed to understand the information that is intended for them.

At the same time the accounting information provided by the accounting information system of trade entities should not be given too late, it must be complete, it must accurately reflect reality and not be influenced by subjectivity and the needs of producers of accounting information.

But, at the same time, I think it should be noted, as Dima also considers, quoted by (Luță, 2010) [4], that the accounting information and accounting rules, in turn, are heavily influenced by the political system, the economic and social council of the various countries, the latter causing a hierarchy of priorities among the users of accounting information. Thus, in countries where accounting is connected to taxation are satisfied with priority to the interests of the state and its institutions, and in countries where he managed accounts tax disconnection are serviced with priority to the interests of investors.

4. References

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