

THE RELATIONSHIP BETWEEN FINANCIAL ACCOUNTING DIAGNOSIS AND ECONOMIC-FINANCIAL ANALYSIS

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Abstract: *In monitoring health status of the entity, as well as making any financial - economic activity, entity must know resources to assess risks that may affect the activity, to fix the vulnerability in front of the environment, to measure weaknesses, possibilities for development, thus leading to the smooth implementation of the objectives and the development of the enterprise. The need for risk assessment brings with it the necessity of carrying out economic and financial analysis and the financial accounting diagnosis. Given the confusion between analysis and diagnosis, this article proposes to establish the relationship between these two tools commonly used by that entity. Research results show that the financial accounting diagnosis is used in addition to the economic financial analysis, through its ability to identify signs of worsening financial health entity and prescribing treatment required deployment within the normal range of activities and improve its image, providing a specialized entity of the journey in a given period.*

Keywords: *economic-financial analysis, financial accounting diagnostic, analysis and diagnosis*

Classification JEL: *L25, M40, M41*

1. Introduction

In an economic environment in which a number of imbalances shall make presence felt, any business is subject to a risk, on the grounds that in any unexpected events may occur which may have less pleasant track on the activity conducted by the any economic entity. Any entity must adapt to the conditions of a competitive environment increasingly more complex, difficult, channeled on results without putting the value factors that lead to the achievement of strategic objectives. We believe that for any entity it is important that throughout the economy, as well as making any economic activity to know resources to assess risks that may affect the activity, to establish vulnerability in the face of the economic environment, to measure weaknesses, possibilities for development, thus leading to the smooth implementation of the objectives and the development of the enterprise.

The need for risk assessment brings with it the necessity of carrying out certain calculations, based on certain factors taken as a basis for calculation, interpretation of results and the proposed measures to tackle the economic and financial obstacles. Such warrants are financial accounting analysis and the financial accounting diagnosis. Given the existing confusion both in practice and in terms of theory between analysis and diagnosis in this endeavor we have decided to remove the link between the diagnosis of financial accounting and analysis of economic and financial. Research results show that the financial accounting diagnosis is used in addition to the economic financial analysis, through its ability to identify signs of worsening financial health entity and prescribing treatment required deployment within the normal range of activities and improve its image, providing a specialized entity of the journey in a given period.

2. Methodology of research

In this study, literature review (document method) aims at presenting the current state of knowledge, through recourse to citations, highlighting current concepts regarding the financial accounting diagnosis and economic-financial analysis, and the relationship between them. At the same time, theoretical documentation of allowed presentation of concepts considered significant in relation to the topic under study. Justification some opinions in the light of the results obtained and the achievement of the objectives of the proposed research methods are added.

3. Literature review

Literature brings us various definition, characterization, overview of the financial accounting diagnosis, and economic and financial analysis. It is worth noting the increasingly frequent use of the term diagnosis financial accounting. Although the literature comes in support of theorists and practitioners through the presentation of this concept, providing definitions or use characterizations of diagnosis financial accounting is not sufficiently known. Diagnosis of financial accounting a series of definitions: system health monitoring, analysis of the potential of the company, the process of identification of deviations, until the substance/substrate of managerial decisions through recommendations. In accordance with the opinion of the author Achim (2015), the diagnosis is a financial tool that allows managers to the formulation of value judgements regarding the qualitative and/or quantitative status, dynamics and prospects entities, suggesting the need for periodic consultation of the organization to identify the health, vigour and ability to adapt to changes foreseeable environment. Financial accounting diagnosis definition concerns meet and to Gâdoiu (2007) showing financial diagnosis as a whole measures and checks made to determine or verify the technical and functional characteristics of a system, in order to maintain or improve, as well as identifying difficulties encountered or situaților.

In this sense, the same source cited states that financial diagnosis becomes an indispensable tool able to find opportunities of development, various kinds of risks and strategic choice of the most suitable. Also, the diagnosis means a prognosis of progress a company assuming appreciation of vulnerabilities, research and analysis of the facts and responsibilities, identifying specific causes disruption to ensuring decision-makers a realistic view on the situation and harmful process, allowing the assessment of the financial situation (Șușu Ș. & Bîrsan M., 2009). Summarizing the above, we can say that the financial accounting diagnosis is an advanced tool for checking the function of the entity is used for determining the elements that impede the good work by identifying signs of worsening financial health entity and prescribing necessary treatment deployment within the normal range of activities and improve its image, provides a specialized entity of the journey in a given period.

Financial statements represent a foundation in decision-making accounting information users. But, in our opinion, the information provided by the accounting reports are not sufficient. They must be passed through the filter of economic and financial analysis, which aims, in addition to the calculation of some indicators that confirm a certain financial, performance and interpretation of results for a better understanding of the risk factors to which a economic entity is subject. Through it all, the analysis becomes a point of departure for substantiation of economic decisions.

Financial economic analysis gains and a strong information tint it, becoming increasingly necessary and useful knowledge process essence study phenomena on the basis of their in-depth (Lepadatu, 2004). Also, recent studies (Bîrsan, 2017) support this idea, asserting that economic and financial analysis, becomes indispensable in running and managing a business, which is why it is a basic tool to reach the management of enterprises. The same approach we meet at Spineanu (2009) stating that the financial analysis helps management to understand the past, the present, the future strategic objectives of foundation maintenance and business development in an environment competitive. According to the opinion presented by some authors (Păvăloaie, Paraschivescu & al, 2010) economic and financial analysis is useful for the management entity that uncovers the essence of economic processes and phenomena, the causes of their modification and is able to draw solutions from prevention, limitation and elimination of causes generating situations negative, helping to harmonize monitoring and regulating economic activity, being an instrument of knowledge and periodic reviews of the levels of balance within the activity. The general conclusion which can be detached from the analysis of this concept is that economic and financial analysis aims at studying the use of financial, technological, human, informational materials, through the calculation of certain indicators whose we value allows the expression of views on the last developments in the present and future of any economic entity, the degree of use of the existing resources, improvement of the work conducted by each economic entity.

In the figure no.1 we find defining characteristics of financial accounting diagnosis and economic-financial analysis, as they have been outlined above.

Financial accounting diagnosis	Economic financial analysis
<ul style="list-style-type: none"> • health monitoring system • the managers instrument of establishing the entity perspective • all measures for identifying disruption • an indispensable tool able to find development opportunities • a prognosis of the progress of a company • system for assessing vulnerabilities • ensure decision-makers a realistic harmful process • an advanced tool for checking the functionality of an entity • used for fixing the elements to prevent the good work • identify signs of worsening financial health entity • prescribing treatment required deployment within the normal range of activity • provides an specialized image of the journey of entity 	<ul style="list-style-type: none"> • instrument of knowledge disruption, factors and causes that have determined them • identify ways of increasing the economic efficiency • necessary and useful process knowledge of essence to phenomenon • is becoming indispensable in running and managing a business • constitute a basic tool to reach management enterprises • help the management decisions for maintaining, developing, perfecting business • contribute to the harmonisation, monitoring and regulating economic activity • an instrument of knowledge and periodic reviews of the levels of balance economical • allows expression of views on the last developments in the present and future of any economic entities

Figure no. 1. The defining characteristics of financial accounting diagnosis and economic-financial analysis

Sours: own screening

4. Financial accounting diagnosis and economic financial analysis

Given the conflicting opinions regarding the economic financial analysis and financial accounting diagnosis we consider it necessary to the presentation of the link or relationship existing between these two tools. We partly opinion of authors (Balteș, 2010) to which purpose of financial analysis is to identify the strengths and weaknesses of financial management with a view to making the new strategy of maintaining and developing the company's future. From here we can realize the confusion between analysis and diagnosis. The diagnosis is one that deals with the identification of the strengths and weaknesses of existing disturbances in the economic life of the establishment. Studies dealing with the analysis and diagnosis of financial accounting often make reference to the existing relationship between analysis and diagnosis. This kind of approach is present at some authors (Șuşu& Bârsan, 2009) according to which, the diagnosis was predominantly related to the conclusions of the economic and financial analysis. Others (Căruntu & Lăpăduși, 2010) stress the

idea that financial analysis uses specific tools and means adapted to the aims pursued, and leads to financial diagnosis, being geared in particular towards profitability and risks.

Moreover, the literature bring to light certain studies that treat financial diagnosis as part of financial analysis. An example of this is given by the authors Căruntu & Lăpăduși (2010) they consider that the diagnosis is financial financial analysis geared toward users. On these grounds, it is stated that the results of the analysis in diagnosing materializes financial year (Gâdoiu, 2007). In a study (Andekina & Rakhmetova, 2013) presents the idea that the analysis is the process of research, while the diagnosis is his conclusion. Same approach meet other authors (Ungureanu) that considers financial analysis is aimed at formulating a diagnosis and a prognosis in relation to the situation and the financial performance of a company or an organized. There are also foreign authors in support of a possible relationship between analysis and diagnosis of financial accounting, saying that financial analysis aimed at formulating a diagnosis and a prognosis regarding the financial position and performance a company or an organisation(Babalola&Abiola, 2013).

A different kind of approach to meet some authors (Berceanu, Sichigea, Drăcea, 2010) states that the diagnosis must be supplemented by financial financial analysis. This kind of approach are in total contradiction with the attempts of authors highlight differences in analysis and diagnosis of financial accounting. In this sense, in a recent study (Achim, Bodea, 2017) state that, unlike the analysis of a phenomenon through its decomposition, diagnosis involves aspects qualification analysed in certain patterns, by reporting certain references, in other words the formulation of value judgements regarding the phenomenon, in order to prescribe "therapies" recovery and tracking the way in which they are carried out.

From the analysis of specialized studies we can observe a tendency of definition, classification, presentation, use of torque analysis of self-diagnosis. In the opinion of an author (Pop, 2017) diagnostic analysis is a tool for evaluating and improving the performance of the organisation which operates on a principle similar to the one diagnosed in medicine. Other authors (Alexa, Kiss, Rațiu, 2013) considers that the analysis of diagnosis is an action aimed at mainly business performance measurement, identifying the gaps on this basis causes and most effective solutions for growth performance. In agreement with the opinion presented in a study (Căruntu, 2016), the aim of the analysis is to identify the diagnosis on the situation of the company at a time to prevent insolvency and to take appropriate measures to ensure increased liquidity and debt payments.

In the figure no.2 we find presentation of the relationship between financial accounting diagnosis and economic-financial analysis.

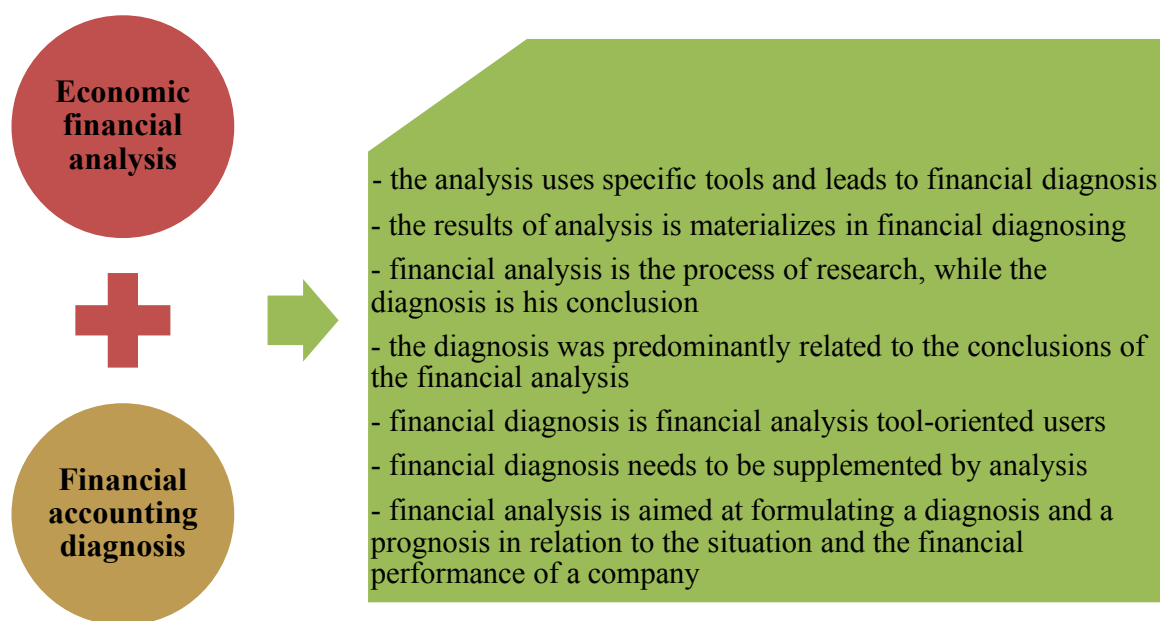


Figure no. 2. *The relationship between financial accounting diagnosis and economic-financial analysis*

Sours: own screening

It is evident the relationship between economic financial analysis and financial accounting diagnosis, can affirm that the diagnosis is a financial accounting tool used to supplement economic and financial analysis, between the two there is a relationship of interdependence.

5. Conclusions

In the work of achieving an entity must take account of all the factors which compete in the smooth operation of the business, to always identify anomalies, to propose measures of decentralization and factors of production, and, most important, to establish his own economic balance. Monitoring the health status of the entity is subject to a proper understanding of the concept of financial accounting as diagnostic tool for determining, assessing the health status of the establishment and identification of the shortcomings, irregularities, anomalies risk, threatening the smooth running of the economic activity of the entity, and the concept of economic and financial analysis, as a means of assessing the use of resources through the calculation of certain indicators of value which allows us formulation of views on the last developments in the present and future of any economic entity, the degree of use of the existing resources, improvement of the work conducted by each economic entity.

Even though the literature, economic-financial analysis is assigned the same role as financial diagnosis, identify the strengths and weaknesses of financial management with a view to making the new strategy of maintenance and development of the company, the difference between analysis and diagnosis is that prescribing financial recovery therapies work is only carried out with the help of financial diagnosis. However, it is evident the relationship between analysis and diagnosis, can affirm that the diagnosis is a financial accounting tool used to supplement economic and financial analysis, between the two there is a relationship of interdependence. Many ideas presented above does not do anything other than to remove the linkage between economic and financial analysis and diagnosis of financial accounting. Research results show that the diagnosis of financial accounting is used in addition to the economic and financial analysis, considered either a tool or a finality of economic-financial analysis, taking into account the capacity of the identification of signs of worsening financial health entity and prescribing necessary treatment deployment within the normal range of activities and improve its image, providing a specialized entity in a journey specific period.

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