

THE ROLE OF THE FINANCIAL-ACCOUNTING DIAGNOSIS IN THE MONITORING OF THE FINANCIAL HEALTH OF THE ECONOMIC ENTITIES

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ABSTRACT: *Financial accounting diagnosis is a process, a complex action that involves the identification of the existing dysfunctions at the entity level, the calculation, the measurement and the determination of their influence on the economic-financial activity, but most importantly the prescribing the therapy, or eliminating potential disturbing factors. The purpose of this article is to illustrate the role of financial-accounting diagnosis in monitoring the health status of economic entities. The research results highlight the major importance of diagnosis as a complex tool for verifying the functionality of an entity used to identify elements that impede the proper course of action by identifying signs of aggravation of the financial health of the entity and prescribing the treatment necessary to carry out within normal limits activity and improvement, providing a specialized insight into the entity's course over a given period. Diagnosis is an important activity that should be done at the level of each entity throughout the entire economic activity, thus leading to the good course of activity.*

Keywords: *financial accounting diagnosis, strengths, weaknesses, financial health of the entity*

Classification JEL: *L25, M40, M41*

1. INTRODUCTION

Throughout the economic process and in performing any financial, accounting and economic activity, it is important that any entity knows its resources, assesses the risks that may affect its business, establish its vulnerability to the economic environment, and measures the weaknesses, the possibilities for development, thus leading to the proper fulfillment of the objectives and the development of the enterprise. In this sense, diagnosis is an instrument that helps the entity for identification of the existing dysfunctions at the entity level, through which they can appreciate past, present and future risks, the calculation, measurement and determination of their influence on the economic-financial activity, but most importantly for prescribing the therapy, or eliminating potential disturbing factors. It is important that in conditions of a business environment that is beset by different changes, both economically, socially, legally, culturally, as a society to face the possible risks, risks that can affect its financial health. Diagnosis is intended to provide an analysis of the financial health status of any economic entity. Being a complex tool to be used, diagnosis identifies the threats related to liquidity, exigibility, solvency, profitability, indebtedness, and other components.

The purpose of this article is to illustrate the role of financial-accounting diagnosis in monitoring the health status of economic entities. Among the research objectives are also included the characterization the diagnostic activity, the financial-accounting diagnosis as a system for monitoring the functionality of an economic entity, the underlying objectives, highlighting the important role that the financial accounting diagnosis it has in establishing, assessing the health of the entity and identifying deficiencies, irregularities, anomalies, risks that threaten the proper course of the entity's economic activity. Given the increasingly frequent use of the diagnosis term associated with the financial health of an entity, and starting from the need to carry out a risk

analysis in the financial activity of an entity, we consider it useful to investigate the significant role that the financial diagnosis has in risk monitoring.

The research results highlight the major importance of diagnosis as a complex tool for verifying the functionality of an entity used to identify elements that impede the proper course of action by identifying signs of aggravation of the financial health of the entity and prescribing the treatment necessary to carry out within normal limits activity and improvement, providing a specialized insight into the entity's course over a given period. Diagnosis is an important activity that should be done at the level of each entity throughout the entire economic activity, thus leading to the good course of activity. The financial-accounting diagnosis must and can be used as a method of determining the entity's path, profitability, liquidity, solvency, financial stability of the economic entity.

2. PAPER BODY

Methodology of research: In this article, the literature review (the descriptive method) aims at presenting the current state of knowledge, by calling for specialized bibliographical references, highlighting current conceptions of financial-accounting diagnosis, objectives, typology, necessity of it. At the same time, the theoretical documentation allowed the presentation of concepts considered significant in relation to the studied topic, as well as the role played by the financial accounting diagnosis in monitoring the health status of the economic entities. Based on the results obtained and the achievement of the proposed objectives, they have completed the literature review as well as the theoretical documentation. Justification some opinions in the light of the results obtained and the achievement of the objectives of the proposed research methods are added.

Literature review

In the literature, there are more and more studies that deal with the notion of diagnosis. Many of these refer to the establishment of an entity's health by means of a financial-accounting diagnosis. The term "diagnosis", taken from the Greek "diagnostikos" and borrowed from the practice of medicine, is an approach aimed at recognizing certain illnesses after their symptoms in order to discover the causes and institute the therapy needed for healing. In support of this idea comes Năstase G. (2011), which states that diagnosis involves identifying the defects that occur in the activity of the enterprise and their causes. In agreement with the opinion of the authors Andekina R. & Rakhmetova R. (2013), the diagnosis leads to defining urgent problems requiring urgent solutions, offering the possibility to identify reserves and deviations. We note the idea of some authors (Radu R.I., Mihai I.O., 2012) that diagnosis is a vital action that does not have a direct impact on business activity, but highlights information about the vulnerabilities and opportunities of the company, absolutely necessary managerial act.

The diagnosis has a number of definitions: from the health monitoring system, the analysis of the company's potential, the process of identifying the deviations, to the substance / substrate of the managerial decisions through the formulated recommendations used to determine the elements that prevent the good running of by identifying signs of aggravating the financial health of the entity and prescribing the treatment necessary for the normal performance and improvement of the activity, providing a specialized image of the entity's course over a given period. In agreement with the author Achim M.V. (2015), financial diagnosis is a tool at the fingertips of managers that allows qualitative and / or quantitative judgments on the status, dynamics and perspectives of an entity, suggesting the need for regular review of the organization to identify its health, vigor and capacity to adapt to predictable environmental changes. In this sense, the same source cited consider financial diagnosis as a tool to support managers allow the formulation of value judgments regarding the qualitative and/or quantitative status, dynamics and prospects entities,

suggesting the need for periodic consultation of the Organization to identify the health, vigor and ability to adapt to changes foreseeable environment.

Concerns regarding the definition of the financial-accounting diagnosis are also found in Gădoiu M. (2007) presenting the financial diagnosis as the set of measures and controls performed to determine or verify the technical and functional characteristics of a system for maintenance or improvement, as well as identifying the situations or difficulties encountered. In this respect, the same quoted source states that financial diagnosis becomes an indispensable tool capable of finding development opportunities, different types of risks and the most appropriate strategic choice.

Diagnosis is a prognosis of a company's progress by estimating vulnerabilities, researching and analyzing facts and responsibilities, identifying the causes of specific malfunctions, without certainly proposing the application of a recovery or treatment program (Șușu Ș. & Bîrsan M., 2009). In our opinion, it is not enough to identify risks and dysfunctions unless we propose measures to stop, eliminate and even prevent their subsequent occurrence. Other authors (Șușu Ș., Bîrsan M., 2009) state that on the basis of a diagnosis, many elements can be identified, which could lead to the increase of a company's value or, if not, its decrease. The same bibliographic source recalls that based on the information provided by the diagnosis, the enterprise can reshape some activities, deepen its economic restructuring process, or remodel its managerial system, important prerequisites for long-term consolidation of its market position.

The diagnosis provides useful information on the company's chances of life, as well as the direction and trend of business Spataru L, Stankovici A. (2014). We note in this bibliographic source the idea that the diagnosis implies a rather difficult approach, with various obstacles and traps, and its importance derives from the fact that a wrong diagnosis leads to a subsequent mistaken assessment, which means that the firm does not know its value true.

By synthesizing the above, we can say that financial-accounting diagnosis is a complex tool for verifying the functionality of an entity used to identify elements that impede the proper course of activity by identifying signs of aggravation of the financial health of the entity and prescribing the treatment required within the normal limits of activity and improvement, providing a specialized insight into the entity's course over a given period.

In our opinion, diagnosis is a process, a complex action that involves the identification of the existing dysfunctions at the entity level, the calculation, the measurement and the determination of their influence on the economic-financial activity, but most importantly the prescribing the therapy, or eliminating potential disturbing factors.

In the figure below, we plotted the most important aspects of defining diagnostics-financial accounting.

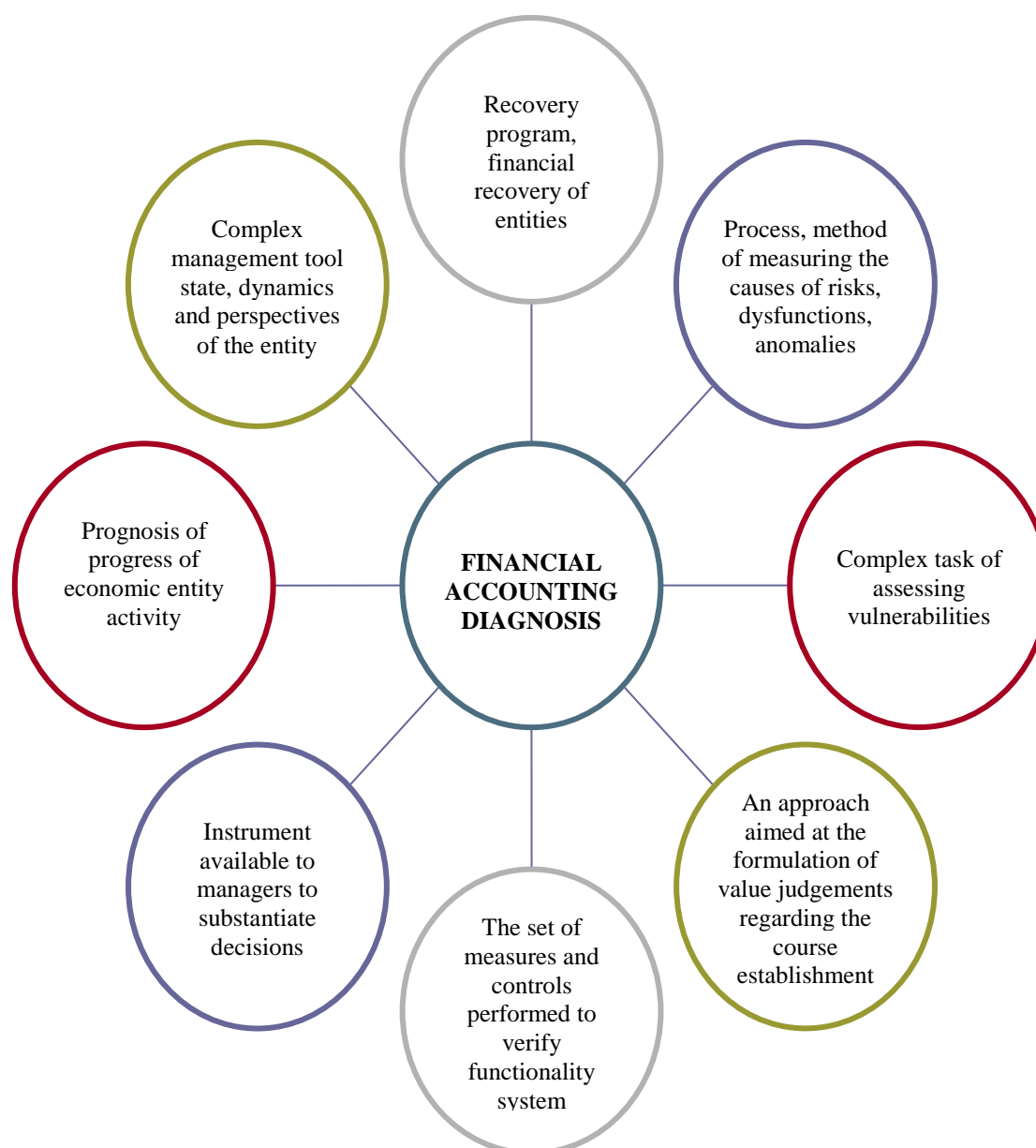


Figure 1. Characterization of the diagnosis
(Source: author's own projection)

The objective of financial accounting diagnosis

An enterprise's diagnosis aims to identify weaknesses in the business, in order to correct their strengths, in order to exploit them in achieving better results, the latter need to be exploited, thus representing future opportunities for the enterprise's activity (Șușu Ș. & Bîrsan M., 2009). The main problem in this case is the framing of aspects or elements found in the category of strengths or weaknesses. In this respect, some authors (Deac V & Duna VA, 2012) come to support this issue by detailing the strengths (key success factors that enable the company to improve the issues that could compromise its future development) and the weaknesses of a company considered it is its characteristics that place the company in a lower position than companies competing with it (egg outdated technology, high production costs, rigid organization, poor management, lack of negotiation skills with its customers). We support the idea presented by some authors (Suciu G., Bîrsan N., 2013), according to which the objective of the diagnosis is to detect possible situations

of financial imbalance and to adopt new decisions for managing the company's situation, based on the identification of the origin and the cause of imbalance.

The relationship between financial and accounting diagnosis and managerial decisions is incontestable. Recommendations made following diagnosis should be the substrate of managerial decisions. Here is the main role of the financial-accounting diagnosis, that of supporting the managerial decisions. The same approach is found in the authors Hațegan C., Imbrescu C., Pavel C., (2010), which asserts that diagnosis is the managerial tool that underlies decisions on future business activity, recovery, improvement of business or reorganization. We believe that the financial and accounting diagnosis is based on the accounting results obtained from the collection, synthesis and processing of information. Thus, we subscribe to the opinion of the authors Vătășoiu CI, Gheorghe M., Motoniu ID, Boca IS, (2010), according to which the accounting information is one of the most important products that the accountant offers and must allow both current and potential investors to identify, measure, classify, evaluate all the operations and activities of an enterprise.

In agreement with the opinion presented in a study (Șușu Ș. & Bîrsan M., 2009), diagnosis ensures decision-makers a realistic harmful process; assess the financial situation with regard to the undertaking. Moreover, the same source cited considers that diagnosis is aimed at identifying weaknesses, in order to correct them and strengths in order to exploit them in achieving better results, the latter must be capitalized, thus representing the future opportunities of the undertaking's activity. From this vision, we consider that, diagnosis treats various problems related to liquidity, solvency, performance, risk, financial balance and lead to the identification of ways to improve profitability entity, reduction of costs and to achieve desired monetary surplus.

The diagnosis is a financial management tool that can be used successfully (Pop I.L., 2017). The importance of diagnosis is confirmed by some authors (Balteș N., 2010), who believes the role of the financial diagnosis is a "System Center" for guiding management decisions, making the act of management should not be carried out on the principle of spontaneity and the intuition.

A synthesis of the most important aspects of the objectives of the financial accounting diagnosis can be made. We believe that the important objective of the financial-accounting diagnosis would be to identify the causes of the existing malfunctions at the entity level, starting from the fact that the basis for establishing the financial recovery measures is the factors that caused imbalances in the financial-accounting activity.

All of these aspects only highlight the major importance that financial accounting diagnosis has in monitoring the health status of economic entities. However, in our opinion, the importance of diagnosis is influenced by a number of factors, such as the ability to properly identify risks, dysfunctions, anomalies, the ability to correctly determine the measures to eliminate, mitigate, stop, and not last but not least, the ability of management to put the proposed measures into practice and open it to the results of the diagnosis. Because the efforts made during the diagnosis are not in vain, managers need to understand the importance of this entity's tracking activity and accept the results and adopt the measures proposed by the financial-accounting diagnosis.

3. CONCLUSIONS

The research results highlight the major importance that financial accounting diagnosis has in monitoring the health status of economic entities. In our opinion, diagnosis is a process, an activity, a complex action that involves the identification of the existing dysfunctions at the entity level, the calculation, the measurement and the determination of their influence on the economic-financial activity, but most importantly the prescribing of stopping, or eliminating potential disturbing factors. In this sense, the financial-accounting diagnosis must and can be used as a method of determining the entity's path, profitability, profitability, liquidity, solvency, financial stability of the economic entity. We can assert that diagnosis is an important activity that should be done at the level of each entity throughout the entire economic activity, thus leading to the good

course of activity. The conclusion that can be drawn is that the financial-accounting diagnosis is a complex tool for verifying the functionality of an entity used to establish the elements that impede the proper course of activity by identifying signs of aggravation of the financial health of the entity and prescribing the treatment required within the normal limits of activity and improvement, providing a specialized insight into the entity's course over a given period.

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