

## **STUDY ON THE ANALYSIS OF THE ACTUAL STAGE OF KNOWLEDGE OF INTERFERENCE BETWEEN ACCOUNTING INFORMATION AND THE MANAGEMENT OF THE ECONOMIC ENTITY**

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**Abstract.** *Not often managers or administrators of economic entities „run away” from everything that means accounting and accounting information. It is a reality of our days in the circumstances in which the accounting information is necessary for the fulfillment of the management functions. Accounting, through the information provided, has an active and decisive role in management and provides the working language of business, indispensable for analyzing the entity’s activity and results, which is objectively necessary to be done in financial terms. Starting from this reason, the article presents the results obtained from a selective research carried out on a sample of 301 economic entities within the Center Region, whose objective was to identify the respondents’ opinions on the interference between the accounting information and the management of the economic entity.*

**Keywords:** *accounting information, accounting, management, financial-accounting function, management functions*

**JEL Classification:** *M10, M49*

### **Introduction**

Regardless of the field in which an entity operates, its objectives, in order to establish and achieve them, management needs accounting information, which is found in all management functions and is interdependent with the entity’s functions.

It is well known that most of the specialists (Domokos, 1999; Nicolescu and Verboncu, 1999, 2008; Russu, 1996) approach the organizations through the five functions: research-development, production, commercial, financial-accounting and personnel. From the point of view of the economic and financial implications, we consider that it is absolutely necessary for the manager to pay special attention to the financial-accounting function, to give it an important place in the management board and the decision-making process (Hafij Ullah et. al, 2014). In this context, the manager seeks to know the entity’s revenues and expenses, the resources available or necessary, and how they are assigned or received, the debts, the capital they have or may have at their disposal, the costs of making the products or rendering services, the performance improvement methods etc.

We will continue to present how the information provided through the accounting information system (Kieso et al., 2012) is found in the entity’s management (Cunningham et al., 2012, Abraham and Glyn, 2008).

One of the priority functions of the management is represented by the forecast, whose main objective is to seek the answer to the question: „what must be done and what can be done within the entity?” In carrying out the forecasting function, the accounting information is obtained by producing accounting pro-forma documents (Ciuhureanu, 2009), strategies, policies and financial plans, budgets, costs (Sarngadharan and Kumar, 2011), projections in the production process etc.,

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**DOI: 10.29302/oeconomica.2017.19.2.1**

using appropriate performance indicators on the activity of the entity with which the resource needs and the achievable results are dimensioned.

The management organization's role is to determine the responsible and how to achieve the objectives. This function includes the activities required to meet the entity's financial objectives using accounting information, assigning them as tasks to employees and organizational structures, and setting up a precise set of adoption and follow-up of decisions. The exercise of the organizational function leads to the definition of some organizational domains, namely: accounting activity with attributions identified by Law 82/1991, financial activity, control, audit, each of these structures contributing to obtaining and capitalizing on the accounting information (Zhao Zhou and Jiayu Li, 2017).

Accounting information is also found in the management coordination function, which involves adequate communication at all levels. The fulfillment of the coordination function depends on the understanding of the financial-accounting language as a means of communication within the organization. For example, comprehension of accounting information provides valuable data on the performance of the results obtained by carrying out the activity's object. By understanding this information, management may decide to launch or withdraw a product from the market, have the opportunity to base sales prices, whether promotion is required or how much they need to focus on promotion, whether new equipment or staff are needed etc (Brigitte Eierle and Wolfgang Schultze, 2013).

As regards the management engagement function, which is the foundation of motivation, it may seem at first sight that the accounting information does not find its place or usefulness. However, the use of accounting information, by setting targets, indicators to achieve, contributes to the achievement of this function on measurable and transparent criteria.

If by planning, managers are looking at ways to achieve goals, the results they want to reach, they must be prepared and able to face the actions that could affect plans. The use of accounting information thus contributes to the efficient management of the general management, especially through control and audit, which connects the past, present and future (Ömer Faruk Tan, 2016). Thus, the control-evaluation function of management is closely related to accounting information, its usefulness being in the prevention of deviations, the protection of the integrity and rational use of capital, compliance with the law, the functioning of the entity in the expected profitability parameters. It completes a management cycle and prepares the conditions for the resumption of a new cycle by setting new goals and organizing activities to fulfill them. This is why managers should use accounting information "to develop knowledge of their work" (Hall, 2010).

In conclusion, managers need accounting information in all decisional steps. As a result, a new field emerged - Strategic Accounting (Mohamed H. Abdelazim, 2005)

### Methodology of the selective research

To deepen the views and arguments previously supported, we conducted a selective research based on a sample of 301 economic entities within the Center Region. The research methodology was established in compliance with the stages presented by the specialist Iacob Cătoiu (2009).

The research tool consisted of an anonymous questionnaire, distributed to the persons in the management of the entities, both on-line and physically. The selective research objectives and assumptions are presented in table no. 1.

Table 1

#### Objectives and hypotheses of the research

Central objective	Main hypotheses	Secondary objective	Secondary hypotheses
$Q_2$ Analysis of the current	$IP_3$ – Respondents express their agreement on the	$Q_{2.1}$ Identifying the	$IS_2$ – As the complexity of the activities "decreases", the

state of knowledge regarding the interference between accounting information and the management of the entity.	importance of accounting information in business and consider that there is a strong link between the financial-accounting function and the other functions of the entity <b>IP<sub>4</sub></b> – There is an average link between the accounting information and management functions.	opinion on the importance of accounting in relation to the category, field of activity and form of capital of the entities	awareness of the importance of the accounting in business and management is diminished. <b>IS<sub>3</sub></b> – Big entities are most aware of the importance of accounting in business and management. <b>IS<sub>4</sub></b> – Foreign-owned entities agree completely with the importance of accounting and management in business.
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Source: own processing

After establishing the central objectives and the main hypotheses related to the *quantitative selective research*, we made the operational definition of the variables necessary to achieve the research’s goal and in accordance with the identified objectives (table no. 2).

Table 2

**Research objectives and hypotheses**

Central objective	Name of the variable	Operational definition (code)	Type
<i>Q<sub>2</sub></i> Analysis of the current state of knowledge regarding the interference between accounting information and the management of the entity.	Current state of knowledge	v7 Please agree to the following statement: “Accounting is the unbiased judge of the past, the necessary guide to the present and the indispensable adviser of the future, in each enterprise” (J. Fr. Schär).	Multiple choice / 5 steps Likert scale
		v8 Do you consider that there is a link between the financial-accounting function and the other functions of the entity (research/development, production, commercial and personnel) ...	Multiple choice / 5 steps Likert scale
		v9 Do you consider that there is a link between the accounting information, from the point of view of its usefulness, and the management functions ...	Multiple choice / 5 steps Likert scale

Source: own processing

**Data Processing - Outcome Conclusions**

To highlight the *managers’ opinion on the importance of business accounting and implicitly in entity’s management*, we started from the statement of J. Fr. Schär, according to whom “Accounting is the unbiased judge of the past, the necessary guide to the present and the indispensable advisor of the future in every enterprise” (v7). A research regarding the studies conducted in the direction of J. Fr. Schär affirmation was presented by David Forsaith, Carol Tilt and Maria Xydias-Lobo in 2001. The data obtained by our selective research are shown in table no. 3.

Table 3

**Opinion on the importance of business accounting and entity management**

Valid	Scale	Frequency	Percentage	Valid percentage
301	total disagreement	3	1,00	1,00

	Disagreement	27	8,97	8,97
	neither agree nor disagree	59	19,60	19,60
	Agreement	98	32,56	32,56
	total agreement	114	37,87	37,87
	Total	301	100,00	100,00
<b>Score</b>	<b>3,97</b>			

Source: own processing

The processing of the answers leads us to the conclusion that the largest share of the respondents (37.87%) manifests their total agreement with the said statement and 32.56% expresses their agreement. We also note the relatively high share (19.60%) of those who are neutral to this claim, but also to those who disagree (8.97%). The 3.97 score leads us to notice our respondents' awareness of the importance of accounting information in the conduct of business, the various analyzes of the activity and the results, for the preparation of certain forecasts, in the management of the entity.

However, we considered that these results are not sufficient for making relevant conclusions, which is why we have formulated the secondary objective *Q2.1 Identifying the opinion on the importance of accounting in relation to the category, field of activity and form of capital of the entities* for which we have acted towards associations according to the category (v7 with v1), field of activity (v7 with v2) and the capital of the entities (v7 with v4), the results being presented in table no. 4.

Table 4

**Opinion on the importance of accounting in relation to the field of activity and the category of economic entities**

Opinion	Field of activity (%)				Total %
	trade	agriculture	services	Industry	
total disagreement	1,64	0,00	1,29	0,00	1,00
disagreement	11,48	0,00	12,26	10,00	8,97
neutral	50,82	10,67	9,68	50,00	19,60
agreement	16,39	14,67	48,39	20,00	32,56
total agreement	19,67	74,67	28,39	20,00	37,87
<b>Score</b>	3,41	4,64	3,90	3,50	3,97
	Category by number of employees (%)				
	micro	small	medium-sized	Big	
total disagreement	2,03	0,00	0,00	0,00	1,00
disagreement	15,54	4,76	0,00	0,00	8,97
neutral	27,70	11,90	15,38	0,00	19,60
agreement	20,27	48,81	40,38	35,29	32,56
total agreement	34,46	23,81	44,23	64,71	37,87
<b>Score</b>	3,70	3,60	4,29	4,65	3,97

Source: own processing

On the basis of the information obtained from the association according to the field of activity, we conclude that the managers of the entities active in industry are most aware of the importance of the accounting information, with a share of 74.67% (score of 4.64), expressing total agreement with the statement of J. Fr. Schär. At a very large distance for the "total agreement" option there is the service sector (28.39%), agriculture (20%) and trade (19.67%). For the service sector, the largest share of respondents (48.39%) agrees with this statement, a share of 28.39%

expresses the total agreement while 12.26% disagree. The score for this area is 3.90 on the scale of “agreement”. As the complexity of activities diminishes, we notice that the awareness of the importance of accounting information also decreases. Thus, the majority of respondents working in the field of trade (50.82%) have a neutral opinion and 11.48% of them express their disagreement, with the score of 3.41.

To fathom the research, we also captured the respondents’ opinion according to the category of entities. From the analysis there is obvious the indisputable link between the two operational variables. Thus, most large entities (64.71%) consider that the accounting information is vital for the good functioning of the business and 44.23% of the medium entities have the same opinion. From the score calculation, large entities, with a score of 4.65, are in full agreement and medium-sized entities are in agreement, with a score of 4.29. A surprise is the micro-entities which overtake the registered score for medium-sized entities, but the difference is only 0.1. It is remarkable, however, that the ones in the micro category are, on the basis of the calculated score of 3.70, in the agreement area on the usefulness of accounting information for business and management, which means at least an awareness of the respondents. Another type of association was made according to the capital form of the entities (table no. 5).

Table 5

**Opinion on the importance of accounting language in relation to the type of capital**

Opinion	The form of capital (%)			Total %
	Entirely Romanian	Entirely foreign	Mixed	
total disagreement	1,27	0,00	0,00	1,00
disagreement	10,97	0,00	2,44	8,97
Neutral	22,78	8,70	7,32	19,60
agreement	34,18	13,04	34,15	32,56
total agreement	30,80	78,26	56,10	37,87
<b>Score</b>	3,82	4,70	4,44	3,97

*Source: own processing*

It is often assumed that entities with foreign capital have to comply with some stricter requirements, making more analyzes, in conclusion being more serious from the perspective of capitalizing the accounting information and making clear differences between capitalization and reporting. Analyzing the collected data, we conclude that previous allegations, which are substantiated by discussions with various representatives of the entities or during professional meetings and scientific manifestations, are true. Thus, with a score of 3.82, entities with full Romanian capital are situated in the agreement area on the importance of accounting information for business, while entities with fully foreign capital totally agree, the score being 4.70, at a distance of almost one point. We ask what is the reason for such a difference and the only answer is based on making the difference between accounting and taxation, on the understanding of the information and business mechanism that, whether we want it or not, passes through the accounting filter.

The conclusions drawn from the associations according to the category, the field of activity and the capital of the entities lead to the confirmation of the secondary hypotheses (*IS<sub>2</sub> - As the complexity of the activities “decreases”, the awareness of the importance of the accounting in business and management is diminished, IS<sub>3</sub> – Big entities are most aware on the importance of accounting in business and management; IS<sub>4</sub> – Foreign-owned entities agree completely with the importance of accounting and management in business.*

Also, in order to achieve the first objective, we have formulated the operational variable **v8** through which we sought to know the opinion regarding the connection that exists between the financial-accounting function and the other functions of the entity (table no. 6).

Table 6

**The connection between the financial accounting function and the other functions of the entity**

Valid	301	Frequency	Percentage	Valid percentage
	very week	2	0,66	0,66
	Weak	11	3,65	3,65
	Average	74	24,58	24,58
	Strong	99	32,89	32,89
	very strong	115	38,21	38,21
	Total	301	100,00	100,00
<b>Score</b>	<b>4,04</b>			

Source: own processing

From the above shown information, it can be concluded that the largest share of the respondents (38.21%) considers that there is a very strong link between the financial-accounting function and the other functions of the entity and 32.89% of them state that the link is strong. In the opinion of 24.58% of the respondents, the link is average and only 3.65% of them consider this link to be weak. The answers' score is 4.04, placing the opinion of the respondents in the "strong" area.

Conclusions lead to the validation of the hypothesis (*IP<sub>3</sub> - Respondents express their agreement on the importance of accounting information in business and consider that there is a strong link between the financial-accounting function and the other functions of the entity*), which determines us to appreciate that managers are aware of the fact that activities need to be dimensioned based on the analysis of accounting information rather than on a random basis according to what each person considers.

Whether we refer to forecasting, organization, coordination, training or control-evaluation, we find the accounting information. The exercise of management functions can not be realistic without predicting at least on a budget basis, without organizing production at least considering costs or without control, at least through inventory,

In order to know the degree to which the respondents believe that the management functions are interconnected with the accounting information, the variable v9 was formulated in the questionnaire, the information obtained being presented in table no. 7.

Table 7

**Interrelation of accounting information - management functions**

Management functions	Scale / %					Score
	very small extent	small extent	neutral	large extent	great extent	
Forecast	0,66	6,64	16,28	29,57	46,84	4,15
Organization	0,00	1,99	11,63	40,53	45,85	4,30
Coordination	1,00	7,97	22,92	41,53	26,58	3,85
Engagement	5,98	9,63	32,56	33,55	18,27	3,49
Control-evaluation	0,00	0,00	12,96	28,90	58,14	4,45
<b>General score = 4,05</b>						

Source: own processing

Based on the information obtained from the processing, we find that the majority of respondents (58.14%) consider that the accounting information is found in the control-evaluation function (score 4.45), aspect which we consider normal if we consider that the exercise of this function can be achieved through various control, audit or evaluation techniques (most often

mentioning indicators, budget etc.). We would have expected the forecasting function to be at least as high – the score obtained being 4.15 - given that accounting information is needed to establish the entity's goals and strategy.

However, we note that for the interrelation of accounting information - the organization function, a score of 4.30 was calculated, which indicates that the respondents consider at least the expenses and the incomes when they decide on the organizational arrangements. Weaker links were identified for coordination and engagement, with scores of 3.85 and 3.49, respectively. It is interesting to note that none of these connections are in the "to a great extent" area, a situation that we consider unexpected at least from the perspective of the functions of forecasting and control-evaluation.

On the whole of the operational variable, the calculated score is 4.05, which leads to the invalidation of the hypothesis advanced before the research (*IP<sub>4</sub> - There is an average link between the accounting information and the management functions*), the link being a strong one, which we consider positive from the perspective of the current stage of knowledge.

### **Final conclusions**

In this paper we have emphasized that the accounting information is found, in one way or another, in the management system. We have highlighted that the financial-accounting function, through the attributions that are conducive to its optimal performance, participates in ensuring the continuity of the activities in terms of efficiency. Accounting, through the information provided, has an active and decisive role in the management of the entity and provides the working language of business, indispensable for the analysis of activity and results, which is objectively necessary to be done in financial terms.

In order to highlight the managers' opinion regarding the importance of accounting in business and implicitly in management, we started from the statement of J. Fr. Schär. The score of 3.97 has led us to notice to a great extent the respondents' awareness on the importance of accounting information in the conduct of the business, the various analyzes of the activity and the results, for the elaboration of forecasts, for the management. As the complexity of activities diminishes, we noticed that the importance of accounting information also diminished. The analysis according on category highlighted that large entities, with a score of 4.65, expressed total agreement for the aforementioned statement, the other categories expressing their agreement. The capital form analysis demonstrates the higher interest of entities with foreign capital towards the accounting language.

In order to emphasize the role of accounting, we have captured the indisputable interrelationship between the financial-accounting function and the other functions of the entity. These are derived from the need to provide capital for operating and investing, costing so as to achieve the goal of any business, namely value creation through profit, ensuring the balance between revenue and payments to eliminate liquidity and solvency risks, continuous improvement of human resources to achieve the expected productivity and meeting the quality requirements, setting the strategy and future goals to ensure continuity, etc., all involving the knowledge and value of accounting information and thereby emphasizing its managerial utility.

From the perspective of the above mentioned, the conclusion is only one: regardless of the field in which an entity operates, in order to establish and achieve its objectives, management needs accounting information, since they can be found in all management functions and since they are in interdependence with the entity's functions. We also emphasized the role of accounting in administration and general management, expressing our own views on the usefulness of accounting information for the management functions. Whether we refer to forecasting, organization, coordination, engagement or control-evaluation, we find the accounting information. Exercising management functions can not be realistic without predicting, at least on a budget basis, without

organizing production at least taking into consideration costs or without control at least through inventory.

The conclusions drawn from the selective research on the interference between financial accounting and the other functions demonstrate that managers are aware that the entity's activities should be dimensioned on the basis of the analysis of the accounting information and not randomly according to what each person considers, the score obtained being 4.04 and placing the respondents' opinions in the "strong" area. With regard to whether or not the accounting information is found in the management functions, the selective research revealed that the majority of respondents believe that the accounting information is found in the control-evaluation function. We would have expected the forecasting function to achieve a score at least as high, since for the establishment of the strategy, the entity's objectives require accounting information.

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