

## RELEVANCE OF ACCOUNTING INFORMATION IN THE BASIS OF USER DECISIONS - SOCIO-EMPIRICAL RESEARCH

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**Abstract :** *The national accounting regulations bring changes in the economic-financial life of an economic entity by the fact that for certain categories of entities, the financial statements are prepared following the recommendations of the international accounting referential. This is happening to ensure comparability of entities at national level with the other economic entities in the intra-Community area and outside Europe. For the financial information provided by the financial statements to be useful, they must be relevant and represent exactly what they intend to represent. The usefulness of financial information is amplified if they are comparable, verifiable, timely and intelligible. To combine theoretical and empirical elements, we propose through this article to undertake qualitative research, namely the questionnaire, to answer several questions related to accounting information, its importance to users, the way in which the financial statements have responded to the challenge of normalization both according to national regulations and to the requirements of International Financial Reporting Standards. The results of the research bring to light that users of accounting information consider that relevance, intelligibility and accurate representation are the most important characteristics of accounting information, and indicators such as the calculation of financial position, performance and risk are able to determine capacity analysis. the entity to generate profit, to pay its debts in the short or long term, the risk of bankruptcy of the entity. The main objective of this research is to analyze, through the view of the accounting professionals, the importance and the necessity of the accounting information, its quality characteristics, as well as the way in which the Romanian legislation has harmoniously integrated the application of IFRS.*

**Keywords:** users, accounting information, relevance, economic-financial indicators, economic entity, financial position, profitability

**JEL codes:** M41

### Introduction

In order to be useful in the decision-making process, the accounting information must fulfill certain attributes called qualitative characteristics. In the standardization and accounting doctrine, the criteria that allow the definition of the quality concept of accounting information are not identical, their selection and ranking are different. (Pătrașcu, 2010)

We propose through this article to undertake an empirical research, of a qualitative type, namely the questionnaire, to answer several questions related to accounting information, its importance to users, how the financial statements have been adapted and harmonized with the requirements of International Financial Reporting Standards.

The main objective of this research is to analyze the importance and necessity of accounting information, its quality characteristics, as well as the way in which the Romanian legislation has harmoniously integrated the application of IFRS.

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In order to achieve this endeavor, we have set a series of objectives that have a direct connection with the topic that we set out to discuss:

1. Identification of the financial-accounting information according to the informational needs of the users
2. The need to orient the national accounting to the International Financial Reporting Standards
3. The analysis of the elements that can influence the way of reporting the entities according to IFRS.

Questionnaire-based survey (Cauc et al, 2004) it belongs to the category of qualitative methods. The questions in a questionnaire capture various aspects and problems in people's lives and in their environment, they are relatively simple and general, while the interview goes into the depth of all these aspects and tries to decipher the mechanisms that guide people's actions, behaviors and motivations.

### **Literature review**

Many Romanian and foreign authors have approached the issue of accounting information. Thus, Saada, (2000, p.1190), defines information as "in the mathematical sense, an essentially probabilistic concept, defined quantitatively". Accounting is seen as a typical information system, "which differs from other information systems on three levels: through all the principles based on which they work, through the data they process and the methods of processing these data" (Greiner, 2000 , p.1122).

Large groups of market participants consider accounting information to be the center of investment decision-making processes. For example, in the US and UK studies, investment consultants regard financial statements as the most important source of information in making investment decisions (Arnold and Moizer, 1984).

The analysis of the financial statements means a careful extraction of some rates from them. The most common rates used measure liquidity, activity, profitability and debt ratio (Kiesco and Weygandt, 1982).

Through what we have pursued with this article, accounting is rather an information system, which "allows the production and dissemination of information for decision making" (Ionașcu, 2003, p. 33).

### **Relevance - a fundamental attribute of financial information presented by entities in financial reporting situations**

According to OMFP 1802/2014, or the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements", the qualitative fundamental characteristics are the relevance and the exact representation .

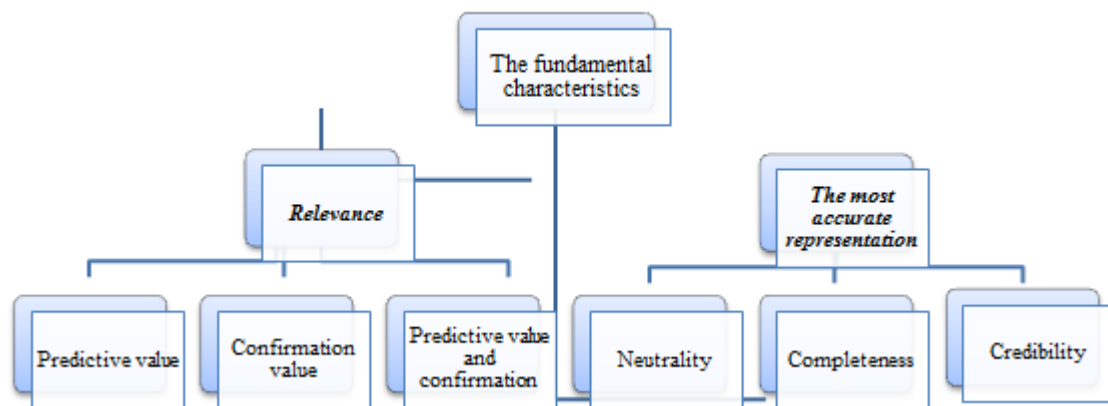


Figure1 The fundamental characteristics according to the new conceptual framework  
Sursa: own processing after OMFP 1802/2014

The relevance, seen in the American accounting system, through SFAC 2 "Qualitative Characteristics of Accounting Information", is an characteristic that can permanently determine a change of the decision, increases the decision maker's ability to make forecasts and confirm the forecasts. Accounting information loses relevance if it is late.

In the French accounting system, the relevance is given by the validity, reliability, verifiability, sincerity, neutrality, prudence and clarity of the accounting information. This quality does not relate to the needs of the users, but to the level of the entity.

By analyzing the concept of quality of accounting information in the Anglo-Saxon accounting system, relevance is appreciated as an influence of users' decisions and to allow them to evaluate past, present and future events and to have the ability to make necessary adjustments from the past.

Nationally, OMFP 1802/2014 specifies that relevance helps users of accounting information in making the best decisions. These decisions are made only if the information has predictive value, confirmation value or both. When we talk about predictability, they can be used as input into user-driven processes to predict future outcomes..

The confirmation value and the predictive value of the financial-accounting information are closely linked. Information that has predictive value often also has confirmation value. For example, revenue information for the current year, which can be used as a basis for forecasting revenue in future years, can be compared to forecasts made in previous years for the current year. The results of these comparisons can help users correct and improve the processes that were used to make those predictions.

The relevance of the information is influenced by its nature and significance (materiality). Materiality is about the threshold of meaning of information. In order to determine their relevance, it must be seen whether their omission or misstatement could influence the economic decision of the users, based on the financial statements. Consequently, the materiality depends on the size of the element or the error. Thus, materiality offers a threshold or a limit rather than being a primary feature that information must have in order to be useful.

### **The relevance of the accounting information in the basis of the users' decisions, socio-empirical research**

The purpose of the present research is to analyze the importance and necessity of accounting information, its quality characteristics, as well as the way in which the Romanian legislation has harmoniously integrated the application of IFRS. It is very important to identify the image, influences and all aspects of the evaluation that have an impact on highlighting a true image of the entities and decisions based on the different categories of users based on the results obtained in the current situation.

The questionnaire was applied to a sample made up of accounting experts, evaluating experts, personnel from the economic-financial department, to those who have a solid accounting knowledge and who can formulate a relevant and useful opinion for our study.

The questionnaire was sent during the period April-May 2019, on a number of 60 economists, from different fields of activity, who carry out their activity in joint stock companies, with limited liability and having different activity objects. The questionnaire was edited using google forms and was emailed to the respondents.

The questionnaire has 13 questions, divided as follows:

- Questions with general character, where we can identify the profile of the individual, age, sex, profession,
- Questions that answer the objective of the study, specific, regarding the perception of the respondents to the usefulness of the accounting information, the relevance of the quality characteristics of the information presented in the financial statements, which indicators give the management the information as close to its interests, if it is important that the entity provides information as more transparent to users.

### **Descriptive analysis of responses**

The first part of the questionnaire contains general questions about the respondents in our study and so we will start describing those who were questioned.

The second part of the questionnaire welcomes the respondents with specific questions directed to the main objective of the research and they followed the factors that can influence the quality of the accounting information, such as the dynamics of the legislative changes, the lack of experience of the accounting professionals, the errors made intentionally or not, the importance of the qualitative characteristics of the accounting information, the opinion of the accounting professionals with reference to the most important characteristics of the quality of the accounting information, what kind of information do the managers need to make decisions regarding the activity carried out by the economic entity, if necessary or not for the Romanian legislation to be aligned with the International Accounting Standards, if factors such as the size criterion, the size of the turnover, influence or not the way of preparing the financial statements, if the way of preparing the statements is has positive effects on the transparency of the information provided, if the OMFP 1802/2014 transposes in a favorable way the financial-accounting information in accordance with IAS / IFRS.

The general aspects were presented with single answer questions, with several answer variants. Below we analyze each question separately:

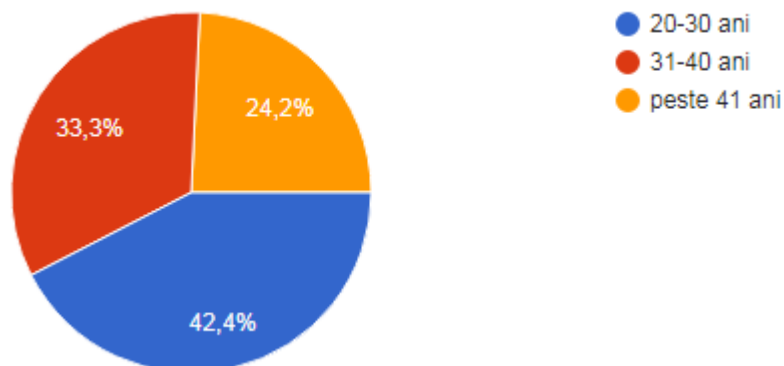


Figure 1 The importance of the age of the persons questioned

At the general question, the age, the most numerous people are those between the ages of 20-30, young professionals, eager for affirmation, who follow the hierarchical step in the company where they work.

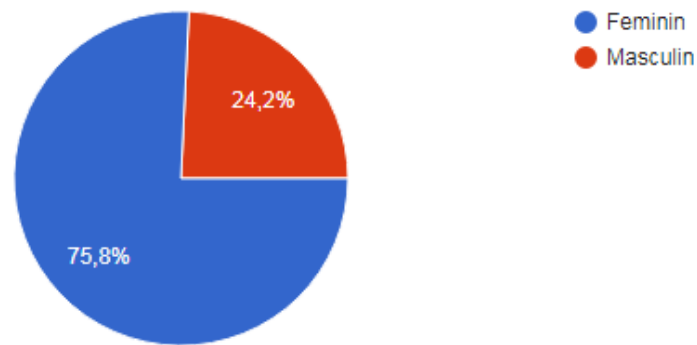


Figure 3 The criteria of sex

From the chart above we can see that the vast majority of respondents, 75.8% are women, which shows us that in Suceava county area, there are a large number of accounting professionals, which indicates that entrepreneurs prefer cautious people, which take into account all the risks and in order to make my safe decision, calculate the most appropriate variants

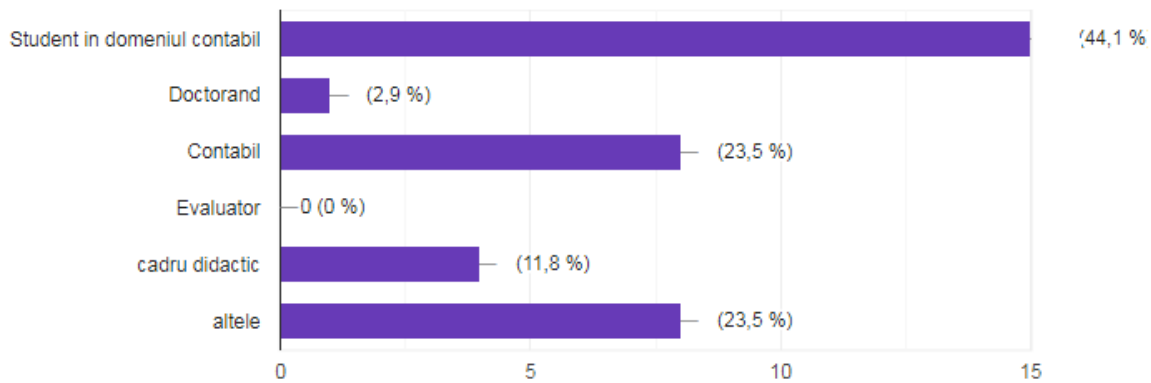


Figure 4 Professional category

At the question 3, "the professional category", the data presented reveal that the vast majority of the respondents are students, graduates of the "Stefan cel Mare" University of Suceava, who have fresh and solid knowledge about the chosen topic, which is working, or they want to follow the Master's courses, to complete their cycle of higher studies. Secondly, the accounting professionals and others follow, representing auditors, financial consultant, other categories working in referring companies..

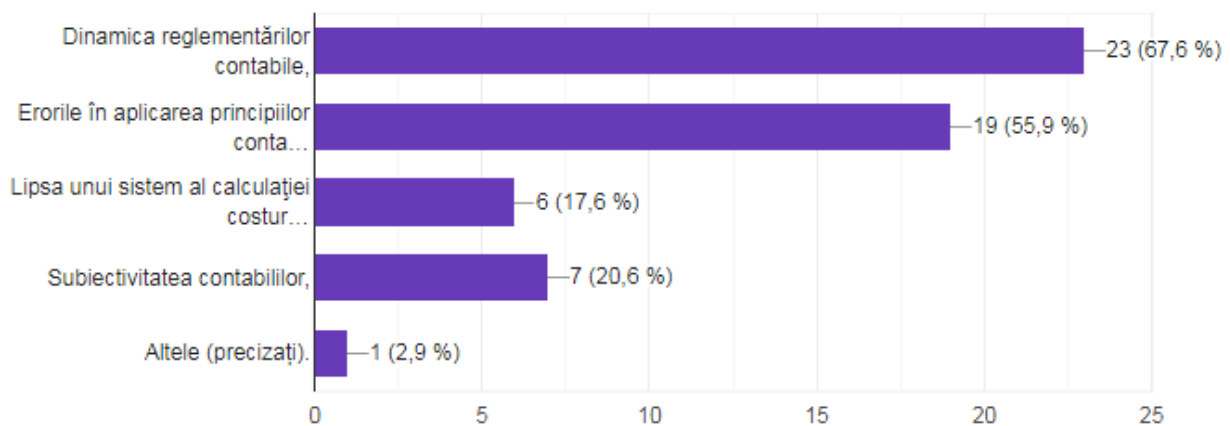


Figure 5 Factors that influence the quality of accounting information

At question 4, the factors that can influence the quality of the accounting information, the respondents have chosen by weight 67.6% the dynamics of the accounting regulations, which are in permanent harmonization with the international accounting standard and which affect the way of preparing the financial statements, but also the quality them. Another aspect are the errors in the application of accounting principles, with 55.90% respecting them exactly as the basis of the normal operation of the activity of an economic entity, of presenting credible, relevant and highly reliable accounting information.

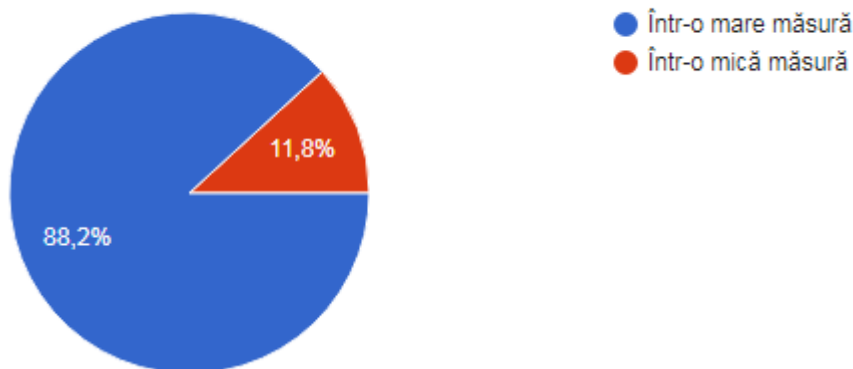


Figure 6 The importance of quality characteristics

To the question 5, "How do you appreciate the qualitative characteristics of the accounting information?", the respondents answered 88.20% that without these characteristics that give a correct direction to the accounting information, benchmarks that it must follow, it is not possible can talk about the quality of the information. Relevance, accurate representation should be the basis for the preparation of financial statements.

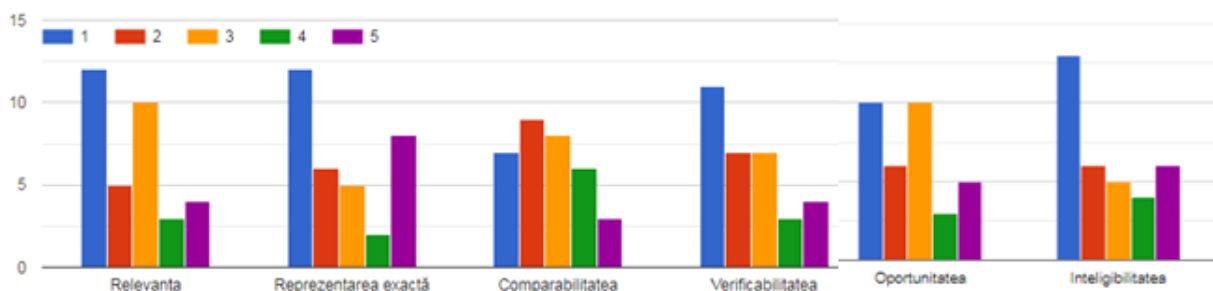


Figure 7 Distribution of quality characteristics according to the accounting reasoning

Question 6 refers to the way in which the accounting professional considers to rank from the most important (1) to the least important (5) the quality characteristics of the accounting information. Thus, intelligibility was the most characteristic feature, because users of accounting information do not always have in-depth knowledge in the accounting field, but must make decisions regarding the economic entity. On the second place is the relevance, characteristic which refers to the predictive and confirming value, the predictability refers to the way in which an entity can predict its information based on data from previous years. Also, the exact representation occupy a leading place in the answers to the question, which means that the figures and the description used

in representing the financial statements must express exactly what the entity has to provide to its users.

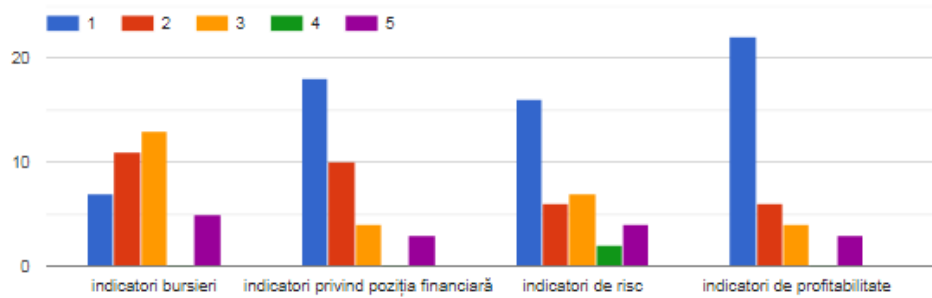


Figure 8 Increased interest of managers regarding some economic indicators

To the question "What is the information that managers are most interested in making decisions?", the answer with the most elections were the profitability indicators, gross sales margin, operating profit margin, gross profit margin, total assets return, total assets fixed assets, equity, EBITDA, etc., indicators that, calculated, can provide an overview of the economic activity of an economic entity. Following are the indicators on the financial position, indicators that provide information on the evolution of assets, cash from the unit's cash, short-term, medium and long-term debt, equity status. Risk indicators are the following indicators as level of interest for managers, they measure the degree of indebtedness of the company, the solvency, the interest coverage rate.

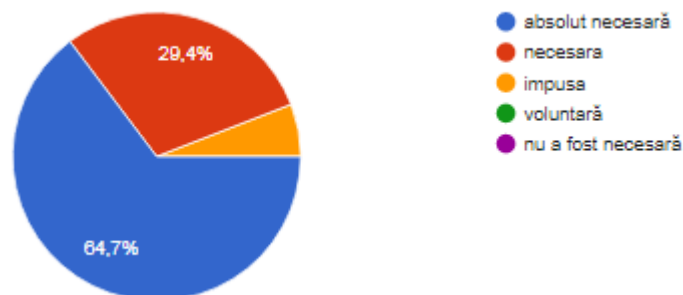


Figure 9 The necessity to orient the national legislation towards the international accounting standard

Answer to the question "Do you consider that the orientation of the national legislation towards the International Accounting Standards was necessary in the conditions of the development of the national economy, the need for foreign capital investments and the informational needs of the users?", The respondents thought that this is imperative, not only for the preparation of the financial statements by the entities listed on the Stock Exchange, as well as for the entities that enter into commercial relations with the foreign capital companies, for the foreign investors who want to invest in Romania and have to understand the financial statements.



Figure 10 Harmonization of the national legislative framework with the international one

To the question 9 "Do you consider that Romania should keep its national regulations or harmonize them in accordance with IAS / IFRS?", 63.6% of the professionals replied this is the only solution to achieve the final purpose of the presentation of the financial statements in a relevant, intelligible way, and 36.4% replied that they do not consider the national and international legislative framework should be modified due to the high implementation costs, the time consumed for this and the specialists providing consultant in this domain.

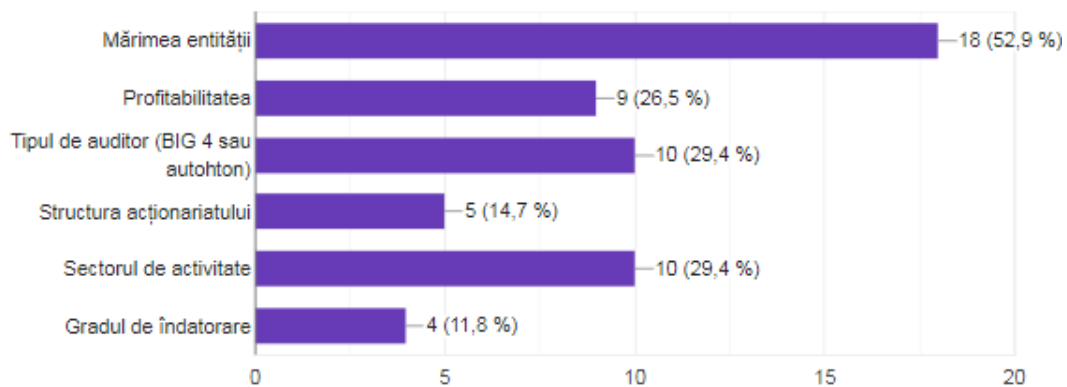


Figure11 Elements that influence how financial statements are drawn up according to IAS / IFRS

Over time it was found that the business environment, the users to whom the financial statements are directed, the activity sector (29.4%) but also the size of the entity, in a weight of 52.90%, are very important elements which are taken into account when preparing the financial statements. In some periods, the entity must distribute the dividends of the shareholders, which is why it must record a higher profit, or it must cover some outstanding debts, here are some aspects that change the course of preparing the financial statements.

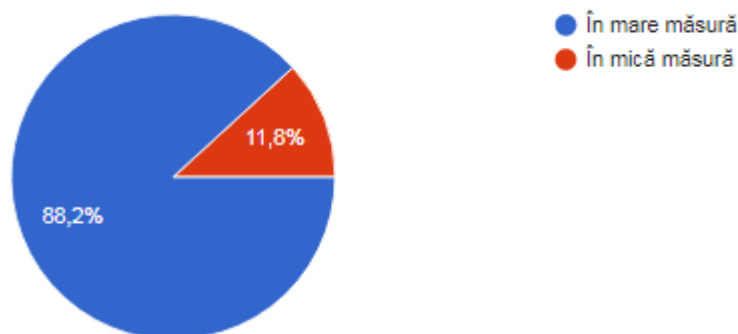


Figure 12 The application of Romanian entities of IAS / IFRS in order to present the unique set of financial statements



To the question "Do you think that the Romanian entities applying IAS / IFRS for the preparation of the single set of financial statements would have a positive effect on the accounting information market?", 88.20% of the professionals replied that the impact of the application is positive, viewed from all points. From the transparent way of drawing up the financial statements, to strictly respecting the accounting principles, to meeting the needs of the users of accounting information.

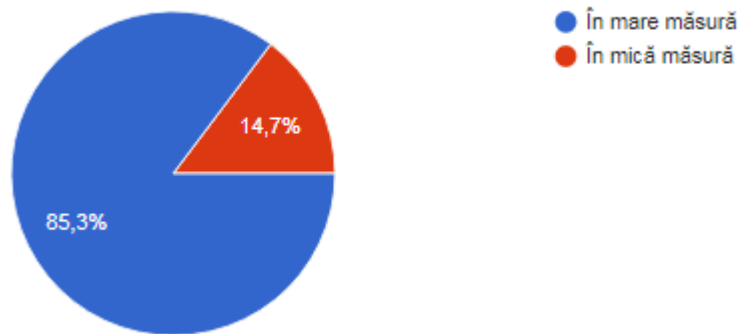


Figure 13 The implementation of IAS / IFRS standards by issuing transparent information

To the question "Is the implementation of IAS / IFRS standards a first step in reporting transparent information?", 85.30% replied that this is the engine that will align all entities to present their information to ensure comparability between different entities with the same size, from the same activity sectors or from different sectors, providing information to users who are directly interested in the "sensitive parts" of entities, environmental policies, litigation, labor, etc.

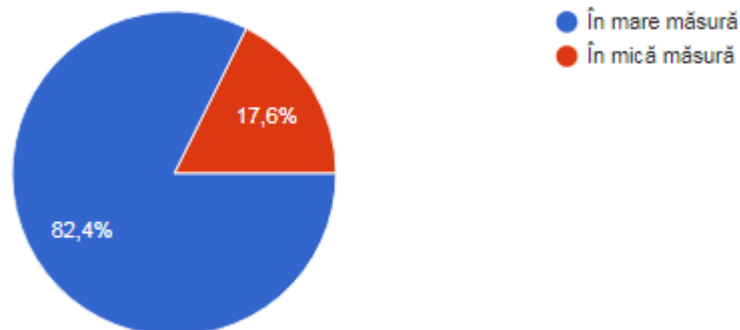


Figure 14 The extent to which OMFP 1802/2014 transposes the financial information in accordance with IAS / IFRS

To the last question "To what extent do you think that the OMFP 1802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements transposes the financial information according to IAS / IFRS?", 82.40% of the respondents chose the variant that largely measure The Order transposes the content of IAS / IFRS, because it was specially designed to meet the needs of the economic entities that trade their securities on a regulated market, their reporting mode being required by IAS / IFRS. This is the importance of this international benchmark, to align our companies with the great demands that come from abroad, needs that help us adapt from the beginning to the explosion of technological progress, to ease the work of the accounting professional.

### **Analysis and presentation of results**

A first analysis of our research consists on the opinion of the accounting professionals and their perception of how accounting information is used to make managerial decisions within an organization. Thus we can present below how the research results are centralized:

**Table no. 1 The weight of the results for the questions in the questionnaire**

<b>Question</b>	<b>Respondents' opinion</b>	
	<b>Number of respondents</b>	<b>Percent</b>
1. Factors that may affect the quality of accounting information	26	44%
	2	3%
	14	23,5%
	4	6%
	14	23,5
2. The importance of the qualitative characteristics of the accounting information	53	88,2%
	7	11,8%
3. The quality characteristics of the accounting information, according to its own reasoning	The most important	Inteligibilitatea
	Very Important	Relevanța
	Important	Reprezentarea exactă
	Little important	Oportunitatea Comparabilitatea
	The least important	Verificabilitatea
4. Information that managers are directly interested in substantiating the decisions regarding the entity	The most important	Indicatori privind poziția financiară
	Very Important	Indicatori de profitabilitate
	Important	Indicatori de risc
	Little important	Indicatori privind rezultatul global
	The least important	Indicatori bursieri
5. Was the orientation of the national legislation towards the International Accounting Standards necessary in the conditions of the development of the national economy, the need for foreign capital investments and the informational needs of the users?	Absolutely necessary	64,7%
	Necessary	29,4%
	Imposed	0%
6. Should Romania keep its national regulations or harmonize them in accordance with IAS / IFRS?	Yes	63,6%
	No	36,4%
7. What elements do you think will influence the way of preparing the financial statements according to IAS / IFRS	The size of the entity	52,9%
	Profitability	26,5%
	The type of auditor	29,4%
	The shareholding structure	14,7%
	Sector of activity	29,4%

	The degree of indebtedness	11,8%
8. Would the Romanian entities applying the IAS / IFRS for the preparation of the single set of financial statements have positive effects on the accounting information market?	Largely	88,2%
	To a small extent	11,8%
9. Is the implementation of IAS / IFRS standards a first step in reporting transparent information?	Largely	85,3%
	To a small extent	14,7%
10. OMFP 1802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements transposes the financial information according to IAS / IFRS?	Largely	82,4%
	To a small extent	17,6%

Source: Own processing

From the above table we managed to present a distribution of the answers of each category of respondent and we can see that the accounting professionals are anchored in reality, always in step with the changes to harmonize the national accounting regulations with the international ones. The most important quality characteristics are the intelligibility, due to the fact that a user of accounting information does not need in-depth accounting knowledge to understand the financial position of an entity, the relevance, an important feature of the accounting information that makes it useful, useful in a timely manner, and the exact representation, of the financial situation, in compliance with the accounting principles, of the permanence of the methods, of the non-compensation, of the independence of the financial execution.

The most important financial indicators are those of the financial position, profitability and risk, in order to know the specific situation of the entity, if it can cover its short-term debts from its own sources, or must water to external sources, or other information such as risk of bankruptcy.

### **Conclusion**

Our study is a comprehensive one, and we managed to meet the goals we set at the beginning of the article. The study was conducted on a sample of 60 people, directly related to the accounting field, and the response rate was 67%, ie 40 people. We studied the specialized literature in order to be able to transpose aspects of the Romanian legislation, in order to highlight the importance of the quality characteristics of the accounting information in drafting and drawing up the financial statements.

The results obtained can be summarized as follows:

- 85% of the professionals believe that the implementation of IAS / IFRS is necessary, at the level of the accounting standard
- At the sample level, the profitability indicators, from the balance sheet, the risk indicators represent the most important indicators that underlie the management decisions
- At the sample level, intelligibility, accurate representation and relevance are the main characteristics on the basis of which the financial statements faithfully represent the image of the economic entities.

The present socio-empirical research, based on the elaboration of a questionnaire, a qualitative and direct research method centralized through 13 questions the opinion of the accounting professionals from different fields of activity on the qualitative characteristics of the information provided by the financial statements, and as a first conclusion the need to harmonize the framework national and international accounting benchmark, to meet the needs of users of accounting information.

The technological progress of the company, (Matiş, 2009) modernization and restructuring of the economy, lead to the growth and diversification of the demand for financial-accounting information. In order to substantiate economic decisions with minimum risks and maximum benefits, it is necessary to analyze a set of elements of a financial, non-financial nature and elements specific to the capital market. In this context, through the chosen theme, we analyzed the information presented by the financial statements, insisting on the elements of transparency, quality, consistency, faithful image and credibility.

Transparency of information involves the elaboration and presentation of complete, comparable and verifiable situations, satisfying as many users as possible. Reporting in line with International Financial Reporting Standards was an important step in presenting transparent and harmonized reporting with reporting standards in other countries or regions.

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