

The Financial Accounting System within the Current Economic Context

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Abstract

Within the European Union, the public entities have already applied IFRS to the strengthened financial statements, while the individual entities haven't yet started to apply them, which is only a matter of time. Consequently, as a member of the European Union, our country must meet these requirements and apply IFRS to individual financial statements, as well.

Keywords: Entity, Crisis, Accounting, Upgrading, Financial Statements

Introduction

Globalization, harmonization and convergence of international accounting are phenomena which manifest themselves increasingly more throughout the world, especially in the context of the current economic crisis we are coping with.

Entities currently operate in an economic environment where the changes, the unpredictable and the uncertainty are the only certainties in this environment, the main challenge being the survival itself.

Permanent reinventing, urgent respond to unexpected situations, as well as dealing with unpredictable daily make managers' ingenuity, flair and experience play an important role in the life of each entity. The most important factor behind most changes in the economic environment and within the entities is, without any doubt, information technology and communications.

Gradual Implementation of IFRS

Considering their content, the requirements of IAS-IFRS are listed by areas of interest, such as the presentation of information in the financial statements, group situations, evaluation and recognition of items in the balance sheet and the profit and loss account. For a easier acquisition of knowledge, information is concentrated, theoretical details are succinct, which allows quick understanding of IAS-IFRS issues relating to a specific field, without having to navigate the entire standard.

Accountancy in our country is currently in a process of gradual implementation of International Financial Reporting Standards.

We appreciate that Romania has made significant progress with respect to improving financial accounting and tax system by disconnecting the accounting from taxation. It is observed that at international and European level, the fields already referred to are in fact highly dynamic, which influences the national environment in such a way that it follows the economic globalization and the conditions in which businesses don't have borders, and their effects, whether favourable or unfavourable, spread rapidly and have direct influences on the performance of the entities.

As in other spheres of activity, and in the field of accounting and financial reporting matters most topical ones are in close relationship with the financial crisis which has caused the taking of measures to manage the negative implications of this economic phenomenon. One of the measures agreed upon in order to counteract the negative effects of the financial crisis concerns the elimination of disadvantaging the European financial institutions in relation to international competitors in terms of accounting rules and their proper interpretation.

Given the fact that a country's accounting system has a major importance and that it is influenced by a number of factors such as the legal system, the dominant mode of financing entities, tax system, the rate of inflation, the economic and political system, which generates differences from one country to another accounting system, in Romania, there were taken decisions to harmonise the national accounting system with European directives.

Thus, we have the European reference standard, the 4th Directive, laying down a number of options relating to financial statements, valuation rules and financial disclosure requirements for individual organizations, and Directive a-VII, dealing with the rules for drawing up the financial statements for the groups of entities.

Internationalization is supported by harmonizing the Romanian Accounting System with elements of the International Accounting Standard or direct implementation of international accounting standards. This standard comprises:

- a conceptual accounting framework (which sets out objectives, defines the elements of financial statements, determines the criteria for the recognition of the qualitative characteristics of financial statements etc.;
- a flexible package of international accounting standards (IAS) and international financial reporting standards (IFRS);
- a flexible package of interpretations regarding some of the issues of international accounting standards.

In terms of accounting geopolitics, the international accounting standard issued by IASB is mainly characterized by features of Anglo-Saxon doctrine over the continental-European one, presenting an economic approach of the accounting information.

The accounting information as a product of the financial accounting system may be defined as *“ the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of public and confidential information used by management to plan, evaluate and control within an economic entity and ensure the use and recording in the accounts of its resources”*.^[1]

The role of the financial accounting system is essentially to provide financial information relating to the entity examined. This information relates to the financial condition and performance and is intended for all users when making decisions. Accounting information is produced only if it is useful for the decision-making process. Financial statements published

by the economic entity have the objective of providing information to ensure the efficiency of the markets and optimal allocation of economic resources.

Although accounting information is intended for a broad range of users - *Stakeholders* (managers, employees, suppliers, customers, creditors, Government and financial institutions, public, media), investors are recognized as privileged users because: "... *there are enterprise venture capital bidders and providing statements that satisfy their needs, will meet most of the needs of other users*".[2]

" *To run an entity means, on the one hand, to know thoroughly the current business and operational decisions in the conduct of them, and on the other hand, to foreshadow the future trends and develop forecasts to outline the directions of its development in perspective*". [3]

For a proper and efficient decision, managers need information. Highly qualitative, real and operational information got through control both in the economic and social spheres, is more inclined to clear our risks, deficiencies, inefficiencies, and grants for free initiative under the circumstances of legacy and loyal competitiveness.

The management decision interacts and influences with utmost determination all the other subsystems (organizational, informational and methodological) of the management system and all internal processes and work of each employee.

Line managers' decisions and their impact on organizational plan provide basic relations between compartments, functions and posts.

The central position which is held by the decision-making entity's economic component, due to the fact that the decision is the specific tool of managers, is exercised amid mutual determination with other processes and organisational structures whose quality is decisive for the performance of the entity, being a tool for ensuring economic development.

The management process is based on the existence and implementation of a functional and outperforming methodological and managerial system.

In order to decision-makers factors, represented by the management of the entity, provide relevant information, objective, timely and reflecting economic reality and not excessively impregnated of influences such as tax, legal and information systems and in the first instance, the accounts must be made available to managers who, in this way, summary information regarding liquidity and current information on the agents controlling budgets and forecast information related to the estimation of future cash flows that will be generated by the different activities of the entity. And to outline the scope of information systems decision support, it is necessary to define theories relating to decisions, the stages of the decision-making process, as well as, the motivations of the decision-making within the computer-based entity.

The specific conditions and circumstances in which an organizational problem can be solved are dictated, as a last resort, the manner in which the decision is adopted. It can be defined as a process of reflection, susceptible of reasoning in order to solve a problem faced by entities in a decision-making context. Starting from the question "how shall managers adopt decisions?", one can identify four major stages of the decision-making process, namely:

- Wide spread information or diagnosis;
- Model design;
- Choice of solution;
- Model implementation.

During the information phase, the decision maker has to consolidate the issues related to the subject under study, exploring all the information at his/her disposal, necessary for making a future decision. By doing this, he/ she examines potential solutions, reflects the

information coming from the external environment and last but not least, defines and seeks as far as possible, to supplement the powers meant to resolve all issues related to its decision-making sphere.

The design phase includes all activities meant to better understand the decision-making context and test solutions, to make it possible to assess the relevance and feasibility of the decision-making problem. In this sense, the decision maker builds its own solutions based on already known information, conceiving a series of scenarios in order to find additional information. If the original information is insufficient, there is a possibility of returning to the previous phase to collect new information which might lead to a new diagnosis.

The choice of solution involves searching for, evaluating and recommending a solution suitable for the model in question, in other words, it will proceed to establish a specific set of values for the decision variables, corresponding to alternative resolution selected in an earlier stage.

The implementation of the model is the final stage of the decision-making process and is based at the operational level on the solution provided by the model.

Conclusions

Information environment of the entity, confronted in recent years with a highly ever competitive intensification at all levels, has promoted and implemented a number of new computer-based decision-making technologies.

Ensuring the functioning of a proper financial accounting system leads to obtaining relevant, useful and objective information, on the basis of which decisions can be effective.

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