ACCOUNTING INFORMATION – IMPORTANCE, ROLE AND VALUATION

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Abstract: As an objective requirement of financial management, any entity can only function together with its own accounting, order and discipline being basic elements of the legal framework, but also of its own statute. Information about the economic resources controlled or available to an entity and its past ability to change those resources is useful in predicting the entity's strength to generate cash or cash equivalents in the future. Seen as art, science, technique, language of communication and social game, accounting through the data and information provided is a vital element in business management in the contemporary economic context, and the role, importance and valorization of this information is fundamental to the success and sustainability of any entity. Based on theory - pragmatism, general - particular, induction - deduction, national - international relationships, without claiming to be an exhaustive approach, through this article we want to emphasize that accounting information is not only a record-keeping tool, but an essential means of effectively running and managing any business.

Keywords: accounting information; functions; qualities; evaluation; fundamental equations

1. Introduction

Present today in all areas of activity, economic information can be considered the support of the managerial process. The financial-accounting information can only be treated properly by taking into account the conceptual accounting framework (a normative accounting theory, capable of ensuring the development of solid and coherent rules) and its structure.

In March 2018, the International Accounting Standards Board revised the Conceptual Framework for Financial Reporting (IFRS, 2018), namely: updated the definitions and recognition criteria for assets and liabilities included in financial statements; brought clarifications for the terms prudence, stewardship, measurement uncertainty and substance over form; introduced the concept of measurement and the influencing factors of a measurement base; introduced concepts for the presentation of financial statements, considering the typology of income and expenses and their inclusion in the overall result; introduced guidance on derecognition when certain assets or liabilities are removed from the financial statements. Thus, in the structure of the conceptual accounting framework for financial reporting, the qualitative characteristics of financial information can be found, along with seven other components.

Taking into account the studies and research in the specialized literature on financial-accounting information, through this article we want to highlight the functions and qualities of accounting information and emphasize the importance of fundamental accounting equations for decision-making, to ensure the success and performance of an entity.

2. Studies and research on accounting information in specialized literature

Scientific approaches related to treating the role and importance of financial-accounting information, involve a complex interdisciplinary analysis, based on: knowledge and understanding of relevant concepts; relations of dependence and interdependence; establishing concrete methods of assessment; presentation of appropriate and relevant

methods and techniques; national and international comparative analyzes regarding the impact of financial-accounting reports on management.

In bibliographic and bibliometric databases, the treatment of accounting information is found in an impressively large number of studies and researches.

As of 10.11.2024, the Google Scholar (Academic Google) search engine has provided us more than 8,160,000 studies with reference to accounting information, and the Web of Science Core Collection (WoS) database has provided us 212,622 results for the accounting information by topic.

Ever since the 1950-1960s, researchers and specialists have highlighted the role and importance of financial-accounting information. In this context, we consider the following worthy of note:

- While Thomas (1951) identified the importance of accounting information in providing it to internal and external users, the need for information for management being in a continuous dynamic, Vatter (1958) emphasized the complexity of the management system and the need for adaptation of accounting information to traditional and modern methods, to general and specific analyses.
- Since 1956, accounting information was considered essential tools for the branches of management, with the importance of adapting them to the specificity of each branch. Thus, for sales management, accounting information must not only present the general situation (profit or loss), but must provide the knowledge necessary to make the best decision, taking into account elements such as pricing, standard cost procedure, direct selling expenses, distribution criteria, sales budgeting (Sawyer, 1956).
- The relevance of accounting information for decision-making highlights the interdependence relationships between accounting science and other sciences, thus taking appropriate methods and techniques for a proper evaluation of financial-accounting information. It is thus noted, the relationships between: accounting and research (Churchman and Ackoff, 1955); accounting and statistics (Jaynes, 1957); accounting and mass communication (Schramm, 1955); accounting and analysis (Watanabe, 1960); accounting and computer science (Keenoy, 1958).

The 212,622 results offered by WoS for the accounting information by topic highlight the following:

(i) Even if studies are found as early as 1975-1980, the greatest interest of researchers in the place and role of accounting information is visible after 1995, mainly in the period 2016-2020.

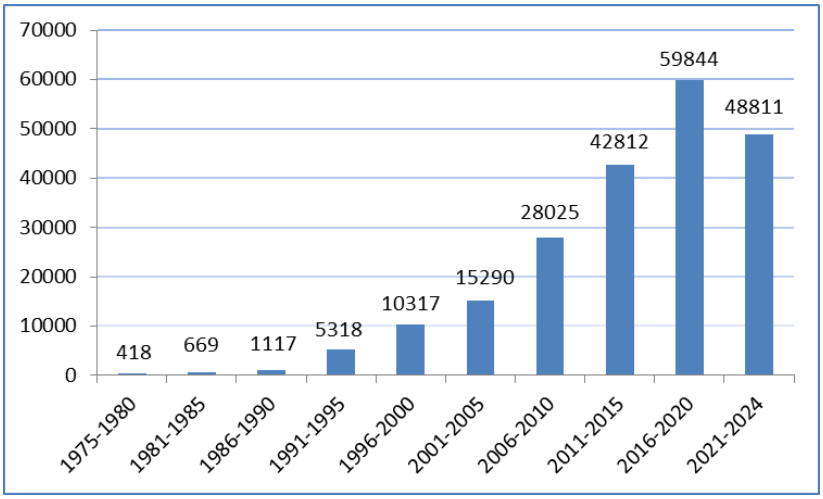

Fig. no. 1 Results from Web of Science Core Collection for "the accounting information" by topic

(Source: author processing according to WoS, on 10.11.2024)

(ii) Were identified 199 Web of Science Categories that dealt with aspects regarding accounting information, 15.08% of the studies being found in the categories: Business Finance; Economics; Management; Business and Public Administration.

(iii) Regarding the structure of studies for "the accounting information" by topic, according to WoS Research Areas, 152 research areas are found (which demonstrates the impact of financial-accounting data and information on all fields), of which: 11.74% studies in Business Economics; 16.06% studies in Engineering; 15.6% studies in Computer Science.

(iv) As can be seen from the following figure, the largest share of studies in WoS for "the accounting information" by topic is held by articles (75%), followed by proceeding paper and review.

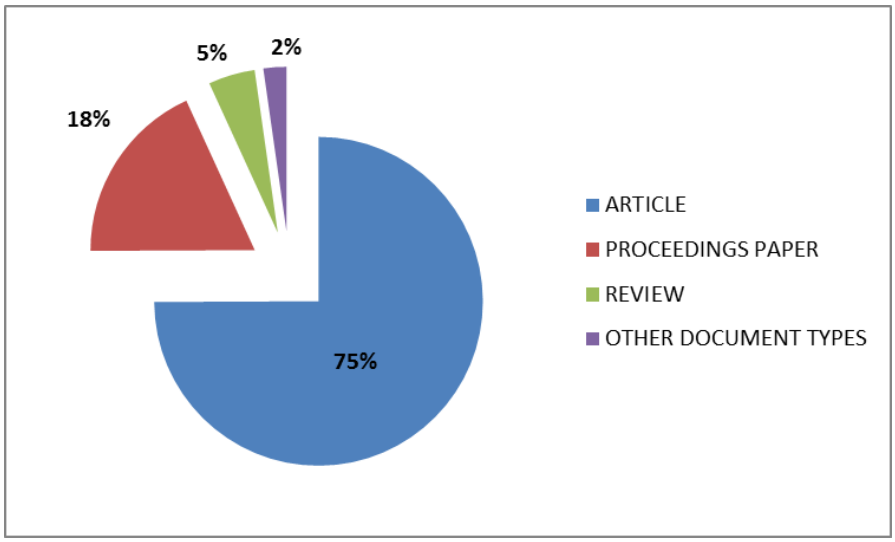

Fig. no. 2 Results from Web of Science Core Collection for "the accounting information" by document types

(Source: author processing according to WoS, on 10.11.2024)

(v) Along with the large number of occurrences (20,841 articles in WoS for Business Economics research areas), the relevant scientific content of these articles is also given by the large number of citations in other specialized studies. Without pretending to be an exhaustive approach, the following table shows relevant aspects of accounting information debated by specialists, taking into account the most cited studies:

Tab. no. 1 Relevant studies related to accounting information published in WoS

Authors, Article, Publication	Number of citations	Treated aspects
Easley, D., O'hara, M. (2004). Information and the cost of capital. The journal of finance, 59(4), 1553-1583.	1.390	• the impact of information on an organization's cost of capital • the influence of the quantity and quality of information on the value of assets
Larcker, D. F., Rusticus, T. O. (2010). On the use of instrumental variables in accounting research. Journal of accounting and economics, 49(3), 186-205.	1.344	• identification of endogenous and exogenous variables in accounting research
Lambert, R., Leuz, C., Verrecchia, R. E. (2007). Accounting information, disclosure, and the cost of capital. Journal of accounting research, 45(2), 385-420.	1.184	• the direct and indirect influence of accounting information on the cost of capital under diversification conditions
Dechow, P. M. (1994). Accounting Earnings and Cash Flows as Measures of Firm Performance: the Role of Accounting Accruals. The Accounting Review	1.098	• identifying the organization's financial performance based on accounting information
Bushman, R. M., Smith, A. J. (2001). Financial accounting information and corporate governance. Journal of accounting and Economics, 32(1-3), 237-333.	1.084	• the place and role of accounting information in public reporting and their impact on macroeconomic indicators
Kothari, S. P. (2001). Capital markets research in accounting. Journal of accounting and economics, 31(1-3), 105-231.	1.036	• interdependence relationships between the capital market and financial-accounting information from financial reports
Hayn, C. (1995). The information content of losses. Journal of accounting and economics, 20(2), 125-153.	998	• the impact of financial-accounting information on shareholders' decisions
Loughran, T., McDonald, B. (2016). Textual analysis in accounting and finance: A survey. Journal of Accounting Research, 54(4), 1187-	899	• the use of quantitative analysis and textual analysis in understanding the place and role

1230.		of accounting
Anderson, R. C., Mansi, S. A., Reeb, D. M. (2004). Board characteristics, accounting report integrity, and the cost of debt. Journal of accounting and economics, 37(3), 315-342.	808	• the use of accounting information in audit committees' analyzes of an entity's cost of debt
Fields, T. D., Lys, T. Z., Vincent, L. (2001). Empirical research on accounting choice. Journal of accounting and economics, 31(1-3), 255-307.	662	• identifying relevant accounting methods and techniques in an imperfect market
Armstrong, C. S., Guay, W. R., Weber, J. P. (2010). The role of information and financial reporting in corporate governance and debt contracting. Journal of accounting and economics, 50(2-3), 179-234.	659	• analysis of the transparency of financial reports and their role on decision-making factors.
Bharath, S. T., Sunder, J., Sunder, S. V. (2008). Accounting quality and debt contracting. The accounting review, 83(1), 1-28.	638	• the relationship between the quality of accounting information and the degree of indebtedness
Chaney, P. K., Faccio, M., Parsley, D. (2011). The quality of accounting information in politically connected firms. Journal of accounting and Economics, 51(1-2), 58-76.	619	• the role of financial-accounting information on the quality of earnings in the case of politically connected or non-connected companies

(Source: author processing according to WoS, on 10.11.2024)

The identification of the aspects treated in the most cited studies related to accounting information highlights the importance of this information on the decision-making act.

3. Functions and qualities of accounting information

In a knowledge-based economy, although overall there is an increase in the role and importance of financial-accounting information for the managerial act, for certain categories of users, the relevance of some elements is subject to changes, in the sense that the structure and dynamics of assets and debt, opportunities for growth and development as well as alternative performance possibilities become key elements in the new economy (Barth, Li and McClure, 2023).

Accounting through the data and information provided is a vital element in managing business in the contemporary economic context. Thus, increasing the quality and performance of accounting transactions, increasing the transparency and security of information, reducing the cost and time required for processing and transmitting accounting data and information, as well as the rapid identification of some elements/indicators for

measuring the economic and financial health of the entity, become aspects that can be solved through information technology (Jasim and Raewf, 2020).

The place and role of accounting in the current conjuncture has led many specialists to emphasize how accounting and implicitly the functions of accounting information should be viewed, Ball (2024) identifying the fundamental contribution of accounting to aggregate well-being.

Accounting will have to take into account not only technical aspects, such as data and information processing/transmission, but also social and moral aspects (Carnegie, Parker and Tsahuridu, 2021), and financial-accounting information can have a significant impact in key sustainability issues (Laine, Tregidga, and Unerman, 2021). As a core component of any organization's information system, accounting professionals will need to consider the challenges and opportunities of artificial intelligence (Zhang, Xiong, Xie, Fan and Gu, 2020).

Most of the time, the answer to the question What is the usefulness of accounting information? is provided by their functions, shown in the following figure.

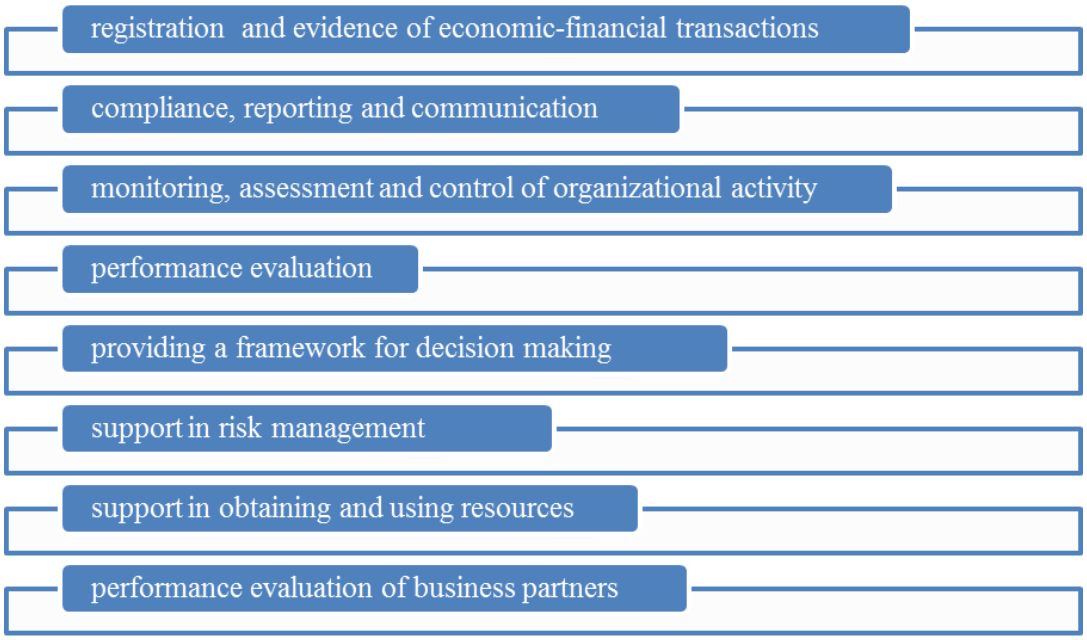

Fig. no. 3 Functions of accounting information
(Source: author processing)

For a proper action of these accounting information functions, a particularly important role belongs to accounting professionals, who in a constantly changing and digitized environment must become strategic partners and consultants within organizations, offering expertise in the interpretation and use of financial information- accounting for business decision making and risk management.

The new structure of the conceptual accounting framework for financial reporting (IFRS, 2018), includes eight components, respectively:

- the general objective of financial reporting;
- qualitative characteristics of financial information;
- description and boundaries of the reporting entity;
- definitions and guidance for assets, liabilities, equity, income and expenses;
- criteria and guidelines for recognition and derecognition of assets and liabilities in the financial statements;
- measurement elements and guidance on the use of measurement;

- presentation and disclosure concepts and guidance;
- concepts and guidance on capital and its maintenance.

Based on these considerations, the relevance and accurate representation are established as fundamental qualitative characteristics of financial-accounting information in the legal regulations in Romania (Order no. 1802, 2014), specifying the fact that, detailing them increases the usefulness for internal and external users in decision-making, as can be seen from the following figure.

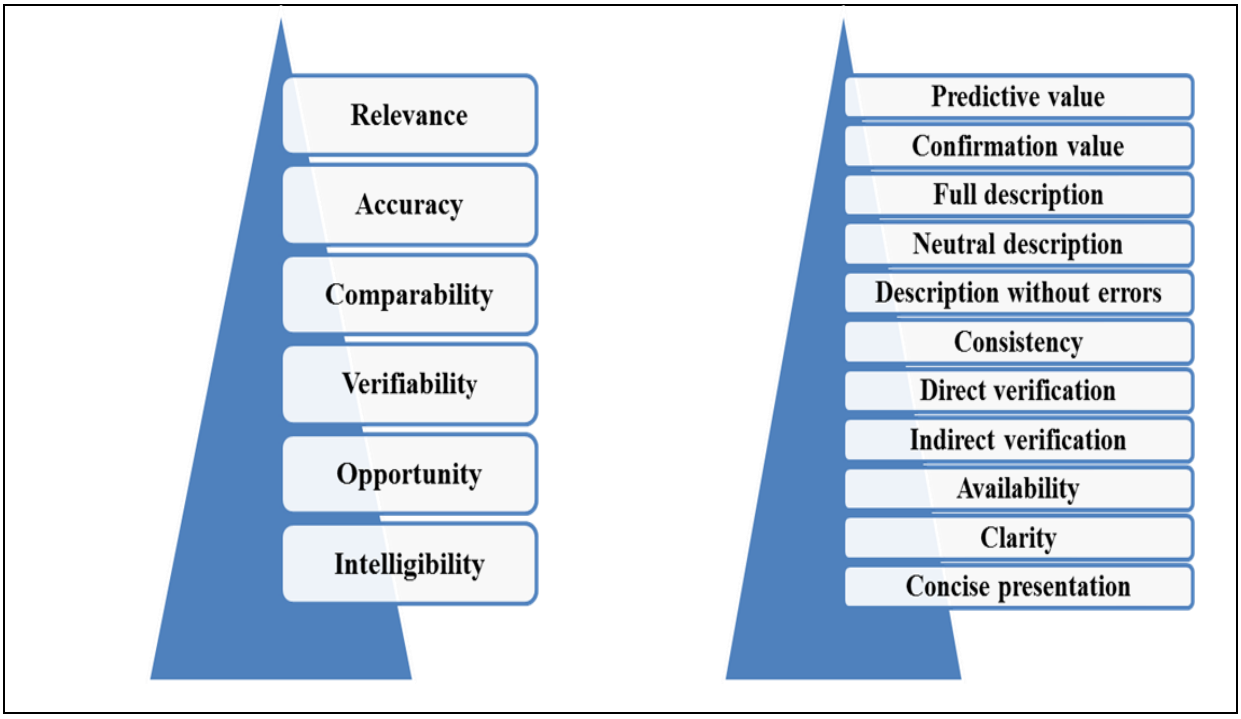

Fig. no. 4 Qualities of accounting information
(Source: author processing)

The qualitative characteristics of the financial-accounting information must be found in an appropriate balance, so that both the pricing function and the governance function are reflected through their evaluation (Zhai and Wang, 2016).

In this sense, the accounting information must:

- have the ability to assist internal and external users in making decisions;
- provide the possibility for users to create their own predictions or forecasts;
- highlight the specificity of the activity, so that the nature and quantitative level allow users to identify the threshold of significance;
- be enable the description of the financial statements in a complete, neutral and error-free manner, thus understanding the phenomena and processes, influencing factors and significant aspects;
- be consistent, so as to allow comparability over time and space to identify similarities and differences;
- represent exactly the economic phenomenon or process to which they refer;
- allow direct and/or indirect checks to be made to capture by independent observers the accuracy of the representation;
- allow users to make timely decisions based on them;
- identify threats/opportunities or developments/trends;

- be presented clearly and concisely so that they can be subjected to analysis by different categories of users with or without major knowledge in the economic field.

4. The role of fundamental equations in accounting

The techniques, methods and procedures used in other sciences leave a strong mark on accounting, in the faithful reflection of an entity's heritage and the results obtained.

Thus, the interdependence relationship between accounting and mathematics highlights the fact that the fundamental equations in accounting are the criteria that allow the evaluation of entities and the measurement of their performance (Scofield and Dye, 2009), and any accounting operation can be represented by means of a matrix equation, for a better understanding of phenomena or processes (Vysotskaya, Kolvakh and Stoner, 2016).

Using the methods and techniques of mathematics, accounting principles can be understood much more easily (Warsono, 2015), rationality and mathematical logic leaving their mark on the understanding of how assets and liabilities, income and expenses, rights and obligations should be recognized and treated.

Since accounting information is a key element of managerial accounting, Baines and Langfield-Smith (2003) demonstrated through a survey that using structural equation modeling the relationships between the competitive environment and organizational variables can be identified and analyzed, finding solutions to increase organizational performance.

Based on accounting equations, it is possible to record, calculate, analyze and control the exchange ratios between the origin and destination of resources, the use and resource of separate economic values, with the aim of revealing the financial situation, results and changes in the entity's financial situation.

The financial-accounting information presented based on the equations can represent the "data base" for the management of an entity in the decision-making process (Ristea, 1995), identifying the rule to be followed in making decisions (Nica and Mărăcine, 2001), as can be seen from next figure.

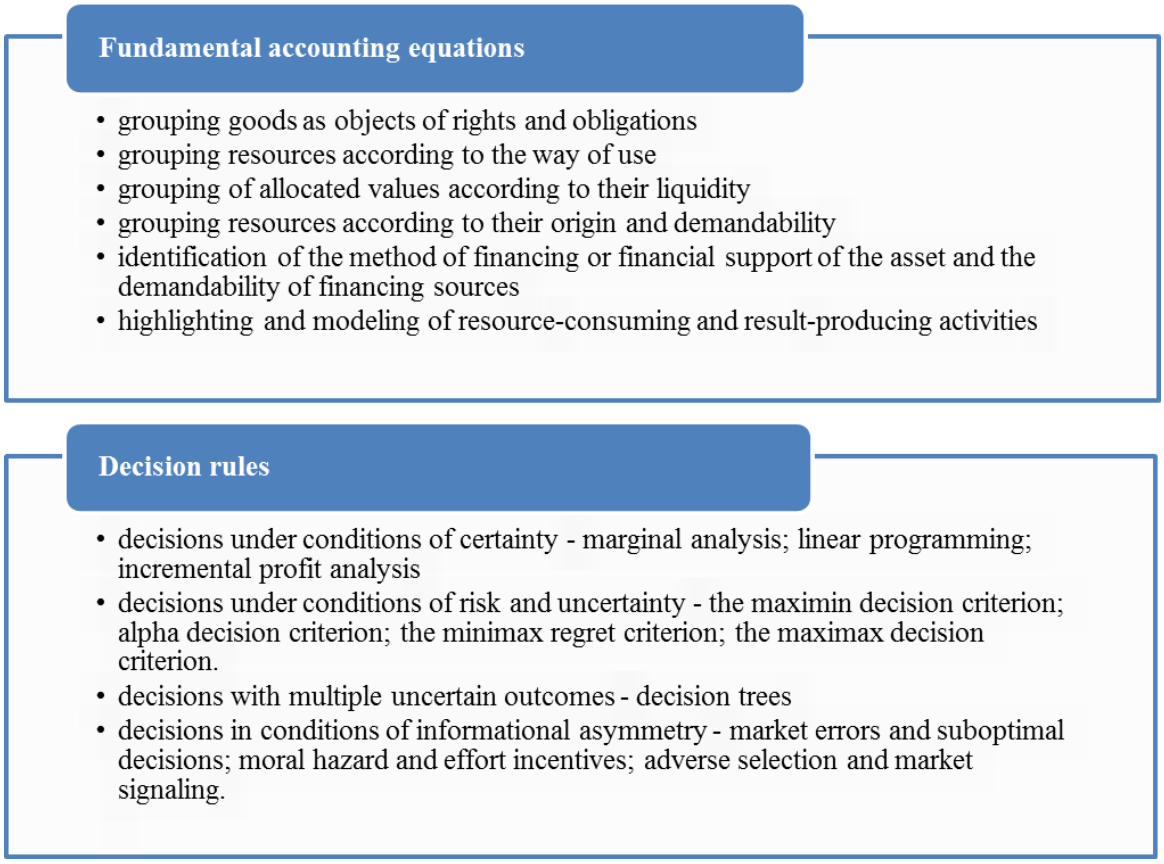

Fig. no. 5 Fundamental Accounting Equations versus Decision Rules
(Source: author processing after Ristea (1995), Nica and Mărăcine (2001))

Being an essential element of management, the qualitative level of a decision developed and applied depends very much on the qualitative level of data and financial-accounting information.

5. Conclusions

In a world characterized by complexity and uncertainty, accounting information is no longer just an administrative tool, but represents the basic element in the managerial process and decision-making at the level of an organization. Through it, the efficiency of operations can be assessed, risks can be anticipated and managed, growth opportunities can be identified and the use of resources can be optimized.

Without pretending to be an exhaustive approach, through this article we want to emphasize the fact that it is essential that every entity pay special attention to accounting information and invest in the development and maintenance of a robust and up-to-date accounting system.

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