
Accounting– a Pivot of the Business Performance?

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We decided to approach this topic, because we consider it as highly topical in the context in which the general business environment suffers notable changes due to new trends in the economic, social and political trends worldwide.

In formulating the answer to the question that is actually the title of this paper, we start from the fact that the business environment is facing with ever more and complex challenges with a major impact on the measures, procedures and techniques to follow for maintaining an upward performance trend.

In this respect, we are going to highlight some arguments that justify the significant, even decisive contribution of the accounting in order to identify, develop and ensure the implementation of the best solutions for business development.

Keywords: *accounting information; accounting functions; accounting principles; good accounting practices; annual financial statements; financial performance; decisions; accounting- taxation- management ratio.*

JEL classification: *A22 – Undergraduate; A23 – Graduate; G18 - Government Policy and Regulation; H32 – Firm; L20 – General; L21 - Business Objectives of the Firm; M21 – Business Economics; M41 – Accounting; Q28 - Government Policy.*

Introduction

Romanian accounting regulations require the entities managing goods and / or services to organize and manage their own accounts, including management accounting, adapted to the specificity of business conducted. Actually, this task is in charge of the administrator, so, the general manager invested by the General Meeting of Shareholders (Associates) to manage such entity.

Therefore, we see that the law itself compels the general manager to be responsible for one of the most important information generating tools, required for decision making. Therefore, we consider that a more detailed analysis is required both for the reasons taken into account by the legislator and the elements justifying the main role of accounting in providing the key information needed for the best conducting of business.

For this purpose, based on results of research conducted in the doctoral studies, we will present some arguments and suggestions for the effective operation of the financial information and to streamline the decision making by the management, a prerequisite for the provision of business performance. We will also discuss some issues that justify the "pivot" role of the accounting in the general management approach to achieving the main goal, profit maximization, ultimate performance argument.

Literature review

Accounting theory, practice and method has been approached lately with an increasing power. Literature authors are more numerous and are increasingly approaching a number of controversial issues urging not only to reflection, but also to concrete actions for continuous improvement of accounting theory, method and practices. This shows that a more growing need is felt in order to provide to management not only an increasing amount of information, but also diversity and a more emphatic depth of them.

Thus, Ristea M. and Dumitru C.G.(Caution and aggressiveness in accounting treatments, 2008), put in a new light the issue of "accounting truth", in the context of the global economic and social evolutions and also

the growing pressures exercised by the users caught in the always accelerated rush of events.

The same authors (Corporate accounting profit, 2011) are approaching the accounting and taxation result and especially specific practices on the recognition and assessment of the result.

Tabara N. (Modernisation of Management Accounting and Control, 2006) is discussing new concepts in international management accounting modernization, using quality control and accounting performance, as well as the role of management accounting in the strategic positioning of the company.

Calotă T.O. (Accounting. From theory to practice. Method and modelling, 2013), shows a new vision regarding (i) the role and place of accounting in organization and management of business, (ii) highlighting and reporting of economic entity state, (iii) accounting system and (iv) accounting assessment.

The same author, in another paper (Accounting. From theory to practice. Cycle accounting and fiscal year end, 2013), deepens the issue of operation of accounts, accounting cycle and closing of financial year, with a special emphasis on practical issues faced by accountants and managers. In this respect, the work contains a valuable accounting monograph, very useful for the users of accounting information.

Jianu I. (Accounting assessment. Theory and method, 2012), initiates an important step for a modern approach to one of the most controversial accounting issues: assessment. This approach also aims, besides the main issues on assessment, those related to methodology. Also, in the above-mentioned paper, the author brings into discussion elements of a new accounting theory: theory of intention.

Ghenea M. (Entrepreneurship. The way from ideas to business opportunities and success, 2011), supports the idea that entrepreneurs need to consider what others have to gain from a business and provides readers with valuable items that need to be subject to the building of a sustainable and obviously successful business.

Horvath & Partners (Controlling. Effective systems for enterprise performance increase, 2007), explain the fundamentals of “controlling” concept, propose an analysis of existing accounting, as well as that of the reporting and planning system within the company. It also highlights the

current trends within the controlling and shows the main elements of future development.

Cornescu V. et. al (General management, 2001), shows management not only as a science, but also as a practice. The authors approach the issue of organization, information system and its role in building decisions, as well as the main elements related to change management.

Bostan I. (Business Financial Control, 2010), develops the fundamentals of financial and fiscal control, management involvement and institutional framework of this activity of great importance in ensuring legality in the economic and financial field.

Feleagă N., Feleagă L. (Accounting Policies and Options, 2002), presents new directions in defining accounting and policy options and militate for them to be in the service of an honest accounting (fair accounting). The authors also highlight new coordinates of creative accounting practices.

The papers presented seemed to be the most relevant in the approach undertaken by us, for which reason we have selected some from the more extensive list which we have viewed.

Scientific contents

General considerations on the object, purpose and function of accounting

In our approach, we started from the assumption that, over time, both the object and purpose of accounting, as well as the tools used have undergone successive changes amid the continuous evolutions of the economic, political and social fields. Thus, academic environment raised accounting to the rank of social science branch, able to substantiate modern methods and designs, which aim to facilitate a more accurate establishment of corporate economic and legal situation and the possibility of performing a continuous monitoring. For this, we have designed mechanisms and procedures for a more efficient use of the main means provided by accounting (accountants, trial balance, accounting journal, inventory book, General Ledger, annual financial statements, etc.).

Therefore, we see that the object and purpose of accounting determine, in the end, even its functions, those that actually provide the

setting of the place and role of accounting in the organization, conduct and management of economic and financial activities. This is explained in Figure 1.

1.

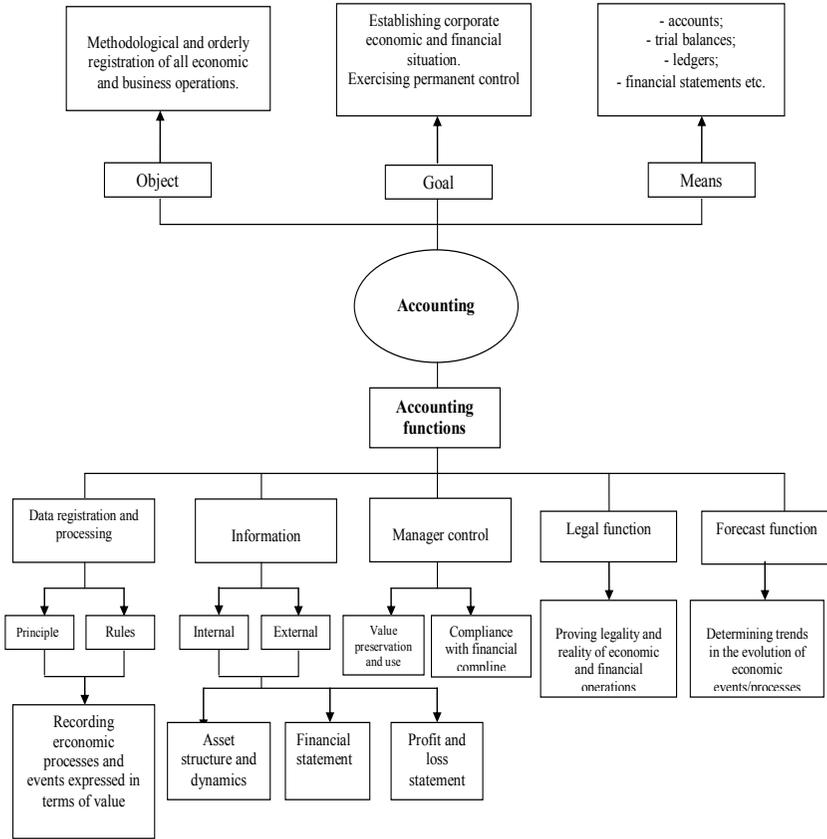


Figure 1: Explanation of the main elements defining accounting

We notice how the main elements defining the accounting goal, purpose and means are found in the structure of its functions. Moreover, the achievement of functions is based on principles and rules designed to ensure consistency, accuracy, timeliness, efficiency and effectiveness of economic

processes and events. In this respect, it is highlighted the information function which considers accounting as "the main source of knowledge by the management of the real state of economic organization, the one who, through analyzes performed and documents (reports) prepared provide a real and legal decision support." (Calotă T.O., Accounting. From theory to practice. Method and modeling, page 11, 2013).

Therefore, the configuration of the accounting functions highlights the organized framework of economic and financial operations which "can not be made otherwise unless in legal framework, subject to both internal controls of the business entity, as well as from specialized state entities" (Calotă T.O., Accounting. From theory to practice. Accounting cycle and fiscal year end, page 115, 2013). Thus, accounting information, through its qualities should be, in fact, an "accounting truth built according to a set of specific principles, rules, conventions and practices" (Ristea M, Dumitru C.G., page 13, 2008). For this purpose, the imperatives of users on the appropriateness of the accounting information delivery, its capacity as undisputed truth and the feature to fully respond to the real needs for decision-making are provided by the very way in which an accounting system is designed and through audit made by a specialized and neutral entity.

It is also mandatory the distinction between information elements designed for the exterior (third parties) and, respectively, the internal structures (management), goal accomplished by the accounting system in Romania, through the two complementary sides of accounting: financial accounting and management accounting, being in a constant correlation. Details are shown in Figure 2, in which one can see that the management, who is responsible for the achievement of the main goal of the organization (profit maximization), uses the entire information area provided by accounting. Moreover, accounting is basically a pivot, an essential strong point, guaranteeing the coherent and rhythmic conduct of economic and financial operations, while ensuring the information base which is strictly necessary to timely and accurately decision making by management.

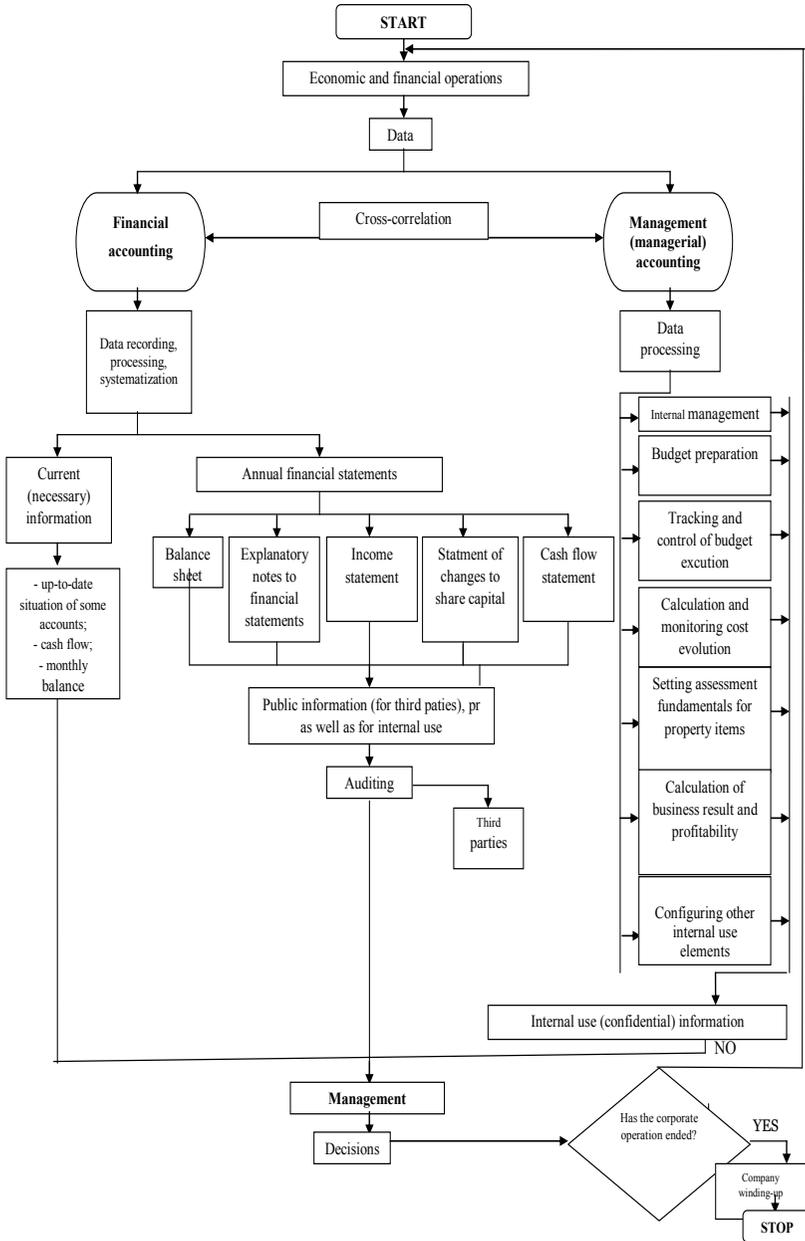


Figure 2: Flowchart (variant) of organization and operation of accounting

The flowchart in Figure 2 shows the interrelation of business operations - management through accounting, in its dynamics (note the feedback) and, therefore, "in the organization of management accounting it will be monitored that the information obtained satisfy both the needs of existing information and those constantly changing" (Tabără N., page 19, 2006). Also, the increasing highlighted globalization trend is permanently raising new challenges in designing and providing information to third parties for which it must be permanently taken into account the harmonization with international accounting standards.

This matter has an impact not only on the institutions authorized to issue regulations, but also on the management that must ensure (through organizational and operational measures taken), timely and proper implementation of these regulations. In fact, we see that how accounting is not simply an immutable "pivot", but one which is permanently adapting to emergent requirements. "Only in this way can be established and substantiated consistent enterprise accounting policies providing quality information, through financial statements for a wider range of users" (Cernuşca L., page 37, 2004).

Accounting organization and operation configuration shown in Figure 2 also indicates where to be intervened to make improvements and thus, to enhance the possibilities for performance improvement. Thus, in the first instance, one can act on the actual accounting process, by using new facilities in data collection, recording and systematization in order to improve quality and diversity of accounting information.

Secondly, the configuration and type of financial statements should be considered, to be able to satisfy more accurately to all categories of users. Also, a field that is always open to innovation is the management accounting, which produces internal, confidential information, which is imperative for the improved approach of a business.

In conclusion to those presented up so far, we can assert that the main functions of accounting, starting with data registration and processing, information manager control, assurance in legal terms represent the basis of achieving action and especially forecasting approaches in the business organization, planning and management.

Accounting-management relationship issues

To be effective, action and forecasting approaches referred to above must be based on principles, rules and methods that are specific to the management which "is a complex of actions carried out in order to ensure normal, efficient operation of human organized collectivities "(Cornescu V. et. Al, page 8, 2001). For example, if we particularly refer to the financial situation of a business entity, then we see that it depends on the status (potential) of the four main elements. For more details, see Fig 3:

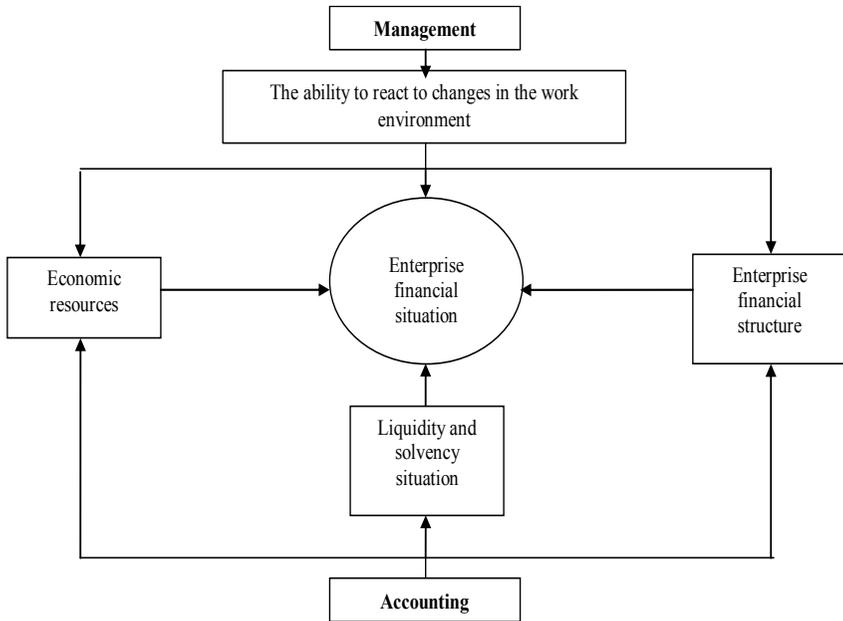


Figure 3: Main elements on which the enterprise financial situation depend

In practice, the combined actions of management and accounting will ensure the configuration of the real financial situation of the company. Enterprise financial structure, economic resources, as well as liquidity and solvency status are highlighted in accounting, but their actual status (increase or decrease) depends largely on the ability of management to react quickly to business changes. Therefore, accounting - management

relationship will be bi-univocal, meaning that, based on "accounting truth" of the elements in Figure 3, the management is the one that, by the measures taken will have to influence them positively (increasing of economic resources available to the company, continuous improvement of financial structure and liquidity situation, etc.). At the same time, accounting, in its turn, will reflect accurately all changes arising from the previous situation (Figure 4), but at the same time will also perform feedback in relation to decisions received.

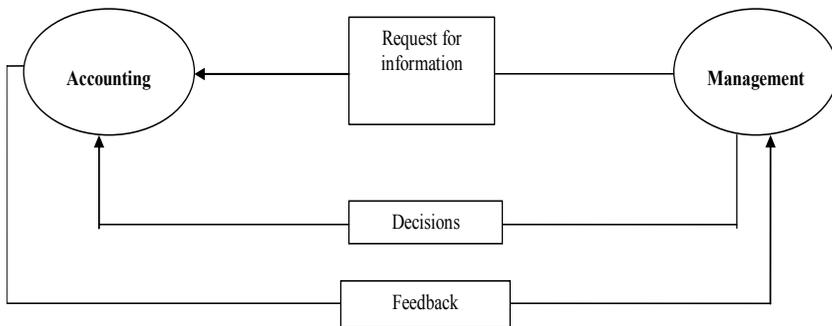


Figure 4: Diagram of the accounting-management bi-univocal relationship

However, the process described in Figure 4 will have to be seen in its dynamics, in the sense that its operation will cease on the dissolution of the organization. Also, at the same time with the revaluation of management, it is necessary to properly up-date accounting, which must be constantly adapted to the specific feature of the requests for information and, respectively, of decisions coming from management. Therefore, it must be recognized that "in the foreground is standing the management decision support and not the documentation of past activity" (Horvath & Partners, page 76, 2006).

Directing accounting to management, it will lead inevitably to strengthening its role as "pivot" in the business performance, because it will lead to significant intensification accounting- management relationship while increasing the quality and diversity of the information provided, respectively, the quality and efficiency of decisions.

Opinions on the impact of taxation on accounting-management relationship

Full assessment of economic and financial processes can not be done just relating to accounting-management relationship. As a matter of fact, in this relationship a third factor comes, namely taxation. Through this key factor, the state provides not only obtaining an income, but also the constitutional role to support economic and social development. In fact, the state must permanently act for the initiation and implementation of incentive measures, as well as mitigation of economic processes, depending on the positive or negative trend shown. For more details, see Figure 5:

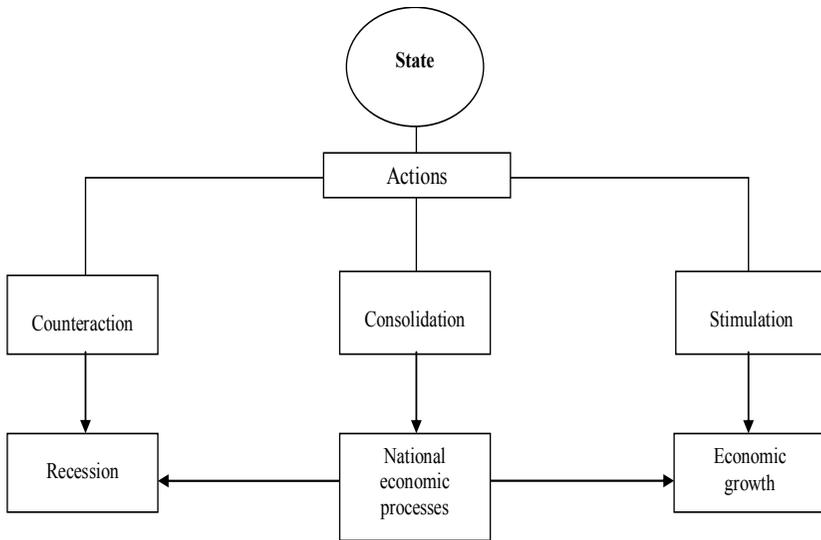


Figure 5: Flow diagram of influencing economic development (variant) by the state

Depending on how the state builds its fiscal policies, materialized in the design and implementation of taxes, fees, contributions, etc., management should build, in its turn, appropriate accounting policies, with an impact on the evolution of economic organization concerned.

Regarded in terms of the process described in Figure 5, the accounting-taxation-management relationship shows a complex

configuration that describes the flow of information, decisions and actions taken to ensure the functionality of the entire system. Details are shown in Figure 6:

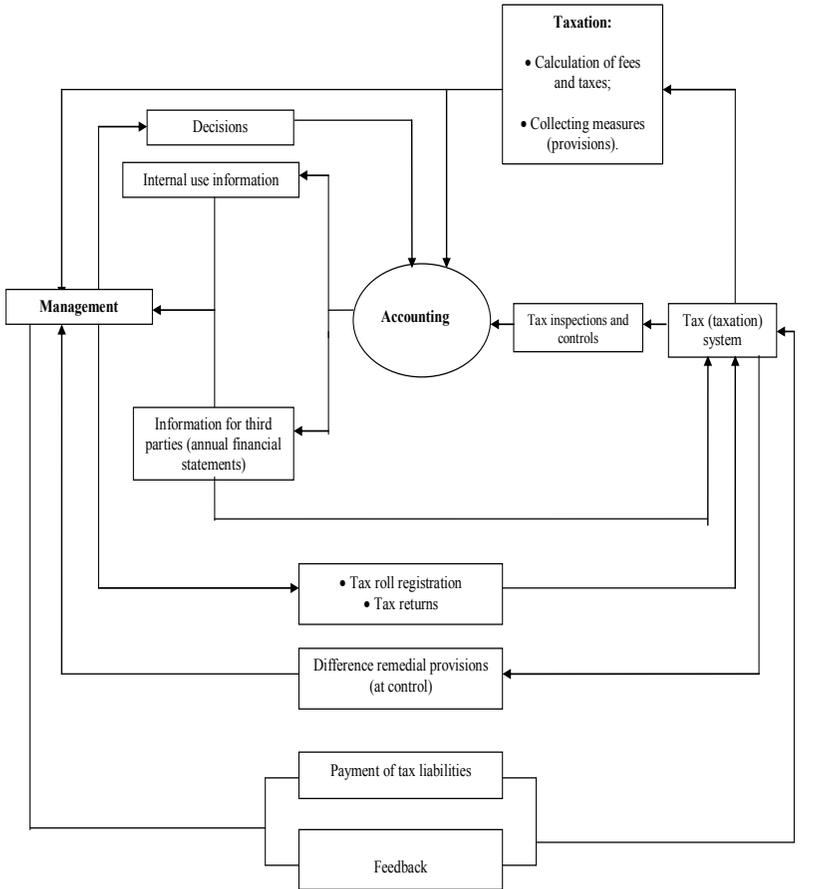


Figure 6: Diagram of the accounting-taxation-management relationship (variant)

In the relationship version shown, it can be seen again the "pivot" role of accounting, because it produces information used by management and tax system, it represents the place where tax checks and inspections are performed and it is also here where the necessary elements for achieving feedback by the management are obtained.

A feature of the relationship with taxation is represented by the imperative characteristic. The tax and fee system is enacted and therefore, it must be applied rigorously and reflected as such in the accounts. Therefore, accounting policies and practices provide specific treatment for those types of taxes and fees, but also for such economic entity class, as it is regulated. Moreover, accounting and management should be permanently unable to be responsible, in front of competent tax authorities, for the compliance and lawfulness of accounting operations performed and also for the timely and full payment of tax liabilities. Again, it must be stressed the decisive role of accounting in fair reflection of the respective entity's tax situation, which role is guaranteed by the fact that "accounting policies find their concrete forms of expression in the content of accounting standards and regulations, in the context of the implementation of the latter to solve issues raised by the financial and economic reality" (Feleagă N. Feleagă L., page 23, 2002).

Therefore, it highlights again that the accountancy spring force and stability in relation to management and tax system is the very norms and rules according to which it operates. In this respect, it is very enlightening the remark of Luca Pacioli in the accounting section "Computis et scripturis": "A successful trader needs three things: sufficient cash or credit, good accountants and an accounting system that would allow him assessment of business at a glance ".(Dobroțeanu L., page 171, 2005).

Conclusions

One of the main concerns in all business areas has been and still remains the continuous growth in performance. Business field is not excepted, for which reason, over time, it has developed its own models and techniques to ensure the achievement of this goal. In this regard, it is enrolled the contribution of accounting, with its specific functions, methods and best practices to the configuration of the performance of such entity.

This contribution of accounting is however performed within an ongoing relationship with tax management and system, which relationship makes it possible the proper knowledge of accounting reality, timely decision making and paying the tax liabilities. The fact referred to by us aims at the main elements that give the performance extent to a certain business entity: resources that can be controlled in the future, the ability to generate

positive treasury flows and ensuring solvency, but also a flexible financial structure enabling much efficiency in hiring and using resources.

Information on the above-mentioned items are provided by accounting, mainly through the profit and loss account, which justify the "pivot" role of accounting in the improvement of business performance. Also, accounting guidance to management further strengthens its strong point role in gradual and continuous achievement of the objectives related to increase in business performance.

Given the above, we consider of a highly importance the ongoing integrated efforts of accounting ideologists and practitioners for the identification of new specific techniques and best practices that enhance the efficiency of the collection of accounting information. For the same purpose, there is a need for a clearer delineation of the boundaries of freedom and conformity in the drafting and compliance of regulations in force.

Also, it should be taken into account that the new coordinates of the processes used in business transactions are increasingly requiring the need to ensure a continuous training for both accounting professionals and for managers, because the trend in Romania is to generalize the professional management.

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