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## Conference Paper

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# Role of Accounting Information in Decision-Making Process, the Importance for its Users

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## Abstract

Overall economic development of the country, beside it, requires adequate information, reliable and important for economic decisions from investors, managers, administrators of state, etc. Along with other economic development and management, also and development of an accounting system, able to provide the necessary information and reliable in decision-making, is an important factor. Qualitative and reliable financial information is a key element in decision-making process, while the availability of such information has special importance for business management and is public interest with priority in general. The role of this information is important, not only for foreign investors or large businesses, but even for those small and medium because it provides important information about the phases of decision-making, such as planning, control and evaluation. The aim of this study is to provide an overview of developments and knowledge on accounting information and the influence that it has on decision-making, needs that management has for information and how they are realized currently, in order to see accounting information as one of the important directions of increase of efficiency on decision-making of direction of economic units (entities) and users of accounting information. Through descriptive statistical analysis the importance of high quality accounting information and its impact on decision-making by its users will be presented. We conclude that the information is an indispensable resource for the development of successful and efficient business. The information communicated by accounting is very important for its users, because it will affect on making an economic decision. This information must meet the qualitative characteristics, so we have to be accurate, valid and useful so that users trust its quality and authenticity. An exact information will reflect in a reliable financial reporting and this will result in strengthening the financial position of the entity, will identify risks and will manage them on time, will enable the attraction of investments, then decisions will be taken on the basis of strong economic information.

**Keywords:** accounting information, the entity, the economic decision-making, accounting, financial reporting

**JEL classification:** M41

## Introduction

The system of information is entirety of components or interconnecting elements, which receive and collect data, elaborate them and from this process produce the necessary information to users, usually in the form of documents and reports.

To ensure optimal conditions in (economic units) entity, in order that all business operators to make effective and appropriate decisions, it's necessarily to provide

basic information, which helps in this direction. In this case, because of its special role, differ the information provided by the accounting.

Accounting is an information system that produces reports about economic activities of economic units (entity) for all interested parties (stakeholders). Also, accounting provides information for economic situation of unit and its performance for a certain period of time. This information comes registering on time and correct way all economic transactions submitted by financial numbers, which can be read and used by users.

So, the role of information in the direction of an economic system is very large (Dhamo, 2010). All those dealing with economic unit (entity), are interested for the right and updated information, in order to come up to useful economic decisions.

As entity (economic unit) we recognize a group of people organized in a particular way to do specific tasks in context of economic activities. Economic units (Entities) may be units that have final aim of making a profit (business units) and units with the goal of finishing activities with general social character (non-profit entities).

Economic units (Entities) that aimed at maximizing profits are classified according to their size, according to the legal form of their organization and by economic activity.

The size of small and medium enterprises (SMEs) in Kosovo is defined by Law no. 2005/02-L5 and Law no. 03 / L-031 to support SMEs. The number of employees is the only criterion that is used for classification of enterprises by size in Kosovo, unlike EU countries, where except the number of employees, annual turnover is taken into account.

According to data from Kosovo SME Promotion Programme - KOSME (2014), the private sector, 56.3% are units with only one employee, 38.7% are micro units that employ the majority of employees in private sector, then 31.9%, medium units 0.7% that employing 16.4% and those large 0.1% with 19.3% of employees.

However, by legal form of organization, individual businesses dominate where mainly businesses with an owner is involved (92%) and micro (77%). It is estimated that the medium units, around 43%, are mainly organized as the company with limited liability.

According to economic activities, the wholesale and retail trade dominates by 43% compared to other activities and 33% of employment. Production ranks as second with 10.5% of the total number of businesses and about 16% of employees. The same importance has also services with 10.2% in the number of businesses and 13% in employment, and other activities have lower participation (Xhelili Krasniqi, 2015).

## **Accounting information as an important and main part of information system of direction of economic unit**

In conditions of global economy, economic units of one country, including Kosovo, is faced with pressure about increasing of competition, as from domestic factors, as well as those outside. Therefore, to have a sustainable economy, is very important to have exact and reliable information provided by information systems.

Economic development has always requested and still requires such a level of information that would enable the right orientation in national and international markets of different companies. These economic developments, particularly the globalization of the economy, have made the economic decisions of enterprises take more and more international significance, and in effect of these decisions, a big role has accounting information.

So, the information that is communicated by the accounting is very important for its users, such as investors, creditors, state, etc., as well as the ability of small and medium enterprises, because it has a great importance for decision-making (Berisha Vokshi, 2012). This information will be useful for right decision-making, these latter must believe in the quality and authenticity of this information. This means that the role of accounting information is to help users in making economic decisions, and as such, this information can be classified into three different types according to user benefits (B.D, 2011):

- The accounting information is information that is compiled by the existing regulatory framework;
- Budget information is accounting information presented in the form of budget useful for internal planning, assessment and decision making;
- Additional accounting information is other prepared information by the unit in order to increase efficiency in decision-making.

In general, without doubt, the accounting information has big role in decision-making at all levels of the enterprise, but a similar increase in the role and importance should definitely associated with increased its credibility.

The reliability of accounting information is a key issue for the development of the capital market. When investors lack confidence in financial reporting, then necessarily hampering the economic development and capital market.

An complete and reliable accounting information reflects a reliable financial reporting, and it ensures the strength of the financial structure, reducing the risk from crises on financial markets, facilitate the process of borrowing by small companies from the financial sector, introduced foreign investment direct investors are allowed to assess the prospects of the company and thus make investment decisions based on solid information, then to support the country's economic integration into the global dimensions, etc.

## **The importance of accounting information in making decision of any user**

For accounting and information that he produces, many operators of economic units are interested. From this great interest from their side can clearly see the importance that has accounting information for them.

Without complete information, their decisions would have been incomplete, and this then would reflect an ineffective decision-making on their side. Accounting provides to users of information to have clear way of looking at the business, to help business operators to define clearly where they start and where they end up, to know whether they have achieved the goals.

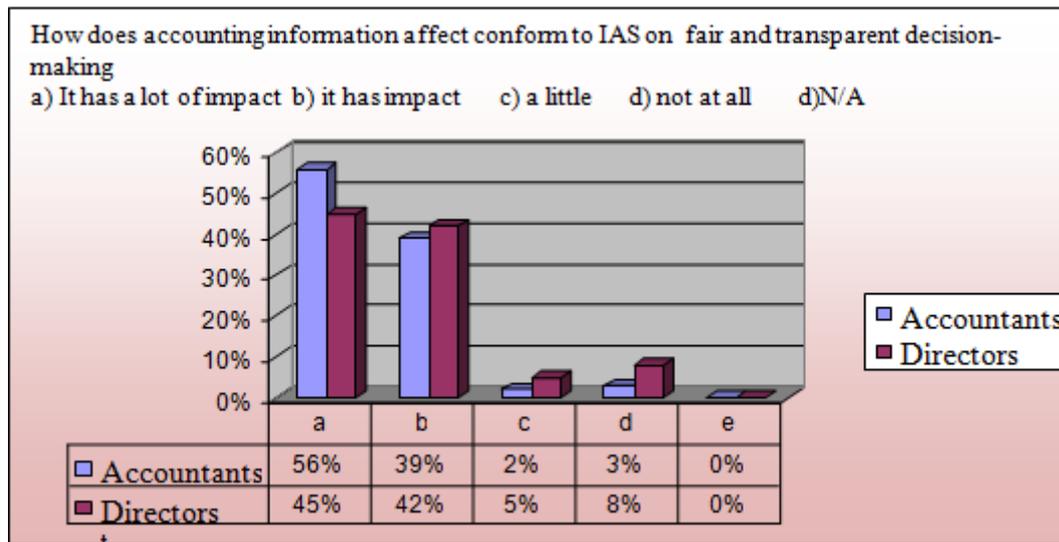
In general, users of accounting information include current and potential investors, employees, customers, creditors, suppliers and other trade creditors, governments and their agencies and the public (Anon., N.d.).

If we further analysis the reasons for using the abovementioned accounting information, then we can see clearly the importance of accounting information worn by certain legal framework, for decision-making within the business unit.

Regarding to this , the questionnaire addressed to accountants employed in small businesses, medium and large businesses, banks, insurance companies, tax administration and management of these units, connected with it that how does information standardized accounting affect at making fair and transparent decisions , 56% or 45% of them answered " has a lot of impact", while 39% or 42% answered "has impact".

Figure 1

How does Accounting Information affect conform to IAS on Fair and Transparent Decision-making?



Source: Author's illustration

So, making decisions on exact basis of information is completed with right decision-making and successful economic unit direction. As an example of such information to serve management accounting, in this case, can be mentioned, e.g how was business profit for the previous period, how is accounting receivable statement for specified period, which was the most profitable product, how is the liquidity situation, how are product prices in the market afford, etc.

Accounting information is particularly important for employees of (economic units) the entity. It is reflected on the need that they have to be informed about the financial situation of the unit that is related to the possibility of increasing their salaries, and then improve existing working conditions, the overall business progress, etc.

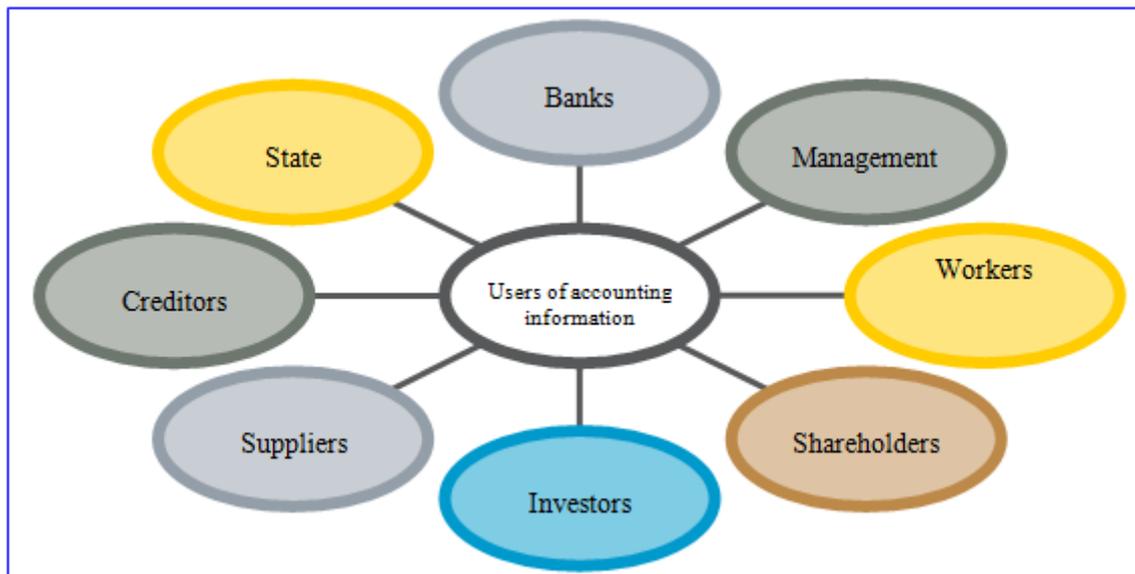
Exact accounting information needs especially entity's shareholders. They want to be informed about the financial situation in order to decide to whether the investment they have made will be profitable or not. Such information need all investors of unit, depending on the financial situation of the unit, which condition they learn through published accounting information, they understand if their investment was needed and make decisions for the future to increase investment or to narrow it.

Suppliers and creditors are provided with this information and in this way they learn if their supplies done in direction of entity will be paid in terms of the proper time.

As the user of accounting information is undoubtedly the state, especially its fiscal authorities, which shall determine the amount of taxes that must be paid by particular entity. Also according to accounting information and state planning bodies do different macroeconomic planning for economic development unit and the overall economy.

So, the answer to all these requirements to all operators of the aforementioned gives its accounting system information.

Figure 2  
Users of accounting information



Source: Author's illustration

## Characteristics of accounting information

Accounting information in order to be useful to its users, it should contain qualitative characteristics, such as (Berisha Vokshi, 2013):

- **Understanding:** accounting information must be prepared in a way that is easy for users to understand. On the other hand, users of information are assumed to have a reasonable knowledge of business, economics, accounting and be willing to study the information to gain a reasonable level of financial expertise;
- **Comparability:** accounting information should be prepared in order to facilitate the comparison of information entity through time and in relation to other economic information unit. This requires consistency in recognition, valuation and presentation of accounting and financial statement;
- **Relevance:** accounting information should be prepared in such a way to help users to evaluate past events, present or future and confirm or correct past evaluations of economic units (entity). Relevance is also affected by materiality. Information is material if its absence or anomaly affect to the decisions or assessments of users;
- **Reliability:** accounting information should be prepared in such a way that has no material mistake and prejudice. This feature includes several concepts, such as: the faithful representation, substance over form, prudence, completeness, etc. Within the legal framework, the qualitative characteristics are applied to the recording and reporting of economic transactions and must be strictly respected.

## Financial reports in function of cooperative reports

Financial reports undoubtedly have an important role in the development of cooperative reports in the company. The importance of accounting for evaluating the company's financial position, reflected in the analysis of financial reports by users, and so further on building of cooperative relationships between them.

Financial reports are the main source of information flow for external users. By analyzing these reports they assess the company's ability to use its resources in the

most efficient manner. So comparing business financial different reports, they can determine which companies are better managed and which are offering optimal conditions for investment.

Financial statements communicate and present relevant data on the activity of the enterprise, and these data are expressed in monetary value. This explains objective of financial reporting, which is providing useful information to investors, creditor and other potential users. These reports should help them for deciding (Ingram, n.d.). Through the financial statements they are informed about the performance, financial condition and financial changes, the financial results of their economic unit. Financial reports, as contained in them all business and financial activities of the enterprise, enable on time identification of all parameters that affect the financial position.

Taken as a whole, financial reports describe the activities of the enterprise from the beginning to the end of the reporting period. Such reports do not work separately from each other, but together they explain the events that affected the company's financial position. Always in harmony with international standards, completed group of financial statements to provide relevant information for the main requirements of all users of accounting information, must consist of at least the balance sheet, income statement and expenses, statement of changes in capital, statement of cash flows and financial annexes. These financial statements provide various kinds of information necessary for the enterprise.

The balance sheet is the basic statement, which identifies and analyzes the company's financial position. It reports the accounts of assets, liabilities and owners' equity for the company at the end of the fiscal period.

Statement of income and expenditure is the second basic financial statements, which presents performance measurements of an enterprise business for a certain period (Clyde P. Stickney, n.d.).

When the company estimates the financial condition, it includes the way of the flow of profitability for a certain period. Obviously to evaluate the profit or loss for that period, it should be put in relation to property that is committed to their implementation. This explains and interconnection of financial statements, which then leads to the creation of business reports.

Despite the importance of the above two statements, they still do not represent all accounting information to assess the financial activities and very dynamic business. We say this having in mind a very important element, the cash flow in the company, analysis of their resources and their purpose and manner of their use within the enterprise.

And further financial reporting is completed with the presentation of the statement of cash flows. Through this statement are reported operating activities, investing and financing cash flows in the enterprise. This statement in particular is important to inform users of information about liquidity of the company, namely its solvency. Relying on the balance sheet the statement of income and expenses, through-balance sheet items with initial and final state, this statement provides information about all cash inflows and outflows during the specified period through it, then all the financial management of the company may evaluate the company's ability to make money on future periods, its needs for cash resources, timely fulfillment of obligations, etc.

From all this we conclude that the financial statements are related and complementary to each other, and therefore if we use as completed within the financial reporting, then we have a fairly complete source of information for financial analysis of the company. This enables the financial manager timely

identification of problems if it has, and it enables a highly efficient decision. This finally justifies once again that the main objective that has accounting, providing useful information for decision makers.

## Conclusion and discussion

Information is an indispensable resource for development of successful and efficient development of business.

Information communicated by accounting is very important for its users, because it will effect on their economic decision – making. This information must meet the qualitative characteristics; it must be accurate, valid and useful so that users trust its quality and authenticity. Accurate information will reflect in a reliable financial report and this will result in strengthening the financial position of economic unit, it will identify the risks on time and will manage them and will enable the attraction of investments.

The field of accounting is very wide and therefore not all aspects are covered in this study. This study focuses only on the actual situation regarding the role of accounting information in making economic decisions and the level of its use by its users and there are no more extensive descriptions and analyses of accounting standards, their current level of implementation, accounting practices, etc.

In this study, through data analysis, a high level of accountant's awareness has been identified that standardized accounting information has an impact on making the right economic decisions. However, there is still room for further research in this area, especially in the detailed identification of factors that affect the relationship between these two factors (preparation of accounting information on one hand and the level and manner of use of this information by users on the other).

Therefore, this study leaves place for further research related to the process of harmonizing information derived from accounting with standard rules, which should be implemented by the economic units when preparing the financial statements.

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