THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT AND THE INFORMATION SUPPLIED BY ACCOUNTANCY IN THE PROCESS OF SUBSTANTIATING THE FINANCIAL DECISIONS AT THE LEVEL OF AN ECONOMICAL ENTITY

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Abstract:

The present paper outlines the relationship that exists between the financial management and the accountancy science regarding decision making mostly of financial order.

The paper called "The relationship between financial management and the information supplied by accountancy in the process of substantiating the financial decisions at the level of an economical entity " is structured into three parts, starting from an general view of what financial management is, followed by the information supplied by accountancy used in making mostly financial decisions, because it consists the purpose of this paper also .

The third part refers to the types of decisions which can be made as a consequence of analysis of an economical entity from the financial management point of view but also of the information from accountancy. From the financial management point of view, decisions are clearly state d, the specialty literature offering a plenitude of information regarding types of decisions, on what are them substantiated and what is their concrete form after applying them. From the accountancies point of view decisions are based on the interpretation s of the annual financial statements, which offer us a clear and faithful image over the analyzed economical entity.

The finality of the paper are the conclusions based on the analysis, which is composed of a summary appreciation of the types of decisions that can be taken in an economical entity after analyzing the information from accountancy and having at hand the organization of the financial management of the economical entity. Also, we want to outline the importance of having an organized financial m anagement whose results to take into account in the economical entity, as well as the importance of correctly producing the annual financial statements, these being of a great influence, both positive and negative, of the financial decision making system.

Key words: financial management, financial analysis, the budgeting prediction, decision process, financial framework

JEL Classificaton: G32, M41, M51

INTRODUCTION

In the actual conditions, those of the existence of a market economy, the efficiency o f an economical entity depend in a high proportion of the manger's capacity to understand and apply modern management principals, methods and techniques.

The quality of the management act is a primordial condition for the firm to gain competitive advantages and withhold the competitive mechanisms. The previous statement is further more important since, in the last few years, it has been proven that the main factor leading to bankruptcy of an economical entity is the incompetence of managers and leading mis takes due to errors in decision problems. In a structured analysis, this factor owns a 60% ratio, being followed at great distance by the unfavorable evolution of market (with a ratio of 20%), natural phenomenon , fires, calamities, earthquakes (with a rat io of 10%) and other causes (10%),

From those presented above we can notice the importance of organizing a well structured management in order to make the adequate decision in a certain given situation but also the most correct ones, and if we refer to th e financial decisions, these, through the present paper can be outlined with the help of the annual financial statement analysis. If we speak of making a decision from the financial point of view, we will analyze each component from a complete set of annua l financial statements. The information regarding the element from the income statement, are capable of presenting to us the net turnover, which results from the accountant notes, turnover which is parceled on activity segments and geographical markets, al so here there are presented information regarding the average number of persons employed during the financial exercise.

Also the balance sheet is a very important element because it reflects the movement of different elements of fixed assets, as well as t he reevaluation of different elements of the balance sheet and the moments in which these reevaluations are made, thus influencing the financial decision making process.

The financial decisions can't be characterized as insignificant, finding correct solu tions meaning the processing of a large amount of information, the factors which must be taken into consideration being very numerous and the mistakes with serious effects.

COMPONENTS OF THE FINANCIAL MANAGEMENT

Financial management is a component if the general management of the firm. Its main objective is to ensure the efficient use of the capi tal utilization, to sustain the process of creating new capitals necessary to the economical entity and to produce this way the necessary support needed to gain market performances.

The financial management operates always in a well outlined framework defined by the market strategy of the firm and is subordinate to the objectives of the strategy. The financial management of the enterprise can be understood as a gro up of persons, methods, techniques, procedures, instruments and actions trough which the financial decisions are substantiated in the context of the organization's objectives accomplishment who are formulated in a firm's strategy.

Inside the financial mana gement we can identify four domains, each with very distinctive objectives, forming at the same time a whole because of the strong interactions between them:

1 The financial analysis aims to give an appreciation of the economical entity under the aspect of profitability, risk, tracking deficiencies and estimating possible growth possibilities. It makes possible, both as a separate procedure (used in the actual financial state evaluation) as well as a procedure used in other domains, the examination of the d ecision's consequences.

2. Financial planning has as objective establishing a growth strategy of the entity, which will be registered in the budgeting system. The budgeting prediction have a strong influence on financial decision, and adopting real decisio n will generate, at its own turn, a feedback process in the sense of crayoning and adjusting the predictions.

3. Short term financial management refers to the circulating assets and debts administration, the decisions adopted having an immediate effect on the financial state of the entity. Studying more detailed what we call the treasury administration we can observe that in this point all of the financial decisions meet, including those regarding long term financial management.

4. Long term financial manag ement has as objective the analysis and selection of the investment projects and financing sources, the decisions adopted being registered in the investment budgets as an integrated part of the budgeting system of the entity. The terms in which the entity makes business suffers a continuous adjustment, which leads to a constant need of finding rational ways of organizing and leading the processes affected. The selection of the organization and leadership ways which responds the best to the firm's objective, is made trough the optimum combination of the material, human and financial resources available.

This is what defines the enterprise's administration which is a practical method of leadership and organization of the productive activities. Manifesting auto nomy, exercising the right to organize and lead the activity, also imposes action and means of reaching the predetermined objectives

The economic administration concretizes itself in an ensemble of decisions and operations regarding the accomplishment of, on one side, the efficient producing and using process of the production factors, and on the other side, the self -management of effects resulting from the activity.

ACCOUNTANT INFORMATION – PLACE AND ROLE IN THE SUBSTANTIATING OF DECISION PROCESS

The main sources of information used in financial management are the accountant papers, especially the balance sheet and the income statement. They help to know the enterprise's situation at a certain time, occasion with which it is verified if the previous dec isions were valid and according to the reality, and if they contributed to the objectives accomplishment.

The extent to which the obtain results come close to the predictions is the measure in which one can say that the managerial team has reached the expe cted performance. The accountant informations have a historical character, because they refer to a past period and they are the result of some conventional norms of data producing, specific to accountancy. That is why most of the time the management must reorganize the information from accountancy.

The reorganization of the accountant information is made according to specific criteria, compatible with the financial domain and must be a support in the substantiation and adoption of decisions, because management works with the future, uncertainty and risk. The balance or the balance sheet of the firm, as well as other synthetic accountancy documents, must be just starting points in the analysis and diagnosis of the present situation, in the characterization of the changes that have produced themselves in the interval marked by the administration period. They are trough their content, a situation that offer information regarding the results obtained by management in the past periods regarding the efficiency of c apital use.

Relevant information for the financial management is the cost. It represents the monetary expression of the financial effort of the firm to finance its actions. In means of cost calculating, there are conventional rules with their advantages a nd disadvantages, reason for which the cost relevance for the financial management becomes crucial.

TYPES OF DECISIONS THAT CAN BE TAKEN BASED ON A ACCOUNTANT AND MANAGEMENT ANALYSIS

The financial decision needs a thinking effort from the managers with t his type of responsibilities, in order to chose the best option from all those possible.

The variety of situations taken into consideration and played , generate a multitude of financial decisions, and their classification and be made based on more criteri a, in our opinion, we consider it's worth insisting only on two basic criteria, which outline the most representative financial decisions of the enterprise, thus:

a) After the nature of the objectives (the time horizon aimed), we have the following categories of financial decisions: strategic decision, tactical decisions, operational decisions.

The strategic decisions refer to engaging in high perspective objectives, having a complex content and an essential role in the enterprise's evolution. They establis h the major coordinates of the financial strategy promoted on the long term. To some opinions of these decisions is considered to depend the very own survival of the enterprise. It is the case, for example, of the introduction of a new product, of an expensive investment or an out of border expansion through the acquisition of another firm. Taking such a decision requires a complete analysis of the enterprise and its environment in order to limit the possible error risk. The decisional process is in this ca se long and it appeals to numerous techniques (market studies, financing plans, profitability analysis of the investments).

Tactical decisions are the ones regarding the daily financial operation and their accomplishment, being subordinate to the strategi c decisions, and representing a continuation of their logic, which they will segment and detail. They are more numerous, but simpler trough content and more specifically crayoned. It is the case for example, of the budgeting process and supplying policy. These decisions demand limited information, but are never the less important.

Operational decisions are the most numerous ones. In their case it is about the solution to a production stopping problem, as a consequence of a machinery brake -down or of some disorders in the supplying system which has generated a stop in stocks. Such decisions ask a reduced number of information, but have a special importance, because of the rapidity with which they are handled depends the efficiency and productivity of the enterprise.

b) After the nature of the activities that generate the financial fluxes, financial decisions are of three types:

-investment decisions, with a direct influence on the enterprises assets structure, so on their liquidity

-financing decisions which determine the structure of the debts and bring modifications in the demanding time of the debts and in the capital costs

- profit repartition decisions which influence the ways of distributing the dividends and thus exercising direct implications on investments and self-financing

The investment decision can be considered one of the most important decisions taken by the financial managers, but not the most important. By the correct substantiation of the investment decision are depending the enterprise's capacity to stand out into the business environment and the growth of its market share. The decision to invest approaches the capital allocation problematic for physical and financial assets: the central place goes to the immobilized assets gained as a result of the capital investments. Trough this decision the monetary resources which the enterprise disposes of, are rationally and efficiently allocated to buy, build, and modernize fixed assets and accumulate stocks of material etc. in the volume and structure adequate for it to function at its highest performance.

The financing decision purpose is choosing the enterprise's financing structure, by analyzing trough the optimum criteria the cost of each source of capital. Within these decision types, it is chosen the ratio between the self-owned capital and capital coming from loans. Also, we must take into consideration the possibility of attracting temporary monetary resources that belong to other persons (individual, juridical, the state) with which the enterprise maintains financial relationships.

STAKEHOLDERS - THE CATEGORY OF USERS INVOLVED IN THE SUBSTANTIATION OF A FINANCIAL DECISION

Interest groups also called stakeholders represent a less known notion in the corporate governess in our country. In Romania there are only two group categories whose interests are taken into consideration in the decisional process: employes and creditors. With all of this, neither of them is treated systematically by the Administration Board as legitimate interest groups.

Regarding the financial decisions that form the content of an entity's financial management, these can be represented trough a financial circuit. This financial circuit resulted as a following of the enterprise's three basic financial decisions' execution which are the investment decision, the financing decision and dividend one and which presume the following stages.

In a first stage the economical agents who dispose of liquidities grant enterprises the necessary funds for their investment operations. Thus, appears a confrontation between the demand for liquidities of the enterprises and the offer of liquidities of the capital's owners. As a consequence, the enterprise issues titles (financial assets) which are either property titles (shares), either demand titles. The capital market is the result of the confrontation between the offer and demand of financial titles. The operations of collecting capitals are financing operations (external financing). In the second stage the leaders of the enterprise use the funds to purchase assets, decision which generates investment fluxes. The purchased assets are either in industrial or commercial assets, either in financial assets issued by other enterprises or financial institutions. The entity can afterwards sell the purchased assets and receives in return a flux of liquidities; this is a disinvestment flux.

The investment in industrial and commercial assets is made with the intention of generating future liquidity fluxes from exploitation operations such as supplying, production, retail which implicate the acquisition or creation of exploitation assets (stocks, demands, clients etc.). These assets are partially financed through the credit obtained from suppliers. The liquidity fluxes obtained from the exploitation operations are completed by the fluxes determined by the financial assets (participation titles, placement titles). The fluxes of exploitation liquidities, increased eventually with the value of the fluxes determined by financial assets and disinvestment operations and diminished with the fiscal assay, can be used with the following purposes: to pay back the credits and their interest, to pay dividends to the shareholders, to reinvest in the enterprise.

The remuneration operations (as interest) and those of refund belong to the category of financing operations, because they result from the collecting of capitals decisions. The operation of reinvestment of the formed fluxes is also a financing operation (internal financing or self-sufficiency). In the process of the financial operations from a financial circuit, interfere the following participants, with a direct or indirect, role in the substantiation of the enterprise's financial decisions; shareholders, leaders, creditors, the state.

The shareholders are the owners of the property titles over the entity, these being mostly under the form of shares. The shareholders are taking a risk because their remuneration is according to the financial results that the enterprise is going to obtain. They search for a maximum remuneration for their subscription, taking into account the risk that they are taking.

The leader of the financial compartment can, usually, be included in the managers' category. He must check, trough the financial criteria's perspective, the level of efficiency of all the other elaborated share programs and the implementation from the leaders of other responsibility centers. In this case he collaborates on horizontal with all of the decision factors in order to crayon the best action alternative in financial plan, without diminishing from a quantitative and qualitative point of view the economical action put at work.

Another category of participants involved in the substantiation of the entetity's financial decisions are the creditors. These are of more than one type, as: creditors note-holder whose demands appear under the form of a title, listed on the market and slightly negotiable, called bond; banks and different financial institutions that finance most entities, creditors who rent different fixed assets, the financing operations being under the form of a location or location with the possibility of purchase (leasing).

In general, foe each entity that has a clear strategy of action and wants to maintain itself viable, there are certain minimal limits set by owners, whose un-accomplishment draws the manager's penalization. To avoid such negative consequences, the managers will commit in profitable projects, but extremely risky, that need them to recur to bank credits, In this circumstances, monitoring the activity of the firm with debs by the crediting bank seems fully justified, even if it generates displeasure for debtors.

CONCLUSIONS AND PROPOSALS OF IMPROVEMENT OF THE ACTUAL SITUATION

From the beginning of this paper we may ask the question if there is a relationship between the financial management as part of the general management process and the data from accountancy?, and who's answer may be found inside it, from where we can draw the conclusion that the information from accountancy are important in substantiating a decision of a financial nature. Decision making is indeed very important, but just as important is its implementation and especially improving the existing situation, so that the new strategy can work as predicted.

The situation existent in every economical entity is that, not every manager has a well organized strategic plan, decisions being implemented without a strategic plan, without even taking into consideration any king of accountant information in the decision making process, especially in the financial decision.

The conclusions of the present research are that the system of decision making should be changed at the level of every economical entity, should be better organized, should take more into consideration the financial director's opinions who can supply data very important for the entity, even more hence the entire financial situation of the entity is in his hands. Avery well organized financial management system would be possible first of all trough a manager's training regarding this type of management and about the importance and relevance of the financial data for the entity he is leading. Such a solution may be expensive, but the advantages can be numerous, since it can bring benefic results for the entity.

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