

THE QUALITY OF ACCOUNTING INFORMATION IN THE MANAGERIAL ACTIVITY

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ABSTRACT: *Quality accounting information is essential for effective managerial decision-making and organizational performance. This paper examines the main qualitative characteristics of accounting information, highlights the benefits of high-quality accounting data in managerial activities, and practical methods for improving the quality of accounting information in modern organizations.*

KEY WORDS: *accounting information, managerial decision-making, qualitative characteristics, accounting information quality.*

JEL CLASSIFICATION: *M40, M41, D83.*

1. INTRODUCTION

The quality of accounting information is crucial in managerial activities as it directly impacts decision-making, strategic planning, and overall business management. High-quality accounting information ensures that managers have reliable, relevant, and timely data to make informed decisions. Here are key aspects and benefits of quality accounting information in managerial activities:

"For information to be effectively utilized in the managerial process, it must meet the following requirements (Monea, 2015):

- it must be relevant and useful to management in the process of understanding and regulating the functioning of organizational systems;
- it must be accurate and provide a correct and objective representation of the economic-financial phenomenon, while eliminating subjectivity that may compromise the objectivity of information;
- it must reflect the causal relationships underlying economic phenomena;

- the value of information is demonstrated by its ability to create conditions that enable the management system to make effective decisions for the economic entity;
- the cost of information requires the establishment of an efficiency threshold based on the cost incurred in obtaining and processing the information".

Accounting information quality refers to the degree to which financial and non-financial accounting data meet the needs of users, particularly managers, in decision-making processes. High-quality accounting information enhances transparency, accountability, and organizational efficiency.

2. MAIN ASPECTS OF QUALITY ACCOUNTING INFORMATION

The quality of accounting information plays a decisive role in managerial activity. Managers rely on accounting information to evaluate performance, allocate resources efficiently, and formulate strategic and operational decisions.

"The basic characteristics of accounting information relevant to managerial activity include quality, quantity, accuracy, and timeliness. These characteristics determine the degree to which accounting information supports managerial objectives" (Monea, 2013).

Relevant information helps managers identify problems and opportunities, while reliable information ensures that decisions are based on faithful representations of economic reality. Additionally, comparability and consistency allow managers to assess trends over time and evaluate alternative courses of action.

Quantity of accounting information is particularly important in the managerial context. Managers require sufficient information to understand internal processes and performance indicators; however, excessive information may lead to informational overload and reduced decision efficiency. Consequently, managerial accounting systems must ensure an optimal level of detail, providing only material and decision-oriented information.

Accuracy of accounting information ensures that managerial decisions are grounded in precise and correctly measured data. Accurate information results from proper recording, classification, and valuation of economic transactions. Inaccurate or distorted accounting data may lead to inefficient resource allocation, incorrect performance evaluation, and flawed strategic decisions.

Operativity of accounting information is essential in managerial activity, where decisions often need to be made rapidly. Timely information allows managers to respond promptly to changes in internal operations and external market conditions. Even highly accurate information loses its managerial value if it is not available at the moment it is needed.

The *usefulness of accounting information* for managers depends on several qualitative characteristics, among which relevance, faithful representation, timeliness, comparability, consistency, understandability and verifiability are of primary importance.

Relevance refers to the capacity of accounting information to influence managerial decisions by helping managers assess past performance, understand current conditions, and anticipate future outcomes.

Accounting information is relevant if it has the capacity to help users of information in making decisions. Accounting information supports user decision-making when it possesses predictive value, confirmatory value, or both. Predictive value refers to the usefulness of information as an input in users' methods for anticipating future results. Importantly, information can have predictive value even if it is not presented as a formal forecast or projection. Predictive and confirmatory value are closely interconnected. Information that helps users predict future outcomes often enables them to confirm or reassess prior expectations. For instance, current-year revenue information can be used to estimate future revenues and, at the same time, compare them with revenue forecasts made in earlier periods. Such comparisons allow users to evaluate the accuracy of past predictions and refine the techniques and assumptions used in their forecasting processes.

In managerial activity, relevance is closely linked to strategic planning, budgeting, and performance management, as managers rely on relevant data to allocate resources, evaluate investment alternatives, and set organizational objectives.

Faithful representation (or reliability) reflects the degree to which accounting information accurately and objectively represents economic events. Reliable information is complete, neutral, and free from material errors or intentional distortions. Economic phenomena are described in annual financial statements using words and numbers. To be a faithful representation, this must be complete, neutral, and free from error. A representation is considered complete when it contains all information required for users to understand the economic phenomenon being described, together with any relevant explanations. For example, a complete illustration of a group of assets would, at a minimum, identify the nature of those assets, provide a quantitative measure of all assets included, and clearly explain what that measure represents, such as whether it reflects historical cost or fair value.

For certain items, a complete representation requires explanatory information about key aspects of their quality and nature, the factors and conditions that may influence those characteristics, and the methods or processes used to determine the reported numerical amounts. A neutral representation is one that is not influenced in the selection or presentation of financial information. A neutral representation "is not biased, weighted, emphasized, deemphasized, or otherwise manipulated to increase the likelihood that financial information will be received favorably or unfavorably by users"(SFAC, 2010).

Neutral information does not mean information without purpose or without influence on users' behavior. Relevant financial information is, by definition, information that has the capacity to make a difference in the decisions taken by users. A representation is free from error when the description of the underlying phenomenon contains no mistakes or omissions, and when the methods used to generate the reported information have been appropriately selected and applied without error.

In managerial activity, faithful representation is essential because decisions based on inaccurate or biased data can lead to inefficient resource allocation and

incorrect performance assessments. Reliable accounting information enhances managerial confidence in internal reports and ensures that decisions are grounded in economic reality.

Timeliness refers to the availability of information to decision-makers early enough to influence their decisions. Generally, the usefulness of information diminishes as it becomes older. Nevertheless, certain information may remain relevant well beyond the end of the reporting period, for example when users require it to identify, analyze, and evaluate trends over time. In a dynamic business environment, managerial decisions often require rapid responses to changes in costs, revenues, and market conditions. Even highly accurate information loses its usefulness if it is provided too late. "Accounting information system should be effective and efficient enough which can give correct and consistence information on time" (Patel, 2015). Therefore, managerial accounting systems must ensure prompt data processing and reporting to support operational control, short-term planning, and corrective actions.

Comparability is a qualitative characteristic that allows managers to identify and understand similarities and differences between items across reporting periods or among different organizational units. Unlike other qualitative characteristics, comparability does not apply to a single item in isolation; it necessarily involves at least two items. Information about an entity is more useful when it can be compared with similar information about other entities and with corresponding information about the same entity in different periods. To achieve comparability, items that are similar in nature should be presented in a consistent manner, while items that are dissimilar should be presented differently. A basic level of comparability arises from meeting the fundamental qualitative characteristics, as a faithful representation of a relevant economic phenomenon will naturally be comparable with a faithful representation of a similar phenomenon reported by another entity.

Comparable information allows managers to evaluate performance trends, benchmark results, and assess efficiency. Achieving comparability requires the consistent application of accounting policies and measurement methods. In managerial activity, comparability supports performance analysis, strategic evaluation, and informed decision-making.

Consistency refers to the uniform application of accounting principles, methods, and procedures over time. Consistent accounting information allows managers to perform meaningful trend analysis and to evaluate the impact of managerial decisions across different periods. Any change in accounting methods should be justified, clearly disclosed, and properly explained to avoid misinterpretation. Consistency strengthens the credibility of accounting information and enhances its analytical value for management.

Understandability represents the degree to which accounting information is presented clearly and comprehensibly to users. The classification, characterization, and clear and concise presentation of information make it understandable. Some economic phenomena are inherently complex and cannot be simplified without losing their meaning. Omitting such information from financial reports would compromise their completeness. Financial reports are intended for users who possess a reasonable knowledge of business and economic activities and who analyze the information with

due care. Nevertheless, financial information should be presented in a way that enables users with different levels of expertise to comprehend the content as effectively as possible. "Financial reports prepared by entities refer both to the annual financial statements themselves and to the other documents made public together with them" (Monea, 2012).

In managerial activity, information must be structured, concise, and adapted to the knowledge level of managers, who may not possess advanced accounting expertise. The use of excessive technical terminology can reduce the effectiveness of information, while clear explanations and visual aids can enhance comprehension. Understandable accounting information facilitates faster decision-making and improves communication between accounting professionals and management.

Verifiability enhances users' confidence that information faithfully represents the economic phenomena it is intended to depict. Information is verifiable when independent and knowledgeable observers can reach a consensus that a particular representation is faithful.

Verification can be achieved either directly or indirectly. Direct verification involves confirming an amount or other representation through direct observation. Indirect verification involves examining the inputs to a model, formula, or other technique and independently recalculating the outputs using the same methodology.

In certain cases, particularly for explanatory or forward-looking information, verification may not be possible until a future period or may not be possible at all. In such circumstances, to assist users in assessing whether to rely on the information, it is generally necessary to disclose the key assumptions, the methods used in its preparation, and other relevant factors and circumstances that support the information.

3. IMPROVING ACCOUNTING INFORMATION QUALITY AND ITS ROLE IN MANAGERIAL ACTIVITY

In a contemporary business environment, the availability of high-quality accounting information is indispensable for effective management. This section elaborates on the principal benefits of quality accounting information and its role in supporting managerial activities.

The main benefits of quality accounting information in managerial activity are related to:

- *Data-driven decision-making* - high-quality accounting information provides a solid foundation for making strategic, operational, and tactical decisions. Accurate and relevant financial data enables the evaluation of alternative courses of action by quantifying expected costs, benefits, and risks. By reducing uncertainty information, quality accounting information improves the possibility that managers will select options that maximize organizational value and align with overall corporate objectives.
- *Effective planning* - accurate financial data is essential for budgeting, financial forecasting, and resource allocation. Planning is a managerial function that depends on credible financial information. Quality accounting information supports the preparation of budgets, financial forecasts, and long-term financial plans. Accurate

historical data allows managers to project future performance and allocate resources more effectively. Furthermore, high-quality information assists in setting realistic goals and performance targets, thereby enhancing the coherence between organizational strategy and operational plans. Inadequate or distorted accounting data, by contrast, may lead to unrealistic expectations and inefficient planning outcomes.

- *Performance measurement* - reliable accounting information is essential for measuring and evaluating organizational performance. Financial indicators such as return on investment, profit margins, productivity ratios provide objective benchmarks for assessing managerial effectiveness. High-quality data also facilitate comparisons across time periods, organizational units, and enables managers to identify strengths, weaknesses, opportunities and treats and select corrective actions.

- *Risk Management* - managerial decision-making - inherently involves risk, and quality accounting information plays a central role in identifying potential risks and opportunities; timely and accurate financial reports help managers to detect emerging financial risks. Additionally, accounting information supports scenario analysis and sensitivity analysis, which are essential tools for evaluating the potential impact of uncertain events. Quality accounting information enables managers to develop appropriate mitigation strategies and corrective action plans.

- *Resource Allocation* - efficient resource allocation is vital for organizational sustainability and competitiveness. Quality accounting information provides insights into the profitability and performance of products, projects, departments, and business units. This information allows managers to identify underperforming areas and redirect resources toward activities that generate higher returns. Moreover, transparent and reliable data support rational capital allocation decisions, thereby reducing waste and improving overall operational efficiency.

- *Cost control* - effective cost control depends on detailed and accurate accounting information. Quality cost data allows managers to examine cost behaviour, identify inefficiencies, and implement cost-reduction initiatives. By facilitating cost-benefit analyses and efficiency improvements, quality accounting information supports managerial efforts to enhance profitability and operational discipline.

- *Strategic planning* - at the strategic level, quality accounting information informs long-term decision-making and organizational development. Financial analyses related to market entry, mergers and acquisitions, product diversification, and competitive positioning depend on credible accounting data. High-quality information enables managers to assess strategic alternatives, evaluate financial sustainability, and align strategic initiatives with available resources. Consequently, accounting information serves not only as a control mechanism but also as a strategic resource that supports sustainable competitive advantage.

Improving the quality of accounting information requires a systematic approach incorporating regulatory compliance, digitalization of accounting processes, human capital development and institutional control mechanisms.

- *Adoption of accounting standards* - the implementation of internationally recognized accounting frameworks, such as the International Financial Reporting Standards (IFRS) contributes significantly to the consistency, comparability, and reliability of financial information. Implementation of these standards reduces

information asymmetry and enhances the credibility of financial reports used by management.

- *Investment in accounting and information technologies* - advanced accounting information systems facilitate accurate, timely, and efficient processing of financial data. Furthermore, the integration of data analytics and business intelligence tools enables organizations to extract meaningful insights from financial information, thereby improving forecasting accuracy and supporting evidence-based managerial decisions.

- *Professional training and competence development* - continuous professional development of accounting and financial personnel is essential to maintaining high-quality financial reporting. Ongoing training ensures compliance with evolving accounting standards and regulatory requirements. Equally important is enhancing managers' financial literacy, enabling them to interpret accounting information effectively and incorporate it into strategic and operational decision-making.

- *Strengthening internal controls and audit mechanisms* - well-designed internal control systems play a pivotal role in safeguarding the accuracy and integrity of accounting information. These systems help prevent material misstatements, errors, and fraudulent activities. Regular internal and external audits further reinforce information reliability by independently verifying the completeness and correctness of financial data.

- *Enhancing accounting-management communication* - effective communication between accounting professionals and management is essential for transforming accounting data into actionable managerial information. Financial reports should be structured and presented in a clear, concise, and comprehensible manner, particularly for non-financial managers, thereby increasing their usefulness in managerial planning and control activities.

"Accounting information system is considered to be one of the most important systems of any organization. Its aim is to provide necessary information to the managers at different levels" (Patel, 2015).

4. CONCLUSIONS

In a dynamic and competitive economic environment, managerial decisions depend heavily on the quality of accounting information. Poor-quality information may lead to incorrect decisions, inefficient resource allocation, and increased operational risks. Therefore, ensuring high-quality accounting information is a fundamental objective of accounting systems.

Quality accounting information plays an essential role in managerial activity by supporting informed decision-making, effective planning, performance measurement, risk management, and strategic development. By focusing on relevance, reliability, timeliness, comparability, consistency, and understandability, organizations can ensure that their accounting information meets the highest standards, ultimately leading to better management and improved business outcomes. By understanding and

applying qualitative characteristics and implementing improvement measures, organizations can enhance performance, reduce risks, and achieve sustainable growth.

Organizations that prioritize the generation and use of high-quality accounting information are better positioned to enhance managerial effectiveness, improve organizational performance, and achieve strategic objectives in an increasingly complex business environment.

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