

# **Effectual Financial Andon-Financial Information Fordecision-Making In The Condition Of Risk And Insecurity**

***Fatbardha Molla (Beqiri), PhD***

**Brilanda Bushati, PhD**

*University "Luigj Gurakuqi", Shkoder, Albania*

---

## **Abstract**

Information and communication include accounting system. The accounting system, the manual and computer one, gives and communicates information for all the processes, methods and registrations of transactions of the economic unit. Communication means giving a clear understanding for the responsibilities of each person for inner control. This would include the reporting on a higher level within the entity, therefore the inner politics and outer financial reporting.

Risk defining aims at identifying, calculating and managing the risk that could affect in the entity ability to achieve its main goals. When the risks are identified, the managing takes into consideration the meaning of risks, the opportunities and the ways of their managing. Managing can address specific risks or can decide to accept a risk because of the cost or other considerations. The risks may appear or change as a result of the environment changes, rules, operatives, personnel or information systems, fast growth and new technology, business lines, products or activities.

The controlling activities are the politics and procedures that guide the actions of the employee to address the risks and to achieve the objectives of managing. The controlling activities include the realization of the duties and the controls on the process of information.

The segmentation of the duties should create such conditions that no one should be in the position to make and to hide mistakes or irregularities in the normal flow of the process of gathering information or data. This means procedures for divided custody, authorization and account keeping.

In the process of information, the auditor requires general controls, application controls to notice the exactness, fulfillment, authorization controls on the transactions and the controls of documentation.

The inner controls have boundaries. Management can break them. If some workers make a hidden deal, they can escape the control. There exist also distortions of cost. At the end, the mistakes, including mistakes in judgment, can damage control.

In the phase of work on the ground, the auditors make interviews with people responsible for keeping and maintaining the financial declarations and operational reports. The auditors use different auditing techniques to give an example, to test and to analyze the inner controls of the company. According to the procedures of the company, this can include following a paper by using statistical methods to examine a number of transactions or a computer program that introduces data of different tests in the system. The auditing team makes continuous reports of progress for management, keeping them at the pace with the starting conclusions.

When the work on the ground is done, the auditing team re-analyzes and re-prepares its own conclusions. After they are finished, the auditors make a formal introduction about their conclusions. If there are deviations from GAAP which we agreed to change, the auditor might mention that they have found deviations, but that management is undertaking the proper actions.

What we do not want, is introducing a situation where the auditor recognizes a clash and we don't agree that there is a problem and we refuse to do something about it.

We should work with the auditors. If the auditors find a few things, they could return in one year or something like that and see how it is going on with the realization of the recommended changes.

---

### **Models of decision – making in the condition of risk and insecurity.**

The world is an insecure reality that is risky at any moments of the time. It is understandable that in an insecure situation, the models of preserving decisions cannot be the same with those being created in the conditions of a secure situation.

The elements of decision-making in the conditions of risk and insecurity are:

1. *Defining objectives* – an objective or prediction that the decision-maker hopes to achieve, will be understood, for example the maximum growth of income or the actual value of the actual value of the cash box. Defining an objective is considered as a function of the objective, which I used to define the possible alternatives of action, by creating the possibility of choice of the best alternative.
2. *Searching the action alternatives* – implies searching and defining the possible alternatives that can be applied in the future, which will make possible the achieving of the objectives that can be defined earlier.
3. *Evaluating the state of the environment* – as there exists an insecure environment, it is necessary to be taken into consideration the uncontrollable factors, i.e. those being out of control of the decision-maker and that could appear during the application of the alternative. These uncontrollable factors are called state or situation of the ambient. For example in the production of a product, a possible situation of the environment could be made by the existence of a similar product that might be produced by a competitor and with a lower price.
4. *Predicting the possible results* – with this we understand the presenting of the possible results for all the different combinations of the possible alternatives that appear.

5. *Valuating the outcome of the cash box* - which means measuring the value of expenses or the measure of payments for every possible prediction, as well as their evaluation in function to the objective of the decision maker. The payment are usually expressed in monetary form, such as gain or cash box flow, but for some problems, it will be necessary the use of the evaluation in terms of time or the part of the market, etc.

6. *Defining the optimal alternative* — By the whole presented alternatives, should be chosen the one which presents the most optimal conditions for fulfilling the demands of the functioning of the objective according to which should be operated.

To have a more correct conception on understanding the risk and insecurity, as well as taking them into consideration during the process of decision-making, is important to treat some concepts and techniques, that are necessary to analyzing the risk and the insecurity.

Theorists of decisions often express the difference existing between risk and insecurity.

*The term risk* is used for situations where there are possible predictions in general, which are supported in a sufficient statistical evidence of the past experience. *Insecurity*. It exists where there are possible general predictions, which are supported in an insufficient statistical evidence of the past experience. The majority of the decisions of business can be classified into categories according to insecurity, but the difference between risk and insecurity has little importance in our analysis. The risky situation is characterized by the possibility (probability) of existing or not of the facts predicted by the decision-maker. Some probabilities are called objective probabilities, because they can be defined mathematically or can be fulfilled by using historical data. An example for them can be the throwing of a coin and the defining of the probability for each of its sides. Defining this probability supports the logical side, but is necessary to gather other data by the observations of a certain time period.

The objective probability cannot be defined for the business decisions, as it is not possible for many observations to be made for the past or experiments for special decisions to be repeated many times. Therefore, the probability will be defined on the basis of the judgment of the directing board. The probability defined in this form, is known as the subjective probability, because to define the probability for special predictions, the judgment of many people should be gathered. The subjective probability is based on the professional knowledge of individuals, past experience and the observation on the possible elements that change the future. These probabilities can be exactly measured, but every evaluation on the insecure events for the future is subject for mistakes. The advantage of this method is that it provides more meaningful information. Using the spread of opportunity for each operational alternative, could secure a supplementary information for the leaders, as the distribution defines the level of insecurity that exists for every operational alternative. Knowing the distribution of probabilities enables the leaders to measure, not only the possibility of realizing the gain for every operational alternative, but it can also define the size of insecurity that should be applied for each alternative.

**Using the information of the cost for decision-making in the conditions of insecurity.**

The models of decision-making in the conditions of insecurity should be evaluated with supplementary indicators which express the size of the probability of happening. Not being possible to concretely treat all the models of decision-making in the conditions of insecurity (in the same way for the conditions of security), there will be used supplementary techniques for the evaluation of the most complex models of decision-making by stressing the basic principles, which should be taken into consideration during the evaluation of each model.

### **Decisions of prices.**

Decisions on prices are based on the predictions of the demand for sales for different process of sales. Therefore, the demand for sales is considered as a secure data. In the conditions of an insecure reality, it is necessary to be taken into consideration the level of insecurity, during the process of analysis and decision-making for all the alternatives of the price of sales.

### **Supplement –analysis cost capacity – gain.**

The activity of the leader in the economic unit can be presented in the following model :

- Composing the short-term and long-term plans (planning)
- Execution of plans (organizing and directing)
- Comparing the actual results with the planned ones (control)
- Measuring the results

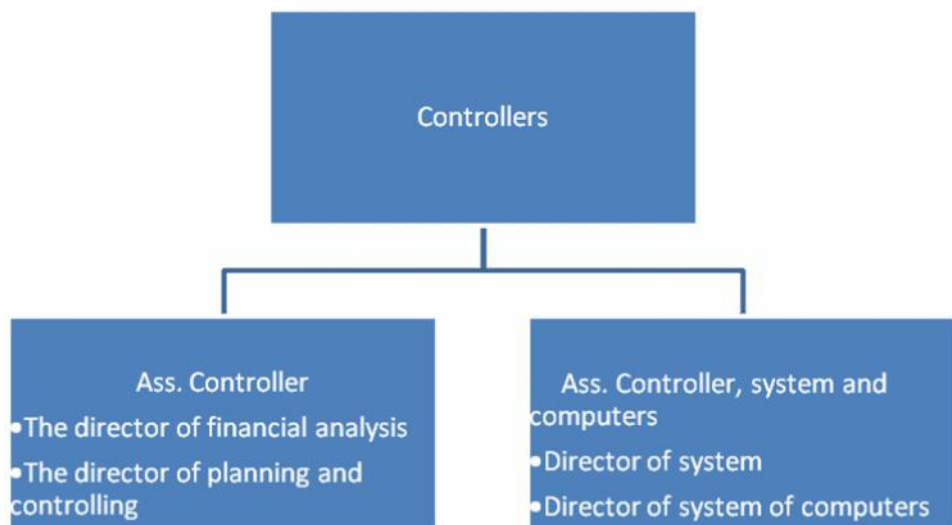
This model describes the cycle of planning and control, it illustrates the easy transferring of the lading functions starting by planning through organizing and leading, controlling and ending again with planning.

All these functions include decision-making; therefore it is presented as the center around which the other leading functions circle.

The controllers – are called the directors who are responsible for the accounting department in the leading of the economic unit.

The controllers are members of the high directing staff.

They have the responsibility in providing the data in time and properly in helping the activities of planning, controlling and to prepare the financial review for the outside users.



The controller combines completely a large number of functions, including here the leading of computer services of the economic unit, as well. Because of large experience gained by the controllers in analyzing all the economic functions and in working with its leaders, it is no surprise that the controlling offices take the main position in the economic unit.

### **Plan Cycle – Execution – Control – Action (P-D-CH-A Cycle)**

Plan Cycle – Execution – Control – Action (P-D-CH-A Cycle) is a systematic method, based on facts to achieve the continuous improvement of the economic unit. To solve the problems emerging in the unit, the cycle P-D-CH-A uses the scientific method.

*In the phase of planning* – The leaders responsible for solving the problem, analyzes the data to identify the possible causes of the problem and later on suggests a solution for it.

*In the phase of execution* – An experiment is made.

*In the phase of controlling* – The results of the experiment are analyzed.

*In the phase of action* – If the results of the experiment are favorable, then the plan is being executed, but if the contrary happens, we comeback to the main data.

During the relations cost—volume—profit only one value is defined. Therefore, we suppose that the income and the cost of the product are known for sure. But this supposing is not realist and from it derive some limitations of the analysis cost—volume—profit. Some authors have treated the analysis cost—volume—profit by taking into consideration some insecure parameters in model. One of the methods that can be used by taking into consideration the insecurity is the method of normal delivery.

### **The increasing role of information of the leading accounting**

The leading accounting is created after the financial accounting. It plays a secondary role in comparison to the financial accounting and in many economic units it is still a secondary result of the financial reporting process. However, during the last years it has undergone a development, being well-known and being specialized as a separate field divided by the financial accounting.

The factors that have influenced in the development of leading accounting are:

Increase of competition of the economic units in the whole world.

The fast technological development in the form of high level automation.

The increase of the level of gathering and reporting information.

These factors have increased the need for the leaders for information on the inner activity of the economic unit, information that cannot be provided by the reviews of the financial accounting. Let's take into consideration the facts:

In the last years many changes have occurred in the methods of production. Today through the integrated computer production, the hand work and many activities are followed by computers.

Leading and decision-making are affected by the strong development of the new quantity measuring means such as: linear programming, analysis of probabilities and theories of decisions.

In many industries, the costs have fast increased and at the same time they have changed their form.

For example: the increase of automation and the use of computers have lowered the labor cost, which has been replaced by a less flexible cost as the cost of amortization.



The enlargement of competition is a stimulation towards flexible systems that reduces the costs per unit. Many economic authors have observed that the economic ability “to survive” in such periods of changes, is connected to the fact how fast and how well they answer to new challenges. Of course, the role of the leading accounting in facing these changes is very important.

### **The managing systems for the performance in the trade society in Albania**

The trade companies have given little attention to the controlling systems of directing them. A large attention would bring the improvement of competition in the environment of the Albanian business by increasing the quality and using the practical techniques. A elementary self-evaluation program would encourage and make possible for the companies to evaluate their directing systems and the business performance towards a European business model.

The Albanian business needs to be more progressive and needs more will to learn and to apply new methods. Especially, the companies should look for leaders that develop policies and strategies that really address the needs of the customer (and not only provide what they think the client needs) and use full potential of their employees. The performance towards policies and strategies needs to be monitored by using a performance measuring system that addresses all the financial and non-financial measures that are crucial for the success of an organization. These should include measuring the satisfaction of the employees and the impact on the society; only acting like this the long-term financial success will be achieved.

Our study tries to identify the level of the accounting leading practice which is an important part of the control systems of leading companies.

One of the objectives defined for the accounting of the directing in the 70's, was to provide relevant information for the inner decision-making. For regular or short-term decisions the accounting people could use the analysis cost-volume-profit (CVP), the analysis of the profit from the product and the models of controlling materials. For capital investment decisions, the leading financiers could produce accounting return norms and complex remission periods based on the actualized flows of the cash box. Also, information on non-financial

facts such as the quality of the output, the flexibility of the processes and the aiming time, could influence on the projects of the capital investments. Lastly, the techniques of risk, such as computer simulation for the analysis of probability and analysis reason-consequence, can be used.

Summary of the answers on decision making. It can be noticed that the analysis of profiting of the product and the analysis of the profiting of the customer are often or very often calculated in the majority of the companies 78% and 62% respectively. The analysis CVP is often considered to be important or average important by 94% of the interviewed and is also often used 53% showing that such analysis are often used. The models of controlling reserves are widely average important and sometimes used.

In relation to the decisions of the capital investments, 67% of the interviewed use the remission to evaluate the main projects of the capital budgeting, while the equivalent numbers for the models of the actualized flows of the cash box such as the inner norm of return and the actual net value is only 24%. This skepticism for the evaluation of the investments through money flow is explained with the high level of insecurity related to them in our country. We see that using the probability analysis and other methods for the evaluation of risk in the capital investments is rare and respectively 45% and 49% express this conclusion.

### **Communicating the information of the leading accounting.**

According to Drury et. al. (1993) the most important challenges related to the reporting phase of the leading accounting are related to the providing the exact and in-time information, improvement of convenience of the reported data, and the change of the system of gathering information so that it can be done in real time and to cooperate with other systems.

To study these issues, it was asked by the financiers to evaluate the importance of the four inner levels in their business. The results show that it is important to provide the accounting information of a detailed direction on systematical basis, regular and short-term (94% of interviewed). The ability to

provide detailed information immediately according to the demand, was evaluated as important or average important by 89 % of the interviewed. Although reporting in real time is not so widespread it is clear that organizational changes have altered the channels of spreading the information, 58% of answers showed that it is important for the detailed leading accounting information to be reported directly to the manager leader.

## **Conclusion:**

### **Information for decision-making**

1. For regular decisions or short-term ones, the leading financiers can use the analysis cost-volume-profit (CVP), the analysis of profiting of product, the analysis of profiting of the customer and the models of material controlling.
2. For capital Investment decisions the leading financiers could use return accounting norms. Also, information on non-financial factors such as quality of output, flexibility of processes and aim times can influence the capital investment projects, there can be used the risk techniques such as the computer simulations f probability analysis and cause-consequence analysis.
3. Using the probability analysis and other methods for evaluating the risk in the capital investments is rare.
4. The traditional accounting systems of directing are criticized as they focus in the information reporting related to inner processes with little attention given to the outer environment and the effect of the decisions and structures of the cost of the competitors in the actual and future processes of the business.
5. The companied are actually more interested in the conventional long-term progressive planning and the side competition analysis, rather than those analysis that show the competitive position, the cycle of life or o the chain of value. The above important note of the frequent use, of the analysis of the competitive position (and the strong and weak points of the

competitor) and of the chains of the value, suggest that the application of these practices could be more wide-spread.

6. Auditing, the inner one as well as the outer one are important rings in avoiding mistakes and fraud. Taking into consideration the high level of information in our country the auditing takes a major value. We notice that the two types of control are evaluated as average important or important by the majority of the companies.
7. Budgeting, despite of its stable infiltration in the financial directing of the corporation, it is still more importantly positioned than it is used. This supports as well the fact that budgeting on activity basis does not yet exercise wide use of it.
8. The majority of the companies take into consideration the measuring of performance as completely important. Non-financial measurements are also widely important especially related to the customer's satisfaction. However, regardless this importance, a major part of the companies, never or rarely use actually financial measurements of performance related to clients, operations, innovations or employees and that balanced scorecard is more discussed than applied, and that the performance measurement s still very dominated by the financial numbers.
9. The CVP analysis is considered to be at least average important by a large part of companies, a conclusion which is related to the domination which is given to the cost division in fix and variable cost. The majority of the companies often apply he profit analysis of the product.

**References:**

1. The American Institute of Certified Public Accountants is “the CPA mother ship”
2. Accounting for Managers Bill Webster
3. Financial Accounting Paul Danos, Eugene A. Imhoff, JR
4. Allott, A. (2000), Management Accounting Change, Management Accounting, UK,
5. Ferrara, W. (1995), Cost/Management accounting: The 21st Century Paradigm,
6. Management Accounting, USA, December, pg. 30, 36.
7. Kaplan, R. (1984), The Evolution of Management Accounting
8. Kaplan, R. and Atkinson, A. (1998), Advanced Management Accounting,
9. Otley, D. (1995), Management control, organizational design and accounting
10. Management Accounting, Prentice Hall, London, pp.