

Contribution of accounting expertise to cost efficiency and application of unitary practices

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Abstract

The current economic context both globally and nationally requires accounting experts to adopt an attitude focused on an approach to cost management and performance. In this sense, there is a need to implement the concept of "accounting expertise" that lies in defining "cost management" as the totality of methods, procedures and tools used in cost optimization, performance, risk management, to ensure a complete life cycle of the company. This concept proposes the approach from the point of view of the fundamentation of the decisions to build, maintain and renew the accounting expertise models of the lifetime as well as the consequences of these decisions.

Keywords

Cost, accounting expertise, efficiency, information, performance

Introduction

Accounting expertise has the role of demonstrating the applicability of the model of analysis on the risks of a company and how it can be the basis of the decision-making process for addressing them. When it comes to the risks that the use of cloud computing entails, an extended approach is needed beyond the perspective of the cloud user company, in a context where ownership, custody and control of data falls on a number of actors. The specialist literature of recent years presents the general risks that cloud computing technology entails.

Although the specialty literature contains a number of studies focused on the quantification of the security level or risks associated with cloud computing technology Alebrahim, N., (2018), etc., they are limited to presenting the methodology for quantifying the risks on a particular type of cloud solutions and models. Probably the closest work belongs to Alarcon, L.J. & Ng, C. (2018), which presents a model to quantify security risks within an IaaS platform. The study is based on the quantification of risks based on vulnerabilities and the probability of their occurrence, using the problem tree method (fault tree analysis).

While Huerta, E. & Jensen, S. (2017) focuses on risk quantification to support the assessment of the various available cloud service providers, the objective of this paper is to determine the accounting expertise underlying those risks, with the aim of identifying measures to address these risks to ensure an acceptable level of financial information security.

1. Quality of accounting information on cost efficiency - between uncertainty and ambiguity

Accounting standards are essential parts of accounting language. Using International Financial Reporting Standards (IFRS) as an example, up to 156 jurisdictions consider IFRS as the global financial reporting language, and 144 of them require IFRS Standards for all or most publicly accountable internal entities.

IFRSs are principles-based accounting standards designed for professional interpretation and judgment (Bradbury & Schröder, 2012). Previous studies have highlighted that IFRS has no guidelines on how to use uncertainty expressions (Du & Stevens, 2011; Huerta, Petrides, & Braun, 2016). For example, when measuring the fair value of an asset, a reporting entity should reasonably

assess the alternative assumption or expected cash flow from the accounting. The possible and expected reasonable terms are the expressions of uncertainty and meaning of these subject to interpretation and professional (Chesley, 1986; Davidson & Chrisman, 1994; Douppnik & Richter, 2003).

Due to their dependence on professional interpretation, expressions of uncertainty are often constantly absent and meanings and such inconsistencies will reduce the comparability between companies and the financial situation (Simon, 2002). Accordingly, understanding the nature and impact of the expressions of uncertainty are vital for accounting research. Information about uncertainty can be communicated in two ways: as verbal expressions of uncertainties (e.g., very likely) or as expressions for numerical uncertainty (eg, 70% chance).

Previous studies have concluded that people perceive and interpret verbal and numerical expressions of uncertainty significantly differently between cultures, languages, and education and professional backgrounds (see Chand, Cummings, & Patel, 2012; Douppnik & Richter, 2004; Simon, 2002). Such deviations between meanings and interpretations could affect the effectiveness of accounting communication. More concerns about the use of expressions of uncertainty and their negative impact on judgment have arisen and decisions (Chand et al., 2012; Piercey, 2009).

Although evidence highlighting the problems associated with the use of uncertainty expressions in accounting has accumulated, regulators and accounting practitioners do not have to propose a solution yet.

For example, IFRS 5 provides little guidance on the meaning of uncertainty, stating that “probably = more likely than not” and “extremely likely = significantly more probable than likely”. Consequently, this leads to a critical question about the fundamental meanings of the expressions of uncertainty and how they can be used effectively to facilitate financial reporting and decision-making. IFRS contains a significant amount of uncertainty expressions.

A detailed review of IFRS reveals the use of over 40 different verbal expressions of uncertainty that cover almost every aspect of financial reporting, such as the decision on accounting recognition of items. Similarly, entities that have adopted IFRSs also similarly use terms in their financial and annual reports, whether those directly quoted in IFRS or similar ones. Thanks to the IFRS principle-based approach, the use of uncertainty expressions in accordance with IFRS provides benefits for accounting communication: it facilitates professional judgment and allows adjustments between different jurisdictions (e.g. countries) with different economies and cultural scales (Weiss, 2008; Zeff, 2007).

However, the use of uncertainty expressions also creates significant challenges in achieving a consistent accounting judgment (Chand et al., 2012; Erb & Pelger, 2015). First, accounting information producers using accounting standards must understand the meaning of the uncertainty expressions they choose to use, including how they represent the level of uncertainties and, if applicable, how they are interpreted numerically. Each reader can perceive expressions of verbal uncertainty differently (see Brun & Teigen, 1988; Juanchich et al., 2012) and previous studies have already demonstrated that language and personal attributes could significantly influence how they are interpreted, see Chand et al. Davidson & Chrisman, 1994; Huerta, Petrides and Braun, 2013).

Secondly, the use of expressions of verbal uncertainty in accounting standards may not have had consequences for the manipulation of information. Because people perceive verbal uncertainty expressions differently and because accounting standards regulators have not issued standardized numerical scales, accounting information preparers may be able to take advantage of ambiguity in verbal expressions to disguise risks and adverse trades (Piercey, 2009).

Third, and the most controversial, is the fact that the use of expressions of verbal uncertainty in accounting standards would affect the efficiency of communication, thereby reducing the quality of Wright, an economist at the University of Chicago, was the best-known author of the book *Risk, Uncertainties and Profit*. Expressions of uncertainty in accounting (Laswad & Mak, 1997; Simon, 2002). Simon, (2002) argued that many expressions of verbal uncertainty lack consensus in interpretation and therefore result in low efficiency of communication in financial reporting.

In theory, people can interchangeably use verbal and numerical uncertainty expressions. According to Hardman and Macchi, (2003), research into expressions of uncertainty includes three major paradigms: translation, semantics, and pragmatism. Most expressions of uncertainty studies are based on the paradigm of translation: finding the most effective method of translating verbal probability into numbers. A general method is to provide a percentage from 0 to 100 corresponding to verbal phrases, which Reagan et al., (1989, p. 433) refers to “word to number conversion”. Another method is to judge the degree of uncertainty on the [0,1] scale or p value in a specific context, which is called the member function (Wallsten, Fillenbaum and Cox, 1986).

Similar studies have been conducted in prognosis (Vedere - Marom, 1982) and organizational behavior (Brun & Teigen, 1988). In particular, a paradigm-based research approach to translation has been popular in accounting (see Chand et al., 2012; Chesley, 1986; Davidson & Chrisman, 1994; Doupnik & Richter, 2003; DUPNIK & RICHTER, 2004; Hu, Chand and Evans, 2013).

A typical context in accounting research is investigating transnational and cross variations of word-to-number conversion. The following example is taken from a conversion study from the 2003 Doupnik and Richter study (p.32).

Example For example, when you decide the options for a business strategy, “Strategy A is somewhat possible success” directs one to anticipate a positive outcome, while “Success Strategy B is uncertain” directions one to forecast an adverse outcome. As is evident in earlier literature, possible and uncertain share similar numerical meanings, but differ significantly in directional meanings. As a result, research results based on semantic paradigm could be problematic compared to those based on paradigm translation.

Furthermore, some studies focus on understanding the effect of expressions of uncertainty in decision-making: the so-called pragmatic paradigm. This paradigm, which has yielded fruit in experimental psychology, is based mainly on laboratory experiments.

2. Solutions for cost efficiency and application of unitary practices

Definitions and discussions found in literature suggest that expressions of uncertainty can be used in different contexts when providing objective or subjective information. The reason for the use of uncertainty expressions to communicate objective information can be attributed to the lack of accurate knowledge about the value of a measurement, such as the result, error and information quality. In contrast, the reason for using the expressions of uncertainty when communicating subjective information is mainly due to personal interpretations of un certainty, such as trust, opinion and understanding.

Based on these differences, this study proposes two strategies for the use of uncertainty expressions in accounting: Verbal - Numeric (V-N) Scale strategy addresses objective uncertain accounting information. The V-N disclosure strategy is linked to uncertain subjective accounting information. As we discussed above, the specific application of uncertainty expressions in an accounting is based on accounting information that is objective or subjective. This paper develops two separate strategies – objective and subjective – for reporting, communicating, and estimating uncertain accounting information using uncertainty expressions.

Although the literature is comprehensive in terms of cost-efficiency, it is impossible to conceive a general model applicable within organizations deciding to migrate processes to cloud computing technology.

However, in order to determine the generally appropriate model in decision-making, companies can follow a standard approach, summarized in table 1.

Table No. 1. Steps to be followed towards the development of a general model of decision-making oriented to the behavior of staff

Number	Step	Name	Description
1.	Schedule	Trials	- Identification of processes to be migrated to the cloud; - Identification of data to be managed through

Number	Step	Name	Description
			cloud computing technology and their classification; - Identification of other information resources (software programs, etc.) to be migrated to cloud computing technology.
2.		Cloud computing technology	- Determination of the type and model of cloud services to be used.
		Objectives	- Identification of the strategic objectives of the organization; - Defining the objectives of the IT function; - Development of the budget available for IT investments; - Development of metrics and indicators on how the IT function supports the achievement of strategic objectives; - Assigning responsibilities and establishing periodic events (meetings, presentations, reports, etc.) on how the IT function supports the achievement of strategic objectives.
3	Development – implementation	Internal processes	- Identification of processes to be managed directly by the company; - Developing standards, policies and procedures to support processes; - Assignment of responsibilities regarding process conduct, monitoring/reporting, review, awareness-raising; - Organizing training sessions to inform staff about new processes and documentation governing them.
		Outsourced processes	- Identification of processes to be outsourced (in whole or in part) to the cloud service provider or to other contractors; - Development of a process of management of IT suppliers/contractors and its documentation within the organization; - Assignment of responsibilities regarding the management and monitoring of contracts and how to fulfil the clauses; - Determination of indicators required to be met by each contractor; - Planning meetings, presentations, reports, etc., regarding the fulfilment of the set indicators.
3.	Risk management	Risks and controls	- Identification of the main risks arising from the new operating model; - Assessment of risks and selecting how to address them; - Development of documents related to the risk management process (policy, procedures, risk register, etc.); - Addressing the risks; - Monitoring the risk management process.

Number	Step	Name	Description
4.	Monitoring	Monitoring IT function	<ul style="list-style-type: none"> - Assignment of responsibilities related to the process of monitoring the IT function; - Identification of metrics and performance indicators to be monitored; - Establishment of periodic events (meetings, presentations, reports, etc.) related to the monitoring of the IT function; - Definition of actions needed to be implemented as a result of the monitoring process, and follow-up to their successful implementation.

The implementation of each of the steps presented above will lead to the development of a series of deliverables/ documents supporting that approach, as presented in what follows. The planning process begins with the identification of the processes and information resources to be migrated to cloud computing technology. For this purpose, a resource register can be drawn up, detailed below.

The register starts with the list of processes to be migrated to cloud computing technology; applied to this case study, they are represented by the process of management of business partners and the financial-accounting function. For the classification of information, a scale of 1 to 5 was used, 1 representing general data, and 5 representing confidential data.

The development of the register continues with the identification of process data, which will be managed through cloud computing; they involve, for the case study addressed:

- Business partners identification data: name, address, e-mail, bank details, etc., classified as personal information (level 5);
- Information on the supporting documents of the transactions carried out: invoices, receipt notes, notice accompanying the goods, etc., classified as confidential (level 5);
- Financial and accounting information: the accounting plan, details of accounting transactions (date of posting, actual date, type of document, related amounts and their classification in accounting accounts, etc.), as well as the resulting financial statements (accounting balance sheet, profit and loss account, change of equity, cash flows and explanatory notes), information classified as confidential (level 5);
- Information relating to stocks: the name and characteristics of the good/service, quantities and values (production cost/purchase price), etc., information classified as sensitive (level 4);
- Finished product information: name and characteristics, raw materials/requirements for production, quantities and costs, etc., classified as confidential information (level 5);

In addition to the processes and data to be migrated to cloud computing technology, it is necessary to evaluate the information/technological resources needed to migrate to the new model. For the case study addressed, they reside in:

- Business partnership application, with the following general functionalities: customer management (order-to-cash), supplier management (purchase- to-pay), master data management (customers, suppliers);
- Production/stock management application, with the following general functionalities: production planning and monitoring, inventory requirements and existing level evaluation, etc.;
- The financial-accounting application, with the following general functions: posting accounting notes related to the process of management of the relationship with business partners (ordering products from customers, ordering materials/ raw materials to the supplier, invoicing and payment from customers/suppliers, delivery of products to the customer, receipt of products from suppliers, etc.), posting accounts related to inventory management process (modification of quantity or cost of inventories, valuation of stocks, inventory accounts etc.), closing of month/year, consolidation and presentation of financial statements;

3. Cost management through the application of unitary practices

Cost management takes into account the following aspects:

- management of information and knowledge through direct access to relevant data;
- level of risk awareness, conducting risk analyses and evaluation of results as standard practice in decision-making;
- long-term vision through the Asset Lifecycle Cost Analysis method;
- appropriate tools: objects of registration, methods of risk analysis, concepts for maintenance, planning, control, measurement and monitoring of asset status.

In cost management, selection, maintenance, inspection and renewal play an essential role in determining operational performance and profitability within the company in carrying out the core business.

As illustrated above, process optimization is not limited to the operational activities themselves, but can also include the costs associated with them. From a financial-accounting perspective, an eloquent example can be the automation of the recording of accounting notes. Thus, following an event (receipt of order from customers, invoicing, delivery of products, ordering to suppliers, receipt and payment of materials/ raw materials, etc.) process automation can be accompanied by the automation of the recording of accounting notes, automatically affecting all relevant accounting accounts with the amounts related to the transaction. As an automated control, it not only supports the optimization of the time and resources involved in the process of posting accounting notes, but at the same time reduces the risk of human error. Other examples of automated checks may include consolidation or reporting within the month/year closing process.

4. The influence of accounting expertise on the financial performance of the organization

Achieving financial performance is a priority objective of any enterprise, and performance information is of interest to a diverse range of users of financial information. Most often, the performance of the enterprise is assessed on the basis of the profit account, “the profit is often used as a measure of performance or as a reference base for other indicators”.

The main objective of financial statements is to provide accounting experts with useful information to investors about the performance of an entity. Although information in financial statements refers to past performance, it is used by investors to make forecasts of future performance. In financial statements, performance is measured by the net profit and its components that are presented in the income and profit account. The results account provides information about a certain period of time.

The main weaknesses of the income statement are considered to be its periodic nature and the estimates it entails (the ability or inability of the enterprise to make these estimates is reflected in the accuracy with which the performance of the exercise is measured). For a fairly long period of time, performance was measured by the net result. In recent years, in addition, performance is represented by economic result, which includes all changes in equity that occur during the period, except for transactions with owners.

For a long time the users of the financial statements have limited themselves to consulting the profit and loss account in order to obtain information on the accounting result, considered the most significant indicator for measuring the performance of the economic entity. On the same track is the economic theory, mentioning as the main objective of economic activity, the maximization of profit. But, the freedom of choosing accounting policies by companies that lead to an increase or a decrease in profit, is one of the main information shortcomings of the profit and loss account.

The profit and loss account is the financial statement that measures the success or performance of the business of an entity, relating to a given period.

Conclusions

Integrity implies that through the accounting profession to be fair and honest in professional and business relationships, not to associate with reports or records that they consider to contain false, incorrect, misleading, omitting or concealing information. Objectivity implies that the PC is impartial, without preconceived ideas, does not find itself in situations of conflict of interest or incompatibility

or in any other situation that would cause a third party to question its honesty and correctness. The accounting profession must not be compromised by mistakes, conflicts of interest or the influence of others.

The accounting profession has an obligation to ensure that the staff employed has mastered this principle. The accounting profession must not receive or offer gifts or invitations that may influence and harm their reasoning. Professional competence and prudence. It is assumed that the accounting profession has the necessary competences, specific to the mission and at the same time meets the two requirements of the concept: acquiring competence and prudence.

The principle imposes the following obligations for the accounting profession as follows:

- acquiring professional knowledge and skills at the level necessary so that clients receive competent professional services;

- act with caution in accordance with technical and professional standards.

Confidentiality requires the accounting profession not to disclose or use in personal interest the information obtained during the performance of its professional tasks. Except in cases where they have been specifically authorised or there is a legal or professional obligation to make that information public, confidentiality must also be respected in the social environment.

The accounting profession must ensure that its subordinate staff comply with the principle that the obligation of confidentiality continues even after the end of the relationship between the accountant profession and the client or employer.

Professional behavior (professionalism) The accounting profession must comply with laws and regulations and avoid any action that would harm the profession, the professional body or a member. The accounting profession must not provide incorrect information about their profession.

The accounting profession must comply with professional, educational and quality standards as a guarantee that it acts for the purpose of protecting the public interest.

The accounting profession must develop professional standards for each of the component activities of the accountancy profession, which constitute quality criteria in the assessment of the tasks performed.

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