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## Information function of accounting

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### ABSTRACT

The study is devoted to one of accounting functions, that is the information function. The main function as well as detailed functions were elaborated. The classification of financial and non-financial information in the accounting system was indicated. Then, the author attempted at locating financial and non-financial information in one report on the activities of a business entity. The study proves that, thanks to the information function, accounting is a comprehensive source of financial information and provides non-financial information on entity's activities, thus satisfying information needs of many stakeholders. The fundamental thesis of the study is expressed in the statement that "*a well-designed information system of accounting ensures access to financial and non-financial data useful to many groups of stakeholders and positively contributes to achieving goals by a given business entity*".

**Keywords:** accounting, accounting functions, information function of accounting, information, information users

### 1. INTRODUCTION

Accounting is a special information system, an international business language, a system of measurement, valuation, keeping records and control. The function of usefulness of an information user reflects a combination of their own needs, whereas the asymmetry of information or its lack results in one stakeholder being better informed than the other, what

makes them take more accurate decisions (Scott 1997; Butterworth 1972). J. A. Christensen and J. S. Demski distinguish two fundamental tasks of accounting (Libby, Bloomfield, Nelson 2002; Christensen, Demski 2003):

- measuring value,
- providing information.

Nowadays, it is expected that the information presented by the accounting system will give a clear, true and reliable picture of an economic condition, a financial situation and results of business entity's activities. Taking account of these premises, it can be acknowledged that the information function of accounting is superior to other detailed functions such as:

- evidential function,
- registering function,
- reporting function,
- analytical function,
- controlling function.

The usefulness of information created in the accounting system largely depends on methods of its identification, measurement and presentation to information users. Business entities mainly present information externally and, to do that, they use financial statements. However, not all entities publicly disseminate information on their non-financial achievements or accomplishments as part of their business activities for a society or the natural environment. This study is devoted to the essence of the information function. The deliberations it includes do not only focus on the issues of financial information but also on classifying and reporting non-financial information.

The main objective of the article is to present the significance of the information function in the accounting learning process and to indicate the important role of generating non-financial information in the accounting system. The fundamental thesis of the study is expressed in the statement that *“a well-designed information system of accounting ensures access to financial and non-financial data useful to many groups of stakeholders and positively contributes to achieving goals by a given business entity”*.

The objective of the study was achieved and the thesis was verified on the basis of a critical analyses of literature and accounting regulations. During writing the article, a technique of a direct interview was also used. The research process involved identifying the research problem and taking a stance on it through an analysis of information coming from the analysis of literature, legal acts and information collected during direct interviews. On the basis of the above, conclusions were drawn.

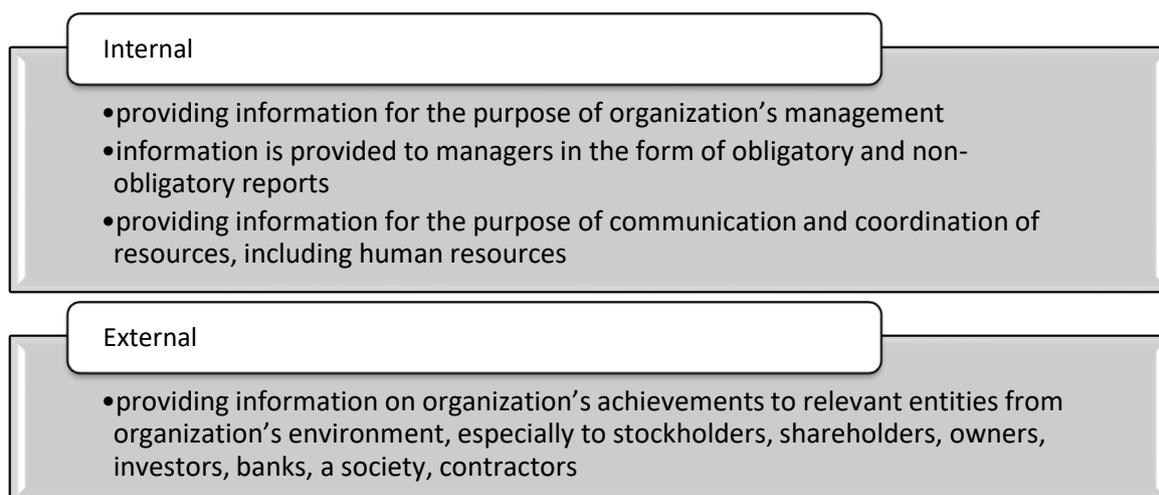
## **2. ACCOUNTING FUNCTIONS AND THE QUALITY OF INFORMATION CREATED BY ACCOUNTING - THEORETICAL APPROACH**

Accounting as the information and controlling system reflecting a course and results of entities' activities is undertaken in various types of entities, regardless of a subject and scope of activities. The necessity of having accounting in an entity arises from the provisions of Art.

2.1. of the Polish Accounting Act. In modern accounting, the most important place is taken by the information function which involves creating information concerning economic phenomena and processes, and its adaptation to the information needs of information users to formulate opinions and take decisions (Gordon, Narayanan 1984; March 1987).

The accounting system is oriented at both internal information users, mainly management and employees, as well as external users, that is an audience, suppliers, competitors, a society. Therefore, the following information function of accounting can be distinguished (Figure 1):

- internal,
- external.



**Figure 1.** Information function of accounting

Source: Own work

When the information function as a superior function of accounting is well executed, it enables distinguishing detailed functions of accounting, such as (Burchell, Clubb, Hopwood, Hughes, Nahapiet 1980; Nowak 1998; Micherda, Świetla 2013):

1. **Registering function** of accounting; connected with records of economic transactions, including transactional consequences in accounting ledgers on bookkeeping accounts.
2. **Classification function** of accounting; connected with the execution of rules of the balance sheet method. This method results in accounting records connected with economic transactions in relevant accounting ledgers specified in a company's chart of accounts. Thanks to records of transactions in a relevant account, one can obtain the classification of the results of economic transactions.
3. **Reporting function** of accounting; concerns a final product of data processing in the accounting system which is devising reports, financial statements, statistical reports adapted to the needs of internal and external audience. Information is presented in reports showing all business activities of an entity, e.g. balance sheet or profit and loss account, as well as in reports concerning selected issues.

4. **Analytical function** of accounting; it refers to examination and interpretation of information provided by the accounting system in the form of reports in order to evaluate an economic and financial situation as well as results and efficiency of organization's activities.
5. **Optimization function** of accounting; means creating grounds for choosing optimal options of acting through providing information on the level of costs, income and financial results.
6. **Motivation function** of accounting; refers to providing information on costs which enables creating the measurement system of assessment and incentives for responsible units in order to make them better involved in achieving goals and completing tasks.
7. **Controlling function** of accounting; involves providing various levels of management with information on costs, expenditure, income and results in order to evaluate the level of the completed tasks, as well as the control of the level of incurred costs. The controlling function of accounting can be reflected in three types of control:
  - initial control, undertaken before the beginning of conducting business activities,
  - current control, undertaken while conducting business activities,
  - end control, undertaken after finishing particular business activities.
8. **Settlement function** of accounting which involves:
  - determining monetary amounts due and liabilities against other legal and natural persons participating in the social process of management,
  - settling internal economic and cost-result relationships which occur as a result of conducting various business activities by an entity.
9. **Evidential function** of accounting; is connected with using bookkeeping tools as credible evidence in potential court and tax proceedings carried out by courts and law enforcement authorities as well as treasury control offices.

The information provided by the accounting system ensures the performance of all accounting functions provided that they are of adequate quality. Quality features of the information are: reliability, comparability, brevity, timeliness. The quality of information is also adequately selected, true, and timely delivered, with the right frequency. Important information features also include:

- reality,
- cognitive value,
- efficiency,
- proper addressing,
- economy.

Performing many various functions by accounting is possible in the event of the compliance with provisions of law and procedures when organizing the accounting system in a company. A well-devised accounting system gives the possibility of generating a lot of financial and non-financial information. On the basis of such information, an organization settles accounts with other entities with which it is connected in various ways. Thanks to the

information system of accounting and functions that accounting performs, the economic, social and environmental surroundings are well-informed.

### **3. THE CLASSIFICATION OF FINANCIAL INFORMATION IN ACCOUNTING**

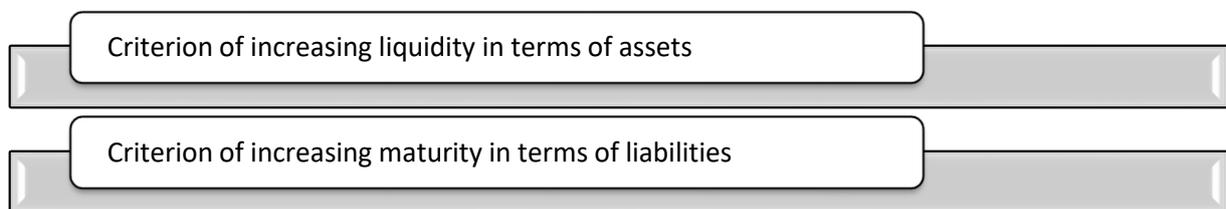
The most important way of arranging information created in accounting is its appropriate classification. The classification of information in the accounting system considerably increases its transparency and, thanks to that, it is more useful for stakeholders of a business entity (Rowley, Hartley 2017; Simkin, Norman, Rose 2014; Colier 2015; Fischer, Taylor, Chang 2013). One should agree with E. Nowak that accounting classifies economic events by means of bookkeeping accounts. Information collected in bookkeeping accounts gives the possibility of the regular organization and synthetic analysis of business entity's activities. The classification of information, data and economic events is significant when assessing the stability of business activities and business entity's ability to continue with its activities.

The classification of information created in financial accounting which is presented in financial statements is obligatory. This classification complies with the accounting standards such as:

- fundamental accounting principles,
- International Financial Reporting Standards
- national regulations on bookkeeping,
- National Accounting Standards.

Thanks to that, the information included in accounting ledgers and presented in obligatory financial statements is uniform what contributes to its comparability.

There are various criteria of classifying information presented in financial reporting, what is shown in Figure 2.



**Figure 2.** The criteria of classifying financial information in accounting - balance sheet

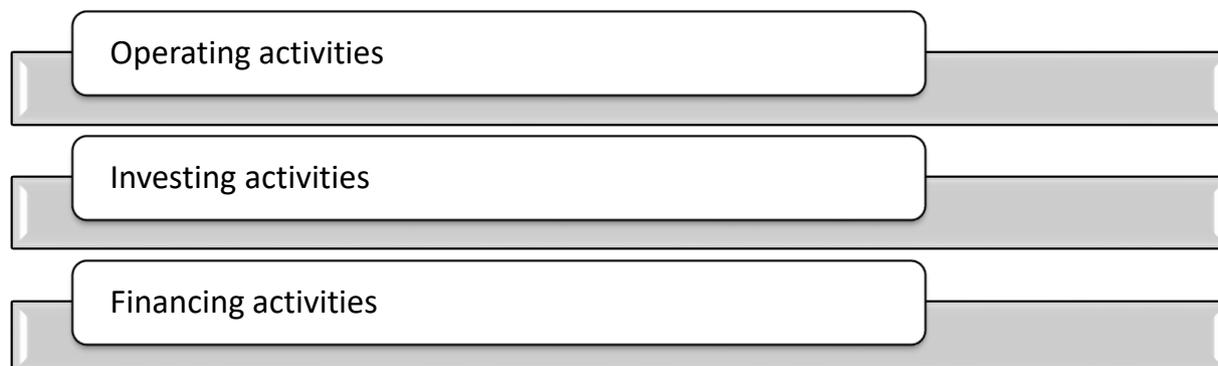
Source: Own work

Financial information concerning income and costs as well as financial results is classified by types of business activities. One can distinguish:

- basic operating activities,
- remaining operating activities,
- financing activities,

- exceptional occurrences.

Income and expenses are presented in a cash flow statement in which three main activities are distinguished, shown in Figure 3.



**Figure 3. The criteria of classifying financial information in accounting**

Source: Own work

It should be emphasised that the classification of financial information in accounting can be done according to other criteria than those presented above. It can happen when such a classification is done for internal purposes of a business entity. Then, such a classification satisfies internal information needs of managers and management, contributes to the transparency of analytical research and determines taking right and effective decisions.

#### **4. THE CLASSIFICATION OF NON-FINANCIAL INFORMATION IN ACCOUNTING**

Financial statements provide financial information that is useful when making economic decisions by the circle of its stakeholders. Typical financial statements prepared on the basis of national regulations or international standards (IFRS) consist of a balance sheet, a profit and loss account, a statement of changes in equity, a cash flow statement and additional information.

Information coming from financial statements complies with accounting principles and meets specific quality requirements what should ensure its high quality confirmed by an opinion of a statutory auditor. However, changes in the modern world and management rules cause that the structure of financial statements cannot fully and credibly present all results of entity's activities. Financial statements do not generate non-financial information, that is information in terms of the environment, a society and corporate governance.

In accordance with Directive 2014/95/EU, a business entity should classify and disclose as well as publish non-financial information in accounting in relevant reports. A basic classification of non-financial information means disclosing the following issues:

- **environmental**; this information concerns: minimizing use of raw materials and other resources, improving environmental effectiveness of processes through the reduction of emission and power consumption, minimizing waste and activities for the control of noise, minimizing electricity consumption, reducing impact on the environment thanks to the programme of production and packaging waste segregation, activities for the protection of the atmosphere through reducing fuel consumption, educational programmes on environmental protection,
- **social**; this information concerns: activities aiming at preserving resources for future generations, influence of taxes and local fees for organization's activities, creating workplaces, investments connected with the development of local infrastructure, cooperation with local organizations, environmental protection authorities, cooperation with schools and other institutions, developing environmental awareness of society, the number of organized campaigns promoting an organization,
- **ethical**; this information concerns: activities undertaken in order to develop appropriate relationships between superiors and employees, activities aiming at ensuring occupational safety, activities preventing mobbing, corruption,
- **employee-related**; this information concerns: the number of highly qualified executives regularly developing their competence, innovative solutions in terms of methods and technologies of production implemented by employees, sharing knowledge, the number of the devised educational programmes, the number of employees involved in campaigns promoting a business entity, the number of workshops conducted for schools and training courses for the local community, the number of undertakings of a design character, the number of the created knowledge maps as well as competence maps or knowledge platforms.

The way that non-financial information is grouped and classified depends on a business entity, its form, character of its activities, tasks it carries out and functions it performs in national economy. Entities may use other classification of non-financial information, for example according to information concerning:

- **possessed resources**; financial, physical, human, information, organizational,
- **processes and activities**; logistic, organizational,
- **non-financial results of conducted business activities**; such as educational activities, workshops, cooperation with schools, seniors, local community.

Non-financial information in accounting can be also classified on the basis of the perspectives of the Balanced Scorecard (Kaplan, Norton 2001) as presented in Table 1.

Corporate responsibility is free and means taking account of social and ecological issues of the conducted business activities by an entity.

If an entity wants to be considered as socially responsible, it must pay special attention to relationships with stakeholders who can have many, often different and contradictory, expectations.

In order to meet such expectations, an entity can generate financial and non-financial information, include it in accounting systems and publish in the form of a complete report available for a wide range of information users.

**Table 1.** Classification of non-financial information based on the perspectives of the Balanced Scorecard

<b>No.</b>	<b>Perspective of</b>	<b>Characteristics of non-financial information</b>
1.	<b>Customer</b>	<ul style="list-style-type: none"> <li>- minimizing customer service time, training courses in that</li> <li>- strengthening relationships with repeat customers through organizing meetings for key customers,</li> <li>- coordinating and communicational activities,</li> <li>- workshop for employees on high-quality customer service (time and employee engagement)</li> </ul>
2.	<b>Internal business processes</b>	<ul style="list-style-type: none"> <li>- streamlining a document flow (training employees, implementing new programmes)</li> <li>- implementing internal rules,</li> <li>- building trust within an organization (meetings with employees, Christmas parcels, meetings with children)</li> </ul>
3.	<b>Learning and growth</b>	<ul style="list-style-type: none"> <li>- improving employees' skills (cascade training, workshop, e-learning)</li> <li>- increasing customer service quality (profiled training courses for employees)</li> <li>- organization's flexibility (flexible working hours of an entity, availability in the customer service department)</li> </ul>

Source: Own work

Corporate responsibility is free and means taking account of social and ecological issues of the conducted business activities by an entity. If an entity wants to be considered as socially responsible, it must pay special attention to relationships with stakeholders who can have many, often different and contradictory, expectations. In order to meet such expectations, an entity can generate financial and non-financial information, include it in accounting systems and publish in the form of a complete report available for a wide range of information users.

## **5. INFORMATION REPORTING IN ACCOUNTING**

A more and more popular idea of corporate social responsibility makes entities take responsibility for not only a financial result but also their influence on a social sphere and the natural environment as well as accounting for this influence before particular groups of stakeholders. Growing significance of social and ecological aspects of the functioning of

business entities results in an increased interest in their reporting, including generating non-financial information. As A. Lulek (2015) observes reporting leads to more coherence in enterprises' external communication and enables collecting better quality data.

The scope of information included in reports depends on its recipients who are (Gelinas, Dull, Wheeler 2011):

- 1) recipients inside an entity:
  - a) management board,
  - b) middle management,
  - c) employees,
  - d) entity's regulatory bodies;
- 2) recipients supervising an entity directly:
  - a) a body supervising a given entity,
  - b) a body controlling a given entity;
- 3) external controlling and supervising units:
  - a) controlling institutions (e.g. Supreme Chamber of Control, Regional Chamber of Accounts, Social Insurance Institution),
  - b) external auditors;
- 4) external stakeholders of an entity;
  - a) direct recipients of products and services,
  - b) citizens, society,
  - c) public institutions,
  - d) social partners and other private institutions.

A report which contains financial and non-financial information is an expression of the dialogue with the surroundings of the socially responsible business. Reporting information collected and processed by the accounting system enables:

- winning approval of activities, creating a positive image of an organization and a strong reputation,
- improving a company's image in problematic situations,
- strengthening a market position of a product, a brand or a whole company,
- regaining trust in an organization.

Moreover, even minimal real actions as part of reporting of financial and non-financial information and, at the same time, publicizing these actions a lot can result in gaining the aforementioned benefits by a company. However, the stronger communication, the lower risk of losing trust of clients and contractors in a business entity and its products or services there is. Main positive results of reporting financial and non-financial information are as follows:

- enhancing clients' trust,
- reducing resource consumption,
- educating employees, increasing their effectiveness,
- increasing attractiveness to investors,
- supporting a local community,
- developing a global operational perspective,

- increasing a competitive advantage,
- improving a company's image.

Management of organizations in a socially responsible way guarantees more transparency and clarity of financial, but mainly, non-financial information. A right information policy enables building stronger and long-lasting relationships with the surroundings and, in particular, with an information user. It should be emphasised that current expectations of stakeholders in terms of obtaining information will result in the following changes in reporting such information:

- traditional financial reports will be extended to include non-financial information,
- it will be crucial that stakeholders are informed in a transparent way of all aspects of social and environmental activities thanks to disclosing more in this respect,
- the selection of relevant qualitative and quantitative indicators will be significant in order to measure effectiveness and efficiency of these activities.

Taking into account the intensity of processes and activities towards the integration of financial accounting, management accounting and controlling, evolving in the direction of business reporting, reporting changes to adapt to the needs of stakeholders. The basic purpose of financial reports is to communicate the effects of measurement and economic valuation as well as information about resources, achievements, achievements of individuals, for those who have reasonable rights to have information. However, today's reporting is evolving towards including non-financial reporting, in which information about the entity's potential, its resources, values, and its functions are focused. The following reporting models should be distinguished:

1. Social report.
2. Sustainable development report.
3. Integrated statement.
4. Integrated report.
5. Socio-environmental report.

Entities can still choose a form and scope of disclosed information about socially responsible activities and that is why these entities limit themselves to publishing only this information which show them in a favourable light.

## **6. CONCLUSIONS**

Accounting is a formalized system of recording economic events in an organization which enables generating, obtaining, processing and presenting financial and non-financial information as well as making decisions. Thanks to the information function, accounting is a comprehensive source of financial information and provides non-financial information on entity's activities, thus satisfying information needs of many stakeholders.

The study was devoted to one of accounting functions, that is the information function. Moreover, detailed accounting functions were also discussed. The classification of financial and non-financial information in the accounting system was described and, at the same time,

it was highlighted that, currently, information from financial statements cannot fully and credibly present all results of entity's activities.

In the study, the author proposed the classification of non-financial information in accounting and emphasised that it is a business entity that decides how it collects and discloses such information.

The fundamental thesis of the study was expressed in the statement that “*a well-designed information system of accounting ensures access to financial and non-financial data useful to many groups of stakeholders and positively contributes to achieving goals by a given business entity*”. This thesis was positively verified by the author and a product of the information system of accounting is a uniform report which includes both financial and non-financial information on achieved financial results, processes, activities and tasks carried out in terms of economic, social and environmental objectives of a given business entity.

### **Biography**

**Beata Sadowska** - PhD in economics, an employee of the Department of Accountancy and Controlling at the Faculty of Management and Economics of Services at the University of Szczecin, Poland.

Beata Sadowska is:

- a member of the International Controllers Association (ICV),
- an ordinary member of the Accountants Association in Poland,
- a member of the Polish Economic Society,
- a member of the Polish Forest Society.

She is the author of the monograph "Logistics costs in the enterprise", the editor of the monograph: "Accounting in the enterprise information system", co-author of the books: "Basics of accounting", "Financial Accounting", "Advanced financial accounting", author of over 30 other scientific publications, author of over 50 popularized publications.

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