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Case Study

The Impact of Accounting Models in Management Decision

Tatiana Danescu[1] and Luminita Rus[2]

[1] "Petru Maior" University Tirgu Mures, Romania

[2] "1 December 1918" University Alba Iulia, Romania

Correspondence should be addressed to: Luminita Rus; lumimar@gmail.com

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Abstract

At the moment in Romania there is a bolding of the phenomenon of dissolution of societies with limited liability and starting a business by the associates of these companies, individually, through so-called Authorized Individuals (PFA). Analyzing this phenomenon, you may find that the financial side is the primordial element that determines such a decision. This paper presents a case study on the influence of accounting models "cash" and "accrual", comparing the results of activity of the five companies, in five different areas of activity over a period of five years. The purpose of the research is to determine the elements that differentiate the result by using an accounting model "cash" or "accrual". It is found that, in some companies, the gross result established based on the accrual accounting is totally different from that determined based on the cash method. One of the reasons for such differences may be the duration of settlement of receivables and payables.

Keywords*:* cash basis, accrual basis, net result

Introduction

An essential element of the management and, at the same time, a specific instrument is the decision. The decisions made and their degree of applicability shows the quality of the management of an entity. In order for a decision to be good, the knowledge of business is required, of management's objectives, as well as the knowledge of staff who will attend the fleshing out of the decision. When we talk about the knowledge of staff we mean training and motivation, the interests and its qualitative potential.

At the same time, the managerial decisions are influenced by the type of accounting method used. What if, by analyzing the income and expenses of the economic entity,

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it is noticed that the entity has made profit, but posts the treasury deficit? The manager will review the cost bearers – phase, product, department, work point, etc. – and he will find that some centers of cost bring higher profit to the entity than other cost centers. Looking through the prism of the treasury, he will notice that what it was considered less profitable it bring the cash surplus, and what is considered profitable to bring the treasury deficit.

For the decision to be optimal there must be the "knowledge". The manager must know and understand the economic information. "The economic information helps us to observe how to use the material and human resources, to realize and to examine critically the positive aspects but also the existence of deficiencies in order to take the needed measures. To manage an entity means, on the one hand, to know thoroughly the current task and to interfere with operative decisions in its management, and on the other hand, the supposed future evolution and elaboration of the forecasts to outline the directions of development in the perspective of that entity. "(Briciu Sorin, 2006, page. 9) The managers must be familiar with the information offered by the accounting method "accrual" and "cash accounting"; they must know and distinguish the treasury profits using those two methods.

Romanian accounting regulations provide the use of the accounting method "cash" only by taxpayers who obtain income from independent activities (Public Finance Minister Order No. 1040/2004) and, from the category of companies without patrimonial purpose, the religious entities and associations of owners (the Order of the Minister of Economy and Finance 1969/2007). The question arises whether the accounting method “cash" could be used in Romanian entities, or even just for those that meet certain conditions, would this lead to a recovery of the economy? The Romanian businessman would know that recognizing the expenses just at the time of payment; would he pay his debts according to the due dates? By recognizing the income only when he receives cash, would he be aware that he pays taxes on the profit actually realized?
In what follows, we will present a comparative study of the influence of the accounting methods "cash" and "accrual" in making decisions, comparing the results of the activity of the five entities, in five different areas of activity over a period of five years.

The Methodology of Research

Annual financial statements represent the mirror of an entity that allows an appreciation of the entity’s performance and of the financial position on the current period, but also compared with the previous period. "The main financial situation used for the interpretation of the performance of the entity is the profit and loss statement. It interprets the elements that contribute to the calculation of the profitability indicators, starting from the fundamental relationship: Income – Expenses =Results "(Liliana Feleagă, Niculae Feleagă, 2007, page 19).

In the research conducted for the elaboration of the present work, I started from the fundamental research to produce the theory through a reading of the scientific opinions expressed at this stage of knowledge. I have reviewed the literature and the annual financial reports of the five different entities: Transport of goods, Dental healthcare, Repair of computers and peripheral equipment, Maintenance and repair of motor vehicles, Repair of household appliances and home equipment.

As a support generator of the possible explanations and information, I used the descriptive research through the description of the main elements relating to the entity's performance and managerial decisions taken as a result of accounting information. To identify differences and similarities between the entities, I resorted to comparative research by developing a

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comparative study of the activities of the five companies, in five different areas of activity over a period of five years.

At last, but not least, we have used the research for building the theory in the sense that this case study will be the basis of other studies of the indicators used in the financial and economic analysis of the entities mentioned. Here, we recall the length of rotation of stocks, receivables and payables and the influence they can have on managerial decisions when using the accounting method of “accrual" but also in accounting method "cash".

The State of Knowledge

In the Romanian and European accounting, accrual accounting is based on the principle of delimitation in time of the revenue and expenditure or the principle of the independence of the fiscal year. According to this principle, revenues and profits, as well as costs associated with them are highlighted in the same fiscal year.
Accounting method "accrual" –accrual accounting – is a real aid for the management of the entities, as it presents a better knowledge of the financial situation at a time. Accrual accounting provides important information for a better control over the economic operations of the entity, as well as for the management of assets, debts and risks inherent in the activity of the multiannual perspective. Treasury accounting method-method "cash"- is defined as a key in the evaluation of the real estate of the entity because it seeks recognition of the main operations through the treasury, through the treasury understanding both liquidity and cash equivalents.

Putting face to face two accounting experts – one carrying an independent activity through an individual chartered cabinet, the other one through a limited liability company, with sole proprietor – we will find that in the same field of activity, about the same volume of revenue – the result differs significantly. And no thanks to spending.

The individual cabinet, using the accounting method of "cash" recognizes income only upon receipt and expenditure just at the time of payment. Limited liability company using accounting method accrual-method "accrual"-recognizes income from professional activity at the time of the billing. This fact leads to the tax liability whether or not the money was received, which may destabilize the entity through a shortage of the treasury. These differences can be found in other areas of activity (production, services, etc.): company activity versus healthcare medical office, production company versus furniture carpenter –as individual, company for transport of goods versus individuals authorized to carry freight activity, etc. The list goes on.

In his doctoral thesis – "From accrual accounting to cash accounting in the management of controlled resources “ "– Mrs. Baban Cristina-Lucia (2010) presents accrual accounting as being generally accepted for recognition of economic transactions in the accounts when they occur and not when there is the time of payment or collection. The exception to this rule is the use of cash flows, which are based on the accounting method of cash. The managerial team, through its policies, must track the cash flow through the flows obtained from the basic activity and their use, the outcome of the cash to be done for investment and financing activities.

The international accounting standards council – IASB – through the general framework concerning the preparation and presentation of financial statements does not prohibit the use of the cash accounting, but requires the financial statements to be drawn up on the basis of accrual accounting for the effects of transactions and events to be reported in the financial statements for the period in which they occurred.

Financial practice, as well as theory on the financial side of an entity, indicates an interest of users of the information provided by the financial statements of an entity, in the formulation of decisions taking into account the entity's ability to generate cash flows in the period ahead. Statements of cash flows provide information about how the company generates and uses the liquidity and cash equivalents.

The European Commission, through the Guide on the new financial reporting system of the EU: "The upgrading of EU accounts – a better management of the information and increased transparency" available at the web address of http://ec.europa.eu/budget/library/biblio/publications/modern_accounts/modernising_EUaccounts_ro.pdf, presents information about reform ABAC (Accrual Based Accounting – accounting of commitments), whose goal was to steer the general accounting towards an accrual accounting system since 2005. In January 2005, the new accounting system became operational, and a new series of accounting standards enter into force.

Case Study

For the elaboration of the case study, excerpts from the annual financial statements of five entities in different areas of activity are presented: road transport, dental care, repair of computers and peripheral equipment, maintenance and repair of motor vehicles and the repair of household appliances and equipment for the home.

In our opinion, what makes the subject of the current research is the result set after subtracting the expenses from income and the result set after the deduction from the receipts of the gross payments. Starting from the result determined by accrual accounting, through adjustments, we will calculate the result determined by the accounting method of cash. The support for the case study is the balance sheet and the profit and loss statement.

Entity 1: Limited Liability Company with a capital of 200 RON that has as main activity the road transport of goods. Extracts from the annual profit and loss statement of the entity in question are presented in Table 1.

Table 1: Extract from the Profit and Loss Statement of Entity 1

No. crt.	Description of elements	2006	2007	2008	2009	2010
1.	Total income (less line 2)	565.091	489.458	416.297	398.669	425.877
2.	Income from exchange rate differences	1.106	15.157	41.418	9.185	14.942
3.	Expenses (other than line 4 and 5)	484.254	425.515	347.002	369.335	391.336
4.	Depreciation and amortization	24.412	16.444	21.553	24.229	30.498
5.	Expenses from exchange rate differences	9.155	7.022	5.037	4.279	12.852
6.	Gross result of fiscal year	48.376	55.634	84.123	10.011	6.133
7.	Tax on Profit	5.353	10.577	13.909	9.726	5.684
8.	Net result of fiscal year	43.023	45.057	70.214	285	449
Source : Annual Profit and Loss Statement of Entity 1						

Extracts from the annual balance sheets of the analyzed entity are presented in Table 2.

Table 2: Extract from Annual Balance Sheet of Entity 1.

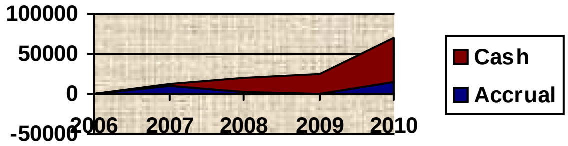
No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Fixed Assets	52.696	80.762	83.584	111.041	63.960
2.	Current Assets, of which:	286.463	258.108	296.379	269.493	316.798
3.	Receivables	265.307	234.228	217.743	260.599	259.787
4.	Inventory	1.297	992	1.110	992	2.126
5.	Prepaid Expenses	0	0	0	0	0
6.	Long-term debt of less than one year	325.672	300.151	309.454	309.768	312.768
7.	Long-term debt of more than one year	0	0	0	0	0
8.	Total Liabilities	325.672	300.151	309.454	309.768	312.768
9.	Income in advance	0	0	0	0	0
10.	Provisions	0	0	0	0	0
Source : Annual Balance Sheet of Entity 1						

We will make the necessary adjustments to reflect the accounting method of cash during the period 2006-2010. These adjustments and the calculation mode are presented in Table3, and the graph of evolution is represented in Graph 1.

Table3: Adjustments Made for Entity 1

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (Line.1 Table no.1)	565.091	489.458	416.297	398.669	425.877
2.	(+) Beginning Balance Receivables	148.206	265.307	234.228	217.743	260.599
3.	(-) Ending Balance Receivables	265.307	234.228	217.743	260.599	259.787
4.	**(=) Receipts**	**447.990**	**520.537**	**432.782**	**355.813**	**426.689**
5.	Expenses (line 3 Table no.1)	484.254	425.515	347.002	369.335	391.336
6.	(-) Beginning Balance Fixed Assets	89.243	52.696	80.762	83.584	111.041

7.	(+) Ending Balance Fixed Assets	52.696	80.762	83.584	111.041	63.960
8.	(-) Beginning Balance Inventory	1.293	1.297	992	1.110	992
9.	(+) Ending Balance Inventory	1.297	992	1.110	992	2.126
10.	(+) Beginning Balance Liabilities	271.462	325.672	300.151	309.454	309.768
11.	(-) Ending Balance Liabilities	325.672	300.151	309.454	309.768	312.768
12.	(+) Prepaid Expenses	0	0	0	0	0
13.	(-) Prepaid Expenses	0	0	0	0	0
14.	**(=) Payments**	**393.501**	**478.797**	**340.639**	**396.360**	**342.389**
15.	**Gross Profit of fiscal year(„accrual" line 6-line 8 Table no.1)**	**48.376**	**55.634**	**84.123**	**10.011**	**6.133**
16.	Tax on Profit	5.353	10.577	13.909	9.726	5.684
17.	Net Profit of Fiscal year	43.023	45.057	70.214	285	449
18.	**Gross profit of Fiscal Year (**cash accounting method=line 4–line 14)	**54.489**	**41.740**	**92.143**	**- 40.540**	**84.300**
19.	Difference Gross Profit	2.748	-9.995	7.186	-40.825	70.363
Source: authors						



Source: Authors

Graph 1. Evolution of Gross Profit Entity 1

Entity 2: Limited Liability Company with a capital of 200 RON that has as main activity dental healthcare. Extracts from the annual profit and loss statements of this entity are presented in Table 4.

Table 4: Extract from Profit and Loss Statement of Entity 2

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (less line 2)	57.509	52.018	56.325	47.417	50.212
2.	Income from Exchange Rate Differences	0	0	0	0	0
3.	Expenses (other than line 4 and 5)	25.923	28.863	25.291	32.082	32.500
4.	Depreciation and Amortization	3.016	6.535	5.425	5.274	5.194
5.	Expenses from Exchange Rate Differences	0	1.769	2.489	1.599	1.755
6.	Gross Profit of Fiscal Year	28.939	14.851	23.120	8.462	10.763
7.	Tax on Profit	1.725	1.040	1.408	3.267	2.386
8.	Net Profit of Fiscal Year	27.214	13.811	21.712	5.195	8.377
Source : Annual Profit and Loss Statement of Entity 2						

Extracts from the annual balance sheets of the company analyzed are presented in Table 5.

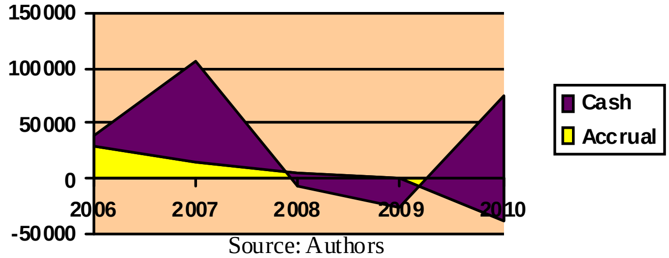
Table 5: Extract from Annual Balance Sheet of Entity 2

Nr. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Fixed Assets	49.002	42.468	37.043	31.275	26.752
2.	Current Assets , of which:	13.921	9.851	20.211	25.423	23.468
3.	Receivables	5.374	3.092	3.093	3.197	1.400
4.	Inventory	8.479	6.057	6.583	7.878	6.192
Nr. crt.	**Description of Elements**	**2006**	**2007**	**2008**	**2009**	**2010**
5.	Prepaid Expenses	0	0	0	0	
6.	Long-term debt of less than one year	30.146	10.792	10.770	10.575	2.066
7.	Long-term debt of more than one year	5.323	27.476	24.532	19.166	12.869
8.	Total Liabilities	35.469	38.268	35.302	29.741	14.935
9.	Income in advance	0	0	0	0	0
10.	Provisions	0	0	0	0	0
Source: Annual Balance Sheet of Entity 2						

We will make the necessary adjustments to reflect the cash accounting method during the period 2006-2010. These adjustments and the calculation mode are presented in Table 6 and its evolution is represented in Graph 2.

Table 6: Adjustments made for Entity 2

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (line 1 Table no.4)	57.509	52.017	56.325	47.417	50.212
2.	(+) Beginning Balance Receivables	5.306	5.374	3.092	3.093	3.197
3.	(-) Ending Balance Receivables	5.374	3.092	3.093	3.197	1.400
4.	**(=) Receipts**	**57.441**	**54.299**	**56.324**	**47.313**	**52.009**
5.	Expenses (line 3 Table no. 4)	25.923	28.863	25.291	32.082	32.500
6.	(-) Beginning Balance Fixed Assets	13.809	49.002	42.468	37.043	31.275
7.	(+) Ending Balance Fixed assets	49.002	42.468	37.043	31.275	26.752
8.	(-) Beginning Balance Inventory	5.841	8.479	6.057	6.583	7.878
9.	(+) Ending Balance Inventory	8.479	6.057	6.583	7.878	6.192
10.	(+) Beginning Balance Liabilities	4.640	35.469	38.268	35.302	29.741
11.	(-) Ending Balance Liabilities	35.469	38.268	35.302	29.741	19.575
12.	(+) Prepaid Expenses	0	0	0	0	0
13.	(-) Prepaid Expenses	0	0	0	0	0
14.	**(=) Payments**	**32.925**	**17.108**	**23.258**	**33.170**	**36.457**
15.	**Gross Profit of Fiscal year („accrual” line 6-line 8 Table no.4)**	**28.939**	**14.851**	**23.120**	**8.462**	**10.763**
	Description of Elements	**2006**	**2007**	**2008**	**2009**	**2010**
16.	Tax on Profit	1.725	1.040	1.408	3.267	2.386
17.	Net Profit of Fiscal Year	27.214	13.811	21.712	5.195	8.377
18.	**Gross profit of Fiscal Year (cash accounting=line 4 –line 14)**	**24.516**	**37.191**	**33.066**	**14.143**	**15.552**
19.	Differences in gross profit	6.621	22.340	9.946	5.681	4.789
Source: Authors						



Source: Authors

Graph 2.Evolution of Gross Profit of Entity 2

Entity 3: Limited Liability Company with a capital of 200 RON, that has as main activity the repair of computers and peripheral equipment. Extracts from the annual profit and loss statements of this society are presented in Table 7.

Table 7: Extract from Profit and Loss Statement of Entity 3

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (less line 2)	226	70.297	112.302	100.462	158.784
2.	Income from exchange rate differences	0	1.473	317	440	10.185
3.	Expenses (other than line 3 – line 5)	589	59.616	108.828	98.322	144.091
4.	Depreciation and Amortization	0	584	7.325	16.064	13.654
5.	Expenses from exchange rates differences	0	558	5.872	2.871	11.527
6.	Gross Profit of Fiscal Year	-363	10.681	3.474	1.140	14.693
7.	Tax on Profit	0	1.644	711	3.061	4.063
8.	Net Profit of Fiscal Year	-363	9.037	2.763	-1.921	10.630
Source : Anual Profit and Loss Statement of Entity 3						

Extracts from the annual balance sheets of the company analyzed are presented in Table 8.

Table 8: Extract from annual balance sheet of Entity 3

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Fixed Assets	446	4.842	52.835	36.772	23.118
2.	Current Assets, of which:	402	29.720	26.708	47.715	61.965
3.	Receivables	95	11.680	2.743	6.508	2.703

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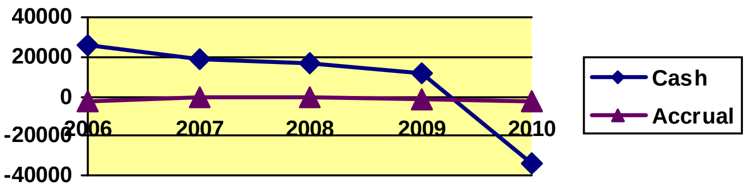
4.	Inventory	88	14.540	22.439	39.675	20.706
5.	Prepaid Expenses	0	0	0	0	0
6.	Long-term debt of less than one year	1.011	21.942	21.828	32.737	27.707
7.	Long-term debt of more than one year	0	0	46.204	43.094	38090
8.	Total Liabilities	1.011	21.942	68.032	75.831	65.797
9.	Income in Advance	0	0	0	0	0
10.	Provision	0	0	0	0	0
Source : Annual Balance Sheet of Entity 3						

We will make the necessary adjustments to reflect the cash accounting method during the period 2006-2010. These adjustments and the calculation mode are presented in Table 9, and its evolution is represented in Graph 3.

Table 9: Adjustments Made for Entity 3

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (line 1 Table no.7)	226	68.824	111.985	100.022	148.599
2.	(+) Beginning Balance Receivables	0	95	11.680	2.743	6.508
3.	(-) Ending Balance Receivables	95	11.680	2.743	6.508	2.703
4.	**(=) Receipts**	**131**	**57.239**	**120.922**	**96.257**	**152.404**
5.	Expenses (line 3 Table no. 7)	589	58.474	95.631	79.387	118.910
6.	(-) Beginning Balance Fixed Assets	0	446	4.842	52.835	36.772
7.	(+) Ending Balance Fixed assets	446	4.842	52.835	36.772	23.118
8.	(-) Beginning Balance Inventory	0	88	14.540	22.439	39.675
	Description of Elements	**2006**	**2007**	**2008**	**2009**	**2010**
9.	(+) Ending Balance Inventory	88	14.540	22.439	39.675	20.706
10.	(+) Beginning Balance Liabilities	0	1.011	21.942	68.032	75.831
11.	(-) Ending Balance Liabilities	1.011	21.942	68.032	75.831	65.797
12.	(+) Prepaid Expenses	0	0	0	0	0
13.	(-) Prepaid Expenses	0	0	0	0	0
14.	**(=) Payments**	**112**	**56.391**	**105.433**	**72.761**	**96.321**
15.	**Gross Profit of Fiscal year**	-363	10.681	3.474	1.140	14.693

	(„accrual" line 6-line 8 Table no.7)					
16.	Tax on Profit	0	1.644	711	3.061	4.063
17.	Net Profit of Fiscal Year	-363	9.037	2.763	-1.921	10.630
18.	**Gross profit of Fiscal Year (cash accounting=line 4 –line 14)**	**19**	**848**	**15.489**	**23.496**	**56.083**
19.	Differences in gross profit	-382	8.189	12.015	22.356	41.390
Source: Authors						



Source: Authors

Graph 3: Evolution of Gross Profit Entity 3

Entity 4: Limited Liability Company with a capital of 200 lei, that has as main activity the maintenance and repair of motor vehicles. Extracts from the annual profit accounts of this society are presented in Table 10.

Table 10: Extract from the Profit and Loss Statement of Entity 4

No. crt.	Description of elements	2006	2007	2008	2009	2010
1.	Total income (less line 2)	145.663	205.330	296.048	341.826	346.751
2.	Income from exchange rate differences	0	0	0	0	0
3.	Expenses (other than line 4 and 5)	115.939	187.322	284.726	337.201	376.343
No. crt.	**Description of elements**	**2006**	**2007**	**2008**	**2009**	**2010**
4.	Depreciation and amortization	938	2.733	6.086	4.821	7.941
5.	Expenses from exchange rate differences	0	0	0	0	0
6.	Gross result of fiscal year	28.786	15.275	5.237	-196	-37.533
7.	Tax on Profit	3.528	2.517	1.046	5.080	4.875
8.	Net result of fiscal year	25.258	12.758	4.191	-5.276	-42.408
Source : Annual Profit and Loss Statement of Entity 1						

Extracts from the annual balance sheets of the company analyzed are presented in Table 11.

Table 11: Extract from Annual Balance Sheet of Entity 4

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Fixed Assets	27.440	36.102	38.976	56.862	49.663
2.	Current Assets, of which:	18.478	80.458	44.304	57.429	80.141
3.	Receivables	0	2.991	1.089	6.426	1.723
4.	Inventory	11.240	3.347	2.089	48.655	75.507
5.	Prepaid Expenses	0	0	0	0	0
6.	Long-term debt of less than one year	27.456	28.552	23.843	99.313	72.792
7.	Long-term debt of more than one year	0	75.000	54.996	20.004	104.446
8.	Total Liabilities	27.456	103.552	78.839	119.317	177.238
9.	Income in advance	0	0	0	0	0
10.	Provisions	0	0	0	0	0
Source : Annual Balance Sheet of Entity 3						

We will make the necessary adjustments to reflect the cash accounting method during the period 2006-2010. These adjustments and the calculation mode are presented in Table 12, and its evolution is represented in Graph 4.

Table 12: Adjustments Made for Entity 4

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (line 1 Table no.10)	145.663	205.330	296.048	341.826	346.751
2.	(+) Beginning Balance Receivables	0	0	2.991	1.089	6.426
3.	(-) Ending Balance Receivables	0	2.991	1.089	6.426	1723
4.	**(=) Receipts**	**145.663**	**202.339**	**297.950**	**336.489**	**351.454**
5.	Expenses (line 3 Table no. 10)	115.939	187.322	284.726	337.201	376.343
6.	(-) Beginning Balance Fixed Assets	847	27.440	36.102	38.976	56.862
7.	(+) Ending Balance Fixed assets	27.440	36.102	38.976	56.862	49.663

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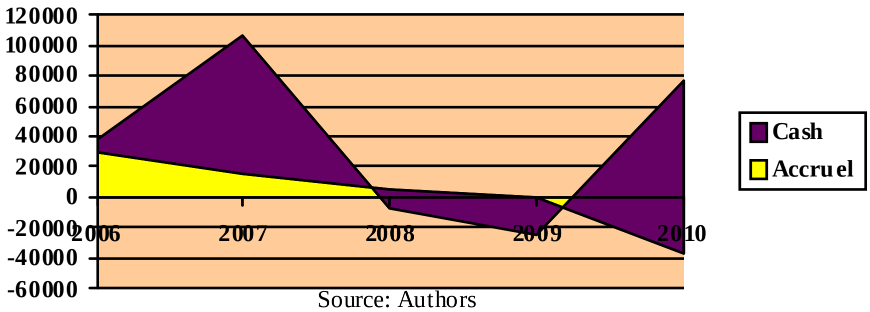
8.	(-) Beginning Balance Inventory	83	11.240	3.347	2.089	48.655
9.	(+) Ending Balance Inventory	11.240	3.347	2.089	48.655	75.507
10.	(+) Beginning Balance Liabilities	10.163	27.456	103.552	78.839	119.317
11.	(-) Ending Balance Liabilities	27.456	103.552	78.839	119.317	177238
12.	(+) Prepaid Expenses	0	0	0	0	0
13.	(-) Prepaid Expenses	0	0	0	0	0
14.	**(=) Payments**	**136.396**	**111.995**	**311.055**	**361.175**	**338.075**
15.	**Gross Profit of Fiscal year („accrual" line 6-line 8 Table no.10)**	**28.786**	**15.275**	**5.237**	**-196**	**-37.533**
16.	Tax on Profit	3.528	2.517	1.046	5.080	4.875
17.	Net Profit of Fiscal Year	25.258	12.758	4.191	-5.276	-42.408
18.	**Gross profit of Fiscal Year (cash accounting=line 4 –line 14)**	**9.267**	**90.344**	**-13.105**	**-24.686**	**13.379**
19.	Differences in gross profit	-19.519	75.069	-18.342	-24.882	50.912
Source: Authors						



Source: Authors

Graph. 4: Evolution of Gross Profit Entity 4

Entity 5: Limited Liability Company with a capital of 200 RON that has as main activity to repair household appliances and equipment for the home. Extracts from the annual profit and loss statements of this society are presented in Table 13.

Table 13: Extract from the Profit and Loss Statement of Entity 5

No. crt.	Description of elements	2006	2007	2008	2009	2010
1.	Total income (less line 2)	41.577	39.253	39.461	33.727	22.755
2.	Income from exchange rate differences	0	0	0	0	0
3.	Expenses (other than line 4 and 5)	31.973	27.104	25.736	23.883	23.161
4.	Depreciation and amortization	11.869	13.140	14.123	11.633	1.754
5.	Expenses from exchange rate differences	0	0	0	0	0
6.	Gross result of fiscal year	-2.265	-991	-398	-1.789	-2.160
7.	Tax on Profit	1.247	785	987	1.673	1.650
8.	Net result of fiscal year	-3.512	-1.776	-1.385	3.462	-3.810
Source : Annual Profit and Loss Statement of Entity 1						

Extracts from the annual balance sheets of the company analyzed are presented in Table 14.

Table 14: Extract from Annual Balance Sheet of Entity 5

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Fixed Assets	40.796	27.656	13.533	12.214	10.460
2.	Current Assets, of which:	15.366	14.422	17.463	15.626	6.483
3.	Receivables	4.893	236	75	236	75
No. crt.	Description of Elements	2006	2007	2008	2009	2010
4.	Inventory	863	425	1.845	1.478	1.798
5.	Prepaid Expenses	0	0	0	0	0
6.	Long-term debt of less than one year	59.434	47.327	37.807	38.057	1.540
7.	Long-term debt of more than one year	0	0	0	0	30.000
8.	Total Liabilities	59.434	47.327	37.807	38.057	31.540
9.	Income in advance	0	0	0	0	0
10.	Provisions	0	0	0	0	0
Source : Annual Balance Sheet of Entity 5						

We will make the necessary adjustments to reflect the cash accounting method during the period 2006-2010. These adjustments and the calculation mode are presented in Table 15, and its evolution is represented in Graph 5.

Table 15: Adjustments Made for Entity 5

No. crt.	Description of Elements	2006	2007	2008	2009	2010
1.	Total Income (line 1 Table no.13)	41.577	39.253	39.461	33.727	22.755
2.	(+) Beginning Balance Receivables	8.032	4.893	236	75	236
3.	(-) Ending Balance Receivables	4.893	236	75	236	75
4.	**(=) Receipts**	**44.716**	**43.910**	**39.622**	**33.566**	**22.916**
5.	Expenses (line 3 Table no. 13)	31.973	27.104	25.736	23.883	23.161
6.	(-) Beginning Balance Fixed Assets	49.781	40.796	27.656	13.533	12.214
7.	(+) Ending Balance Fixed assets	40.796	27.656	13.533	12.214	10.460
8.	(-) Beginning Balance Inventory	491	863	425	1.845	1.478
9.	(+) Ending Balance Inventory	863	425	1.845	1.478	1.798
10.	(+) Beginning Balance Liabilities	54.800	59.434	47.327	37.807	38.057
	Description of Elements	**2006**	**2007**	**2008**	**2009**	**2010**
11.	(-) Ending Balance Liabilities	59.434	47.327	37.807	38.057	1.540
12.	(+) Prepaid Expenses	0	0	0	0	0
13.	(-) Prepaid Expenses	0	0	0	0	0
14.	(=) Payments	18.726	25.633	22.553	21.947	56.446
15.	Gross Profit of Fiscal year („accrual" line 6-line 8 Table no.13)	-2.265	-991	-398	-1.789	-2.160
16.	Tax on Profit	1.247	785	987	1.673	1.650
17.	Net Profit of Fiscal Year	-3.512	-1.776	-1.385	3.462	-3.810
18.	**Gross profit of Fiscal Year (cash accounting=line 4 –line 14)**	**25.990**	**18.277**	**17.069**	**11.619**	**-33.530**
19.	Differences in gross profit	28.255	19.268	17.467	13.408	-31.370

Source: Authors

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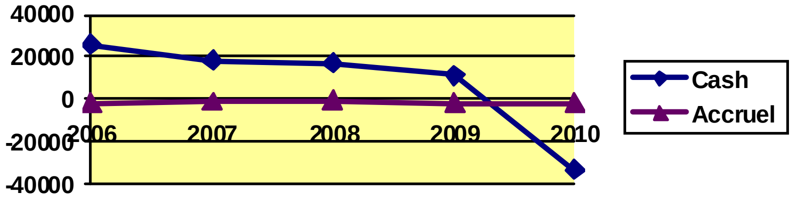

Source: Authors

Grapf 5: Evolution of Gross Profit Entity 5

Conclusions and Proposals

As noted in the case study presented, significant differences between gross results set by the method of "accrual" accounting are present in each entity examined.
Conclusions regarding the net result cannot be stated because on the period analyzed for determining the tax payable, the entities were applied with different rules to determine the tax liability (corporate tax, income tax, minimum tax). The managerial decision about achieving net profit may be affected by the type of the tax on the profit realized. If the tax on the result is the nature of tax on profit, the manager will make decisions mainly regarding expenditure of the entity; in the case of income tax , the trend of tracking the expenses is much diminished by the taxable result if not affected.

An influence on management decisions has the modality and the deadlines for receivables and payables. The decisions of realization of revenue cannot be influenced by accounting model "cash" because only a reduction of the period of liquidation of receivables can offer a different image of the entity. The same reasoning applies to payments. The period of settlement of receivables and payables is very important also in terms of fiscal influence, as it is less, so the result determined by accrual accounting method is approaching those determined by the method of "cash accounting". If the results are close, the tax due on the result has similar values and the managerial decision is not influenced by the accounting method chosen, or is influenced only in small degree.

Having regard to the limitations of this case study, our objective is to continue the research in terms of economic and financial analysis of activity of the analyzed entities and the establishment of results in terms of indicators of efficiency – the rotation speed of the fixed assets, inventories, receivables and payables.

By this we believe that we will be able to identify the essential elements that help, on the one hand, the manager in making decisions, and on the other hand, the auditor in the evaluation of the managerial process, the risks associated with it, and also in the appreciation of the way in which the alternative accounting treatments were selected, the estimates, the methods applied in determining the results, in achievement of the targeted management objectives. (Dănescu Tatiana, 2007, p. 103).

The accounting treatments used influence the image of the entity's annual financial statements, but this image must be analyzed also in terms of the factors that may affect the user in retrieving information required. Its purposes include: type of organization of entity, periods of settlement of receivables and payables, taxation of the result obtained, etc.

We conclude that there are differences of image by using different accounting models "cash" or "accrual", but the one who makes the best difference is the manager of the entity through his decisions.

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