ACCOUNTING AND PARETO'S PRINCIPLE

CONTABILITATEA ŞI PRICINPIUL LUI PARETO

CRISTINA NICOLAESCU[1], DIANA TĂGĂDUAN[1]

[1]"Aurel Vlaicu" University Arad, Romania; cristina_nc2@yahoo.com

Abstract: *This paper aims to verify the application of Pareto's principle in accounting in two directions: the quality and quantity of accounting information and application of the principle in the work of accounting.*

Key words*: Pareto's Principle, efficiency, effectiveness, quality*

INTRODUCTION

Although Italian Vilfredo Federico Damaso Pareto was born on Juny 15th, 1848 in Paris, because of his father self-imposed exile. Although he was an engineer, Pareto was interested in the economy problems becoming the most famous Italian economist and sociologist of his days.

Vilfredo Pareto has published numerous works of economics and sociology, as promoter of revolutionary theories on democracy and other aspects of social life and government, such as the Pareto diagram, defining the concepts of efficiency and effectiveness, Paretian optimum,etc.. One of the most common set of principles enunciated by him is the so-called"Pareto's Law. "

Pareto enunciated this principle based on his observation that 20% of the population of Italy had, in that time, 80% of the country's wealth. He later verified this theory in other fields and made the principle that 80% of the consequences are caused by 20% of cases.

After stating this principle, many others have noted its applicability in their fields of activity.

In this idea one of the promoters of quality management, Joseph Juran, an American of Romanian origin has formulated a basic principle which he called "the little essential and the many with no value. "

The aim of this article is to analyse whether Pareto's principle applies to accounting.

MATERIALS AND METHODS

In achieving the above goal we will act in two ways: first one by which we will analyze the application of the principle in the accounting work and the second one towards the opportunity to present accounting information in such a way as to allow the Pareto principle to be used in making decisions based on data from accounting.

In our approach we will use as methods we will use quantitative research methods, qualitative methods and integrated methods.

Among the quantitative methods used we include: collecting data from various companies regarding the information provided by the accountant records and information used (as we try to demonstrate that 80% of the decisions taken by users are based on 20% of the information provided by the financial statements) collecting accounting data on labour accounting activities (to identify the 20% of the activity that generates 80% of the effects),etc..

Among the qualitative methods we will use: documents study and analysis of information obtained through verbal discussions with the subjects (both accountants, also the producers of accounting information and the users of accounting information).

The integrated methods of study, we will use to reduce the disadvantages of the first two types of methods presented, in order to frame a true and complete picture of the investigated reality.

Among the integrated methods we will use: the case study(by analyzing the data collected in order to group them more accurately, based upon participatory observation) and the comparative study by highlighting similarities /differences between the cases studied for a thorough knowledge of the issues investigated.

RESULTS AND DISCUSSIONS

We start by trying to identify the accounting information considered by users as most relevant. From the outset we distinguish between the information needs of internal users (management company and other makers

of enterprise) and external users of accounting information (state,banks, investors, customers, suppliers, employees, analysts, etc..), and information provided by the two levels of accounting: financial accounting and management accounting.

Since the space of this article does not allow us to address to all situations, we will focus only on the study of financial accounting products for the two categories of users.

We can start checking the Pareto principle by finding out that about 20% of the users of accounting information are important, the remaining 80% being less important. So thefirst concern should be to identify the 20% of users.

The tests performed showed that concerning the enterprises in Romania in this category are included the State through its tax bodies(on the first place...unfortunately), internal users and businesses that have bank loans or are going to resort to bank loans and banks.

Applying this finding into practice we will continue to focus on information needs of those users who are external users, which will appeal especially to the information provided by accounting documents and financial reporting summary.

The Fiscal bodies are interested in the information that enable them to verifyhow the analyzed company has calculated, recorded and paid duties to the state. This is why accountants use 80% of their time and attention to obtain tax-related information (not including the pure fiscal accounting work to fill in the tax returns).

Unlike the situation in Romania in other countries the information provided by the "classical " accounting documents are insufficient, firms are turning to information provided by management accounting(calculation of production costs, the use of dashboards, design and monitoring their budgets, etc.).

In terms of work of an accountant this may be effective in his work and provide accurate and quality information, but if this information is not used to make decisions it is not effective.

To measure the efficiency of an accountant’s work, we can use the above analysis and conclude that no matter how good an accountant is, if he is working for the users who are not interested in the accounting information his work will be inefficient.

Assuming that the information will be used, we could use a few indicators to strict determine the efficiency of accounting work, to determine which of the accounting activities fall in the 20% who provide 80% of the effects. Of these indicators the most important indicators are: the amount of information obtained per unit of time, satisfying the information requirements related to the effort to obtain information (time, labour and other resources), the quality of information judged by the obtained result as a result of decisions taken based on the accounting information.

CONCLUSIONS

In conclusion the study tried to demonstrate that :

-from the users of the accounting information, there are important only 20%, the rest of 80% being less important;

-accountants use 80% of their time and attention to obtain tax-related information;

- just 20% of managers of small and medium companies-use accounting information for decision making;

-in Romania, from the information supplied by the accountant just 20% of accounts are used in decision making, the remaining 80% being produced as required by law.

When referring to the efficiency of the work of an accountant to determine the 20% of its activities that generate 80% of the effects we can use various indicators.

REFERENCES

1. DEMAREST, ROSEMARY R.,1970, Accounting Information Sources, Gale Reaserche Co, pag. 177-210

2. NICOLAESCU, CRISTINA, GOMOI ,B.C, 2010 "Noțiuni fundamentale de contabilitate",vol I, Editura Mirton, pg 3-11

3. Ordinul Ministrului Finanțelor Publice nr.3055/2009 privind reglementările contabile conforme cu directivele europene, secțiunea 2.

4. Revue Europeenne des Sciences Sociales, tome 43, no. 131 ,2005,pg.115-133