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Impact of accounting information for management decision making

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Abstract

The need for information is basic for concrete and explicit management decision to ensure the success and survival of an organization and since the aim of any business organization is “profitability” Accounting information is indispensable to achieving this goal. Hence, this research work studies how effective and efficient the instrument of good accounting information is in decision making in an organization. It also looks at the importance of good accounting information as it relates to maximizing the profitability target of an organization. Despite the huge information provided to the management of the selected tertiary institutions, management deviates from the set objectives. The purpose of this research work is to find out the impact of the use of accounting information in decision making in the tertiary institutions and to identify the cause of failures in education sector by providing possible solutions. Organisation should eradicate weak accounting systems by making sure that every staff in the Accounts Department is co-operative and fully conscious of his or her role in the department so as to produce good accounting information.

Keywords: Accounting Information, Decision Making, Management Performance, Financial Performance

Introduction

Information and the information system are terms with increasing impacts on the enterprises, invading the models and the management analysis fields. Exactly as in any other information system, the economic information system contains news and information from different fields, but most of them derive from the economic database. Management is constantly confronted with the problem of decision making especially knowing that resources are relatively scarce and limited. It is therefore pertinent that good accounting information be made available for proper and accurate decision making, maximization of profitability and optimal utilization of scarce resource. Accounting is the language of business as it is the tool for recording, reporting evaluating economic events & transactions that affect business enterprise. It processes all documents of financial performance from payroll, cost, capital expenditure & other obligations to sales revenue & owner’s equity. It provides financial information about ones business to the internal & external users, like managers, investors & others. It is sometimes referred to as a means to an end, with an ending being an end to the decision that is helped by availability of financial information. Management decision is one of the most important facets that pervade all organization and constitute its progress or failure in actualization of pre-determined goals and objectives. For this reason, for management decision to have a “fair view”, qualitative this is attributable to inadequate and inappropriate use of accounting information (Clinton *et al.* 2011).

The most representative sources of economic data and information are (Ovidia, 2013):

- The economic planning, which provides economic informational planning and business prognosis data, their share being of 28% of the total economic information;
- The economic database which provides effective information data, representing 70% of the total economic information, distributed as follows:
 - ❖ 46-50% information provided by accounting;
 - ❖ 9-13% information provided by the economic-social statistics;
 - ❖ 11% of the information is provided by the active database;
 - ❖ Other sources represent the rest of the 2% percentage.

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Hence, the information of the economic information system are mostly (70%) provided by the economic evidence, mentioning that most part of information in organizations include accounting information (Zare and Shahsavari, 2012), a statement sustained by the fact that the accounting information systems includes components and elements of an organization that provides information's for users by processing financial events (Zare *et al.*, 2012). Accounting information is not only necessary for evaluation of the past and keeping the present on course; it is useful in planning the future of the enterprise. Mbanefo (1997), "this planning we may conventionally call budget/budgeting targets, which give meaning and direction to operations of the organization within a defined period. At the end of the budget period the external results are compared with budgeted performance and discrepancies (variance) are analyzed for purposes of exposing the causes so as to prevent re-occurrence. Studies have shown successful implementation of accounting information system which requires a fit between three factors (Markus 1983) [3]. Firstly, a fit must be achieved with dominant view in organisation or perception of situation. Secondly, the accounting system must fit when problems is solved, i.e. the technology of the organisation. Finally the accounting system must fit with the culture, i.e. norms & value system that categorise the organisation. Accounting Information will be useful when information provided by them is used effectively in decision making process by users (Christiansen 1994). Otley (1980) [5] argues that accounting information are important parts of fabric of organisational life & need to be evaluated in their wider managerial, organisational & environmental information not only depends on the purpose of such system but also depends on contingency factors of each organisation.

Literature Review

Littleton (1953), the central purpose of accounting is to make possible the periodic marching of cost efforts and revenues accomplishments. This concept involves fixed point of accounting theory, and a bench mark that afford a fixed point of reference for accounting sessions. Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transaction and events, which are in part at least of a financial character, and interpreting the result thereof. (ALCPA, 1961). Benjamin (1978) reported that the primary function of accounting is to accumulate the communication information essential to understanding the activities of an enterprise, whether large or small, corporate or non-corporate, private or public. Anderson and Caldwall (1981) suggested that accounting is an information system for measuring, processing and communicating information that is useful in making economic decision. Contributing Needles Jr (1981) opined that accounting information is essential to decision system because it provides qualitative information for three functions: planning, control and evaluation. Simon (1987) [7] in his study used the first part of the statement as a measure of control for management and the second part for evaluating the effectiveness of the accounting information via continuous monitoring. Accounting information are said to be effective when the information provided by them serves widely the requirements of the system users. The effectiveness of accounting information has long been a subject of many researches (Chenhall 1986, Chong 1996, Kim 1988, Mia 1994) [4]. Accounting information is usually categorised under two groups: information that influences

decision making and mainly for the purpose of controlling the organisation; information that facilitate decision making process and mostly used for coordination within an organisation (Kren 1992). Hubber (1990) argues that integration of accounting information leads to coordination in organisation, which in turn, increases the quality of the decision. Some researchers in accounting show that the effectiveness of accounting information system depends upon the quality of the output of the information system that can satisfy the users' needs.

Sources of Accounting Information

The major sources of accounting information is the accounting unit for organisation, which is charged with responsibility of systematically recording, analyzing, interpreting summarizing accounting information as the result of a process involving the preparation of source documents, the entry of basic data into subsidiary records to ledger, which is the formal record of data" Glantter and Underdown (1981). Accounting data therefore originates from financial transactions within the organization and source documents are the medium through which these transactions are recorded. The source documents commonly used are sales and purchases invoice, Local Purchase Order (LPC) cheque, cash receipt, cash book, test, etc. In this context, on the one hand, we need an accounting management in order to provide the necessary information, but also an accounting the serves the needs of the manager (Iacob and Karim, 2013).

Nature and the Use of Accounting Information in Business Organization

Business organization can be classified into small and large firms. For small firms a specialist institution is set up to provide a financial support for it and the public will lack the enthusiasm for the purchasing securities from the small firm whose shares are not quoted on the stock exchange. Accounting information provides management the needed information for use in concluding the affairs of the business and reporting to the owners. Five ingredients of accounting system, according to Black *et al.* are:

- Basic business documents or forms such as cheque and invoice.
- Journals in which the effect of transaction on assets and equities are analyzed in terms of Debit & Credit.
- Ledger, which shows that results of transactions as summarized according to each asset or equities.
- The financial report which reports on how enterprise scared for that period.
- The procedures for preparing these records & reports.

Accounting plays important and useful role by developing the information for providing answer to many question faced by the users of accounting information such questions are:

- How good or bad is the financial condition of the business?
- Has the business activity resulted in a profit or loss?
- How well the different departments of the business have performed in the past?
- Which activities or products have been profitable?
- Out of the existing products which should be discontinued and the production of which commodities should be increased?

- Whether to buy a component from the market or to manufacture it?
- Whether the cost of production is reasonable or excessive?

Ezegbe (2000), the management interpret stated of account and data in particular reference to what it have done with what have provided in financial management and justifiable reasons for decision and actions. This is respect of ethic of accountability. To this end, adequate keeping of record of account encourage effective administration of school plants. By school plants here, we mean the totality of the belongings of the educational institution (Hope & Alice, 2004) ^[1]. Accounting information helps management to know the dilapidated facilities in the school that need to be renovated. Studies carried out over the year indicated the importance of accounting information in a small firm and it has been proved that one quarter of small scale business turn to their accountants when they need help this shows that even the smallest firm need to be compensated if enough expenditure is made for the purpose of shows that even the smallest firm need to be compensated if enough expenditure is made for the purpose of acquiring an accurate accounting information.

Accounting Information as Management Decision Tools

Nobody is quite sure where accounting in its narrowest sense started. It is agreed upon that any accounting that is not helpful in some way should be scrapped. In all its phase, accounting information is useful to some sort to management whether it is the officers, sub-officers of the educational institutions, the lecturers and potential workers, the creditors and potential creditors one or more government tertiary institutions, Each of these users of accounting data manages its relationship with the enterprises at least on the basis of accounting reports. An economic activity can be conducted correctly if the decision, the implementation and the control of the execution are based on operative, accurate and complete information. In this context, on the one hand, we need an accounting management in order to provide the necessary information, but also an accounting the serves the needs of the manager (Iacob and Karim, 2013).

Statement of the Problem

Information is indispensable for decision making in any business organization. The problem however lies in the quality and validity of the information, that is, if it is timely, adequate, and clear. The major purpose of the use of accounting information is to minimize risk, failure and uncertainties and also stay ahead of competitors. Notwithstanding the immense benefit of use of accounting information, it is generally acknowledged that most unqualified accountants generate inaccurate information and so result in failure of organizations to achieve desired goal. These problems largely contribute to the failure of the use of accounting information in business with the result that inaccurate decisions are made to the detriment of the organization. It is only through accounting information that managers and external users get a picture of the organisation as a total entity. Managers who fail to realise this do not appreciate an accountant's analysis in respect of financial accounting information generated. This may lead to poor decision being taken and it may affect the profitability & performance of the organisation. Some organisation due to low financial layout causes the effect & importance on

decision to be taken not to be noticed or gained by the organisation. The researchers in this study will seek to show the information management can derive from financial accounting & their usefulness for decision making in Business. The purpose is to see the need for accounting information to any business organisation how it aids in management decision making.

Objectives of the Study

As a central objective, this study seeks to evaluate the role of accounting information as an aid to management in decisions making in an organization. But more specifically, it attempts to achieve the following:

- ❖ To ascertain the relationship between effective use of financial accounting information & the decisions made in the organisation.
- ❖ To explain the accounting information to the users & various ways each of these users utilise the information & the benefits derivable from them.
- ❖ To make recommendations which may enhance the employment of information provided by accounting system?
- ❖ To promote the effective use of financial accounting system
- ❖ To highlight the effects of managerial on accounting information for the achievement of organisational goal.

Recommendations

In order to resolve the problems arising from this study, some recommendations are hereby proffered:

- Effective communication and information flow is important for a good accounting system, and banks/organizations should provide communication channels between top and lower levels of management regarding long and short term objectives and the practical problems of implementing those objectives.
- Clear-cut definition of long-term corporate objective, within which the accounting information system will operate.
- A professional accountant should be employed by the company in order to provide valuable information and keep accurate record of the company's account;
- Employees should be encouraged to develop themselves by becoming professionals in their chosen career, this will affect the company to grow positively;

Conclusion

The sufficient supply and proper use of accounting information had gone a long way in helping management in making efficient and effective decision and for this, there is a significant impact of the use of accounting information as an aid to management decision making in the institutions. The study also found that accounting information system leads to good financial reports and also leading to better decision- making. In addition the policy implication of the study is for International Accounting Standard Board (IASB) to adopt good accounting information system and make its application mandatory on construction industry. Based on the above mentioned, our opinion is that the organization of a second accounting circuit is necessary, like the financial accounting, as the legislative regulations (Accounting Law no. 82/1991) stipulate the indispensability of its organization. Related to the name of second circuit, management account or managerial accounting, we believe that the latter, i.e. managerial accounting, suits its purpose

better, i.e. to provide information necessary for the decisions related to cost reduction. It can then be conveniently said that there exist a strong relationship between the use of organizations accounting information and managerial efficiency. There is also a high level of awareness pertaining the role of accounting information system. This awareness is not limited to senior and management staff alone but also cut across intermediate and junior staff whose operations are also governed by the accounting information system.

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