The Use Accounting Information as an Aid to Management in 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. In carrying out the work, various types of data collection methods were adopted, such as distribution of questionnaires, interviews and observations. These methods were adopted for gathering the primary and secondary data. The statistical instrument used was the analysis of variance (ANOVA) model. Tables and judgment techniques were used to analyze and present findings. From our findings, a good accounting system results in higher profit margins over the years. Organizations 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.

Key words : Accounting information ANOVA.

1. INTRODUCTION

The making of decision, as everyone knows from personal experience is a burdensome task, says Wadia (1966). In most cases indecision is as disastrous as making a wrong one, therefore a plan of action is indispensable. Management is constantly confronted with the problem of alternative 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 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. According to 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.

Budgeting uncovers potential bottlenecks before they occur, coordinates the activities of the entire organization by integrating the plans and objective of various parts. The budget ensures that the plans and objectives of the parts are in consistency with the broad goals of the organization. It compels managers to think ahead before formalizing their planning efforts and finally provides defined goals and objectives which serve as benchmarks for evaluation of subsequent performance.

2.LITERATURE REVIEW

Accounting is defined by Webster's ninth new collegiate dictionary, as "the system of recording and summarizing business and financial transactions and analyzing, verifying and reporting the results. Accounting in view of this study can be defined ordinarily as the means by which managers are informed of both the process and financial status of a business concern. Mbanefo, (1997) defines accounting as a measurement and communication system to provide economic and social information about an identifiable entity to permit users to make informed judgments and decisions leading to an optimum allocation of resources and the accomplishment of the organizations objectives. According to Fess and Niswonger, accounting is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information. Accounting information is a food for management planning and decision making. It refers to report of relevant financial information regarding the economic activities of an organization or business venture.

Harson, Kernut D. argued that accounting is a service activity, the reports of which are used in describing the activities and financial states of many different kinds of economic activities. According to Glantier and Underdown, accounting is moving away from its traditional procedure base, encompassing record keeping and such related work as the preparation of budget and final accounts, towards the adoption of a role, which emphasizes its social importance. To 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 Caldwale (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.

NATURE OF ACCOUNTING INFORMATION

Accounting information has progressed through the centuries alongside civilization from exchange of goods (barter trade) using symbols and cowries unto to record keeping methods, as we have today's people in all civilization maintaining various types of records of business activities. The oldest known is the day tablet records of the payment of wages in Babylonia around 3600BC. There are numerous evident of record keeping and system of accounting control in ancient Egypt and in the Greek city states. The earliest known English records were compiled at the direction of Willia in the conqueror in the Eleventh century to ascertain the financial resources of the Kingdom, (Fess and Niswonger). Accounting information include account, balance sheet, cost accounting system, fund book-keeping which dates back to the middle ages and a known description of the system was published in Italy in 1494 by Pacioli a Franciscan Mark Fess and Niswonger. It should be noted that the earlier known use of a complete double try book-keeping was Geneva Kin the year 1840, double entry is the system that requires entries to be made in the books of a business to give effect to both suspects of the transactions. The principal book of this system is the ledger. The advantage of double entry can be stated as follows:

1. It provides a complete record of every transaction, from both its personal and impersonal aspect.
2. It provides an arithmetical check on the records since the total of the debit entries must equal their total of the credit entries.
3. From the personal accounts the amounts owing to and by each person with whom the business deals can at anytime be ascertained?
4. The balance of the nominal accounts can be collected together in a profits and loss accounts, which discloses the results of the operation that is the profit and loss for given period.
5. By means of a balance sheet in which the balance of accounts representing capital, assets and liabilities are set out, the financial position of the business at any given moment can be ascertained.
6. With a reliable system of internal organization it reduces the risk and facilitates the detection of errors and fraud.

SOURCE OF ACCOUNTING INFORMATION

The sources of accounting information are internal although there may be several departments that furnish the information depending on the types of the business. The accounts department is central. Accountants are the major suppliers of accounting information. They provide management with the needed information used in conducting the affairs of the business.

IMPORTANCE OF ACCOUNTING INFORMATION

As already noted accounting information is indispensable in the management activities of any organization. It provides quantitative information about economic entities. The information is primarily financial in nature and intended to be useful in making economic decisions. Harson (1989).

Accounting information is needed not only by management in directing the affairs of the co-operation but also by shareholders, who require periodic financial statement in order to appraise management performance. Fess and Niswonger, page 4. It is needed by government for efficient distribution and use of the nation's resources thus; it plays an important role in all economic and social systems. It helps in checking irregularities and misappropriations. Accounting information is the livewire of any organization without which it is likely to remain static or in worse cases die.

THE NATURE AND THE USE OF ACCOUNTING INFORMATION IN BUSINESS ORGANIZATION

Business organization can be classified into small and large firms. In the part of 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 with 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:

a. Basic business documents or forms such as cheque and invoice.

b. Journals in which the effect of transaction on assets and equities are analyzed in terms of debit and credit

c. Ledger, which shows that results of transaction as summarized according to each asset or equities.
d. The financial report which reports on how enterprise scared for that period.
e. The procedures for preparing these records and report.

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 acquiring an accurate accounting information. In a large firm, it is the manager or board of directors that have or own the managing and implementing of accounting information their responsibility will be seen that the decision made are put into effective use. Managers that fail to meet the expected target will frequently be replaced. Within the management there will be a management structure with a line of authority. If the management of any business makes implementations based on their accounting information, they will execute plans, controls and make decision making very effective. Over the past twenty years the nature of business organization has changed dramatically. Accounting information technology has revolutionized the ways in which information essential to the management in their decision making is processed.

3. 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, clear . According to the report of the Joints Auditors' First Bank, Annual Report and Account (2000/2001 page 30) falsified accounting information was the reason for many failed banks in Nigeria. 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. There are cases of managers refusing the use of accounting information because of their inability to interpret such data, thereby making the organization to remain at "status quo ante". 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.

4. OBJECTIVE 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:

i. To find the causes of failure in the attainment of organization objective, resulting from lack of adequate utilization of accounting information.
ii. To explain what accounting information is who the users are and the various ways each of these users utilize the information and the benefits derivable from them.
iii. To highlight the effects of managerial neglect of accounting information on the achievement of the organizational goal.

5. RESEARCH HYPOTHESIS

H_0: Proper use of accounting information does not help the management in making efficient and effective decision in a business organization.

H_1: Proper use of accounting information helps the management in making efficient and effective decision in

6. RESEARCH METHODOLOGY

The researcher used both primary and secondary sources of data with an aim to gather reliable information relevant to the study. The primary data were collected through the administration of questionnaires, observations, interviews and personal discussions with the personnel concerned. Copies of questionnaires were distributed to all departments and some selected supervisors. Out of 45 (forty-five) questionnaires distributed 5 (five) were not received. These questionnaires, interviews and observation were designed to obtain information that will reveal the existing accounting information and how it aids the management to enhance the performance/decision in the organization and its effect. The researcher also got some information from newspapers, journals, magazines. The population of this study constitute of the staff of the selected banks. Questionnaires were administered randomly through the different departments of the bank.

Sample average and percentage was used because the researcher was trying to determine the number of respondents that were in agreement with the questions asked. For example forty (40) respondents out of forty-five (45) questionnaires agreed that accounting information enhanced managerial efficiency in banking institutions/organization.

The percentage in agreement was computed as follows:

$$P = \frac{X \times 100}{N}$$

$$P = \frac{40 \times 100}{45}$$

Where:

P = Proportion of (percentage) in agreement.

X = Number of respondents.

N = Sample size.

This should be interpreted to mean that 88% of the respondents agreed that accounting information enhances managerial efficiency in their banks

CRITICAL VALUE

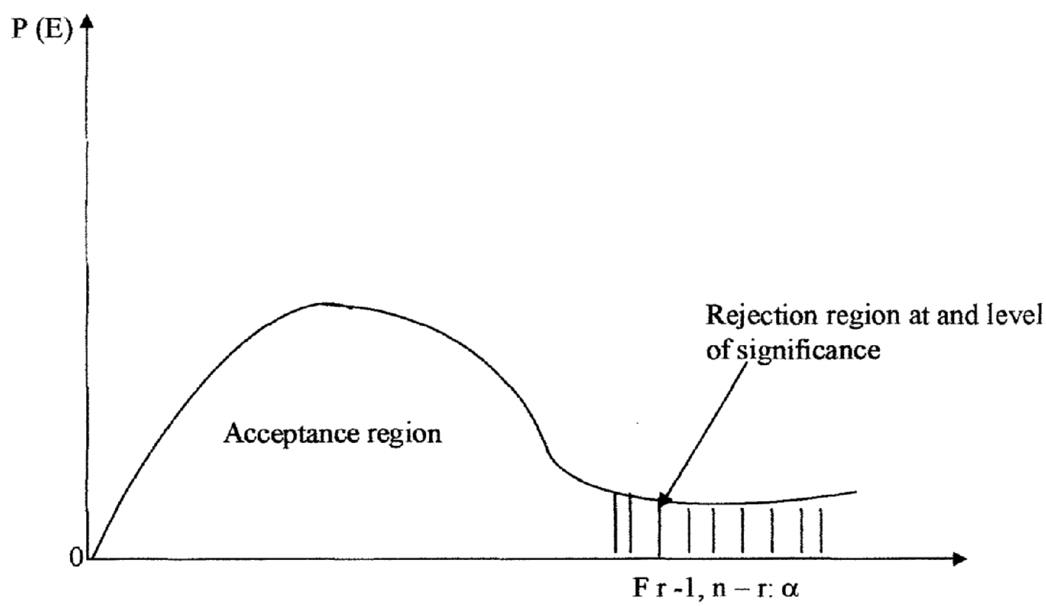

Figure 3.1 critical value

DECISION RULE

The null hypothesis is rejected if the calculated F-value is greater than the value found from the table. Otherwise, the null hypothesis is accepted.

The analysis of variance (ANOVA) calculations performed above are summarized in a table called ANOVA table.

3.1 ANOVA TABLE

Source of variation	Square	Degree of freedom	Mean square	F–Value
Between samples (treatment)	TRSS	r – 1	$\frac{TRSS}{r-1}$	$\frac{TRMS}{EMS}$
Within samples (Error)	ESS	n- r	$\frac{ESS}{n-1}$	
Total	TSS	n- i		

4. PRESENTATION OF DATA

Table 1: Response to hypothesis 1: Accounting information is not a practical tool for efficient and effective management of decisions in an organization.

Responses	No. of respondent	Percentages
Strongly agree	13	32.5
Agree	11	27.5
Undecided	6	15
Disagree	4	10
Strongly disagree	6	15
Total	**40**	**100**

In the above, 13 responded strongly agree which gave 32.5%, 11 responded agree which gave 27.5%, 6 responded undecided which amounted to 15%, 4 responded disagree which gave 10% and 6 responded strongly agree which has 15%

4.3 DATA ANALYSIS

It should be borne in mind at this stage that the main issue in this research is the fact that use of accounting information is important to the management in decision making.

In response to the question we allocate the following weights to the responses for Likert scale and it shows the degree of acceptance in the questions :

Strongly	5
Agree	4
Undecided	3
Disagree	2
Strongly disagree	1

H_0: Proper use of accounting information does not help the management in making efficient and effective decision in a business organization.

H_1: Proper use of accounting information helps the management in making efficient and effective decision in a business organization.

Table 4: Shows the response of questions no 1 and 7

Table 4.

	Strongly agree (5)	Agree (4)	Undecided (3)	Disagree (2)	Strongly agree (1)
Fund transfer department	4	4	2	1	1
Cash department	3	2	1	0	2
Customer care department	3	1	1	1	0
Marketing department	3	4	2	2	3

Also using the likert scale, the above table 1.3 is transform to table 4.5 below.

	Strongly agree (5)	Agree (4)	Undecided (3)	Disagree (2)	Strongly agree (1)	Total
Fund transfer department	20	16	6	2	1	
Cash department	12	8	3	0	2	
Customer care department	12	4	3	2	0	
Marketing department	12	16	6	4	3	
Total	56	44	18	8	6	132
$\sum x^2 ij$	832	592	90	24	14	1552

Computation of the sum of square and mean square.

Total sum of square (TSS) = $\sum_{i=I}^{nj} \sum_{j=I}^{r} X^2_{ij} \quad \frac{\left(\sum_{i=I}^{nj} \sum_{j=i}^{r} X_{ij} \right)^2}{n}$

$$TSS = (20^2 + 12^2 + 12^2 + \ldots.. + 0^2 + 3^2) - \frac{132^2}{20}$$

$$= 1552 - 871.2 = 680$$

$$TRSS = \frac{56^2 + 44^2 + 18^2 + 8^2 + 6^2}{4} - \frac{132^2}{20}$$

$$= 1374 - 871.2 = 502.8$$

$$Ess = 680.8 - 502.8 = 178$$

Table 4.6 ANOVA TABLE

Source of variation	Sum of source (ss)	Degree of freedom	Mean square	F-Valve
Treatment	4	502.8	125.7	10.59
Error	15	178	11.87	
Total	19	680.8		

DECISION RULE

We reject the null hypothesis if the value of F calculated is greater than the value of F tabulated (F cal>F tab) otherwise accept it. At 95% level of significance (cc = 0.05). The F tabulated is given as: F 0.05, (4, 15) = 3.06.

Decision: Since F calculated = 10.59 > F tabulated = 3.06. We reject the null hypothesis and conclude that proper use of accounting information helps the management in making efficient and effective decision in a business organization.

SUMMARY AND CONCLUSION

In summary, the first section introduced the topic of the study, statement of problem, objective of the study, research hypothesis, significance of the study. The second section dwelt on the review of related literature, In section three, the researcher dwelt on the research methodology adopted in carrying out the work. Also the research design was also highlighted while the various sources data used were briefly mentioned. It also discusses the procedures used by the researcher in the analysis of the collected data. The fourth section dealt

with the presentation and analysis of data. Results of the study revealed that the use of accounting information improves/enhances decision making in organizations. It can then be conveniently conclude 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.
It is evident that the accounting information factor looms large among factors, which contribute to the overall corporate efficiency.

5.2 RECOMMENDATIONS

Based on information gathered, the researcher maintains that not all accounting departments/management decision are well coordinated, despite the awareness of the role of accounting system organization and thus opines that;

- Clear-cut definition of long-term corporate objective, within which the accounting information system will operate.
- Decision-making should be administered in flexible and variable rigid adherences to accounting information, which are clearly appropriated for current conditions. This will course the whole accounting system to gain credibility and effectiveness.
- 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.
- Co-ordination from the top management will ensure proper interpretation and implementation of the accounting information in decision-making. Therefore, I recommend that every personnel should know where he or she belongs in the entire organization and also see him or herself as part of the corporate whole. These individuals most take part in decision-making process, at least at the functional levels.

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