ACCOUNTING INFORMATION AS AN AID TO MANAGEMENT DECISION MAKING

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ABSTRACT

This study is the analysis of accounting information as an aid to management decision making. A survey research design was adopted in which fifty workers, of a typical manufacturing company, were used and data were collected using questionnaire. Four research hypotheses were raised and tested; while the demographic information of the respondents were analysed using simple percentage, the hypotheses were tested using t-test statistic at a significant level of 5%. The testing of the hypotheses revealed that:

- *Accounting information has effects on management decision;*
- *There is a significant relationship between the perception of employees and accounting information;*
- *There is a significant relationship between time factor and accounting information;*
- *Accounting information has effects on the company's performance*

Based on the findings it was recommended that companies should employ professional accountant in order to provide valuable information and keep accurate record of their accounts

Key words: *Accounting, information, management, performance, financial*

Introduction

Accounting is the language of business as it is the basic tool for recording, reporting and evaluating economic events and transactions that affect business enterprises. It processes all documents of a business financial performance from payroll, cost, capital expenditure and other obligations to sale revenue and owners' equity. It provides financial information about one's business to the internal and external users, such as managers, investors and others. It is sometimes referred to as a means to an end, with the ending being the decision that is helped by the availability of accounting information (Arneld and Hope 1990).

Management is the art of working particularly through people, for the achievement of the broad goals of an organisation (Ejiofor 1987), in trying to achieve these goals the manager has to map out strategies to find out the accounting information suitable for the company.

Management accounting uses both financial and non financial information and is generally intended for the use of internal users who use the information to make decisions that help achieve the goals and objectives of the organisation. Financial information used by management accountants include sale growth, profits, return on capital employed and market shares, non financial informations include customer satisfaction level, production quality, performance of competing products and customer loyalty. Management accountants use both financial and non-financial information to aid business decision-making (Melissa Bushman 2007)

Decision making is the process of choosing alternative courses of action using cognitive processes. Making decision is necessary when there is no one clear course of action to follow. Accounting systems can aid our decision making by providing information relevant to the decision and to the decision makiner. Accounting systems also provide check for the validity through the process of auditing and accountability (Gray et. Al 1996). Effective and efficient accounting information plays a central role in management decision making.

Literature Review

In managing an organisation and implementing an internal control system the role of accounting information is crucial. An important question in the field of accounting and management decision making concerns the fit of accounting information with organisational requirements for information communication and control (Nicolaou 2000).

Accounting information system is considered as a subsystem of Management Information System (MIS). To regard accounting as an information system, perhaps, is the latest definition of accounting, as can be deduced from the statement of American Institute of Certified Public Accountants (1966). "Accounting actually is information system and to be more precise, accounting is the practice of general theories of information in the field of effective economic activities and consists of a major part of the information which is presented in the quantitative form".

Boockhodt (1999), defines accounting information systems as systems that operate functions of data gathering, processing, categorising and reporting financial events with the aim of providing relevant information for the purpose of score keeping, attention directing and decision making.

Studies have shown that successful implementation of accounting system requires a fit between three factors (Markus 1983). Firstly, a fit must be achieved with dominant view in the organisation or perception of the situation.
Secondly, the accounting system must fit when problems are normally solved, i.e. the technology of the organisation. Finally, the accounting system must fit with the culture, i.e. the norms and value system that characterise the organisation. Accounting system will be useful when information provided by them is used effectively in decision making process by users (Christiansen 1994). Otley (1980) argues that accounting information are important parts of the fabric of organisational life and need to be evaluated in their wider managerial, organisational and environmental information not only depends on the purposes of such systems but also depends on contingency factors of each organisation.

Accounting information are said to be effective when the information provided by them serves widely the requirements of the system users. Effective information should systematically provide information which has potential effects on decision making process (Ives 1983). The effectiveness of accounting information has long been a subject of many researches (Chenhall 1986, Chong 1996, Kim 1988, Mia 1994). 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 shows that the effectiveness of accounting information system depends upon the quality of the output of the information system that can satisfy the users' needs.

Generally speaking, accounting information provides financial reports on daily and weekly basis and also provides useful information for monitoring decision-making process and performance of the organisation. Simon (1987) in his study used the first part of the statement as measure of control for management and the second part for evaluating the effectiveness of the accouunting information via continous monitoring.

Accessibility to information relating to the main transaction of an organisation leads to a categorised detailed information which facilitates decision making in any difficult situation (Mia 1994). Accounting information system is a computer based system that (Nicolaau 2000) defines as a system that increases the control and enhances the cooperation inside the organisation. Quality of information generated from accounting information is very important for management (Essex 1998). Kim (1989) argues that usage of accounting information depends on the perception of the quality of information by the user. Quality of information depends on reliability form of reporting, timeliness and relevance to the decision. Effectiveness of accounting information system also depends on the perception of decision makers on the usefulness of information generated by the system to satisfy informational needs for operation processes, managerial reports, budgeting and control within organisation. Aggregation of information is considered as means of collecting and summarising information within a given time period (Choe 1998).

Historically, accounting is as old as man, but the initial formal literature originated from an Italian monk and mathematician Luca Pacioli (1494). In his famous treatise *"Summa De Arithematical Geometrical proportion et proportimalitain"* (1494) in Venice, Reverend father Pacioli described the double entry system by giving insight into the reasoning behind accounting records. He postulated that all entries must be double entry, i.e. when one is debited, the other must be credited, or debit receiver and credit the giver. Even though during this period the records were prepared to show statement for the business rather than the owner the yearly preparation was lacking. Longe (1999). After Pacioli, a dutch man advocated the profit and loss account at yearly interval. The level of civilisation and technological advancement helped in the development of modern methods of accounting. During the industrial revolution there was need for sophisticated accounting methods. Different bodies were formed eg ACA (Scotland 1854); ACA (England and Wales 1880); AICPA (USA 1887). With the development of new methods ownership was separated from management. Since the discovery of the double entry principle, there has been tremendous development in accounting theories and methods. The introduction of micro and mini computers have brought enhanced performance but the fundamental principle remains unchanged. Locally, in Nigeria, record keeping has antecedents in the ancient kingdoms and empire and prominent then was the periodic contribution which were recorded on the wall, but the granting of royal charter to Royal Nigeria Company was the turning point in record keeping in Nigeria. The governing accounting principle in Nigeria was almost the same as the ones in Britain, our colonial master. The Institute of Chartered Accountants of Nigeria (ICAN) was established in 1965 and affliated with the professional institutes in Britain and USA.

The Corporate Report of 1975 formulated by the Sandiland Committee in the United Kingdom recognized amongst others, the following user-groups as having a reasonable right to information:

* **The Equity-Investor group**: This includes both the existing and potential shareholders as well as holders of convertible debentures. This group is interested in earnings, both current and future, out of which their dividend can be paid. They are also interested in the security of their investment/dividend (dividend cover) as well as the returns on investment;

* **The Loan-Creditors group**: This includes both the existing and potential debenture holders and loan stocks as well as providers of short term secured and unsecured loans. This group is interested in the solvency in order to ensure repayment of their loans. Banks also fall within this group;

* **The Employees group**: This includes existing, potential and past employees and they are interested in both profitability and liquidity of the company in order to provide cover for the payments of their salaries and continuous retention in the company;

* **The Analyst/Adviser group**: These are financial analysts, journalists, economists, bankers, researchers, trade unions, stock providers etc. They have different ways of analyzing the financial statement depending on the need of their clients;

* **The Business Contact group**: This includes customers, trade creditors, suppliers, business rivals etc. This people would be interested in the solvency of the company to ensure prompt payment of their dues;

* **Government**: It is the general believe of the people that government is only interest in payment of taxes by companies and individual. This is partly true as government is also interested in the long term stability of companies, as only when they continue in business that the government would be fulfilled, as this will guarantee full employment of citizenry;

* **The Public**: This group encompasses all afore-listed groups and it is the believe of this writer that whenever a company is cited in an area, the public will be looking forward to rendition of certain social responsibilities and it is the continuous existence of such company that enables the public to enjoy more of such benefits;

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?
- What has been the impact of existing policies on the profitability of business?
- In the light of past performance of the business how should it plan for future to ensure desired results?

Above are few questions faced by users of accounting information, which can be satisfactorily answered with the help of suitable and necessary information provided by accounting

The critics of financial accounting have pointed out some gaps in the concept, some of which are as follows:

- Financial accounting permits alternative treatments as it is based on concepts and follows generally accepted principles, since there are more than one of such principles, this permit alternative treatment within the framework of generally accepted principles;
- Financial accounting is designed to supply information in the form of statements (Balance Sheet and Profit and loss account) for a period normally a year, hence the information is, at best, of historical interest and only post-mortem analysis of the past can be conducted, whereas the business requires timely information at frequent intervals to enable the management to plan and take corrective action;
- Financial accounting does not disclose the present value of the business, hence assets are recorded at their historical cost value in line with going concern basis of recording

Statement of Problem

Generally, the use of accounting information will become critical factor in changing competitive environment, for the manufacturer to effectively and efficiently make decision. The major problem discovered for management is the identification of fundamental concept of accounting information to be implemented by each company which can affect the company positively or negatively and therefore, there is a problem. If a particular concept of accounting information used by the company affect the management decision negatively, and this helps us to recognise the reason for the negative effect, which can be as a result of adoption of wrong accounting information or uncertified accountant giving wrong information to the company which can lead to wrong decision to the progress of the company. The purpose is to see the need for accounting information to any business organisation and how it aids in management decision making.

Research Questions

The study was guided by the following research questions:

- Does accounting information have any effect on management decisions?
- Is there any relationship between the perception of the employees and accounting information of the firm?
- What are the elements that affect adequate accounting information within the firm?
- Does accounting information affect the company positively or negatively?

Research Hypothesis

For the purpose of analysing the data, the following hypotheses were tested:

- Ho1: Accounting information does not have any effect on management decision making
- Ho2: There is no significant relationship between the perception of employees and accounting information
- Ho3: There is no significant relationship between time factor and accounting information
- Ho4: Accounting information does not have any effect on the company's performance.

Methodology

The study employed descriptive research design of the ex-post facto type. The method was chosen because it helped to describe record, analyse and interpret the condition, prevailing practices, belief, attitudes and ongoing process that exists in the survey (Ndagi, 1984).

Population, Sample and Sampling Technique

The population comprised all workers of Eghiemai Industries Limited. From the population, a sample of 50 workers (20 Females and 30 Males) was obtained through the simple random selection technique.

Instrument

The instrument used to gather information in this study is a self-designed questionnaire. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

Validity and Reliability of the Instrument

To ensure the validity of this research, the instrument was subjected to criticism by specialist in the areas of educational management aside from peer review conducted by the researcher. The reliability of the instrument was obtained through a test-retest techniques to analyse the data collected.

Results

Table 1: Accounting information does not have any effect on management decision

Subject	No	Mean (x)	S.D	Df	T-calculated	Table value	Decision
Agreed	40	3.83	0.14	48	30.54	1.68	Reject
Disagreed	10	1.4	0.24				

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 30.54 > 1.68), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that accounting information has significant effect on management decision.

Table 2: There is no significant relationship between the perception of employees and accounting information.

Subject	No	Mean (x)	S.D	Df	T-calculated	Table value	Decision
Agreed	37	3.22	0.17	48	33.68	1.68	Reject
Disagreed	13	2.0	0.08				

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 33.68 > 1.68), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that there is a significant relationship between the perception of employees and accounting information.

Table3: There is no significant relationship between time factor and accounting information.

Subject	No	Mean (x)	S.D	Df	T-calculated	Table value	Decision
Agreed	41	3.8	0.16	48	26.17	1.68	Reject
Disagreed	9	1.6	0.25				

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 26.17 > 1.68), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that there is a significant relationship between time factor and accounting information.

Table 4: Accounting information does not have any effect on the company performance

Subject	No	Mean (x)	S.D	Df	T-calculated	Table value	Decision
Agreed	39	3.2	0.18	48	22.23	1.68	Reject
Disagreed	11	1.5	0.2				

Level of significance – 0.5

Since t-calculated is greater than the table value (i.e. 22.23 > 1.68), then the null hypothesis is rejected, while the alternative hypothesis is accepted and conclude that accounting information has significant effect on the company performance.

Discussion

Finding of hypothesis one that concludes that accounting information has significant effect on management decision agrees with the work of Anil Keimer (2008) who found out that accounting information obviate the necessity of remembering various transaction.

The testing in hypothesis two which confirms a significant relationship between the perception of employees and accounting information falls in line with the finding of Douglas (2007) who postulated that employees and their representative are interested in information about the stability and profitability of their employers and also interested in the information which enables them to assess the ability of the enterprises to provide remuneration, retirement benefits and employment opportunities. Kim (1989) also argued that usage of accounting information depends on the perception of the quality of information by the user.

The result of the study based on hypothesis three found a significant relationship between time factor and accounting information. This was collaborated by the findings of Choe (1998) who posited that accounting information improve efficiency of operation by providing more timely information. PAT (2002) equally found out that time factor is very important in the case of periodicity concept which defines a specific interval of time for which an entity's reports are prepared, which can be a fiscal year, natural year, quarterly or even monthly.

Result of hypothesis four which revealed that accounting information have effect on company's performance is in consonance with the findings of Hubber (1990) who is of the opinion that accounting information provides useful information for monitoring decision making process and performance of the organisation. Choe (1998) also came out with the result that accounting information improve organisational profit by improving the efficiency and effectiveness of its supply chain.

Conclusions

The study revealed that accounting information performs a crucial role on management decisions and organisation performances, which has been shown to be major force in decision making. This is achieved by implementing the best fundamental concept of accounting suitable for each company. The company used as case study made the researcher to understand that, for any company to be successful it should endeavour to make use of accounting information because accounting itself is a language of business, and before venturing into any business, one must understand the language of such business, so as to know the right method to achieve the stated goals and objectives.

Studies have shown that successful utilisation of accounting information requires a fit between three factors. First, a fit must be achieved with dominant view in the origination or perception of the situation. Second, the accounting system must fit when problems are normally solved, i.e. the technology of the organisation. Finally, the accounting information must fit with the culture i.e. the norms and value system that characterises the organisation.

Recommendations

Based on the finding of this study, it is recommended that:

- Companies should consult professional accountant when starting a business to learn about the various laws that affect them and also to familiarise themselves with the variety of financial records that they will need to maintain;
- A professional accountant should be employed by the company in order to provide valuable information and keep accurate record of the company's account;
- The company should always keep records of past events in case of future purpose, this can be possible with the use of computer or by fully automating the company's operations;
- Employees should be encouraged to develop themselves by becoming professionals in their chosen career, this will affect the company to grow positively;
- Efforts should be made to measure the effects of currently employed accounting concept on management decision making;
- Regular meeting with staff should be organised to disseminate information about the company and also elicit feedback that help to improve the company.

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