

THE IMPACTS OF ACCOUNTING INFORMATION ON MANAGERS

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Abstract: Authors This study into the impact of accounting information on managers bring to forth the huge burden financial information influences in the decision making of managers in diverse industries and fields in the world. The study begins with an introduction as well as problem statement and purpose of the study. The literature underpinning the study is further highlighted as well as the research methodology adapted. The forth section reveals some of major findings of the similar reviews conducted while the final section concludes the entire study.

Keywords: Accounting information, Business organization, decision making process, effective and efficient accounting practices, financial reporting, Managers.

1. INTRODUCTION

One of the characteristics of top managers that distinguish them from others is the ability, courage and willingness to make decisions (Young, 1982). Decision making is an everyday life process and it is the important functions under an organizational life. These decisions do not only impact a section or department of the organization but it is a task of management to make major decisions which ultimately affect the organization. Decision making and management go hand-in-hand and top managers select the best course of action by judging the effectiveness of several alternative course of action (ibid). These decisions cannot be made by management without the guidance of relevant information and data to help them in making financial and economic decisions.

The identification process, measurement, analysis, preparation, interpretation and communication of information that helps managers in making decisions in fulfillment of organizational goals and objectives could be termed as management accounting (Opoku-Ware, 2015). A very significant player in this whole process is the role of an accountant who play information on financial and economic issues.

The significance of managers in their decision-making role cannot be over stretched as implementing a wrong decision could impact the organization negatively in a way that might lead to bankruptcy. Managers face a major headache of overseeing the outcome of their decisions and most of these outcomes cannot be predicted on certainty grounds. Thus, management do not only make decisions that has significant effect on the organization but top managers have the courage to face their decisions and make amends when they get it wrong. These wrong decisions if early detected could save the organization from future negative impacts and most companies employ top managers that do not only make the easy decisions but also make the tough ones and have the courage and willingness to make amends in other for such decisions to have the right influence on the organization (Opoku-Ware, 2015).

1.1 Statement of problem

There is the presence of a number of financial tools that assist managers in making good and effective decisions without committing financial disasters. These tools vary from industry to industry as what is proven suitable for one organization might not work for another. There are diverse information required for different purposes and most managers in different

fields demand on the support of accounting information in their decision-making process. The study thus examines the major challenges affecting managers in their decision-making process as well as reviewing literature to buttress the impact accounting information has on businesses.

The purpose of this study would provide the needed insight into accounting information and its impact on managers especially the effects it has on decision making processes. Significantly, this study presents a literature review of relevant articles, publications, journals, etc. on the research study and it serves the platform for further scholarly research by interested academicians.

2. LITERATURE REVIEW

Management accounting can be defined as “the process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of information that assists executives in fulfilling organizational objectives” or a formal mechanism for gathering and communicating data for the ends of aiding and coordinating collective decisions in light of the overall goals or objectives of an organization. Apparently, good decisions are important and ensure the wellbeing and also the survival of an organization

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. 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 (Okoli, 2012)

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 & 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 Caldware (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.

2.1 Nature and 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).

The nature of management accounting is to provide information that links the daily actions of managers to the strategic objectives of an organization (Ansari *et al.*, 1997). Besides, this information should enable managers to effectively involve the entire extended enterprise of customers, suppliers, dealers, and recyclers in achieving the strategic objectives. Further management accounting takes a long-term view of organizational strategies and actions.

Meanwhile the scope of management accounting systems is to report the results of operations using financial and non-financial measures, its purpose is to help the organization to reach its key strategic objectives (Ansari *et al.*, 1997 p. 4).

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. 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.

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 years 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 (Okoli, 2012).

2.2 Management Accounting & Decision-Making

The role of financial and non-financial information for decision-making is emphasized in many definitions of accounting, as outlined below.

“Accounting can be seen as the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.” Also Horngren, Sundem and Stratton see the main function of accounting information in it said in the decision-making process, as the understanding of accounting information contributes to better decisions. So, by reporting and collecting accounting information, controllers can influence management's decision-making and lead them towards decisions that are in accordance with the organization's objectives (Opoku-Ware, 2015).

Emmanuel, Otley & Merchant consider control as the primary purpose of accounting information. Management control includes both, strategic and operational matters and thus, planning and control are not separated issues. However, decision-making falls within this wider process of management control and is therefore identified as a “vital aspect of the overall control process”. William J. B. Jr. states that the decision maker decides what information inputs he/she considers as relevant for his/her decision. If the amount of input of accounting information compared to non-accounting information is more than zero, then the accounting data may affect the decision.

This proportion or the use of accounting information varies from decision to decision and from the decision maker whose choice may be affected by experience, perceptions and objectives. Further the probability that accounting information is used for decision-making rises if the information provided is relevant for the decision, if the decision maker conceives the accounting information as reliable or if not adequate non-accounting information is available. However compared to non-

accounting information, accounting information is much easier to grasp, to describe and to put in numbers (Opoku-Ware, 2015).

2.3 Tools for Decision-Making

Management needs to possess knowledge about the costs that arise in an organization. For this reason, the cost accounting system determines the costs of the goods produced in a company. Hence, it is considered as the most fundamental tool in guiding decisions, and it will be explained first. Without this information about costs, management would not be able to set prices or do investment decisions. Consequently, further management accounting concepts used for decision-making are built upon this cost foundation. Some of these tools to be discussed include the ideas of target costing and cost plus pricing, profitability and capital budgeting.

However, decision makers sometimes rely on the less rational but often equally valid bases for making decisions: experience, intuition, moral conviction and the more trivial reasons in business politics – turf wars, power struggles, personal self-aggrandizement and the like. So, it shall be emphasized that it is not always possible to base decisions only on quantitative factors. There remain almost in every case some aspects that cannot be translated into numbers and hence, management needs to consider these qualitative elements as well in their decision-making-processes (Opoku-Ware, 2015).

2.4 Cost Accounting System

A cost accounting system in general includes two steps, the cost accumulation by classifying costs into categories and the assignment of costs to cost objects. The first one refers to the collection of costs by using classification criteria, like the relevance of costs or the cost behaviour. Different decisions require the consideration of different types of costs. Hence, as a first step; it is very helpful for decision-making to categorize costs as fixed or variable, relevant or irrelevant and direct or indirect. For example, the make-or-buy decisions should focus on relevant costs in a particular decision situation.

The classification method of direct and indirect costs, in particular, is important for the cost accounting system, which becomes obvious in the latter step that deals with the assignment and allocation of costs to its cost objectives. Cost allocation deals only with indirect costs that are allocated to a cost object. On the contrary, the assignment of direct costs to a cost driver is called cost tracing.

In general, two main methods of allocating indirect costs can be identified. The wide-spread Traditional Accounting System, which is rather old, and Activity Based Costing (ABC), a method developed in the late 1980s in the United States, although its basic thought roots back into the middle of the 19th century in Germany. The first one is based on the idea of arbitrary allocation, for example direct labour hours are used as a foundation to allocate costs of materials to a cost object. Thus, the proportion of total indirect resource costs that is assigned to a cost object depends on the amount of a volume-based cost driver. Often only one cost driver is used, like e.g. machine hours. Nevertheless, this allocation basis is often not a significant determinant of the cost” as opposed to ABC, which builds on cause-and-effect allocations. Hence, the cost driver determines the costs considerably (Opoku-Ware, 2015).

Often it is not possible to use actual overhead costs, because accountants would need to postpone the cost assignment process and the calculations until these actual data is available.

To overcome this problem, standard costs are used, which are foreseeable overhead. This implies that at the end of the accounting period it is likely that there will be either a under- or an over-recovery of overheads, which constitute the difference between the planned and the actual overhead. It is common to treat this difference as periodic cost and to add or delete it from the profit or loss of the period. Organizations that are occupied with lots of similar activities and recurring production steps frequently use these standard costs (ibid).

The function of both allocation systems can be described by using a two-step framework as proposed by Drury. The first step consists of allocating the indirect costs to cost centres, which constitute places, function etc. to which indirect costs can be allocated. Examples might be types of service departments that provide services to other units. Usually most organization, within the sub-Saharan African region, identifies more cost centres than traditional costing methods. In the second step costs are allocated to cost objectives with the help of cost drivers.

When applying the Traditional Accounting System there should be a reasonable and consistent relationship between the cost driver and the sum of the indirect costs. This system is usually good when the production process is rather simple and transparent. Besides, it is reasonable to apply this system when the activity based costing (ABC)-method would be too expensive and the benefits too low. Nevertheless, this case might be rather seldom, because today the environment tends to be very complex what makes ABC usually beneficial. It is also notable, that companies show a tendency towards not replacing an already operating system.

Hence, when using the Traditional Accounting System, organizations might refuse to switch to ABC or any other system (Opoku-Ware, 2015).

2.5 Accounting Information as Management Decision Tool

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 (Srivastava & Lognathan, 2016). 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).

3. RESEARCH METHODOLOGY

The research design for this research was purely literature review (thus secondary sources) and basing those reviews to form the main basis of the findings. There were no selection criteria for the literature, as such all relevant sources dully from google searches were inclusive. Additionally, duplicated sources were also removed but invariably the researcher tried to limit the research to cover the African regions. In all there were ten (10) main literature reviewed based on relevant content analysis.

4. FINDINGS FROM RELATED REVIEWS

When resources are relatively limited and scarce, management is constantly tasked with the problem of decision making. Good accounting information should be made available at all time for accurate and proper decision making, optimal utilization of scarce resource and maximization of profits. As averred by Srivastava & Lognathan (2016), accounting as a tool for reporting, recording and evaluating economic transactions and events is a tool that provides financial information about a business to its users (external and internal). Arguable, these decisions have the most impact on an organization as without accounting information, managers could not match up to an organization's goals and objectives.

This section of the study, thus content, analyses relevant review to depict the impact of accounting information on managers.

A study by Scorțe & Farcaș (2013) into the hospitality industry revealed that an economic crisis is not the only challenge facing that industry but also market demand dynamism as well as consumer behaviour. The study also revealed that it is important for accounting, as a language of business, to keep up with this technological and consumer/market changes in fulfillment of the strategic objectives of managers in the hospitality industry. This study which was a theoretical literature review of accounting concluded that accounting information and its methods are great "advisors" to managers to determine how businesses operate.

This assertion was supported by a review conducted by Ullah, Khonadakar & Fahim 2014 which was a study to evaluate the use of accounting information by strategic decision makers. It thus focused on five distinctive strategic areas namely manufacturing, human resource, basic, long term investment and marketing decisions. The results comprehensively proved that there was a significant relationship between the two variables (strategic decisions and accounting information). In other words, strategic decisions in all the above areas were dependent on accounting information and this was backed by 44.4% response rate as to the regularity of usage of accounting information in making strategic decisions.

Another review worth considering was a study by Ankrah, Mensah & Ofori-Atta 2015 into the “The Relevance of Accounting Information in the Management of Small Scale Businesses in the Yilo Krobo District in Ghana”. The purpose of the study was to establish the relevance of accounting information in the management of small-scale enterprises. A self-administered questionnaire was the main data collection tool to solicit information from 40 respondents and the main findings of the study was that the SMEs had no accounting system and no full time trained accounting personnel. Significantly, a statistical analyses using chi-square revealed that the lack of accounting information had an impact on their businesses.

Similarly, a study in the extent of influence of probability of accounting information on Nigerian banks revealed that there was a significant impact on the growth of businesses in the industry (Agbaje, Wale, Busari, Ganiyu, Adeboye & Olawale 2014).

5. CONCLUSION

Conclusions to the study could be drawn by highlighting a number of salient information from similar reviews. There is the need for effective and efficient accounting practices coupled with good control procedures in SMEs. Also, owners of these businesses needed to be made aware of the importance of basic accounting and its accommodating benefits derived from control measures. As posited by Ankrah, Mensah & Ofori-Atta (2015), one of the major reasons for SMEs collapse was the unwillingness to employ the services of a full time accountant to carry out the economic and accounting transaction of the company. These duties are often left in the hands of unexperienced staffs resulting in poor records keeping. Though most of the business managers know the importance of keeping accurate financial records they still did not practice good accounting principles mainly because of the high cost of employing an accountant, for example.

This assertion was also supported by Agbaje, Wale, Busari, Ganiyu, Adeboye & Olawale (2014) who presented in the findings that the availability of sufficient accounting information has a positive impact on the profitability of the Nigerian banking industry. Accounting information management should be targeted more and seen as real reform so as to promote economic development in organizations.

Additionally, it can also be concluded by a sample of other reviews that the sufficient supply and proper use of accounting information has an impact on management in making efficient and effective decisions. When these decisions are fully utilized it often leads to good financial reporting and record keeping.

5.1 Recommendations

The following recommendations should be considered in other for managers of organizations to make good decisions.

Companies should consult professional accountant when starting a business to learn about the various laws that affect them and also to familiarize 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 organized to disseminate information about the company and also elicit feedback that helps to improve the company.

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