Role of Accounting Information on Enterprise Management Decision: A Study of Federal Inland Revenue Service Kaduna

Ismaeel Mohammed Anchau Phd
alanchaawy@gmail.com
08063219182

Ibrahim Mohammed Awwal Phd
Ibrahimaw1yahoo.com
08065675984

Lawal Babatunde
tlawalngng@yahoo.com
08036632262

pp 274-280

Abstract

The major problem of most organization is obtaining the right information for their decision-making. For an organization adjudged successful, it is not only necessary to make decision, but what is imperative is implementing the right decisions. A decision is concerned with the selection of an action often out of a number of alternatives. To be able to choose the one, decision makers need some guidance, which is usually provided by information gatherer through managerial and financial accounting. Therefore, tools used in these areas are consequently considered as helpful support. The purpose of this paper is to identify the usefulness of accounting information as a tool for enterprise management decision making. To achieve this objective the paper collected information through questionnaires, personal interview, and related literatures. The tools for analysis used in the study are the chi-square method, a non-parametric statistical technique. It was found out that there is no effective decision making without greater consideration for accounting information. It is recommended that management should emphasize on the use of accounting information for effectiveness and efficiency of operations of their organizations.

Keywords: Accounting, Information, Enterprise, Management Decision, Revenue

I. INTRODUCTION

The statement of Accounting N0.2 issued by the Nigeria Accounting standard board (NASB) describes Accounting information as data (quantitative and qualitative) that are found in financial statement. These statements provide a continuing history qualified in monetary terms of economic resources and obligations of a business enterprise. Accounting information therefore is the yardstick for measuring the performance of the business organization and it is also serves as an instrument against which management compares actual result with established standard (SAS.2).

However, Harrison and Horngren (1995) defined Accounting information as the combination of personnel records and procedures that a business uses to meets its need for financial data. Thus, the information communicated by accounting records serves as a basis for corrective actions when actual outcome deviates outstandingly from predetermined goals.

Accounting information is not used by the organization but also needed by outsiders, creditors, potential investors, the Government and the public who have invested in one way or the other in to the business or have some other interest such as buying of shares that will be served by information concerning the financial position and operating result.

The type of Accounting information that a specific user require depends upon the kind of decision that the person intends to make, for example Managers need detailed information about daily operation cost for the purpose of controlling the business.

Outsiders, on the other hand usually need good information concerning resources in hand and information on operating results for the past years to be used in making investments decisions, levying income tax, and or making regular decisions. This information is been conveyed in a verity of reports and schedules which are quantitative and qualitative in nature to aid their users in making informed economic decision. Financial statements therefore are meant to be simple and concise for easy understanding by it users.

Although, the importance of Accounting information in decision cannot be under estimated, nevertheless, the extent and the degree to which Accounting information influences management decision making does not lead easily to any quantifiable statistical analysis. Because, the major limitations of Accounting information in its bid to solve management problems lies with relevant Accounting information to use for management decision. Associated with these, also there are problems of misappropriation of funds, failure to employ adequate and competent Accounting information expert or specialist.

The main objective of this paper is to evaluate the impact of Accounting information on management decision. To explore whether or how well the management functions will assist in the enhancement of the efficiency and effectiveness of management with reference to Federal Inland Revenue Service, Kaduna. The paper seeks to test the hypothesis that; accounting information is not effectively used in assessing management decisions.

It is against this backdrop that the study is undertaken and is limited to evaluating the impact of accounting information as a tool for effective management decision making at the Federal Inland Revenue Service Kaduna, between 2007 and 2013. The first part of the paper comprises of introductory section, followed by the review of related literature both conceptual and empirical are done in chapter two, while the third section is the methodology section, and section four is the discussions of results and findings. The last section captures conclusions and recommendations.

II. LITERATURE REVIEW

This section discusses some of the conceptual; and theoretical reviews on the topic and a careful empirical review on the topic, further we deemed it is necessary to look at different sets of postulates and concepts including assumptions regarding the nature of accounting information

Meaning of Accounting Information

Accounting information as provided in 1941 by

American Institute of Accounting (AIA) now known as the American Institute of Certified Public Accountants (AICPA) describes the accounting information as the act of recording, classifying and summarizing more transactions in a significant manner and terms. Accounting information is either from Financial Accounting or Management Accounting.

Financial accounting consists of public information while, management accounting consists of private information. Financial accounting includes information disseminated to parties that are not part of the enterprise proper, such as; stakeholders, creditors, customers, suppliers, regulatory authorities, financial analysts, trade associations and researchers. Such information relates to the earning/profitability, liquidity/solvency and overall financial position of an enterprise.

Managerial accounting on the other hand deals with information that is not generally disseminated outside a company such as salary costs, profit target and cost of material per unit produce. Conversely, the general purpose of the financial statement and financial accounting are assumed to meet basic information needs of most external users and the Management accounting provides a wide variety of specialized reports for divisional managers, departmental heads, projects directors, section supervisors and other managers within a company.

Objectives of Financial Reporting and Accounting Information

Landison (1989) identifies the objectives of financial reporting as enunciated by Financial Accounting Standard Board to include: -

a. To provide information that is useful to present to potential investors and creditors and other users in making rational investment, credit and similar decisions.
b. To provide information about the economic resources of an enterprise, the claims to this resources and the effects of transactions, events and circumstances that change the resources and claims to this resources.

Statement of Accounting Standard (SAS) stressed that the information expected to be provided in financial statements are those that are quantitative and qualitative in nature to aid their users informed economic decision.

On the other hand, Meigns and Meigns (1987) added that the underlying purpose of accounting is to provide information about an economic entity. They went further to state that accounting provide information that is needed as a basis for making decisions which will enable management to guide the company on a profitable and a solvent cause. Accounting does not only provide information for past data but also predictive information for making important business decision in a changing world.
Nanina (2012) opined that the aim of organizations is profitability and that accounting information is indispensable to achieving this goal. Therefore, it studies how effective and efficient the instrument of good accounting information is in decision making in an organization. The study uses both primary and secondary data; the statistical instrument used was the analysis of variance (ANOVA) model. The findings reveal that a good accounting system results in higher profit margin over the years.

Features of Accounting Information

Statement of Accounting Standard (SAS) stressed that financial statement are expected to be simple, clear and easy to understand by all users. In the same vein, Omolehinwa (2001) outlined some qualities that make accounting information useful which are in harmony with SAS, these includes; relevance, completeness, accuracy, clarity, understandable, timeliness, objectivity, volume and reliability.

Uses of Accounting Information

According to Pandy, (1999) Management Accounting is concern with the provision of information to managers to aid them in decision making for planning and controlling whereas Financial Accounting is concern with the provision of information to external parties outside the organization. These various users could be categorized broadly as follows:

a. **Investors Group:** Potentials investors are generally interested in dividend and growth trend of the firm.
b. **Creditors Group:** Creditors are interested in the continuing profitable performance of the firm so that they may regularly receive the interest and payment of principal and to evaluate the firms'

performance and to determine the degree of risk to which they are exposed.

c. **Employee Group:** They make use of financial statement during bargains of matters relating salary determination, bonus fridge, and benefits and working condition on the basis of accounting information.

d. **Business contact group:** Customers may well have little influence in markets.

e. Increasingly dominated by large business organization and it is difficult to see how even if more information were made available customers are interested in information indicating fairness of pricing policies.

f. **The Government:** Government and their agencies are interested in the allocation of resources and therefore the activities off enterprises. They also require information in order to regulate the activities off the enterprises, determine taxation policies and as the basis for national income and similar statistics.

COMPONENTS OF FINANCIAL STATEMENTS

The Nigeria Accounting Board in statement No.3 identified financial statement as consisting of the balance sheet, profit and loss account or income statement, valued added statement and historical summary. These will be discussed below.

The Balance Sheet

Of the two traditional types of financial statement, the balance sheet relates to an entity's financial position at a point in time and the income statement relates to its activities over an interval of time. The balance sheet provides information about an organization's assets, liabilities and owners' equity as of a particular data – namely, the last day of the accounting or fiscal period. The format of the balance sheet reflects the basic accounting equation: Assets equal equities. Assets and economic resources that are expected to provide future services to the organization. Equity consists of the organization's liabilities which are its obligations together with the equity interest of its owners.

Assets are categorized as current or fixed. Current assets are usually those that management could reasonably be expected to convert into cash with one year. They include cash; receivables (money due from customers, clients or borrowers) merchandise inventory and short-term investments in stock and bonds. Fixed assets include the land, buildings, machinery, motor vehicles belonging to the company.

Liabilities are obligations that the organization must remit to other parties such as vendors, creditors and employees, current liabilities generally are amounts that are expected to be paid within one year, including salaries and wages, taxes, short-term loans and money owed to suppliers of goods and services, when an organization is a corporation, the balance sheet shows the equity of the owners (the stakeholders) as consisting of two elements (SEC, 2007).

The Income Statement

The traditional activity-oriented financial statement issued by business enterprises is the income statement. It is prepared for a well-defined time interval, such as three months or one year.

This statement summarizes the enterprises revenues, expenses gains and losses revenues are transactions that represent the inflow of assets as a result of operations – that is, assets received from selling goods and rendering services. Expenses are transactions involving the outflow of assets in order to generate revenue, such as wages, rent, interest and taxes.

A revenue transaction is recorded during the fiscal period in which it occurs. An expense appears on the income statement of the period in which revenues presumably resulted from the particular expense. In addition to disclosing revenues and expenses (the principle components of income) the income statement also identifies gains and losses from other kinds of transactions, such as the sale of plant assets (for example, a factor building) or the early repayment of long-term debt. Gains or losses that are deemed to be extraordinary that is both unusual and infrequent are so labeled.

Other Financial Statement Components

A third importance activity-oriented financial statement is the statement of cash flows. This statement provides information not otherwise available in either an income statement or a balance sheet. The statement of cash flow represents the sources and the uses of the enterprises cash by classifying each type of cash inflow and cash outflow according to the nature of the type of activity such as operating activities, investing activities, and financing activities. The statements operating activities section identifies the cash generated or used by operations. Investing activities include the cash exchanged to buy and sell long-lived assets such as plant and equipment. Financing activities consist of the cash proceeds from stock issuances and loans and the cash used to pay dividends to purchase the company's outstanding shares of its own stock and to pay off debts.

Accounting information may be distorted where efficient and effective system of control is not in operation in an organization. A good system of internal control therefore, will serve to ensure an adequate procedure for the recording of monetary and all other transactions of an organization and appropriate arrangement for the safe custody of money sores and other assets of the organization, ensure an appropriate supervisory procedure by senior staffs to ensure that work of subordinate are supervised on a continuous basis and an appropriate system of management review of operating results by use of budgeting control, interim account and special report.

Measuring Effectiveness of Management using Accounting Information

Information produced by management accounts must be judged in the light of its ultimate effect on the outcome of decisions. The best way to communicate any accounting information is to do it in writing and in a report format with line descriptions on left side of the pages, columns headed by a date or description and report title. Effective communication is important in an organization that deals with employees and outsiders such as vendors and clients because accounting is an intrinsic part of any business good communication skills are vital in this area. Important financial tasks such as budget preparation and reporting bill paying payroll and recording income need to be presented properly to management and others to be useful and meaningful.

The most important use of accounting data is to communicate meaningful information, allowing management to make good decision. To be effective, accounting information must make sense and be understood or else it is just a list of number with no real significance. The effectiveness of accounting information can be received providing management information to assist concerned decisions. The effectiveness of accounting information can be evaluated as added value of benefits. The effectiveness of accounting information is a measure of success to meet the established goals. The success of accounting information of the management is implementation and is defined as profitably applied to area of major concern to the organization, is widely used by one or more satisfied users and improves the quality of their performance.

Limitations of Accounting Information

Accounting information is accumulated with several methods to choose from,
therefore, person using it need to understand financial analysis to best use the data. It fairly reflects the condition of an entity but may not reflect the effectiveness of the operation and the market condition. It is better to accompany accounting information with market information, auditor's note and disclosure from the management.

Accounting is only one source of information and primarily provides information based on financial terms although this information is vital, decisions cannot be based on solely on a monetary basis. Various decisions depend upon a diverse range of issues being considered. A unique combination of quantitative as well as qualitative factors should be considered to ensure as effective decisions making process.

The historical perspective of financial accounting in order to obtain a recent estimate of an entity's financial performance. The corporate managers carefully scrutinize financial accounting information in retrospect, this information is based on performance the information does provide clarity on the monetary issues but does not provide a definite insight into the strategic future, as the future holds various changes in terms of technology economic situations as well as political scenarios etc such factors in relation to accounting are unpredictable. Therefore, a careful balance between historical accounting as well as the future forecasted outlook is required.

Challenges of Accounting Information

The challenges faced by accounting information are that at any point in the communication process barrier can occur. These barriers keep employees from understanding other ideas, and it can occur at any point in communication loop. It can be internal barriers: These barriers could be caused by fatigue, poor listening skills, attitudes towards the sender of the information and lack of interest in the message mistrust past experiences and emotions. Or; External barriers: These include bad communication means bad network, etc. because of the changes in technology, some individual may find it difficult to interpret financial statement because of the changes that have occurred. Also employees find it difficult to adapt to the new technology.

III. METHODOLOGY

The research design for this paper is the survey design and stratified sampling techniques were used because it enables the researcher to select samples relevant to the study using Federal Inland Revenue Service Kaduna as the case study.

Population of the study comprises of the staff of the Federal Inland Revenue Service which is sixty four (64). The sample selected for this research is thirty, from the finance department. The simple random sampling technique was used to ensure that every departmental member of staff has an equal chance of being represented in the sample. The method for data collection employed includes both primary and secondary sources using the instrumentations of questionnaire and personal interview.

The statistical tool for analysis adopted is the Chi-square method. The theoretical model for computing the chi-square test is as follows:

$$\chi^2 = \frac{(Fo\text{-}Fe)^2}{Fe}$$

Where: F_0= Obsevation frequencies in a given category; F_e = Expected frequencies estimated int hat category; F_0 - F_e = The difference between the observed and expected

IV. DISCUSSIONS OF RESULTS

For a research work to be useful it must be interpreted in the light of condition under which it was done. The analysis is and interpretation of raw data of a research, whereby the problems are answered on the stated hypothesis. In this section, an attempt has been made to present, analyse and interpret the data collected from the primary sources by the use of questionnaire for the usefulness of this research.

The presentation of data is based on the response of the respondents and it is presented in frequencies and percentage for easy understanding. A total number of 30 questionnaires were administered to the finance and accounts department which comprises of the treasury division, payroll section, E-payment section, cash office and pension and taxes section of the Federal Inland Revenue Service Kaduna. A number of 23 questionnaires were properly filled and leaving out 7 note returned i.e. 92% returned.

As to what is the role of accounting information? Two respondents, 9% indicate 5 to evaluate and measure performance, 4 respondents representing 17% indicated controls the activity of the organization, 3 respondents, 13% indicated guide management decision making while 14 respondents, 61% indicated all of the above. This shows that the role of accounting information includes evaluation and measurement of performance, controls the activity of the organization, guide management decision making.

Whether accounting information is effective in assessing the mismanagement of the FIRS? 22 respondents, 96% indicated yes, while 1 respondent, 4% indicated No, and this shows that accounting information is effective in assessing the management of the organization

TEST OF HYPOTHESIS

For the purpose of ascertaining the relationship between the tentative statements of hypothesis and the analysis of the chi-square test will be used to test the hypothesis aimed at testing the effectiveness and otherwise of accounting information in assessing the management decision in Federal Inland Revenue

Service Kaduna.

H_{01}: Accounting information is not effective in assessing the management decision

The critical value of X^2 at 5% level of sisgnificance and at 1 degree of freedom is 3.85

Decision Rule

Reject H_0 if the critical value of X^2 at 5% level of significance and (r-1) (c-1) degree of freedom is lower than the calculated value. Otherwise do not reject null hypothesis H_0 **Decision:**

The compound value of X^2 =1.9417 is less than the critical value X^2 = 3.84 aet 1 degree of freedom. Hence we fail to reject the null hypothesis H_0 that accounting information is not effective in assessing management decision.

Findings

The analysis of the response provided through the questionnaire formed the basis of research findings. They have also helped in providing meaningful conclusion to the research questions.

The following are the findings from the research work carried out in Federal Inland Revenue Service, Kaduna that accounting information helps in evaluation and measurement of performance, controlling the activities of the organization and guide management in decision making. However, it is not being utilized in assessing the effectiveness of management decisions of the organization.

V. CONCLUSIONS AND RECOMMENDATIONS

The study was conducted on the role of accounting information as a tool for management decision making at the Federal Inland Revenue Service Kaduna. The paper found out that the null hypothesis would hold, that is to say accounting information is not effectively being used in assessing the effectiveness of management decisions. Based on the findings, the following recommendations are made that, all supervisors and Management should emphasize on the use of accounting information for assessing staff performance and they should also use it in assessing the quality and effectiveness of decision making of their organizations.

REFERENCES

American Institute of Certified Public Accountants (1941).

Drury C. (2003): *An introduction to cost and management accounting:* 5th edition, Thomas Learning Publisher, London.

Harrison W. and Horngren C. (1995): *Financial Accounting.* 2nd editions Prentice Hall Publisher, USA.

Larson, K.D. (1989): *Financial Accounting.* 4th edition, Irwin Home Wood, Boston.

Lucy T. (2004): *Costing.* 6th edition, Book Power Publisher, London.

Meigs W.B. and Meigs R.F. (1987): *Financial Accounting.* Revised Edition Mc-Graw Hill Book Publisher USA.

Nigerian Accounting Standard Board (1980): Information to be Disclosed in Financial Statement SAS No.2

Nnenna, O.M. (2012). The use of Accounting Information as an Aid to Management in Decision Making, *British Journal of Science,* Vol. 5(1)

Omolehiwa A. (2008): *Management Accounting:* 5th Edition Cleo International Publisher, Lagos.

Pandey I.M. (1999): *Financial Management.* 8th edition Vikes Publisher House P.V. Limited London.

Security and Exchange Commission (2007).

Wood F. and Sang Star A. (1996): *Frank Wood Business Accounting*. Pitman Publishers, London.