GSJ: Volume 10, Issue 1, January 2022, Online: ISSN 2320-9186

www.globalscientificjournal.com

IMPACTS OF ACCOUNTING INFORMATION ON DECISION-MAKING PROCESS

OZIRIGBO BENJAMIN EBERE, ISHAYA UMARU TANIMU,PhD, ALIMA KINTEH ,FRANCIS AJ MOSERAY

ABSTRACT

Accounting is known as the language of business, it records all financial transactions . Accounting information is necessary to understand the financial situation of the firm and use it as the basis of decision-making. Accounting is defined as the process of collecting, recording, classifying, and interpreting it to enable the decision-making process by users. Therefore each of the recording faces of accounting is bookkeeping. Information should be based on accurate, qualitative, timely, and clear. Significant roles in effective decision-making come from the accounting information systems. The purpose of the research was to study the impacts of accounting information on the decision-making process in SMEs in The Gambia. The researcher used a survey research design to study financial accounting information quality and its relationship with decision-making in SMEs. The study population consisted of three SMEs in The Gambia. The sample size of the study was 100. There was a collection of primary data from the respondents using self-administered questionnaires. A descriptive method was used to analyze the data. Results indicated that comparability, reliability, and relevance were important in determining decisions. The study suggests that managers should put in measures to improve both qualitative characteristics of financial statements in their SMEs so that they are easily comparable to the industry average. The management should also put in measures to enhance reliability in accounting information so as to improve predictive value which helps in decision making in the future. Monitoring and control action should be enhanced in the

decision-making process to achieve the desired goal Keywords: Accounting, Accounting Information, Data, Information systems, Management

1.1 **Background of the study**

Managing the company is the process of conducting business operations towards achieving organization goals and objectives. The way in which a company is managed and developed is important because any wrong misleading information results ineffective decisions. The information are collected, processed, classified and store in the company. Accounting is define as the process of collecting, recording, classifying, and interpreting it to enable decision making process by users. Therefore each of the recording face of accounting is bookkeeping. Information should be based on accurate, qualitative, timely and clear. Significant roles in effective decision making come from accounting information system.

The business information system is compared to sub systems: management information system, accounting information system, marketing information system, human information system etc. The accounting information system collects and process data from area of accounting planning, business transactions, recording, controlling, analyzing should generate valid, timely, and qualitative information. Many private or public organization, whether profit or non-profit making oriented, small scale or large scale, requires and uses accounting information user demand (Nicolas and Mchugh, 2009). The information are valuable to those who make business decisions and control the business. The information are communicated to the user for instance, business managers may need it in the following cases; new product or service development, increase or decrease in price or quantity, borrowing money to finance the business, make changes in production or distribution methods.

The Accounting Information System is a tool that uses the Information Technology component to help in controlling the financial activity of an organization. For better understanding of Accounting Information System the three words are explained separately.

First accounting is known as the language of business, it records all financial transactions. Second is the information which is the processed form of all data used by decision makers. It processes all documents of a business financial performance from payroll, cost, capital expenditures and other business obligations to sales revenue and owner's equity. It provides financial information about one's business to the internal and external users. The last is the System which is an integrated entity that focuses on the set of objectives. Information used within business decisions process can be qualitative and quantitative. The quantitative information can be financial or non-financial. The main source of information is company's accounting system while the source of non-financial information are organizational parts of the company, industry and economy. Large number of information necessary for business decision making is provided from information sub-system.

1.1.1 THE DECISION MAKING PROCESS

A decision is a "choice leading to a certain desired objectives". An individual or multiple participants that are involved in decision making can be called decision makers. Every decision has an element of risk. By examining alternatives in a thoughtful, logical, and reasonable manner one is reducing risk. Decision making plays a big role in an organization, they use it to achieve organizational goals and assessed standards. It is also use to determine which resources to be used efficiently to yield optimal results. The courses of actions taken results from decisions. Decision making is the heart of management process.

1.1.2 FINANCIAL ACCOUNTING INFORMATION QUALITY

Accounting in any organization is the major source of accounting information and it has the role of classifying, summarizing,recording, interpreting, analyzing and communicating it to users. Source documents are also prepared and data recorded to ledger which is view as formal record data (Trimisiu, 2012). Therefore accounting data comes from financial transactions in the organization. The source documents are the invoices, cashbook, Debit notes, Credit notes, Receipts, Vouchers, Bills and Local purchase order (LPO). For necessary information to be provided an organization must have good management in accounting processes. There is a need for accounting system that helps manager solve problems facing them (Lacob &Karim, 2013).

Mangers heavily rely on Accounting and financial information in making managerial decisions which in their opinions is important (Loyee, salehi & aseman, 2012). Financial information effectiveness refers to goods results of the reports which are true and can be relied on. The results can therefore be used to support decision making or future performance of the organization.

1.1.3 ORGANIZATIONAL SIZE

Strategic decisions of an organization are influenced by the size of the organization. Smaller business have much greater participation in making decisions as compared to managers of larger units Duhaime & Baird (2007). There are inconsistent results that have been developed in literature review in relation to the size of the firm and making of strategic decisions. Nooraie (2008) studied that the size of an organization and rationality has a positive association in decision making but there is a negative relationship when compared with politicization.

1.1.4 SMALL AND MEDIUM SIZE ENTERPRISE

This are businesses that maintain revenues, assets or a number of employees below a certain threshold. Small and medium size plays a very important role in the economy. SMEs include the numbers of employees, volume of sales, value of assets in a business operation (Ademola,Samuel & Ifedolapo 2012). SMEs contribute to a larger percentage on employment and national economy growth, 2

1.2 STATEMENT OF THE PROBLEM

Information is needed for decision making in any organization. The problem lies in the quality and how correct the information is, for instance if it is timely, adequate, and clear. The main purpose of using accounting information is to reduce risk, failure and uncertainties. It is generally recognized that most unqualified accountants generate inaccurate information and that results in organization not achieving their goals. The major problem discovered when making decisions is the identification of fundamental concept of accounting information to be put into practice by each company, which can affect the company positively or negatively.

These problems stated immensely contribute to the failure of the use of accounting information in the business which results to the inappropriate decisions that are made to the detriment of the company.

1.3 RESEARCH QUESTIONS

1. Does proper use of accounting information helps the organization in making effective decision?
2. Does accounting information affects the company positively or negatively?
3. Is there any relationship between the view of the employees and accounting information within the organization?

1.4 RESEARCH OBJECTIVES

The main objective of this study is to examine the impacts of accounting information on decision making process. The objectives are as follows:

1. To know the value of accounting information and its effects on comparability in decision making process.
2. To make suggestions that will promote the effective use of accounting information which assess its reliability on decision making.
3. To know the effect of relevance of financial accounting information on decision making process

1.5 SIGNIFICANCE OF THE STUDY

The study will help to maximize the good impact of accounting information on decision making process of an organization. This boosts the profitability of the organization and also ensure its continuity as a business entity.

It will also help us to know the benefits of accounting information on decision making process. Is a study on the importance of accounting information which is a decision making tool.

The study helps to identify how a company handles accounting information and shows the ways in which it can be accomplish.

The impact of computer technology in generating and processing of accounting information is recognized and appreciated.

The Accounting information is a vital tool that cannot be avoided and a bedrock of management in taking decisions. This analyze the impact of accounting information systems on organizational performance.

1.6 SCOPE OF THE STUDY

The study shall focus in the Gambian companies using the State-Owned Enterprises (SOEs). National Nutrition Agency (NaNA), Gambia National Petroleum Company (GNPC), National

Audit Office (NAO) to show the information organizations can derive from accounting information and their usefulness on decision making process. To also see the need for accounting information to any business organization and how it helps in decision making. Questionnaires will be used in generating primary data. The sample of population study shall be financial manager, chartered accountants, business administration.

2.1 Conceptual Framework

. Borthick and Clark (1990) state that the need for information is the reason for the existence of accounting. To keep it relevant in the business, accounting data should respond quickly to the needs of users and particularly to the needs of investors. Usually investors do not assess the performance of a target firm where they invest or intent to invest.

Grande,Estebanez and Comlomina (2010) state that improving the external relationship of the company, new business opportunities and better flow of financial information between different hierarchy levels, have changed the nature of the business. The study focuses on the impact of accounting information on decision making process which is beneficial to an organization. It provides a high level of competitiveness, improves the management of business transactions, and changing business environmental conditions.

The financial reports are the source of information for the investors which are usually prepared by management. The objective of the report is to provide information on the financial position of a business. It gives the economic information of the organization to the investors, so that the stakeholders could know the investment opportunities in the company. Previous studies about using accounting information in business decision-making process are focused to three main directions. First, they include research about usefulness of accounting information within process of business decision making. Further, authors researched tendency of using accounting information in process of decision-making, and users of financial information. Eventually, studies included research on quality, availability and form of accounting information for decision-making purposes, and role of accountants in providing those information. Meter (2006) within his research concluded that the middle management most often use accounting information in business decision-making process, then higher management, and at the end lower management rarest uses accounting information . According to research results, the most often used source of accounting information as a basis for decision making are annual financial statements, then reports from transaction database, and managerial information system and system based on knowledge base“ (Meter, 2006, p. 531). Conducted research indicates about importance of accounting system and annual financial statements within the process of decision making at all levels of business operations. According to results, managers have tendency to use individual financial ratios for business decision-making purposes. David (2011) states that assessment of business strategy should be conducted by using quantitative and qualitative criteria. “Quantitative criteria commonly used to evaluate strategies are financial ratios, which strategists use to make three critical comparisons: (1) comparing the firm’s performance over different time periods, (2) comparing the firm’s performance to competitors’, and (3) comparing the firm’s performance to industry averages” (David, 2011, p. 293). Luminita (2014) also doesn’t question usefulness of accounting information and gives detailed information about users of accounting information within decision making process including investors, lenders, business partners (customers and suppliers), the social partners (employees and unions representing them), the government. There is an emphasis function of managers as information users.

Managerial team is the one that needs the information in determining the performance of the economic entity but also in making decisions for future activities. When we speak of a managerial team we are talking about a user which can be the manager, the treasurer, the board of directors, the management team, etc., in other words whoever is staying at the helm of economic entity and is giving direction to the development for them, the interest is to know the information on the operating activity of the entity, on the funding and investment activity in order to make their decisions"(Luminita, 2014, p.675). Information and related systems are closely linked to the decision-making process of a company. It is important to know what information managers need in decision-making and how managers develop systems that allow them to obtain relevant information. Increasing complexity in companies causes managers increasingly depending on various internal and external sources of information (Dimovski, Penger, & Škerlavaj, 2007, p. 64).

Hence, company information systems, especially accounting information systems, are gaining in importance. However, we should not neglect the information systems dealing with the collection and management of information coming from a company's environment.

Accounting systems form the main part of an information system in a company because it provides the only worthwhile information. This enables external users to learn about the success of a company's business, while the internal information provides a good information basis for management decision-making. The better the knowledge of users of accounting information about their design, their weaknesses and constraints and the appropriateness of decision-making, the better their efficiency in managerial decision-making.

The objective of accounting information is to provide insight into a financial position of a company so that it is useful to users of information in their decision-making. For this reason, the information must be comprehensible, essential, reliable, and comparable. It must be prepared in such a way that their users will be able to read all the information they need when making decisions. It should also enable them to make information-based decisions in the future (Odar et al., 2011, p. 45). Accounting information plays two roles in decision-making (Baiman, 1982;

summarized by Kavcic, Kozelj, & Odar, 2014, p. 119) 1.). Affecting quality of the decision; 2) Facilitating the decision.

Operational management dealing with routine problems in a company requires precise and specific information on a narrow scale, usually transmitted by the company's formal information system at regular intervals. Strategic management however, mainly deals with one-off decisions and therefore requires a wide range of information, which, in addition to financial and internal information, also includes nonfinancial information and environmental information. For such information, a formal information system is usually not established therefore, strategic decisions are often based on intuition, creativity, and personal judgment(Cadez, 2013, p. 38).

The literature often reveals that accounting information from financial statements is primarily intended for external users of accounting information. However, such a claim is wrong because the informing process of internal users in a company is just as important. For internal users of accounting information, financial statements provide basic information on company performance (Bergant, 2013, p. 77).

It should also be known, however, that the content of the accounting process is not decision-making but the provision of such information, so that decision-making in the company is facilitated and successful. Management must be aware of being responsible for decision-making. At the same time, it must consider accounting as a professional service that helps to perform the management function (Hocevar,2007, p. 230). For the top levels of management, information from financial statements is important at least from two perspectives. Top management should know what information the company has provided to external users and what information the latter could obtain from additional analysis

2.1 Accounting Managers' Knowledge

Top management has been recognized as a critical factor in numerous types of development. Managers' beliefs and practices have been identified as crucial for adopting sustainable practices

(Jabbour & Jabbour 2016). However, there is a scarcity in recent literature discussing the influence of manager's knowledge on the implementation of accounting information in SMEs' newly adapting technology. Accounting managers' knowledge (, related to AIS includes the knowledge of computer application programs, accounting, the internet, e-mail, database, spreadsheet and word processing (Ismail 2009).

Accounting Information System (AIS) plays a critical role in SMEs decision-making. AIS is a crucial factor in the success or failure of accounting information implementation in SMEs (Hussin et al. 2002; Thong 2001; Seyal, Rahim & Rahim 2000). The manager is the only person who knows the goals of the company; thus, managers who are aware of new technology would select the correct software for the business (Hussin et al. 2002). Therefore, it is necessary to investigate the impact of on implementation in SMEs.

2.2 Top Management Support

Top management support would also bring about a positive attitude in users of accounting information in the organization which most likely results in the successful implementation in SMEs.

2.3 Accounting Information System, Perfomance Management & Organizational Performance

AIS processes the non-financial and financial transactions which have a direct impact on the financial transaction processing. Wilkilson et al. (2000) state that AIS not only processes the financial information and accounting data but also transforms the non-financial data into accounting information. Eventually, non-financial and financial data is transmuted into the accounting information for decision-making. Collecting, processing, storing and distributing information to support the controlling and decision-making process within an organization is the core units and interconnected components of AIS (Laudon & Laudon 2005). The various types of information are required to support the decision-making and work activity at different functional levels in an organization. Most of the information needed to integrate the various functional levels information and business processes for producing useful information for decision-making. Hence, the integration of systems is necessary. AIS is a critical organizational mechanism for better control and efficient decision-making in the organization. Nowadays, organizations are using online and digital information in their AIS for better decision-making (Huang, Lee & Wang 1999).

3.0 Methodology

The research methodology describe the methods use in preparation of the study, collect and analyze. The research is about the usefulness of accounting data as quality basis within business decision making process .In this research primary data have been collected through the questionnaires issued to three SMEs in The Gambia. The study focused on the Gambian companies using the State-Owned Enterprises (SOEs). National Nutrition Agency (NaNA), Gambia National Petroleum Company (GNPC), National Audit Office (NAO) to show the information organizations can derive from accounting information and their usefulness on decision making process. The sample of population study were financial manager, chartered accountants, and business administration. Population, design, sample size, sampling techniques data collection, validity and reliability are all included in the research methodology.

3.1 Research Design

The researcher used a survey research design to study financial accounting information quality and its relationship with decision making SMEs in The Gambia. The population consisted three (3) SMEs in The Gambia. The study presents the analysis of the questionnaires administered by the respondents. The data collected are from the field of survey on the impacts of accounting information on decision making process. Response rate of 70% was obtained. The rates translates to 70% of the respondents, which shows that the study achieved a good response rate.

The questions are divided in to two categories, general information and information about business decision making process using accounting data for that purpose.

4.0 Data Analysis

4.1 Comparability And Decision Making

The study presents the effects of comparability and decision making. Eighty one percent (81%) who were the majority agreed that financial statements of one accounting period are comparable to another and this help users to drive meaningful decisions. Forty- seven percent (47%) of the respondents agreed that financial statements prepared by SMEs were consistent with those of other SMEs which helps to analyze its performance related to other SMEs. Seventy-seven percent (77%) of the respondents agreed that qualitative characteristics of financial statements in SMEs were easily compared to those of industry average. Forty-four percent (44%) of the respondents agreed that users of financial information were able to compare financial reports generated in different periods. The findings shows that information comparability is important in determining of decision making.

4.2 Reliability And Decision

The study presents the effect of information and decision making. About seventy-One percent (71%) of the respondents agreed that accounting information used by management in decision making in the organization is verifiable. Fifty- four percent (54%) of the respondents agreed that financial information provides accurate and valid information. Sixty-five percent (65%) agreed that neutrality in financial information can be depended on when making decisions. Majority of the respondents 80% of the respondents agreed that information generated from accounting systems show an element of completeness which helps in decision making. The findings imply that information reliability is a key in determining decision making.

4.3 Relevance And Decision Making

The study presents the effects of information relevance on decision making. Eighty percent (80%) of the respondents agreed that financial accounting information was timely which ids important when making decisions. Sixty-eight percent (68%) of the respondents agreed that there was feedback in financial information relation to decision making. Seventy percent (70%) of the respondents agreed that users of financial statements could depend on consistency in making decisions. Sixty-five percent (65%) of the respondents agreed that financial information had predictive value which helps in decision making. The finding imply that information relevance is an important determinant of decision making

4.4 Decision Making

The study presents the decision making in SMEs. About Eighty-four percent (84%) of the respondents agreed that there is a relationship between accounting information and decision making by the organization. Forty-four (44%) of the respondents agreed that definition of the specifications, goals and objective that answer problems in decision making were well defined and outlined in SMEs. 56% of the respondents agreed that there was a clear methodology designed on how decisions were undertaken in attempt to address any concern in decision making. 50% of the respondents agreed that action was well carried out on specific decisions according to stipulated processes associated with decision made in SMEs. 54% of the respondents agreed that the management made use of feedback gotten from other parties and making better futuristic decisions in SMEs.

5.0 Summary, Findings, Conclusion and Recommendation

5.1 Findings

The study objective was the impacts of accounting information on decision making process. The first objective was to study the value of accounting information and its effects on comparability on decision making process.

1. Results indicated that comparability was important in determining decision making in SMEs in The Gambia.

2. Financial statements prepared by SMEs were consistent with those of other SMEs which enable them to analyze its performance in relative to others.

3.Financial information make it easier for users to choose between alternatives, qualitative characteristics of financial statements in their SMEs were easily compared to those of industry average, and that users of financial information were able to compare financial reports generated in different periods.

4, Results indicated that reliability was important in determining decision making in SMEs in The Gambia.

4.Information generated from accounting systems displayed an element of completeness and this help in decision making.

5.Results indicated that relevance was important in determining decision making in SMEs.

6. Information from information system was clear and understandable, users of financial statements could depend on consistency which enable them make decisions.

5.2 Conclusion

From the study findings, one can conclude that accounting information comparability as a characteristic depended on whether financial statements of one accounting period are comparable to another. Financial accounting information in SMEs in The Gambia had adequate comparability characteristics which is a key determinant of decision making. It can be concluded that accounting information reliability characteristics on accounting information use by management in decision making is verifiable, have predictive value, neutrality and element of completeness. Finally, it can be concluded that accounting information relevance in SMEs are timely, clear, highly understandable, depended on consistency. Results show that relevance is also important in determining decision making in SMEs in the Gambia. According to results obtained from 70 respondents, information based on accounting data which determine business quality, based on company's characteristics, are important in the business decision-making process. The study shows the impact of accounting information on decision making process.

5.3 Recommendation

From the study findings, it would be recommended the manager puts in measures to improve both qualitative characteristics of financial statements in their SMEs so that they are easily comparable to industry average. The management should also put in measures to enhance reliability in accounting information so as to improve predictive value which helps in decision making in the future. The SMEs should strive to ensure that information generated from accounting systems displays an element of completeness so that this helps in decision making. Monitoring and control action s should be enhanced in the decision making process to achieve desire goals.

REFERENCES

1.Botha, G. (2014). The relationship between Accounting Information and Performance Management.

2.Nicholas & Mchugh, (2009).Uses of accounting information user demand

3.Grande, Estebanez and Comlomina (2010) Improving the external relationship of a company.

Meter (2006), uses of accounting information on decision making process p. 528-529

4.Dimovski, Penger, & Skerlavaj, (2007). Depending on various internal and external sources of information.

5.Kavcic, Kozelj, & Odar (2014). Roles accounting information plays in decision making p.119Cooper, DR& Schindler, PS 2003, Business Research Methods

6.Duhaime, I.M & Baird, I.S. (2007). Divestment decision making: the role of business unit size. Journal of management.Fredrickson, J.W. (2006). The strategic decision process and organization structure.

17

7.Royaee, R. Saheli,A and Aseman,H,S.(2012). Does Accounting play a significant role in managerial decision making? Research journal of business management and accounting.

8.Trimisiu, T. (2012). Accounting information as an aid to management decision making. Academy of management journal. 37,932-956.

9.Zager, K.& Zager,L (2006). The role of financial information on decision making process. Innovative Marketing 2, 35-40

10.Anderson, DR, Sweeney, D.J & Williams T.A, 2011 Statics for business and Economics

11.Brigham E.F & Houston J.F, 2009. Fundamentals of financial management –Western Cengage Learning

12.Bortick A.F & Clark, RL 1990, Accounting information systems work. An empirical investigation of the creative thinking paradigm, journal of information system 4, 48-50.

13.Odero,A .(2014). The impacts of accountings information system quality on financial on performance of SMEs.

14.Langley, A. (1990). Pattern in a formal analysis in strategic decisions.

15.Woods, G.(2008). How external parties influence decision making. Academy of management journal. 37,932-956.