

Accounting Information as an aid to Decision Making in the Public Sector

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ABSTRACT

The need for effective financial decision making, guidance and direction to a profitable and solvent course often inform the choice and reliance on the accounting information. Source to accounting information includes suitably fashioned accounting system which can enable an organization to identify and gather accounting data, process them into accounting information for users. Decision making is a complex phenomenon and requires an appropriate platform. Thus, this paper reviews the role of accounting information in decision making of public sector x-aying areas of decision making where accounting techniques are kept in aberration thereby undermining the imperative of accounting information. This write-up concludes that accounting information is an indispensable tool in decision making and should be taken up seriously.

Keywords: *Accounting information, Decision making, public sector*

INTRODUCTION

The use of relevant accounting system which provides comprehensive accounting information for controlling, stewardship, planning, and so on, is a survival strategy to organizations who want to stay afloat in their businesses given the complex business environments, which they operate. The function of accounting system has evolved and changed over the years in response to the needs and demands of the socio-economic environment. There have proper books of account on systematic and continuous basis. They have also been analysis if financial transactions to elicit facts for direction. The income statement and balance sheet are used for this. All these are accounting for stewardship, that is, they provide information to the owners on how their resources have been put to use. The owners will know their profit and loss, assets and liabilities position, productivity and increase in wealth of failing enterprise and growth.

Furthermore, there is accounting for control because of the complexity of businesses. They include inventory control, variance analysis standard costing, and credit control among others. They help the organization to know how they have performed and what corrective actions should be taken if their actual performance is at variance with the expected one. More so, cost accounting and management accounting accommodate processes, jobs, products, contracts, and so on. This extends to accounting for decision making, for production and decision making.

Sound decision making is achievable with the applications of decision making techniques which include investment analysis (cost-benefit analysis), portfolio analysis, cost-volume analysis, just a few to mention. The planning function of accounting leaves much to be desired setting up qualitative goals and means of achieving them. Accounting techniques to serve planning need include capital budget, operating budget, cash budget, zero based budgets and so on. Given the role of accounting information, accounting for stewardship, controlling, planning and decision making are therefore necessary in the public sector for proper investment decision, disposal of assets, procurement of additional assets and administration boarded properties.

Objectives and Characteristics of Accounting Information

The main objective of any accounting system is to provide information to the users to make relevant decisions inform judgment (Pandy, 1979). Besides decision making, control and stewardship are also important. Accounting system refers to the system designed to record accounting transactions and events of the business and communicate them in compliance with the existing policies and procedures and by extension the legal provisions to the users. Hanson (2007) sees accounting system to include the formal records and original source of data. Thus, the basic components of an accounting system are concerned with collecting, recording, evaluating and reporting transactions and events (Pandy, 1979)

Grande, Estebanez and Colombia (2011) corroborate Hanson (2007) that the elements of the accounting system as those components that are concerned with overall accomplishment of accounting process. Pandy (1979, p.27) viewed accounting as a system when he stated thus: “Accounting may be defined as the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information...” Cost accounting within the contemplation of Harmason and Edward (2008) is a system since it is a process of identifying, measuring, accumulating, analyzing, presenting, interpreting and communication financial information to the management to plan, evaluate, control within an organization and to ensure appropriate use and accountability for resources. Considering the forgoing, accounting system gathers and communicates accounting information to the users. Hence, accounting system gains the nomenclature-accounting information system (pandy, 1979).

Accounting system provides accounting information. Accounting information of an enterprise is contained in the financial statements. Accounting information as viewed as by Bengas and Myro (2008) entails an organized set of accounting data which provides useful information that is utilized by the interested users (both internal and external) to elicit facts for their respective decision making. The information could be on what the enterprise owns (assets), what it owes to others (liabilities) or the owners’ wealth (capital, etc). Besides, the income statements provide information on the performance of an enterprise in terms of profit or loss. In fact, the list of information which can be generated from the financial report is inexhaustible.

Accounting information provided by management accounting is not generally disseminated outside the company, such as salary costs, cost of materials per unit produced and profit targeted. These pieces of information are used by managers, departmental heads, project directors, section supervisors and other managers within an organization. For accounting information to serve useful purpose, Houseden and Bhaska (2008) noted that it must have the following characteristics. They include reliability, timeliness, comparability, understandability and so on.

Reliability: Data provided by the accounting information must be reliable for it to be useful. Reliability is that quality which permits users of the information to depend on it with utmost confidence.

Timeliness: Accounting information must be processed and reported at the appropriate time for it to be useful.

Comparability: Accounting information is more useful if it facilitates comparison as all decision making, control and evaluation involve comparison. Comparability allows facts to be measured and reported. The results are distinguished between the like and the unlike.

Understandability: The accounting information is reported in a form which is understandable by reasonable competent users. It must ensure that one can interpret correctly so as not be misled.

Bias Free: This means that the facts have been impartially determined and reported. It also means that the techniques used in developing data are free from guilt and bias. Accounting also involves variability, which requires mentally similar measures or conditions when two qualified persons examine the same data.

Relevance: This is another characteristic of accounting information. The information must be usefully associated with actions. It must be designed to facilitate the result to be produced.

Predictive Value: Accounting information has predictive value when it can help users to increase their likelihood of correcting and forecasting the outcome of events.

Feed-back Value: Financial information has feedback value when it enables users to confirm or correct expectations.

Verifiability: Accounting information is verifiable when it represents what it intends to represent when all the methods of measurement have been used without error or bias.

Neutrality: Accounting information is the one which is directed towards the common needs of the users and is independent of presumption about the particular needs and desires the specific users of the information. Thus, accounting information system should not be designed to enhance the usefulness of a particular segment of users to the detriment of others.

Completeness: Completeness in this sense involves the disclosure of all information that is considered useful for managers or users in the decision making process. Reporting in line with the legal requirement goes a long in ensuring the completeness of accounting information.

IMPORTANCE OF ACCOUNTING INFORMATION SYSTEM AND ACCOUNTING INFORMATION

The importance of accounting information system as well as accounting information is so enormous to any organization (Scapens and Jazayeri, 2003). Management of organizations needs a constant and periodic flow of information for decision making. The accounting information system prepares information for management by performing certain operations on all the data received. The management of the business receives this information and utilizes it as a basis for decision making. According to James (1992), the practical areas in which accounting is known to have been used as an aid to decision process include the following:

Economic Planning: In this case, accounting information as an information tool can provide primary data which could be used with another data to develop an analytical device for the purpose of preparing economic development plan. Moreover, the plan of any organization is coordinated in the form of budget used in determining the course of actions for the attainment of goals, and evaluation of projects. Barton (1977) in Fayemi (2003) asserted that the cost benefit analysis of individual project relies heavily on the past and present accounting data to determine not only their feasibility but justifiability. This evaluating process also enables the management to know the extent of forms of achievement and failure.

Accountability: The key area of interest of accounting information to the management and the public at large, and upon which greater emphases are placed is the aspect of accountability. The users who are contributors of fund have the right to know how much is collected or spent and for what purpose.

Controlling: Fayemi (2003) points out that management uses accounting information sourced from accounting information system to measure the results of activities, compare them against pre-determined standards and take corrective actions where necessary.

QUANTITATIVE DECISION MAKING TECHNIQUES

In managerial accounting, there are techniques for decision making, planning and control. The decision making techniques are the concern of this paper. They include investment decision techniques, marginal costing technique, profitability theory, sensitivity analysis, decision tree analysis, cost- volume- profit analysis, linear programming and so on.

Investment decision techniques: Investment decision involves the judicious utilization of resources on viable opportunities with a view to earning reasonable returns beneficial to the providers of funds. This can be achieved through the application of the investment evaluation techniques such as cost-benefit analysis (CBA), payback period (PBP), internal rate of return (IRR), annual rate of return (ARR) and so on, thereby making decision of whether to invest or not.

Marginal costing techniques: It is a costing and decision making technique that charges only the managerial costs to the cost units and treats fixed cost as a lump sum to be deducted from the total contribution in obtaining the profit or loss for the period. The primary purpose of marginal costing is to provide information to the management on the effects on the cost and revenues of changes in the volume and type of output in the short-run (ICAN, 2009).

Cost-Volume-Profit Analysis: This is also referred to as break-even analysis. It is a technique that deals with how profits and costs change with a change in volume (Hanson, 2007). This technique is used to assist management to decide on the profit or loss likely to arise from any given level of production or sale.

Decision tree analysis: This is a pictorial representation of decision situation that illustrates the choices available to a decision maker and estimate outcomes of each possible decision. Each possible decision is shown as a separate branch of a tree. It is useful in analyzing projects under uncertainty or risk, requiring sequential decision situations.

Probability theory: To cushion the effect of uncertainty or risk in projects, probabilities are brought into play. Probabilities are assigned to possible outcomes so as to take decision on the expected values.

Portfolio theory: The central theme of this theory is that rational investors behave in a way that reflects their aversion to taking increase risk without being compensated by adequate increase in expected return (Hanson, 2007) this technique is useful in assessing the extent to which projects add or subtract from the risk of existing operations.

Linear programming: It is a technique designed specially to optimize the allocation of scarce resources among the competing ends or product lines in order to achieve the economic decision objective under a multiple constraint situation. It is useful in deciding the optimal product mix from the solution table based on the highest contribution or lowest cost.

ACCOUNTING IN PUBLIC ENTERPRISES

The public sector comprises government agencies, ministries, departments, governmental institutions and those supported by government funds. The nature of accounting in these organizations depends largely on the scope and objectives that informed their establishment. The accounting structure or systems thus vary from

one institution to another. Irrespective of the difference in their structure and objectives, any accounting system should be able to provide financial information adequately for policy formulation and extraction of financial statements. The system should be able to accommodate changes that become necessary and facilitate the work of the auditors appointed to examine the books of the institution. The financial statements are maintained according to the type of public enterprise.

The profit-making enterprise maintains the following:

- a. Trading, profit and loss accounts.
- b. Balance sheet.
- c. Value-added statements.
- d. Notes to the accounts
- e. Cash flow statements
- f. 5-year historical summary.

The non-profit making public enterprises maintain:

- a. Income and expenditure accounts.
- b. General revenue account.
- c. Balance sheet
- d. Cash flow statements.
- e. Value-added statements.
- f. 5-year historical summaries.

CRITICAL AREAS OF PUBLIC SECTOR DECISIONS SUFFERING ACCOUNTING NEGLECT

Investment Decision: Investment is a judicious utilization of resources on viable opportunities today with a view to achieving gains tomorrow. It is because the future is uncertain and investment proposal necessarily involves risk. Management must take into consideration the limited funds available for use as capital, the future earnings from such investment, the time value of money, the duration of the investment and the rate of returns. This could be achieved when the investment proposals are appraised with methods of investment appraisal such as cost-benefit analysis (CBA), pay-back period (PBP), discounted cash flow (DCF), profitability index (PI) and so on. The public sector is seen to be committing funds on capital projects. This is sending a powerful signal to some members of the public that the public sector is spending money on viable projects. Some tests could be administered on them thus: is political consideration outweighing the investment appraisal techniques on the undertaken project? Is cost-benefit analysis adjudged to be most popular investment technique in the public sector still practicable? The process here is scanning the public sector decision on investment proposals with ethical perspective.

Procurement of Additional Asset: Ideally, capital expenditure such as the procurement of asset is usually informed by the need and its attendant advantages. Funds (cash at bank and cash in hand) also must be adequate. Against this perspective, the procurement of public asset is based on political judgment. Some administrators even collect loan that cannot be refunded within their tenure to procure capital asset thereby leaving debt for the future. Worsening the situation, capital expenditure is written off in the years incurred. Memorandum entries are also kept for fixed assets procured. Consequently, the balance sheet of government does not disclose any information of the fixed asset acquired. Thus, the alarming question is where are we going?

Administration of Boarded Properties: Properties with economic service potential are not to be boarded since they continuously create revenue. On the other hand, properties whose useful lives expired as a result of wear and tear, obsolescence, passage of time, and so on, can be boarded. In the case of those with inadequate capacity, additional one to boost the capacity can be procured instead of absolute boarding. From the foregoing, how are the public administrators administering the public property? Property bought in a particular chairman's tenure is boarded when they still have economic service potential. The new tenure will procure another one. This is really a waste of fund and should be avoided.

Disposal of Assets: Fixed assets can be sold in the course of business probably due to inadequate capacity or at the expiration of the contract business. Whatever is the case, when assets are sold, there must be loss or profit. Consideration of the organization's due process on disposal of property is imperative since due process sets out the procedures to be followed in this type of event. The question is, is due process really followed? Some even go to extent of selling of the assets below their market value probably to appropriate wealth to themselves. In these circumstances, the genuine procedures are kept at bay.

CONCLUSION AND RECOMMENDATIONS

Accounting information has been proved to be an indispensable tool in decision making process. Equally, the decision making areas that have suffered accounting neglect have been x-rayed. Thus, this paper concludes that the application of proper accounting system, sophisticated decision making technique and due process as regards an event will facilitate service delivery among the public service administrators and clears the atmosphere of doubt in the public sector activities. For proper decision making as regards the enumerated areas suffering accounting decision making techniques and proper administration neglect, the recommendations are as follows:

- a. Any investment should be appraised thoroughly with at least two or three investment appraisal techniques before commitment of fund.

- b. Procurement of additional asset should not be based on political consideration, but rather, on the need of the people.
- c. Properties that still have economic service potentials should not be boarded until they have exhausted their useful life span.
- d. Disposal of assets should be based on due process or organizational policy and at the market value.
- e. If all these recommendations are considered, cost- saving is guaranteed.

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