THE ROLE OF ACCOUNTING IN MANAGEMENT

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Abstract

Over the years the role of accounting in management has been under-emphasized. This unfortunately unpins on the importance of accounting in management. It is conceptualized that effective and efficient management is only achievable through sound adoption of accounting functions like: auditing, taxation, management accounting, financial management and adequate knowledge of accounting systems and financial forecasting. The introductory aspect of the paper tries to define accounting vis-à-vis management so as to bring out the role accounting plays in management. A further point carried out under the conceptual framework where some salient features of accounting were enumerated is that the role of accounting would reduce the systematic distress and fraudulent practices in management and will restore public confidence in the management of business. The role accounting plays in management is further expatiated as a service, which include the processes of observation, recording, classifying, summarizing, analyzing and interpretation of financial transactions of an entity. In view of the findings, it was recommended that the role of accounting in management will lead to the installation of an effective and efficient accounting system, especially when qualified and professional accountants are employed to enable management achieve its goals of profit maximization, safety and liquidity. It is recommended that management should ensure that the accounting function and roles in management are guided by various rules and regulations which enhance the viability of management.

Introduction

Accounting according to Millichamp (1992: 1) "is the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by the users of the information." Meshack (1999: 7) reported that, according to presentations in Statement of Accounting Standard (SAS), accounting information enables management and external

information users to get the picture of the entire organization. It is further stressed that, for the information to be qualitative enough to serve the function for which it is meant for, it must have the following characteristics, accuracy, reliability, problem solving, contributory to organizational discipline, efficiency, earning potentials, timeliness and objectivity. Soyode (1988: 22-28) further incorporated, comparability, neutrality, completeness, understandability and relevance. Meshack (1999: 8) classified the users of accounting information as shareholders and investors, management employees, government, creditors, society and the community. To this end the user's focus is the management. What then is management?

Ambiguity has been set as to what management connotes, following the presentation made by Nwachukwu (1992: 3) where he states that different meanings have been attributed to the word "management". Some people see it as referring to a group of people demanding the performance of a specific function (as a profession); to students it is an academic discipline where people study the art of management. Management can be also viewed as a process with professional connotations.

Traditionally however, management is defined as the process of planning, organizing, leading, staffing and controlling the efforts of organizational members and using all other organizational resources to achieve set goals. Nwachukwu (1992: 4) defines management as getting things done through others.

This paper will further look at accounting as a discipline with all its related arms, roles, functions and significance. The informational desire of organizations will be stressfully looked into.

Conceptual Framework

Accounting has been defined by American Accounting Association (AAA) in 1966 as "the process of identifying measuring and communicating economic information to permit informed judgments and decisions by users of the information". This definition reveals some salient features which are necessary for a good knowledge of Accounting, thus:

- Identification of transactions and their classification into relevant books of original entries and ledger folio,
- Measurement of economic activity by way of preparation of statement of Affairs and final accounts (Trading, Profit and Loss Account and Balance Sheet),
- Communication of economic information by way of releasing or publishing financial statement for the

consumption of various users,

- Decision making which can be economic, political or social in nature through choice between alternatives, and
- Users of accounting information which can be internal; management, directors, shareholders and employees and external; creditors; government, potential investors and analysts.

According to Eddy (2003: 1) Accounting can be defined as the collection and recording of financial data about an organization whether in the private or in the public sector and analyzing the data so collected to suit the decision that needs to be taken and reporting the relevant information in a summary form to the users in a form that is meaningful.

According to Soyode (1998) Accounting is the process of collecting, classifying, summarizing and communicating data in respect of events which can be expressed in terms of money. It was further stressed by Meshack (2000: 6) that accounting can be defined as those principles, techniques and media utilized in recording the financial transactions of an entity which starts from the process of observation, recording, classification, summarizing and interpretations, in order to make informed decisions. By this presentation it means accounting is an information processing mechanism. From the definition above, Accounting is a service activity which includes the processes of:

Observation

This is the observation of the source document that gives credibility to the real existence of the transaction before recording. Some of the documents are receipts, invoices vouchers etc.

Recording

The recording process may be performed in many ways by writing with pen or pencil, by punching holes or making magnetic impression on card or tape.

Classifying

In addition to compiling narrative events as they occur, we classify various transactions and events into related groups or categories. For example grouping all transactions in which cash is received or paid out is a logical step in developing useful information about the cash position of a business enterprise.

Summarizing

To create accounting information in a form that will be useful to users of the information, we therefore summarize the classified information into financial records called financial statements.

Analyzing

This is the process of diagnosing the summarized information through vertical, horizontal or ratio analysis.

Interpretation

The analyzed financial statements are interpreted to make decisions about profitability, solvency and efficiency of the business.

From the foregoing, the underlying purpose of accounting is to provide financial information about an economic entity which could be needed by:

Managerial decision makers to help them plan and control activities of the economic entity. Outsiders, owners, creditors, the government and public who supplied money to the business or who have other interest that will be required such information about the financial position and generated results.

Koontze and O'Donnel (1968) defined management as the design or creation and maintenance of an internal environment in which people working together in groups can perform efficiently and effectively towards the attainment of group goals. In other words it is the understandings of the activities outlined above by individuals to enable them make their best contribution towards group objectives. Other authors identify management as a process of deciding what to do and getting others to do it. Fayol (1916) as reported by Pandy (2005) stated that to manage is to forecast and plan, to organize, to command, to coordinate and to control. Nwachukwu (1988) state that management can be more scientifically defined as the coordination of all the resources of an organization through the process of planning, organizing directing and controlling in order to attain organizational objectives.

The role of accounting in management can be better explained by discussing the various fields of accounting which are as follows:

- Auditing,
- Taxation,
- Management accounting,
- Financial management,
- Accounting systems, and
- Financial forecasting.

For the purpose of simplicity and understanding Accounting and Accountant will be used interchangeably, same with Manager and management. They present similar values in the presentation.

Auditing

An audit has been defined by Uzuh (2006) and Adeniyi (2004) as an independent examination of and the expression of an opinion on the financial statements of an enterprise by an auditor appointed in accordance with his terms of engagement and the observation of statutory regulations and professional requirements (External audit).

Adeniyi (2004) and Uzuh (2006) are in agreement with the definition of Internal audit as "independent appraisal function as a service to all levels of management."

From the foregoing, it can be seen that auditing play a very important role in the management of an organization or business. It enables management to secure confidence from the public, shareholders, creditors and potential investors with regards to the efficiency and effectiveness of an organization. It reveals the strength, weakness, liquidity, solvency and profitability position of an organization. It is also help in which is the prevention and detection of fraud as it prevents managers and staff from the process of misappropriation.

Additionally, Audit functions assist management in the following areas:

- detection of errors and frauds
- prevention of errors and by from the deterrent effects of audit
- prevention of spin off effects. A Spin-off effect is a situation where the auditor will be called upon to provide other auxiliary services such as preparation of financial accounts, and so on.
- ensuring that internal controls are working.

Tax Advisory services/consulting: According to Ihemeje (2006), the objectives that any management of an organization seeks to achieve are three namely:

- profit maximization
- customer satisfaction/liquidity
- Safety.

The management designs a plan of action to be carried out by setting up control measures to achieve this target or plans. However for management to

achieve the goal of profit maximization, the services of an accountant are needed. This is due to the fact that the business organization operates in a tough regulatory tax environment and the fall in disposable/distributable income creates a need to restructure and minimize tax exposure of individuals and corporate entities. Accounting as a profession provides an environment under which accountants acquire financial training and knowledge of the regulatory environment which enables them render advice on a wide range of issues. The issues include tax planning, preparation and filing of income tax returns and handling of tax queries for management.

The professional accountant, who is versed in tax planning, prepares and advises an organization on how to take advantage of the loopholes in tax laws to reduce their tax liabilities, thus making more profit and declaring higher dividend for shareholders depending on the policy of the organization. This role of the accountant helps management to achieve the objectives of profit maximization and safety.

Accountants offer management consultancy services mostly on accounting and finance matters and on areas such as organizational structuring in line with manpower planning, management information system and a host of others.

Accountants provide services in the area of systems development, Accounting operational manual, record-keeping processes and in a larger perspective management information system which provide information to line managers for their day to day decision making. Such information include the price setting of a particular product, a manufacturing process or a business operation as to what to produce for whom and how. Accounting also assists the manager in taking decisions on whether to make or buy an input. It helps management to prepare financial forecasts (projections) and in the also preparation of feasibility studies on new products and viability of existing ones.

The management of finances of an organization is usually controlled by the accountant. Significantly this function supports whatever plan is to be embarked on by management and what ever decision that is to be taken which can be reduced or assessed in monetary terms.

Preparation of Financial Statements (Financial Report)

At the end of every financial year of a business setting the management is expected to give an account of its operation to the shareholders (owners) by preparing its financial statements for the period in question, either for publication or submission to regulatory authorities. In the case of a bank, these are Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE), it is quoted, and Central Bank of Nigeria (CBN).Such financial statements are usually prepared by accountants.

By performing these numerous responsibilities the accountant plays an important role in the management of a business, because of the objectives that management seek to achieve is that of safety by adhering to all the rules and regulations guiding the preparation of financial statements, compliance with Accounting Standards, Auditing guidelines, prudential guidelines etc. as violation may result in the withdrawal of the certificate of incorporation or other forms of sanction.

Management Accounting

Management Accounting is sued interchangeably with management Accountant. The role of management accounting to management is generally presented by author Agara (2005); Dandago and Tijjani (2005) and Druyy (2004) as follows:

Assistance in Planning

The management accountant assists planning by provision information. This information may be about pricing, capital expenditure projects, product costs or competition. In the short term planning process of budgeting, the management accountant provides information on past cost and revenues which may be used as guidance. The management accountant is also involved in the budgeting process itself.

Assistance in Controlling

The management accountant supplies performance reports which compare actual performance with the performance and which therefore highlight those activities which are conforming to plan.

Assistance in Organizing

By ensuring that the accounting system is tailored to the organizational structure management accountant reinforces the objectives of the organizational framework

Assistance in Motivating

Budgets prepared by the prepared by the management accountant serve to motive to managers and subordinates to attempt to achieve the organizations' objectives. Formalized s targets are more likely to motivate than vague comments. Performance reports produced by the management accountant for the control process also motivate by communicating performance information in relation to the targets which have been set.

Assistance in Decision Making

The management accountant is a vital cog in the organization's decision making process. He or she collects and analyses data, and presents information to manager's to help in decision making.

Financial Management

According to Pandey (2005); financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Olugbenga (2002: 1) defined financial management as "the management of the finances of a business in order to achieve its financial objectives. It is obvious from the foregoing that financial management is concerned with making decisions about the provision and use of a firm's finances. It can also be viewed as being concerned with the acquisition, financing and management of assets of an organization with some overall goals in mind.

However, Pandey (2005) stressed that the role of financial managers are:-Fund raising, fund allocation, profit planning and understanding capital markets.

Fund Raising

The traditional approach dominated the scope of financial management and limited the role of the financial managers simply to fund raising. It was during the occurrence of major events, such as promotion, re-organization, expansion or diversification in the firm that the financial manager was called upon to raise fund. In the day to day activities, his only significant duty is to see that the firm had enough cash to meet its obligations. Because of the central emphasis on the procurement of funds, finance authors e.g. in the USA, until the mid-1950s covered their discussions only through areas from which funds were obtained. Archer and Ambrosio (1966) as quoted by Pandey (2005), further expressed that as the problem of raising funds was more intensively felt in the special events, these scholars also gave detailed descriptions of the major events like mergers, consolidations and reorganization. The notable feature of the traditional view of financial management was the assumption that the financial manager had no concern with the decision of allocating the firm funds. These decisions were assumed as given, and he or she was required to raise the needed funds from a combination of various resources.

The traditional approach did not go unchallenged even during the period of its dominance. The criticism related more to the treatment of various topics rather than the basic definitions of the finance function. The traditional approach has been criticized because it failed to consider the day to day managerial problems relating to financing need of the firm. It concentrated itself to looking into the problems from management's (The insiders' point of view). The traditional approach of looking at the financial manager a conceptual framework for making financial decisions, misplaced emphasis on raising of funds and neglected the real issues relating to the allocation and management of funds.

Fund Allocation

The new or modern approach to finance is an analytical way of looking into the financial problems of the firm. Financial management is considered a vital and an integral part of overall management. Pandey quoted Solomon as saying that "in this broader view the central issue of financial policy is the wise use of funds, and the central process involved is a rational matching of advantages of potential uses against the cost of alternative potential sources so as to achieve the broad financial goals which an enterprise sets for itself".

In a modern enterprise, the basic finance function is how to make sound expenditure decisions and to determine the demand for capital for these expenditures. In other words, the financial manager, in his or her new role, is concerned with the efficient allocation of funds. The allocation of funds is not a new problem, however. It did exist in the past, but it was not considered important enough for achieving the firm's long run objectives.

In this new objective of using funds wisely, the financial manager must find a rationale for answering the following questions:

- How large should an enterprise be, and how fast should it grow?
- In what form should it hold its assets?
- How should the funds required be raised?

These three questions above relate to the three broad decision areas of financial management, as to, investment decision, financing decision and dividend decision.

Profit Planning

The function of the financial manager may be broadened to include profit planning function. Profit planning refers to the operating decisions in the areas of pricing, costs, volume of output and the firm's selection of product lines. Profit planning, according to Mao and James (1969) as narrated by Pandey (2005): "a prerequisite for optimizing investment in financing decisions". The cost structure of the firm, i.e. the mix of fixed costs, and profits fluctuate at a higher degree than fluctuations in sales. The change in profit due to the change in sales is refereed to as operating leverage. Profit planning to anticipate the relationships between volume, cost and profits and develop action plans to face unexpected surprises is a make of good management.

Understanding Capital Markets

Capital market brings investors (Suppliers) and firms (Users) together. For a financial manager to deal with capital markets, he or she should fully understand the operations of capital markets and the way in which the capital

market value securities. He or she should also know how risk is measured and how to cope with it in investment and financing decisions. For example, if a firm uses excessive debt to finance its growth investors may perceive it as risky. The value of a firm's shares may therefore decline. Similarly investors may not like the decision of highly profitable, growing firm to distribute dividends; they may like the firm to re-invest profits in attractive opportunities that would enhance their prospects for making high capital gains in the future. Investments also involve risk and return. Managers should note that through their operations in capital markets, investors continuously evaluate the actions of the financial manager.

The Function of the Financial Manager

According to Akinsulire (2002: 6), the functions of the financial manager can be broken into the following decision areas:

- Investment decision
- Financing decision
- Dividend decision.

Aborode (2005) has further added liquidity decision.

Investment Decision

According to Akinsulire (2002: 6) this relates to allocation of capital and it involves decision to commit funds to long term assets, which would yield benefits in future. It can be referred to as capital budgeting decision. It is concerned with appraising various projects to be financed so as to ensure that the resources or funds are invested in projects that will yield maximum expected return for a given level of risk or minimum risk for a given level of expected return and knowing the right and protection of the investor (which should be satisfactory to them).

Financing Decision

According to Akinsulire (2002: 6) this is primarily concerned with ascertaining the source of finance suitable to the firm with reference to its financing mix or capital structure and the time. It is the determination of when, where or how to acquire funds to meet the firm's investment needs.

Dividend Decision

This is concerned with the percentage of the company's profits to be paid out as dividends to shareholders and the amount of external finance required financing profitable investment opportunities. Optimum dividend

policy should be the concern of the financial manager. Optimum dividend policy is one, which maximizes the market value of the firm's shares. (Akinsulire 2002: 6).

Liquidity Decision

This is concerned with the efficient management of current assets efficiently to safeguard the firm against the dangers of illiquidity and insolvency. This is concerned with efficient and effective working capital management.

The discussion on financial management has been intensive due to the sensitive nature of finance in any organization. Some people look at it as the life-wire of finance function. Finance managers play the function of management through the process of planning, organizing, directing, and controlling of finance for effective utilization.

Summary

The study reveals that through accounting plays important roles in management. These roles are manifested in various field o accounting such as auditing, taxation management accounting and financial forecasting. In addition, accounting serves as a tool of management as it assist management, through accounting reports to makes decisions and to formulate policies for the betterment of an organization. Further more, the study shows that accounting reduces the systematic distress and fraudulent practices in management and restore public confidence in the management of business.

Accounting practices are guided by standard provided a country's standard Board. In Nigeria we have the Nigeria Accounting Standard Board established in 198 but had a legislature sent in 2004 (NASB Act of 2004). The board issues standards which are in compliance with the International Accounting committee (IASC). This issue of compliance applies to other countries that are members of the IASC hence facilitating global harmonization of accounting standards and practices.

Accounting has been defined by different scholars with similar views as a process of observation, recording, classifying, summarizing and interpretation of financial statements for managerial decisions by users (outsiders, owners, creditors, government, general public etc) of accounting information. Management on the other hand, is the process of planning, organizing, directing, and controlling in order to achieve efficiently and effectively, the organizational goals.

The role of accounting in management is explained under various fields of accounting, auditing, tax, management accounting, financial forecasting, design of accounting system, and financial management. Auditing is the examination and the expression of an opinion about the financial

statement of an enterprise by an auditor. There two types of audit: external or financial auditing, and internal or operational auditing. The objectives are two fold: the examining financial records and expressing an opinion as to whether they show a true and fair view of the state of affairs of operations and second objectives which involve detection and prevention of errors and frauds and prevention of spin off effect, etc. Auditing plays an important role in management because it shows whether an organization's financial statements show a true and fair view and whether accounting and auditing standards and guidelines have been followed in the preparation and presentation of financial statements.

Tax consulting and advisory services is used to achieve profit maximization in an organization through tax planning, preparation and filling of income tax returns and handling of tax quarries for management (i.e. partly taking advantage of the loopholes in tax laws to reduce tax liabilities.

The role of management accounting in management includes, management consulting services in terms of financial matters organizational restructure, manpower planning, management information system etc. The design of accounting systems in management include accounting manuals, transaction flow charts, provides managers information about; price setting, manufacturing process, make or buy decisions etc.

Financial reporting also play an important role in management such that management give account of its operations to its shareholders and well as to the regulatory authorities such as corporate affairs Commission.

The role of financial management in management include; the financial managers role and the functions of financial management. The roles of the financial manager are; fund raising, fund allocation, profit planning and understanding the capital market. The functions of financial management include investment decisions, financing decisions dividend decisions and liquidity decisions.

Conclusion

From the body of this work and the summary, it can be seen that accounting has very important role to play in management to the extent that require the various fields of accounting like; auditing, taxation, financial management, financial forecasting/reporting, design of accounting system etc. In the managerial aspect of an organization and in achieving company's goals and objectives e.g. profit maximization, adequate internal control system, safeguard of shareholders and creditors interest.

Recommendations

The problem of this study is the role of accounting in management of an organization, it is recommended to: operate an effective and efficient accounting

system, ensure that quantified and professional accountants in the various fields of accounting are employed, to ensure that the accounting functions and roles in management are guided by their various regulatory rules and regulations e.g. accounting concepts and conventions, auditing guidelines and standards, Companies and Allied Matters Act of 1990 etc. The various recommendations if adhered to will contribute immensely to the achievement of an organization's set objectives make an organization achieve its desired objectives.

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