

*Assessment on the use of Management Accounting Information for  
Decision Making and Management Control: A Case Study of Some  
Selected Manufacturing Companies in City of Addis Ababa*

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June 2009

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**SCHOOL OF GRADUATE STUDIES**  
**Faculty of Business & Economics**  
**Department of Accounting & Finance**

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**Approved by Board of Examiners**

Ulaganathan Subramanian (PhD)  
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## Statement of Certification

This is to certify that Tewodros Tesfaye has carried out his project work on the topic  
*“Assessment on the use of Management Accounting Information for Decision Making  
and Management Control: A Case Study of Some Selected Manufacturing Companies  
in City of Addis Ababa ”* under my supervision. In my opinion, this work qualifies for  
submission in partial fulfillment of the requirements for the award of Degree of  
Masters of Science in Accounting and Finance.

Signature \_\_\_\_\_

*ULAGANATHAN SUBRAMANIAN (PH.D)*

Project Advisor

## **Statement of Declaration**

I declare that this project work is my original work. It has not been submitted for any Degree/Diploma in any University. I have undertaken it independently with the advice and suggestions of my advisor for the project, Ulaganathan Subramanian (PhD). In carrying out of the project work I have different sources and materials, which have been appropriately acknowledged.

Signature \_\_\_\_\_

Tewodros Tesfaye

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Tewodros Tesfaye  
June, 2009  
Addis Ababa  
Ethiopia

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## ACRONYMS

MAI.....	Management Accounting Information
MCS.....	Management Control System
CIMA.....	Chartered institute of Management Accountants
IMA.....	Institute of Management Accountants
FM.....	Finance Manager
MM.....	Marketing Manager
PM.....	Production Manager
ACCT.....	Accountant
ROI.....	Return on Investment
BOD.....	Board of Directors

## **Abstract**

The study examines the use of management accounting information in decision making and management control in the case of some selected manufacturing companies in the city of Addis Ababa.

The objective is to identify the types of decisions that managers often make and areas which need management control and assess whether managers use management accounting information in decision making and control. It also assess whether management accounting information help managers to be effective in their decisions and control. The data used in this study was obtained through questionnaire and interview. Questionnaire was prepared and distributed to finance managers, marketing managers, production managers and accountants. Unstructured Interview is also made to collect data.

The study finding shows that there is modest use of management accounting information in manufacturing companies in city of Addis Ababa and it also shows managers that use management accounting information are effective in their decision and control.

**Key Words:** Management Accounting, Decision Making, Management Control, Accounting Information

**ASSESSMENT ON THE USE OF MANAGEMENT ACCOUNTING INFORMATION  
FOR DECISION MAKING AND MANAGEMENT CONTROL: CASE STUDY OF SOME  
SELECTED MANUFACTURING COMPANIES IN CITY OF ADDIS ABABA**

**CHAPTER ONE**

**1. INTRODUCTION**

**1.1. BACKGROUND OF THE STUDY**

All organizations have two things in common. First, every organization has a set of goals or objectives. Second, in pursuing an organization's goals, managers need information. The information needs of management range across financial, production, marketing, legal, and environmental issues (Ronald W.Hilton, 2001:4).

In pursuing an organization's goals, managers engage in four basic activities: decision making, planning, directing operations, and controlling. For all of these managerial activities managers need information. The information comes from various sources, including economists, financial experts, marketing and production personnel, and the organizations' managerial and cost accountants. There are also individuals and institutions that need information about the organization like suppliers, banks, insurances, customers, investors, taxing authorities, regulatory bodies, and so forth.

The accounting system is the principal and the most credible quantitative information system in almost every organization. The accounting system provides information for five broad purposes:

- In formulating overall strategies and long – run plans: this includes new product development and investment in both tangible (equipment) and intangible (brands, patent, and people) assets, and frequently involves special purpose reports.
- For resource allocation decisions such as product and customer emphasis and pricing: this frequently involves reports on the profitability of products or services, brand categories, customers, distribution channels, and so on.
- For cost planning and cost control of operations and activities: this involves reports on revenues, costs, assets and liabilities of divisions, plants and other areas of responsibility.
- For performance measurement and evaluation of people: this includes comparison of actual results with planned results. It can be based on financial or non financial measures.
- To meet external regulatory and legal reporting requirements: regulations and statutes typically prescribe the accounting methods to be followed for external reporting purpose, for example for tax purposes.

Each of the purpose stated above may require a different presentations and reporting methods. An ideal data base for presentations and reports is very detail and cuts across different business functions. Accountants, therefore, combine or adjust these data to answer the questions from particular internal or external users.

Accounting, as an information system, can be divided into three: Financial accounting, management accounting, and cost accounting. Financial accounting provides information to external users. It focuses on external reporting that is guided by generally accepted accounting principles. The information is primarily meant for external users such as suppliers, banks, customers, investors, taxing authorities, regulatory bodies, and so forth.

Cost accounting reports financial and other information related to the organization's acquisition and consumption of resources. It deals with the identification, accumulation, allocation, and control of costs. It provides the information for both management accounting and financial accounting.

To manage an organization, systematic and comparative cost information as well as analytical cost and profit data are needed. This cost information helps management set the company's profit goals, establish departmental targets which direct middle operating management toward the achievement of the final goal, evaluate effectiveness of plans, pinpoint successes or failure in terms of specific responsibilities, and analyze and decide on adjustments and improvements to keep the entire organization moving forward, in balance, toward the established goals.

Management's efforts to achieve organizational objectives rest upon the twin functions of planning and control. The planning function is essentially a decision – making process dealing with the establishment of desired results, the deployment of resources, and the creation of a communication system that permits the reporting and controlling of actual results and the comparison of these results with plans. The control function is the

systematic effort by management to organize and marshal natural forces, human behavior, and material objects into a coordinated unit in order to accomplish plans.

The connecting link between the originating planning function and the terminating control function is the cost accounting information system, rightly termed the tool of management. This system permits effective communication, continuous feedback, and management flexibility. The processing and reporting of an organization's historical and projected economic data assist management in developing new potentials, improving present opportunities, establishing more aggressive yet flexible control of operations, and enhancing the management process through objective evaluation of the feedback data.

Although the information and underlying data required for the planning and control functions are often quite different, the cost accounting system is expected to provide answer and respond to the needs of both functions. This dual responsibility of the cost accounting information system strongly influenced the decision making process of the business community.

Management accounting, on the other hand, measures and reports financial information as well as other types of information that assists managers in fulfilling the goals of the organization. Managers rely on managerial accounting information to assist several different organizational functions- operational control, product and customer costing, management control and strategic control. The demand for management accounting information differs depending on the level of the organization.

At the operator (front line) level where raw materials or purchased part are converted into finished products and where services are performed for customers, information is needed primarily to control and improve operations. The information is disaggregated and frequent; it is more physical and operational than financial and economic.

As one moves to higher up in the organization, middle managers supervise work and make decisions about financial and; physical resources, products services and customers. These managers may receive management accounting information less frequently and the information is more aggregate. They use it to receive warning signals about aspects of operations that are different form expectations. Middle managers also use management accounting information to help their manager better plans and decisions.

Executives at the highest organizational levels receive management accounting information that summarizes transactions and events occurring at the individual operator, customer and department levels; they use these information Support decisions that have long – term consequence for the organization ( Anthony A. Atkinson, et.al,1997:11-12)

However, most manufacturing firms of Ethiopia don't have management accounting department and they are not enjoying the benefit from the information generated by the system and hence they are slugging behind while other who have it and use the accounting information generated thereof for their decision and control are out biting them. This paper establishes whether these firms use management accounting information in decision making and management control so that Ethiopian manufacturing companies can adopt or continue their usage of the management accounting information.

## ***1.2 STATEMENT OF THE PROBLEM***

Management accounting information is one of the primary informational sources for decision making and control in organizations. Management accounting information system is also useful to make both short term and long – term business decisions. Management accounting system produce information that help workers, managers and executives make better decisions and improve their organization's process and performance (Ronald W.Hilton, 2001 :7).

Traditionally, management accounting information has been financial, that is, it has been denominated in a currency. Recently however, management accounting information has expanded to encompass operational or physical (non financial) information, such as quality and process times, as well as more subjective information such as measurements of customer satisfaction, employee capabilities and new product performance. (Anthony A. Atkinson, et.al, 1997)

The success of business depends primarily upon the skills and abilities of management – which skills can vary widely among different managers. The business is not completely at the mercy of market forces. Management can through its actions (decisions) influence and control events within limits. A critical managerial function is decision – making. Decisions which management must make may be classified as marketing, production, and financial. A primary objective of decision – making is to achieve optimum utilization of the business's capital or resources.

Furthermore, a company could survive and prosper only if its costs, quality and product capabilities were as good as those of the best companies. Therefore, management control is another important item which managers must give due attention.

Effective management controls and decision making requires relevant information and special analysis of data. The accounting department is a primary source of information necessary in making decisions and controls and it is expected to provide information to all levels of management. However, the situation in Ethiopian manufacturing industry suggest there are no management accounting department and firms don't properly staff accounting department so that accountants are busy in performing routine accounting activities let alone having sufficient time to make sound financial analysis and prepare and provide management accounting information that managers can use in making business decisions and management control.

This study therefore, attempts to investigate the situation by posing the following research questions:

- What type of decisions managers often made?
- What are some of the areas which require management control?
- Do managers use management accounting information in decision making and management control?
- What type of management accounting reports are prepared for decision making and management control and are they provided at the time needed by managers?

- Do management accounting information help managers to be effective in their decision and control?
- Do managers alter accounting reports?

### ***1.3 OBJECTIVE OF THE STUDY***

#### **1.3.1 General Objective**

The general objective of this research paper is to assess the use of management accounting information in decision making and management control in Ethiopian manufacturing companies with a specific case study on some selected manufacturing companies in Addis Ababa city.

#### **1.3.2 Specific Objectives**

The study is engaged in the main objectives of addressing the use of management accounting information in decision making and management control with the following specifics:

- To identify the types of decisions managers often made.
- To identify some of the areas those require management control.
- To assess the type of management accounting information that managers use to make business decisions and management control.
- To assess whether managerial reports are provided timely.
- To assess the sufficiency of accounting personnel.
- To examine whether managers alter managerial accounting reports.

- To assess whether management accounting information help managers to be effective in their decisions and control.
- To provide necessary information and findings so that corrective actions may be taken.

#### ***1.4 RESEARCH DESIGN***

##### ***1.4.1 RESEARCH STRATEGY***

The main objective of this research is to assess the use of management accounting information in decision making and management control in context of selected manufacturing companies in city of Addis Ababa. To properly address such objective with the available time and financial resources the survey method, with descriptive techniques of analysis, is used for data collection and analysis. The survey method is chosen because it enables the collection of considerable amount of data from a sizable population in a highly economical way. In addition, the data collected, analyzed and interpreted using tools of the survey method allow the researcher to get a standardized data, which in turn provides authoritativeness for making conclusions. Depth interview were also used to collect data from respondents.

##### ***1.4.2. RESEARCH METHODOLOGY***

The data source include only primary data source. Among the primary data sources, the researcher applies questionnaire and interview.

## **Sample Design**

The sampling method used in the study is a convenience sampling which is based on the researcher's convenience. From the population sample frame, 22 companies are selected based on their convenience for the researcher.

## **Research Design**

The data collection method is questionnaire and interview. It includes structured questionnaire in which the respondents will be made fully aware of the purpose. The data collection tools that best suits the research strategy is self-administered questionnaire. Questionnaire is chosen because it provides standardized data allowing an easy comparison. It is fairly reliable for gathering data from large, diverse, varied and scattered study groups. It is chosen because it enables to collect some qualitative data that best meet the research objectives. The questionnaire is self-administered because of the technicality much of the research deals with. Four sets of questionnaire are prepared and filled by Accountants, Finance Managers, Marketing Managers and Production Managers. A face-to-face interview was also made with ten accountants and managers.

## **Data Analysis**

The data collected is analyzed using SPSS, tables, graphs, charts and wordings.

### ***1.5. SIGNIFICANCE OF THE STUDY***

The subject matter of this research and the resulting lessons drawn from the analysis are likely to benefit different classes of people. This study will be significant for its contribution to:

- ***Knowledge***

The study sheds on the use of management accounting information for decision making and management control in manufacturing companies in city of Addis Ababa and it enriched the knowledge of readers on the role of management accounting in decision making and management control.

- ***Managerial Decision Making***

The studies finding and recommendations are highly important to management of the companies under study because it draws their attention to some of the point where corrective actions are necessary and enable them to make such corrections.

- ***Literature and Reference***

The research could be used to establish a framework for subsequent studies that can work with more comprehensive data sets. Furthermore, it could stimulate further research, thus keeping sustained in the area of management accounting and their use in decision making and management control.

### ***1.6. SCOPE AND LIMITATION OF THE STUDY***

The finding of the research would be better if it were conducted by considering other similar firms. However, due to time, Labor and money constraint it would be too cumbersome and out of the reach of the researcher to include all firms. Therefore, the study is limited to assess on the use of management accounting information in making business decision and managerial control in some selected manufacturing companies in city of Addis Ababa.

### ***1.7. ORGANIZATION OF THE STUDY***

The study paper organized into four chapters. The first chapter deals with the problem and its approach. The second chapter concerned with presenting the review of related literature. The third chapters treat the analysis of the data collected and the fourth chapter brings to an end this study with conclusion and recommendation.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1. Operational Definitions

- ***Management Accounting***

Is the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its Resource (economics) resources. <sup>1</sup>

- ***Decision Making***

Decision-making may be simply defined as choosing a course of action from among alternatives. (Ibid)

- ***Management Control***

Management Control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives(Robert J. Mockler).

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<sup>1</sup> Chartered Institute of Management Accountants (CIMA).

## ***2.2. Management Accounting – Role and Development<sup>2</sup>***

Management accounting evolved during the industrial revolution as a tool for measuring and managing resource consumption, output, and productivity at the operational level of a company (Williams, 2004). The primary focus was on providing information for planning and controlling the productivity and efficiency of internal processes. As a whole, the information provided was directly relevant to the task of optimizing cost, time, and asset utilization.

Thus, the simplest form of definition is that “management accounting is the process of providing useful information to managers” (Bruns, William and McKinnon, Sharon, 1993). Yet this simple definition does not express the multi functionality of this term. The term “providing” implies not only communication and reporting functions as typical of accounting. It means also a secondary function including control of the systems and processes by which the information reaches the managers. The other issues incorporated in this definition include the characteristics of the information that accountants claim as their purview. Thus, we think management accounting should be described as a two-sided function, including the managers’ and accountants’ standpoint.

Management accounting textbooks state that management accounting is a body of knowledge whose understanding is necessary for the success of managers. For example (Horngren et al., 2006; Drury, 1992; Kaplan et al., 2004), the focus on the managers’ standpoint is defined as follows: management accounting measures, analyses, and reports financial and non-financial information that helps managers to make decisions to fulfill

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<sup>2</sup> *The Usefulness of Management Accounting Information: Users Attitude, ISSN 1392-1258, EKONOMIKA 2006*

the goals of an organization. Managers use management information to choose, communicate, and implement strategy. They also use management accounting information to coordinate product design, production, and marketing decisions. Management accounting information enhances decision making, guides strategy development and evaluates existing strategies, and focuses efforts related to improving organizational performance and to evaluating the contribution and performance of organizational units and members (Kaplan, 1998).

Many theoreticians (Atkinson et al., 1997) mention scorecard keeping as one of the traditional roles of management accounting. This role evolved to support both the standard engineering control paradigm and the organization control paradigm. The engineering control paradigm consists of setting a target, undertaking a course of action, measuring the result, comparing the result to the target, and responding to the variance between the result and the target.

Thus, management accounting can be viewed as the information support system that best facilitates communication, motivation and performance evaluation within a variety of organizational structures. Internal, managerial or management accounting is responsible for providing information and helps managers make decisions on the efficient and effective use of enterprise resources (Hendrickson, 2001).

From the accountant viewpoint, we follow the definition of the Institute of Management Accountants (1997) “management accounting is a value-adding, continuous improvement process of planning, designing, measuring, and operating non-financial and financial information systems, that guides management action, motivates behavior, and supports

and creates the cultural values necessary to achieve an organization's strategic, tactical and operating objectives.”

Accounting researchers (Foster, Young, 1997; Shields, 1997; White, 2004) take a longer-run perspective on the role of management accounting in an organization. From this viewpoint, the definition actually focuses on the management accounting function in the organization. White (2004) points out that management accountants have a unique focus on the work inside organizations and on creating a sustainable operational value; Hendrickson (2001) stresses the cost–benefit consideration of managerial accountants.

Management accounting has often been used as a synonym for cost accounting. The phrase “management accounting” has long since superseded “cost accounting” as the preferred label by professional associations (Foster and Young, 1997). A new set of management accounting logic is emerging, directing attention toward a greater strategic role for management accountants (Sharman, 2003).

Perhaps the most important attitude that recently accountants are recognizing is the shift in management accounting. International Federation of Accountants (IFAC) revised its 1998 International Management Accounting Practice Statement, which now states: “management accounting refers to that part of the management process which is focused on organization resource use. Thus, it refers to managerial processes and technologies that are focused on adding value to organizations by attaining the effective use of resources in dynamic and competitive contexts”. In addition, Sarbanes-Oxley Act brings a generous portion of tidings to the profession of management accounting in the USA. It recognizes that the most important part of the accounting profession is the ethical

accountant working inside business, exercising effective and efficient decision support, planning, and control over the organization's value-creating operations. Shields (1997) predicts that environmental and organizational changes imply that management accounting will become what it is not and cease to be what it is. The definition, nature and boundaries of management accounting will change. The term of management accounting will increasingly become too limited a concept and will be replaced by organizational accounting. This broader concept will enable to incorporate more types of accounting and accountabilities in organizations, organizational subunits, and inter organizational arrangements (Bourguignon, 2005).

### ***2.3. Characteristics of Useful Information<sup>3</sup>***

***Reliable:*** Information is reliable if it is free from error or bias and accurately represents the events or activities of the organization.

***Complete:*** Information is complete if it doesn't omit important aspects of the underlying events or activities that it measures.

***Timely:*** Information is timely if it is provided in time to enable decision makers to use it to make decisions.

***Understandable:*** Information is understandable if it is presented in a useful and intelligible format.

***Verifiable:*** If two knowledgeable people acting independently would each produce the same information.

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<sup>3</sup> *Accounting Information System, Marshall B. Romney and Paul John Steinbart, Prentice Hall Publishing, p-10, 2003*

#### ***2.4. Management Accounting and the Management Process*** <sup>4</sup>

The purpose of management has been described as making people capable of joint performance through common goals, common values, the right structure, and providing the training and development they need to perform and to respond to change. The central purpose, then, of the management process is to secure, as it faces change, the vitality and endurance of an organization through the ongoing co-ordination of activities, efforts and resources. Thus, the management process includes

- establishing organizational directions in terms of objectives and strategies;
- aligning organizational structures, processes and systems to support established directions;
- securing the commitment at a requisite level of those contributing essential skills and effort; and
- Instituting controls that will guide an organization's progress towards the realization of its strategies and objectives.

The pursuit and realization of organizational objectives and strategies requires the mobilization or development of requisite capabilities through the effective deployment of resources. Resources are deployed in structures, "control" mechanisms, and securing-commitments to create the capabilities necessary for organizational success. Without effective resource deployments, requisite capabilities are unlikely to be developed; and resources are likely to be wasted in ineffective structures, controls, and commitments.

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<sup>4</sup> IFAC, 1998

Management accounting refers to that part of the management process focused on the effective use of resources in

- establishing strategy mixes that support organizational objectives;
- developing and maintaining the organizational capabilities necessary for strategy realization; and
- Negotiating the strategy and capability change necessary to secure ongoing organizational success and survival.

Management accounting is only one part of the management process of organizations. It provides a focus and distinctive perspective on one key dimension of organizational activity - identifying, obtaining and using resources. In addition it stands beside and interacts with other parts of the management process which focus respectively on other key dimensions of organizational activity: direction setting, structuring securing commitment, control, and change.

The management of the management accounting function will likely involve establishing objectives and strategies for the function, structuring the work of the function, building the capability of the function, resourcing the function appropriately, responding creatively to, or proactively addressing new challenges bearing on the work of the function and assessing the ongoing efficiency and effectiveness of the function (IFAC,1998).

## ***2.5. The Management Decision Making Process<sup>5</sup>***

In management accounting, decision-making may be simply defined as choosing a course of action from among alternatives. If there are no alternatives, then no decision is required. A basis assumption is that the best decision is the one that involves the most revenue or the least amount of cost. The task of management with the help of the management accountant is to find the best alternative.

The process of making decisions is generally considered to involve the following steps:

- ☞ Identify the various alternatives for a given type of decision.
- ☞ Obtain the necessary data necessary to evaluate the various alternatives.
- ☞ Analyze and determine the consequences of each alternative.
- ☞ Select the alternative that appears to best achieve the desired goals or objectives.
- ☞ Implement the chosen alternative.
- ☞ At an appropriate time, evaluate the results of the decisions against standards or other desired results.

The concept of decision making is a complex subject with a vast amount of management literature behind it. How businessmen make decisions has been intensively studied. In management accounting, it is useful to classify decisions as: Strategic and tactical and short run and long-run.

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<sup>5</sup> *Ibid*

### ***2.5.1. Strategic and Tactical Decisions***

In management accounting, the objective is not necessarily to make the best decision but to make a good decision. Because of complex interacting relationships, it is very difficult, even if possible, to determine the best decision. Management decision making is highly subjective. Whether a decision is good or acceptable depends on the goals and objectives of management. Consequently, a prerequisite to decision making is that management have set the organization's goals and objectives. For instance, management must decide strategic objectives such as the company's product line, pricing strategy, quality of product, willingness to assume risk, and profit objective.

In setting goals and objectives, it is useful to distinguish between strategic and tactical decisions. Strategic decisions are broad based, qualitative type of decisions which include or reflect goals and objectives. Strategic decisions are non quantitative in nature. Strategic decisions are based on the subjective thinking of management concerning goals and objectives.

Tactical decisions are quantitative executable decisions which result directly from the strategic decisions. The distinction between strategic and tactical is important in management accounting because the techniques of management accounting pertain primarily to tactical decisions. Management accounting does not typically provide techniques for assisting in making strategic decisions.

Once a strategic decision has been made, then a specific management tool can be used to aid in making the tactical decision. For example, if the strategic decision has been made to avoid stock outs, then a safety stock model may be used to determine the desired level

of inventory. The classification of decisions as strategic and tactical logically results in thinking about decisions as qualitative and quantitative. In management accounting, the approach to decision making is basically quantitative. Management accounting deals with those decisions that require quantitative data. In a technical sense, management accounting consists of mathematical techniques or decision models that assist management in making quantitative type decisions.

### ***2.5.2. Short Run Versus Long Run Decision Making***

The decision making process is complicated somewhat by the fact that the horizon for making decisions may be for the short run or long run. The choice between the short run and the long run is particularly critical concerning the setting of profitability objectives. A fact of the real business world is that not all companies pursue the same measures of success. Profitability objectives which management might choose to maximize include:

- ☞ Net income
- ☞ Sales
- ☞ Return on total assets
- ☞ Return on total equity
- ☞ Earnings per share

The decision making process is, consequently, affected by the profitability objective and the choice of the long-run versus the short-run. If the objective is to maximize sales, then the method of financing a new plant is not immediately important. However, if the objective is to maximize short run net income, then management might decide to issue stock rather than bonds to avoid interest expense. In the short run, profits might suffer

from expenditures for preventive maintenance or research and development. In the long run, the company's profit might be greater because of preventive maintenance or research and development.

Although the interests of management and the organization may be presumed to coincide, the possibility of making decisions for the short run may cause a conflict in interests. An individual manager planning to make a career or job change might have a tendency to make decisions that maximize profitability in the short run. The motivation for pursuing short run profits may be to create a favorable resume.

The tools in management accounting such as C-V-P analysis, variance analysis, budgeting, and incremental analysis are not designed to deal with long range objectives and decision. Consequently, the results obtained from using management accounting tools should be interpreted as benefits for the short run, and not necessarily the long-run. Hopefully, decisions which clearly benefit the short run will also benefit the long run. Nevertheless, it is important for the management accountant, as well as management, to beware of possible conflicts between short run and long run planning and decision making.

## ***2.6. Decision Making and Required Information***

The assumption that management will use management accounting tools in making decisions places a burden on the management accountant. Each tool requires special information. The management accountant will be asked to provide the specialized information needed. Management accounting texts have traditionally emphasized the mechanics of techniques with little emphasis on how to obtain the necessary data. In

many cases, the inability to obtain the required information has rendered a particular technique useless.

## ***2.7. Management Control***

Control is one of the managerial functions like planning, organizing, staffing and directing. It is an important function because it helps to check the errors and to take the corrective action so that deviation from standards are minimized and stated goals of the organization are achieved in desired manner. According to modern concepts, control is a foreseeing action whereas earlier concept of control was used only when errors were detected. Control in management means setting standards, measuring actual performance and taking corrective action. Thus, control comprises these three main activities.

### ***2.7.1. Characteristics of Control***

- Control is a continuous process
- Control is a management process
- Control is embedded in each level of organizational hierarchy
- Control is forward looking
- Control is closely linked with planning
- Controlling is tool for achieving organizational activities

### ***2.7.2. Management Control Systems***

A management control system is a means of gathering and using information to aid and coordinate the planning and control decisions throughout an organization and to guide the behavior of its managers and employees. Management control system (MCS) gathers and reports information for management control at various levels:

- 1- *Total organizational level*: - for example, stock price, net income, return on investment, cash flow from operations, total employment, pollution control, and contributions to the community.
- 2- *Customer (market level)*:- for example, customer satisfaction, and time taken to respond to customer requests for products and cost of competitors' products.
- 3- *Individual facility level* :- for example, material costs, labor costs, absenteeism rates and accidents in various divisions or business functions such as R & D, production and distribution
- 4- *Individual activity level*:- for example, time taken and costs incurred for receiving, storing and assembling , and dispatching goods in a warehouse, scrap rates, defects and units reworked on a manufacturing , number of sales transactions and revenue per sales person, and number of shipments per employee and distribution centers.

Managerial control systems collect both financial information (for example, net income, material costs and storage costs) and non financial information (for example, time taken to respond to customer requests, absenteeism rates and accident). Some of the information is obtained from within the company, such as net income and number of shipments per employee. Other information is obtained from outside the company, such as stock price and costs of competitors' product. Some companies' present financial and non financial information in a single report called the balance score card.

The four levels management control systems indicate the different kinds of information needed by managers performing different tasks. For instance, stock price information is

needed by upper management at the total company level to evaluate how much shareholders value the company has created stock price is less important for the managers, managing individual activities in a warehouse where the information they need is time taken for receiving and stocking inventory and materials.

Management control system refers to formal and informal systems. The formal management control system of a company includes those explicit rules, procedures, performance measures, and incentive plans that guide the behavior of its managers and employees. The formal control system itself consists of several systems. Other formal control systems are human resource systems that provide information on recruiting, training, absenteeism and accidents and quality systems that provide information on scrap, defects, rework and late deliveries to customers.

The informal management control system (MCS) includes such aspects as shared values, loyalties, and mutual commitments among members of the company, company culture, and the unwritten norms about acceptance behavior for managers and employees.

### ***2.7.3. Evaluating Management Control Systems***

To be effective, management control systems should be closely aligned to the company's strategies and goals. Suppose management decides, wisely or unwisely, to maximize short run income. The control system should provide managers with information such as contribution marginal on individual products that will help them to make short run decisions. The control system should also tie manager's rewards to short run income. Management control systems should be designed to fit the company's structure and the

decision making responsibility of individual managers. The management control system should provide information that helps the manager's plan and control the operation better. Efficient management control systems should also motivate managers and employees. Motivation is the desire to attain a selected goal (the goal congruence aspect) combined with the resulting pursuit of that goal (the effort aspect). Management control systems motivate managers and employee to exert effort through a variety of rewards tied to the achievement of those goals. These rewards can be monetary such as, shares of a company stock, use of a company car or membership in a club or nonmonetary such as power or pride in working for a successful company.

#### ***2.7.4. The Role of Accounting Information in Management Control<sup>6</sup>***

Accounting information is an important control tool within the organization because it provides out of the few quantitative, integrative mechanisms that are available. Although accounting information in no way reflects the totality of activities that takes place within the organization and in its interaction with the wider environment, it does provide information on one dimension of such activity. Because the information is expressed in common monetary terms, it can be aggregated across all organizational units and combined in to successfully more aggregate measure of performance.

However, there is a danger inherent in its use. Because it is often the only quantitative measures of the activities of a wide variety of disparate units, it can become treated as if it represented the only important aspect of organizational activity. This tendency **gap** often been reinforced by the dominant position of the owner, but it must be recognized

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<sup>6</sup> C. Emanuel, D. Otley and K. Merchant (1990), *Accounting for Management Control*. 2<sup>nd</sup> ed., Chapman and Hall.

that the other aspects of performance are equally of not more important and will indeed ultimately affect the accounting measures adversely if not given appropriate attention.

A similar effect can often be rated at lower hierarchical levels in the organization. Because accounting information is making and control its importance tends to be exaggerated at minor levels, where alternative information may be available. For example, although production cost may be an appropriate control variable for a manager responsible for several different plants, physical production figures together with quality control and reliability indices may be more appropriate at plant level.

It is also necessary to distinguish between the use of accounting information in financial control and its use in organizational control. Financial control is concerned with the regulation of the flow of money through the enterprise and in particular, with ensuring that cash is always available to pay debts when they fall due. This is self-evidently vital for the survival of the enterprise, but nevertheless finance represents only one function amongst many others, such as production, Marketing and industrial relations. Organizational control, on the other hand, is primarily concerned with the overall integration of all functional activities in to a viable whole. Although organizational control will require accounting information, the information required will be more expensive than that used purely for financial control. Organizational control is a wider concept than financial control and the information required to enable it to be effective is correspondingly broader.

Analysis of managerial accounting specifically relating to accounting has been developed by Antony (1965, 1988). He categorized managerial decision making and control

activities in to three major types, namely strategic planning, management control and operational control and argued that most managers would be primarily concerned with only one type of activity. As the nature of the control process is very different in each case, it is important that a manager's task is correctly identified. Strategic planning was defined as being concerned with the setting and changing of overall corporate strategies and objectives, management control involved monitoring activities and taking action to assure that resources were being effectively and efficiently used in accomplishing organizational objectives, operational control was concerned with carrying out specific tasks on a day to day basis.

Management control is thus seen as the mediating activity between strategic planning (the setting of objectives) and task control (the carrying out of specific tasks). It is integrative because it involves the whole organization and is concerned with the effective management of the interrelationships between disparate parts. Unlike the strategic planning and operational control, management control is an essentially routine affair, reporting on the performance of all aspects of an organization's activity on a regular basis, so that all areas are systematically reviewed. Defined in this way the major tool for achieving management control is thus seem to be management accountants information. Such information is collected in a standard manner from all parts of the organizations; because it is in quantitative (monetary) form it can easily be aggregated on to summaries for higher levels of management, it is routinely collected and disseminated.

There is no doubt that management accounting is an important tool of management control, as more widely defined, perhaps taking Sizer's (1979) definition as a starting point, i.e.;

*Control is concerned not with correcting past mistakes, but directing future activities. Thus management control consists, in part, of inducing people in an organization to do certain things and to refrain from doing others.*

The reality of management also gives a superficial justification for the idea that accounting information is the basis of management control (Machin, 1983).

## **2.8. Ethics in Managerial Accounting<sup>7</sup>**

Managerial accounting research has addressed various ethical issues. Rogerson (1992) examined overhead allocated to contracts and demonstrated that firms have incentives to engage in pure waste by padding direct labor usage on contracts with cost-based revenues. Sayre, Rankin, and Fargher (1998) investigated the effects of promotion incentives on the selection of investment projects by managers and found that the managers' investment decisions served their own self-interests at the expense of the owners' interests. A number of studies on budgeting have shown that when a subordinate's information is used as a basis for his performance evaluation, the subordinate has incentives to misrepresent resource requirements or production capabilities (e.g., Young, 1985; Waller, 1988; Chow, et al, 1988; Nouri, 1994; Stevens, 2002). Many studies have provided evidence on how managers manipulate earnings to maximize their compensation or enhance their performance evaluation (e.g., Healy and

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<sup>7</sup> *Ethical Decision Making on Various Managerial Accounting Issues Arnold Schneider JAMAR Vol. 2 · Number 2 · 2004*

Whalen, 1999; Nelson, et al, 2003). While these manipulations usually involve accounting choices, some involve managerial decisions such as the research and development spending decisions examined by Dechow and Sloan (1991).

### ***2.8.1. Standards of Ethical Conduct for Management Accountants<sup>8</sup>***

Management accountants have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical conduct. In recognition of this obligation, the institute of management accountants has adopted the following standards of ethical conduct for management accountants. Adherence to these standards is integral to achieving the objectives of management accounting. Management accountants shall not commit acts contrary to these standards nor shall they condone the commission of such acts by others within their organizations.

#### ***Competence***

Management accountants have a responsibility to

- Maintain an appropriate level of professional competence by ongoing development of their knowledge and skills.
- Perform their professional duties in accordance with relevant laws, regulations, and technical standards.
- Prepare complete and clear reports and recommendations after appropriate analysis of relevant and reliable information.

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<sup>8</sup> IMA, (1983) *Standards of Ethical Conduct for Management Accountants*,: Institute of Management Accountants, Montvale, NJ

### *Confidentiality*

Management accountants have a responsibility to

- Refrain from disclosing confidential information acquired in the course of their work except when authorized, unless legally obligated to do so.
- Inform subordinates an appropriate regarding the confidentiality of information acquired in the course of their work and monitor their activities to assure the maintenance of that confidentiality.
- Refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties.

### *Integrity*

Management accountants have a responsibility to

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.
- Refuse any gift, favor, or hospitality that would influence or would appear to influence their actions.
- Refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives.

- Recognize and communicate professional limitations or other constraints that would preclude responsible as well as favorable information and professional judgments or opinions.
- Refrain from engaging in or supporting any activity that would discredit the profession.

### ***Objectivity***

Management accountants have a responsibility to

- Communicate information fairly and objectively
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations presented.

### ***2.9. Role of Management Accountants within the Corporation<sup>9</sup>***

Consistent with other roles in today's corporation, management accountants have a dual reporting relationship. As a strategic partner and provider of decision based financial and operational information, management accountants are responsible for managing the business team and at the same time having to report relationships and responsibilities to the corporation's finance organization.

The activities management accountants provide inclusive of forecasting and planning, performing variance analysis, reviewing and monitoring costs inherent in the business are ones that have dual accountability to both finance and the business team. Examples of

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<sup>9</sup> *Wikipedia, the free encyclopedia*

tasks where accountability may be more meaningful to the business management team vs. the corporate finance department are the development of new product costing, operations research, business driver metrics, sales management score carding, and client profitability analysis. Conversely, the preparation of certain financial reports, reconciliations of the financial data to source systems, risk and regulatory reporting will be more useful to the corporate finance team as they are charged with aggregating certain financial information from all segments of the corporation. One widely held view of the progression of the accounting and finance career path is that financial accounting is a stepping stone to management accounting. Consistent with the notion of value creation, management accountants help drive the success of the business while strict financial accounting is more of a compliance and historical endeavor.

## CHAPTER THREE

### 3. DISCUSSION AND ANALYSIS

The following presents the analysis of data collected. It has two parts. The first part presents respondents profile including their educational status, field of specialization and working experience. The second part presents information on company level based on the questionnaire distributed and interview made with respondents.

#### 3.1 RESPONDENT'S PROFILE

##### 3.1.1 EDUCATION

Table 1: Educational Status

		EDUCATIONAL STATUS			Total
		DIPLOMA	DEGREE	MASTERS	
FINANCE MANAGER	Number	2	10	4	16
	Percent	12.5%	62.5%	25.0%	100.0%
MARKETING MANAGER	Number	0	13	3	16
	Percent	.0%	81.3%	18.8%	100.0%
PRODUCTION MANAGER	Number	0	11	5	16
	Percent	.0%	68.8%	31.3%	100.0%
ACCOUNTANT	Number	4	12	0	16
	Percent	25.0%	75.0%	.0%	100.0%
Total	Number	6	46	12	64
	Percent	9.4%	71.9%	18.8%	100.0%

Table 1 above summarizes respondent's educational status. About 25% of the accountants are diploma holders and 75% of them are degree holders. None are at master's level. Similarly, none of the accountants are certificate holders. Most of the finance managers i.e. 62.5% are degree holders. About 25% of them are at masters level.

The number of finance managers at diploma level counts 12.5%. Concerning educational status of marketing managers, about 81.3% of them are degree holders. Only 18.7% have masters. When look at production managers' educational level, 68.8% of them are degree holders and 31.3% have master degree. A more description of the educational status of respondents is presented in table 1 above.

### 3.1.2 FIELD OF SPECIALIZATION

Table 2: Field of Study

		FIELD OF STUDY					Total
		ACCOUNTING AND FINANCE	BUSINESS ADMINISTRATION	MARKETING MANAGEMENT	CHEMICAL ENGINEER	MECHANICAL ENGINEER	
FM	Number	12	4	0	0	0	16
	Percent	75.0%	25.0%	.0%	.0%	.0%	100.0%
MM	Number	0	3	13	0	0	16
	Percent	.0%	18.8%	81.3%	.0%	.0%	100.0%
PM	Number	0	0	0	5	11	16
	Percent	.0%	.0%	.0%	31.3%	68.8%	100.0%
ACCT	Number	0	0	16	0	0	16
	Percent	.0%	.0%	100.0%	.0%	.0%	100.0%
Total	Number	12	7	29	5	11	64
	Percent	18.8%	10.9%	45.3%	7.8%	17.2%	100.0%

Regarding accountants' field of study with no exception all studied in the accounting and finance stream. Unlike to that of accountants, about 75% of finance managers have got their degrees in accounting and finance while the remaining (25%) earn their degrees in business administration. About 81.3% of marketing managers study in marketing management and the rest (18.7%) in business administration. About 31.3% of production managers study in chemical engineering while the remaining (68.8%) got their degrees in mechanical engineering. Detail information is presented in table 2 above.

### 3.1.3 WORK EXPERIENCE

Table 3: Work Experience

		WORK EXPERIENCE				Total
		BELOW 2 YEARS	2 TO 5 YEARS	5 TO 8 YEARS	ABOVE 8 YEARS	
FINANCE MANAGER	Number	0	3	5	8	16
	Percent	.0%	18.8%	31.3%	50.0%	100.0%
MARKETING MANAGER	Number	0	3	6	7	16
	Percent	.0%	18.8%	37.5%	43.8%	100.0%
PRODUCTION MANAGER	Number	0	3	5	8	16
	Percent	.0%	18.8%	31.3%	50.0%	100.0%
ACCOUNTANT	Number	2	4	6	4	16
	Percent	12.5%	25.0%	37.5%	25.0%	100.0%
Total	Number	2	13	22	27	64
	Percent	3.1%	20.3%	34.4%	42.2%	100.0%

Table 3 above gives summary of work experience of respondents. Most accountants (37.5%) have 5 to 8 years of progressive work experience in the area and about 12.5% of them have work experience below 2 years. 25% of the accountants have 2 to 5 year of working experience. 25% of accountants have work experience of above 8 years.

About 31.3% of finance managers have work experience between 5 to 8 years and 50% pointed out they have work experience of above 8 years. Only 18.8% of the respondents have work experience between 2 to 5 years. No finance managers have work experience below 2 years.

When we look at marketing managers work experience, about 18.8% of them have 2 to 5 five years and none of them have below 2 years. 37.5% and 43.8% of them have 5 to 8 and above 8 years experience respectively.

Most of production managers (50%) have work experience of above 8 years and 18.8% of them have work experience of 2 to 5 years. About 31.3% of production managers have 5 to 8 years work experience.

### ***3.2 EMPIRICAL RESULTS AND DISCUSSION***

#### ***3.2.1 TYPES OF DECISIONS OFTEN MADE BY MANAGERS AND WHETHER THEY ARE PROVIDED WITH THE INFORMATION THEY REQUIRE***

The basic goals or objectives of business enterprise may be multiple. For example, the goal may be to maximize net income. Other goals could be to maximize sales, ROI, or earnings per share. Management accounting does not require a specific type of goal. Whatever form the goal takes, management will at all times try to achieve a satisfactory level of profit. A less than satisfactory level of profit may portend a change in management.

The success of the business depends primarily upon the skills and abilities of management—which skills can vary widely among different managers. The business is not completely at the mercy of market forces. Management can through its actions (decisions) influence and control events within limits.

One of the critical managerial functions is decision making. Decisions which management must make may be classified as marketing, production, and financial. A primary objective of decision making is to achieve optimum utilization of the business's capital or resources. Effective decision making requires relevant information and special analysis of data. The accounting department is a primary source of information necessary in making decisions. Therefore, the accounting department is expected to provide

information to all levels of management and managers also consider the accounting department capable of providing data useful in making marketing, production, and financial decisions. This part delves to identify the types of decision managers often made and assess whether the accounting department provide them the information they need.

### ***3.2.1.1 TYPES OF DECISIONS OFTEN MADE BY PRODUCTION MANAGERS AND WHETHER THEY ARE PROVIDED WITH THE INFORMATION THEY REQUIRE***

Table 4 below depicts the group items comprising the type of decision usually made by production managers. Data in this respect show that 81% of the respondents engaged in decision involving determination of factory workers' wage and 93% pointed out they spend sizeable time in issues related with raw material selection. About 93% of the respondents' state they usually encounter decisions concerning supplier selection. Still 88% of the respondents have said they usually face decision involving overtime and second shift.

Among the different types of decisions production managers made, the decision on which they spend a considerable time is "make or buy" decision. Similarly, 81% of the respondents have said they engage in a "make or buy" decision.

Other decision items which production managers' face include determining inventory levels (56% of the respondents), determining order size (about 75% of the respondents) and issues related with replacement of equipment (about 63% of the respondents).

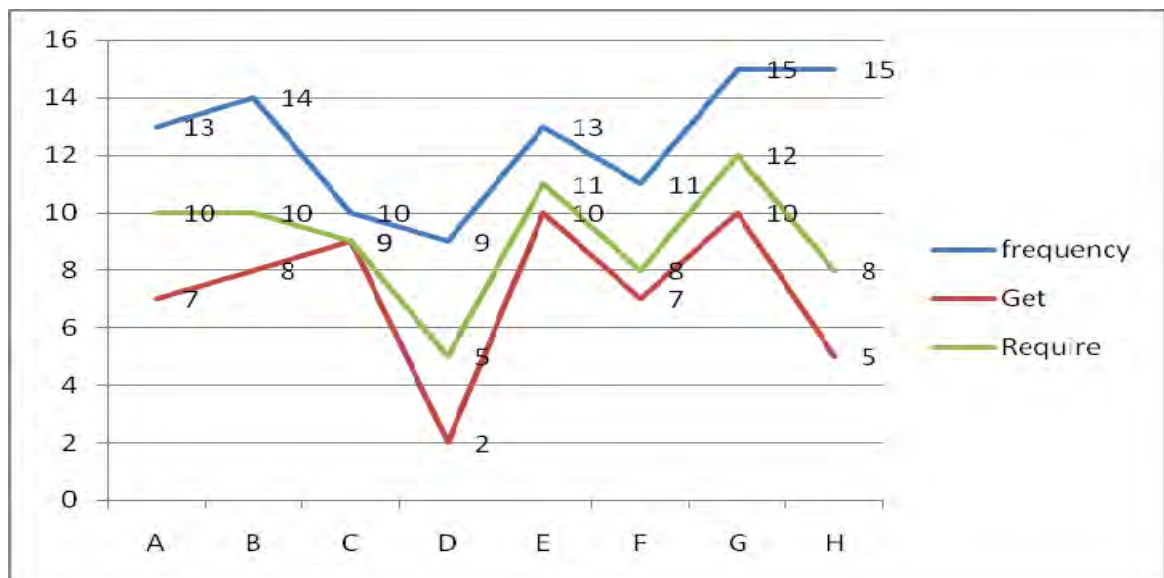
Table 4: Types of Decisions often made by Production Manager

<i>Decisions Items</i>	<i>Frequency</i>	
	<i>No.</i>	<i>%</i>
Determining Factory workers' wages	13	81%
Overtime, second shift	14	88%
Replacement of equipment	10	63%
Determining inventory levels	9	56%
Buy or Make	13	81%
Determine Order Size	11	75%
Selection of Suppliers	15	93%
Raw material selection	15	93%

***Decision Items for which Management Accounting Information is required and whether they are provided***

The graph below shows decisions which production managers often made, and the number of respondents who require MAI and the number of times MAI have been provided.

Graph 1: Decision Items for which Managers Require MAI and whether they are provided



Where, A= Determining Factory workers' wages	E=Buy or Make
B= Overtime, second shift	F=Determine Order Size
C= Replacement of equipment	G=Selection of Suppliers
D=Determining inventory levels	H=Raw material selection

A problem frequently confronting management is replacing equipment and acquiring new one. Since the acquisition of plant and equipment often involve large capital outlay and affect operation for a long period into the future, a careful prior analysis should be made by the management to determine whether the expenditure is warranted. As can be seen in graph 1 above, 9 out of 10 who made such decision i.e. 90% of the respondents need management accounting information in order to make such decisions and to my surprise all of them obtain the information.

Supplier selection is another decision item which production managers usually encounter. While selecting the supplier to whom order is to be given for the purchase of materials, usually information is needed on financial condition of the supplier, price quoted, manufacturing capacity, reliability of the supplier, terms of payment, etc. As a result 80% (12 out of 15 who made this decision) of the respondents need management accounting information for making such decision. However, it is only 83% or 10 of them have got the information needed (refer graph 1 above).

A decision often confronting production managers is whether to make or buy a particular product. As easily seen in graph 1, about 85% of respondents ( 11 from 15 who made this decision) need management accounting information to make “make or buy” decision. The

accounting department provides the information required for 10 respondents out of 11 who need the information.

About 56% of production managers (5 out of 9) require management information for making decision concerning determination of inventory level and the accounting department provides the information required only for 2 respondents out of 5 who require it.

About 77%, 71% and 73% of production managers require management accounting information for determining factory workers wage, deciding overtime and second shift and determination of order size, respectively. However, it is only 87.5% of respondents obtain the required information for determination of order size, followed by 80% for deciding overtime and second shift and 70% for determining factory workers wage.

### ***3.2.1.2 TYPES OF DECISION OFTEN MADE BY MARKETING MANAGERS AND WHETHER THEY ARE PROVIDED WITH THE INFORMATION THEY REQUIRE***

Table 5 depicts the group items comprising the type of decision usually made by marketing managers. Data in this respect show that 89% of the respondents engaged in accept or reject special sales order decision and 83% pointed out they spend considerable time in issues related with determining the number of sales people. About 61% of the respondents marked they usually face decisions concerning which product to emphasize when there is resource constraint. 67% of the time marketing managers involve with determination of sales price.

Other decision items which marketing managers face includes determination of the number of products to be produced (about 56% of respondents), anticipation of market

opportunity (about 78% of respondents), setting credit limits(about 11% of respondents), advertising(about 89% of respondents) and responding to competitors action(about 72% of respondents). With no exception all marketing managers involve in sales forecasting.

Table 5: Types of Decisions often made by Marketing Manager

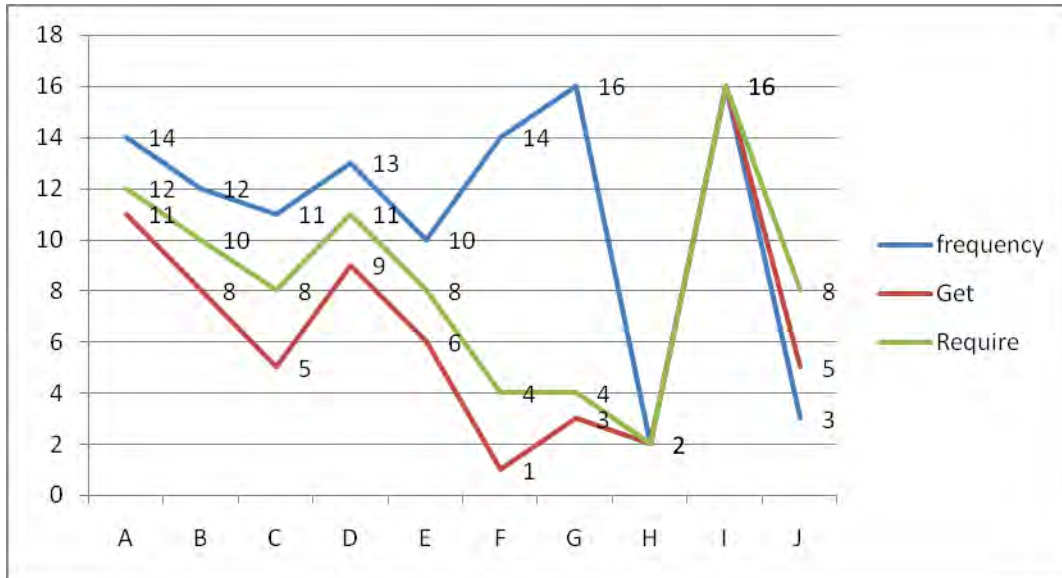
<i>Decisions items</i>	<i>Frequency</i>	
	<i>No.</i>	<i>%</i>
Accept or reject special sales order	14	89%
Determining sales prices	12	67%
Which product to emphasize when there is constraint	11	61%
Determining the number of sales people	13	83%
Determining number of products to be produced	10	56%
To anticipate market opportunity	14	78%
Advertising	16	89%
Credit	2	11%
Sales Forecast	16	100%
To respond to competitors action	13	72%

***Decision Items for which Management Accounting Information is required and whether they are provided***

Marketing Managers engage in different types of decisions ranging from determining sales price to anticipating market opportunity. In order to be effective in their decisions managers usually need different information. As per Ronald W.Hilton, one sources of information is the accounting department and they are expected to provide the information managers need.

The graph 2 below shows the frequency of decisions made by marketing managers, those who require MAI and whether MAI have been provided.

Graph 2: Decision Items for which Managers Require MAI and whether they are provided



Where, A= Accept or Reject Special Sales order

G= Advertising

B= Determining Sales price

H= Credit

C= which product to emphasize when there is constraint I= Sales Forecast

D= Determining the number of sales people J= to respond to competitors action

E= Determining number of products to be produced

F= to anticipate market opportunity

A decision with which management often is conflicted with is whether or not to accept a special order involving production of additional units beyond outstanding plans and commitments. Therefore, managers usually depend on management accounting information to see the probable effects of the additional order on fixed manufacturing costs, selling and administrative cost, selling price and possible reduction in direct material costs resulting from increased volume buying. Accordingly, as can be seen in

graph 2 above, about 86% (12 out of 14 who engage in that decision) of the respondents require management accounting information for making such type of decision and accounting department provides reports about 92% of the time (only 11 respondents get the required information out of 12 respondents who require the information).

Another decision item which marketing managers usually face include to which product line to emphasize when there is resource constraint. Referring graph 2 above, about 73% (8 out of 11 who engage in this decision) of the respondent said they heavily depend on the information provided by the accounting department. However, it is about 62.5% of them (5 out of 8 who require MAI) has got the information they require.

Marketing managers also concerned with the issue of determining the number of products to be produced. This decision has impact on the company's performance and they are expected to pass the best decision they could make. Consequently, as easily seen in graph 2 above it is only 80% (8 out of 10) of the respondents profoundly need the help of accounting information for making such type of decision. The accounting departments provide the information needed for about 6 of the respondents out of 8 (75%) who require the information (see graph 2 above).

Marketers usually spent considerable time in anticipating opportunities that exist in the market. Taking opportunities that are in the market can help companies in many ways. Among those, it may help them to launch new product line. Nonetheless, it is only 28.5% of respondents (4 respondents out of 14 who made such decisions) need the help of accounting information for making such decisions. However, it is only 25% of them obtain the information they require.

Marketing managers also often make decision involving advertising. The sub decision under advertising includes determining media type, frequency of advertising, selection of advertising company, which product to advertise, etc. However, it is only 4 respondents out of 16 respondents or 25% who require management accounting information for making such decisions and it is only 75% of them (3 out of 4 who require MAI) get the information required.

Another decision item which marketing manager's encounter includes determination of the number of sales persons. Here, 85% of the respondents (11 out of 13 who made such decisions) maintain position to use management accounting information for making such decisions. They state the sales activity report obtained from accounts department helps them to easily decide as to additional employee is needed or not. But it is only 82% or 9 out of 11 of them have got the information needed.

Sales forecasting is another decision item which marketing managers typically encounter. Sales forecast is one of the inputs in the preparation of budgeted profit and loss statement and marketing managers usually work in hand with finance department. It is also clearly observed from respondents answer as all of them with no exception needs the help of management accounting information. Surprisingly all the respondents get the information they require from the accounting department.

**3.2.1.3 TYPES OF DECISION OFTEN MADE BY FINANCE MANAGERS AND WHETHER THEY ARE PROVIDED WITH THE INFORMATION THEY REQUIRE**

Table 6: Types of Decisions often made by Finance Manager

<i>Decision Items</i>	<i>Frequency</i>		<i>Require the use of MA I</i>		<i>M AI have been provided</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Bank loans	16	100%	16	100%	16	100%
Accounts payable payments	14	88%	13	93%	13	100%
Dividend	14	94%	12	86%	12	100%
Desired ending cash balance	12	75%	10	83%	9	90%
Determining the financing need of projects	15	94%	15	100%	12	80%
Investment	12	75%	12	100%	11	92%

Table 6 depicts the group items comprising the type of decision usually made by the finance managers. Data in this respect show that with no exception all the respondents engaged in issues concerning bank loan and 94% pointed out they spend considerable time in issues related with determining the financing need of different projects. About 75% of the time finance managers involve with investment decisions. About 88% and 75% of finance managers engage in accounts payable payment and determining desired ending cash balance respectively.

***Decision Items for which Management Accounting Information is required and whether they are provided***

Finance managers usually engaged in various decisions comprising investment, bank loan, accounts payable payments, desired ending cash balance, direct costing and absorption cost and dividend among others.

<sup>10</sup>An investment is the current commitment of funds for a period of time to derive future payments that will compensate the investor for the time funds are committed, the expected rate of inflation and the uncertainty of future payments. In order for managers to make investment decisions they usually need information from the accounts department. Similarly, all respondents have responded as they need the help of accounting information in order to make investment decision. Surprisingly, all the respondents engaged in this decision get the information needed from the accounting department.

A decision which finance managers encounter is determining the financing need of different projects. As one can easily seen in table 6 above, all the respondents need management accounting information for making such decision and 80% of them have got the information they need.

As can be seen in table 6 above, about 88% of finance managers engaged in accounts payable settlement decision. Managers usually need information on cash position before checks are prepared for payment. Similarly 13 out of 14 finance managers who made this decision or 93% require management information in order to make such decisions and all of them get the information from accountants.

Firms usually take a loan from banks for various reasons and most of the time it is the finance manager who involve in this decision. As can be seen in the table 6 above all finance managers faces this decision and all of them require management accounting information for making such decision and all of them obtain the information they require.

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<sup>10</sup> Frank K. Reilly and Keith C. Brown, 1992, pp-6

Retaining of earning in the business or distributing among shareholders is one of decision item which finance managers rarely encounter. The financial manager plays an important role in advising management regarding the decision. Of course the power to take the decision rest on Board of Directors. Still in some companies the finance managers themselves may make such decisions. If the company has more favorable reinvestment opportunity within it as compared to those outside, it would be more profitable for the company to retain earnings than to pay out as dividends. In such cases the financial manager assists BOD for decision making to address the question whether to pay a dividend or to retain. As can easily be seen in table 6 above 94% of the finance managers involve in dividend decision and majority of them take advisory role. About 86% respondents who engage in this decision require management accounting information. To my surprise all get the information they need.

### ***3.2.2 AREAS WHICH NEED MANAGEMENT CONTROL AND WHETHER THE RESPONSIBLE MANAGERS USE MANAGEMENT ACCOUNTING INFORMATION***

In order for a firm to be competitive and remain in the market it has to control its cost in general and production cost in particular. Therefore, managers usually pay due attention how to control costs in their responsibility center. The following illustrates some of the areas that need management control and whether managers are provided with the information they require.

#### ***Control of Wastage, Scrap, Defect and Spoilage***

Material is a very important factor of production. It includes physical commodities used to manufacture the final end product. Proper control of material is necessary from the

time orders of purchase materials are placed used with supplier until they have been consumed. The objective of material control is to attack material costs on all fronts so that the cost of materials may be reduced.

Matz, Curry and Frank in their book “Cost Accounting” state “because material constitute a significant part of product costs is controllable, proper planning, purchasing, handling and accounting are of a great importance”.

Production managers usually held responsible for the proper use of materials at the production floor. Therefore, they spent a considerable time to reduce material losses. Of course material losses may take the form of wastage, scrap, defective and spoilage. They are usually held responsible only for abnormal wastage which may arise due to theft, careless handling, etc. Similarly they are accountable for defective scraps which may arise due to bad workmanship or defective machine and defects that may arise due to poor workmanship, bad supervision and careless inspection. Therefore, production managers exert much of their effort to reduce the cost of production by exercising control on wastage, scrap, defects and spoilage.

Accordingly, as per the interview made with the accountants, production managers usually spent much of their time to prevent material loss. In order for controlling such losses, production managers usually require information on input material used against output produce, input sub material used against standard sub material, etc. This usually came from management accounting reports provided by the accounting department.

### ***Control over Labor Costs***

Labor costs constitute a significant portion of the total cost of a product. Labor costs may be excessive due to inefficiency of labor, more wastage of materials by labor due to lack of proper supervision, higher labor turnover, idle time and unusual overtime work, inclusion of bogus workers in the wage sheets and many others little factors. Therefore the economic utilization of labor is a need of the present day industry to reduce the cost of production of the products manufactured. Accordingly, production managers of the manufacturing companies in city of Addis Ababa usually require management accounting information for making such type of control.

### ***Inventory Control***

Lack of control over inventories can be a serious detriment to the successful management of a business. An excessive inventory is expensive to carry. Studies made indicate that the cost of carrying an inventory- insurance, warehousing, handlings inventory taking- may be as high as 25% of its original production cost per year. On the other hand, sufficient items and quantities must be stocked to provide customers with a good service.

Maintaining a proper balance so as to avoid both inventory shortage and inventory excess requires organization and planning. Control plans must provide day-to-day comparison of projected production with current sales volume. Most of the accounting department of manufacturing companies in city of Addis Ababa provides the information required for making such comparisons.

### ***Cash Balance***

Managers must make certain adequate cash funds are available at all times. Good management requires that sufficient cash be available for bills to be paid in time to take advantage of discounts and for payrolls and other costs and operating costs. An adequate cash balance is also essential for the maintenance of good credit ratings. On the other hand, cash balance beyond actual, particularly during inflationary period when cash suffers a loss of purchasing power, are indication of ineffective management of cash.

### ***Salesman Activity***

Marketing managers usually require management accounting information on volume and type of sales on daily, weekly, etc basis to evaluate the sales man success in meeting quotas.

### ***Customer Related***

Marketing managers often require management accounting information on size and distribution of customers so that they can easily identify where the company's customer concentrate and they can easily assess customer attitude on company's product and can take corrective action and ultimately they can keep their customer.

### ***3.2.3 THE USE OF MANAGEMENT ACCOUNTING INFORMATION BY MANAGERS IN DECISION MAKING AND MANAGEMENT CONTROL: RESULT DRAWN FROM ACCOUNTANTS AND FINANCE MANAGERS RESPONSES***

In accomplishing organization goal and objective, managers engaged in different activities including making business decision and management control and accounting is

one of the informational sources for managers that could help them to make better and informed decision and control. <sup>11</sup>

Table 7: Trend in use of MAI - Responses of Accountants and Finance Managers

		TREND IN USE OF MANAGEMENT ACCOUNTING INFORMATION		Total
		YES, THERE IS TREND	NO, THERE IS NO TREND	
FINANCE MANAGER	Number	9	7	16
	Percent	56.3%	43.8%	100.0%
ACCOUNTANT	Number	10	6	16
	Percent	62.5%	37.5%	100.0%
Total	Number	19	13	32
	Percent	59.4%	40.6%	100.0%

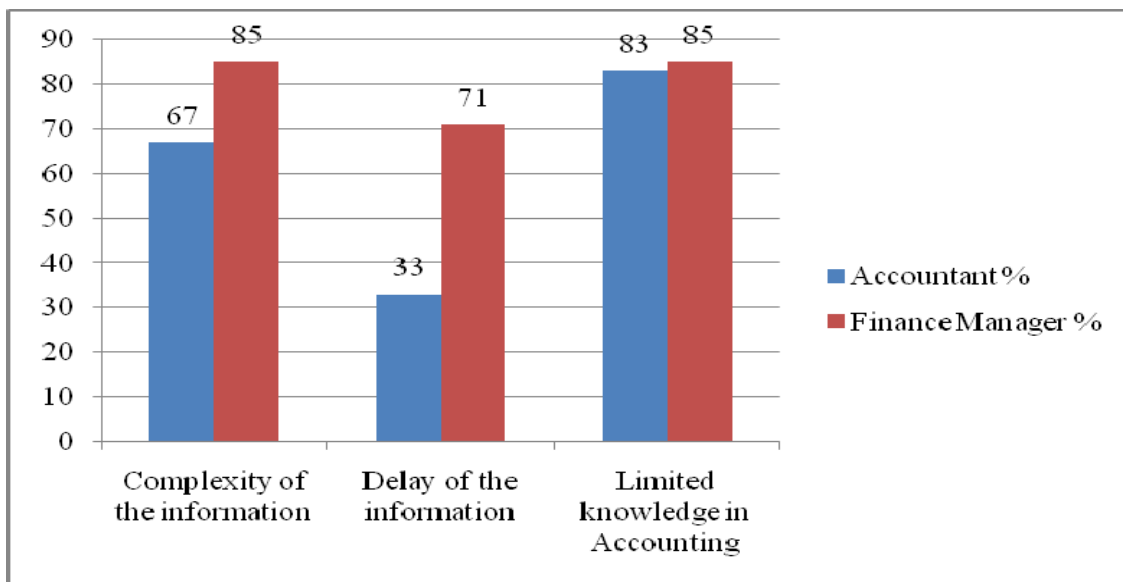
Table 7 above summarizes information on other department use of management accounting information. About 62.5% of the accountants (10 out of 16 respondents) said there is practice in the use of management accounting information by other departments for making decisions and control. Even 56% (9 out of 16 respondents) of finance managers share the accountant's idea. On the other hand 38% of the accountants (6 out of 16 respondents) state there are no any trend in the use of management accounting information by other departments like marketing and/or production. 44% of finance managers (7 out of 16 respondents) also stated other departments don't show any interest to use management accounting information for reasons described in graph 3.

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<sup>11</sup> Ronald W. Hilton, 2001:p-4

*Reasons for not using Management Accounting Information by managers – Responses from Accountants and Finance Managers on other department trend*

Graph 3: Reasons for not using Management Accounting Information (MAI)



In summarizing accountants and finance managers opinion on “why other departments don’t want to use Management Accounting Information”, 83% of the accountants ( 5 out of 6) and 85% of finance managers’ (6 out of 7) state managers limited knowledge in accounting as the primary reason.

Complexity of the report is the other reason forwarded to describe why other departments don’t show interest to use management accounting information. Just 85% of finance managers (6 out of 7) argue reports are not prepared in a way that is easily understandable by managers (especially for those whose accounting knowledge is limited) and they finally opt not to use the information provided. Even 67% of accountants (4 out of 6) have the same stand like finance managers.

Furthermore, about 33% of the accountants (2 out of 6) and 71% of finance managers(5 out of 7) state report delay as one of the major bottleneck for marketing managers and/or production managers to use the information provided. Neither accountants nor finance managers have said shortage of time as a reason for managers for not using management accounting reports.

***3.2.4 THE USE OF MANAGEMENT ACCOUNTING INFORMATION IN DECISION MAKING AND MANAGEMENT CONTROL BY MANAGERS: RESULT DRAWN FROM MARKETING MANAGERS, PRODUCTION MANAGERS AND FINANCE MANAGERS RESPONSES***

Summarizing manager's view on their use of management accounting information, about 63% marketing managers of followed by production managers which account 56 % of the respondents use management accounting information. As anyone expects, about 81% of finance managers uses management accounting information.

About 44% of production managers, 37% of marketing managers and 19% of finance managers don't use management accounting information for one or other reason which is briefly described in table 9.

Table 8: Use of MAI by Managers

		USE OF MANAGEMENT ACCOUNTING INFORMATION BY MANAGER			Total
		YES, SUBSTANTIAL	YES, LITTLE	NO	
FINANCE MANAGER	Number	10	3	3	16
	Percent	62.5%	18.8%	18.8%	100.0%
MARKETING MANAGER	Number	6	4	6	16
	Percent	37.5%	25%	37.5%	100.0%
PRODUCTION MANAGER	Number	4	5	7	16
	Percent	25.0%	31.25%	43.75%	100.0%
Total	Number	21	12	15	48
	Percent	43.8%	25.0%	31.3%	100.0%

***Reasons for not using Management Accounting Information by managers - Responses from Marketing Manager, Production Manager and Finance Manager***

Table 9: Reasons for not using management accounting information (MAI)

<b><i>Description</i></b>	<b><i>Marketing Managers</i></b>		<b><i>Production Managers</i></b>		<b><i>Finance Managers</i></b>	
	<b><i>No.</i></b>	<b><i>%age</i></b>	<b><i>No.</i></b>	<b><i>%age</i></b>	<b><i>No.</i></b>	<b><i>%age</i></b>
Complexity of the report	9	90%	10	83%	-	-
Delay of the report	9	90%	11	92%	5	83%
Managers don't have sufficient time	-	-	-	-	-	-
Managers Limited knowledge in accounting	7	70%	9	75%	-	-

<sup>12</sup>Information is useful only when it is provided at the time needed by users. It would be a waste of organizational resources if it is not provided on time. Likewise, 92% (11 out of 12) of production managers followed by marketing managers (90 %) and finance managers (83%) claim report delay as a bottleneck for them to use the report provided.

<sup>12</sup> Accounting Information System, Marshal B. Romney and Paul John Steinbart, Prentice Hall Publishing, 2003, pp-5

When suggesting their opinion, they said it may be the result of inadequacy of accounting personnel.

Marshal B. Romney and Paul John Steinbart on their book “Accounting Information System” state, information is useful only when it is understandable by users. Notably, 90% of marketing managers (9 out of 10 who said they don’t use MAI) and 83% of production managers (10 out of 12) raises complexity of reports as major problem for them. None of the finance managers have cited report complexity as a reason for them for not using management accounting information. This of course may be due to their strong accounting background.

Apart from reports are not provided in the way explicable by managers, 70% (7 out of 10) of marketing managers and 75% of production managers (9 out of 12) set their inadequate acquaintance of accounting as limitation for them to use the information provided.

### ***3.2.5 TYPES OF MANAGEMENT ACCOUNTING REPORTS PROVIDED BY THE ACCOUNTANT FOR ASSISTING MANAGERS IN DECISION MAKING AND MANAGEMENT CONTROL***

Accounting data and accounting reports are basic to decision making and control. Accountants therefore, spent a considerable time to produce and provide managers the information they need. Accordingly, accountants of manufacturing companies in city of Addis Ababa usually produce the following reports.

### ***Cost sheet or Statement of Cost***

Cost sheet is a statement designed to show the output of a particular accounting period along with breakup of costs. It contains information about the total cost of the current period, per unit for the current period, total cost and per unit cost for a preceding period and total and per unit cost for the budget period and so on.

It is prepared to help production managers to minimize the cost of production when there is a cut throat competition, to guide the manufacturer in formulating a definite useful production policy, to enable the manufacturer to keep a close watch and control over the cost of production and finally it helps manufacturers to find out the causes of variations in costs by providing a comparative study.

***Product Profitability Report*** – Provide information on:

➤ ***Salesmen's success in meeting quotas***

These reports are designed to help marketing managers to evaluate salesmen's performance.

➤ ***Profit Summaries by product line, division, salesman and customers***

It is basically generated to assist marketing managers to analyze product profitability and help them to control marketing costs which are mainly related with advertising. For instance it can help marketing managers to allocate a larger sum of money to advertise a product whose sales volume is low while maintaining the other. It also helps them to evaluate salesman performance.

Moreover, it assists marketing managers to analyze where the company's product largely traded.

➤ ***Stock availability on the basis of accurate product inventory information:***

These reports are mainly targeted for marketing and production department. Marketing managers usually accept sales order only when there is sufficient stock. If the accounting department doesn't provide accurate information on the availability of stock, they may accept an order above the stock balance. This may bring customer compliance and can destroy the long term relationship maintained. Thus the accounting department provides this reports regularly to avoid customer compliance and marketing managers usually refer reports before accepting a sales order. By reducing customer compliance they ultimately can build strong relationship with customers.

Production managers also receive a report on availability of stock. This helps to control overproduction of an item. Overproduction of an item may force the company to rent a new warehouse, which ultimately result in additional expense in the form of rent. Therefore, accounting department usually provide this reports to avoid such costs.

➤ ***Report on product lines with slow sale and declining profit margin:***

Obviously this helps production managers to stop production of items whose sales volume and profit margin is declining. This ultimately prevents company from maintaining an excessive stock and tying up of capital. Therefore, based on the

information managers can shift resources to produce other products which have demand in the market. Marketing managers also use this reports to find out “why products demand fall in the market”.

### ***Variance Analysis Report***

Variance analysis report is one of report type produced by the accountant of manufacturing companies in city of Addis Ababa. It includes material variance, labor variance, and sales variance.

#### ➤ ***Material Usage Variance Report***

Material usage variance reports are prepared to help production managers to compare the standard quantity that should have been used with the actual quantity which has been used. Therefore, they can take correction action whenever there are unfavorable variances.

#### ➤ ***Labor Efficiency Variance Report***

It represents the quantity variance for direct labor. The labor efficiency variance is normally controllable by production foreman, and may be due to a variety of reasons. For example, the use of inferior quality materials, different grades labor, failure to maintain machinery proper condition, the introduction of new equipment or tools and changes on the production process will all affect the efficiency of labor. Therefore, these reports are prepared in the objective to alert production managers to investigate the causes of variances in cost.

➤ ***Sales Variance***

Sales variance reports are produced to assist marketing managers in analyzing the performance of the sales function on broadly some other terms to those for manufacturing costs.

***Interim Reports***

Interim reports are usually prepared when firms approach bank for loan, or for rescheduling loans.

***Raw Material consumption report***

This report is prepared to help managers to control material losses which may take the form of wastage, scrap, defective and spoilage.

***Revolving Estimation***

These reports are prepared to estimate remaining month performance.

***Cash operating expense report***

These reports are prepared for various departments to allow them know their expenses.

***Cost Analysis Report***

It includes cost of goods manufactured, analysis of cost of different departments and projects. They are prepared for determination of selling price, to determine whether costs are incurred in accordance with the budget, etc.

### ***Budget Statement***

Budget is financial plans prepared to direct employees. Budget statements are prepared for quarterly, semiannually and annually.

### ***Fixed Asset Report***

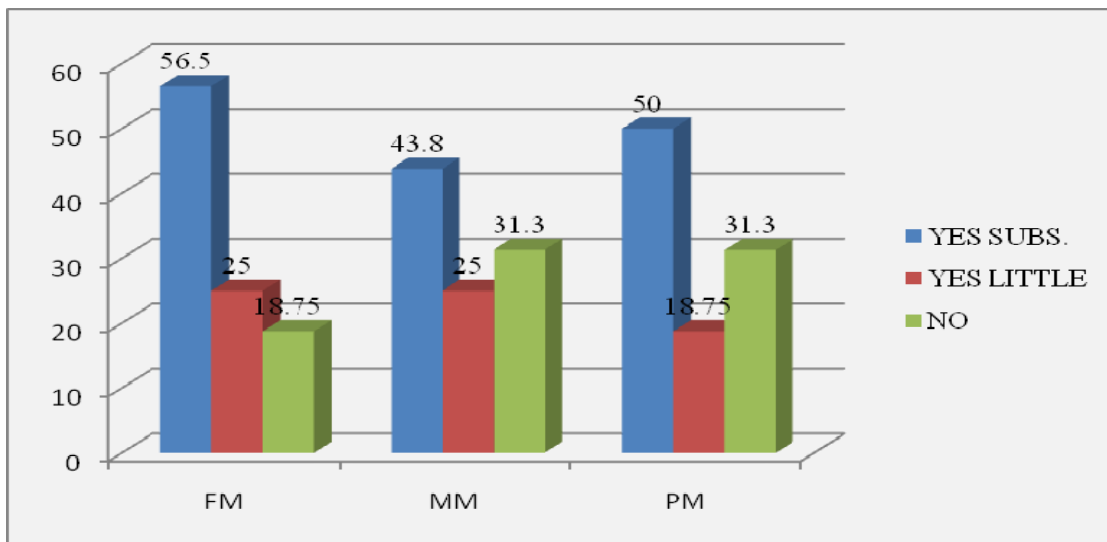
This report is prepared to follow up capital asset expenditure against budget.

### ***Monthly Management Report***

This report is produced to show monthly operational status of the company.

### **3.2.6 WHETHER ACCOUNTING REPORTS ARE PROVIDED TIMELY**

Graph 4: Whether accounting reports are provided timely



Summarizing manager's response whether reports are provided timely or not, about 75% of finance managers (62.5% substantially and 12.5% little), 67% of production managers (50% substantially and 17% little) and 78.8% marketing managers (43.8% substantially

and 25% little) have said they usually receive accounting reports timely. About 31.2% of marketing and production managers and 25% of finance managers have said they don't receive reports timely. Detail information is presented in graph 12 above.

***Reasons why accounting department doesn't provide the reports timely***

Table 10: Reasons why the accounting Department doesn't provide reports

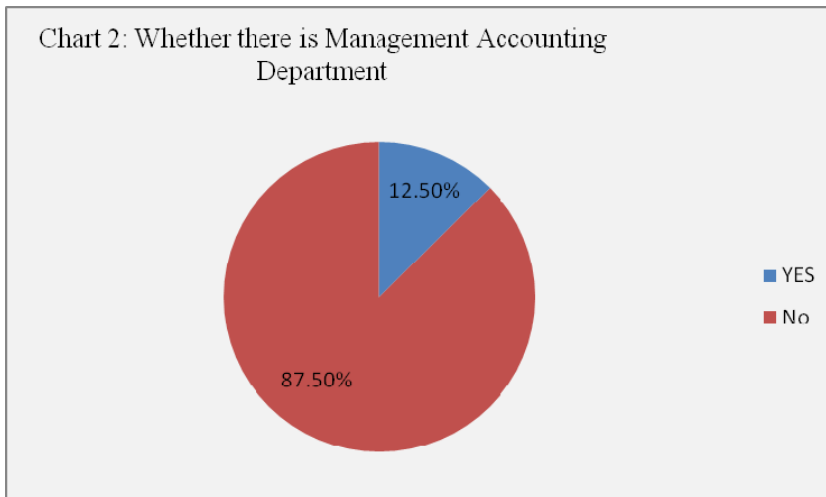
<b><i>Description</i></b>	<b><i>Marketing Managers</i></b>		<b><i>Production Managers</i></b>		<b><i>Finance Manager</i></b>	
	<b><i>No.</i></b>	<b><i>%</i></b>	<b><i>No.</i></b>	<b><i>%</i></b>	<b><i>No.</i></b>	<b><i>%</i></b>
Accountants are busy in performing routine activities	8	89%	6	75%	10	91%
The system doesn't allow them to provide the required information	7	78%	6	75%	9	82%

In order to produce and provide users with the information they need, the accounting system plays an important role. If the accounting system is the art of the state, then it can provide the required information in a reliable and user friendly way. It doesn't require being a knowledgeable person to imagine when the situation differs. As can be seen in table 10 above, 78% of marketing managers (7 out of 9 who said the report are not provided timely), 75% of production managers (6 out of 8) and 82% of finance managers (9 out of 11) have criticized the accounting system and mentioned it as a major limitation for accountants for not providing the required information in time.

About 91% of finance manager ( 10 out of 11) followed by 89% of marketing managers(8 out of 9) and 75% of production managers' (6 out of 8) state accountants are busy in performing routine activities and they don't have ample time to make sound financial analysis and generate and provide managers with the information they need.

***Whether there is Management Accounting Department***

Pie chart 1 below show whether firms have mangement accounting department. Surprisinly 87.5% of firms don't have management accounting department. It is only 12.5% of the firms have management accounting department as a unit.



***Who provide Management Accounting Information-Response of Accountants***

Table 11: Person providing management accounting information

<i>Particulars</i>	<i>No.</i>	<i>Percent</i>
Management Accountant	2	13%
Cost Accountant	7	43%
Senior Accountant	5	31%
Finance Officer	2	13%

In about 43% of the firms it is the cost accountant which produces management accounting information followed by senior accountants which accounts 31%. Surprisingly it is only 13% of the firms have management accountants. About 13% of Finance officers also involved in producing management accounting information.

### 3.2.7 WHETHER ACCOUNTANTS ARE SUFFICIENT

Table 12: Whether accountants are sufficient

<i>Respondents</i>	<i>YES, SUFFICIENT</i>		<i>NOT SUFFICIENT</i>	
	<i>NO.</i>	<i>%</i>	<i>NO.</i>	<i>%</i>
Accountant	5	31%	11	69%
Finance Manager	7	44%	9	56%
Marketing Manager	7	44%	9	56%
Production Manager	6	38%	10	62%

As can be seen in table 12 above, about 44% of finance and marketing managers followed by 38% of production managers and 31% of accountants said the number of accounting staffs are sufficient to prepare provide the information needed by managers. However, about 69% of the accountant followed by 56% of marketing and finance managers and 62% production managers claim the number of accounting staffs are not sufficient to prepare and provide managers the information they require timely.

#### *Reasons for Insufficiency of Accounting Personnel*

Summarizing respondents view why firms improperly staff accounting departments, 89% of finance managers, 80% of production managers, 77% of marketing managers and 73% of accountants have said it is due to financial problem. Furthermore, about 55% of the accountant followed by 22% of marketing managers and 10% of production managers explain managers don't give much attention for finance department. About 27% of accountants and production managers and 22% of finance and marketing managers state managers may not have information as to additional employee is needed. 91% of the

accountants, 78% of finance managers, 67% of marketing managers and 60% of production managers said management don't want to have more accountants.

Table 13: Reasons for insufficiency of Accounting Personnel

<i>Description</i>	<i>ACCT</i>		<i>FM</i>		<i>MM</i>		<i>PM</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Finance Problem	8	73%	8	89%	7	77%	8	80%
Managers don't consider accounting department important	6	55%	-	-	2	22%	1	10%
Managers may not have as to additional employee is needed	3	27%	2	22%	2	22%	3	27%
Not willing to have more accountants	10	91%	7	78%	6	67%	6	60%

### 3.2.8 WHETHER MANAGERS ALTER ACCOUNTING REPORTS

Chart 2: Whether managers alter accounting reports



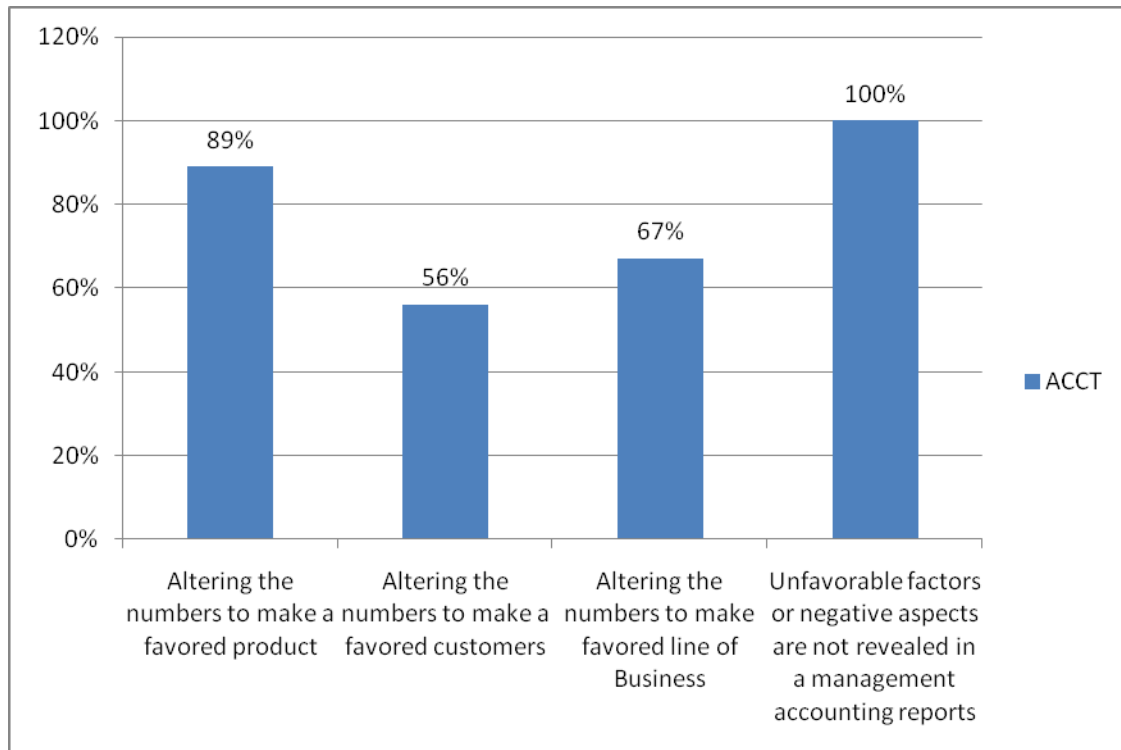
Chart 2 above summarizes information on whether managers alter the report produced by the accounting department. As can be seen in the table above, 44% of the respondents state managers don't alter accounting reports at source.

Surprisingly, 56% of accountants said managers alter (manipulate) reports. Managers usually show this unethical act for various reasons. Low salary of managers is cited as the main factor for their alteration of accounting figures. Others (84% of respondents) suggest managers alteration of reports emanate from their hidden interest of earning a higher bonus. Still 62% of the respondents said recognition as one of the motives for managers' deceitful act. There are also trends to fire managers who don't achieve the performance expected of them and are forced to immediately cancel their term of employment. They finally manipulate reports to sustain on their job.

#### ***How Managers Alter Accounting Reports***

Summarizing accountants' view on how managers alter reports, surprisingly all of the respondents' state in most of the cases managers doesn't want to incorporate unfavorable factors or negative aspects in management accounting reports. There are also circumstances where managers attempt to produce a product whose demand in the market is declining. Similarly, about 89% of the respondents maintain managers usually alter the numbers to make a favored product though its sales volume declining. Altering the numbers to make the favored line of business is another way for managers to alter the reports produced (67% of accountants). There are also instances where managers alter the numbers to make a favored customer (about 56% of accountants).

Graph 5: How managers alter accounting reports



### ***3.2.9 WHETHER MANAGEMENT ACCOUNTING INFORMATION HELP MANAGERS TO BE EFFECTIVE IN THEIR DECISIONS AND CONTROL***

Summarizing respondents view on “whether management accounting information have helped managers to be effective in their decisions and control”, about 81% of the finance managers (56% substantially and 25% little) said it help them to make better and informed decisions and control and ultimately they become effective in their decisions and control. Notably 18.8% of the respondents from finance managers said the report doesn’t help them at all for reasons described in table 16.

About 75% of marketing managers (38% substantially and 37% little) have respond the information they obtain helped them to be successful in their decisions and control.

However there are also some marketing managers whom said the information doesn't help them at all. This accounts 25% of the total respondents. On the other hand, 75% of production managers (44% substantially and 31% little) believe the information they obtain from the accounting department help them to make valuable decision and control. The number of production managers whom said the information doesn't help them accounts 25% of the total respondents.

About 69% of the accountants strongly agree with the information provided by them help managers to be effective in their decision while 31% of them insist it help them little because ones success depends not only with the quality of the information provided but also on managers ability to interpret and use the information which largely depend on managers knowledge of accounting.

Table 14: Whether MAI Help Managers to be Effective in their Decisions and Control

		WHETHER MAI HELPS MANAGERS TO BE EFFECTIVE IN THEIR DECISIONS AND CONTROL			Total
		YES, SUBSTANTIAL	YES, LITTLE	NO	
FINANCE MANAGER	Number	9	4	3	16
	Percent	56.3%	25.0%	18.8%	100.0%
MARKETING MANGER	Number	6	6	4	16
	Percent	37.5%	37.5%	25.0%	100.0%
PRODUCTION MANAGER	Number	7	5	4	16
	Percent	43.8%	31.3%	25.0%	100.0%
ACCOUNTANT	Number	11	5	0	16
	Percent	68.8%	31.3%	.0%	100.0%
Total	Number	33	20	11	64
	Percent	51.6%	31.3%	17.2%	100.0%

***How Management Accounting Information help users to be effective in their decisions and control***

In management accounting, decision-making may be simply defined as choosing a course performance in order to make sure that enterprise objective and the plans devised to attain they are accomplished. Accounting is one of the informational sources for providing the required information for managers which will assist them in making various types of business decisions and control.

Table 15: How Management Accounting Information helps users to be effective in their decisions and control

<b><i>Particulars</i></b>	<b><i>Finance Manager</i></b>		<b><i>Marketing Manager</i></b>		<b><i>Production Manager</i></b>	
	<b><i>No.</i></b>	<b><i>%age</i></b>	<b><i>No.</i></b>	<b><i>%age</i></b>	<b><i>No.</i></b>	<b><i>%age</i></b>
The accounting department provides the reports on time	12	92%	11	92%	10	83%
The accounting department provides understandable	11	85%	10	83%	9	75%
The accounting department provides the required information on systematic and regular basis	12	92%	10	83%	11	92%

As easily seen in table 15 above, about 92% of the finance managers said timely reports provided by the accounting department help them to be effective in their decisions and control. Even 92% of marketing managers pointed out timely reports obtained from the accounting department as the main thing which help them to be effective in their decisions and control. Still 83% of production managers expressed timely reports provided by the accounting department help them greatly on their decisions and control.

About 83% of marketing managers, 75% of production managers and 85% of finance managers said the accounting department provides understandable reports and this help them to be effective in their decisions and control.

While further explaining how management accounting help managers to make effective decisions and control, 92% of the respondents from finance managers states the accounting departments provide the information on systematic and regular basis. 92% production managers and 83% of marketing managers share the idea of finance managers, respectively.

***Reasons for “why Management Accounting Information doesn’t help managers to be effective in their decision and control”***

Table 16: Reasons why Management Accounting Information doesn’t help managers to be effective in their decision and control

<i>Particulars</i>	<i>Finance Manager</i>		<i>Marketing Manager</i>		<i>Production Manager</i>	
	<i>No.</i>	<i>%age</i>	<i>No.</i>	<i>%age</i>	<i>No.</i>	<i>%age</i>
The reports are not provided at the time it is needed.	3	100%	2	50%	3	75%
The reports are complex	-	-	4	100%	4	100%
The reports are not comprehensive	2	67%	3	75%	3	75%
The reports are not prepared in a way managers need		100%	4	100%	3	75%

Even though accounting is one of the informational sources for managers to assist them in decision making and managerial control, there are also instances where it may not serve the target. This could arise from different reasons.

Information is valuable only when it is provided at the time needed. Accordingly, 100% of the finance managers insist the information doesn’t help them to be effective in their decisions and control because they are not provided at the time needed by them. 50% of marketing managers and 75% of production managers also assert reports are not provided in the time needed by them.

Another important quality of information is understandability. If the reports provided are not easily understandable by managers, it may not serve the intended purpose. All of marketing managers' state "complexity of report" as a major problem for them to use the information provided. Similarly all production managers shares the same idea to that of marketing managers. Unsurprisingly, none of the respondents from finance managers says complexity of report as a primary reason for them while explaining why management accounting information doesn't help them to be effective in their decisions and control. This may be due to their strong accounting background.

Still another important quality of information is completeness. If reports are not full or complete, again they may not be used to serve for the intended purpose. Similarly, about 75% of production managers said reports are not comprehensive and at last doesn't help them. About 75% of marketing managers (from those who said the report doesn't help them to be effective) mentioned incomplete information as a reason for them while explaining why management accounting information doesn't help them to be effective in their decision and control. Preparing and providing information based on user's requirement is another factor for information to be useful. All marketing managers and 75% of production managers have said reports are not prepared and provided in the way they need to be.<sup>13</sup>

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<sup>13</sup> For the definition given on this page, Accounting Information System, Marshal B. Romney and Paul john steinbart, Prentice Hall Publishing, 2003, pp-5

## **CHAPTER FOUR**

### **4. CONCLUSION AND RECOMMENDATION**

#### **4.1 CONCLUSION**

Management accounting is a value-adding, continuous improvement process of planning, designing, measuring and operating financial and non-financial information system. This process guides management action, motivates behavior and supports and creates the cultural values necessary to achieve an organizations strategic, tactical and operating objectives.

One of the critical managerial functions which managers usually engaged in pursuing an organization's goal is decision making. Decisions which management must make may be classified as marketing, production, and financial. Finance managers usually made decisions involving investment, financing, etc. Types of decisions often made by production managers include determining units of equipment, supplier selection, raw material selection, determination of inventory level, buy or make, determining inventory level, determination of factory workers wage, decision on over time, second shift, and replacement of equipment. Determining the number of sales people, accept or reject special sales order, determining sales prices, which product to emphasize when there is resource constraint, advertising, anticipating market opportunity, determining the number of products to be produced, credit, advertizing and sales forecast are among the types of decision often made by the marketing managers.

Managers are also responsible for controlling the day-to-day activities of their departments or responsibility center. Some of the areas which require management control include raw material control which comprises control of wastage, scrap, defect and spoilage, control over labor costs, inventory control and cash balances.

Effective decision making and control requires relevant information and special analysis of data. The accounting department is a primary source of information necessary in making decisions and control. The accounting department is expected to provide information to all levels of management. The finding of the research work shows accounting departments of manufacturing companies in the city of Addis Ababa provide various types of report to assist managers in decision making and management control. Product profitability report which includes salesmen's success in meeting quotas, profit summaries by product line, division, sales man, and customers, stocks availability, product line with slow sale and declining profit margin, and information on customer groups with declining purchasing power; variance analysis reports which includes material usage variance, labor efficiency variance, and sales variance; cost sheet or statement of cost, interim reports, revolving estimation and cash operating expense are among the different types of reports produced by the accountants of manufacturing companies in the city of Addis Ababa.

These reports are valuable only when they are provided at the time needed by managers, understandable by users, prepared in the way users needed to be and complete. However, the result of the research work shows reports are not always provided in the way it is easily understandable by managers especially for marketing and production managers. It

also shows the reports produced are complex especially for those whose accounting knowledge is limited and are not prepared and provided in the way needed by managers. Furthermore, the reports lack completeness.

The findings of the research work suggest finance managers extensively use management accounting information. On top of that, there is an encouraging practice in the use of management accounting information by marketing and production managers in decision making and management control.

The research work shows managers that use management accounting information become effective in their decisions and control.

Finally, accountants are expected to show high ethical standard in preparing managerial accounting reports. Management accountants have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical conduct. However the situation in manufacturing companies in the city of Addis Ababa suggest more than fifty percent of the accountants are forced to manipulate managerial accounting reports for various reasons including earning large bonus, and recognition. The forms of alteration include altering the numbers to make a favored product line, favored customer, line of business and even not revealing unfavorable factors or negative aspects in the managerial accounting reports.

## 4.2 RECOMMENDATION

Based on the result of the study, the following points are forward as important recommendation looking towards the future:

- ☞ Information is valuable only when it is provided at the time needed by managers and easily understandable by them. Therefore the accounting department should exert much effort to provide managers with the information they need in time. In addition, accountants should also consider the accounting background of users because report complexity is one of the major bottlenecks for managers for not using management accounting information.
- ☞ In order to produce and provide users with the information they need, the accounting information system plays an important role. If the accounting system is the art of the state, then it can provide the required information in a reliable and user friendly way. Even though implementing a modernized accounting information system requires large out lay of capital, it is recommended for firms to have it after making cost-benefit analysis.
- ☞ Most of the manufacturing firms don't have separate management accounting department. It is usually the cost accountant or finance officers who usually prepare managerial reports and most of them are busy in performing the day to day activity. Therefore, it is strongly recommended for large firms to establish management accounting departments so that accountants can have sufficient time and they can provide complete, understandable, and timely reports.

- ☞ In order to make accountants become familiar with recent development in accounting and finance and upgrading their knowledge, firms should have employee training and development program.
- ☞ Manager's limited knowledge of accounting (other than Finance managers) is one of the impediments (barrier) for not using management accounting information. So that firms should design trainings on accounting so as to enlarge manager's knowledge of accounting. This training could be in house training.
- ☞ Managers usually don't give much attention for accounting department so that the number of accounting personnel is not well-matched with the volume of activity. Therefore firms should properly staff accounting departments.
- ☞ Accountants and managers should be ethical at all times.

# *ANNEXES*

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