

# [Current trends in accounting information systems](https://assignbuster.com/current-trends-in-accounting-information-systems/)

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1. Introduction

Cost and margin measurements may seem “ not that important” at first glance when one is looking at a financial report or statement. What appears more important at first glance is itself the cost or the margin but not the procedures in obtaining them. It is however not true. When we measure something, we use numbers and operations; the numbers are variables while the operations can be constant but the important thing is also to consider the source or sources of these numbers and the appropriateness of the operations used.

Are we certain that we are using the correct figures? Are these numbers really the exact amount or at least the closest estimate of what they are supposed to represent? No matter which profession we are in if we have wrong inputs, the outputs are sure to be wrong as well: " garbage in garbage out" (Ramamoorti & Curtis, 2003).

In making sure that our outputs are correct, we have to start from the very basic: making sure that out inputs are correct. In accounting context, this is making sure that correct revenue is reported, correct costs are used and therefore, we can arrive at correct margins.

While life is getting modern, accounting practices should also pace up, thus, the evolution of accounting information systems (AIS).  AIS is responsible for providing timely and accurate financial and statistical reports for internal management decision making, and for external parties such as creditors, investors, and regulatory and taxation authorities. (Business Dictionary, 2010) And why is that? It is because not only a single entity trusts this evolving system but the number is growing because these AIS users expect the accounting information system to " produce comparative reports for planning and control purposes." (Daniels & Beeler, 2001)

Better planning and control results to more accurate or closest estimates of figures that will soon be used in arriving at some important numbers expressing a certain situation within an organization and thereby helping decision makers to act advantageously and to do something for the benefit of the firm. But what is AIS and how does it make costing better and margin determination more accurate?

This paper presents integrated information based on at least ten scholarly, peer-reviewed articles, mostly from business/finance/ accounting-related journals that generally or specifically discuss about current trends in Accounting Information Systems (AIS), the relevance of costing systems to it, especially the activity-based costing (ABC) and the effects to an organization’s operational margin.

1. What is Accounting Information System?

Before going through the details of how can AIS make the cost and margin determination better, it is important to understand AIS first. AIS is a  subsystem of a Management Information System (MIS) that, firstly, processes financial transactions to provide internal reporting to managers for use in planning and controlling current and future operations and for nonroutine decision making and secondly, external reporting to outside parties such as to stockholders, creditors, and government agencies. (Business Glossary, 2010)

These days, accounting information is in fact not only systems but expanded to networks, the so called accounting information network (AIN) which, according to Bhimani (2003) are multilevel information systems that aim at organizing, processing and sharing accounting information in order to: (1) Check the state of the relationships among the organizational units of mixed mode organizational structures (by verifying that the actions of the other party are in accordance with expectations.); (2) Master events by that relationship as an entity in itself (through planning a collaborative future by setting down what each party wishes to achieve from the collaboration, how feasible thegoalsand relative roles are and what actions need to be taken); (3) Support layered decision making processes.

Thinking about AIS, most have the notion that it is something modern and only existed recently. AIS is oftentimes associated to something highly technological, super modern and the likes. This notion is however wrong. You may not believe it but “ relatively sophisticated accounting information systems were present as early as the 16th century”. (Daniels & Beeler, 2001) Thus, AIS’ existence dated back as far as five centuries back.

What is important with AIS is not how it was sophisticated before, or yesterday or even today but how it adapts to the level of modernity of the business practices and to the modernity of the world and life in general. AIS has its ups and downs as well as its trends. It is the dynamic trend of AIS that make it survive for five centuries and remain to be still being used. So what’s the current trend in AIS these days? When we ask that question, we are asking: what is hot in the business world; what is more useful; what is fast-paced; what is more practical and convenient to install; what is more end-user friendly; what is hype yet affordable; and so on.

III. Current AIS Trends

So what is the trend or what are the trends these days? These trends may be fresh or may be long-lasting.  According to Axia (2010), an independent consultancy providing impartial time-saving tools and advice to help enterprises specify, select and implement new Accounting, CRM, HR and Payroll software, following are the latest trend when it comes to accounting-related information system:

1. Web and intranet / internet applications
2. Web based Accounting, CRM (Customer Relationship Management), Payroll and HR

All the benefits mentioned above, if it is certain that those benefits be acquired by the organization, they would without a doubt lead to lesser operational costs to finance, payroll and human resource functions. Indeed, " the computerization of accounting has done more than streamline the work of CPAs by eliminating post binders, columnar sheets and those quaint posting machines." (Courtney & Flippen, 1995)

1. ABC and AIS

The present-day popular activity-centric performance measures rooted itself from activity-based costing (ABC). A fundamental principle of ABC is that products and/ or services are made to conditions identified to add value for the customer. Consequently, according to Meyer, (2002) activities, and hence costs that are unnecessary should be removed without compromising these value-added specifications. Given this approach, should an organization adapt ABC?

Choosing a costing system for an organization is not a piece of cake. There are a lot of factors to be considered before management decides which costing method is best for its operation and best for the business in general. The same rule applies for activity-based costing. Deciding whether ABC is best for an organization is reliant upon a lot of factors. “ Although it can offer numerous benefits over a traditional costing system, effective implementation of an ABC system is not an easy task.” (Searcy & Roberts, 2007)

While the model present in ABC is rather uncomplicated and clear-cut, the implementation of such system that, according to Searcy & Roberts, “ actually works and delivers on the expected benefits” is not as simple as it appears. Prior to decision of using ABC or not, the organization must examine itself first, putting into consideration its experiences and the lessons learned in the past years of existence and operation.

While ABC is not a magic potion, organizations can obtain noteworthy payback from it if they appropriately approach and apply the system. In the following paragraph, Searchy & Roberts lays out how ABC is best use as AIS and at the same time used outside the accounting context offering the best results to the user organization. No wonder user organizations tend to prefer ABC over other costing systems with their AIS.

Based on the above text, it is no contest that ABC and AIS go along with each other positively. ABC is not only useful as a costing tool per se but also a valuable tool in determining which products are good for the organization’s operational and financialhealthand which products are not. " As one might expect, the ABC information system often revealed that some products or services were unprofitable" (Baxendale, Raju & Gupta, 2006)

1. Better Costing and Margin-Determination Achieved

As mentioned, the use of AIS coupled with ABC demonstrates a positive effect. This means that with ABC and AIS current trends put together lesser errors can be committed in determining the real cost of a product and/or a service.

Integrated supply chain management utilizing information systems and a shared supply chain database can enable the company to identify optimal inventory levels, reduce warehouse space, and increase inventory turnover. The new integrated supply chain management systems, if utilized properly, can lead to higher quality products, enhanced productivity, efficient machine utilization, reduced space, and ultimately increase logistics efficiency and flexibility (Narasimhan & Kim, 2001)

Not only that correct margins can be determined through AIS and ABC utilization but as well as greater margin is achievable.

1. Conclusion

Laying out this paper from introduction up to here, in the conclusion, it was a swift journey analyzing how one thing is related to the other. It is such a tedious process tying or linking one point accounting stand point to another but at the end, it is a great feeling to establish those solid relationships. Taking one step at a time, from one scholarly article to another, counter checking the issues presented at hand and their relevance, this paper can finally conclude AIS is a wonderful tool. Usually, when AIS is mentioned, everyone seems to think limitedly of accounting andtechnology. However, this reaction has been proved by this paper. AIS does NOT solely refer to accounting but to a lot of other aspects of an organization: human resources, operations, supply chain, customer aspects and many other aspects.

Considering that AIS is not a limited tool, another important point has yet been pointed out: the existence of AIN. Accounting information system interlinked with other systems of an organization, from other aspects of its existence is simply a powerful tool that can create a lot of efficiency.

Finally, what are these systems there for? They are available to help determine the real cost, as accurate as possible, and try to reduce these costs. This was made possible through application of ABC. This procedure of determining the costs correctly or as accurately as possible leads to better and more correct determination of product/service margins while the efforts done to reduce costs naturally causes greater margins. A greater margin is what 100% of financial organizations aim!

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