Using accounting information to decision making

Business, Decision Making

Generally, proper accounting information forms the Launching pad for the success of a business. Such information is attributed to proper book keeping which ensures that all business transactions have been correctly recorded and entered in the books of accounts. Accountants therefore, need to be persons with high competence and integrity who should apply their professional ethics in regard to the principles and concepts of accounting. There are many branches of business accounting; financial, tax, management, cost, external and internal accounting. However, they all work towards thehealthfunctioning of organization.

Accounting information is used by both internal management and external stakeholders of a business organization to arrive at various decisions regarding the good performance of this organization. (Belkaoui, 1992) Internally, accounting information is used by the management to arrive at various decisions. Firstly, the management uses accounting information to know the financial status of the organization. They can calculate the value of assets and cost of production, where they finally know the financial health of the organization, whether making profit or loss.

Through these financial results therefore, the firm arrives at many decision in line to its optimization in the cost of production. Firstly, the firm can evaluate amongst a variety of its products, between which are to be produced or declined. Such a decision can only be arrived at following proper accounting information which in essence can reveal the financial status of producing such products or providing certain services. The firm should only produce those products whose cost of production is relatively low in relation to their profit margin.

Whatever products that show a financial loss in their production returns should however be declined if not using other cost efficient methods of production. (Kirkegaad, 1997) Either, accounting information helps the organization to know whether to make a product component or purchase such from other manufacturers. Noted here is that, there may be varied economies in the production or purchase of products components that may be used as part components in producing goods or providing services within an organization.

If it’s cheaper to produce than to buy these components then the firm can make the best decision. Above all, accounting information is used in determining the selling price of products or providing services. It is only proper accounting and bookkeeping system that a firm can evaluate the cost of production of a product. With this in mind, the firm can therefore set the selling price of its products in order to achieve its profit maximizationgoals. Apparently, the firm can choose between selling at a lower price to attract more sells or selling at high price and attracting lower sells.

However, such decisions are only arrived depending on the motives of the firm. Accounting information is the road map leading to external business financing by banks and other financiers. Only, will financiers choose tofinancebusiness with health accounting prospects. The banks will be able to finance business that shows outstanding worth of their accounts. Otherwise, they would fear to make losses by diverting funds to agencies that are probable to making them get losses by not repaying back these loans.

Either, proper accounting information can be used by shareholders to assess the probable benefits they would get in joining different organizations. Basically, new shareholders use the information in the audited results of the accounts of a firm to evaluate their motives in joining such firms. Business entities cannot operate solely without credit facilities. Due to the nature of business transactions, they ought to source raw materials, services and other components on credit terms from their suppliers.

In this regard, creditors only evaluate their decisions to supply such credit facilities to their customers based on the accounting information retrieved from their client's books of accounts. If the accounts show a stable financial status, such creditors would be more willing to sale good and services on credit. Otherwise, they would fear the risk of losses incase of bankruptcy of their credit customers whose accounts are not properly maintained or depicts accounting inconsistencies. (Fields, 2002)

Accounting information is broadly used by the internal management of a firm to make various decisions in its organization structure. Such information is used in formulating various decisions regarding the firm's operations. Decisions run from the organizational set up and performance of the firm which captures both the external and internal variables which plays different roles in operating the business. It helps to monitor the various management changes that should be employed to ensure proper performance of the business.

Either, the management is able to formulate policies and strategies that would lead to the proper functioning. They can also evaluate the possible avenues in the change of the human capital and set up structure in production that would help the firm to achieve its goals in maximum. It helps the management to evaluate the business economies underlying different production methods. It also helps management to evaluate the different strategies the firm can use to achieve its goals because they uses such accounting information to evaluate the profit returns of using such various strategies.

Basically, internal management decisions broadly vary from one organization to the other. Management accountants studies and evaluates the business theory to come up with decisions and strategies pertaining the best organizational structure of the organization. However, the guiding factor to the decision of the internal management system is solely depended on the accounting information of the organization. (Bragg, 2007) The managers will use and study the various information from the accounting system of the organization to arrive at strategies and decisions about the correct business undertaking.

However broad the decisions of the internal management are, they are positively related to the firms accounting information. Taxation and government legislations. The government plays an important role in maintaining the sovereignty and reducing the consumer exploitation by businessmen in a competitive market. The government enacts different legislations and taxation authorities depending on the status of the accounting system of the firm. The government instills tax debts to a firm depending on the status of the accounts of the firm.

(Fields, 2002) Development and expansion in business projects is attributed to the accounting information of the firm. Generally, an organization will use the information portrayed by a project account to make decisions and plan about the authenticity of implementing such a project. Diversifications and expansion of business units can only be realized through good accounting information. Such information can help management to evaluate the profitability between different alternatives of business projects.

There is a close relationship between the worth of a business versus external and the internal accounting system. A close study reveals that, accounting information relates the external and internal perspectives about business accounting. The internal accounting system relates to the internal management in the organization while external system is the environmental factors affecting the business performance. These two works at equilibrium inrespectto the reliability of the accounting information that reveals the diversified decisions arrived at between them.

Bibliography

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