The role of accounting data in managers’decision making

Business, Management

Decision making is the part and parcel of our lives. We make decisions everyday even if they are not significant. Similarly, in organizations managers must make decisions. It is usually one of the key roles of a manager. In fact, these two are frequently associated together. The need for decision making arises when we have to allocate scarce resources among various alternatives. All the data and information must be carefully evaluated at the time of making decision as there can be a long-term consequence of the decision made today.

The decision-making process which most managers use comprises of seven steps. The first step in involves identifying the issue which is then followed by information gathering so that choice is supported by the facts. Third step is to identify the alternatives available. It's feasible for one to have a wide range of choices when it comes to decision making. Next, managers need to evaluate various alternatives, and then choose the one which is close to their goal. It is then followed by taking action. Managers need to recognize the resources required and must take stakeholders in their confidence. This is an important element for the implementation of plan effectively. The final step and the most important step involve review of decision which involves evaluating your decision for success. For making effective decisions, managers need some relevant data which is provided in the form of accounting information. The purpose of accounting is to assist the users to make economic decisions. Managers rely heavily on accounting data to make economic and financial decisions.

Accounting is perceived as the soul of business since it gives organizations the precise data with respect to the internal workings of its operations. Management requires accurate financial data for performing its all functions especially decision making. Accounting information includes all financial statements and other documents, or reports prepared internally which aids in decision making. For management to make good decisions, it is important for them to be able to comprehend accounting information precisely. Also, managers use the past results as a guidance to assess the consequences of various choices previously made and take corrective action when required. Financial statements provide precise image of what happened in the business over a defined period. It helps management in evaluating the worth and performance of the organization over a defined period and helps to determine the cash the firm has generated from its operations. Balance sheet data provide guidance for many decisions. Managers use and asses this data to make decisions, such as whether business have enough cash to support its operations or it needs to raise funds and if it needs funds what source should be used for financing and if it has cash in excess where should the firm invest its idle cash. The cash-flow statement is one of the most key documents for management for making decisions. It informs managers about where the cash has been spent and from which sources it was generated over the period defined. A decline in the firm’s operating cash-flow ratio indicates that managers need to re-evaluate pricing, inventory, and other immediate decisions to improve the firm’s cash position. The income statement shows the financial performance of the company over a specified period. Managers use this statement to make decisions that manage the expenses and increase the revenue to keep profit margins intact. Careful evaluation of financial statement allows managers to analyse if any operation of the business is in loss and whether it should be discontinued. Managers evaluate financial data to make various decisions.

For instance, decisions regarding retained earnings. Management will determine the amount of the profit that will be paid as a dividend to shareholders and the amount that will be retained into the business. It also decides on the amount which will be invested in interest-bearing securities. These investments will be utilized to generate cash outside the firm's operations. Also, it will employ the accounting data to determine if their organization's operation could improve by buying a competitor or by entering in a new market. Managers also assess the accounting data to find out the strength and weakness of the firm.

Also, ratio analysis assist management to locate weak areas in the so that management can take corrective measures. For decision making purpose, managers in addition to use the same financial statements as external users, uses internal reports prepared particularly for this purpose which are provided through management accounting. Managers use this data to make various decisions such as make or buy decision. They might think about whether to make or purchase a part expected to be used in manufacturing the company's product. With the help of make or buy analysis, the choice which is more profitable can be determined. While this method is unquestionably valuable, company should just utilize this as a factor in the choice as other non-monetary factor that needs to be considered. Budgets and trends charts are also used by managers to decide how to allocate money and resources to generate the projected revenue growth. They also use analytical technique to know why there was a discrepancy in what was expected and what happened in the business. Managers use activity-based costing to decide what to produce, how much to spend on a product, how much it will cost to service a customer, and what customers and products are profitable. Managers needs to consider the outcome of a decision before implementing it. In conclusion, it can be seen how accounting information is important for mangers to make decisions. As it helps managers to understand what happened in the past and what are the conditions now so that they can take any corrective action if required. Also, it helps managers to plan for the future and decide on goals for the company so that managers can make decisions with respect to those plans as to achieve the relevant goal.