

# Effects of accounting information system on Organizational Profitability

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## ABSTRACT

An accounting information system is a structure that a business uses to gather, store, direct, process, recover and report its financial data. So that, it can be used by owners, accountants, advisor, business analysts, managers, chief financial officers, auditors and regulatory and tax agencies. Accounting information systems is a part of company's information systems this helps in facilitating decision making within organizations and can be modified to an organization's environment, structure and requirements of task. This study emphasizes on the important of accounting information in making decisions. The accounting information always plays an essential role in decision making of the managers related to the financial and economic issues. It also affects to the survival of an organization. In addition, accounting tools such as cost accounting system, management accounting system, price and profitability provide the useful information to the manager to make the financial and economic decisions also. This research study is also disclosing the relationship between the Accounting Information Systems used by the Enterprises and its profitability. The purpose of the study was to examine the effect of accounting information systems on profitability level of organization.

**Key Words:** Accounting information system, decision making, Profitability.

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## Introduction

Over several numbers of years the performance of accounting has increased right from the single entry system to double entry system. The main aim of the accounting is to provide financial data like purchase, sales, expenses and income of the organization but in today's modern world accounts maintenance is helpful in many ways. Previously accounts are maintain to know profit or loss of the organization but now a days it is also useful for increasing profitability of the organization by way of accounting information system. Businesses include transactions which produce information for better analysis of business performance and accounting information system is a delivery system for accounting. Accounting information system refers to complete collection of business mechanism that comprises entire inputs, assembly and reporting of financial transactions information.

Accounting is a system that provides information to various interested parties. The main purpose of accounting is to give information about profit or loss and financial position of the business to its owner. This information is also useful to investors, auditors, suppliers, buyers, bankers and other financial institutions etc. But more importance of accountancy is concern to the person within the organization. Since every decision involves a number of alternatives. Accounting information must help the user to decide his course of action. Accounting is a process which helps managers with the accounting records produces financial statements. In management, the important duties of managers consist of planning, organizing, leading, supervising, controlling and decision making. Accounting Information System is considered to be one of the most important systems of any organization. Its aim is to provide necessary information to the managers at different levels. This

information helps them in performing their responsibilities in an effective and efficient manner in the areas of planning, controlling, performance evaluation and decision making.

A well planned operating accounting system enables an organization to manage important resources i.e. information. The business transactions can be divided in to two types 1. Transaction arises for exchange of goods such as purchase or sells called external transaction. 2. Transaction arises from gathering cost and cost of production called internal transaction. The cost represents amount sacrifices to obtain goods or services. The cost accounting provides all such information from material purchase to total cost as well as total cost and cost per unit. After that profit arise by deducting total cost out of sales.

However, there is uncertainty in predicting how growing need for accounting information system will change the profitability of the organization since the Accounting information system provides a base to an organization, to deal with its vendors, customers and employees. The fact that the most Businesses has not incorporated the use of better accounting information systems in their day to day transactions, a number of issues need to be addressed. As accounting gives business information in terms of transactions in monetary terms. Accounting is an art of collecting, classifying, analyzing and communicating data require for making decisions. Therefore, this study deals with the quality of accounting information system and its effect on organizations profitability. If accounting information system can be improved society will get the benefit.

### **Objectives of study**

The object of the study is to know the relationship between accounting information system and profitability of the organisation as well as to study use of effective accounting information system in the organisation.

### **Literature review**

Oналapo (2012) says that AIS provides tools to finance department to enhance organizational effectiveness. Showed that there is strong relationship between

accounting information system and organizational effectiveness, this means access to accounting information, will lead to organizational effectiveness. In managing an organization and implementing an internal control system the role of accounting information system is very important.

According to Hadi (2014) Accounting Information system is a part of company's information system which help company in providing processed information. This processed information helps the management in taking decision and which has great impact on organizational profitability. Good information provides efficiency, consistency and internal control of the organization.

### **Accounting Information system**

Accounting information systems is the information sub system within an organization. It accumulates information from the entity's various subsystems and communicates it to the organization's information processing subsystem. The accounting information system has traditionally focused on collecting, processing, analyzing and communicating financial information to external parties such as investors, creditors, bankers and tax agencies and internal parties such as management and owner. Today, the accounting information system is concerned with financial as well as non-financial information.

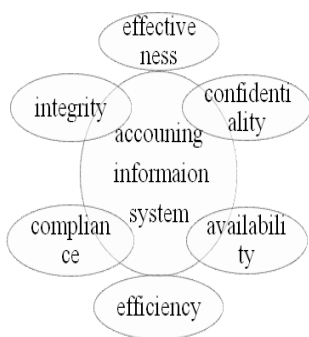
Today, accounting information systems are more commonly sold as prebuilt software packages from vendors such as Microsoft, SAP and Oracle where it is modified to match the business processes. There is need for connectivity and consolidation between other business systems. It will increase the need for accounting information systems that were merged with larger and more centralized systems known as enterprise resource planning.

The main function of Accounting Information System is to assign quantitative value of the past, present and future business events. AIS with the help of computerized accounting system, shows the financial statements namely profit statements, cash

flow statement and Balance sheet. The system will process the data and transform them into accounting information. During input stages, processing and output stages it will be used by a wide variety of users such as internal and external users. An effective Accounting Information System performs several key functions such as data collection, maintenance, data Accounting Information Systems, and data control and information generation.

**Qualities of Good Accounting Information System**

Accounting information system should be effective and efficient enough which can give correct and consistence information on time. It is concerned with the provision of accounting information through the optimum use of resources. A good accounting information system provides data as and when it requires to the internal and external people related with the organization. The information is accurate and complete because AIS use various accounting software for recording business transactions. It complying with laws, regulations and agreements to which user process their subject such as internal policies and external criteria. Good AIS system maintains confidentiality. It is concerned with the protection of sensitive accounting information from unauthorized disclosure.

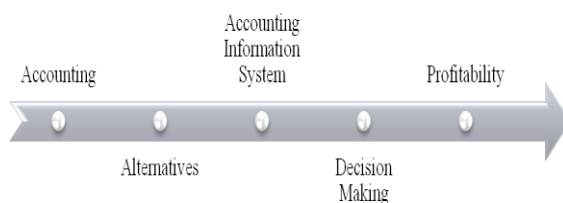


**Profitability and decision making**

The term profitability is referred to as the ability to make profits progressively over a long period of time. Profits itself has different meaning to the different people. The term profit has various perceptions to proprietor, accountants, revenue Authority and economist. Profit is sometimes taken as return accruing to shareholders. To a

common man, the term profit refers to all revenue that flows to the investor. To an Accountant, profit refers to income excess of revenue realized out of cost both manufacturing and other operating expenses. For all practical purposes profit is business income taken in the implication of an accountant.

Profitability is the only realistic measures of return from funds invested in the business. It is measured in terms of market share which has been gained for a given period. So that profitability can be calculated on the basis of return on sales or profit margins which are used in business enterprises to ascertain profit proportions on income. These profitability ratios are helpful for future reference and preparation of budget as well as it is helpful to the management in taking important decision.



Data recorded and processed enables accounting information technology to yield reports that aid interested parties in their decision making process. Most accounting information technology can yield statistics that indicate performance of product or service. In order to improve the usage of financial information in the context of the decision making process AIS is very useful tool. It helps to analyze the data and generate various alternatives. With the help of these processed data management can take correct decision which will lead to increase of the profit of the organization. Implementation of improved business system has increased profitability and improved cost control in the organization. The reports produced by the business system make information for decision making readily available to managers.

**Relationship between accounting information system and profitability**

Accounting information system is very useful for every business because it

gives necessary information how to plan and prepare accounts and can made necessary changes as and when required. Accounting activities of the businesses become easier by using such systems with faster, accurate and timely accounting records and analysis of the financial statements which are prepared within the system. When any organization has such a system, they will get accurate and error free accounting records and future predictions for the business growth and profitability. These accounting information systems are mechanized with error free system of gathering necessary information and data regarding the transactions of the business using electronic and automatic procedures with data collection and computing errors. These systems are automatically proceeding with the desired information of transactions and they save much of your time with timely accounting and accurate accounting information. But the completion of such a system needs necessary investment and the time spending to get the future benefits out of investment done on buying and implementing such systems. The traditional industrial economy requires companies to measure elements of accounting, generally it measured historical cost, and determine the amount on past transaction. In the accounting information, the measurement method has developed into a historical cost-based value, fair value, market value and replacement value. Multi-measurement model is used to complement other measurement method. Both the accounting information reflects the historical costs but with the help of present value factor it can reflect the present value. In different field use different accounting value forms, the basis of historical cost accounting and reporting systems to measure the fair value of other financial-based cost management system. This has direct relation with profitability.

In managing an organisation and implementation of internal control system for achieving high profitability accounting information system is crucial. In the field of accounting the most important question is

why accounts are necessary? The common answer is to get profit or loss of the business and to get the information related with the business. But the good accounting information system also helps the management in taking various business decisions. Making process, quality of accounting information, evaluation of performance, effective internal control and facilitate organisation's day to day transaction for these five key features AIS is highly important for all the organisations.

### **Effects of Accounting Information on Profitability**

One of important assumptions in decision making process and improvement economy is existence of quality and timely information. Important information comes from accounting information systems and from financial statements. Qualitative and quantitative characteristics of accounting information include consistency, relevance, understandability, comparability and timeliness of decision making is directly related to decision-makers and their consequences, ultimately it will affect to the profitability of the organization. This must be real useful accounting information required to meet the needs of decision makers. Accounting reflects a common requirement is the accounting, summary and reports. Under the condition of the accounting information, accounting information systems in business management control layer, it is more conducive to reflect the general principles of accounting. It is not only superior quality of accounting information, and verifies the measurement of accounting elements in the representation has certain breakthrough.

The increased importance of the portfolio management assumed by financial analysis of the new missions tends to relax its link to the accounting model, not with the accounting information. Other major developments of financial practice and theoretical and methodological research likely to be reviving renew and extend this link in new directions. On the one hand, operator elections and theoretical models related to the financial structure, require an analysis of the of liabilities, its progress, and

highlighting the cost of capital. Theoretical and practical developments related to funding, require the use of general accounting data. These are developments of organizational finances, focusing on new concerns, shift objectives and stakes financial analysis steps in a direction that emphasizes information and open up vast prospects stakes links between financial analysis and accounting.

### Conclusion

Accounting refers to verification of the legality of the accounting information, its authenticity and accuracy of the audit. Examination of business activity accounting and financial revenue and expenditure carried out by a post-supervision. Accounting and accounting analysis is a necessary complement. The management, production organization department of the data will be handled through the network directly into the accounting information system. Each employee or staff member may become producers and users of accounting information, and accounting information is subject to supervision and inspection. Accounting information system and its natural risks, conclude the contents of accounting inspection of the computer system to increase the processing and control functions of the review. This study has evaluate the effectiveness of accounting information systems in decision making from various aspect such as better decision-making by managers, more effective internal control systems, improvement of the quality of financial reports, enhancement of performance measures, facilitating financial transaction processes and helps in expansion of profitability of the organization.

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