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MANAGEMENT ACCOUNTING TECHNIQUES A TOOL FOR ORGANISATIONAL DECISION MAKING.

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Abstract

The study examined the use of management accounting techniques as a veritable tool for organisational decision making. The success of businesses hinges on the quality of decisions made. The accounting system stands out as a primary contributor to management accounting. Management accounting techniques play a crucial role in enhancing organizational decision-making by facilitating routine operational decisions, guiding strategic choices, and reporting operational outcomes to the management. Thriving in a globalized environment entails facing intense business competition. To endure and attain objectives, businesses must adeptly handle costs. Management accounting techniques play a vital role in facilitating informed decision-making by furnishing valuable information. The key lies in comprehending these techniques, embracing them, and deploying them judiciously at the opportune moment and in the appropriate context

Introduction

It is a new normal in Nigeria today that the price of items are on the increase day after day, especially since the increment in fuel price in Nigeria since May 29th, 2023 and the constant rise in exchange rate of Dollar to Naira and there is no even hope as to when all these will be stabilised. In the dynamic business environment, organizations face numerous challenges that necessitate effective decision-making processes. Management accounting plays a crucial role in providing relevant information and tools for executives to make informed decisions. This article explores various management accounting techniques and tools that contribute to organizational decision-making and explores the significance of management accounting and its impact on enhancing decision-making, drawing on literatures.

A manager cannot achieve its intended objectives, without taking into account information obtained from management accounting techniques. For efficient management of the economic entities having as its object of activity the production of goods, information is needed to calculate product costs. Cost accounting techniques are being applied to collect information on production, to allocate specific spending lots of product and unit cost calculation, managers need special financial reports and analysis to substantiate their decisions. Therefore, at the base of management decisions must stand the analysis of alternative lines of action.

Management accounting techniques has been equipping organizational managers with important information to take decision and deal with both constant timely and frequently changing business dealings i.e. order received, order backlog, capacity utilization, and sales. Other analytical reports are prepared for decline in profitability, market share shrinkage, customer loyalty disruption towards the organization. In both cases, it is usually done through comparing actual results with the planned results or benchmarks. Management accounting techniques is about "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information" (D. Colin, 2000). Management accounting techniques usually plays as an influencing role for planning, organizing, leading and controlling through managers of the organization. Planning activity is done mostly through budgeting, standard costing, target costing, cost-volume-profit analysis and directing or organizing through process reengineering, just in time (JIT), activity based costing (ABC), flow direction, value proposition. Leading and controlling through total quality management (TQM), balance score card (BSC), actual and budgeted performance comparison, benchmark analysis. The main objective of the study is to examine the use of management accounting techniques as tools for organization decision. Decision-making is inherently integrated into the broader functions of management. It is intricately connected with activities like planning, coordinating, and controlling, as these functions inherently demand decision-making. For instance, during the initial stages, management faces the pivotal task of choosing among various strategies, commonly referred to as a strategic decision, given its far-reaching implications for the organization's long-term prospects. Additionally, managers continually navigate through numerous smaller decisions, both tactical and operational, each contributing significantly to the overall well-being of the organization.

Literature Review:

Management accounting techniques is renowned to be very useful accounting resources that extensively help organizations incorporate cost accounting data, financial and non-financial information. Knowing this information is essential for managers to do their jobs, in the present day today, organizations need development and continual improvement in their performance for maintaining their activity and survival in the dynamic competitive environments. The abilities and capacities of an organization through efficient and effective use of the organization's resources are introduced as the important tools for improvement of organizational performance that benefiting from it requires aware management. Therefore, collecting and providing relevant information to the performance is indispensable for organizations that the need can be satisfied with employing management accounting techniques. Management accounting techniques encompass budgeting, performance evaluation, and information for decision-making, alongside various strategic analyses and other methods. Ittner and Larcker (2001) posited that the evolution of these methodologies has transformed the foundational principles of management accounting into a more advanced framework that contributes value to diverse business practices. The research study highlights that certain approaches, such as absorption costing and marginal costing, lack widespread favour among most manufacturing businesses. Dugdale and Jones (2002) emphasize a limitation within these costing systems, noting their inability to provide precise cost recording methods essential for making well-informed management decisions. There are a lot of management accounting techniques that can enhance organizational decision making and they are;

Cost-Volume-Profit (CVP) Analysis

Cost-Volume-Profit (CVP) analysis is a fundamental management accounting technique that assists organizations in understanding the relationship between costs, volume, and profit. This tool helps in decision-making by providing insights into the impact of changes in production levels, pricing strategies, and variable costs on the overall profitability of the organization (Hilton & Platt, 2013). Cost volume profit analysis as a method or tool for measuring potential changes in the company's revenues, costs and prices. CVP analysis is used in manufacturing companies to determine how many units of a particular product must be sold in order to break even.

Budgeting and Forecasting

Budgeting is a vital management accounting tool that aids in planning, controlling, and decision-making. By creating budgets and forecasts, organizations can set financial goals, allocate resources efficiently, and measure actual performance against planned targets (Horngren et al., 2016). Budget is the action plan or the organization's measure in a particular period of time that is presented according to the financial or non-financial quantities.

Activity-Based Costing (ABC)

Activity-Based Costing is a technique that allocates indirect costs to products or services based on the activities that drive those costs. This method provides a more accurate picture of the true cost of products or services, facilitating better decision-making regarding pricing, product mix, and resource allocation (Kaplan & Anderson, 2007).

Variance Analysis

Variance analysis compares actual performance with budgeted or expected performance, helping organizations identify the reasons for any discrepancies. By analyzing variances, management can make informed decisions to improve efficiency, reduce costs, or enhance revenue generation (Drury, 2013).

Decision Trees and Cost-Benefit Analysis

Decision trees and cost-benefit analysis are tools used for evaluating alternative courses of action. Decision trees visually represent decision options and their potential outcomes, while cost-benefit analysis quantifies the financial impact of different choices. These tools assist in selecting the most cost-effective and beneficial options (Weygandt et al., 2015).

Management accounting plays a pivotal role in providing relevant financial information and strategic insights to support decision-making within organizations. Such pivotal role include:

Integration of Financial Information into Decision-Making

Management accounting integrates financial information into the decision-making process, providing managers with a comprehensive view of the organization's financial health (Drury, 2013). This integration helps in formulating effective strategies and making informed decisions based on financial data.

Strategic Decision-Making and Planning

Management accounting is essential for strategic decision-making and planning, assisting organizations in aligning their objectives with financial strategies (Atkinson, Kaplan, Matsumura, & Young, 2012). By employing techniques such as budgeting and variance analysis, managers can evaluate performance and adjust strategies accordingly.

Costing Techniques for Efficient Resource Allocation

Various costing techniques within management accounting, such as Activity-Based Costing (ABC), help in efficient resource allocation and product costing (Kaplan & Anderson, 2007). These methods enable organizations to identify the true cost of products or services, aiding in pricing decisions and resource optimization.

Budgeting as a Planning Tool

Budgeting is a crucial aspect of management accounting, serving as a planning tool that aids in resource allocation and goal setting (Horngren et al., 2016). The budgeting process allows organizations to establish financial targets and monitor performance against these benchmarks.

Performance Evaluation and Feedback

Management accounting contributes to performance evaluation through the analysis of variances and key performance indicators (Drury, 2013). This feedback loop enables organizations to identify areas of improvement and adjust strategies for better performance.

Conclusion:

Management accounting techniques and tools are indispensable for organizational decision-making in today's complex business environment. By leveraging tools such as CVP analysis, budgeting, activity-based costing, variance analysis, and decision trees, management can enhance their ability to make informed and strategic decisions. Continuous adaptation and utilization of these tools empower organizations to navigate uncertainties and achieve sustainable success in the long run. Therefore, management accounting is the use of accounting information, financial and non-financial in the decision making of an organization to keep the values and also help put the organization in order. Moreover, to attain the organization's objectives, effective management necessitates robust plans wherein management accounting can implement various solutions using suitable operational methods.

This, in turn, assists managers in successfully reaching their goals. Also, Management accounting is an indispensable tool for organizations seeking to make informed decisions and achieve their objectives. Through the integration of financial information, strategic decision-making, efficient resource allocation, budgeting, and performance evaluation, management accounting enhances the overall decision-making process.

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