

Accounting Information System: A Prevailing Tool for Appraising Firm Performance

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Abstract

The advancement in technology has enabled companies to generate and use accounting information system. Accounting information system (AIS) is a computer-based application which conveys a new inclination of change from the conservative method of accounting to a computerised method. These advances in information and communication technology (ICT) have reduced the time and cost of transactions by aiding increased and improved transactions and communication for business dealings. It has also improved and advanced the efficiency of businesses by computerising existing operations to improve the performance of their operations. Accounting Information Systems (AIS) can be used by the organizations as a device for achieving a stronger, reliable, and more corporate culture to survive in this competitive environment. Accounting information systems also assist companies to gauge the risk of some operations or predict future warnings using sophisticated statistical software applications. The main objective of this paper is to examine the usage of Accounting Information System for effective decision making and improved internal control system on firm performance in which the qualitative data was used reviewing various literatures and other secondary data. This study provides value added in accounting literature given the scarcity of works dealing with the relationship between the application and use of AIS and evaluating overall firm performances

Keywords: Accounting information system, firm Performance, Internal Controls and decision making.

1. Background of the Study

Evolution in information technology (IT) has led to the development of new accounting systems, improved economic models and business dealings through the Internet. These advances in information and communication technology (ICT) have reduced the time of transaction, and cost by aiding increased and improved transactions and communication for business dealings. An information system is used by many organisations to improve and advance the efficiency of their business dealings by computerising existing operations to improve the

performance of their operations. Therefore, the role of the accounting information system is crucial in managing an organisation and implementing an internal control system. The ultimate objective of an accounting information system (AIS) is to gather and record information and data that can economically impact upon the firm, and ensure operational efficiency, effectiveness and reliability of financial data and also ensure legal compliance (Yang, Lin, & Koo, 2011). An AIS processes information and communicate this useful information to both external and internal stakeholders.

A business organisation operates in a very competitive and complex atmosphere, where circumstances can vary, and the economic climate can be extremely unpredictable. Recently, business organisations have started moving faster towards the globalization of technology and part of this, is the adoption of AIS because these changes depend on the information and data to advance an international accounting information system or to make it more effective. Businesses should gather quality data that can yield quality information about an enterprise so that the information will be useful and can help to control, plan, and make the right decisions. Thus, AIS is vital to all business organisations and it is at the centre of the present global chance curve. Therefore, managers and administrators cannot overlook AIS because they play a very important role in the contemporary society (Wilkinson et al., 2000; Shah et al., 2011; Hassan et al., 2013).

AIS is a computer-based system that ensures the quality of accounting information, increases the control and enhances the operation in an organisation to deliver information that is available and accessible to the end users who have similar needs. It assists and helps organisations to support the control, planning, and analysis of its activities. The core function of AIS is to give quantitative worth of the past, current, and upcoming economics events. AIS produce the financial statement, specifically the cash flow statement, income statement, and the balance sheet through its computerised accounting system. Customarily, these systems process the data and transform the data into accounting information during input, processing and output stages that can be used by a variety of both internal and external users.

Hence the role of Accounting Information System for effective decision making cannot be over emphasized. It is noteworthy to say here that Accounting Information System derives its source from accounting data. Accounting Information Systems produce results which enhances decision making. Hence, it can safely be concluded that Accounting Information System is not an end in itself but a means to an end i.e. decision making to improve firm performance.

2. Significance of the Study

This research creates a greater awareness to the management of firms and various business managers of the importance of accounting information system for proper internal control of keeping appropriate, complete and reliable set of records and also using AIS for corrective decision making, and operative planning and control of the activities of their businesses.

This research serves as a reference material for the academic community by enhancing the knowledge of readers and those interested to further research in AIS. The government and its agencies will also find this study useful because it will help to improve national policy in relation to efficient AIS.

3. Objectives of the Study

- To determine the effectiveness of accounting information system in decision making of managers on firm performance.
- To evaluate the influence of AIS for effective internal control on firms' performance

4. Literature Review

Accounting scholars argues that strategic success on firm's performance is considered an outcome of accounting information system (AIS), (Bordna, 2010; Fagbemi&Oloaye, 2016). Several studies by various authors have

asserted that AIS plays a proactive role in the strategy management, acting as a mechanism that enables organizational strategy and can also redirect users to the expected actions (Chenhall, 2003; Hall, 2011; & Olatunji, 2013). and control of firm performance and other analysis of the organizational activities (Gelinas, 2012; Azhar, 2013; Susanto, 2016). Present study assumed that firm performance is a function of the financial performance, performance management, and accounting information system and that fitness must exist in the combination of the strategy and AIS to contribute to financial performance.

Several studies have analyzed the role of AIS in strategic management, examining the attributes of AIS under different strategic priorities (Bouwens & Abernethy, 2000). They also have been analyzing the effect of performance of the interaction between certain types of strategies and different design of AIS (e. g different technique and information). The appropriate design of AIS supports business strategies in a way that it increases the organizational performance (Chenhall, 2003). Elena et al. (2010) asserts that increasing AIS investment will be leverage for achieving a stronger, more flexible corporate culture to face persistent changes in the environment. Innovation is the incentive with which a virtuous circle will be put in place leading to better firm's performance and a reduction in financial and organization obstacles while making it possible to access capital market.

Previous studies have revealed that accounting information system adoption does increase firm performance, profitability and operations efficiency in Malaysia, Spain, Finland, Paskitan, and Iran (Damanpour & Gopalakrishnan, 2001; Gullkvis, 2002; Kharuddin et al., 2010; Grande et al., 2010; Kouser et al., 2011). Sajad et al. (2008) stated that implementation of accounting information systems caused the improvement of manager's decision-making process with internal controls, the quality of the financial reports and facilitated the company's transaction. Therefore, the adaptation of internal control techniques is a critical management issue that ensures the usefulness of internal controls and the achievement of operational objectives. Zhang (2007), internal controls aims to ensure the reliability of financial information, the effectiveness and efficiency of operations and the compliance of laws and regulations. The validity of an internal control system affects the significance of internal controls.

Hoitaish & Bedard (2009) stated that the value of internal control influences operational performance through information reliability operational effectiveness. Computerized internal controls have effects on the value of internal controls and performance of operations. The usage of new information technology means computerized controls should be built into the AIS. In conclusion, organization and businesses need to have an adequate internal control to improve the security of accounting information system and security technology for organizational achievement.

5. Relevance of Accounting Information System

Accounting information system importance differs widely as it is adapted across the world, in organizations and businesses, or in the other word as said by Kieso et al., (2011), accounting information are built or designed to be adopted to the conditions and situations that are relevant to the organizations. Accounting information system as a system processes data and transactions to provide users with information they need to plan, control and operate their businesses (Stair & Renoid, 2010). Accounting information systems are observed here according to the views of other authors, (Laudon & Laudon, 2012 & Hall, 2011) as a system that helps management in planning and controlling processes providing relevant and reliable information for decision making. They propose that the function of accounting information system is not only for producing financial reports, its function goes beyond this traditional perception.

Romney & Steinbart (2012) attested that accounting information system should be functioned to include planning and managing business activities. It could also be used as a controlling mechanism such as budgeting. According

to Hall (2011), the value of accounting information to the user depends on how reliable is the information, and information is said to be reliable when it has the attribute of relevance, complete, accurate, concise, and at the right time, and for all of it to happen, it must possess certain relevance attribute as accuracy, completeness, summarization and timeliness as it will be discussed in detailed below as qualities of good accounting system.

O'Brien & Maracus (2010), the relevance of accounting information depends on the quality characteristics of the information required by the user in making valuable decisions and achieving its organizational goals. According to Gelinias et al. (2012) and Susanto (2009), the relevance of accounting information depends on how useful it is for decision making. The same information was also given by Strong et al. (1997), that the information is only relevant if it meets the need of the information consumer.

Accounting information systems are measured as significant organizational mechanisms that are necessary for effectiveness of decision making by the management and control in organizations (Hall, 2012). Studies by Markus & Pfeffer (1983) have shown that "effective implementation of accounting systems requires a fit between three factors. A fit must be attained with main view in the organization or perception of the situation. Secondly, the accounting system must fit when problems are normally solved, i.e. the technology of the organization. Finally, the accounting system must fit with the culture, i.e. the norms and value system that characterize the organization". Systems will be useful when information provided by them is used effectively in decision-making process by users. According to Wilkinson (2000), accounting information system main function is to give a quantitative value of the past, present, and future economics actions. AIS produces the financial statement namely, income statement, the balance sheet, and cash flow statement through its computerized accounting system. The system normally processes the data and convert them into accounting information during input stage, processing and output stages which can be used by a various of users both the internal and external users.

From the above contributions of the relevance of accounting information system, it can be concluded that accounting information system need to be useful and suitable for decision making by the users, and the information should have a distinctive feature that will meet or even exceeds the expectation of the users.

6. Conclusion

It could be concluded that accounting information systems has a momentous outcome on evaluating firm performance. It is evident that failure of internal control system of operations as designed can adversely affect the overall performance of firms, and efficient internal controls should be established with accounting systems in every organisation to achieve their desired goals and improve performance. This could require adequate and elaborate policies for the established system of internal control. It has been found in this study that adaptation and implementation of AIS for internal control system is a very significant management issue that guarantees the usefulness of internal controls, accomplishment of operational goals, improvement in manager's decision making process, the reliability and quality of financial reports and it also facilitated the company's transaction.

In a nutshell, this study has revealed that the development and application of AIS made it possible for companies to support operations with proper control systems to improve operating performance. Companies must adjust their technique and method of internal control in accordance with computerisation (AIS) to improve performance. The implementation of AIS led to a better decision making and effective control system and improved firms' performance.

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