INFLUENCE OF MANAGEMENT ACCOUNTING TECHNIQUES IN DECISION MAKING PROCESS AMONG ACCOUNTANTS IN SRI LANKA

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ABSTRACT: Management accounting techniques provide financial and non-financial information to make precise decisions. There is no accounting standard for any management accounting techniques, therefore accountants use same management accounting techniques differently in the decision making process. Researcher's effort is to see the influence of management accounting techniques in the process of decision makings of 205 Accountants in Sri Lanka. A structured questionnaire was used for this purpose. The researcher uses multiple regression analysis and means score analysis for the study. The multiple regression analysis indicates that there is a significant impact on decision making process by using management accounting techniques. (R^2 =.368, P= 0.000) Accountant in Sri Lanka mostly uses Budgetary Control in the decision making process and further , Ratio Analysis, CVP Analysis, Cash Flow Statement and Target Costing and TQM also make high contribution in the decision making process. The study helped to understand the researcher in importance of management accounting techniques in the decision making process.

Keywords: Management Accounting Techniques, Decision Making Process.

1.INTRODUCTION

Global competition, advanced technology and rapid changes in business increased challenges for managers and executive people to make quickest positive andspecific decisions for the organization. The managers and the other people need proper information and relevant technique to make precise decision on time. The management accounting is a way of presenting information and data to the different level of managers and people in order to make proper decisions and control. Further, the management accounting techniques and information help managers to adopt the changes in the global market as well as challenges from competitors. By conveying pertinent accounting data in time and at less cost, the management accounting system assists management in the formulation of policy, efficient execution of the same, control of performance and decision-making (Iyengar S.P., 2000).

Managerial accounting techniques are essential for any type of organization and to every kind of activities of managers because the each and every decision making process in any organization are linked with economic information, cost and profit. The management accounting techniques link with a specific strategic objective of an organization at a given time and it cannot be separated from any organization. Management accounting develops strategies for achieving goals, evaluate the performance of workers and other managers and make decisions. (YeshminF.andFowzia R, 2010) Managers use management accounting techniques for deciding prices to be charged to their product, whether to remaining particular business unit, branch or product, deciding where to make investment and forecasting return on investment.

Managers or accountants have to apply management accounting concepts toany kind of businesses because each organization deals with economic information, profit making and competition.Management accounting could be applied to organizations that do not make profits such as government sectors, and charity organization. This is because those organizations are also likedwith decision making process, cost control and planning for a specific objective. Hence, an understanding of the concepts of managerial accounting is important to managers in any organization (Louderback, Joseph G and Holmen Jay S, 2003).

The purpose of this paper is to measure the application of management account technique in process of day to day decision making by Accountants in Sri Lanka.

1.1.Literature Review

Management accounting is an accounting related function to managerial people of an organization. The last few years, there have been changes for many businesses and their employees. Many managers have learned that cherished ways of doing business do not work anymore and that major changes must be made about how organizations are managed and how work gets done. (YeshminF.andFowzia R, 2010) These changes address organization to adopt advanced management accounting technique to survive in the market. The changes brought a lot of new method of accounting technique: Total Quality Management, Just-In-Time etc. When properly implemented, these improvement programs can enhance quality, reduce cost, increase output, eliminate delays in responding to customers and ultimately increase profits. (Garrision H. Ray and Eric W. Nore U.J.T.G.Y, 2003) The information need of the organization and manager differ among different sector of organization and size of organization. The practice of management accounting in firms is still questionable because there is no any written rule to adopt the management accounting in the organization. There is a gap between management accounting theory and practice especially in the Asian Countries. There is a perceived gap between the theory and the practice of management accounting, and specially the generally held belief that the traditional wisdom of management accounting textbooks is not widely used in practice. (Cooper D, Scapens R.W and Arnold J, 1983)Thereare some of companies adopted traditional management accounting technique in the day to day process. In general, traditional Management Accounting techniques are still widely used and many organizations have only just begun experimenting with contemporary approaches. (CIMA, Sri Lank, 2005)

It has been discovered that modern techniques like Activity-Based Costing, Target Costing, Just-in-Time (JIT), Total Quality Management (TQM), Process Reengineering and The Theory of Constraints (TOC) are not used in public and private sector manufacturing enterprises but a few Multinational Corporations (MNC) are using some of the techniques like JIT and TQM. Traditional techniques like Financial Statement Analysis, Standard Costing, Cash Flow Analysis, are also being found widely used followed by CVP Analysis, Marginal Costing, Fund Flow Analysis etc. (YeshminF.andFowzia R, 2010)Management accounting practices are very essential to success for the organization and these practices have been used in traditional way in organization. The management accounting includes budgeting, costing, and information for decision making: investment decision, selection of project, relevant and irrelevant costing , strategic analysis and performance analysis.Revolution in management accounting, there are new management accounting technique has been introduced such as balance scorecard activity based costing, target costing, kaizen costing, target costing, Profitability analysis about customer, Economic value addition, Life cycle of product and its costing, Benchmarking, Back flush costing, Constrain theory etc. it is a question about usage or practice of management accounting in day to day operation of the organization.The precise decision makingis essential for any type of organization in the competitive world. So it is needed for any type of organization to use the management accounting technique in the day to day decision making. The decision making process is done by top level managers. The information and data presentation for decision making is presented by mostly accountants; the researcher is interested how the accountants use the management accounting technique in decision making.

1.2.Research Problem

The globalization, advanced technology, financial crises, changes in business environment and competition from local firms and international firms reduced profit margin and urged firms to take meaningful decision as soon as possible with precise and accurate information. Organizations usemanagement accounting techniques for tacking precise decision. The importance of cost and management accounting practices has increased more than ever. (Uyar, 2010)The management accounting practices support in obtaining precise and relevant information in the decision making practices. Management accounting practices enable management to obtain relevant information for meaningful decision making. (Uyar A, 2010) Companies operating in developing countries have also begun to implement cost and management accounting practices which were first adopted by companies operating in developed countries. (Ngingo A.K, 2012) Application of management accounting in less developed countries remains unsatisfactory and studies on this area are rare in the literature. (Lin and Yu, 2002) it is questionable how many firms apply management accounting technique in day to day operation of firms because there is not legal requirement and standard in practice of management accounting techniques. The researcher is interested to see the extend level of practice of management accounting practice and advantage gained through using management accounting techniques by Accountants in Sri Lanka.

1.3.Objectives of the Research

The following are objectives of the study are prepared based on the research problems

1. To measure what type of management accounting technique are practiced by Accountants in Sri Lanka.
2. To identify the extend level of management accounting technique are effective in decision making of Accountants in Sri Lanka.

3. METHODOLOGY

Researcher uses questionnaire received fromAccountants: working among different sectors in Sri Lanka, as the sample for the study. The researcher send 500 questionnaires to Accountants: detailed of Accountants received from directory of CA Sri Lanka, CMA, AAT and ACCA. The researcher requested them if employee of yours firm is more than 50 then fill the questionnaires and send back to the researcher. The researcher received 235 questionnaires and rejected 30 questionnaires: not fully completed, for the research. The sample of the research is 205 from different sectors and different professional qualification holders. The researcher uses Mean Score and Multiple Regression for analyzing data and SPSS statistic software.The researcher followed YeshminF.andFowzia method for analyzing significant management accounting technique in decision making with needed modification.The researcher uses structured questionnaire prepared by YeshminF.andFowzia with necessary alternation on the YeshminF.andFowzia's questionnaire.

4. RESULTS AND DISCUSSION

The researcher looks the impact of management accounting technique in decision making. There are 24 management accounting technique have been used in this research. The researcher first sees which management accounting technique mostly used by Accountants in Sri Lanka. The mean score has been used to measure which management accounting technique mostly used by Sri Lanka accountants. The table 01 shows the significant management accounting technique used in decision making.

The means score analysis says that the Sri Lankan Accountants mostly uses Budgetary Control as an more powerful management accounting technique in the day to day decision making. Further, the results shows the Ratio Analysis, CVP analysis and Cash flow Statement Analysis are most frequently used in Sri Lanka by Accountants. This means the Sri Lankan Accountants uses the selected common management accounting techniques in the day to day decision making process.

Management accounting tool are Target Costing, TQM, Standard Costing, Balance Scorecard, Segment Reporting and Variance Analysis are scored more than 3. This means Accountants in Sri Lanka frequently practice the above management accounting techniques decision making. The result reveals that Differential Costing, JIT, Absorption Costing,ABC, Inter Firm Comparison, Variable Costing, Opportunity Costing, Kaizen Costing, TOC and Fund Flow Analysis are often used by Accountants in management process of decision making.

Other management accounting techniques: Responsibility Accounting, MBE, Process Reengineering and JOC, are very less used in Sri Lanka. The researcher could say that the Sri Lankan Accountants are generally used traditional management accounting techniques in day to day decision making process.

Table 1.*Mean Score for Management Accounting Techniques*

Management Accounting Techniques	Mean Score
Budgetary Control	4.4012
Ratio Analysis	4.3421
CVP Analysis	4.2901
Cash Flow Statement Analysis	4.2109
Target Costing	3.6751
TQM	3.5553
Standard Costing	3.5513
Balance Scorecard	3.3121
Segment Reporting	3.2366
Variance Analysis	3.0534
Differential Costing	2.9609
JIT	2.6712
Absorption Costing	2.6671
ABC	2.6621
Inter-Firm Comparison	2.5451
Variable Costing	2.4291
Opportunity Costing	2.2334
Kaizen Costing	2.2155
TOC	2.1745
Fund Flow Analysis	2.0531
Responsibility Accounting	1.7855
MBE	1.7626
Process Reengineering	1.4532
JOC	1.3514

The researcher used the multiple regression analysis to see the relationship between benefit gained from using management accounting techniques. The table 2 shows result of multiple regression analysis. The R^2 is 0.368, suggesting that around 37% of the variations of benefits gained from management accounting technique is explained by the 24 management accounting techniques. The F ratio, which explains whether the results of the regression model is occurred by chance, had a value of 4.37 (p=0.00) and is considered significant. The regression model achieves a satisfactory level of goodness-of-fit in predicting benefits gained by Accountant in Sri Lanka through 24 management accounting technique.

In the regression analysis, the beta coefficients are used to explain the relative importance of the 24 dimensions (independent variables) in contributing to benefits gained through management accounting techniques (dependent variable). As far as the relative importance of the 24 management accounting techniquesare concerned, the researcher explains variables that have the significantly correlated.

Table 2.*Relationship between Benefits and Management Accounting Technique*

Multiple R		0.494515
R Square		0.368
Adjusted R Square		0.284
Standard error		.43719
F		4.37
Sign F		0.000**
Variable	**Beta**	**Sig p**
Budgetary Control	.555	.000
Ratio Analysis	.520	.022
CVP Analysis	-.427	.029
Cash Flow Statement Analysis	.377	.017
Target Costing	.283	.011
TQM	-.234	.015
Segment Reporting	-.211	.011
Absorption Costing	.187	.021
ABC	-.109	.025

Table 2

*significant at 5, **significant at 10%

The table 3 was obtained the from SPSS regression analysis

Table 3. *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.494515	0.368	0.284	.43719

a. Predictors: (Constant), Budgetary Control, Ratio Analysis, CVP Analysis, Cash Flow Statement Analysis, Target Costing, TQM, Standard Costing, Balance Scorecard, Segment Reporting, Variance Analysis, Differential Costing, JIT, Absorption Costing, ABC, Inter-Firm Comparison, Variable Costing, Opportunity Costing, Kaizen Costing, TOC, Fund Flow Analysis, Responsibility Accounting, MBE, Process Reengineering, JOC

The regression analysis result shows that Budgetary Control, Ratio Analysis, Cash Flow Statement Analysis, Target Costing and Absorption Costing are positively associated with benefit gained. Other ratios are CVP Analysis, TQM, Segment Reporting and ABC negatively correlated with independent variable.

In conclusion, the Sri Lankan Accountants felt thatmanagement accounting techniques are significantly contributed to decision making process of the company.

4. CONCLUSION

The objective of the research is how Accountants in Sri Lanka use the management accounting techniques to make better decision in the decision making process. The researcher used 24 management accounting techniques and requested them which technique are mostly used. It was found that budgetary control was mostly used in decision making process, further, ratio analysis, CVP analysis, target costing and cash flow statement analysis. Some ofmanagement accounting techniques are used very poorly; responsibility accounting, MBE, process reengineering and JOC. The research sample mostly includes listed firms, they may not indicate how small and medium-sized firms use management accounting techniques in day to day operation of firms. The researcher recommends the research should be done only for small and medium firms. Further, the research was carried out only for firms operating in Sri Lanka and the result revealed only for Sri Lankans' firms. So there is a research area comparative research should be done among different countries.

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