

## **Accounting Information Systems: Key factor of Profitability to Small Scale Business**

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**Abstract:** *The purpose of the study was to examine the impact of accounting information systems on profitability level of small scale business. The major problem identified was that, most small scale business do not have accounting information systems which result into continues low performance levels. Descriptive method was used where qualitative data was collected. Secondary data was collected to analyze the impact of accounting information systems on profitability level of small scale business. Research findings revealed that most small scale business do not apply accounting information systems which results into low profits. In addition to that the findings show that there is a positive relationship between accounting information systems and profitability level of small scale business. Accounting play an important role in our economic and social systems especially in its management and great work it does in facilitating management decision process. This study therefore recommends that small scale business should adopt these systems in their business management. The government and policy makers should come up with policies and guidelines that will facilitate the implementation of these systems in the business environment. Such policies could include tax waivers or tax reductions on equipment to be used in these system.*

**Key words:** *Accounting information systems, profitability, small scale business.*

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### **I. Introduction**

Business performance has increased over several years in the world and this performance is mainly measured in the terms of profitability. Businesses contain transactions which generate information for better analysis of business performance and accounting information system is a delivery system for accounting. Accounting information system refer to complete collection of business components that comprises entire inputs, gathering and reporting of financial transactions information. It if from this outcome of the system setup that backs the production and delivery of accounting information system. The aim of this information system is to collect and store data about transactions in order to produce meaningful output for decision making. A well designed and operating accounting system enables an organization to manage its most valuable resources which is information. Accounting systems deals with economic events or transactions, most of these transactions results from day to day operations of the business. The Business transactions can be divided into main type that's external transaction which arises from exchange with the outside world such as purchasing or selling goods and internal transactions which arise from accumulation of the cost data and assignment of the costs of production. To define the discipline further, "costs", can be explained as follows; costs are resources sacrificed or foregone to achieve a specific objective. This means that cost represents given up to acquire goods and services. The end result from the cost accounting is the cost information, which helps in undertaking the following application, stock valuation and profit measurement and assessment of the profitability of product and service. The term profitability is referred to as the ability to make profits steadily over a long period of time. Profits itself means various items to purely different people. The term profit has various perceptions to business men and women, accountants, revenue Authority officials, and economist. Profit is sometimes taken as income accruing to shareholders. To a common man, the term profit refers to all income that flows to the investor. To an Accountant, profit refers to income excess of revenue realized out of cost both manufacturing and other expenses especially operating expenses. For all practical purposes profit is business income taken in the sense of an accountant. However, there is uncertainty in predicting how growing need for accounting information system will change the profitability of small business since the Accounting information system provides a basis for an organization transaction with its vendors, customers and employees. Accounting information system is needed for business goods and services, requested payments and facilitates the transfers of cash. The fact that the most Businesses has not integrated the use of better accounting information systems in their day to day transactions, a

number of issues need to be addressed. Therefore, this study deals with the impact of accounting information system on profitability level of small scale Businesses

## **II. Literature Review**

Due to its importance in economy there are plenty of studies on small scale business and AIS which is the oldest and most important sub-system of MIS. Dalğar,(2014) search to what extent AIS is used in production companies and they carry out a questionnaire in production companies which are in West Mediterranean Region. In this study, it is seen that in production companies every data which is needed in AIS is recorded; the information technology is used effectively in these companies; stock companies use AIS more efficiently than other companies. Akgün and Kılıç (2013) discuss AIS and MIS in conceptual basis in their study. They carry out a questionnaire to determine the efficiency of AIS in Tuz Lake (Salt Lake) businesses. According to the result of this questionnaire AIS provides information for internal and external users. It is also seen that AIS has a positive effect on the efficiency of the business management. Yazıcı (2010) makes a research about the effects of AIS on managerial decisions in SMEs in the Erzurum Organized Industry Zone. According to his research results when businesses get larger, the number of personnel and the level of technology use increase, AIS is used more efficiently in managerial decisions. Gökdeniz (2005) states that AIS is the most important sub-system of MIS The input of AIS is recorded more easily by computerized system and the output is reliable and certain. Also AIS education provides many advantages to the businesses. Mizrahi (2011) focus on the effective use of AIS in SMEs. According to her study the SMEs in İzmir only use 35% of their AIS knowledge in their managerial studies. In their study Allah, et al., (2013) aim to show to what extent small businesses use AIS and states that small businesses are unwilling to use new technology in their businesses. Gray (1991) in his study emphasizes on subjective preferences and states that in traditional IS/AIS selection approaches; they do not consider personal preferences. In his study Fink (1996) finds out that some businesses use.

## **III. Objectives Of The Study**

The major objective aim is to examine the role of accounting information on small scale business profitability and performance.

Other specific objectives aimed to be achieved are:

1. To examine the importance of accounting information in small scale business.
2. To determine the extent to which accounting information have been implemented and applied in
3. Analyze the relationship between accounting information & small scale firm performance.

## **IV. Methodology**

This includes data collection, sources of data, data processing and data analysis, limitation that the researcher faced. The research was designed in such way that it helped the researcher to obtain analytical and descriptive research design, largely based on documentary review, such as company's records, Journals, business reports, internet, textbooks, magazines, newspapers, etc. Data was processed and analyzed by making reference to the available existing literature so as to compare and contrast different opinions presented by different authors so as to identify gaps that exist in available literature.

## **V. Limitations Of The Study**

As with all studies, limitations exist and must be acknowledged. Moreover, the outcomes were based on the information solicited from the respondents and such might be subjected to human errors, omissions and possible misrepresentation.

The limitations of the study are as given below:

- a)First of all time did not allow the researcher to glean information from all the Small scale business enterprise.
- b)The study could not show the whole scenario of the all small scale business in Bangladesh.
- c)Because the sample is chosen from the one state of Bangladesh. That's why the findings and analysis is varying slightly in organization to organization.
- d)The questionnaire was not understood by some respondent.
- e)Some respondent did not give enough concentration to understand the significant of analysis.

## **Accounting Information Systems**

An information system is a formal process for collecting data, processing the data into information, and distributing that information to users. The purpose of an accounting information system (AIS) is to collect, store, and process financial and accounting data and produce informational reports that managers or other interested parties can use to make business decisions. Although an AIS can be a manual system, today most accounting information systems are computer-based. An accounting information system consists of the people, records, and methods used to gather financial information about business events, record it, process it into a useful form, and

communicate the information to end users and decision makers. In other words, an accounting system is everything and everyone involved in collecting, recording, and organizing financial transactions for the company.

**Small scale Business**

A small scale business is a business that employs a small number of workers and does not have a high volume of sales. Such business are generally privately owned and operated sole proprietorships, corporations or partnerships. Small business as those which are owned and controlled by one or a few persons, with direct owner(s) influence in decision making and having relatively small share of the market in the applicable industry. Small business being independently owned and operated with small capitalization which come from small individual and cannot command high market share.

**Profitability**

The term profitability is referred to as the ability to make profits steadily over a long period of time. Profits itself means various items to purely different people. The term profit has various perceptions to business men and women, accountants, revenue Authority officials, and economist. Profit is sometimes taken as income accruing to shareholders. To a common man, the term profit refers to all income that flows to the investor. To an Accountant, profit refers to income excess of revenue realized out of cost both manufacturing and other expenses especially operating expenses. Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company’s capability of generating profits from its operations. Profitability is one of four building blocks for analyzing financial statement and company performance as a whole. The other three are efficiency, solvency, and market prospects. Investors, creditors, and managers use these key concepts to analyze how well a company is doing and the future potential it could have if operations were managed properly.

**VI. Findings**

**A. Findings about Application of Accounting Information Systems in Small Scale Businesses**

According to the research findings, it shows that many small scale businesses do not apply accounting information systems in their businesses which resulted into poor performance levels as a result of lack of business information records keeping . In addition to that, issues like fluctuations in demand, or change in customer’s attitude towards certain product or services cannot be easily forecasted or easily determined by management. It was further found that it’s very difficult for small scale businesses to predict systems that process data into a decision oriented format which may help them in making a corrective business decisions for example the use of “what if” systems which uses lotus 1-2-3 which leads to efficient and fast completion of work and also helps in handling voluminous work.

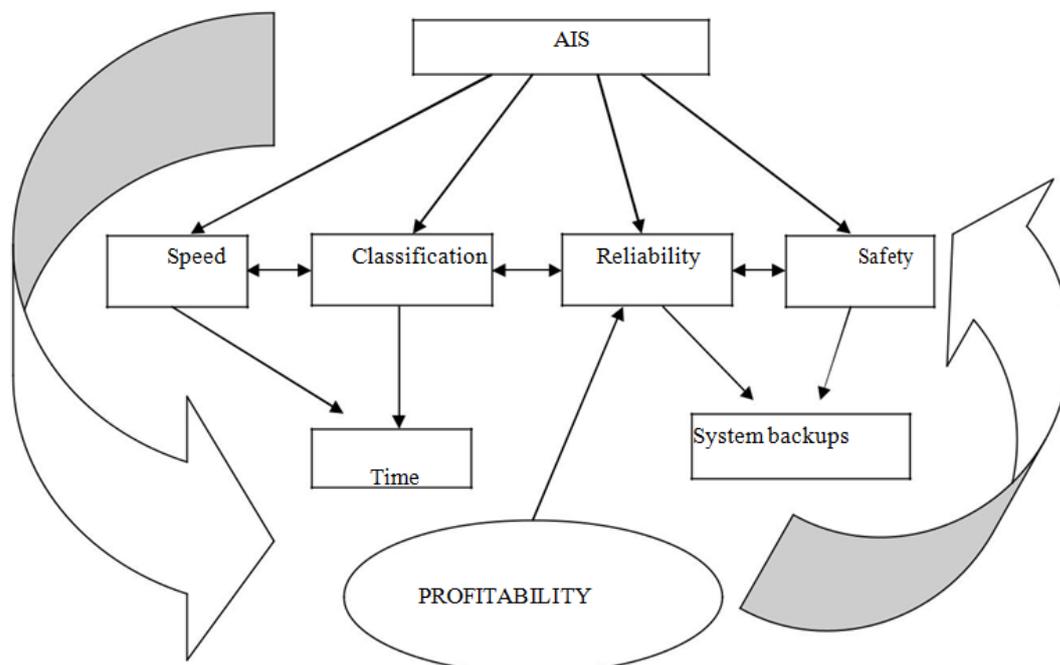


Figure 1: Research Model For Ais.

It has been shown in the model that, accounting information systems (AIS) has a direct impact on profitability level of small scale businesses as it speeds in processing data. Data is easily classified in more detailed fashionable way which resulted into time saving. It is also noted the system is more reliable and safe since it always have backups which may be retrieved any time when information is needed. In addition to that, when small scales businesses use accounting information systems, profits are realized in both short and long run of the business operation hence going concern. According to the findings it has been shown that issues like standards costing systems, economic order inventory modals do not work in small scale businesses.

#### **B. Findings about Profitability Levels of Small Scale Businesses**

According to research findings, 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 over a given period of time. Therefore, findings on profitability ratios like return on sales or profit margins which are used in business enterprises to ascertain profit proportions on income. These profitability ratios are totally neglected by small scale businesses because of lack of technical knowhow. In addition to that, it has also been noted that small scale businesses have difficulties in making performance comparison with other firms to assess its competitiveness. Results also show that, small scale businesses are not capable of raising the required capital or funds to list their companies or businesses on the stock exchange market. Many small scale businesses do not operate under government procedures. They are anonymous and therefore, it is hard to trace their legal operations on the business platform.

#### **C. Findings on the Relationship between Accounting Information Systems and Profitability of Small Scale Businesses**

The findings show that there is a positive relationship between accounting information systems and profitability level of small scale business. Accounting play an important role in our economic and social systems especially in its management and great work it does in facilitating management decision process.

### **VII. Discussion**

It was noted that small scale businesses do not apply accounting information systems in their businesses which resulted into poor performance levels as a result of lack of business information records keeping. Most small scale businesses realize after a long period of time that their businesses are not doing well and they end up closing or bringing their businesses to an end and this is all because of lack of proper business records. Business information records are reliable and safe only when proper documentation is backed up in case of any data loss. This is not the case with small businesses, they don't have records and even if they have sketch ones they are not able to document properly for future use. In addition to that, when AIS is not put into consideration it has also been shown that issues of fluctuations in demand, or change in customer's attitude towards certain product or services cannot be easily forecasted or easily determined by management. By understanding changes in demand, one can help the business personnel to add values to goods or services even to diversify or totally shift to a different business which can help to bring more profits. Also, it's very difficult for small scale businesses to predict systems that process data into a decision oriented format which may help them in making a corrective business decisions. For example, the use of "what if" systems which uses lotus 1-2-3 that leads to efficient and fast completion of work and also helps in handling voluminous work. This system was sought to encounter vigorous customers' due dates to avoid business losses that would arise as a result of many customer orders. It is very important for business to adopt a system that speed up sales, hence earning profits. To reduce the cost of inventories, small businesses have to use inventory management techniques likes "first in first out"(FIFO), "last in first out" (LIFO) and weighted averages. First in first out (FIFO) means what come in first must also be the first to be sold or used while last in first out (LIFO) means what comes last must be sold first and weighted averages is the average cost of goods for a particular time. These methods are very important to be followed by small businesses since they help business people to avoid loses but rather gaining more profits. Unfortunately that is not how things are out done there; small businesses do not use/follow up these methods, which resulted into losses in many of small businesses in the area. Profitability ratios like return on sales, return on asset and return on equity are totally neglected by small scale businesses because of lack of technical knowhow. These ratios is what give a true value of business, and also helps in ascertaining profits which is a guide to business owners to determine whether the business is making progress. In addition to that, it has also been noted that small scale businesses have difficulties in making performance comparison with other firms to assess its competitiveness. For example, it's hard to compare its first year of operation with its margin of business progress in the 4<sup>th</sup> or 5<sup>th</sup> year of business to determine a true picture of its performance. This is because they do not use information systems.

From research findings it is also noted that, small scale businesses are not capable of raising the required capital or funds to list their companies or businesses on the stock exchange market. The ratios give a true picture of business size. It also provides information regarding share ratios to be reported in the financial press. This helps in determining differences in earnings per share which help in determining the size of dividends that the business can pay to its shareholders. It is also been noted that, it is difficult to ascertain product cost information about all cash disbursements made by the small scale businesses. In the same note, business disbursements are not usually recorded. Small scales businesses should start keeping records regarding product or service to determine their business performance.

### **VIII. Recommendation And Conclusion**

Considering all different elements of accounting information system, it has been noted that the system is of great importance in business especially in its management. It helps in facilitating management decision making process and in this case, accounting system should be credited for the great values it adds to business. If all measures of profitability are to be implemented in business management, then information generated will be very ideal and useful in business operations. Addition to that, accounting information systems (AIS) plays an important role in our economic and social system. The research is therefore useful to all present and future business managers to use the system for proper management and implementation of their businesses.

According to the research findings, it has been shown that accounting information systems were not used by small scale businesses. Therefore, the researcher recommends that small scale businesses should adopt these systems in their business management for their businesses to progress. In addition to that the businesses that have already implemented these systems should also train all their staff in efficient use of the systems especially the use of computerized systems.

It is also recommended that the government should come up with policies and guidelines that will facilitate the implementation of these systems in the small scale business environment. Such policies should include tax waivers or tax reductions on equipment to be used in these systems. Policy makers should be provided with information in assessing the relationship between accounting information systems and profitability of small business, hence making better policies regarding information technology facilities. It is also necessary for business organizations to adopt the use of other measures of profitability like cost profit volume analysis since it is more user-friendly and easily adaptable in the small scale businesses.

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