# Effect of Accounting Information System on Financial Performance of Firms: A Review of Related Literatures

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## Abstract

*In today's world, Accounting information system is an absolute tool in the hands of managers striving to remain in a competitive advantage amidst the rapid technological advancement, increased awareness and challenging demands from customers and business owners. This study seeks to evaluate the effect of Accounting Information System on Financial Performance of Firms, using a review of empirical literature approach. By means of an exploratory research design, the study concludes that the biggest impact Information technology has made on accounting is the ability of companies to develop and use computerized systems to track and record financial transactions in facilitating management decision making, internal controls, and quality of the financial report. The study therefore recommends that the utilization of Accounting Information system, in other to continue to drive effective performance that can sustain productivity, must remain a focal point in every organization.*

Keywords: Accounting Information System, Performance, ICT Infrastructure

## INTRODUCTION

Accounting information system is an absolute tool in the hands of managers striving to remain in a competitive advantage amidst the rapid technological advancement, increased awareness and challenging demands from customers and business owners. This review examines the effect of accounting information system on financial performance of firms. The main objective is to review conceptual and theoretical foundations as well as empirical literature relating to accounting information system. Accounting information system according to Manchilot (2019) may be a computer-based electronic system used for collecting, storing, processing and communicating financial and accounting data through financial statements with the aim of supporting and guiding organizational decision making process. Computers are the hub of accounting information as they provide a platform for the workability of all information systems. For an accounting information system to be operational, its appropriate software application must be on the computer system intending to be used. Financial performance is a critical turning point for prosperity of any financial institution. Many AIS have been adopted and used to ensure effectiveness of AIS on financial performance. Currently, most organizations continue to increase spending on information system and their budgets continue to rise. Moreover, economic conditions and competition create pressures about costs of information. Generally, information system is developed using information technology to aid an individual, government institutions and parastatals in performing their job Wilson Ayabei (2020). However, reviewing related literature for appraisal purposes form part of this study objective is to look at effect of accounting function information system on financial performance of firms

## LITERATURE REVIEW

### Accounting Information System

Amos I. Ganyam, John A. Ivungu (2019) conducted a study on the Effect of Accounting Information System on Financial Performance. The study is a literary review, the review views *a*ccounting information system as an absolute tool in the hands of managers striving to remain in a competitive advantage amidst the rapid technological advancement, increased awareness and challenging demands from customers and business owners.

### Financial Performance

Existing literature offers scant evidence of the relationship between these AIS and financial performance Oguntimehin, (2001); though it is important to highlight the study made by Elena Urquia Grande, Raquel Perez Estebanez and Clara Munoz Colomina (2010) which discovered a positive association between AIS design and organizational strategy and performance. Pandey (2004). defines financial performance as a subjective measure of how well a firm uses assets from its primary mode of business to generate revenues. He further says that the term can also be used as a general measure of a firm's overall financial health position over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

**Timeliness and Financial Reporting**

Timeliness of financial reporting is an essential part in determining the relevance of accounting information. With reference to timeliness, the International Accounting Standards Board (IASB) considers timeliness as a crucial part in financial reporting. The timeliness of financial statements is an essential qualitative characteristic of financial reports as identified by Imam (2001). According to Ismail and Chandler (2004), information that is disclosed on time provides more valuable information to users of financial reporting. The need for timely information to the users of financial reporting will enable them to make prompt review as to further contribute their financial performance.

**Transparency**

Transparency is one of the virtuous elements in corporate governance (OECD, 1998) which includes timeliness of financial reporting Kulzick and Raymond, (2004). According to Dezoort and Salterio (2001), timely institutional financial reporting is an important qualitative element and an essential component of financial performance. This is because it determines relevancy of the information and influences the decisions made by the users of the financial report. The level of financial voluntary disclosure may be able to affect institution's financial performance Hassan (2008). In addition, it facilitates ease of auditing by both internal auditors and external auditors leading completion of audited financial report in advance.

**Empirical Review**

Augustine et al. (2014) examine the impact of accounting information systems on profitability level of small scale businesses in Kampala city, Uganda, East Africa. The Major problem identified was that, most small scale businesses do not have accounting information systems which result into continuous 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 businesses. Research findings revealed that most small scale businesses do not apply accounting information systems which result 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 businesses. Accounting plays an important role in our economic and social systems especially in its management and great work it does in facilitating management decision making process. This study therefore recommends that small scale businesses 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 systems.

**Theoritical Discussion**

**Contingency Theory**

This suggests that AIS should be designed in a flexible manner so as to consider the environment and organizational structure confronting an organization. AIS also need to be adapting to the specific decisions being considered. In other words, accounting information systems need to be designed within an adaptive framework. The first paper to specifically focus on the contingency view of AIS in the accounting literature was "A Contingency Framework for the Design of AIS,Gordon and Miller, (1976). This paper laid out the basic framework for considering AIS from a contingency perspective. Gordon and Narayanan (1984) concluded that environmental uncertainty is a fundamental driver for designing management accounting systems among successful organizations. A key finding in this study was that, as decision makers perceive greater environmental uncertainty, they tend to seek more external, non-financial and ex ante information in addition to internal, financial and ex post information. The basic contingency framework consists of environment factors and institution-specific factors that affect to competitive strategy. The competitive strategy is effectiveness of AIS affected by scope, timeliness, level of aggregation and integration. Finally, effectiveness of AIS affects effectiveness of financial performance

**Activity Theory**

Activity theory is an approach to understanding human work and technology which emphasizes the long-term well-being of workers or users. Eschewing "one best way" task design for user- determined task procedures, action theorists seek to design work practices that are enriching and that lead to development of skills and knowledge. Activity theorists argue that acceptance of technology is contingent on the extent to which it meets these goals in the context of the user's own work. Activity theory largely aligns itself with the broad humanistic aims and the methods of the socio-technical approach. It is at least partially distinguishable by its emphasis on the product of the organizational process which characterizes socio-technical systems thinking Martin and Leben (1989).

## METHODOLOGY

By means of an exploratory research design, using a literature review approach, this study examines the effect of Accounting Information System on Financial Performance of Firms.

## RESULT AND DISCUSSION

This study being an exploratory approach, with emphasis on empirical review, draws its discussion from further empirical review. Such review includes those of Hla and Teru (2015) who examined the efficiency of accounting information system on performance measures. The study employed an exploratory approach solely relying on secondary data. Findings revealed that the biggest impact Information technology has made on accounting is the ability of companies to develop and use computerized systems to track and record financial transactions in facilitating management decision making, internal controls, and quality of the financial report.

Patel (2015) investigates the impact of AIS on the profitability of an organization. The study employed an exploratory research method making use of solely secondary data. Findings from the review of literature revealed that there is a positive significant relationship between the accounting information systems used by the enterprises and its profitability. The study concluded that the effectiveness of accounting information systems helps in 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. Saeidi (2014) examines the impact of accounting information systems on financial performance. The study employed a survey research design and obtains data from 40 top managers in Tata consultancy services (TCS) companies in India through questionnaire. The study analysed the collected data using the statistical package for social sciences (SPSS) and uses the one samples t-test statistics to test the hypotheses. Findings revealed that accounting information system has a significant relationship with knowledge and understanding of managers and accountants, decision making, financial performance and organizational resources. The study concluded that there is a positive relationship in Knowledge and understanding of managers and accountants, decision making, financial performance and organizational resources.

## CONCLUSION AND RECOMMENDATION

The study concludes that the biggest impact Information technology has made on accounting is the ability of companies to develop and use computerized systems to track and record financial transactions in facilitating management decision making, internal controls, and quality of the financial report. It is therefore recommended that the continuous u.se of requisite ICT infrastructures that makes up an Accounting Information System, which will lead to more effectiveness and productivity in firms must remain a focal point

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