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THE ROLE OF MANAGEMENT ACCOUNTING IN NON-PROFIT MAKING ORGANIZATIONS: A CASE STUDY OF THE UNIVERSITY OF ILORIN, NIGERIA

IBRAHIM, Kamaluddeen Funsho Adisa¹, NOAH, Abdurafiu Olaiya² & BAMIGBADE, Dayo^{3*}

¹Department of Accounting, University of Abuja, Nigeria.

^{2&3}Department of Accounting, University of Ilorin, Nigeria.

Abstract

The rate of unawareness exhibited by overseers of most non-profit making organizations about the indispensable tasks performed by management accounting is so alarming that it needs to be imminently addressed. This concern was noticed more in the University system in Nigeria in spite of the facts that some techniques of management accounting are being applied by the preparers of accounting records in the University system. This study examined the perceptions of Bursary staff in the University of Ilorin, concerning the role of management accounting using quantitative methods to collect and analyses the data. Questionnaires were successfully administered on forty (40) respondents to seek their views in this regard. The maximum response to each question is 5 and this gives an expected mean score of 2.5. Using students t- distribution statistic, the value of each question was calculated around this expected mean. The result was then compared with the tabulated or critical-t value which gives 2.04. This was used to test the formulated hypotheses. The study revealed that management accounting performs useful functions in the organizational process of strategy formulation, control and change. Consequently, some policy options which include continuous enlightenment of non-profit organizations through retreats/seminars/workshops, issuance of a Statement of Accounting Standards on Disclosure of Managerial Accounting Information to enhance quality of managerial accounting information provision, are given to help reverse this unawareness.

Keywords: Management accounting, non-profit making organization, accounting information disclosure.

1. INTRODUCTION

Over the past forty years, management accounting has been developed as a practical aid to business managers and as a subject for academic teaching and research (Scapens, 1991). Before the Second World War, the primary focus of management accounting was the determination of costs, with particular emphasis on product costing and control of direct labour, direct materials and overheads. After the Second World War, there was an increasing awareness of the view that cost information in particular, and accounting information in general should be appropriate to the needs of users, especially managers. Barbera (1996) identified three main uses of accounting information which managers considered important:

Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.

store keeping, attention directing and problem solving – all concerned with aspects of management of organizational performance. This point was buttressed further as Burns and Vaivio (2001) state that advances in information technology have driven innovation being experienced in management accounting. However, many scholars, institutional and professional accounting bodies explicitly recognized this change in the perceived nature of the management accounting functions (Seal et al., 2009, Saeed, 1996; ICMA, 1972).

Saeed (1996) further contends that nuance literature shows that management accounting expanded rapidly in the 1960's as researchers first developed, and then refined new techniques for providing accounting information to management. Scapens (2006) observed that management accounting researchers came to recognize the gaps between theory and practices in the 1970s. This suggests that management accounting is seen as adapting to change, embracing information provision as well as assisting organizations to maintain strategies and distinctive competences. For instance, the Institute of Cost and Works Accountants (ICWA) changed the name of its journal from 'Cost Accounting' to 'management accounting' in 1965 and its own name to the Institute of Cost and Management Accountants (ICMA) in 1972. Also, in the United States, the National Association of Cost Accountants (NACA) has changed its name to the National Association of Accountants (NAA) in 1958.

Herzlinger (2002) envisioned that all organizations require the assistance of management accountants, whether profit making or not. Seal et al. (2009) observed that there are evidences to show that management accounting practices are tending towards globalization. In this case, it was observed that the services of management accountants have cut across the globe. For instance, Herzlinger (2002) argues that non-profit and government organizations require the assistance of management accountants even more than the business organizations. He argues further that for quite some time, management accountants have not been accorded the necessary position and are often seen as largely missing in action when it comes to non-profit making organizations. This problem contributes to lack of accountability information needed to enable them plan and evaluate their activities. Despite the argument of some scholars that the development and use of management accounting techniques are dynamic in nature (Scapens, 2006). It is on this note that the role performed by management accounting in non-profit making organizations is deemed worthy of an empirical study of this nature in order to helping the overseers to understand, evaluate and guide their organizations.

The prime focus of this paper is to fill this gap by examining the role of management accounting in non-profit making organizations, using University of Ilorin, Ilorin as a case study. This study examines further the views of Bursary and Staff of the University of Ilorin, on the role of management accounting in non-profit making organizations. This is due to their active participation in overseeing the preparation of the management of accounting techniques the study is justified based on the fact that there seems to be limited public awareness of management accounting in non-profit making sector in Nigeria. This paper is thus, a contribution to an existing research work on this area of study conducted by Herzlinger (2002). This study seeks to examine, management accounting role in non-profit making organizations, with particular reference to the University of Ilorin, Ilorin. For this study, the research questions to be formulated are: Does a management accountant's role in non-profit making organizations fulfill three core objectives of store-keeping, attention-directing and problem solving? Do non-profit making organizations require managerial accounting

Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.

information for planning and controlling their activities? What are the perceptions of the accounting professionals in Bursary Department of the University of Ilorin on the term “non-profit making organizations?”

The study is presented as follows: Section 1 discusses the circumstances that led to the role of management accounting in non-profit making organizations; while section 2 examines the literature review and the theoretical framework of the study. In section 3, the paper discusses the research methods while section 4 highlights the results and discussions and section 5 concludes and highlighted the policy recommendations from the study.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

According to Malomo (1986), management accounting is one of the least understood and possibly poorest defined terms employed in business. An understanding of the nature and theory of management accounting process is therefore, essential in order to appreciate the vital role that it plays in any organization whether profit making or non-profit making. Seal et al., (2009) corroborate this assertion as it was argued that unlike financial accounting, management accounting is relatively sophisticated and provide the essential information needed in any given organization. It then follows that any information which could be useful to managers and which is evaluated in monetary terms could be a management accounting responsibility. Although, the precise line between profit and non-profit organizations is somewhat fuzzy (Seal et al., 2009), however, and for the purpose of this paper, the following definition has been provided by Anthony (1980) which corresponds approximately to that in most state statutes:

“A non-profit organization is an organization whose goal is something other than earning a profit for its owners. Usually, its goal is to provide services”

From the above definition, it can be summarized that in non-profit making organizations, decisions made by management are intended to result in provision of the best possible services with the available resources; and success is measured primarily by how much services the organizations provide and how well these services are rendered. Anthony, (1980) further accentuates that the following basic characteristics of non-profit making organizations affect management functions: - The absence of a profit measure; Their tendency to be service organizations; Constraints on goals and strategies; Less dependence on clients for financial support; The dominance of professionals; Difference in governance; Difference in top management; Importance of political influence; A tradition of inadequate management controls

On the other hand, Omoregie (2000) identifies the following challenges facing management accountants in non-profit making organizations: Establishing the organizational objectives and goals; Acquiring the resources needed to attain these goals and objectives; Setting of performance benchmarks; Allocating the available resources among different activities so that objectives are achieved. These challenges indicate that a management accountants' role in the management process covers the interactive functions of planning, organizing/directing, controlling and decision making as enunciated below by Herzlinger (2000); Management accountants aid managers in planning by providing reports which estimate the effects of alternative courses of action on an organization's ability to achieve

Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.

desired goal. Management accountants help in organizing and directing functions by providing reports which allow them to adjust daily operations for changing conditions. Allow them to adjust daily operations for changing conditions. Management accountants also assist in controlling operations by providing performance report of variances between expected and actual operating results. Management accountants make available the basic information which the management needs in selecting among alternative course of action. This was noted in the view of Seal et al., (2009) as they state that management accounting is designed to provide information the people who direct and control the operations of an organization.

To be precise, Herlinger (2002) is of the view that managerial accounting thus, provides information for all four basic functions of the management process. Without this information, it would be difficult for overseers of non-profit organizations to man their affairs efficiently and effectively accounting for rendering of services in non-profit making organizations seems less complex than accounting for the production of goods. According to Berbera (1996), for planning and controlling the operations of a non-profit entity, relevant managerial accounting concepts and procedures such as job order cost accounting system, budgeting, responsibility accounting, standard costing and pricing (setting professional fees) becomes imperative. This is because proper application of these concepts assists in providing useful information for management. The principle of usefulness to management however, is the primary criterion for the preparation of managerial accounting reports (Warren and Fees 1989). To be useful, it is explained that managerial accounting information/reports should possess the characteristics of Relevance, Timeliness, Accuracy, Clarity and Conciseness (Seal et al., 2009).

3. METHODOLOGY

This section offers a general procedure followed in carrying out this study. It provides information about the methodology adopted, description of the population, the sample size and method of selection, the types and sources of data, and the statistical tool of analysis adopted. The population studied in this research consists of the accounting professionals in the Bursary Department of the University of Ilorin. A sample size of 42 respondents is used in this study. In the choice of this size, the researcher took into consideration the population size, nature of population, the purpose of the study and the degree of accuracy desired. The method of selection is the judgment sampling technique. According to Soyombo et al. (2002), this technique permits researcher to select sample units from the population based on such researcher's knowledge of the population.

Data collected from the questionnaire which was distributed by hand is divided into two sections. Section A sought to elicit demographic data from respondents while section b consists of research questions. This is a structured closed ended type based on the Likert attitudinal scale of 5, 4, 3, 2, and 1 points reach, indicating the level of agreement or disagreement with the statements of research questions. A summary of respondents' opinions from the questionnaire distributed was done using both descriptive and inferential statistics. The mean and standard deviation were descriptive statistics used while the inferential statistics is the students't-statistics at alpha level of 5% and (n-1) degree of freedom. The formula for student –t statistic adopted is expressed as:

$$t = \frac{\bar{x} - \mu}{s\sqrt{n}}$$

Where $\bar{x}$ = mean

μ = population mean

n = number of items in the sample

s = Standard deviation

The student t-distribution adopted by the researcher become imperative owing to the smaller nature of the sampled respondents. The researcher also observed that the arithmetic means of the sampled respondents are not normally distributed.

To provide answers to the research questions and pursue the above-stated objectives, the following hypotheses were formulated:

Hypothesis I

H₀₁: Management accountant's functions in non-profit making organizations do not significantly fulfill three core objectives of store keeping, attention directing and problem solving.

H₀₂: Non-profit making organizations do not require managerial accounting information for planning and controlling their activities.

In a non-profit making organization, using University of Ilorin as a Unit of analysis. To obtain reliable and factual results, the study is however confined to the accounting professionals in Bursary Department of the University.

4. RESULTS AND FINDINGS

Data so obtained in section three of this research are subjected to statistical analysis in this section using both the descriptive and inferential statistics.

Table 1: Distributions of Respondents

Qualification	Frequency	Percentage
MBA	10	33
B.SC/H.N.D.ONLY	14	47
ICAN/ANAN	6	20
TOTAL	30	100

SOURCE: Field Survey 2008

Table 1 above show that 33% of respondents have MBA qualifications while most of the respondents represented 47% have either first degree or H.N.D. qualification. The remaining 20% are professionals.

Table 2 Distribution of Respondents by length of Service

Department	Frequency	Percentage
5-10 years	8	27
10 years and above	22	73
Total	30	100

Source: Field Survey 2008

Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.

Table 4.2 above indicates that 27% of the target respondents have 5-10 years working experience while the remaining 73% have served the University for at last 10 years.

Table 3: Distribution of respondents by Departments

Department	Frequency	Percentage
Bursary	22	73
Audit	8	27
Total	30	100

Source: Field Survey 2008

From the above table 4.3, it was observed that about 73% of respondents belong to Bursary Department while the remaining 8 respondents represented by 27% are Internal Audit Staff of the University respectively; and the remaining 2 respondents holding the status of Auditor 1 represented by 7%.

4.2 Statistics of Respondents' Responses to Research Questions

	Questions	Mean	Std	t-stat
1	Management accountants' functions significantly fulfil the core objective of store-keeping, attention directing and problem solving	4.8	0.41	30.67
2	Non-profit making organizations require managerial accounting information for planning and controlling their activities	4.77	0.43	28.73
3	Managerial accountants significantly assist in cost minimization and revenue generation in non-profit organizations	3.93	0.37	21.03
4	Do you think the term "non-profit" does not refer to those organizations that have failed to make profit?	4.93	0.25	52.83
5	Do you think the term "non-profit" refers to those organizations whose goal is something other than profit making?	4.90	0.31	42.11
6	Absence of managerial accounting information gives room for accountability shortcomings	5.66.	1.04	16.63
7	Non-profit organizations need the assistance of management accountants than business organizations	4.00	0.59	18.89

SOURCE: Field Survey 2008

Question 1 was responded to, with a mean score of 4.80 out of a maximum of 5.00, standard deviation of 0.41 and t-statistic of 30.67 at an alpha level of 5%. The tabulated t-test is 2.04 which is lesser than the critical value. Thus, the null hypothesis should be rejected. Question 2 was responded to with mean score of 4.77 out of a maximum of 5.00, standard deviation of 0.43 and t-statistic value of 28.73. At an alpha level of 5%, the tabulated t-test amounted to 2.04 which is lesser than the critical value. The null hypothesis should also be rejected. For question 3,4,5,6,and 7, their mean scores of 3.93,4.93,4.90,5.66 and 4.00 respectively, are statistically significant, which also constitute a basis why their respective null hypotheses should be rejected. The above statistical evidences suggest that management accounting has significant role to perform in non-profit making organizations like in profit making organizations.

Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.

5. CONCLUSION AND RECOMMENDATIONS

The paper has identified the main role performed by the management Accounting in non-profit making organizations. By so doing, it has shown that such role centers around planning, directing/organizing, controlling and decision-making. Theoretical framework for examination of the issues concerning managerial accounting functions in non-profit making entities was also done through literature review. A methodology of such evaluation was evolved and tested in order to measure the validity or the otherwise, of the results. Data relating to the perceptions of management accounting role by respondents were gathered and tested. The results revealed that management accountants have vital role to play in non-profit making organizations in Nigeria. No matter how much a researcher may try to make his methodology error-free, some imperfections due to extraneous factors are bound to emerge. Some of the problems encountered in this study include: Some Bursary staff respondents see Management Accounting responsibilities in non-profit making entity like University of Ilorin as an additional burden and are therefore not too enthusiastic towards the research. Financial and time constraints are real problems and were worsened by late release of the completed questionnaires by some respondents.

Based on the findings from the study, it can however be concluded that management accounting functions is value-adding participation in organizational process of strategy formulation, control and change. Management accountants have important tasks to perform in non-profit organizations particularly, in the areas of participation in resource related direction setting, support of organizational change processes, contribution to the design, implementation and review of performance measurement and control systems as well as contribution to the development of performance-based, user focused information systems.

The management accounting role is being challenged by experts/professionals from other disciplines such as systems analysts, operational researchers, managerial economists, information technologists, etc. To be able to cope with these challenges, management accountants in non-profit making organizations must be more conversant with sufficient skills and knowledge of range of other disciplines to ease provision of the relevant accounting information at the right time. As part of the strategies for sustainable development in non-profit making organizations, management accounting role must satisfy the following conditions to cope with the dynamic socio-economic environment: The need for provision of information that is non-financial in nature, particularly in human factors. Judicious utilization of forecast. The need to be more conservative in cost allocation. The need to increase the frequency of reports to reflect the changes in the environment. Enlightenment campaigns such as Seminars, workshops, etc on management accounting role are imperative in non-profit sector of the Nigerian economy owing to their need to be more socially responsible. Lastly, it is recommended that the Nigerian Accounting Standards Board should issue a Statement of Accounting Standard on Disclosure of Managerial Accounting Information. This would undoubtedly enhance the quality of managerial accounting information provision necessary to further facilitate cost and benefit analysis in the management decision making process.

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Corresponding Author: +2348060204537

Email address: dayobamigbade@gmail.com.