Surveying the Effect of Qualitative Characteristics of Accounting Information on Improvement of Management Decisions

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ABSTRACT: The main purpose of this study is the effect of qualitative characteristics of accounting information on management decisions. Accounting information is intended as a tool for management decisions. The purpose of developing accounting information is to help managers make better decisions. To determine the effect of qualitative characteristics of accounting information on management decisions, first, a review of extensive, theoretical research has been developed. Then, statistical methods are used to confirm the hypothesis of two independent T-test and two-way analysis of variance. The population includes 200 people of faculty member of Islamic Azad University, Khorasan province¹. The results show that Qualitative characteristics of accounting information include: understandability, relevance, verifiability, comparability, consistency, and cost-benefit improve the decision making of managers.

Keywords: Qualitative Characteristics of Accounting Information, Decision making, Managers

INTRODUCTION

The success of any organization depends on its managers. The organization will achieve its goals if managers do their tasks properly. Therefore, they often have to make decisions while doing their tasks. They encounter problems in performing their duties, and must identify the different solutions and choose the best one.

Nowadays, organizations are faced with complex and drastic changes, due to width of organizations, technology development and changes in production systems. For these reasons, managers cannot run their organizations using personal information. To make accurate decisions, they'll need accounting information. Accounting information should possess quality characteristics in order to assist managers in making decisions. Accounting system will impose costs on the company if the accounting information does not contain the necessary features, and does not affect the directors' decisions. Therefore, the quality of accounting information is very important and it must be taken into greater consideration (Bahramfar & Rasoli, 1998).

Qualitative characteristics

Qualitative characteristics of accounting information are the attributes and qualities of accounting information, which increases its usefulness and effectiveness (Hendrickson, 1992). Qualitative characteristics are applicable the information provided in the reports for users (Mokarrami, 1997).

Hierarchy of qualitative characteristics of accounting information is shown in Figure 1. Relevance and reliability are the two primary qualities that make the accounting information useful for decision making. If either is missing completely from a piece of information, the information will not be useful (Kieso, Waygandt, & Warfield, 2005). Secondary qualities include comparability and consistency.

¹Khorasan province includes Southern Khorasan, Northern Khorasan, and Razavi Khorasan
Understandability

Understandability of accounting information refers to the users' knowledge. Since, the knowledge level of users is different; therefore, accounting information must be provided understandable and usable information for all persons who have conventional knowledge of accounting (Aalivar, 2002).

Relevance

Relevant accounting information means that it should provide a good and logic basis for decisions of users. Relevance can be defined to influence the accounting information on decisions of users; Result of past events, anticipated effects of current and future events, confirms or modifies previous expectations (Noravesh & Shirzadi, 2012). Relevant information should have predictive value, feedback value, and timeliness. Relevant information helps decision makers make predictions about future; it has “Predictive Value”. Relevant information also helps decision makers confirm or correct prior expectations; it has “Feedback Value”. Usually, information does both at once, because knowledge about the outcome of actions already taken will generally improve decision makers' abilities to predict the results of similar future actions. Without knowledge of the past, the basis for a prediction will usually be lacking, and without an interest in the future, knowledge of the past is useless. To be relevant, information also must be timely “Timeliness”. This means the information must be available to a decision maker before it loses its capacity to influence decisions. Information that is not available when it is needed or becomes available only long after it has value for future action is useless (Obaidat, 2007).

Reliability

The reliability of financial information will be determined by the degree of correspondence between what that information conveys to users and the underlying transactions and events that have occurred and been measured and displayed. Reliable information will, without bias or undue error, faithfully represent those transactions and events. It is important that financial information should be reliable. Information may be of a type which bears upon users' decision-making, that is, be relevant, but be as unreliable in nature or representation as to
be useless or potentially misleading. For example, if an entity takes legal action against another entity for damages, and the validity and amount of the claim involved are seriously disputed, it would normally be inappropriate for the plaintiff to recognize prior to judgment an asset for the face value of the claim (Foundation, 2001).

Representational faithfulness refers to correspondence or agreement between a measure or description and the phenomenon that it purports to represent. That means the numbers and descriptions represent what really existed or happened. Verifiability refers to the ability, through consensus among measurers, to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias. Neutrality means that, in formulating or implementing standards, the primary concern should be the relevance and reliability of the information and the information cannot be selected to favor one set of decision makers over another (Obaidat, 2007).

**Comparability**
Accounting information about an enterprise is extremely useful if it can be compared to accounting information about other periods and other enterprises (Noravesh & Shirzadi, 2012). Comparability results when different enterprises apply the same accounting treatment to similar events. Compliance with international accounting standards helps enhance comparability (Obaidat, 2007).

**Consistency**
Consistency means conformity from period to period with unchanging policies and procedures. Conformity can be achieved by applying the same accounting treatment to similar events from time to time. It does not mean that an enterprise can’t switch from one accounting method to another if the new method is justified and preferable. The enterprise should disclose the reasons and the effect of such change.

**Cost-Benefit**
Most decision makers assume that information is a cost free commodity, while providers know it is not. The costs of providing the information should be weighed against the benefits of using the information. Cost-benefit decisions are extremely difficult because both costs and benefits are often subjective and difficult or impossible to measure reliably (Obaidat, 2007). In other words, providing of accounting information should be affordable.

**Research hypotheses**

**The main hypothesis of this research is**
Qualitative characteristics of accounting information affect the improvement of management decisions. Sub-hypotheses are as follows:
Understandability characteristic of accounting information affects the improvement of management decision.
Relevance characteristic of accounting information affects the improvement of management decision.
Reliability characteristic of accounting information affects the improvement of management decision.
Comparability characteristic of accounting information affects the improvement of management decision.
Consistency characteristic of accounting information affects the improvement of management decision.
Cost-benefit characteristic of accounting information affects the improvement of management decision.

**METHODOLOGY**

The population included all the faculty members of different branches of Islamic Azad University in Provinces of Khorasan. The sample for the present study involved 200 member of faculty in departments of accounting, business, management, and finance.

A survey questionnaire provides the primary data for this paper. The questionnaire contains the qualitative characteristics of accounting information with five scales reflecting the importance of each characteristic. The questionnaire was mailed to the respondents. 160 replies were received and taken into consideration. To analyze the data, descriptive and inferential statistics were applied. Frequency tables, measures of central, and dispersion parameters were used in descriptive statistics. Then an independent-sample T test was used to analyze the data using SPSS Software.
RESULTS

The results are reported in table 1. The finding indicates that average experimental is more than average theoretical for are independent variables, and the difference is statistically significant. Moreover, the calculated T is more than (P<0.001) for all variables, it means that qualitative characteristics of accounting information including: understandability, relevance, reliability, comparability, consistency, and cost-benefit have significant effect on improvement of management decisions.

Table 1. The effect of accounting information qualitative characteristic on improvement of management decisions

<table>
<thead>
<tr>
<th>Character</th>
<th>No.</th>
<th>Average experimental</th>
<th>Average theoretical</th>
<th>S. D</th>
<th>S. error</th>
<th>The mean difference</th>
<th>d.f</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understandability</td>
<td>160</td>
<td>4.20</td>
<td>3</td>
<td>0.41</td>
<td>0.03</td>
<td>1.20</td>
<td>159</td>
<td>37.06</td>
<td>P&lt;0.001</td>
</tr>
<tr>
<td>Relevance</td>
<td>160</td>
<td>4.19</td>
<td>3</td>
<td>0.41</td>
<td>0.03</td>
<td>1.19</td>
<td>159</td>
<td>36.34</td>
<td>P&lt;0.001</td>
</tr>
<tr>
<td>Reliability</td>
<td>160</td>
<td>4.20</td>
<td>3</td>
<td>0.42</td>
<td>0.03</td>
<td>1.20</td>
<td>159</td>
<td>36.24</td>
<td>P&lt;0.001</td>
</tr>
<tr>
<td>Comparability</td>
<td>160</td>
<td>4.20</td>
<td>3</td>
<td>0.40</td>
<td>0.03</td>
<td>1.18</td>
<td>159</td>
<td>36.14</td>
<td>P&lt;0.001</td>
</tr>
<tr>
<td>Consistency</td>
<td>160</td>
<td>4.18</td>
<td>3</td>
<td>0.41</td>
<td>0.03</td>
<td>1.19</td>
<td>159</td>
<td>36.32</td>
<td>P&lt;0.001</td>
</tr>
<tr>
<td>Cost-Benefit</td>
<td>160</td>
<td>4.19</td>
<td>3</td>
<td>0.41</td>
<td>0.03</td>
<td>1.19</td>
<td>159</td>
<td>36.32</td>
<td>P&lt;0.001</td>
</tr>
</tbody>
</table>

CONCLUSION

Undoubtedly, a full set of qualitative characteristics is essential for the effectiveness of the decision, although there is some conflict between them. In spite of, the different levels of knowledge and understanding of the users from accounting information, the different levels of applying the financial information, the results illustrated understandability characteristic of accounting information affects the improvement of management decisions.

Moreover, the findings reveal that the information is relevant for decision-making, which could provide the conditions to predict future events. Therefore, the relevance characteristic of accounting information affects on improvement of management decisions. Furthermore, accounting information must be free from any error or bias, and other researchers achieve the comparable results in similar circumstances. In other words, the reliable accounting information has an important role in management decisions. In addition, the results showed comparability, consistency and cost-benefit have effect on the improvement of management decisions. In summary, the qualitative characteristics of accounting information involving understandability, relevance, reliability, comparability, consistency, and cost-benefit have effect on improvement of management decisions.

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