APPLICATION OF MANAGEMENT ACCOUNTING TECHNIQUES IN THE PUBLIC SECTOR OF NIGERIAN ECONOMY

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Abstract

Accounting has wider applications in organisations. Management accounting has wider scope but with limited applications in organisations. It is particularly concerned with decision areas, especially effective, efficient and economic decisions that affect the performance of the system. This important aspect of accounting is mostly adopted in private sector organisation and with little usage in the public sector, especially the core public sector of the economy. The study reviews the application of management accounting techniques in the public sector of the Nigeria economy. Direct observation was used on the activities and performance of management of the Federal Polytechnic, Idah. It was discovered that these techniques are not applied in the public sector organisations as they are more concern with the welfare effects of their actions rather than the profit/benefit or value generation from their actions. The paper recommends that public sector organisations should adopt the application of the technique to suit the purpose for which they were established, especially in reducing wastes in management of public expenditures in Nigeria.

Key words: Accounting, Public Sector, Management Accounting Techniques, Organisations and Nigerian Economy.

Introduction

Any organisation, whether private or public has set objectives. Attainment of these objectives depends on how effectively the resources available to the organisation were deployed for the purpose for which they are meant to serve. Also deployment of these resources to appropriate area agreed in the organisation depends on the information availability to the management of the organisation. Management accounting provides valuable information concerning segments and the entire organisation. Aku (1999,221) provides a clear demarcation between accounting generally and management accounting in particular, that it provides management information for the good of enterprise while accounting generally is concerned with reporting the entity’s performance at regular periods. However, Magekun (2003,55) opined that the use of management accounting in the public sector is scarce due to unqualified nature of their accounting personnel. He is not alone in these regard, in a study carried out on management accounting and management strategic decisions in organisations, it was found that most public sector accountants are not qualified to hold the position of accounting (Achimugu,
2010). It was also noted in that study that management accounting are meant for strategic decisions in organisations. Most public sector organisations are resolved in taking strategic decision without prior analysis using the techniques in management accounting. For proficiency and productivity in any establishment, management accounting department is highly recommended to enable adequate administration and control of cost to take place. To this extent it was observed by Achimugu (2010) that,

Care must however be taken, particularly in government establishments where at the detriment of the objectives of the establishments, more recognition is accorded to the audit department than cost account department. This largely is because they fail to understand and acknowledged the difference between the function of audit department and a well established cost account department. Auditors or audit accountants are trained for post cost review while cost accountants are trained for pre-cost review. We can understand that the two functions cannot be combined and performed by one department effectively. Therefore there is need for cost account department in any organisation. (Achimugu, 2010)

From the above perspective, the author is of the view that the existence of cost account department is necessary regardless of whether the entity is privately or publicity owned. A little effort will disclose that most public sector organisation has no established cost accounts department and hence management accounts functions are being neglected.

We understand that most public sector organisations are meant for the welfare of the citizenry. To that extent they are expected to engage the use of management accounting techniques to maximise the welfare of the citizenry. Techniques such as “cost benefit analysis” and “performance budgeting” are most appropriate to public sector activities.

The paper examines the extent to which management accounting techniques are being used in the public sector organisation. These were done through the review of management accounting techniques and public sector activities in the Nigeria economy. The paper made appropriate conclusion and recommendation based on the findings from the reviews.

**Concepcutal framework**

The term management accounting connotes identification of management information needs and provision of such information to solve the problems identified. According to Ezuqwu (2005.233) management accounting in the general term employed to describe the financial policy, philosophy, strategy and appropriate applications of financial planning and control in accounting system. Lucy (2003.11) opined that management accounting is an integral part of management concerned with identifying, presenting and interpreting information, formulating strategy, planning and controlling activities, decision making, optimising the use of resources, disclosure to shareholder and others external to the entity, disclosure to employees as well as safe guarding the assets of the entity. The chartered institute of management accounting (CIMA) defines management accounting as the application of accounting knowledge and skill in the preparation and presentation of accounting information in such away as to assist management in the creation of policy and in day to day operation of a business entity (Meshack, 2011.4) from the various definitions above, it is clear that the major role of management accounting in an enterprise is the provision of information to assist management in its planning, controlling and coordinating the affairs of the business as an entity. Again it
helps in the performance measurement of both the enterprise and the individuals that carry out the affairs of the enterprise.

Management Accounting Techniques

The history of accounting date back to medieval merchants who engaged in voyage system of trade. However, the history of management accounting is of recent and can be traced to accounting. Concept, such as marginal costing, standard costing and cost volume project analysis are used to arrive at the best alternative for the firm. According to Lucey (2003.343) the principles of marginal costing include the separation of fixed cost from variable cost which is widely used in cost and management accounting. Meshack (2011.595) opined that cost volume project analysis also known as break even analysis is an application of marginal costing which seek to study the relationship between costs and volume and profits at different levels of activity. According to him this can be a useful guide for short term planning and decision making by management. A great deal of relationship exists between cost, volume and profit, an understanding of this will help management in taking appropriate decision that benefit the enterprise. The provision of this analysis is within the purview of cost and management accounting.

There are many investment appraisal and evaluation techniques in management accounting. Broadly, these techniques are classified into two; the traditional methods and the modern methods or discounted cash flow (DCF) techniques. Under the traditional method, we have techniques, such as accounting rate of return (ARR) and payback period. These techniques measure the return on potential investment and how soon the cost invested will be recouped. Using the modern method which includes net present value (NPV) and internal rate of return (IRR), the cash flow from the investment project will be discounted to the present value. Where the cash inflow is greater than the cash outflow, the investment is said to be worthwhile and the reverse will be the case where the cash inflow is less than the outflow. Another management accounting technique which is widely used in organisations is budgeting and budgetary control system. CIMA Terminology defines budgeting as a quantitative statement for a defined; “Period of term, which may include planned revenues, expenses, assets, liabilities and cash flows”. A budget provides a focus for the organisation and the coordination of activities and facilitates control. Planning is achieved by means of a fixed master budget, whereas control is generally exercised through the comparison of actual cost with a flexible budget (Lucey, 2003.132). The role of budgeting is paramount in organisations, whether private or public sector organisation.

Apart from the above mentioned techniques, there are more recent developments in management accounting that aids management decision making in organisations. Some of these recent management accounting techniques include, Activity Based Costing (ABC), Just In Time System (JIT), Backflush Accounting, Advanced Manufacturing Techniques (AMT), though put Accounting, Bottlenecks and Overheads attribution, target costing in etc. These techniques are introduced to aid decision making by management and boost performance of the enterprise. Ojogi (2006) pointed out that through the development in management accounting techniques, management were able to accomplished tasks within the minimum time period, thereby saving costs for the entity.

The most widely used techniques in the public sector is “cost benefit analysis” CBA was developed for the use of public sector organisation whose activities are not profit oriented. CBA therefore include other incidental benefits derive from the execution of aproject apart from direct cash flow from it. Mark and Long (1980) opined that if national
government are to carryout CBA of projects the spate of abandoned projects in developing economies would have reduced drastically. Mark and Long took a study of five countries in developing world and come to conclusion that the use of cost benefit analysis was not adopted by the national government of these countries in execution of projects. In the study, they found out that more than 70% of development projects started in Nigerian from 1960 – 1980 were abandoned for different reasons.

**Public Sector of Nigeria Economy**

The public sector of the economy consist that part of the operation of the economy in the hands of public authority. In this case the three tiers of government, federal, state and local governments are part of the public sector and therefore any activity engage in by these bodies tend to promote or demote the entire economy. In developing economies, public sector constitutes major functioning of the economic system which may not be the same in advanced economies. Alloomous (2001.22) posited that in advanced economy, most economic functions were left to private enterprise while public sector only functions in areas of regulating the economy. In the same vein, the performance of the public sector and the private sector cannot be objectively compared. Even from the modus-operandi and objectives are pole apart. Therefore comparison between the financial performance of the public sector and that of the private sector are difficult to make because the public sector organisations are multi-purpose, (Adams, 2009.1). Performance measure in the public sector is hindered by the lack of profit motive as well as the presence of some intangible service whose benefits are difficult to quantify. This call for the neglect of management accounting techniques in the public sector of the economy, especially in Nigeria, a developing country whose bulk of economic functions is in the hands and accounted by the government. Okoye and Ani (2004.19) classified public sector organisations among “non profit organisations” in which their major features are service to society, non profit motivation, finance provided by citizenry and collective ownership of the organisation by the citizenry.

**Methodology**

The study is concern with the use of management accounting techniques in the public sector of Nigeria economy. Therefore a review of management accounting techniques and the public sector of the economy is undertaken. The sources of data are mainly secondary with complimentary primary data for analysis of results. The study therefore selected the Federal Polytechnic, Idah as a representative of the public sector for purpose of results and analysis. Primary data used in this analysis is obtained through direct observation. Izedonmi (2005.97) noted that primary data could be generated through the medium of either direct observation or administered questionnaires.

**Results and analysis**

The Federal Polytechnic, Idah has six schools with about twenty six departments.

1. School of Business Studies
2. School of Technology
3. School of Engineering
4. School of Environmental Studies
5. School of Administration and General Studies
6. School of Preliminary Studies and Continued Education
Table 1: Schools, Department and Student’s Population

<table>
<thead>
<tr>
<th>S/no</th>
<th>Schools</th>
<th>No of Department</th>
<th>Students’ population 2012/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SBS</td>
<td>4</td>
<td>3800</td>
</tr>
<tr>
<td>2</td>
<td>SOT</td>
<td>6</td>
<td>2800</td>
</tr>
<tr>
<td>3</td>
<td>SOE</td>
<td>5</td>
<td>2200</td>
</tr>
<tr>
<td>4</td>
<td>SES</td>
<td>6</td>
<td>2800</td>
</tr>
<tr>
<td>5</td>
<td>SOGAS</td>
<td>3</td>
<td>1200</td>
</tr>
<tr>
<td>6</td>
<td>SPS&amp;CE</td>
<td>2</td>
<td>800</td>
</tr>
</tbody>
</table>

Source: Author’s Survey, 2014

In providing accommodation for the above schools, three out of the six has not been catered for since the establishment of the institution. The three schools have been existing under temporary make shift premises over the years. In terms of age, SBS was as old as the institution while SOGAS and SPS&CE were created in 2001/2002 academic session. As indicated in table I, SBS housed about 28% of the School population while SOGAS and SPS&CE are 9% and 6% respectively. This population goes with IGR accruable to the institution.

In practical terms the institution is to give priority to technology, engineering and science related courses, the major reason while SOT, SOE and SES were first provided with accommodation up to the minimum requirements at their permanent site. However, for SBS and the allied schools which according to regulations should constitute 30% of the entire population is the ‘cash cows’ of the system in terms of IGR. The question is does public sector give consideration to maximum satisfying areas in allocation of funds. Currently, of the three schools left unattended to over the years despite their importance to the system, school of General and Administrative Studies complex is been contracted through TETFund for construction at the expense of the most viable school (SBS) which should have taken precedent, after Technology and Science related schools. An indication that public sector organisations do not carry out analysis using management accounting technology in allocation of fund to projects.

Findings

1. That in allocation of fund to projects, public sector organisations should consider the viability of the component vis-a-vis other components of the system in terms of funds requirement. This is because not much analysis is done in terms of benefit to be derived from such allocation of fund.

2. It was discovered that funds are not allocated on the basis of most efficient usage areas in the public sector. The most usage area is seen as the area that derives the greatest benefit from the fund allocation. To ensure this the sector need to carry out cost benefit analysis of projects and funds available before allocation.

3. Though Federal polytechnic, Idah has in its employment qualified chartered Accountants, these categories of professionals were not involved in project evaluation and analysis main reason for arbitrary allocation of funds to undeserving projects. This may equally be peculiar to other public sectors of the economy as professional are not fully engaged in the appropriate departments and units.

4. It was discovered that SBS in Federal Polytechnic, Idah as old as it is, is not the priority areas of the establishment. The facts that the school has been neglected over the years despite the much IGR the system derive from the school. It was expected that school of business be given concern immediately after the satisfaction of the
minimum requirements of 70:30 in terms of technology, science related courses to business and allied courses.

5. Non engagement of qualified accounting personnel in appropriate units breed corruption in the system. This itself is a sign of corrupt practice as placement in most public organisations are not based on merit or qualification but patronage and political subjugation.

Conclusion

Since there are alternative decision in any situation, the best is to evaluate the alternatives and see which best solve the decision problem management accounting techniques are mostly used in this evaluation of alternative decision problems. Most successful private organisation have unit for management accounting. This units, staffed with qualified accounting personnel, carryout analysis on issues both routine and strategic in nature before decision is taken. Techniques such as linear programming, standard costing, cost benefits analysis and the rest are used in place of intuition and subjective mind. However, it pains to note that in most, if not all, public enterprises as well as ministries and parastals do not engage these techniques in taking vital decision that gulp public funds, many cases of abandon projects are as result of in appropriate evaluation and decision to allocate funds without proper analysis. Therefore, in the interest of public good and the economy to grow and meet up with the desired expectations of the public there is need to take a critical look at the pattern of incurring public expenditure.

Recommendations

1. Most research findings indicated that public sector of the economy does not employ the services of qualified chartered accountants. In the case of this study no single chartered accountant was engaged in the accounting (Bursary) section of the organisation. The study therefore recommends the engagement of these crops of accountants to properly perform the required duties of management accounting, especially in the analysis of projects and cost before execution.

2. In the study, it was discovered that management accounting units does not exist in the accounting (Bursary) department. This finding is similar to most findings in other studies. Public sector organisations should endeavour to set up units within the accounting department that should handle management accounting matters.

3. Allocation of funds to projects and even projects implementation should be based on the benefit to be derived from the project. This can only be achieved through the use of management accounting techniques such as break even analysis, payback period and net present value analysis of the target project before implementation.

4. The paper is of the opinion that the patronage system in the public sector be stopped henceforth. In this case, all appointment should strictly be based on merit and qualification of the particular candidate. Merit denotes performance on the job and performance in most cases is highly correlated to one’s qualification and experience.

5. Public sector organisations should endeavour to carryout the evaluation/analysis of the component parts of the whole system before allocation of funds to any part. This will ensure efficient use and return on fund allocation.
References
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