

CHAPTER IV

THE ACCOUNTING SYSTEM INSTALLATION

1. Division of the Accounting Field

Accounting is a very broad subject. However, in its broadest sense, it may be roughly divided into three main classifications, namely:

1. System Installation
2. Bookkeeping
3. Auditing

System Installation

The installation of a system involves an analysis of the organization, its departments, products and all other pertinent items in the business. Since accounting records must yield reports of value to the management, the next step is to determine the books to be used, the forms of these books, and the necessary documents which shall be the basis of the entries in these books of record. A standard procedure should be worked out to ensure that proper entries are made to various accounts for each transaction. The design of the necessary forms for various reports and the job of acquainting the bookkeeper with the preparation of



these reports should also receive careful attention.

The system analyst in performing his duties must always be aware that every business is engaged in production and sales with a view to profit and therefore would not have an inclination of keeping a large number of reports which are of real value to the management.

It is in this kind of engagement where the public accountant must know how to correlate accounting principles with organization and management since each one is so inter-related that the defects of one greatly affect the other.

Bookkeeping:

Bookkeeping is concerned with the works of classifying and recording current business transactions in a systematic manner. For the most part, the bookkeeper is engaged in detailed work which consists of analyzing the usual and ordinary transactions that take place in the business into their component parts, the debit and the credit elements, and recording them in a system of books.

Bookkeeping functions may be divided into two parts, namely, the recording of business transactions

in the journal and the posting of business transactions to the ledger.

The recording functions of bookkeeping may be divided into the recording of sales, purchases, expenses, cash receipts, cash disbursements, and other journal transactions. The actual system employed will affect the recording of these transactions as well as the size of the organization and the volume of the bookkeeping work. A small organization may have but one journal; the larger organizations may have many. In a large organization, several individuals may be involved in each recording function assisted by many clerical helpers. Clerks may be engaged in checking and extending invoices, etc., in order to arrive at totals which will then form the basis of entries in the appropriate books.

The posting function of bookkeeping is likewise a very important function. The small organization may have but one ledger; the larger organization will have also one general ledger but it may be supplemented by many subsidiary ledgers showing the detailed information that supports the controlling accounts in the general ledger. Likewise, there may be one or more persons needed for posting to the general ledger and its subsidiary ledgers, depending upon existing conditions.

Aside from these functions, the bookkeeper totals the ledger accounts and strikes off a trial balance at least once a month to check the equilibrium of the books. Once a year, the books are closed and the post closing trial balance is extracted. Whenever needed, the accountant makes up the monthly, quarterly, semi-annual and annual reports, as well as any other special reports of various kinds that may be required of him by the management.

Auditing

Auditing is subjecting the existing records to critical analysis for the purpose of proving or disproving the accuracy of the accounts in their entirety, testing the fidelity of those charged with the administration, determining the possibility of preparing from the records, with such adjustments as are deemed necessary under the circumstances, statements and reports which will convey to the interested persons in an intelligible manner the information they require for their particular use, and an examination of the effectiveness of the accounting system involved.

From this description of auditing we can build up the premise that the system analyst, though not

subordinated by the auditor in the exercise of his duties, must carefully analyze the angles of the auditors who may examine and review the effectiveness of the accounting system once in operation.

2. Purposes of Accounting

Accounting is the process of analyzing business transactions and recording them in the books of accounts to show the results of business operations. Accounting or bookkeeping records are maintained for the purposes of:

1. Presenting the financial history of the business.
2. Supplying current and up-to-date information of the business for the control of current operations.
3. Supplying information to government agencies, bankers, creditors, investors, owners and other interested parties.
4. Supplying statistical data for planning future operations.

Owners and prospective investors need to know the financial conditions of the business as well as its future prospects. Bankers and other lending institutions appraise the financial soundness, and

the paying capacity of the business before they extend credits. Government agencies, like the Department of Internal Revenue, etc., are interested in knowing the financial activities of the business for purposes of taxation and governmental regulations. Officers and employees of the business want to know the stability and future prospects of their employment.

3. The Requirements of Good Accounting

Good accounting is the product of well-planned system and a coordinated efforts of all concerned.

Good accounting requires:

1. Properly organized accounting system.
2. Suitable bookkeeping records.
3. Suitable mechanical and labor-saving devices.
4. Complete layout of methods and procedures, usually contained in accounting manuals, to properly implement the system of accounting.
5. Experienced and trained accounting executive to ensure the adequacy of the accounting system and to exercise close supervision of men under him.
6. Able and capable helpers and clerks.

4. Functions of the Accounting System

The three major functions of an accounting system are:

1. To provide a record of business transactions.
2. To safeguard the assets of the business.
3. To control business operations.

Recording Business Transactions

It is not enough that all business transactions are recorded in a set of books but that they must be recorded accurately and with reasonable promptness. In recording business transactions, the bookkeeper shall take in only the essential facts useful and necessary in relation to the requirements of the business. The system analyst must be able to distinguish the essential from the non-essential data, as well as data which are of vital importance and significance to the management. The outlook of the system analyst will be to keep the procedure direct, explicit, and forceful.

Safeguarding Assets of the Business

The concern of the system analyst is to provide for some control over the assets of the business of the client as well as the propriety of their use.

Internal check should be provided and instructions of the procedure to be followed should be clearly prescribed in a manual of accounting procedure.

The operation of the internal check should be un-failing and automatic, leaving no alternative as to what course and method is the proper one other than the one prescribed. By so doing, fraud and theft can be detected if and when committed, and at the same time discourage any attempt to misappropriate and waste assets of the business of the client.

Control of Operations

The utmost significance to the business is to control the operation of the business in order to keep it running at a profit. This can be accomplished by means of financial statements and statistical reports submitted to management for study, analysis and comment. These financial statements contain the vital facts of the business, with thorough, keen, and careful analysis of which the client can formulate scientific planning and intelligent action. This comprehends the planning of merchandise requirements, the prevention of understocking or overstocking, as well as the flow of cash together with the probable trend of the flow for sometime to come, and a host of others. Statements and reports rendered by the

accountant will be compass and rudder that will help the management sail along the turbulent seas of keen, cut-throat competition. The management through intelligent planning provides the motive power for the business to forge ahead where others failed.

Parts of an Accounting System

The fundamental parts of an accounting system of a business may be summed up, in brief, as follows:

1. Books of Records
2. Books of Accounts
3. Supporting Documents
4. Chart of Accounts
5. Pro-forma Financial Statements
6. Pro-forma Statistical Statements
7. Manual of Accounting Procedures

5. Characteristics of a Good Accounting System

Business is varied and the number of good accounting systems are likewise multifarious. However, by general principles, the best accounting system may be stated as one which should present an orderly combination or arrangement of particulars, facts and figures into one whole complete picture.

The characteristics of a good accounting system should be as follows:

1. It must be one which will be able to furnish the most accurate results with the least clerical work.
2. It is one which is simple to operate.
3. It is one which has a fair and adequate internal check.
4. It is one which can be satisfactorily audited.
5. It must be able to supply all the required data and information necessary for the preparation of financial statements, as well as any other vital fact that may be requested by the management from time to time.
6. The Accounting System must be Elastic

The accounting system must be elastic as to make provisions for future expansion of the business. Business, like living cells and tissues, might grow and multiply. It could not remain dormant and static all the time. The accounting system, therefore, must be ready to adapt itself to changing conditions in the business, and above all, it should not serve as an impediment to its growth and expansion. A progressive business calls for an efficient accounting system and an accounting system can only be efficient if

surroundings of the business shall have been thoroughly explored.

If the desire is to have an efficiently operated business, then it should have an efficient accounting system. The accounting system is the life blood of any business.