

# The role of accounting on business and our society

[Finance](#)



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#### Question 1

Financial statements are summary statements of results of business activities for an accounting period and balances at a given date. The primary financial statements in modern businesses include income statement, balance sheet, and the statement of cash flows (Roselli, 2012). The income statement summarizes the profit or loss of the business during a particular accounting period. The balance sheet bears balances of accounts, assets, liabilities, and capital as at the end of an accounting period. The cash flows statement shows the sources and application of funds during a given financial period.

The balance sheet is the most effective tool in communicating the financial health of a business. The balance sheet reveals the financial position of a business and reports the assets, liabilities, and owner's equity as at a given point in time (Allee & Yohn, 2009). This financial statement also reveals the resources that remain unused at the end of the period and available for use in the following periods. Additionally, the balance sheet reports the claims for resources that remain unpaid at the end of the period and the capital represented in various forms it is constituted.

#### Question 2

The functions of accountants include recording, analyzing, and reporting the financial status of a company or a person. Either an accountant or a certified public accountant can perform accounting. Accountants do not legally have to acquire any degree or any form of accounting license for them to perform their duties; any person over 18 years old and is good in numbers can be an <https://assignbuster.com/the-role-of-accounting-on-business-and-our-society/>

accountant (Seetharaman, Sun & Wang, 2011). A certified public accountant must earn an accounting degree from an accredited institution, pass the CPA Examination, pass the professional Ethics Exam from the American Institute of CPAs, and work for 1, 800 hours in one year under supervision of a licensed CPA. The accounting function in the organization is critical because it enables identifying, measuring, and communicating economic information to permit informed judgments and decisions. However, the accounting function is expensive to maintain because of high costs of installing systems and paying salaries and wages for accountants.

### Question 3

I would prefer to form a merchandising company to a service company. Charts of accounts provide a list of all accounts in the company's system (Seetharaman, Sun & Wang, 2011). Merchandising company charts of accounts have more code numbers than the charts for service industry. Charts of accounts in a service industry provides a list of accounts for incomes and revenues from service provision; on the other hand, charts of accounts for a merchandise company shows the flow of incomes and expenses from the physical products.

### Question 4

Automating accounting processes for a service industry leads to improved visibility, enhances the quality of work by minimizing errors, strengthens internal controls, and ensures optimization of the company's cash assets (Allee & Yohn, 2009). The most effective internal controls that can be used to detect and prevent fraud include:

1. Using a system of checks and balances to prevent one person from having control over all stages of the financial transactions

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2. Enabling hidden flags or audit trails on accounting software
3. Ensuring that only authorized employee have passwords for accessing automated systems, and the passwords and other log ins are changed frequently

#### References

Allee, K, & Yohn, T. (2009). The Demand for Financial Statements in an Unregulated Environment: An Examination of the Production and Use of Financial Statements by Privately Held Small Businesses. *Accounting Review*, 84(1), 1-25.

Roselli, A. 2012. *Financial structures and regulation: a comparison of crises in the UK, USA and Italy*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan.

Seetharaman, A, Sun, Y, & Wang, W. 2011. Tax-Related Financial Statement Restatements and Auditor-Provided Tax Services, *Journal Of Accounting, Auditing & Finance*, 26(4), 677-698.