The role of accountants accounting essay

Business, Accounting

An accountant plays a vital role in making a business successful or fall of a business. Historically we have read upon lot of articles supporting the actions of the accountants. In our earlier classrooms we have discussed the ethical standards or issues by accountant. A professionally qualified accountant provides quality and professional advice for existing entrepreneurs or new entrepreneurs. They add value to the business by implementing accounting systems and rules required by the land. They help the business in providing cost effective measures and advanced operating techniques to enhance the profit Also accountants are involved in multiple capacities in an organization . They are involved inAuditAnnual Accounts in accordance with compliance and regulator of the landOrganizational planningFiling TaxPrepare Financial StatementsQualitative inputs to the stake holdersAccountants have always been misunderstood many times but as Atrill, P. & McLaney, E. (2011) explains that the impression is carried out that accountants are used for the purpose of accounting and to prepare financial reports on a regular basis. While this theory is true that accountants are extremely good at preparation of financial reports it does not mean that it the only work, they ultimate purpose of this to give reliable and relevant information to the management for better decision.

Changes and Challenges as Accountant a in last two decades

Globalization has opened up the need of accountant over years due to standardization of reporting system. The use of IAS and GAAP has produced opportunity for accountants across the globe. In addition to the standardization, the financial crisis globally has also fuelled for want of reviewing financial reports, presentation of reports to stake holder, creditors and investor. The inaccuracy in the reporting system has fuelled the requirement. Due to some accountant's non integrity and bad reporting styles and mis reporting of financial statement took toll of many investor in making a ill informed decisions. These incidents have put accountants on the back stage and under scrutiny. This however made other accounting professional stick to the rules and creates awareness among the investors and management. So the transparency and accountability was created in the profession. Current business houses have demanded accounting profession to be highly proactive and innovative to handle clients and their constantly demanding needs. Constant knowledge upgrade of accountants and new business ethics has put them under tremendous pressure. Generally an accountant is monitored to falsify accounts to evade tax and this has increased the demands of expertise and compliance oriented since business houses does not want to pay penalty for evading tax or falsifying accounts. They may lose the license to do business. For example Asset Management business in USA or UK is highly regulated business due to handling of public money hence the accountants do not falsify the records and is transparent. The stake holders are well informed about the rules and requirements so they demand accountants demanding for accountable and quality. In the olden system of accounting it was not so demanding, this has currently increased due to complex IT structures and computerization of the accounting and business. ERP systems have grown significantly in the past decade. The introduction of ERP in an organization has increased the demand of knowledgeable and qualitative person. The implementation of ERP has put accountants in organized way, though a company should decide on the tools of ERP, the primary objective of the accountant is to easily understand the implementation, understand the process and policies of the organization. Accountants need to ensure market discipline and understand the dynamic developments across the globe. MIS reports which are necessary for a management to understand the organization context is depended upon the accountant as rightly put by Atrill & McLaney 2011 " Organizations are compelled to implement MIS to collect Data for business information to take decisions". Kaplan and Cooper (1988) introduced the ERP system into management accounting. Accountants should also understand the priority of the organization in liquidity and profitability. A treasury manager’s judgment in the financial needs of the company and markets of financial instrument is a test for his knowledge. He often keeps juggling between investment profitability and short term liquidity. Since both are complimentary in nature the treasury manger keeps close watch of cash availability and short term payment to the creditors. This prompt payment of the creditors helps in increasing the credit limit for business purposes and cash investment into markets helps in making short term profits to adjust the profits. Since accountants have depth of knowledge in accounting rations and understand them they interpret various parameters in preparing financial report for the management. For an example Return on Equity (ROE) is calculated with net income and equity as a percentage. This is a key parameter for investment analyst to evaluate profitability. The interesting part which comes to my mind is the accounting software and system which we use. The reporting format has a typical maker and checker process to be followed and the user id is with different levels. A young accountant and bright guy was preparing report on Asset and Liabilities committee on active accounts in our bank with respect to the balances they have. On the other side the inactive accounts at our bank. The report was generated and went rigorously checked, since it was to be presented to board. This has passed the check also. The secy to the Chairman emeritus wanted to see the report before the start of the meets for his own ease. The surprise element was pointed out by him, the heading in the amount column did not contain whether it was denoted in millions or billions and the currency (Omani riyal or $). This was blunder and luckily with corrections it was presented to board. But when checked this was missing in some vital reports as there was some bug in the software. The vendor was called for and finally the bug was corrected. Some experiences of ERP tools which stay fresh in the mind and even today any report we see quietly see the column and laugh at ourselves. The reason for explaining this is though this error may look very small or insignificant, the implications are higher.

Literature Review

In my earlier DQ assignments two I have emphasized more on corporate governance being the key for any organization to grow in the business and sustain. We have seen instances where management people make mistake or force the accountant to commit mistake and being blown out of context. The instances of Satyam Computer in India by Mr. Ramalinga Raju, Enron, Lehman brothers are classic example of failures. On the other side the good governance of Infosys, Dell, Apple, our own bank OMAN ARAB BANK in Middle East. The growth of these companies need not be robust, it can be very slow and steady, but investors are watching and over a period of time the boom in the growth is waiting to happen. Enron being a classic case of fudging and falsifying the records was of a great impact across the globe. But this incident was an eye opener to all accounting houses and investors. Enron declaring bankruptcy put lot of analyst, accountants and law makers into attention. UK introduced the Audit Ethical Standards (AES). The key issue at Enron is not disclosing reliable financial disclosure in transaction. This was popularly known as " Enronitis". Globally failures of a lot of accounting firms and unethical practices led to lack of trust in accountants, accounting, reporting and auditing. Housing and Urban Affairs at the US Senate on 14 February 2002, Paul Volker1 said: I think of good financial reporting as resting on three pillars: 1. Accounting standards understands the economic reality2. Accounting and auditing practices and policies translates into accuracy, understandability3. A disciplined legislative and regulatory frameworkVolker's pillar demonstrates on reliable reporting and summarizes into five action points. They areFinancial and accounting (Pillar1)Auditing and its Committee (Pillar2)Interlink between Govt and business (Pillar3)Investor and Investment Analyst (Pillar2)Corporate Governance(CG) (Pillar2 and 3)Enron has been in midst of controversy and as earlier said the happening of issues were eye opener and large scale of fair practices were initiated, like the GAAP[1], Powers Report[2], Senate Report[3], Bankruptcy[4], Indictments, Anderson trial and Book, journal.

Structure of Reliable Financial Accounting

US GAAP created the framework and had many parameters like auditors reporting not alone the fairness also to be compliance which is the primary of reliability. Volker's pillar was considered to be the source of light and investigated on the failures. They areStandard and rules there was separate regulators for each and every division in the US and after GAAP, there has been a standard practice of accounting policy and qualitative reports were furnished. A set of rules and global standard of reporting was formed which was much simpler and presentable. This was convenient for the accountant to prepare and investment analyst to analyze. The earlier report was visible in the ENRON report of income. Enron adapted mark to market accounting but GAAP wanted fair value accounting because MTM leads to future selling contract. Enron did all tactics to create profits the MTM method of accounting helped them to maximizing short term profits, circular trade and swapping of bills. SFAC[5]5 suggestion was revenues should be recognized only when realized an earned. However Enron used readily convertible assets as payments without substantial earnings. Enron compromised with the faithfulness of accounting . The GAAP did not meet the requirements of Volker's pillar1. Business and Audit Corporate governance is the key for furnishing reliable financial reports. The board of directors or the management's primary objective is to protect the interest of the stakeholders and government policy. The trust shown by Citibank about the directors and their good faith was not carried out properly. The report submitted by the internal director power and S&P shows that Enron was clearly not maintaining mandatory rules of accounting. The directors always believed on accountant to take crucial decisions. The lack of good governance was reflected in the aggressive nature of Anderson. The methodology used to achieve financial objectives were examples of them. The internal accounts showed the risk taking capacity of the company and management. This was even reflected in the appraisal system of the employee who were lavishly or generously paid for risk taking actions. The audit done by Anderson was biased and management oriented and was not practicing the law even putting their faith into stake. They very well knew the non-compliance activities done, but Anderson chose to charge high for the wrong services rather than reprimanding the illegal activates. Enron went to the level of doing a forgery in a particular deal in cay man islands. Only sound Corporate Governance and good audit will ensure the prosperity of the organization. This did not fit into Volker's Pillar 2. Institutional Structures ☾ Enron not only lobbied accountant they also flayed governments and officials and financial institutions. The regulator did not enforce the rule on Enron because of political lobbying by Enron. Every bureaucrat, lawmakers, bankers were involved in discounting activities done. Four major funded transaction done by ENRON were " Fishtail, Bacchus, Sundance and Slapshot" were examples of complex, deceitful transaction and this could not have happened without the knowledge of bankers, regulators and government officials. Pillar 3 of Volker's was also ineffective in these circumstances. After these major corporate scandals in Enron and other companies like Tyco International, WorldCom the US enacted an act called " Sarbanes-Oxley ACT of 2002". Further research is happening to determine the regulatory steps. The activity around pillars is ongoing and needs concrete reforms. The hierarchy of GAAP has to be followed in future for uniformity of reporting system.