Research paper on different levels of accounting reports

Business, Management

In accounting, a firm has the option of reporting in three different levels. It should be appreciated that all the three levels are important in the overall accounting process and that each level plays a complimentary role to one another. The three levels of accounting are as follows: compilation, review and auditing. The paper shall discuss each level with a brief explanation of what they entail.

The accounting reporting process begins at the compilation level. Compilation refers to the process in which accounting entries are made and the accounting statements of accounting statements are prepared. It is in this stage that the accountants prepare various statements of accounts. Some of the reports that come out from this level are statement of comprehensive income, statement of financial position and managerial report to the stakeholders. In compilation, all accounting transactions relating to that financial year are combined in the reports. This process often is charged averagely hence moderate costs. Often the advantages that accrue under the process include the clear documentation of accounting transactions, the use of the accounting information from the statements for purposes of decision making at the internal and external levels. However, compilation often needs further confirmation, review and audits to make the information more reliable and worth acting upon.

The next level of accounting after compilation is review. However, it should be appreciated that one may as well skip the review level and proceed to auditing of accounts. Nonetheless, review gives the company an opportunity to examine the statements already compiled and confirm compliance with the accounting standards and principles. In that breadth, it is noteworthy that review does not occur in isolation. It is a follow up of the compilation process. In addition, reviews are often performed by second parties other than the initial compilers of the reports. A review could be mandatory or optional. Some of the reports produced from review include the internal management letter, the engagement and attestation reports and the statement of compliance. It should be appreciated that reviews do not suffice for auditing. Often the engagement of reviewers is limited to the scope that the management allows them to. The review process is often relatively expensive. This high costs arises by the fact that the reviews are often carried out by a third party consultants who have special knowledge of accounts hence charge professional fees. The advantage incumbent on reviews include the lower fees compared to auditing, the fact that they check on compliance by the compilation process and the professional touch they give accounting statements. However, reviews have limited scope, are less stringent and do not follow any definite order hence always seen as an unnecessary spending.

The third and final level of accounting is the audit level. In auditing, professional auditors, who are often themselves accountants examine the statements of accounts emanating from the other two levels and report on their true and fair view. Auditing process commonly comes up with an audit report. However, there other cases where the auditors are supposed to come up with memorandums to the management, attestation and assurance reports. The advantages in auditing lies in its stringent nature as it conforms to the auditing standards and practises. In addition, auditing could be mandatory or optional. For the mandatory audits, the auditor is required to conform strictly to the accounting standards and principles and observe a degree of independence and professional diligence. It is on that premise that audits are relied upon for external and internal decision making. Lending institutions, employees, investors and government regulators all rely on auditing to authenticate the accounting information from firms. However, auditing is expensive with the fees often being pegged as a percentage of the revenue or turnover of the company. Overreliance on the audited accounts also makes the consumer bear the mistakes in the audit process.

References

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