Accounting industry and government essay example

Business, Company

Accounting is an organized process of determining, recording, analyzing as well as interpreting and communicating all the information related to finance for the purpose of appropriate economic decision making. Without regulation of public accounting process, firms will deliver financial statements that are inclined to their own interest hurting the economy. When talking about the accounting industry and the government, it simply means the public accounting and its regulation by the government as enterprises render their financial information to the public. Accounting provides services such as book keeping and auditing which are required by different stakeholders for execution of economic decisions. The stakeholders include those within a company itself, the community and government among others. Government regulation, Sarbanes Oxley and Certified Public Accountant (CPA), on public accounting has helped in value creation and prosperity of the economy.

The different stakeholders within a company, the community and the government depend on financial information provided by business entities. If the integrity of the financial information from companies in form of financial statements is in question and can no longer be trusted, economic prosperity is hindered as investment would not be possible. The relevance of the relationship between the accounting industry and the economy was significantly visible when corporate scandals arose in the 2000s (Clikeman, 2009). The Enron bankruptcy was one of the most prolific effects of an unregulated accounting industry. Enron was accused of keeping its debt a secret, inflating its gains as well as skimming millions of dollars impacting on the downward performance of the economy. This was linked to the accounting industry weakening the economy in the United States. Business malpractices were recorded and by the year 2005 most of the top corporate management staff were held liable for the scandals which pushed down the investment confidence, causing the stock market to go down. The investors suffered serious setbacks as billions of dollars were recorded in losses after the share prices of the companies affected with the scandals went down. The public confidence in the country's national security markets was compromised hindering economic endeavors and prosperity.

The Sarbanes Oxley Act was signed into law by President George Bush in the year 2002 with regard to the high profile corporate scandals that emerged as from the year 2000. This move was made in an effort to monitor firms and stop fraud accounting practices that had negatively influenced the economy bringing down investment. The Sarbanes Oxley Act would help restore the investor confidence in the economy. The United States Congress also put on spot the American Institute of certified Public Accountants concerning it accounting regulatory oversight, giving a new federal board the auditing responsibility (Clikeman, 2009). The act also defined the auditor independence establishing the standards that must be met by an external auditor reviewing the financial reports of a company. The executives of every company were tasked with individual responsibility of ensuring that there was accuracy and completeness of their financial reports. Penalties were to be imposed on corporations that would be found guilty of alteration of destruction of the true financial reports.

In a move by companies to adapt to the Sarbanes Oxley Act, most companies experienced an increment in hiring aimed at meeting the guidelines provided by the 2002 act. By the year 2009 majority of the enterprises had not completely adjusted to the new guidelines of the Sarbanes Oxley Act leading into a deep recession for the accounting industry due to the many CPAs. Most companies were forced to included cost cutting standards which included employee's lay-offs, a shift to flexible staffing time as well as instituting earlier retirement plans for employees. Cases of acquisition and mergers were recorded at very high levels in an effort to meet the costs.

Adjusting to the new accounting regulations had to be instituted and as time elapsed firms went for expertise advice. With time and complete adjustment, the economy started regaining as the experts in the accounting industry speculated tides in the following years. The Big Four auditing companies were empowered by the new accounting regulations. These conditions led to the companies' rejection of clients as well as increasing their auditing fees as it was now a requirement on paper by the government to hire external and independent auditors (Clikeman, 2009). The fact that the Big Four were taking advantage of the situation prompted the U. S. Congress to form the Public company Accounting oversight committee that would look into the functioning the Big Four.

Currently, following the implementation of the Sarbanes Oxley Act, the accounting firms especially the Big Four as well as the accounting industry in general has increased employment of more staff to address the auditing services created by the new regulation on the industry. Despite the recession that was experienced, the industry recorded 7. 4 percent increase in 2009 relative to the generally weak economy that was picking up after the Enron and other corporate fraud cases implicated by the non regulation of the accounting industry before the Sarbanes Oxley Act was enacted (Clikeman, 2009). The new accounting rules and regulations are the factors behind a labor intensive accounting industry.

The accounting industry continues to gather resources specifically the human resources to enable them conduct the oversight of business activities. This industry has been boosted by the accounting regulations by the government. With different countries constituting specific accounting regulations, smaller accounting firms are forming cooperative links with oversea firms. This is an indication for the shift towards a global economy. The global trend is increasing prompting for the importance of international transactions in the industry. This stresses the need for a uniform worldwide accounting rules and regulations. This will ensure that financial data crosses the border making financial reports more useful hence accurate so as to conform to global competition.

Considering the manner in which the United States conducts its business, it is important to note that the nation can create a very influential power to the rest of the economies of the world. If the government of the United States embarked on inserting such an influence so as to ensure uniform worldwide accounting guidelines, it would be considered as a major improvement to the accounting industry. It will see international accounting standards that greatly conform to the use accounting standards which will be easy for other countries to adhere to. This will increase and improve the transparency of accounting in various worldwide firms minimizing cases of scandals as a result of fraud on the financial reports of the firms such as; Enron’s keeping its debt a secret, inflating its gains as well as skimming millions of dollars impacting on the downward performance of the economy. Confidence in the accounting industry will attract investments increasing security markets hence value creation and economic prosperity.

Reference

Clikeman, P. M. (2009). Called to account: Fourteen financial frauds that shaped the American accounting profession. New York, U. S.: Routledge.