

How can accounting
be used as a control
mechanism?



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Every business uses accounting in their daily basis, almost all transactions that businesses make is registered in the financial records of the business. All this information is very important for the business and its decisions as it will help the business in the future to perform better and it will allow the owner to use that information and analyse what is wrong in the business and what needs to be changed. This is a very basic way of how accounting can work as control mechanism for business.

Accounting is very important for the record of financial transactions of a business, without accounting, the business owner is not able to show the financial health of the business to stakeholders. Accounting is important for a lot of the decisions that the business needs to take and has a crucial role in the preparation of the financial statements.

I am now going to show different processes used by business where accounting is used and is very important. (IMS Proschool, 2019)

Corporate budgets

Accounting information is very usually used to help businesses create budgets, business forecast, estimate its finances for the future and also plan its future operations according to that estimate. In a vast number of business, the budget process is a way to make the annual planning of a company, in order to develop a corporate budget, the business will have to do a project plan which will decide the amount of goals and time and also the costs of the project.

Due to the use of accounting data from past years, budget preparers have numbers they can use when forecasting sales and expenditure amounts for the next year. In the budgeting process it is calculated the sales forecast and cash collection estimates, it is also calculated projected cash balance and forecast of financial statements. This data benefits the business, so they are able to have an estimate of their upcoming year performance.

In order to achieve goals, the business needs to develop a strategy in an achievable way. Corporate budgeting will allow the management to come up with a strategy that will make sense to lower levels of the business. In this process of the business the accounting information it's the most important aspect so the goals and business strategies can be achieved. (Smallbusiness.chron. com, 2019)

Business analysis

The accounting data is not just used to forecast the performance of a business in the next year, it can also be used to analyse the performance of a business after the business year has finished. A lot of business owners check their accounting information every month and compare their actual sales, expenditures and the profit performance to projected performance. They do this so if they analyse that there is a substantial difference between the projected performance against the actual performance, they can apply changes to their business in order to perform better and achieve the projected performance. It is important for business to often review their account information because this will permit the business to identify small

issues in the business before they become larger issues and start affecting the business in other ways.

Business can perform business analyses by using several methods such as swot analysis, PESTLE analysis, activity diagrams, feature mind maps and others. The method chosen will be the one that more suits the business.

Accounting plays a critical role in this process of business because if business do not have accounting figures to look at they will not be able to review their performance from the past year or month and they will not be able to see where they need to implement changes. (Smallbusiness. chron. com, 2019)

Benchmarking

Benchmarking is used to measure how the company, services, products are performing compared to other companies considered the best in the market. The objective of benchmarking is to recognize opportunities to improve internally in the business. When analysing other businesses with better performance and understanding what makes them superior to other companies and then implementing some changes in your own company according to what you have analysed in the best company, the company will perform better. When applying benchmarking there are 4 steps to have in account:

1. Have an understatement of existing process of the business.
2. Analyse the business process of other companies.
3. Make a comparison of own company performance with other ones.

4. Apply the necessary changes to be able to perform better in comparison to the business analysed.

There are different types of methods that can be used to do benchmarking and some of them are:

Internal benchmarking which is used to do a comparison of businesses that have a similar process inside their company

Competitive benchmarking which is used when a business wants to change their mind about the performance of key products and services.

Generic Benchmarking this method is used to compare the processes and performance of companies in different industries.

Functional benchmarking which can be used to improve business activities or services.

These are just a few examples of different types of benchmarking strategies that can be used to improve the performance of the business by comparing to competition.

This also demonstrates how accounting information is used in business, and how important it is for business. Benchmarking makes good use of accounting of other companies and also our own company and from that we are able to make decisions that will help our company perform better not only externally but also internally. (tutor2u, 2019)

Material and Inventory costs control

Accounting is also essential calculating all the material and inventory costs. Material control is a process that will make sure that all the material needed in the right quantity and quality will be available at the right time and at the best price. This process has functions such as stock control, purchasing, receiving and inspecting materials and storing and issuing.

Materials are a very important asset for business, and it has to be carefully studied in order to find the most appropriate in terms of price, quantity and quality. The success of most business depends a lot on the efficient material purchasing, storage, accounting and utilization control. It is impossible to create good costing information if the recorded information of material issued are not properly done, it is important that the cost account produce a good record of all the material bought. (Accountingexplanation. com, 2019)

Bookkeeping

Bookkeeping is another process that is used by companies and accounting is crucial for this process. Bookkeeping is the recording of the daily financial transactions of a company. An appropriate bookkeeping will enable companies to keep track of all information on its books in order to make the right operating, investing and also financial decisions.

The bookkeepers will manage the financial data of the companies. If companies don't have a bookkeeper or do bookkeeping, they will not be able to know their actual financial position in the market, and also the transaction that take place in the company.

Bookkeeping is also very important for the external users of the company such as investors, financial institutions, government as they need to be able to acquire information about the company so they can make investments and lend money. (Corporate Finance Institute, 2019)

Bookkeeping records helps business do to a lot of business decisions, bookkeeping can help the company recognize opportunities to make money, they can avoid cash-flow problems and they can also find different way of how they can decrease expenditure and increase income.

All the economy of the company depends on a reliable and accurate bookkeeping for internal users and also external users. (Smallbusiness.chron. com, 2019)

We were able to see some of the different processes where business require the use of accounting data, accounting is a crucial mechanism for businesses , it a allows businesses to make decisions , allows them to plan the future of the business , it allows them to record all the transactions made by the business , it enables businesses to review the business and find flaws in the system so the business owners can change what needs to be changed in order to increase sales and stimulate revenue growth.

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