

Healthy Accounting Function

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The health of the accounting operation impacts the overall health of the company! This may seem exaggerated at first glance, but it is true. These are some indicators of health relating to a financial accounting function.

Firstly, the frequency and timeliness of accurate financial statements and reports. In many companies, financial statements are prepared monthly in order to disclose the results of the business activities for the previous month and/or quarter. These statements and reports often show comparisons with and changes in the numbers reported for prior periods. If the company is to maintain a healthy financial condition, some numbers must decrease while others increase. The reverse is also true. So then, the reported numbers, changes between periods in terms of dollars and units, and changes between periods in terms of percentages serve as important bases for decisions made about future operations, months and periods. Consequently, future planning and financial adjustments that directly impact the health of the company are dependent upon the availability of accurate financial reports.

Secondly, the presence of qualified and well-performing accounting staff. From the view at 30,000 feet, a healthy financial accounting function has staff and procedures to:

- Collect, record and reconcile business transactions as they occur,
- Analyze and report the results of those transactions accurately and consistently in accordance with the applicable accounting rules,
- Maintain records to support what has been recorded and reported;
- Facilitate audits and the preparation of tax returns and reports.

The nature and size of the business, the system(s) being used, and other factors contribute greatly to the depth of knowledge needed by the staff and the size of the staff. Some will perform the recurring tasks such as recording customer and vendor activities, receiving and making payments, and processing deposits and transfers. Other staff will formulate and post entries to the general ledger, perform account reconciliations and analyses, create budgets, track variances, prepare financial statements and reports, handle audit requirements, and prepare tax returns. This list could go on. But it clearly indicates the need for knowledge in and skill with accounting rules, control procedures, and tax requirements. This knowledge and skill may be gained from a combination of internal staff and external service providers; but there is no way to avoid this need.

Thirdly, the ability to consistently meet external reporting deadlines. Depending upon the size and nature of operations, type of business structure, and funding of activities, there are a myriad of external reporting deadlines that must be met. These include reporting to the IRS, banks and other funders, state revenue departments, customers, employees, auditors; and other agencies, authorities and stakeholders. The frequency of these reports varies; and there could be a variety of consequences that accompany missed deadlines. These could cost in dollars and put at greater risk the company's ability to continue in business.

At minimum, these three factors indicate good or bad health to the accounting function. Opinions about their order of importance may vary. But the health of the company is clearly dependent upon them.