

What is the Ultimate Role of Accounting?

According to the Stanford Graduate School of Business, “The role of accounting...is to provide a common language and a consistent set of reporting rules that everybody understands in the same way. The market has come to rely on accountants as the keepers of economic history” and as a basis for determining the market value of a business.

Predict Company Earnings

The most important component of a company’s market value is based on the expectations of its future earnings. Accounting reports should provide investors and other interested parties reliable information they can use to make their own forecasts of future earnings growth. Yet, ironically, the number of complaints filed against businesses because of overvaluations as a result of internal control weaknesses has been significantly higher than in previous years. What can be done about this problem?

Strengthen Internal Controls

It is critical that you test for risks and weaknesses in your procedures in advance. Isolate flaws and work on implementing improvements right away. If cash flow is a problem, look for delays in billing cycles, ineffective payment terms or chronic late paying customers.

Institute Checks and Balances

Make sure you have documented checks and balances for each accounting process. Do not have the same person perform multiple accounting functions that are not reviewed by at least one or more other professionals. The mere fact that each step may be checked by an independent and objective party can be a huge deterrent to potentially fraudulent behavior.

Follow-up on Customer Complaints

Follow up on any complaints from customers, vendors and financial service providers regarding inefficient accounting policies or procedures immediately. These can be early warning signals to big problems looming in the future.

Control Access Rights

Most accounting software programs give its users the ability to edit and delete previous transactions which could lead to easy concealment of misappropriation of funds. Business owners should retain global access to the company’s accounting system and restrict user access to only the areas necessary for specific functions. A review of voided and deleted transactions will show any adjustments or deletions and can be instrumental in exposing irregularities.

Understand Your Financial Statements

Business owners should review financial reports and understand the trend and changes in their financial data. Focus on understanding month to month and year to year variances between budget and actual amounts.

Schedule Regular Third Party Reviews

Internal controls with independent and objective third party reviews are critical. You should have an accounting professional diligently review bank statements, check registers, bank reconciliations and payroll records regularly. These steps are best performed by one of [Pacific Crest Group's Outsourced Chief Financial Officers](#) because they have years of experience in this area.

Pacific Crest Group provides professional services that keep your business focused on your critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward looking perspective, we provide the outsourced solutions your business needs to grow. A PCG professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.