



Effectiveness of Accounting on Businesses and Individuals



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A) Abstract:

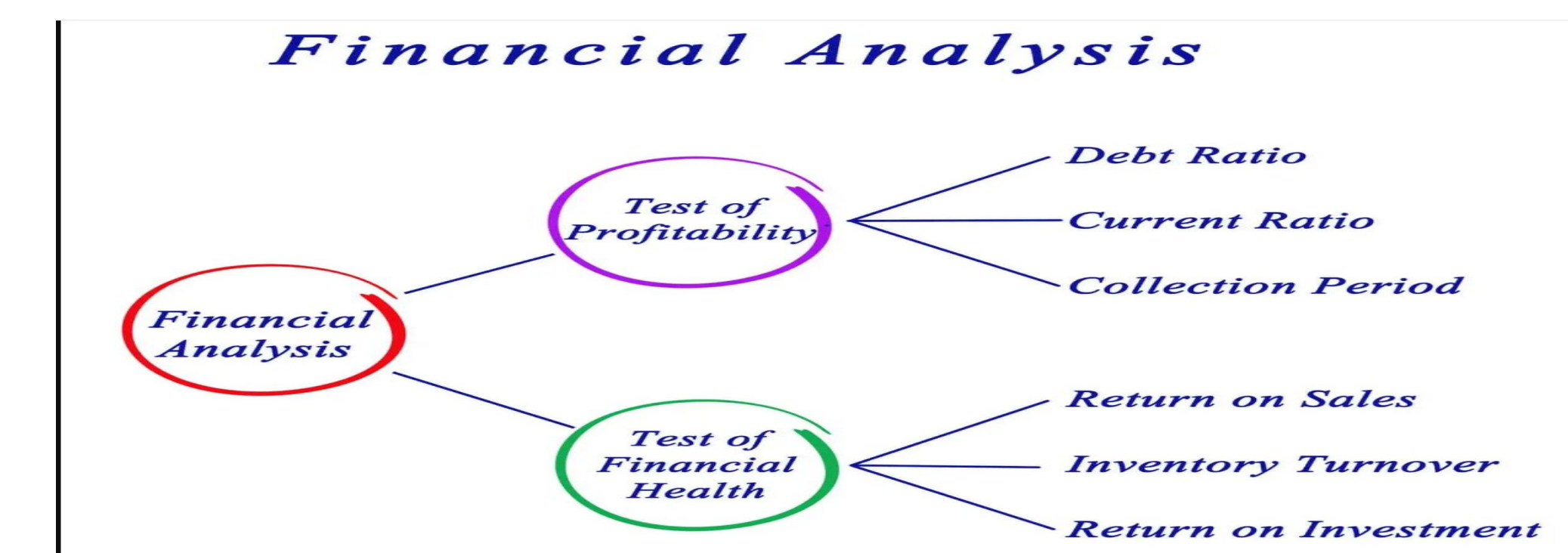
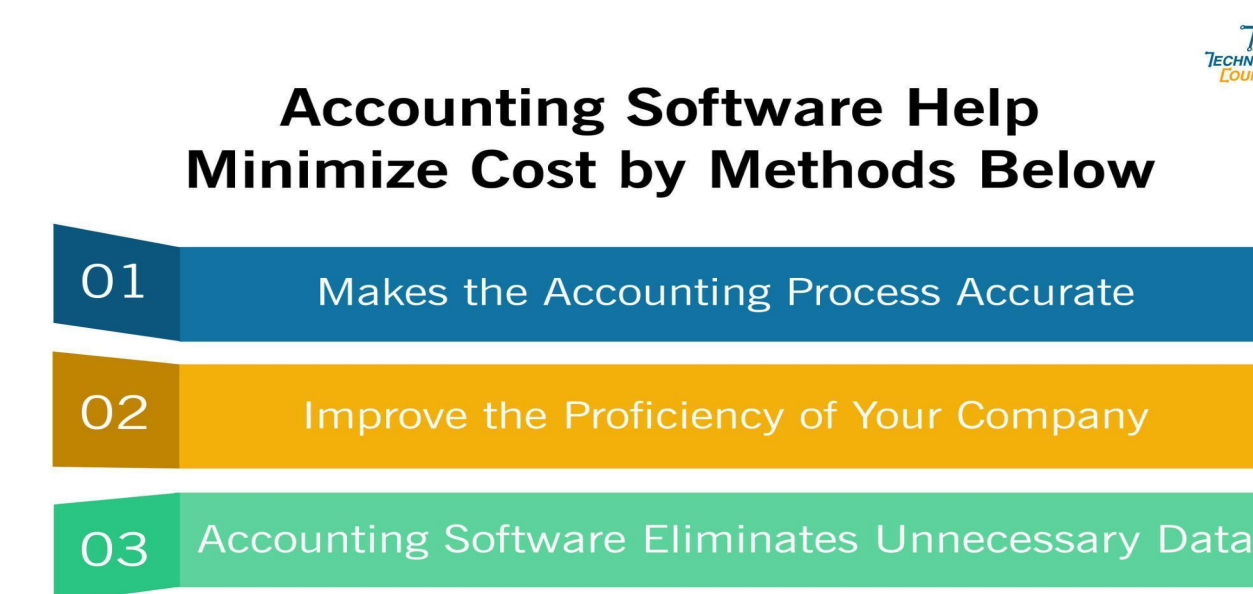
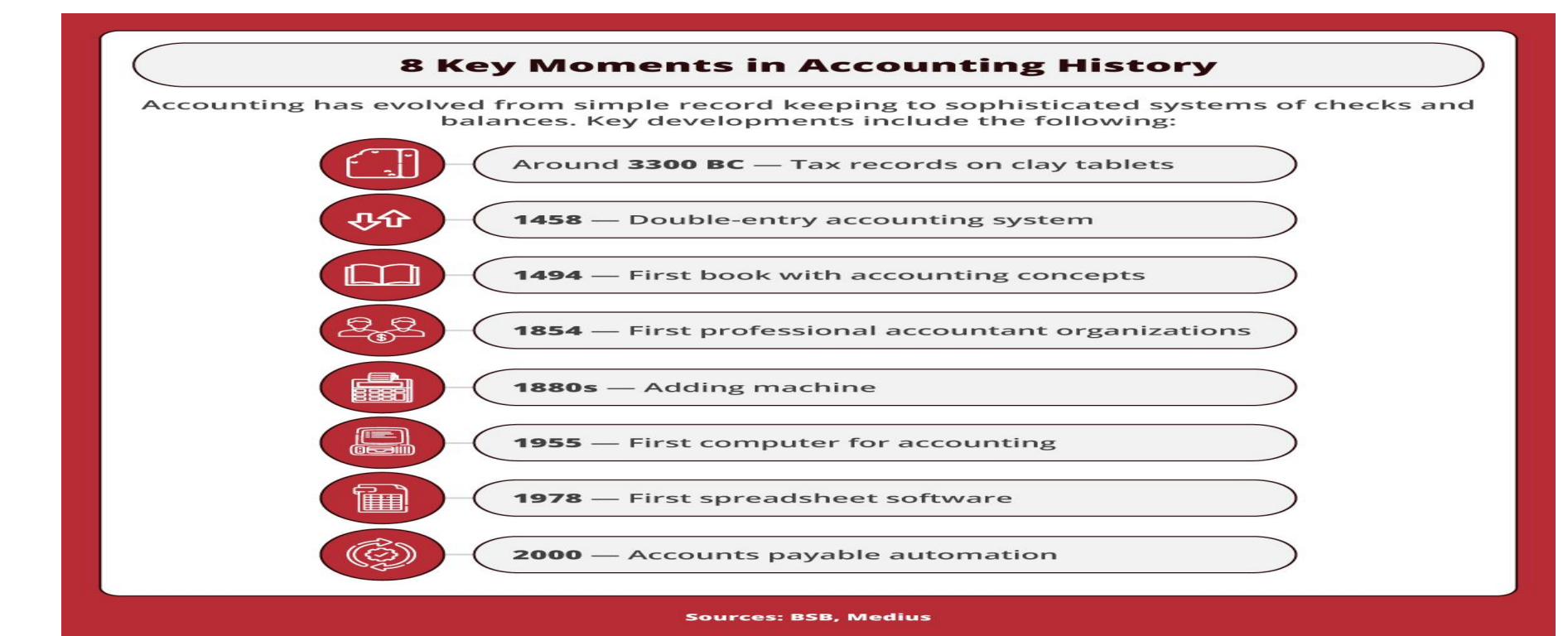
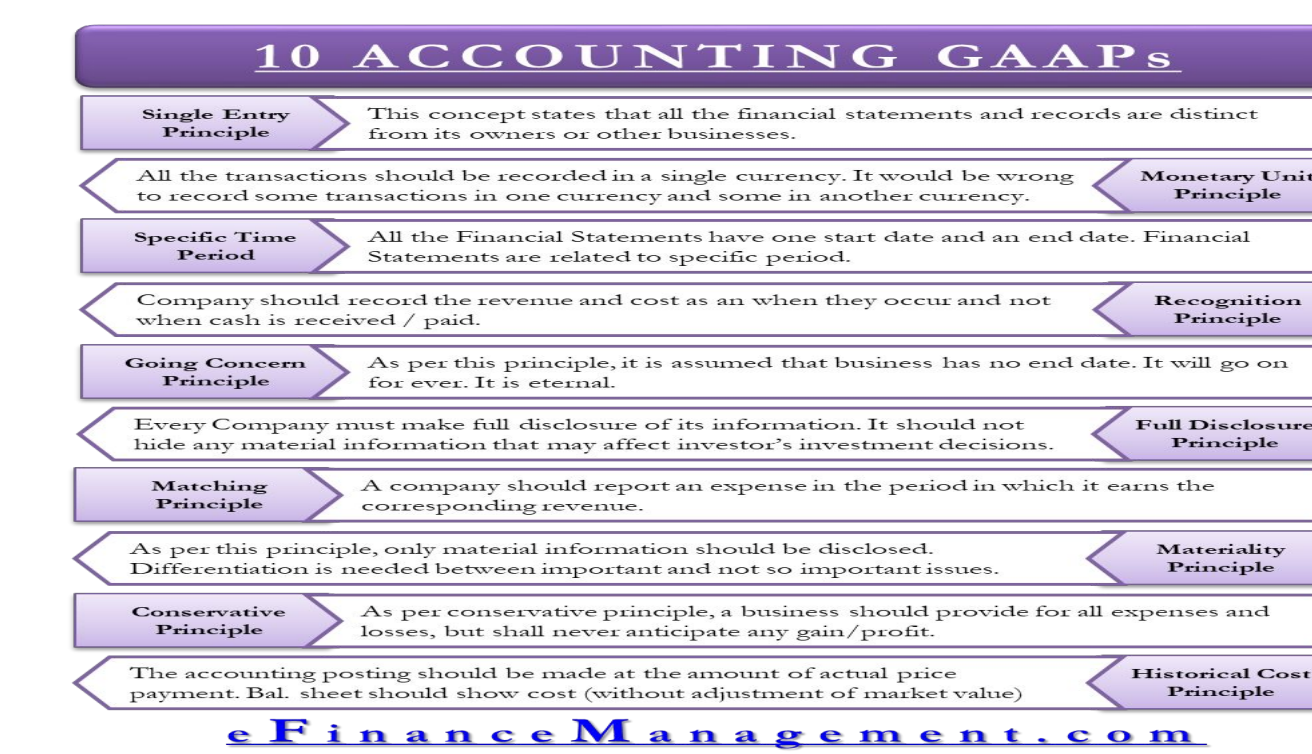
Accounting is a valuable tool for every business. It helps businesses reach a superior level if the transactions and statements are free of material errors. An effective accounting system is vital for a business and individuals because it can provide a fair and sufficient presentation to investors and stockholders. This is why accountants must ensure that the transactions are recorded, reconciled, and summarized effectively and efficiently.

A-1) Introduction GAAP Principles

- Every accountant or accounting firm follows the ten basic accounting principles for an effective accounting system. Ten fundamental principles, which GAAP guides, help a business monitor and attest to its financial condition.
- GAAP helps govern the world of accounting according to general rules and guidelines. It attempts to standardize and regulate accounting definitions, assumptions, and methods across all industries. Ten accounting principles help apply the same standards throughout the reporting process, from one period to the next, and strive to fully disclose all financial data and accounting information in financial reports.

B) Timeline of recording transactions in accounting history

- Understanding how we record accounting transactions over time is also essential. Throughout the years, accounting evolved from a simple recording to a complex system for recording, summarizing, and investigating financial outcomes.
- According to accounting history, Benedetto Cotrugli invented the double-entry accounting system and introduced the foundation for modern accounting in 1458.
- William Burroughs invented the adding machine, improving accounting's speed and accuracy in 1880.
- In 1955, General Electric made the first purchase of a computer to perform payroll processing.
- VisiCalc was the first spreadsheet software to allow financial modeling on the computer in 1978.
- In modern days, much user-friendly software exists to record transactions, reconciliations, and file taxes.
- 8 key moments in accounting history are also described in this poster.
- From the 1880s till now, the computer for accounting and software has developed gradually. Accounting software is vital to the success of an adequate accounting system because it simplifies accounting management, reduces errors in calculating, and maximizes tax savings. It also improves the proficiency of the organization.



How does accounting software help minimize cost?

How can a computerized accounting system improve the productivity of the business?

1. Computerized accounting software helps match expenses to customer invoices.
2. It also lets employees record their working hours online and track the time.
3. It also helps accept digital payments, which reduces costs and paperwork.
4. Customers can upload tax information via an online portal, which will help reduce the time for employees, and businesses can focus more on helping clients gain larger tax refunds and provide better opinions on clients' businesses.
5. The bank statements and financial records can be linked to make it easier to record, reconcile, and correct errors quickly.
6. It can also help generate reports and compare the costs.
7. Online accounting software enables to calculate the payroll, produces tax forms, and provides tax penalty protection.
8. It can also produce informative and accurate statements.

That's why computerized accounting systems and software help reduce costs and improve business productivity. On the other hand, using computerized accounting software and system can make accounting systems more accurate and effective. It also helps improve the proficiency of the company. It also helps eliminate unnecessary data, such as operational expenses and keeps laws and regulations updated. It will also create more profit for the company because a software-based accounting system can help you predict and prevent financial bottlenecks.

D) Purpose of accounting system and its financial statements

Accurate accounting records help an organization keep track of its financial situation, position, and market share. Maryville University states that individuals and businesses keep accounting records for taxation purposes. On the other hand, it is to keep track of income and expenses. Around 3,000 B.C., historians believe that Egyptians used accounting to control the pharaoh's wealth and protect against fraud. Throughout history, accounting has evolved from time to time. However, the concept has always stayed the same. The main concepts are to measure performance, track monetary transactions, protect against fraud, and ensure regulatory compliance. Financial accounting satisfies the main concepts and assists the accountant with compiling financial information for outside parties. The financial statements that highlight the summary of the business's liabilities, assets, shareholder's equity, gain, and losses are:

1. Balance sheet:
 2. Income Statement:
 3. Statement of Cash Flow:
- A company's balance sheet provides tremendous insight into its solvency and business dealings. Balance sheets can provide the risk factors of cash, accounts receivables, and short-term and long-term debts. So, the business can focus on how much cash is needed to put aside for future investments and debts.
 - A company's income statement indicates how much profit the company generates before and after tax. It also shows the effectiveness of the business's strategies at the beginning of a financial period.
 - A cash flow statement can help determine whether the company has enough liquidity to pay its expenses. It is also to measure the long-term future outlook of the company.
 - Professionals must present the correct data in each statement to avoid wrong conclusions and judgments from outside parties.
 - A reliable financial statement can provide a snapshot of financial health, giving insight into the company's operations and cash flow. Investors, market analysts, and creditors use the financial statement to evaluate a company's financial position for making decisions and expanding the business if necessary. Thus, the balance sheet, income statement, and cash flow are equally crucial for the company and the users.
 - Another essential purpose of the financial statement is that accountants can analyze financial ratios, compare data, investigate inconsistent findings, make corrections, and adjust. Financial ratios such as earnings per share, inventory turnover, working capital ratio, quick ratio, and debt to equity ratio can predict the company's profitability, liquidity, and efficiency in the short and long term. It also helps visualize how the company has performed over the period. That's why responsible parties, including management and accountants, should be cautious with presenting correct financial statements to users, clients, third parties, and creditors.
 - By testing profitability and financial position, investors can make informed decisions on a company's liquidity, profitability, solvency, efficiency, and valuation. The below chart shows the relationship between ratios, profitability, and financial health. The more reliable financial statements, the better financial ratios can perform to make significant decisions.

Works Cited

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- Since the financial ratio relies on the information from the financial statements, each company needs an adequate accounting system to produce reliable and appropriate financial statements. That concludes the purpose accounting system and its financial statements.
- On the other hand, financial accounting utilizes a series of established principles and also maintains the purpose of providing consistent information to shareholders and investors. For example, revenue and expenses can determine the net profit and loss of the company and report ownership of the company's future economic benefits. The purpose of financial accounting is to gain information on operations.

E) How is an effective accounting system helpful in planning, controlling, and help to prevent fraud?

- Planning is vital for individual and every business's success. Planning helps organize the business strategy and implement the company's goal. Planning also helps develop an effective accounting system.
- Likewise, an effective accounting system supports audit planning and internal control system.
- Suppose the financial statements are reliable and the accounting system is effective. In that case, it can enable the auditor to obtain sufficient evidence, help reduce costs, avoid client misunderstandings, and clearly understand the client's business.
- The risk of material misstatements will be reduced if the accounting system is reliable. It will be easier for an auditor to access, evaluate, test the statements, and provide reasonable opinions.
- Financial ratios and statements are essential to an effective accounting system, primarily when a business gets audited for merger and acquisition.
- An effective accounting system must have a clean opinion on statements because the auditor can obtain sufficient appropriate evidence for circumstances and maintain a good reputation.
- An effective accounting system can reduce the risk of business failure.
- Financial ratios can highlight a business's condition, including economic decline.
- An effective accounting system can support managers in developing internal control to prevent and deter fraud. The system also provides help to assess the risk of material misstatement.
- An effective accounting system can help external auditors to collect evidence and measure risks.
- Fictitious revenue, premature revenue recognition, and manipulation of adjustments to revenue can be accessed by performing ratios. Hence, the company's solid financial ratio can help support in assessment.
- An effective accounting system can help auditors to reduce the misappropriation of assets, including inventory and cash.
- A company with effective internal control, organized documentation, and high security will help reduce the risk of misappropriation of assets.
- Thus, an effective accounting system is helpful in controlling and preventing fraud.

F) Conclusion

In summary, an effective accounting system helps reduce unnecessary operational costs, produces reliable statements, provides accurate financial ratios, accumulates evidence for auditing, deter risks, and prevents fraud. Hence, it is required to have an effective accounting system for every business to plan, control, and implement the goal of the business. Implementing the business goal is essential because it can tell the business to focus on weaknesses and expand the market. Additionally, financial accounting can help gain information on operations and highlight economic conditions. Hence, an effective accounting system is essential.