


CHAPTER I

INTRODUCTION AND INFORMATION IN GENERAL

1. The Purpose and Scope of Study

Accounting is a vast subject which tends to become more and more complicated as a result of the intricate needs of the business world today. As the business expands and branches out to various fields, accounting requirements become more and more complex; how the operation of the business can be controlled and managed profitably, how the top executive can make decisions on policy matters for the progress of the business, etc. Many of these problems will be solved if the organization has an adequate accounting system.

While accounting system may be set up in conformity with known standards, it is usually made to fit the requirements of a particular business organization for which it has been intended. It is normally the product of thorough and careful study by knowledgeable experts. A system that worked out effectively and satisfactorily must be designed and installed with particular reference to the organizational needs of the business; and with religious adherence to generally accepted accounting principles.



The selection of this particular topic for this thesis is due to the recognition of the importance of accounting in a business organization most especially so when this is based on a sound and adequate system.

The Scope of study of this treatise is based on book research and the author's experience in Accounting Division of the International Financial Organization. This treatise is also the result of observations and compilation of techniques which are in actual use in design and installation of accounting systems.

2. Nature of Accounting and Its Use in the Business World

Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.¹

¹American Institute of Certified Public Accountants, Accounting Terminology Bulletin, No. 1, p. 9.

Accounting also represents an effective tool and aid to business organization. It provides a service not only in measurement of profitability but also in management and control, in formulating, implementing and appraising policies, bringing about coordination of activities, planning for and controlling day-to-day operations within the business. Accounting data also helps in studying specific projects of a business and reporting to the owners and to other interested groups outside the business, including creditors, governmental agencies, prospective investors, employees and the general public. It can be seen that the use of accounting is very broad and helpful to all involved in business. It is for this matter that the author realizes the significance of a sound, comprehensive and adequate accounting system. However, this thesis will place more emphasis on techniques of system installation.

3. Broad Purpose of an Accounting System

The executive is interested in making decisions based on the information he can get from an accounting system; decisions which will increase the returns on the capital he is employing. The answer to this is an adequate system in the organization under an able accountant who has the courage to deal with corporate resources on any other than custodial basis. He must

be able to integrate into one whole system, modern and effective managerial control tools in such a way that the reporting under the system not only tells management what has happened but also highlights important areas for future consideration and attention.

An effective accounting system provides cost-saving in different forms. The most obvious purposes in accounting system installation is to eliminate unnecessary steps, papers, records and reports so as to use up less time, labour and equipment. More straight-forward procedures are easier to understand, reduce error and confusion, facilitate supervision and increase the predictability factor of the time it will take to do a job. The good accounting system should not only make standards of performance possible but also practicable.

The function of accounting system is to help management, analyze policies, procedures, practices, prepare charts and analyses of work flows and performance. It determines improvements necessary to simplify or reduce clerical and administrative work. It arranges for employee training in required techniques, and develop job performance standard as a tool of management. Accounting system also recommends use of equipment that will raise efficiency and improve control.

It can be seen that accounting system assists executives to fulfill organizational objectives as revealed implicitly from the implementation of accounting system.