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In this edition, we explore the importance of an accounting system and its critical components.



Food for Thought!

- a) Do you have an effective accounting system in place?
- b) Are your records in order?
- c) Are you knowledgeable of your financial performance?
- d) Is your financial information secure? What measures have you taken to reduce the likelihood of mishandling personally identifiable information?



Consider this scenario: You enter your business, only to find officials from the IRS greeting you at the door. Next, they ask you to produce financial documents that support the earnings stated on your tax return. It would be a breeze if you have an efficient accounting system with well-maintained records. Wake up from the impending nightmare by establishing a good accounting system, and fear not when you receive a visit or a notice from the IRS.



IRS Publication 583 states, "Everyone in business must keep records. You need good records to prepare accurate financial statements."

IRS. "Publication 583." *IRS*. IRS, Jan. 2015. Web. 30 Dec. 2016.

Every business needs an accounting system to record its transactions, track its performance, and plan its activities. The accounting system generates information that helps oversee operations, make tactical decisions, and implement strategic initiatives.

Per the Cambridge Dictionary, an accounting system "is the set of principles and methods used by organizations for recording and reporting financial information." An accounting system is made up of people, processes, and technology.

Every business, small or large, for profit or nonprofit, must pay close attention to its accounting system to be successful.

People: Your people operate the system. Make sure they are adequately trained, have the necessary certifications, and the right attitude.

Processes: The process provide a consistent way of running the system. If your processes are not documented in a procedure manual such as an accounting manual, you are setting up your company for failure if someone leaves. Not only that, you are exposing yourself to incorrect and inconsistent treatment of transactions.

Technology: In this 21st century economy, your use of technology enhances your productivity. Customize the best hardware, software, and connectivity for your business. The rewards would be substantial.



Looking ahead.....

In our next edition, we will explore the impact of financial management on a company's performance.

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