



## **Accounting System Design: Creating the Right System for Your Company**

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To maintain any kind of successful business, the accounting system is crucial. All businesses require an accurate, streamlined accounting system to provide them with the up-to-date financial information that drives all their daily decisions.

An accounting system is a set of structured accounting devices, procedures and controls made operational with a combination of manual and computerized methods. These systems are designed to gather, record, classify and analyze timely financial data, which can then be translated into well-informed decisions.

The importance of a good accounting system means that it must be designed with great care. There are a few fundamental considerations for the design of any successful accounting system. First and foremost, the information must be collected, classified, and delivered to the specifications of your particular business. In this capacity, management is of particular use as they can help to determine what data will be most important, and in what manner that information ought to be furnished for optimal practicality. While possessing the flexibility to meet all the demands of the company in question is of exceptional importance, it is also crucial that the system is structured enough that it possesses an efficient network of internal controls and methods for reducing the chances of user error. Your system must also be quick so that it can provide up-to-the-minute data, while simplifying, instead of complicating, your work.

With these goals in mind, there are a few key components of a practical accounting system that must be addressed. If these issues are dealt with carefully, it is possible to design a system that provides for all incoming and outgoing finances, and delivers timely data with minimal manual input required.

### **The Chart of Accounts**

A chart of accounts (COA) is a compiled list of the accounts in use. It typically categorizes the items for which money is transferred, either incoming or as an expenditure. The chart of accounts will be composed of all the individual accounts that comprise your company's overall accounting structure. The list can be constructed using any kind of numerical, alphabetic, or alphanumeric system.

In a COA the individual accounts, or "buckets," are the nominal codes that make up the overall nominal ledger. It provides an easily comprehensible structure with which your company's financial health can be viewed and understood. The chart of accounts ought to provide a means of displaying your company's financial information in a way that is both comprehensive and easily digestible.

The chart of accounts is the foundation of a good accounting system. Your chart ought to be both flexible and streamlined so that it can be adapted to the particular conditions of your company, as well as easily understood. Keeping your chart of accounts simple is crucial for creating a tool that is practical for day-to-day use. However, the COA also should be comprehensive enough that it allows the amount of granularity necessary for useful financial analysis.

### **Be Flexible**

A common mistake made by many businesses today is to try and modify their accounting system software to accommodate their historical operations and methods, instead of adapting their internal processes and procedures to work with the new system. While it is important to configure your accounting system to your company's particular needs, it is unadvisable to be too inflexible about your existing processes.

There are currently many excellent accounting system software packages on the market, which have generally been well tested and have a good performance history. These systems will typically contain up-to-date processes that may, ultimately, be better suited to your business than the operations you were using previously.

However, there are still some issues to be aware of with modifying your operations to suit a new accounting system package. One common problem with custom modification is that such changes may cease to work properly when the vendor upgrades the underlying software. In such cases, changes can sometimes result in additional costs and frustrations, as well as interruptions to company operations.

### **Keep it Simple**

While it is important to ensure that all the necessary components are included, be wary of overcomplicating your accounting system. The system should be intuitive and designed with the specific needs of the company and its industry in mind. It should also be designed so that it requires minimal effort, which in turn reduces the likelihood of user error and guarantees that all the data produced is accurate.

### **In Conclusion**

A modern accounting system, customized to suit the needs of your business, can be an invaluable tool in guaranteeing your company's success. With timely financial information your management team can deliver informed decisions that ensure the long-term success of the company. When designing such a system, there are a few important factors that must be kept in mind:

- First and foremost, build your accounting system on a flexible, streamlined chart of accounts.
- Be open to adapting to existing systems. While your new system ought to be designed to coincide with the particularities of your company, it can sometimes be more useful to modify your historical operations to suit your new, modern accounting system software package.
- Keep your system simple. Though it is important to include all the necessary pieces, be wary of overcomplicating your system, as this can make it more difficult to use and, consequently, more error-prone.

Sometimes it can be difficult to walk the thin line necessary to accommodate all these issues, without overbalancing into a system that is too simple or too complicated. Los Angeles CEOs and CFOs may find it helpful to consult with an outside expert like a CFO services firm that can advise objectively on the best strategy, while leaving your employees free to focus on other tasks.

## References and Further Reading

What is a Chart of Accounts; Accounts and Bookkeeping; August 2008

<http://www.itzbits.co.uk/business-articles/67/What-is-a-Chart-of-Accounts.html>

Design of Accounting Systems; Jyandeep Tripathi & Vijyendra Singh Niranjani; Devi Ahilya University

<http://www.slideshare.net/ramaniak/accountingsystem>

*Note: Recognized expert Charles Zlatkovich's following 1958 article demonstrates that the basic principles of accounting system design haven't changed significantly over the years.*

Some Principles of Accounting Systems Design; Charles T. Zlatkovich; The Accounting Review; Vol. 33, No. 3, July 1958; Published by American Accounting Association

<http://www.jstor.org/discover/10.2307/241181?uid=3738032&uid=2129&uid=2&uid=70&uid=4&sid=55965813583>

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