



## CHAPTER II

### GENERAL SURVEY OF THE BUSINESS ORGANIZATION

Before designing and installing an accounting system for the business firm, the first step is to take a general survey of that particular business in order to determine the needs and requirement of the business. It is necessary to step in and take a look at a general view of the business in order to determine its general and special requirements.

#### 1. Administrative Staff

An important means in determining the requirement of the business is to interview the administrative staff and find out about the policies laid down by the business which must be in conformity with government requirements as well as generally accepted business practices. In this connection, the systems analyst must know the following basic information:

a. What administrative departments are there, who are the principal officers and their duties?

b. Are there meetings of heads of departments; if not, what steps are taken to ensure coordination and cooperation between departments?

The techniques to be taken up for system installation is to obtain a list of the names of the principal employees, and make a note on his interest in the business, his method of working, his readiness to respond to suggestions, his judgment and responsibility.

With regards to these principal employees, it should always be borne in mind that each and individual case must be studied so that the system may well adapt the methods and procedure to fit the needs of the case in question. One of the most common faults of system design is to overload a business with a too big system and cumbersome to meet its needs. So after the system is installed, it is often changed materially because it is too impracticable and too difficult to operate for the business for which it was designed. The system analyst should therefore apply his personal techniques and judgment based on accounting knowledge to construct a practical and most effective system for the business organization.

## 2. General Accounting Practices

After the study of keymen of the organization, the survey of the general accounting practices should be taken up. The system analyst should find out about the following facts:-

- a. Who signs the check and who countersigns it?
- b. Who approves petty cash vouchers and the check disbursement vouchers?
- c. How are incoming mails handled? Is there a mail clerk in charge of them directly?
- d. Who has charge of outgoing mails? How are outgoing letters copied and filed?
- e. Who approves journal vouchers?
- f. Who approves write-offs for bad debts?
- g. Who approves purchase orders?
- h. Is there a credit department? If there is, who approves credit sales and discounts allowed?
- i. How often must the books be closed in order to determine the result of operation and how much additional work is necessary if they should be closed at shorter intervals?
- j. How to arrive at the cost of sales? This is an important point because the profit or loss for the period under review depends to a large extent upon the accuracy of the cost charged against sales.
- k. What subsidiary ledgers are needed to be kept? In almost all business of medium size, subsidiary ledgers for accounts receivable and accounts payable must be maintained.

### 3. Personnel

One of the important factors in running business is personnel. To constitute the new system in a particular organization, the personnel management must be carefully analyzed in order to help the executive run the business effectively. Some of the problems to be included in the survey should be as follows:

a. Is there a personnel department which determines the fitness and capabilities of prospective applicants?

b. Is there a given standard as to each employee's qualifications and experience in each field?

c. Is there a personnel record? How are promotions in position and how are salary increased?

d. Is there an efficiency record for each employee? Who submits them?

These should be considered as guide to the executive in order to help the administration to achieve high efficiency in the business. The system analyst should therefore include this kind of survey in his techniques in accounting system installation.

### 4. Evidential Matters

Evidence is very important in keeping records. The business cannot make any entry if there are no

supporting evidences. So, the survey of the business must consider evidential matters which may be divided into two categories. The first would include data used internally or within the organization; the second would embrace the type of evidence developed outside the sphere of normal organization's records and routine.

a. Internal evidences are the books of account and all of the collateral memoranda and documents incidental thereto, which support transactions, such as journal entries, checks, vouchers, invoices, bank statements, contracts and minutes of the meetings of board of directors.

b. External evidential matters may be taken to embrace whatever evidence the external auditor may use to supplement the internal evidence. These include confirmation of accounts receivable, accounts payable, bank balances, and inspection and observation of the physical existence of the assets of the business.

So, in the survey of organization, the evidential matters should be analyzed and clarified as follows:

a. What routine documents are presently used by the business? Are they adequate and satisfactory? Do they need some modifications in the procedures of executing them and disposition made of their copies?

b. Are the books of record competent enough to contain all the necessary informations of the business? Is there any modification needed?

c. Are the books of account complete to control the operation of the business? Do the subsidiary ledgers tally with the control in the general lodger? Do they need some modifications?

d. Are the supporting documents pre-numbered? Are they all accounted for?

#### 5. Internal Check

One of the most important matters that must be determined in the survey is the degree of internal check to be applied. Some of the questionnaires with regards to internal check may be summed up in brief as follows:

a. Is the same person doing the work of both cashier and bookkeeper?

b. Is the cashier given access to the customers' ledger?

c. Who approves invoices for payment? Is he the same person who issues checks?

d. Is the payroll clerk the same person who pays the salary to the employees?

e. Is the person receiving the customers' orders, the same person who ships the goods?



f. Is there a purchase order for all purchases?

Who approves purchase orders?

g. Is there a petty cash fund? Who approves petty cash vouchers?

h. Who checks the inventory on hand? Is he the same person who delivers goods from stock?

The system analyst must bear in his mind all these questions pertaining to internal control so that the accounting system designed by him should provide for all the necessary internal checks.

#### 6. Equipment and Labor Saving Devices

Equipment and labor saving devices presently in existence or are to be bought, must not be overlooked by the system analyst. By equipment and labor saving devices is meant the filing cabinets, typewriters, adding machines, calculating machines, bookkeeping machines, etc. Emphasis is needed for this topic because machines serve as a labor saving device and provide another form of internal check. Adding machines, as an example, can hardly be dispensed with in modern business. It is an aid in the performance of computations for long additions. Sometimes subtraction processes can also be performed by some adding machines where special key for subtractions is featured. Multiplication can also be possibly executed by an adding machine.

Calculating machines perform computations involving arithmetical processes of addition, multiplication, subtraction and division.

Nowadays, we even have machines which perform the recording of transactions to the journal and summarizing similar accounts in the form of ledgers.

Here the outlook of the system analyst is to determine whether or not the functions of the machines suit the needs of the business. The system must correlate with the machines to be used.

With regards to equipment, same could be the guiding factor in determining the size of the forms. The forms printed might not fit in the filing cabinet, hence the form or the filing cabinet might have to be discarded sooner or later.

It is also necessary to take note of all the pertinent information which the system analyst might come across in the by-laws, incorporation papers, and minutes of the meetings of the stockholders, board of directors, and executive committees. These data could be useful in system installation.

The degree and intent of the scope of the survey will vary with the kind, volume and complexity of the business. So, in installation the accounting system





one must exercise utmost care and skill in serving the needs of the client with sufficient and adequate internal check.

In the course of survey, the system analyst must take notes on the information obtained, the wishes of the client and all other pertinent information that will help attain the purpose of installation. From these informations, judgment and opinion can be formed as regards the best procedure to be adapted in the installation of appropriate system suitable to the needs of the client and yet be in accordance with sound accounting principles appropriate to the kind of business under study.