

CHAPTER TWO

THE ROLE OF THE ACCOUNTING AND FINANCE DEPARTMENT

Financial accounting, payroll, budgeting, management accounting, taxation, treasury

The aim of this chapter is to describe the role of the accounting and finance department and how it fits into an organization's structure.

No business can operate without an efficient supply of finance. It is the lifeblood of all organizations and the common denominator by which most business performance is measured both internally and externally. The accounting and finance department is at the centre of any organization and is responsible for ensuring the efficient financial management and financial controls necessary to support all business activities.

A good finance director needs to understand every aspect of a business so that s/he can develop a financial strategy that will support the business goals. Likewise, as a non-financial manager, it will help you become more effective in your own role if you have an understanding of the various roles of your organization's accounting and finance department.

The principal roles of the accounting and finance department, under the overall control of the finance director, can be conveniently grouped into:

- financial accounting;
- financial systems;
- payroll;
- budgeting;
- management accounting;
- taxation;
- treasury and financial planning;
- supporting the business strategy;
- creating value.

Financial accounting

This is concerned with keeping account of all transactions, using the double entry bookkeeping system and preparing final accounts suitable for meeting the various regulatory requirements for statutory reporting, the stock exchange and taxation authorities. The person responsible for this function in most medium to large organizations is the financial accountant, who will normally report to the finance director. Specific responsibilities of the financial accountant include:

- the recording of all transactions, using the double entry system;
- the maintenance of all ledgers, including purchases, sales and nominal ledgers;
- maintenance of the cash book and reconciliation of bank accounts;
- reconciliation of all accounts;
- preparation of accruals and prepayment entries in the accounts;
- keeping a fixed asset registers;
- debtors' control, debt collection and customer relations;
- creditor relations and supplier payments;
- stock reconciliations;
- recording of value added tax or similar taxes such as goods and services tax;
- completion of tax returns;
- extraction of a trial balance;
- preparation of final accounts, including a profit-and-loss account, balance sheet and funds statements;
- liaison with auditors and with taxation authorities;
- all external financial reporting;
- day-to-day banking relationships.

Financial systems

Medium- to large-sized organizations may employ a systems accountant, who will analyse the financial information needs of an organization and review existing systems. S/he is responsible for the design and maintenance of financial systems and for providing an interface between the finance and technology/systems departments. Within the accounting and finance function a systems accountant may report to the financial accountant, management accountant or financial director.

Systems accountants are involved in the implementation of change processes within the finance department and may manage new financial systems projects. They may also be required to assist other users of financial information.

Payroll

Larger organizations will have a paymaster or payroll manager. In smaller companies this task may be performed by the financial accountant. The payroll department is responsible for the following functions:

- liaison with taxation authorities to ensure that employer and employee details are correct and that taxes deducted are paid;
- receiving tax code notices and applying the correct tax code for each employee;
- completing returns to the taxation authorities;
- receiving timesheets and clock cards;
- ensuring basic pay, overtime and bonuses are calculated, recorded and paid and that deductions for taxes and pensions are made;
- ensuring employees are paid on time, using payment systems such as BACS or other methods;
- reconciling payroll accounts;
- providing advice to employees and the company.

Budgeting

In a larger organization budgeting may be carried out by a budget accountant. In a medium-sized company it may be undertaken by the management accountant.

Budgeting is concerned with the financial evaluation of plans and with reporting against this, normally on a monthly basis. Budgeting may include the following activities:

- helping managers prepare and evaluate their plans;
- preparing departmental budgets and consolidating them into a company budget;
- preparing an operating budget and a capital budget;
- obtaining approval for budgets;
- preparing reports that compare actual expenditures against budgets;
- analysing variances and seeking explanations;
- liaison with the financial accountant and the treasury manager.

Management accounting

Management accounting is concerned with the analysis and control of financial information to assist in the day-to-day operations of an organization. Most medium- to large-sized companies will have a management accountant responsible for this function who will report to the financial director. Management accounting includes, but is not limited to, the following activities:

- investment opportunity appraisal;
- cost and revenue estimates;
- budgeting as described above;
- analysis and decision making;
- capital investment decisions;
- management controls over the efficient use of resources;
- financial analysis.

Management accounting and financial accounting overlap in that management accounting reports are often based upon information derived from the financial accounting records. For example, the 'actual' expenditure figures shown in management accounts will be taken from the financial accounting records. Sometimes financial accounting and management accounting are integrated. An example of this would be the fully integrated standard costing system where the financial accounts are structured in such a way as to provide cost and management information directly.

Taxation

Most large companies will have a taxation department dealing with all tax affairs. In a smaller company this may be handled by the finance director or possibly the financial accountant.

As well as day-to-day taxation management and reporting, all decisions made by a company will have tax implications and these need to be identified and built into the decision-making process and financial plans. Not only does tax have to be accounted for but cash needs to be made available at the right time to pay it to the authorities. Tax does, therefore, affect cash planning and budgets.

Tax evasion is illegal and, in addition, most countries also have anti-avoidance laws. It is the tax department's responsibility to ensure that all laws are complied with. A brief list of the tax manager's duties includes:

- tax planning;
- understanding the taxation implications of decisions, trade and investments;
- double-taxation treaties;
- transfer pricing;
- direct taxation;
- company or corporation taxes;
- profit taxes;
- income taxes including Pay As You Earn (PAYE);
- capital gains tax;
- indirect taxation;
- VAT, goods and services tax, sales taxes;
- managing relations with taxation authorities.

There are many aspects of taxation that are open to debate and argument. This is why it is important to understand the taxation implications of business plans. Some companies adopt a more aggressive stance than others when dealing with a taxation authority. Others, often large multinational companies that value global relationships at a government level, may want to be seen as responsible tax citizens and adopt a more conciliatory approach. A large multinational company will have tax managers, some of whom are accountants and others who are lawyers specializing in taxation. Counsel's opinion will also be sought on aspects of tax law that are unclear.

Treasury and financial planning

Large corporations will have a treasurer with responsibility for the treasury function. The treasurer will normally report to the financial director. The treasurer is responsible for the efficient provision, investment and use of funds. Treasury responsibilities will include:

- cash management on a day-to-day basis;
- medium- and long-term cash planning;
- liquidity risk management to avoid running out of cash;
- interest rate risk management;
- foreign exchange risk management and understanding exposures;
- foreign exchange dealing – buying and selling currency;
- using derivatives, futures and swaps to help hedge against exposures;
- issuing debt;
- share issuance and capital structure;
- managing relationships with corporate and business bankers.

Supporting the business strategy

The finance director is a member of the executive team and is responsible for providing a financial environment that supports the business strategy. The right mix of short-term and long-term finance and equity funds needs to be available to meet the organization's aspirations and to provide the organizational agility needed to benefit from future opportunities. All managers have a primary responsibility to create value, and a primary responsibility of the finance director is to enable them to do this. Accordingly, financial strategy must first and foremost be integrated with the business plan.

Creating value

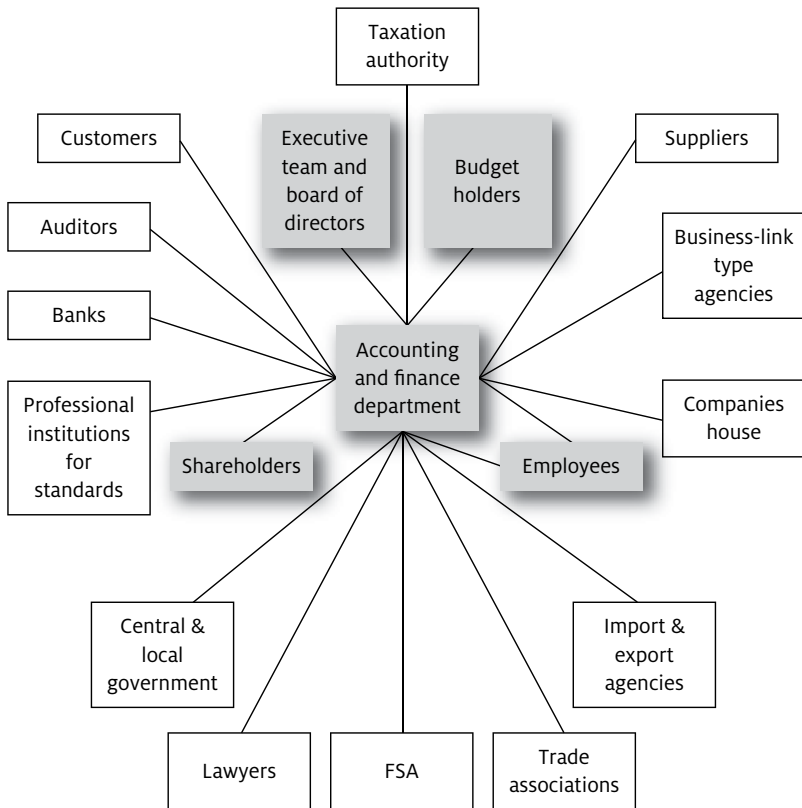
Within the context of the business plan the finance director has a responsibility to create value. This can be done through, for example, obtaining the best possible borrowing rates, cutting/controlling costs, reducing financial risks, improving debt collection, better cash management and many other activities that are discussed later in this book.

The 'mechanics' of these roles will be explained in more detail in the following chapters.

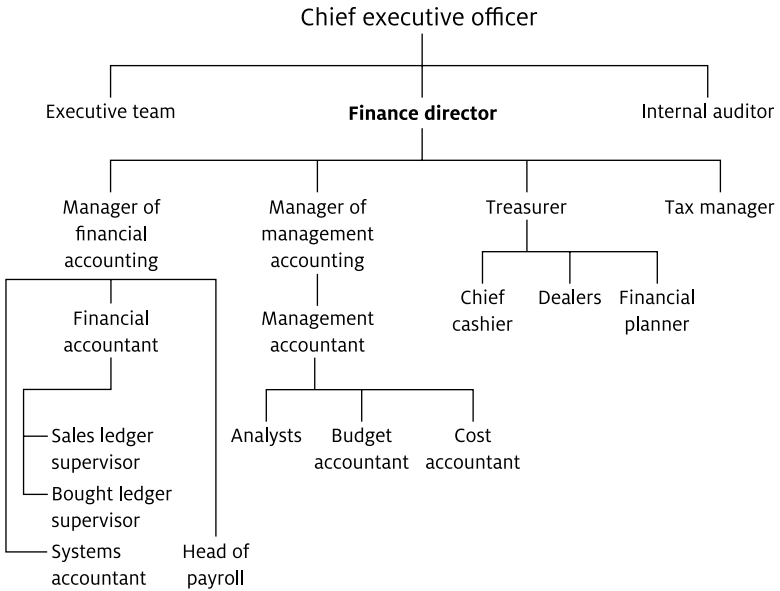
Accounting and finance department relationships

The accounting and finance department manage a number of internal and external relationships. These are detailed in Figure 2.1 below. Figure 2.2 shows the organization of a typical finance department.

FIGURE 2.1 Accounting and finance department relationships



Internal relationships shown as shaded.

FIGURE 2.2 Organization of a typical finance department

This chart shows the principal finance officers in a medium-sized organization. The number of staff reporting in through the principal officers will vary according to the size of operation and volume of transactions. In a small company the finance director often performs most of these functions him/herself often with just an assistant.

Summary

The finance director has overall responsibility for the accounting and finance department of an organization. He/she is a key member of an organization's senior management team and will be involved in all key decisions in addition to ensuring that day-to-day financial, legal and statutory requirements are met. The principal duties are: financial accounting, payroll, budgeting, management accounting, taxation, treasury and financial management. A primary responsibility is to ensure that the financial strategy is integrated with the overall business strategy, that there is adequate finance to support the business strategy and that the finance department adds value to the company.