What Numbers Can Be Crunched Offshore?

Case study 14.1

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1. Applying the section of the text on pp. 443-448, entitled “Tools of The Accounting Trade,” discuss those factors in the accounting statements that we think are most important to consider in deciding which parts of the accounting system you would outsource.

Users of accounting information are interested in a company’s assets, liabilities, shareholders’ equity, revenues, and expenses (Kimmel, Weygandt, Kieso, & Treholm, 2006). For several purposes, it is customary to arrange this information in a financial report supported by four different financial statements that are the backbone of financial reporting. They are the Statement of Earnings (a statement of earnings reports revenues and expenses to show how successful a company performed during a period of time), the Statement of Retained Earnings (a statement of retained earnings indicates how much was distributed among the shareholders of a company in the form of dividends, and how much was retained in the business to allow for future growth), the Balance Sheet (a balance sheet represents a picture of what a company owns (its assets), what it owes (its liabilities), and its net worth (its shareholders’ equity) at a specific point in time) and the Cash Flow Statement (a cash flow statement shows where a company obtained cash during a period of time and how that cash was used).

To share sensitive information to write these documents could imply a risk for the companies. These four statements contain both general information and detailed information about the company activities (Kimmel et al., 2006). These activities could reflect strategic decisions (example of activities and sensitive information are: stock issues, short and long term liabilities, cash policy, cash flow, cost matrix, revenues, salaries expenditures, retained earnings, shared expenditures, paid taxes, prepaid obligations) that could reveal or give clues of how the company works and its strategic plans. In addition, this information contains the
source of data for index rates composition, that they could be strategic for the company future. To disclose this information to an outsourced company could imply serious risks. Finally, the risks have a different impact if the company is a private, public, non-for-profit organization (Smith, Morris, & Ezzamel, 2005).

2. Applying the section of the text on pp. 449-452, do you believe that it is possible for “outsourcing companies” to maintain the accounting reporting standards and practices? Explain.

General accepted accounting principles (GAAP) are a recognized set of principles used in financial reporting. These principles are established by the Accounting Standards Board (AcSB), an independent standard-setting body created by the Canadian Institute of Chartered Accountants. The Accounting Standards Oversight Council, with representation from business, finance, government, academy, the accounting and legal professions, and regulators, oversees the activities of the AcSB and provides input. In Canada, most of the companies follow these principles through acts and securities legislation. In fact, all companies that they trade shares or debt in public must follow GAAP principles; but most of not public companies also follow these four accounting GAAP principles (the cost principle, full disclosure, revenue recognition principle and matching principle) (Kimmel et al., 2006).

This Canadian approach have set a local base of accounting reporting standards and practices that it slows down the increase for outsourcing in the accounting process. Based on the pursuit of the Canadian principles and practices, some advantages of the outsourcing could decrease their positive impact. Otherwise, the Canadian companies could choose to develop
their accounting process with foreign companies knowing that it could mean the decrease of accounting quality in reports and statements.

The Canadian approach is evolving. In a global economy, many investment and credit decisions are based on an analysis of foreign financial statement. Accounting principles can differ from country to country based on different standards, laws and regulations. The lack of uniformity adds uncertainty to the global system and the different countries have been developing global accounting principles. The Accounting Standard Board (AcSB) had been trying to harmonize Canadian GAAP with that of both the U.S. and international GAAP. This was difficult to do, however, because international GAAP are principles-based, similar to Canadian GAAP, while U.S. GAAP is more rule-based (Kimmel et al., 2006). This U.S. GAAP has some disadvantages (based on rigid and cumbersome rules, more expensive of implementing, and allowing loopholes that many believe leave the system open to abuse (Kimmel et al., 2006)).

Globally, it exists the International GAAP, known as International Financial Reporting Standards (IFRS), which is based on principles. This allows to Canadian GAAP to have an easier adaptation to the International GAAP (both are based on principles). The AcSB proposed that public companies adopt IFRS by 2010. The adoption of the IFRS will unify global standard setting (Weetman, 2006). This global standardization through IFRS could significantly change the baseline for outsourcing accounting. Thus, the Canadian accounting reporting practices and standards will evolve through a global process. This will occur with more emphasis in the big and public companies, but also the smaller public companies and then the private, and non-for-profit organizations should evolve in the same direction.

The ratio analysis expresses the relationships between selected items of financial statement data. There are three general types of indexes that are used to analyze financial statements: liquidity, profitability, and solvency ratios. Ratios can help underlying conditions that may not be easy to see when the items of a particular condition are examined separately. Also, the ratio could have a representation in itself, but it is very useful to compare the evolution over the time, or the performance related with the average industry performance or a particular competitor (vertical and horizontal analysis).

These ratios are key in several decision making process (e.g.: shareholder reactions, company strategy); they are based on final information taken of the four financial statements. As conclusion, its calculation does not have special concerns when the financial statements are public. For those companies that they do not publish its financial statement, it could represent risks having this information shared with outsourcing companies. For private companies, these risks decrease if we move a step forward in the analysis of the use of these indexes; also private companies are obligated to disclose its financial situation (and support it by bonds) when an important event occur with the company (e.g.: important contract, change in ownership). As conclusion, specifically referring to these ratios, the risks are minors.
4. What are the reasons for accounting firms or companies outsourcing the accounting function?

Most companies prefer to outsource their finance and accounting to off shore destinations. India, with high-skilled jobs finance, seems to be the most preferred spot for outsourcing accounts services agreements (Nicholson, Jones, & Espenlaub, 2006). The most important reason is that by outsourcing their accounting operations companies can save a huge amount of money and concentrate more on their core competencies, but also companies know that they should deal with some risks (Smith, Morris, & Ezzamel, 2005).

The main advantages of accounting outsourcing are to save non-labour cost, save labour management costs (employee cost and recruiting and training cost when the people start the job or due to changes in laws and regulations), develop the accounting work with very trained professional labour (people with high experience in a narrow subject), faster work (due to the high specialization, training and productivity), availability of the last technology (processes, software), and concentrate its effort in the company core competences being more specialized (the company do not need to spend resources in other than the core business).

In other way, the accounting outsourcing has some disadvantages, the main are confidentiality and security (already discussed), lack of alignment with local practices and standards (already discussed), lost of control (outsourcing requires the control of the process by transferred to the service provider), discourage people at the financial department in the company (they could feel threat due to outsourcing), and troubles if the service provider refuses to provide business (e.g. due to bankruptcy, lack of funds, labor etc).
Works consulted


