

Concepts...

"Concepts" is published by Daedalus Oversight to raise as many questions as it answers. It is driven by the belief that the industry, its products and its services are ever evolving. The ideas reflect the challenges faced in the continuous journey of innovation and improvement.

The Affront to Accounting:

"Any fool can make things bigger, more complex, and more violent. It takes a touch of genius--and a lot of courage--to move in the opposite direction." - Albert Einstein.

The business cart has been in the front of the accounting horse for too long. Consider that in analyzing a business, the financial reports are the first items to be considered, yet from a processing standpoint, they are the last thing to be completed. Historically this was because a business transaction had to be completed prior to an accounting entry being recorded. In a world without computers this was fine as the pace of business matched the monthly cycle of accounting. With the advent of computer technology, the number of transactions could be increased but the process logic was the same. As with much new technology, the first uses derive benefits from making the older processes work faster rather than differently. It takes a revolutionary thought in the application of a new technology to really make a big difference.

The industrial revolution provided steam power to many manufacturing processes. The factories were organized in cells around the steam engine power units. With the introduction of electricity, the first electrical factories mirrored their steam counterparts, mainly because the power units were replaced as is but also because no one thought to do it differently. The great demand for cars at the start of the 20th century lead Ransom E. Olds (of Oldsmobile fame) to increase productivity by creating the assembly line in 1901. This revolutionary idea took advantage of the fact that electricity could be delivered to smaller power units arranged in a linear line to fit with the manufacturing process and assembly. Henry Ford, often wrongly attributed with this invention,



From this angle, the accounting entries do reclassify the risks!

gained his greater notoriety by improving on the idea with the addition of a conveyor belt.

For a radical approach to accounting, I would suggest an inverse change as compared to the industrial analogy. Consider moving from an institutional linear posting logic of accounting entries in a centralized reporting group to a decentralized, business-oriented posting model. How can that be achieved? Electricity revolutionized manufacturing by allowing the flexible placement of machines related to their linear processes and freed them from required centralized power units. The internet, new technology and modern databases can now free technological processes from their historically linear designs, to become decentralized, combined and simultaneous, business and accounting

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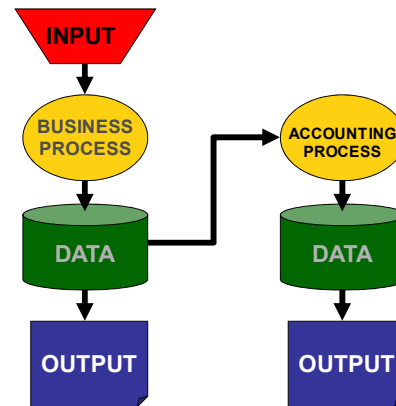
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processes. The limitations of historical technology required a holistic design. Input/Output interfaces, process logic and data storage and retrieval. For accounting, the 'process' data stored is then passed to a ledger posting application and an accounting reporting package. However, new technology is making input/output interfaces uniform and standardizing data storage as well. Those functions are taken care of now; the key design challenges are the logic, efficiency, elegance and effectiveness of the process application or 'app'. We are now walking around with standardized interface tools (ipods, smart phones, mini-pc's) linked to standardized data storage (cloud networks, business/social network sites). Our key choice as consumers is which 'apps' we use with these tools. This technological methodology needs to be applied to institutional technological processes.

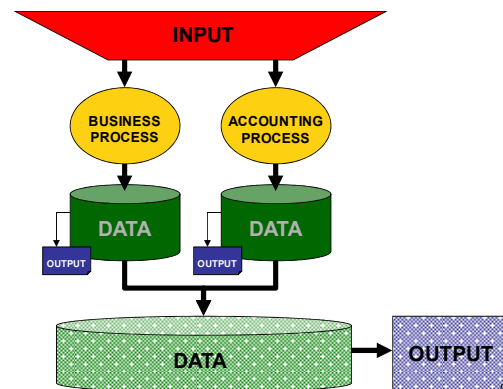
For the benefit of becoming much more flexible and efficient alone, businesses should be moving to this technological format. However, rather than making the accounting another 'app' post process, the accounting plan and posting logic should be brought to the front and have its parameters incorporated into the design of the 'business process app'. The accounting data can always be enriched or aggregated later, but the original entries should be generated in real time with the business process. The accounting horse, or the means by which you assess a business cart, is now rightfully in front and proactively driving the business decisions rather than just retroactively scoring them.

This may be met with some resistance. As I argued in "The Dullness in Accounting", there are powerful reasons why organizations want to centralize and separate the accounting function.

Historical "Linear" Business Process & Accounting Logic:



A Data Replication Architecture combined with Input Integration



However, with a real-time and a more direct assessment of the financial reporting impact of a business, a key catalyst to the current and future financial crises may have been avoided. That and further potential errors in regulatory oversight proposals are the topics of the next newsletter.

Paul F. Dowding

Daedalus Oversight would be pleased to discuss the realization of these concepts with you further. We thank you for your consideration.

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