

Skill Development Benefits through Finance and Accounting Outsourcing –An Overview.**Dr. B.C.M.Patnaik, Associate Professor****School of Management, KIIT University, Odisha****Dr. Ipseeta Satpathy, Professor****School of Management, KIIT University, Odisha****Chandrabhanu Das, Research Scholar****School of Management KIIT University, Odisha****Abstract**

The present paper is an attempt to understand the various benefits derived with the help of outsourcing the services of finance and accounting of an organization. This basically helps in improving the profitability, reduce the cost and at the same time achieve the higher level of excellence in work. The paper is basically a conceptual one and in this regards secondary source is being used for understand the benefits in outsourcing of finance and accounting services.

Key words- Skill, Finance and Accounting, Outsourcing, Corporate

The outsourcing of Finance and Accounting services has also grown at a faster pace due to complex regulatory and tax environment in India and lack of skilled man power for specialized accounting and financial transactions. The fierce competition from industries to improve the profitability, reduce costs and achieve higher levels of excellence in Corporate Governance has made the job of CFO/Finance controller daunting and challenging. Added to that the increased risk of compliance and maintaining ethical standards in Book keeping to face the tough regulatory environment has made the scenario more complicated than before. All this requires a team of specialized experts and efficiency in processes as well as retention of manpower. These aspects may not be handled significantly by employees in payroll.

Whenever there is a need and a service is there to fulfil the need the demand for that service increases. This is the reason behind the increase in demand for Finance and Accounting outsourcing when several firms are there to provide such kind of services. These firms offer services that increase the efficiency in business processes, own the burden of risk and regulatory compliance, perform routine transactions

smoothly and are cost effective. Many of the firms have assisted the Multinational companies who wanted to establish their operations in India by making their journey smooth sailing in the Indian accounting, Taxation and regulatory environment. Some of the firms have even gone an extra mile in providing strategic inputs for decision making to CFOs and Top management.

Although the list of the FAO (Finance and Accounting Outsourcing) services offered by the firms is exhaustive a few of the services are discussed to demonstrate the effectiveness of outsourcing to handle the financial and regulatory complexities.

1.1.1. Payroll processing

Most of the firms need to have a reason for outsourcing Payroll as it is an essential part which can be outsourced so that Accountants can be involved in more crucial tasks. The Outsourcing firm which better handles the Payroll activities can build a sustainable relationship with a client. As firms want their strategy of Outsourcing Payroll to be correctly managed else firms may search for other alternatives like in – house training even though it may be a costly affair.

The underlying reasons why outsourcing payroll can be effective than hiring in house staff are:

1.1.1.1. Reliable Storage Data:

The Backup database may not be taken care of by employee when he decides to leave the company. Payroll being monotonous job employee attrition may be high. Hence frequent change over may put a question on data reliability.

1.1.1.2. Cheque Maintenance:

The recording and maintenance of cheques apart from the day to day job may put pressure and dissatisfaction for the employee. This job is relieved once outsourcing is done.

1.1.1.3. Knowledge of Legislative changes:

The requirement of skilled staff is necessary in this area who has good knowledge of various legislative changes associated with it. Many employees require tax planning and proper investment advice. These all may not be possible at one time by in house staff. This can only be done by the outsourcing firm with help of skilled and trained staff.

1.1.1.4. Reporting:

There are various reports to be processed like PF deduction details, salary slips and Form 16 for employees in multi locations. All these reports have to be produced timely and accurately. These jobs can be outsourced for better efficiency.

1.1.1.5. Tax deduction and Filing:

Appropriate and timely Tax deduction to be done and the same has to be reported timely by the pay roll staff to the government authorities. These jobs when outsourced can result in savings of cost which may have been incurred due to loss incurred by penalties.

1.1.1.6. Tax Rate Update:

Maintaining the Tax Table and updating changes due to any amendments is one such area that can be outsourced for better performance.

1.1.1.7. Handling Employee Complaints:

Many a times Employees complain about their excess deductions or error in calculation of arrear salary, leave postings or leave updating etc. These complain can be handled effectively by the outsourcing staff.

1.1.1.8. Other associated services:

Outsourcing firms can go to extra mile by offering retirement planning and retirement solutions to employees who will retire from services after few years.

Hence for companies who have to incur a huge cost for payroll staff, database maintenance of payroll and for whom risk has to be mitigated associated with payroll as well as want increased convenience can outsource their payroll activities to reliable outsourcing firms.

1.1.2. Fixed Asset Management

Fixed assets constitute a significant portion of Company's assets where proper monitoring needs to be done for effective utilization. Even timely disposal and sale of assets can reduce the cash burden on the company and maintenance issues. Error free accounting and reliable data are also major concerns for a firm maintaining a large amount of fixed assets. Outsourcing can effectively address these challenges as described below.

1.1.2.1. Maintenance of Fixed Asset Register:

The Fixed Assets register has to be accurately maintained with proper coding of assets and an appropriate linking for tracing during disposal or sale. Sometimes smaller assets or assets which are in due process of addition may not be added due to clerical error associated with it as lot of time are involved in tedious data entries. Hence during auditors tracing inaccurate data will be found due to improper linking which will make the auditors lose confidence on integrity and storage of data.

Outsourcing firms can feed proper details even the location where the asset is installed and purpose for which the assets was purchased all in a proper format specified by the organization. The register will be updated timely and proper depreciation rates are to be maintained. Outsourcing firms can also improve the processes of maintaining the Fixed Assets Register and implement best practices so as to have smooth functioning and make the data reliable for the auditor.

Specified database software can be installed by the Outsourcing firms for maintaining Asset register and Inventory so as to have a better control and analysis of Fixed Assets utilization and disposal.

1.1.2.2. Depreciation Accounting:

Calculation of proper and applicable depreciation rates can give a correct picture of net value of assets. As per applicable rates provision has also to be calculated with greater accuracy also to have a reliable picture of net value of assets. All this can be taken care of by outsourcing firms.

1.1.2.3. Addition and disposal of Fixed Assets:

Systematic accounting and recording of fixed assets needs to be done along with proper reasons for disposal of assets. Any addition or deletion of assets has to be done correctly. Whether any increase in addition of fixed assets are meeting the requirement of firm's capital budgeting needs are to be analyzed. All these activities can be outsourced for proper tracking of Fixed Assets and management.

1.1.2.4. Physical Verification of Fixed Assets:

A major challenge is to reconcile the physical assets to the fixed assets register. Inspection of all machinery to be done to see if proper bar codes are labeled to identify the item code whether it is matching with the code mentioned in the fixed asset register. Identification of any new machinery erection or purchased to be installed is crucial. The same should be kept in track for codification through

proper procedures. Similarly identification for disposal of machinery with tracking of codes and maintaining proper records with reasons mentioning the disposal of assets thereof.

All this will avoid to a large extent the discrepancies associated with physical verification and arriving at the reconciliation differences with the Fixed Assets Register. Physical verification and tagging of assets can be done by the outsourcing staff.

1.1.2.5. Planning of capital expenditure and cost estimation:

A proper planning of Capital expenditure can make the purchase of assets systematic and in a timely manner. The purchase decisions taken if informed timely will help in streamlining the process of asset addition and codification.

Cost estimation of the project is essential to see the costs incurred in purchase of assets and whether they are recorded properly and with accuracy.

1.1.2.6. Capital work in progress records:

Advices should be maintained for records of capital work in progress and periodical capitalization to be monitored. Linking of job works to records can be done effectively by the outsourcing firms.

1.1.2.7. Generation of Statutory reports:

Timely generation of depreciation and fixed assets schedule, review report of capital work in progress can be done effectively by outsourcing.

Outsourcing Fixed Assets management can effectively overcome the challenges faced by Small and Medium organizations. It depends on the client whether to outsource fully or a part of the fixed assets management.

1.1.3. Accounts Payable

Accounts payable function has to be carried out efficiently for better working capital management, improved vendor relationship and timely supply of goods and services. Delay in processing of bills will ultimately delay the payment process. Hence the supplier may refuse to give material or may supply the material with stringent payment terms.

This may also affect the relationship with other vendors. Hence outsourcing can be a better and cost effective alternative. Instead of buying costly software and maintaining it the organization can benefit

from the outsourcing firm can benefit from the advanced technology and skilled staff. The benefits are described below:

1.1.3.1. Proper document management:

Sorting, Indexing, maintaining batches storage and retrieval of documents in a step by step and phased manner can be carried out by outsourcing firms. Assisting in auditing of Invoices and availability of scanned invoices are the facilities enjoyed by outsourcing accounts payable. All these documentation jobs may be perceived as cumbersome and repetitive by accounting staff and hence may not be handled efficiently by them.

1.1.3.2. Expedite Invoicing Processing and discrepancies:

Two way and three way matching of Invoices, data entry, processing incoming mails and routing of invoices for approval and resolution are all performed by the outsourcing firm. Any discrepancy in Invoices and duplicate Invoices are informed through proper channels as specified by the organization. Approved invoices are also sent through proper routes for payment. All these jobs are done within the specified time limit.

1.1.3.3. Payment Mechanism:

Storing, Printing and disbursement of checks, handling of bounced cheques are all the services that can be outsourced. Electronic payment mechanism can also be outsourced for better services. Proper maintenance of checks and maintaining of house bank accounts is one area that can be efficiently handled.

1.1.3.4. Report handling:

Preparation of aging reports, advance schedules, expense reports and exception reports can be generated and submitted in a timely manner for proper analysis. Exception reports about price and quantity discrepancy if submitted timely can help the top executives in prompt decision making.

1.1.3.5. Effective vendor reconciliation:

Sending balance confirmation reports to vendors in a timely manner, resolving their grievances through proper dispute settlement mechanism, reconciling their balances with entity books can help build a long term relationship with the vendor. Reconciliation of vendor accounts when done timely can resolve a lot

of disputes and will help in prompt delivery of goods and services. Hence this is one thrust area where outsourcing firms can provide effective solutions.

1.1.4. Accounts Receivable

The financial soundness of any business can be properly judged by seeing the trend in Accounts receivables vis-à-vis Sales. Hence it is a vital department for improving the Cash flow in any businesses. Improper reporting and analysis of Debtors can affect the profitability of the enterprise. Hence cost effective, scalable and skilled expertise is very much needed in this area. The outsourcing firms can help very much in this area by providing better services which enable quicker payments and improved cash flow.

1.1.4.1. Proper Credit management:

Timely controlling and monitoring the credit limits and analysis of credit terms can help a lot in avoiding bad debts and control the debtor outstanding. Setting a proper collection mechanism and having a proper credit score for each customer can reduce bad debt losses. All these require advanced processes and skilled expertise in a cost effective manner which can be provided by outsourcing firms.

1.1.4.2. Timely Billing and Payment adjustment:

Proper coordination with sales and logistic team for timely generation and submission of Invoices to customer is required for getting prompt payments from customer. Sending mails to customer in a timely manner for advances and due invoices can help in increasing the cash flow to the company.

Similarly proper adjustment of Invoices with receipts can reduce the outstanding as well as give a clear position of Debtors. All these repetitive and huge tasks can be done faster and better by outsourcing firms.

1.1.4.3. Expedite Credit Memo Processing:

Any penalty or rejection booked at customer end must be booked timely and credit notes must be sent timely to customer so as to have clear picture of bad debt losses and accurate provision. Inaccuracy in provision may cost dearly to the company and impact the profitability of the company. Hence proper credit note and provision mechanism by outsourcing firms may save the losses.

1.1.4.4. Effective Customer Account Management:

Tracking of customer accounts, following up with customer for payments, sending memos and legal notices for long pending overdue cases as well as cheque return cases are all tedious jobs when the transactions are large. Organizations can save the cost of keeping one dedicated staff for all these areas by outsourcing the same.

1.1.4.5. Report handling:

Preparation of aging reports, advance schedules and discrepancy report in Invoices can be generated and submitted in a timely manner for proper analysis. These reports will help the senior management in prompt decision making and quick execution.

1.1.4.6. Effective Debtor Reconciliation:

Sending balance confirmation reports to customers in a timely manner, resolving their grievances through proper dispute settlement mechanism, reconciling their balances with entity books can help build a long term relationship with the customer. Reconciliation of customer accounts when done timely can resolve a lot of disputes and will help in faster payment and reduction in bad debt losses. Hence this is one thrust area where outsourcing firms can provide effective solutions.

1.1.5. Tax Preparation and Filing

The regulatory environment in India is undergoing a plethora of changes and so is the taxation system in India. Various amendments are made to the Tax Laws and sometimes a particular tax regime is abolished and a new tax structure is incorporated by government. Compliance to the new tax structure and keeping abreast with changes require specialized personnel dedicated for the job which can be effectively carried out by Outsourcing firms.

1.1.5.1. Tax Computation:

Calculation of tax payable on sales and purchases with proper invoice verification is to be done correctly. TDS calculation along with tracing whether the TDS deduction is accounted accurately in the books. All these jobs need to be carried out efficiently by outsourcing firm without the much needed cost of hiring a specialized staff.

1.1.5.2. Communication with Excise Department and Sale Tax Authorities:

Outsourcing firms can go the extra mile of being the middle point of contact between statutory authorities and client. This way they can resolve disputes and grievances by proper dispute settlement mechanism thereby having less interference of statutory authorities with the client.

1.1.5.3. Tax Advisory and Planning services:

Outsourcing firms can update and explain clients about changing regulations and tax laws. They can also advise clients on various exemptions of tax on domestic and international front.

1.1.5.4. Effective return filing and tax audits:

Outsourcing firms can reduce the compliance burden on clients by doing e-filing and various other return filing timely to statutory authorities thereby reducing the loss due to penalty.

1.1.6. Bank Reconciliation statements:

The bank balances must match with company books so as to prevent any frauds and to have better internal control over in the organization. Any unallocated credits must be traced and identified as well as all payments by the entity must be checked with the bank books. These processes can be done with accuracy by advanced technology if the job is outsourced.

Bank reconciliation is a crucial area where auditors assess the company's use of funds and how the bank balances are maintained are checked by them. Timely balance confirmation statements obtained from Banks also makes the review process during audit hassle-free.

A small and medium enterprise business entity where employees are in multitasking mode one cannot run the risk of losing control over bank reconciliation process.

Since the process may be time consuming outsourcing the same can give the owner better grip over the control of resources of firm and saving of time and resources.

1.1.7. General Ledger Accounting:

The General Ledger accounts need to be updated and maintained on a regular basis. Reconciliation of accounts is also to be done on a monthly and quarterly basis so as to ensure smooth audit trail and tax purpose.

A true presentation of financial statements is only possible if the general ledger is up dated and maintained correctly. Technically skilled and expert accountants are needed who are interested in this job of maintaining the general ledger. For companies who have recently migrated to new software from legacy system this job becomes more cumbersome where the balances have to be reconciled and erroneous transactions have to be detected and rectified. Outsourcing firms can do all these jobs without much hassle and diligently saving much of time and resources.

1.1.8. Financial statement preparation and analysis:

Clients can rely subject to reviews on certain outsourcing firms for financial statements preparation and analysis. Outsourcing firms can develop customized reports that can provide ratio analysis, profitability, breakeven and expense report analysis.

All these and many more analytical reports developed by outsourcing firms can help the senior management of the organization to take decisions without the cost and time of relying much on in house staff. The only issue is data reliability and integrity have to be shared with the outsourcing firms.

Hence as we can see the services offered by outsourcing firms are multifarious and can cover the entire scope of finance and accounting outsourcing services. It all depends on the organization to see whether to outsource all of the services or a portion of services. If firms can compromise the data reliability and integrity to a professionally reputed outsourcing firm than a much larger of finance activities can be outsourced.

It all depends on the perception of the client to what extent the client is ready to optimize its cost benefit ration, manage high attrition rate and save its time and resources by outsourcing its Finance and Accounting Functions.

Conclusion

Even though various other disadvantages are also there when the finance and accounting service is outsourced. The very major issue is confidentiality. However, the benefits at the same time cannot be ignored. The outsourcing can be successfully implemented in case of pay roll processing, fixed asset management, accounting payables, accounts receivables, tax preparation and filing, bank reconciliation statement, general ledger accounting and preparation of financial statements etc.

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