

Guide from Raymond Benn & Co. Limited

Tel: 01892 545021/549754

Fax: 01892 548956

Email: brian@raymondbenn.co.uk

Website: www.raymondbenn.co.uk

Using accounting software

Good accounting software puts you in control of your business. You can automate regular tasks, including keeping records and completing statutory returns. Once the data is recorded, you can generate reports that will enable you to run your business better.

- **How you can use accounting software.**
- **What you should know beforehand.**
- **How to get started.**

1. Routine savings

With accounting software, information is only entered once. The software automatically uses it wherever it is needed, including both the debit and credit side of the entry.

1.1 You complete pro forma (blank) invoices and bills on screen.

- The software should retrieve accounts, using an account number, name, address or other key information. The product name, code or other identifying information should also be recognised.
- Any necessary calculations such as VAT, discounts and commissions should be automatic. Check you can amend the basis on which each of these calculations are made.
- The software should check dates, customer numbers, VAT codes and other entries for accuracy.
- You can immediately print invoices, statements and remittance notes. Check whether you will need any stationery.

1.2 Routine book-keeping is done by the software.

- The sales and purchase ledgers will be updated automatically.
- Check the nominal ledger is updated regularly, to minimise invoicing delays.
- The latest information on customer status and stocks should also be readily available to anyone who needs it (see 3).

1.3 The software should also provide you with immediate updates on your cash position.

- The impact of payments and receipts on the cash position will be calculated and recorded automatically.
- The program should provide details of your bank balance, together with information on uncleared payments.
- Check the software can handle and collate different bank accounts, as well as any credit or debit cards.
- Most modern software packages will even allow data to be downloaded from your bank and automatically reconcile for a truly up-to-date cash position.

1.4 Most accounting packages offer an additional payroll module.

- Payroll software makes it easier to calculate and print wage slips.

2. Completing statutory returns

Automatic book-keeping makes it easy to prepare statutory returns and annual accounts.

2.1 Using appropriate accounting software should simplify and speed up the preparation of VAT returns (see box).

2.2 The software will make it much easier for you to deal with HM Revenue & Customs.

- You should be able to produce a statement showing profits (or losses) for the year to date.
- You should also be able to produce a profit forecast for any period (see 4).
Use this information to estimate how much tax you will owe.
- Use your cashflow forecast to show when the tax bill will arrive, and whether you will have the cash to pay it.

2.3 Some accounting packages can automate tax and VAT returns.

- You might be able to print off pre- or partially-filled return forms.
- The software might be able to send your return to HMRC automatically.

2.4 Using accounting software should allow your accountants to prepare your year-end accounts quickly and easily.

- Many companies are obliged to have their accounts audited, so it makes sense to take your accountants' advice on the selection of accounting software.
Your software must be able to maintain a satisfactory audit trail.
- All accounting software should be able to produce a profit and loss account, summarising the performance for the year.
Check the software can also provide information for any explanatory notes you want to provide with your returns.
- Any accounting software should be able to produce a balance sheet summarising assets and liabilities.

3. Management information

Accounting software gives you instant access to information you need in your daily activities.

3.1 You should be able to tighten up your credit control.

- You will be able to run reports on your total credit position.
- You can spot potential problems by analysing the information by various criteria such as geography or salesperson.
- The software should also be able to produce reports showing the payment history and outstanding balance for each customer.
This helps you determine how much credit to offer them.

Accounting software can be particularly effective when integrated with a customer relationship management (CRM) system to give your sales team access to every customer's history.

3.2 Accounting software makes it easy to establish a cost control system.

- Establish a 'standard cost' and measure 'actual costs' against it.

3.3 The software can be used to provide you with detailed sales information.

- You should be able to analyse sales by different categories, such as customer, outlet or salesperson.
- You can identify seasonal variations.

3.4 Accounting software can help you monitor your stock position.

- Movements in stock levels should be picked up automatically.
- You may need additional hardware to gather information on fast-moving stock.
For example, you may want to connect POS ('point of sale') terminals to your accounting software.

- With accurate, detailed stock level information, you can streamline your inventory, minimising the amount of cash tied up in your warehouse.

4. Preparing forecasts

All accounting software should make it easier to prepare revenue and expenditure forecasts.

These forecasts will enable you to check actual performance against your expected performance and identify where and why you have done better (or worse) than you expected.

- 4.1** You will be able to prepare budgets showing the sales and profits you expect to achieve, and the costs involved.
- The software should be able to handle recurring costs like rent and wages.
 - You can use past experience to forecast sales levels and to identify the cost of fulfilling your orders.
- 4.2** You will also be able to prepare cashflow forecasts, showing what cash you expect to come in, and when (if at all) you expect to run into problems.
- Such forecasts will enable you to take remedial steps.
- 4.3** Use of accounting software makes it easier to change your projections and to make 'what if' calculations.
- For example, you will be able to identify the effect on both your profits and your cash position if your sales assumptions turn out to be over-optimistic.
- 4.4** Making use of forecasts and detecting patterns is much easier if you can represent the information graphically.
- Check the software either produces graphs or allows you to export the information into a spreadsheet.
- 4.5** As you use your accounting software, the library of data it contains will become a valuable resource. Make sure you can draw on it to improve projections.

Your accounting software package may not be able to handle some aspects of the forecasting process that are important to you.

This is not necessarily a problem, as long as it is designed to link into a software product that can perform these tasks.

5. Monitoring performance

Using accounting software makes it easier to see how well your business is doing overall, and how well individual parts are performing.

- 5.1** You can establish a monitoring system to show how well each individual area is performing against budget, or against other comparable periods.
- You will be able to identify problem areas and probably pinpoint the reasons for poor performance. For example, if your sales are falling short of forecast, you may be able to trace this back to an underspend on marketing.
 - You will also be able to take remedial action sooner, rather than later.
- 5.2** You can use the software to determine the real performance of each department.
- The software should allow you to break down your costs for different departments, products and individuals. You can match costs with income to determine how much each activity earns you.
 - More advanced software will allow you to integrate information from different departments to determine the real costs of a project.
 - The software should allow you to measure the worth of a product or division, in terms of its ability to generate cash. For example, it may be worth maintaining a low-profit product with no long-term future if it generates enough cash to enable you to develop other products.

- 5.3** You can easily get an overview of the key performance indicators for your business through a 'dashboard'.
- This is displayed graphically and easy to understand. It can be made available throughout your company, so all employees understand how the business is performing.
- 5.4** The software should help you produce management accounts which will enable you to see how well you are doing overall.
- If you produce management accounts monthly, you will have a good idea of how well your company is performing against targets. Some fast-moving companies may want to produce them more often.
 - The accounts should cover the latest accounting period, and also show the picture for the year to date.
 - The software will enable you to check the performance of each part of the company, and produce a 'profit and loss' account, summarising overall performance.
Check that it can handle non-cash items, such as depreciation, and pre-payments and accruals.
 - You may use it to produce a cashflow breakdown by division.
 - It should also permit you to produce a 'trial balance', totalling all debit and credit balances. It should check for any mismatches.
 - You can use it to produce a balance sheet showing your assets and liabilities.
- 5.5** If you need to do so, the software will permit you to update your budgets and forecasts easily.
- You will be able to feed in the performance to date to amend your forecast for the year.

6. Getting started

If you are using software for the first time, or are radically upgrading your system, you will have to change how you do things.

Allow time to learn the system properly. Trial and error could be very expensive.

- 6.1** You will need help to get a system up and running.
- Having a system compatible with your accountant's can make it easier to prepare figures. You may want to adopt the one your accountant uses, for ease in preparing year-end figures. Check it supplies the information you need too.
 - Your accountant can provide you with a 'trial balance' to get started.
The best time to implement a system is usually at the beginning of a new accounting period.
 - You need to decide who has access to the system, and how you will maintain security.
- 6.2** Learning a new system takes time. Check the vendor can provide adequate support and training for you and your employees.
- How much training will you need to get up and running?
 - Different personnel will need different levels of training.

VAT without tears

Any package should be able to handle invoice-based VAT accounting.

The totals needed to fill in your VAT return should be automatically available, together with fully itemised lists of all transactions.

- A.** If you use the VAT cash accounting scheme, which saves you having to pay out VAT on a transaction until you have got the money in, check that the software can handle this.
- Some packages have difficulty coping with cash accounting for VAT.
- B.** You should be able to specify the VAT rates for different products.

- Check that the software can cope with different VAT rates and regulations if your business makes sales abroad.
- C.** If your business is not registered for VAT, or you expect to register or de-register in future, check how easy it is to change the way the software handles VAT.

Information overload

Accounting software can produce detailed reports covering every area of your business. Think carefully about how you use and interpret this information.

- A.** With so much data, information overload can be a real problem.
- Stay focused on the core objectives of your business.
 - Be wary of jumping to conclusions. For example, an unexpectedly low profit can be caused by many things.
- B.** Ensure you interpret data correctly and measure the effect of changes properly.
- For instance, try not to make several major changes to your marketing at once. If you do, it can be difficult to discern the impact of each change.

Experts' quotes

"The businesses that are going to succeed in the new world will be those that are the most agile, relying on accurate key performance indicators and data that can now be delivered in seconds, not days. Today's accounting systems offer so much more; they are financial management solutions that are proven to improve operational efficiency and responsiveness."

Paul Sparkes,
IRIS Accounting and Business solutions

Expert contributors

Thanks to Paul Sparkes (IRIS Accounting and Business Solutions, 01202 298 008).

Further Help

ACCA's advisory website is dedicated to meeting the needs of ACCA members in practice. www.accaglobal.com/advisory contains a wide range of information prepared by qualified accountants and is updated by ACCA's Technical Advisory team.

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