Choosing accounting software

ACCA

Choose the right accounting software package and you will save time and money, make fewer mistakes, and obtain useful management information.

The most recent breakthrough has been in making the software easier to use — you no longer have to understand book-keeping.

This briefing explains some of the key issues to consider before you make a purchase:

- The benefits of computerising your accounts.
- How to establish the basic accounting needs of your business.
- What level of software to choose.
- What costs are involved.

This briefing should be read alongside Using accounting software which explains how you use accounting software to run a business.

1 Why computerise?

1.1 A computerised system can **automate** routine tasks.

- Book-keeping is simplified and automated. For example, you can enter an order and the software updates the stock and customer records and allows you to translate the order into a sales invoice.
- Bank reconciliations, VAT returns, monthly management accounts and other accounting tasks can be completed quickly and accurately.
- Some software supports electronic banking, and could save you a lot of time.
- Most packages let you add a payroll module to automate the calculation and payment of wages.
See Payroll software.

1.2 Accounting software provides a wide range of up-to-the-minute **management reports** at the touch of a button.

- For example, aged debtor and creditor lists, the bank account balance, tax and VAT owed, balance sheet, profit and loss, stock values and performance against budget.
- Other useful calculations, such as project profitability assessments, can be produced by linking into specialised job costing software.

1.3 The software makes it easy to prepare for your **annual accounts**, or your audit.

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See **Preparing for your annual accounts**.

1.4 You can make further improvements by **integrating** different processes.

- For example, you could use the information contained in your ledgers to generate debt-chasing letters or customer mailshots automatically.

2 Identify your needs

Taking a 'top-down' approach to selecting accounting software minimises the risk of needing to make costly changes later.

Start by outlining your ideal system. This allows you to decide your priorities and gives your software suppliers a basis from which to prepare a proposal.

2.1 What are your **business objectives**?

For example, you may aim to capture ten per cent of a given market within five years, or to open ten new shops across the UK.

- Can your current accounting system meet these needs?
  For example, can you keep track of stock at different locations?

2.2 **Who** is going to use the accounting software?

- Involve the employees who are going to be directly affected by changes you make. What would different employees like to see in a future accounting system?
- Fully involve your accountants. Check that they will be able to use the information generated by the software to produce your end-of-year accounts and to satisfy the requirements of the annual audit.

2.3 What **management information** is crucial to the running of your business?

You may need to involve an accountant or outside consultant to help you determine what information you will need to extract from the system.

- For example, a retailer needs instant access to stock information, while a hotel will want to know about room occupancy rates.
  See **Key performance indicators**.

2.4 Can the software handle all the **book-keeping** tasks you need it to perform?

These might include:

- Sales, invoicing and receipts.
- Purchases and payments.
- Banking and cash management.
- VAT, tax and accounts.
- Stock control and payroll.

See **Using accounting software** for more details.

2.5 What **special needs** does your business have?

- For example, do you have more than one business, or buy and sell in different countries?
  If you deal with different countries, check that the software can cope with the euro (see **The euro**).

3 Ease of use

When purchasing software, the main trade-off is between ease of use and functionality.

Take the task of generating an invoice. If all you need is a standard invoice, the simplest and most user-friendly software may be ideal. But you will need something more flexible, and initially more difficult to use, if you need to customise the invoice.

3.1 Can the software interface be tailored to suit **your needs**?

Features to look for include:

- The ability to add new fields and controls.
  For example, do you want your sales ledger to contain additional information, such as the name of the individual who placed the order?
- The option to set defaults for fields.
  For example, do you want your payroll software to add a list of standard benefits automatically each time a new employee's details are entered?
- The option to define a range of values.
  For example, can you minimise data entry errors by defining all possible entries in advance?
- The option to customise screens.
  For example, do you want the screen layout to look more like your working documents?

The best systems allow you to customise the look of the software to suit the needs of your business.

3.2 Can you '**cut and paste**' information from other programs?

➡ If you use an accountant or a consultant, a good brief is vital. See **Using a consultant**..

"Explain to your software supplier why you need a certain function — they may have come across this question before and might know a better way of achieving the same goal."
Anup Amesur, Digital Quills

This saves time and allows you to make the best use of all your software.

- Make sure you can import and export information between the accounting package and any word processing packages, spreadsheets and databases you use.

4 Flexible information

4.1 Start by looking at how the software handles **sales** and **purchase** transactions.

Most software provides these functions in the form of a sales and purchase ledger.

- Can you input sufficiently detailed information on your customers and suppliers?

4.2 How flexible is the structure of the **nominal ledger**?

Most accounting software is constructed around the nominal ledger, which brings together all your assets, liabilities, income

and expenses. A ledger with a flexible structure allows you to define the best accounts structure for your business.

- Can you categorise different items according to departments or cost centres? More flexible systems allow you to define how your accounts are allocated. Simpler systems may not allow you sufficient room to do this.
- Can you structure the order in which your asset, liability, income and expense accounts appear?
  Simple systems require items to appear in the order in which they would appear on the balance sheet or profit and loss account.
- Does the software allow you to input a full range of transactions?
- What budgeting facilities does the ledger allow for?
- Can you generate separate ledgers to track specific pieces of information?

4.3 The more flexible the software is, the more you can tailor it to your business. This can make a major difference when you generate **reports**.

- Will your accountant be able to use the reports to prepare year-end information?

5 The costs

Your greatest costs are likely to be incurred in setting up the system and training your employees to use the software.

5.1 Sole traders with simple book-keeping needs may be able to use '**money management**' software to control their business.

- Well-known packages include Microsoft 'Money' and Simply Books.

5.2 Accounting packages have been developed to meet the needs of most **small businesses**.

- Well-known packages include Sage 'Instant Accounting' and 'Line 50', Intuit 'QuickBooks Basic' and 'QuickBooks Pro', Pegasus 'Capital Gold', and Mind Your Own Business 'MYOB Accounting'.

5.3 More **advanced accounting** packages come in modules, with each module handling one aspect of financial management (eg sales ledger).

- Well-known packages include Sage

Security

The simplest accounting packages are easy to use and often look more attractive. But they often do not provide you with a sufficiently high level of compliance.

A Check that the software provides an **audit trail**.

- You must be able to track all the transactions which have occurred during the year.
  For example, the software should allow you to delete an incorrect entry, but should also retain this information for you to check if necessary.
- The software should conform to good accounting practices.
  For example, an invoice should remain open in the next accounting period if you have only received part payments.

B Check how the software manages the **back-up** procedure.

- The software should ensure that you do not accidentally revert to using old data.
- You should be able to keep records as long as required.
  For example, most accounts information needs to be kept for six years and most payroll information needs to be kept for three years.

> "You can't afford to skimp on training. At best, your employees will waste time. At worst, you may miss an important deadline."
> **Chanda Kasolo, Business Link West Yorkshire**

> "Make your training as cost-effective as possible by selecting either scheduled courses or private training depending on the experience of your staff."
> **Geoff Wood, PASS Training**

'Line 100' and Pegasus 'Opera'. Most businesses use at least three modules (sales, purchase and nominal ledger).

5.4 'Multi-user' networked systems demand more **computing power** than 'single-user' systems.

- Check your existing hardware can run the packages you are considering.
  Updating your IT and accounts systems at the same time will be expensive.
- Most Windows packages need at least 32Mb of RAM and 100Mb of free disk space on at least a Pentium PC.

5.5 Different users will need different amounts of **training**.

- The person responsible for managing your accounts will need a more detailed understanding of how the system works.
- Employees responsible for specific functions need to be able to perform those tasks only.
  For example, a sales person may only need to know how to raise an invoice.

  Thorough training can be a major cost, but it is far less expensive than learning by trial and error.

5.6 Maintenance and **support** are key aspects to consider when purchasing your software.

- You may need to pay an annual fee to receive ongoing technical support.
- You may need to update the software itself from time to time.
  Ask about the vendor's track record in providing support for older systems.
- You may need to upgrade your computer system periodically.

6 Making a purchase

You may need to shop around for advice. Find someone who understands the needs of your business and also understands what the different software packages can and cannot do.

6.1 Most **accountants** can advise businesses on what software to choose. But some are far more experienced than others.

- Your own accountant may not have experience of a sufficiently large number of software packages.
- Accountants may be primarily interested in how well the software tracks transactions, which makes auditing easier. You will also

be interested in the possibility of obtaining management information that will help you run your business more effectively.

Some firms of accountants are software resellers (see **6.2**). They will have IT departments dedicated to accounting and other software.

6.2 Most software is purchased through **resellers**, which can provide expert advice on the products they sell.

- Does the reseller you are talking to supply businesses similar to yours?
  For example, an advertising agency with specialised billing requirements may prefer a supplier with experience in dealing with such needs.
- What is the reseller's track record in providing support and training?
  Ask if you may call businesses it has supplied and question them about their experiences.
- Many resellers are also software developers. They can customise the accounting software to meet the exact needs of your business.
  Check that the benefits of having a system customised will outweigh the costs.
- Resellers can also give you advice about your IT requirements.
  For example, they can advise you if your network needs upgrading.

6.3 Be wary of any software which does not already have a large 'installed user base'.

- A large user base removes a significant element of risk for you. It usually indicates better support for users, and more investment in upgraded versions of the software.
- A brand new software product could flop. Support and development thereafter would probably be minimal, if it happened at all.

Further help

There are other Directors' Briefing titles that can help you. These briefings are referred to in the text by name, such as **Payroll software**.