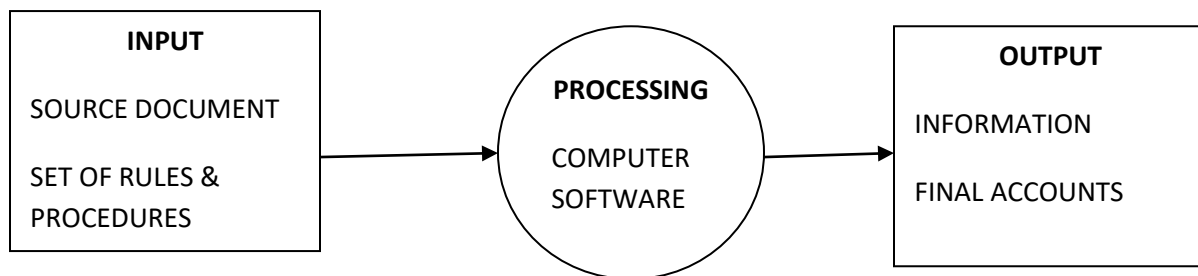


## UNIT - I

### Meaning of Computerized Accounting System

As its name suggests, "computerized accounting" is accounting done with the aid of a computer. It tends to involve dedicated accounting software and digital spreadsheets to keep track of a business or client's financial transactions. • Computerized accounting is a beneficial use of current technological advances. Not only has it revolutionized the traditional paper methods of accounting, but it has also created new types of accounting applications for business. Companies now create entire accounting information systems that integrate all business operations, including external suppliers and vendors in the value chain. • Computerized accounting systems (or software) have replaced manual based accounting in virtually all businesses and organizations, providing accountants, managers, employees and stakeholders access to vital accounting information at the touch of a button. Computerized accounting systems automate the accounting process--improving efficiency and cutting down costs. • Computerized accounting has many advantages over traditional manual accounting. Computerized accounting tends to be more accurate, is faster to use, and is less subject to error than its manual counterpart.



**Input:** the input to computerized accounting system is the accounting data which is obtained from details of each transaction. Data is originated from source document and this is produced as a result of happening of a transaction, is kept as a proof of transaction. **Source document** includes invoice cheques received, sales order forms etc. computers are used to produce source documents and data is automatically inputted to the system for shortage and further processing. Another input to system is **set of accounting rules and procedures** which are coded in accounting software are run by computers when transactions are processed by systems.

**Processing:** The computerized accounting systems are built to take advantages of fast processing capability of modern day computers. In this stage the accounting data is processed as for accounting rules of double entry system of book keeping. The only additional here is that unlike manual accounting computerized accounting system are very fast and error free.

**Output:** The basic output of this system is trading account, profit and loss account, and balance sheet. Computerized accounting system produces these final accounts automatically and on user's request. These statements can be produced as often as required which is tedious and time consuming activity in manual accounting system procedure. They also transfer output of one component of computerized accounting to another component as input. It means that data sharing is possible in this accounting system.

### **Importance:**

Accounting system is the whole procedure of producing accounting information.

Computerized accounting system is the method of generating accounting information for decision making through computer with support of accounting software. This method is very beneficial and important to businesses.

**Automatic document production:** Instant and reliable receipts, invoices, credit notes, sales order, purchase order, payroll documents, statement of comprehensive income and statement of financial position are generated automatically.

**Availability of information:** Financial information is readily available to users of accounting information for decision making at any time.

**Storage:** Storing information is inevitable in business. Computerized accounting system makes it possible for storage of information. Information saved can also be retrieved whenever needs arise. Note that it is compulsory to back up your data. The backup could be done by the use of flash drive, external back up and any other storage devices.

**Compatibility:** It makes the preparation of accounting for merger and acquisition very easy where the companies involved use the same accounting software. Manual accounting system could be too cumbersome for the preparation of accounting for merger and acquisition.

### **Advantages:**

**Automation:** Since all the calculations are handled by the software, computerized accounting eliminates many of the mundane and time-consuming processes associated with manual accounting. For example, once issued, invoices are processed automatically making accounting less time-consuming.

**Accuracy:** This accounting system is designed to be accurate to the minutest detail. Once the data is entered into the system, all the calculations, including additions and subtractions, are

done automatically by software. There is less space for error because only one account entry is needed for each transaction unlike repeated posting of the same accounting data in manual system.

**Data Access:** Using accounting software it becomes much easier for different individuals to access accounting data outside of the office, securely. This is particularly true if an online accounting solution is being used.

**Reliability:** Because the calculations are so accurate, the financial statements prepared by computers are highly reliable. Computer systems are immune to boredom, tiredness or fatigue. Therefore, these can perform repetitive functions effectively and are highly reliable as compared to human beings.

**Scalable:** When your company grows, the amount of accounting necessary not only increases but becomes more complex. With computerized accounting, everything is kept straightforward because sifting through data using software is easier than sifting through a bunch of papers.

**Speed:** Using accounting software, the entire process of preparing accounts becomes faster. Furthermore, statements and reports can be generated instantly at the click of a button. Managers do not have to wait for hours, even days, to lay their hands on an important report. Computers require far less time than human beings in performing a particular task. Therefore, accounting data is processed faster using a computerized accounting system.

**Security:** The latest data can be saved and stored in offsite locations so it is safe from natural and man-made disasters like earthquakes, fires, floods, arson and terrorist attacks. In case of disasters, the system can be quickly restored on other computers. This level of precaution is taken by Clever Accounting.

**Cost-effective:** Since using computerized accounting is more efficient than paper-based accounting, than naturally, work will be done faster and time will be saved. When one considers that Clever Accounting, one of the latest online accounting solutions, starts at a low monthly subscription (check out pricing here), then computerized accounting really becomes a no-brainer.

**Visuals:** Viewing your accounts using a computer allows you to take advantage of the option to view your data in different formats. You can view data in tables and using different types of charts. Computerized Accounting represents a technological advancement in the field of business accounting.

**Up-to-date information** – the accounting records are automatically updated and so account balances (e.g. customer accounts) will always be up-to-date.

**Availability of information** – the data is instantly available and can be made available to different users in different locations at the same time. This is called data sharing.

**MIS Reports**– reports can be produced which will help management monitor and control the business, for example the aged debtors analysis will show which customer accounts are overdue, trial balance, trading and profit and loss account and balance sheet.

It is easier to monitor and control the business using the real time management information reports generated by the computerized information systems.

**GST/VAT return** – the automatic creation of figures for the regular GST/VAT returns.

**Efficiency** – better use is made of resources and time; cash flow should improve through better debt collection and inventory control. The computer based accounting system ensures better use of time and resources.

**Staff motivation** – the system will require staff to be trained to use new skills, which can make them feel more motivated. Further to this with many ‘off-the-shelf’ packages like MYOB the training can be outsourced and thus making a particular staff member less critical of business operations.

### **Limitations:**

**Heavy Cost of Installation:** Computer hardware needs replacing and software needs to be updated from time to time with the availability of newer versions.

**Cost of Training:** To ensure effective and efficient use of computerized system of accounting, newer versions of hardware and software are introduced. This requires special training and cost is incurred to train the staff personnel as specialists.

**Fear of Unemployment:** Reflects the feelings of the staff on the introduction of computerized accounting system. The staff fears redundancy and show less interest in computers.

**Disruption in Work:** When computerized system is introduced, there might be loss in the work time and certain changes in the working environment.

**System Failure:** The danger of a system crashing due to some failure in hardware can lead to subsequent loss of work. This occurs when no back-up is retained.

**Time Consuming:** In order to avoid loss of work at the time of system failure, there is a need for providing backup arrangements which is a time consuming process.

**Unanticipated Errors not Known:** Unlike human beings, computers do not have the capability to judge or detect unanticipated errors in the system.

**Breaches of Security:** The danger of viruses and hacking into the system from outside creates a strong need for security of system. Similarly, the person who has created the specific program can easily defraud by tampering with the original records.

**Health Dangers:** Extensive use of computers may lead to many health problems such as eyestrain, muscular complaints, backache etc. resultantly reducing working efficiency as well as increasing medical expenditure.

### **Differences between Manual and Computerized Accounting**

**Provision of financial statements:** In manual accounting, company accountants require trial balance to prepare the periodical financial statement. For computerized software accounting however, financial statements are easily generated by the software system itself so that business owners and accountants do not need to have trial balance in advance.

**Recording of the financial statements:** Recording process requires computing mathematical functions manually and putting them down in paper copy as well as posting them on ledger or books of original entry. Computerized software accounting performs the mathematical functions through internal data computation process as long as the right data information was fed into the software.

**Rate of accounting computation:** Computing the transactions in manual accounting is slower since it requires a stage by stage calculation by use of human mind and hand. Computerized software accounting is much faster in computing the transactions since the software automatically processes the data once it is fed, or the software is commanded.

**Backup retrieval:** For manual accounting retrieving financial records might be tedious and tiresome since it might involve looking for various paper documents for reference.

Computerized software accounting easily retrieves the backup information since accountants or business owners only have to click on the saved financial records to get the ones they need.

**Ease of classifying accounting statements:** for manual accounting, prior to ledger accounts preparations, the transactions have to be recorded in the books of original entries. In computerized accounting software, the software classifies different financial statements automatically, and business owners or accountants can easily classify financial statements they require at any moment.

**Accuracy of Financial Records:** For Manual accounting records to be accurate, accountants and business owners have to be very careful and highly competent to compile the financial report accurately. With computerized accounting, as long as you have the correct data and software commanded to perform; accurate financial statements will be produced.

Manual accounting financial records can be used easily for review. The corrections and adjustments can also be easily made. In computerized software accounting, the review of financial statements is quick, and the understanding of its computation can be achieved by carefully examining the financial formula.

**Speed:** Computerized accounting produces information much faster than manual accounting. Accounting software packages, such as QuickBooks and Peachtree, come with built-in databases that allow users to input data.

**Financial Statements:** In a manual accounting system, you have to prepare your company's income statement, balance sheet and statement of owner's equity by hand. Information from your journal entries helps formulate your company's financial statements. Computerized accounting systems allow financial statements to be created from information stored in the database.

**Cost:** The cost of computerized accounting systems can range from hundreds to thousands of dollars for large businesses. A computerized accounting system may save on man hours used for creating financial statements and other reports. For this reason, many small and mid-sized businesses use computerized accounting software.

**Reports:** Reports are created in a timely manner when using a computerized accounting system. Reports generated from computerized accounting software allow managers to run the company

in a more efficient manner. Creating reports in a manual accounting system may lead to more staff frustration and result in having to work with outdated information.

**Safety:** Accounting records kept on the manual system can be lost or damaged easily, such as by coffee spills. On the other hand, records kept by a computer are likely to be safer because many systems are backed up often. If you lose pages in a paper pad, you may have to recreate the transactions by conducting research and writing them in again. In a computerized system, you simply restore the latest backup and add a few transactions that were not saved. In this area, accounting software is obviously superior to manual systems.

**Properly Organized:** Data processed through software is organized and easy to find. That's not the case with manual systems, where you may have to review several pages to find what you need. For instance, if you want to find certain data about a vendor, you can go to the accounts payable section of the software, usually by clicking a link or tab, and conduct a search for the vendor.

If you conduct the same process on a manual system, you may have to go through several pages and take your time to find what you're looking for.

**Significance:** Information technology plays an important role in accounting processes because it improves financial reporting procedures and prevents errors in financial statements.

**Time Frame:** Computerized accounting activities help an accountant perform month-end close procedures. These activities also help company report profit information over a period, such as a month or quarter

## **Features of Accounting packages**

**1. Reporting and analysis:** Information is power in today's challenging business environment. That's why any accounting program you evaluate must have robust reporting and analysis capabilities. Besides helping users gain insight into crucial financial activities, reporting and analysis functions help companies conform to government and industry regulations.

**2. Graphics:** Accounting is a numbers-focused activity. Yet graphics, in the form of charts and other illustrative formats, is a powerful tool that can be used to present trends and other concepts in a way that numbers alone can't convey.

**3. Automation:** For many businesses, support for simple accounting transactions and basic financial management tasks just isn't enough. Many companies require the full automation of employee expenses, payrolls and time sheets; company and departmental budgets; purchase requisitions and other complex financial activities.

**4. Automatic updates:** Using out-of-date accounting software is like eating food that has passed its expiration date — a risky proposition that could result in severe nausea. Tax laws, regulations and financial practices change over time, so it's vital to use software that receives fast, user-transparent, automatic updates.

**5. Customization:** Chances are that no accounting software will exactly match your business's needs. That's why you'll want to look for a product that allows the easy customization of statements, forms, reports, screens, help systems and other program facets.

**6. Internet connectivity:** With the whole world moving to the Internet, it's only logical that accounting software should follow the crowd. That's why you'll want to make sure that any accounting software you consider has the ability to send and receive digital documents and handle electronic fund transfers.

**7. Inter operability:** The data entered into your accounting software can be productively used by various business applications in HR, sales, shipping and other key business sectors. Conversely, you may want your accounting program to draw information in from other software products. That's why you'll want to check on an accounting program's ability to interoperate with other software before deciding on whether to purchase it.

**8. Scalability:** With hard work, and perhaps some luck, your business will be larger and more prosperous in the years ahead. Will your accounting software be able to keep pace? Look for a product that accommodates, or can be easily upgraded to accommodate, a progressively larger number of users and a growing amount of financial data and transactions. Ask vendors about their programs' limits in these areas.



**9. Expandability:** Your business may grow in scope as well as size. The accounting program vendor should either offer add-on modules that allow customers to slap extra capabilities to its product, or a migration path to a full ERP environment.

**10. Security:** Your business depends on its accounting software for its very existence. If data is lost or tampered with you stand to lose time, money, business secrets (such as sales or profit data) and, if the damage is severe enough, your company. Any vendor should be able to tell you about its software's built-in security features as well as how its product can mesh with your own on-site safeguards (such as anti-malware technology and network firewalls).

**11. Banking:** At the very least, accounting software should have some form of link to your bank account, enabling you to make direct payments and letting you import data from the bank into the accounting system. Some software can go much further: **Reconcile accounts, Prepare bank deposits & Check handling.**

**12. Reporting:** Besides the array of different features that are available in accounting software, the quality and quantity of reports the system can generate differs widely, too. Some systems offer a vast range of reporting options, with almost unlimited categories and reporting options. Others just offer the basic reports: money in and money out. Here are some of the better options: **Standard reports, Customizable reports, Graph summaries, Cost predictions**

**Subsidiary reporting.**

**13. Shipping:** For online retailers and those businesses that frequently send goods out by couriers, an accounting platform that can handle shipping processes will save you from having to invest in a separate shipment software program. Here are some of them: **Print shipping labels, Estimate shipping costs, Track shipments, Drop shipments.**

**14. Inventory:** An accounting system with stock and inventory controls can really streamline your business, helping you identify what's in stock, what needs reordering, and where your purchasing budget is being spent. Some of them are **Track inventory, Set inventory levels,**

**Specify stock locations, Include item images.**

## **Applications:**

1. **To Keep Accounting Record of Big Company is Possible:** Suppose, you are the accountant of big MNC. What you see in its business. There are millions of clients from whole world. Is it possible to record all in manual basis. It will be impossible. So,

computer and accounting software in it, it will so easy to keep unlimited accounting records without any risk of forgetting.

**2. Separate Payroll Accounting is Possible:** We all know top costly expense in the business is the salary of employees. So, it must be recorded separately. Computer can help in this. Anytime any edit regarding salary, name or any other adjustment in payroll is possible.

**3. Automation of All Financial Accounts:** Just go to any CA office. In its computer system, you will see lots of company's financial statements and other accounting reports. How can company fastly send its financial statements to CA office for audit. Answer is very simple. Everything has connected with computer. If accountant will pass voucher entries, financial accounts will automatically be created by computer software.

**4. Graphic Presentation of Accounting Results:** Computer can be used for graphic presentation of accounting results. You can see the sale trend graphs, charts and diagrams. Not only sale trend but you can see anything in accounting area through graphic way. It will so easy and understandable instead of reading only manual financial results.

**5. Updates are fast:** If there is any mistake, we can easily correct. All the accounts will automatically get corrected. In manual accounting, it is not possible. There are lots of options which can help more fast providing the updated accounting reports. For example, computer reminder system can send updated debt or credit balance to the customer.

**6. Best Inventory Control:** To record every small item in computer is so easy without keeping big inventory registers. By comparing computer records of inventory and actual inventory, anytime, we can check the difference and find the reason behind this difference.