

Accounting Software

Overview

Computerizing your accounting is absolutely the most efficient way to handle your bookkeeping tasks. Partly computerizing your accounting is probably the least efficient way to handle your bookkeeping. You do not want to send out computerized sales invoices, use a payroll service to do your paychecks, and pay vendors with manual checks. This variety of procedures causes havoc. Have a complete manual bookkeeping system or a complete computerized bookkeeping system.

Accounting software for small business comes in two alternatives, entry level or mid-range. The entry-level software is designed for up to about ten employees whereas the mid-range can handle companies up to about 100 employees. They both print customer invoices, track vendor bills, and make gross to net pay computations, as well as produce financial reports. Entry-level software costs from \$100 to \$500 for a complete system. Mid-range costs \$5000 to \$15000 for a complete system. The big difference is in the number of transactions that can be handled and the speed in handling those transactions. Most small businesses will find that entry-level software

will work just fine.

Today there are two alternative for accounting software. First is a product where the software and your data files are on a computer in your office. Your accountant can come to your office, you can provide him printed data, or he can remote access your computer. Second is a product where the software and your data are on a server in the software company office which you access through an internet connection from your office. The second alternative is the one I recommend. It allows you, your employees, and your accountant simultaneous access to your data from anywhere, twenty-four hours a day, seven days a week. In addition, I feel the software company servers are less likely to corrupt data and less likely to be vulnerable to hacking. You may not agree and feel data on your computer is under better control. If so, use a desk top version rather than a cloud version. Both work.

It is not just a matter of going out and buying the software. That does not make your system up and operational. First comes installation and registration of the software including registering for payroll tables to compute gross to net pay. This is usually an additional annual fee. Next comes configuration. This is telling the software how to perform its functions in the manner that you do business. For example, you need to set it up for your state payroll and sales tax laws. After configuration comes record transition. This is getting your customers, vendors, employees, and opening numbers into the system properly. Next comes operator training. You need to understand how to produce customer invoices, record vendor bills, pay employees, etc. You then need to develop procedure documentation for daily, weekly, monthly, quarterly, and annual routines. The final piece of the puzzle is to have a source of on-going support as needed. Computerizing your accounting is a much larger commitment than just going out and buying the software. If you need help don't be afraid to use it. Look at any

cost of getting the system up and operational as a five-year investment and not as an expense today. Being computerized is the best and least expensive way to coordinate with your accountant and, accordingly, the initial cost may be saved in reduced fees.

Accounting software does not make you an accountant or even a qualified bookkeeper. Just because you can print out a customer invoice does not mean you understand the debits and credits that occurred. Just because you can print out a quarterly payroll tax return does not mean it is correct. The accounting software is a powerful tool, which can help you and your accountant in a joint effort keep the company records accurate.

The Primary Modules

A computerized accounting system has four primary modules; accounts receivable, accounts payable, payroll and general ledger.

The accounts receivable module tracks customer activities. You prepare customer invoices. This records the sales and sets up a receivable from your customer. You receive customer payments. This records the cash received and reduces the receivable due from your customer. This module tracks what customers owe you, assesses finance charges, and allows you to send customer statements.

The accounts payable module tracks vendor activities. You record vendor bills when received. This recognizes your expense and sets up a payable to your vendor. You write out checks to pay vendors. This records the decrease in cash as well as the decrease in payables due to vendors. The module tracks what you owe vendors and

tracks cumulative amounts paid to certain vendors for form 1099 issuance.

The payroll module tracks employee activity. It computes gross to net paychecks and prints them. This increases your payroll expense and uses your cash. The module tracks amounts needed to pay payroll taxes. This increases payroll tax expense and uses your cash. It tracks individual cumulative earnings for each employee. This information is used on quarterly payroll tax returns and annual W2s.

The general ledger module tracks all the activity of the receivables, payables, and payroll modules. Each sales invoice, customer payment, vendor bill, vendor check, and payroll check gets posted into a general ledger. You then make corrections to the general ledger for depreciation, bank charges, etc., by making journal entries. The ending balances in each account are summarized into a trial balance. From the trial balance the asset, liability, and equity accounts are summarized into a balance sheet. The income and expense accounts are summarized into a profit and loss statement. This module usually includes a bank account reconciliation function.

The Secondary Modules

The inventory control module is used in retail, wholesale, and manufacturing to track goods available for sale. When you receive a vendor bill, you record it as a payable to the vendor in the accounts payable module. If that bill is for saleable product that you wish to track, you record the individual line items in inventory item accounts. The transaction increases inventory and increases accounts payable. When you prepare a customer invoice, the invoice shows the individual items sold. This results in one transaction, which increases receivables and increases sales, and, another transaction that decreases inventory and increases an expense account cost of sales. This module tracks the inventory you have on hand.

The purchase order module tracks inventory that has been ordered but not yet received. It can usually determine minimum inventory levels of each item as well as order quantities. You produce a purchase order. It notes in the inventory item the amount on order. When the vendor bill and items are received, the purchase order is updated to a vendor bill.

The sales order module tracks inventory that a customer has ordered but has not yet been shipped. When it is shipped, the sales order becomes the customer invoice.

The job cost module is used by any company that needs to know profitability by job. This module usually allows an estimate to be prepared. As vendor bills are recorded in accounts payable, they are also charged to a particular job. As employees work on jobs they track time. When payroll checks are prepared they are also charged to the jobs. When sales invoices are sent, they are charged to the jobs. At any time, you can track estimated versus actual by job.

Industry Specific Applications

Lawyers and accountants track and bill clients based on time. They use time billing software. Doctors bill insurance companies for patients. They should use medical billing software from the start. Manufacturing companies need to track raw materials into work in process and then into finished goods. Retailers may want to use scanning equipment for point of sales applications. There are a wide variety of industry specific applications.

Conclusion

For most start-up businesses entry-level software is where to start. This will handle 95% of your needs. However, some industries, like medical, require specific software. Doctors can use medical billing software for their accounts receivable functions. They can also utilize lower cost entry level for their payables, payroll, and general ledger functions. Check with your industry associations. They will have recommendations for your business. I feel strongly that cloud based entry level software is where you should start.

For more resources visit www.rjclark.com.