

## CHAPTER 23

### COMPUTERISED ACCOUNTING SYSTEM

#### ❖ Computerised Accounting System

An accounting information system that produces reports and information to its users by processing the financial events and transactions as per the Generally Accepted Accounting Principles (GAAP) is known as computerised accounting system. It is a database oriented application where in the transactions are stored in a well-organised database. The following are two basic features required by a computerised accounting system.

- *Accounting Framework*- It is a well-defined set of rules, principles, coding, grouping etc. with the help of which accounting system can produce reports as per the requirements of the users.
- *Operating Procedure*- It is clearly-defined operating procedure which is appropriately integrated with the operating environment of the business.

As computerised accounting system is database oriented therefore, this system needs to fulfill the following requirements.

- *Front-end Interface*- It is an interface or an interactive link between a user and data-base oriented software with the help of which a user interacts with the back-end database.

- *Back-end Database-* It is a system where the actual data is stored. It is accessed by the end user to the extent for which the user is authorised to access.
- *Data Processing-* It is a process of converting raw data into useful and valueable information.
- *Reporting System-* It involves a function of producing reports.

❖ **Distinction between Manual Accounting System and Computerised Accounting System**

Basis of Difference	Manual Accounting System	Computerised Accounting System
Identifying	Transactions are identified manually	Transactions are identified with the help of well designed programmes
Recording	Recording of financial transactions is done through books of original entries, i.e. Journal.	The data of financial transactions is stored or recorded in a well designed database.
Summarising	By ascertaining the balance of various accounts, transactions are summarised to produce Trial Balance. Consequently, the generation of ledger accounts becomes a necessary condition.	The originally stored transactions data are processed to give out the list of balances of various accounts to be finally shown in the Trial Balance report. Thus, the generation of ledger accounts is not a necessary condition.
Classification	Transactions recorded in the books of original entry are further classified by posting into ledger accounts. Thus, the data can be duplicated.	In order to produce ledger accounts in this system, the stored data is processed to appear as classified, such that no data is duplicated.
Adjusting Entries	Adjusting entries are recorded to match the expenses and revenue generated of the accounting	No adjusting entries for errors and rectification are made. Thus, Journal and vouchers are prepared and stored

	period. So, these entries are made to stick to the principles of cost matching revenue.	to follow the principles of cost matching revenue.
Financial Statements	The preparation of financial statements hypothesises the availability of Trial Balance.	The preparation of financial statements does not require the availability of Trial Balance.
Closing the books	After preparing financial reports, the accountants prepare books for the following accounting period, which is done by posting of closing and reversing the closing Journal entries.	To create and store the opening account balances in the database, year-end process is used.

#### ❖ Advantages of Computerised Accounting System

The following are the various advantages of computerised accounting system.

- ***Speed-*** The speed of a computer is very high and takes very less time in performing various difficult operations.
- ***Accuracy-*** As the primary accounting data is entered only once, so the possibility of errors is minimised or reduced.
- ***Reliability-*** As the computerised accounting system is well-equipped in performing repetitive operations, so it is comparatively more reliable to perform the operations than the manual system.
- ***Up-to-Date Information-*** The existing accounting records automatically gets updated whenever the new accounting data is entered and stored

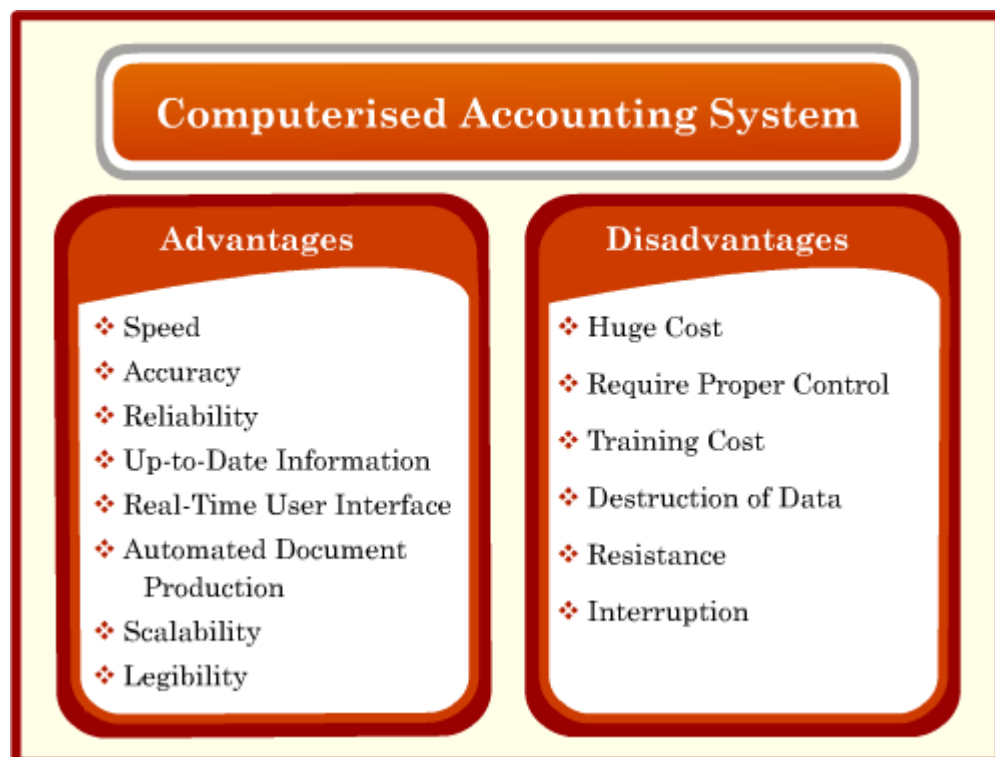
- ***Real-Time User Interface-*** It facilitates the availability of information to various users at the same time on the real-time basis.
- ***Automated Document Production-*** Computerised systems have standardised and user-defined format of accounting reports, therefore, the reports such as, Cash Book, Trial Balance, Statement of Accounts, etc. are very easy to obtain.
- ***Scalability-*** It is highly scalable as the requirement of additional manpower is mainly confined to data entry for recording and storing the additional vouchers in the computers.
- ***Legibility-*** The accounting records are typed and presented in standard fonts. The various characters especially numbers, alphabets, graphics, etc. are more clear and can be read without any difficulty and ambiguity.

#### ❖ **Disadvantages of Computerised Accounting System**

The given below are some disadvantages of computerised accounting system.

- ***Huge Cost-*** The establishment of a computerised accounting system and the regular updation of various hardware and software from time to time involves very high cost.
- ***Require Proper Control-*** Proper control needs to be maintained all the times so as to avoid the loss of data.
- ***Training Cost-*** Specialised personnel is required to work with the computerised accounting system . This requires the regular training of the staff which involves a high cost.

- ***Destruction of Data-*** There is high chances of destruction of stored data due to viruses or some other failures. Therefore, the proper back up of the data is required to be maintained at regular intervals.
- ***Resistance-*** An organisation may face resistance or opposition from its existing staff for the introduction of computerised accounting system. It may happen because of their insecurity and they may fear that introduction of this system may reduce their individual importance in the organisation.
- ***Interruption-*** There is huge time involved in switching over from existing accounting system to the computerised accounting system. Due to this the staff may take time to adopt the new working environment which may lead to the loss of work time.

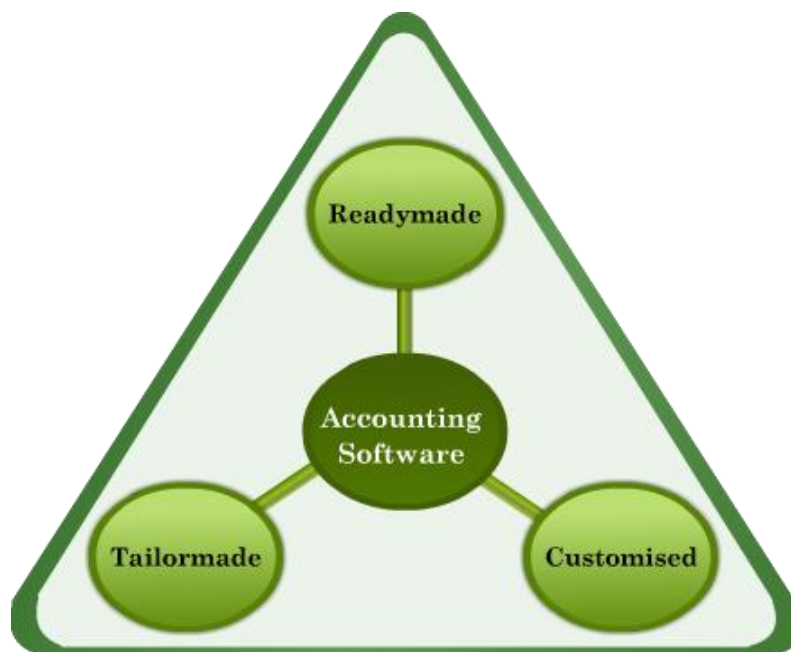


### ❖ **Accounting Software or Accounting Packages**

Accounting software is an integral part of the computerised accounting system. The accounting software should be selected after considering the level of skill and proficiency of the accounting professionals. The following are two situations in which the accounting software is required.

- When manual accounting system is replaced with the computerised accounting system.
- When the existing computerised accounting system is replaced with the new one due to the change in technology.

Accounting software helps in recording and processing the accounting data to generate the accounting reports. Keeping in view the need and requirement the accounting software can be classified into the following three categories.



1. **Ready Made or Ready-to-Use-** This software is readily available in the market with prescribed and standard features. It is used by the small-size business enterprises. The cost of its installation and maintenance is also low.

#### ***Advantages***

- Easily available in the market.
- Less expensive.
- Lesser need for training.
- Less sophisticated.
- Adaptability is very high as it is relatively easier to learn and operate.
- Suitable for small-size business enterprises.

#### ***Disadvantages***

- Limited number of users.
- Not suitable for medium and large business organisation.
- Fails to cater the specific needs of the users.
- Suffers from the low level of data secrecy.
- Does not have a wide scope to link it with other information systems.

2. **Customised Software -** This software has standardised features to meet the special requirements of the users. It provides the scope of changing the features of accounting software and can be programmed as per the needs and requirements of the users.

3. **Tailor Made or Tailored Software-** This software is developed as per the specifications and requirements of the users. This accounting software is generally used in the large business organisations with multi-users and geographically scattered locations.

***Advantages of Customised and Tailor-made Accounting Software***

- Suitable for medium and large business organisation.
- Caters the specific requirements and needs of the users.
- Can be modified as per the needs of the organisation.
- High level of security that minimises the loss and unauthorised access of data.
- Cannot be easily imitated or duplicated in the market due to difference in the needs and requirements of different users.
- Does not involve high training cost as the training can be imparted within the organisation by the experienced personnel.
- Can be easily linked to the other information systems.
- Forms an integral part of the organisational MIS.

***Disadvantages of Customised and Tailor-made Accounting Software***

- Involves high cost of installation and maintenance.
- Developing customised software is a time-consuming process and involves high cost of development.



- Maintenance of this software is difficult as there exists limited availability of knowledge to the developers.
- Lacks standard training module.

#### ❖ **Generic Consideration before Sourcing of Accounting Software**

- ***Flexibility***- Accounting software should be flexible in terms of data entry, retrieval of data and generating of reports. It should be able to run on different computers having different operating systems and different configurations.
- ***Cost of Installation and Maintenance***- An organisation needs to evaluate the benefits of the software against its costs.
- ***Size of Organisation***- The small-sized organisations, where the volume of business transactions is not so large, usually opt for simple and single user oriented software. On the other hand, large scale organisations, where the volume of business transactions is very large choose the latest and sophisticated software for meeting the multi-user requirements.
- ***Training Needs***- There are some accounting software that requires comparatively lesser training and are more user-friendly. While, there are some other complicated software that requires continuous and thorough training.
- ***Level of Secrecy***- Software should be able to prevent the unauthorised access and manipulation of data. It should have in-built features of security.
- ***Exchanging Data Facility***- The accounting software should be able to provide an easy and safe transfer of data from one system to another system and during migration of database.

- ***Utilities/MIS Reports-*** Another factor which helps in determining the software selection is the MIS reports and the extent to which they are used in the organisation.
- ***Vendor Reputation and Capability-*** The selection of software also depends upon the reputation of the vendor in the market, the user-reviews of the similar software, the extent of post sales support services from the vendors, etc.