

# Computerised Accounting System

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## Computerised Accounting System, Manual v/s Computerised System, Advantages and Limitations

### Objective

After going through this lesson, you shall be able to understand the following concepts:

- Computerised Accounting System
- Distinction between Computerised Accounting System and Manual Accounting System
- Advantages of Computerised Accounting System
- Disadvantages of Computerised Accounting System

### Introduction

With the rapidly changing environment, machines are used in almost every sphere of human lives. From small retail businesses to big MNCs, from a hotelier to Real Estate Builders, all use computers for maintaining the record of their business transactions. Now-a-days, with the rapid advancement of technology no one prefers to manually record their business transactions.

This consists of a long and cumbersome process of preparing Journal, Ledgers, Trial Balance and Financial Statements. But with the emergence of computerised accounting system, the process of accounting has become so easy. Now, all the statements are prepared automatically with the use of a computer system.

### Computerised Accounting System

An accounting information system that produces reports and information for 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 based on the concept of database. It is one of the database oriented application, wherein, the transactions data is stored in a well-organised database.

Similar to the manual accounting system, computerised accounting system also generates reports and information by following the accounting concepts and principles. In this system, the framework where accounting data is stored and processed using hardware and software is termed as operating environment. Thus, every computerised accounting system requires the following two basic features.

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

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

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

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

The following are the points of distinction between a Manual Accounting System and a Computerised Accounting System.

<b>Basis of Difference</b>	<b>Manual Accounting System</b>	<b>Computerised Accounting System</b>
Identifying	The identification of transactions is based on the application of accounting principles.	The identification of transactions in computerised accounting is also based on the application of accounting principles.
Recording	The recording of financial transactions is done through the book of original entry, i.e. Journal.	The data of financial transactions is stored in a well designed database.
Summarising	By ascertaining the balance of various accounts, transactions are	The originally stored transactions data is processed to give out the

	summarised to produce Trial Balance. Consequently, the generation of ledger accounts becomes a necessary condition.	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 revenues generated in the accounting period. So, these entries are made to stick to the principles of cost matching revenue.	No adjusting entries for errors and rectification are made. Thus, Journal and vouchers are prepared and stored to follow the principles of cost matching revenue.
Financial Statements	The preparation of financial statements assumes 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 entries and reversing the closing Journal entries.	To create and store the opening account balances in the database, year-end processing is used.

### Advantages of Computerised Accounting System

The following are the various advantages of computerised accounting system.

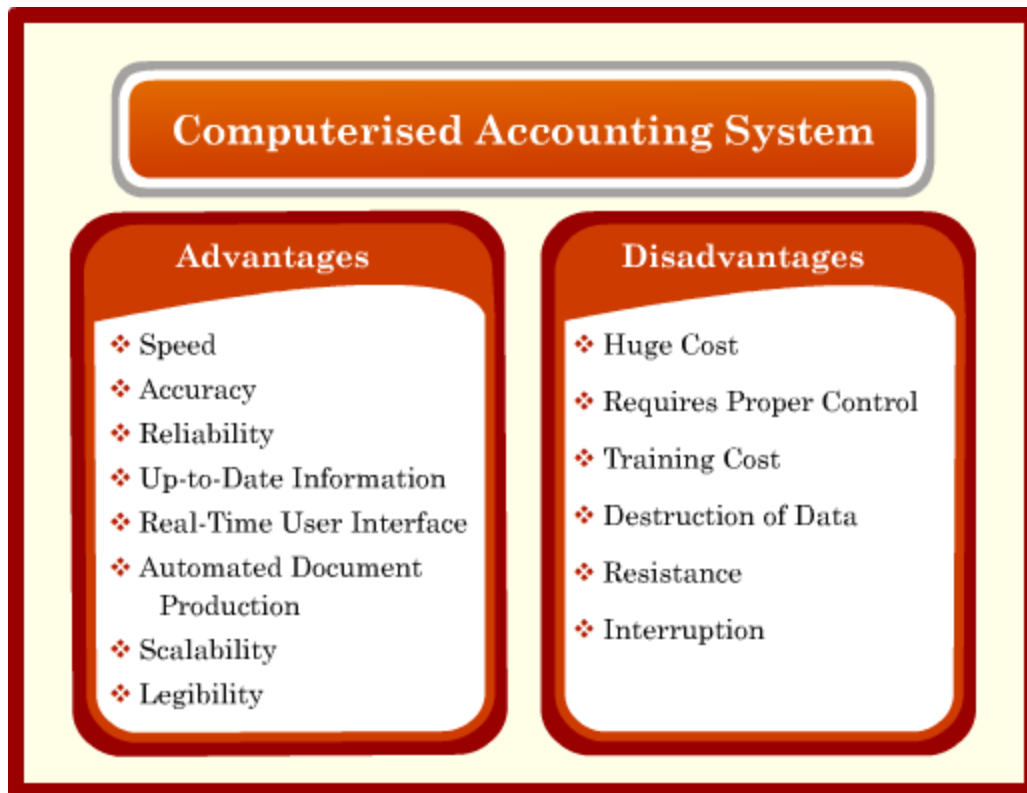
1. **Speed-** The speed of a computer system is incredible. Therefore, it is less time consuming in performing various difficult operations. The accounting data is processed comparatively faster through computerised accounting systems than it can be done through manual efforts.

- 2. Accuracy-** In computerised accounting systems, the possibility of errors is minimised or reduced as the primary accounting data is entered only once, for preparing various accounting reports and for subsequent usage and processes.
- 3. Reliability-** As the computerised accounting system is well-equipped in performing repetitive operations, so it is comparatively more reliable than the manual system. Also, computerised accounting systems overcome the limitation of manual accounting systems such as tiredness, boredom or fatigue, etc., thereby enhancing the degree of reliability.
- 4. Up-to-Date Information-** In computerised accounting systems, whenever some new accounting data is entered and stored, the existing accounting records automatically gets updated. For example, when a transaction related to purchase of machinery is entered in the computerised accounting systems, then automatically the cash balance and machinery balance on the Assets side of the Balance Sheet gets updated immediately. This ensures that latest information is reflected in the accounting reports at any particular point of time.
- 5. Real-Time User Interface-** Most of the automated accounting systems are inter-linked through a network of computers. The availability of information to various users at the same time on a real-time basis is facilitated under computerised system of accounting. It is very difficult to avail such facility under manual system as this calls for availability of multiple copies of the accounting records that can be accessed by many users at the same time.
- 6. Automated Document Production-** Under computerised accounting system, the accounting reports such as, Cash Book, Trial Balance, Statement of Accounts, etc. are easily available. This is because most of the computerised systems have standardised and user-defined format of accounting reports that are generated automatically. On the other hand, such an ease cannot be enjoyed under the manual system. This is because the books of accounts are prepared by different employees, thereby subject to variations from person to person.
- 7. Scalability-** The computerised system of accounting is highly scalable as the requirement of additional manpower is mainly confined to data entry for recording and storing the additional vouchers in the computer. Thus, the additional cost of processing additional transactions is meagre as compared to the cost associated with hiring new accountants to handle additional transactions.
- 8. Legibility-** In computerised accounting system, 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. But, in the manual system, the writing of different personnel varies; consequently, reading and interpreting the written material might cause errors due to misinterpretation.

## Disadvantages of Computerised Accounting System

Given below are the various disadvantages of a computerised accounting system.

1. **Huge Cost-** The establishment of a computerised accounting system and the regular updation of various hardware and software from time to time involves substantial costs.
2. **Requires Proper Control-** Huge amount of important data is stored in a computerised accounting system. Therefore, proper control needs to be maintained at all times so as to avoid loss of data.
3. **Training Cost-** For efficient and effective working with the computerised accounting system, the organisation requires specialised personnel. This requires regular training of the staff with the implementation of newer versions of hardware and software. Training of staff involves huge cost.
4. **Destruction of Data-** In a computerised accounting system, there are higher chances of destruction of stored data due to viruses or some other technical failures. Therefore, proper back up of the data is required to be maintained at regular intervals.
5. **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 or fear that introduction of such a system might reduce their individual importance in the organisation.
6. **Interruption-** Considerable time is involved in switching over from existing accounting system to computerised accounting system. It is likely that the staff might take additional time to adopt to the new working environment which may lead to loss of work time.



## Accounting Software and Factors Affecting Selection of Accounting Software

### Objective

After going through this lesson, you shall be able to understand the following concepts:

- Accounting Software (or Accounting Packages)
- Different types of Accounting Software (or Accounting Packages)
- Generic Considerations before Sourcing an Accounting Software

### Accounting Software or Accounting Packages

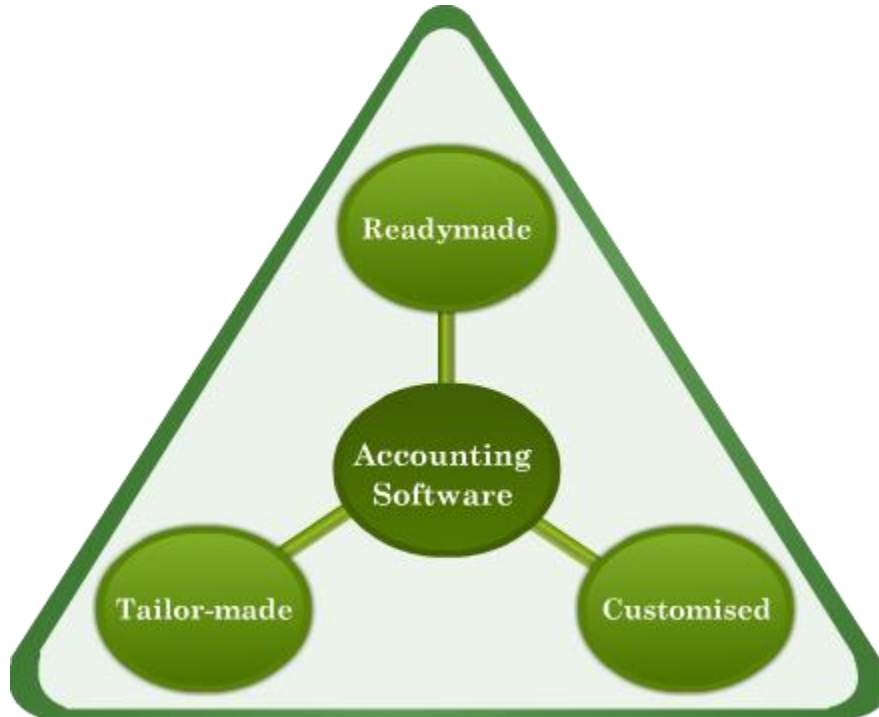
Accounting software is an integral part of the computerised accounting system. The accounting software should be selected after considering the level of skill and proficiency of the accounting professionals.

This is one of the important aspects that should be taken care of before introducing computerised accounting system, as accounting professionals are responsible for accounting not computers. The following are the two situations in which accounting software is required.

- i. When manual accounting system is replaced with computerised accounting system.
- ii. When the existing or old computerised accounting system is replaced with the new computerised accounting system (with the change in technology).

In a computerised accounting system, accounting software helps in recording and processing the accounting data to generate the accounting reports. Keeping in view this need and requirement, the accounting software can be classified into the following three categories.

- i. Ready Made or Ready-to-Use
- ii. Customised
- iii. Tailor Made or Tailored



### **Ready Made or Ready-to-use Software**

This type of software is readily available in the market with prescribed and standard features. This accounting software is basically used by the small-scale business enterprises, where the number of transactions is not so large. The cost of its installation and maintenance is also low. It has limited number of users. Its adaptability is very high as it is relatively easier to learn and operate. It does not have a wide scope to link it with other information systems.

### **Advantages of Ready-made Accounting Software**

The advantages of Ready-made Accounting Software are enlisted below:

1. This software is easily available in the market.
2. It is less expensive, as it comes with basic and standard features.
3. It involves lesser need for training.
4. It is less sophisticated.
5. Its adaptability is very high as it is relatively easier to learn and operate.
6. It is suitable for small-scale business enterprises.

### **Disadvantages of Ready-made Accounting Software**

The disadvantages of Ready-made Accounting Software are enlisted below:

1. It has limited number of users.
2. It is not suitable for medium and large business organisations, where the number of transactions is very large.
3. It fails to cater to the specific needs of the users.
4. It suffers from the low level of data secrecy.
5. It does not have a wide scope to link it with other information systems.

### **Customised Software**

Customised software is the software which has standardised features to meet the special requirements of the users. It provides the scope of changing the features of accounting software. The functions of this software can be programmed as per the needs and requirements of the users.

This type of software best suits the needs of medium and large businesses. Its cost of installation and maintenance is comparatively higher. It can be easily linked to the other information systems.

### **Tailor Made or Tailored Software**

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



It is designed to meet the specific needs of the users and forms an integral part of the organisational MIS. It has infinite number of users.

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

The following are the advantages of Customised and Tailor-made Accounting Software.

1. This software is suitable for medium and large business organisations.
2. It caters to the specific requirements and needs of the users.
3. It can be modified as per the needs of the organisation.
4. It has high level of security and minimises the risk of loss of data and unauthorised access to data.
5. It cannot be easily imitated or duplicated in the market due to difference in the needs and requirements of different users.
6. It does not involve high cost of training as the training can be imparted within the organisation by the experienced personnel.
7. It can be easily linked to the other information systems.
8. It forms an integral part of the organisational MIS.

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

The following are the disadvantages of Customised and Tailor-made Accounting Software.

1. It involves high cost of installation and maintenance.
2. Developing customised software is a time-consuming process and involves high cost of development.
3. Maintenance of this software is difficult as there exists limited availability of knowledge with the developers.
4. It lacks standard training module.

### **Generic Considerations before Sourcing an Accounting Software**

The following are some of the important points that should be taken into consideration before introducing accounting software in an organisation.

- 1. Flexibility-** This is the most important factor that should be considered before sourcing an accounting software. The accounting software should be flexible in

terms of data entry, retrieval of data and generating design of reports. The software should be able to run on different computers having different operating systems and different configurations. It should provide some flexibility to its users. It should also provide easy switch over between users, operating system and hardware.

- 2. Cost of Installation and Maintenance-** The selection of accounting software largely depends upon its cost to the organisation. The cost of accounting software includes cost of installing the related components and hardware, maintenance and alteration costs, cost of training the staff and cost involved in recovering data in case of software failure. An organisation needs to evaluate the benefits of the software against its costs. Based on its evaluation, an organisation will introduce the software if the benefits are more than the cost and if it is in the affordable range of the organisation.
- 3. Size of Organisation-** The size of an organisation also influences the selection of accounting software. 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.
- 4. Training Needs-** Another factor that affects the choice of software is the training needs. There are some accounting software that require comparatively lesser training and are more user-friendly. Also, there are complicated software which require continuous and thorough training.
- 5. Level of Secrecy-** The level of expected security is one of the important factors that an organisation bears in mind before sourcing an accounting software. Software should be competent enough to prevent the unauthorised access and manipulation of data. It should have in-built features of security. For example, in tailored software the user rights may be restricted according to their work or responsibility criteria.
- 6. Exchanging Data Facility-** The ability of accounting software to transfer data is another important factor to be considered in its selection. The accounting software must provide an easy and safe transfer of data from one system to another during migration of database.
- 7. Utilities/MIS Reports-** Another factor which helps in software selection is the MIS reports and the extent to which they are used in the organisation.
- 8. Vendor Reputation and Capability-** The selection of software is also affected by the competence of the vendor. It 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.

