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Using accounting software

Good accounting software should put you in control of your business. You can automate the tasks you have to do, including keeping records and completing statutory returns. And once the data is recorded, it will be easy for you to access and manipulate it for reports that will enable you to run your business better.

To make the most of your accounting software, you need to think through what you want it to do for you.

This briefing covers:

- How you can use accounting software.
- What you should know before you get started.
- How to get started.

See **Choosing accounting software** for information on how to select the right package.

1 Routine savings

With accounting software, information is only entered once. The software automatically inputs the information wherever it is needed, including both the debit and credit side of the entry.

1.1 You complete pro forma (blank) **invoices** and **bills** on screen.

- The software should look up and retrieve accounts, using an account number, name, address or any other piece of key information.
The product name, code or other identifying information should also be recognised.
- Any necessary calculations such as VAT,

discounts, and commissions should be done automatically.

Check you can amend the basis on which each of these calculations is made.

- The software should check dates, customer numbers, VAT codes and other entries for accuracy.
- You can immediately print invoices, statements and remittance notes.
Check whether you will need any special stationery.

1.2 Routine **book-keeping** will be done for you by the software.

- The sales and purchase ledgers will be updated automatically.
- Check the nominal ledger is updated as often as you require.

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- This should minimise any delays between making a sale and raising the invoice.
- The latest information on customer status and stocks should also be readily available to anyone who needs it (see 3).

1.3 The software should also provide you with immediate updates on your **cash position**.

- The impact of payments and receipts on the cash position will be calculated and recorded automatically.
- The program should provide details of your bank balance, together with information on any uncleared cheques.
Check the software can handle and collate different bank accounts, as well as any credit or debit card accounts.

1.4 Most accounting packages offer an additional **payroll** module.

- Payroll software makes it easier to calculate and print wage slips.
See **Payroll software** and **Payroll**.

VAT without tears

Any accounting software package should be able to handle invoice-based VAT accounting.

The totals needed to fill in your VAT returns should be automatically available, together with fully itemised lists of all your transactions.

A If you use the VAT **cash accounting scheme**, which saves you having to pay out VAT on a transaction until you have got the money in, check that the software can handle this.

- Some packages have difficulty coping with cash accounting for VAT.

B You should be able to specify the **VAT rates** for different products.

- Check that the software can cope with different VAT rates and regulations if your business makes sales abroad.

C If your business is **not registered** for VAT, or you expect to register or de-register in future, check how easy it will be to change the way the software handles VAT.

2 Completing statutory returns

Automatic book-keeping makes it easy to prepare statutory returns and annual accounts.

2.1 Using appropriate accounting software should simplify and speed up the preparation of **VAT returns** (see box).

2.2 The software will make it much easier for you to deal with **HM Revenue & Customs**.

- You should be able to produce a statement showing your profits (or losses) for the year to date, whenever you want.
- You should also be able to produce a profit forecast for any period (see 4).
Use this information to estimate how much tax you will have to pay.
- Use your cashflow forecast to show when the tax bill will arrive, and whether you will have the cash to pay it.

2.3 Using accounting software should allow your accountants to prepare your **year-end accounts** quickly and easily.

- All businesses are obliged to produce accounts showing their profit and loss and their balance sheet position at the end of each accounting period.
- Many companies are obliged to have their accounts audited, so it makes sense to take your accountants' advice on the selection of accounting software.
Your software must be able to maintain a satisfactory audit trail which tracks all the transactions during the year, starting with the invoices and receipts.
- All accounting software should be able to produce a profit and loss account, summarising the performance for the year.
Check the software can also provide information for any explanatory notes you might want to provide with your returns.
- Any accounting software should be able to produce a balance sheet summarising your assets and liabilities.

3 Management information

Accounting software gives you instant access to information you need in your daily business activities.

3.1 You should be able to tighten up your **credit control**.

- You will be able to run reports on your total credit position, showing how much is outstanding over a set period.

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

➡ See **Finance** for non-financial managers, Key performance indicators and Credit control.

- You can spot potential problem areas by analysing the information by various criteria such as geography or salesperson.
- The software should also be able to produce reports showing outstanding invoices, payment history and the outstanding balance for each customer. This makes it easier to determine what credit limit to give customers.

Accounting software can be particularly effective when it is integrated with a contact management system. Your sales team will then have complete access to the customer's sales and payment history.

3.2 Accounting software makes it easy to establish a **cost control** system.

- The simplest way to do this is to establish a 'standard cost' and to measure 'actual costs' against it. You may need to use a spreadsheet to make the most of this information. See **Cost control**.

3.3 The software can be used to provide you with detailed **sales information**.

- You should be able to analyse sales by different categories, such as customer, outlet or salesperson.
- You will also be able to identify seasonal variations.

3.4 Accounting software can help you monitor the **stock position**.

- Movements in stock levels should be picked up automatically from the sales and purchases you make.
- You may need additional hardware to gather information on fast-moving stock. For example, you may want to connect POS ('point of sale') terminals to your accounting software.

4 Preparing forecasts

All accounting software should make it much easier to prepare revenue and expenditure forecasts for the months and years ahead.

These forecasts will enable you to check actual performance against your expected performance and identify where and why you have done better (or worse) than you expected.

Forecasts will also be needed if you want to talk to your bank or outside backers about funding.

4.1 You will be able to prepare **budgets** showing the sales and profits you expect to achieve, and the costs involved.

- You can use the software to feed any regular payments into your projections. For example, you should be able to identify rent, rates, bank charges and wages as recurring expenses.
- You can use past experience to forecast sales levels and to identify the cost of fulfilling your orders.

4.2 You will also be able to prepare **cashflow forecasts**, showing what cash you expect to come in, and when (if at all) you expect to run into problems.

- Such forecasts will enable you to take remedial steps. For example, you may need to slow down sales growth or talk to the bank.

4.3 Use of accounting software makes it easier to change your projections and to make '**what if**' calculations.

- For example, you will be able to identify the effect on both your profits and your cash position if your sales assumptions turn out to be over-optimistic.

4.4 Making use of forecasts and **detecting patterns** is much easier if you can represent the information graphically.

- Check the software either produces graphs or allows you to export the information into a spreadsheet.

Your accounting software package may not be able to handle some aspects of the forecasting process that are important to you.

This is not necessarily a problem, as long as it is designed to link into a software product that can perform these tasks.

5 Monitoring performance

Using accounting software makes it easier to see how well your business is doing overall, and how well individual parts are performing.

5.1 You can establish a **monitoring system** to show how well each individual area is performing against budget, or against other comparable periods.

- You will be able to identify problem areas and probably pinpoint the reasons for poor performance.

For example, if your sales are falling short of forecast, or short of last year's performance, you may be able to trace this back to an underspend on marketing.

- You will also be able to take remedial action sooner, rather than later.

For example, if your production costs are over budget, you may need to improve efficiency, increase prices, or switch to more profitable lines.

5.2 You can use the software to determine the **real performance** of different parts of your business.

- The software should allow you to break down your costs for different departments, products and individuals.

You can match costs with income to determine what each activity earns you.

- More advanced software will allow you to integrate information from different parts of your business to determine the real costs of a project.

For example, you may buy in a product at low cost and sell it on at a high price. But if you have to run an expensive marketing campaign, the product may not be worth selling by the time you have allocated the real costs.

- The software should allow you to measure the worth of a product or division, in terms of its ability to generate cash.

5.3 The software should help you produce **management accounts**, which will enable you to see how well you are doing overall.

- If you produce management accounts on a monthly basis, you will have a good idea of how well your company is performing against budget and against other comparable periods.

Some fast-moving companies may want to produce them more often.

- The accounts should cover the latest accounting period, and also show the picture for the year to date.
- The software will enable you to check the performance of each part of the company, and produce a 'profit and loss' account, summarising overall performance. Check that it can handle non-cash items, such as depreciation, and pre-payments and accruals.

- You may use it to produce a cashflow breakdown by division, especially if there is more cash going out than coming in.
- It should also permit you to produce a 'trial balance', totalling all debit and credit balances. It should check for any mismatches.

- You may want to use it to produce a balance sheet showing your assets (what you own) and liabilities (what you owe), particularly if you want to borrow money or raise capital.

5.4 If you need to do so, the software will permit you to **update** your budgets and forecasts during the course of the year.

- You will be able to feed in the performance to date to amend your forecast for the year.
- You will be able to use the information entered in one report to amend that contained in another.

6 Getting started

If you are using software for the first time, or are radically upgrading your system, you will almost certainly have to change the way you do things.

Allow time to learn the system properly.

6.1 You will need **help** to get a system up and running.

- Your accountant can help you decide what you want from your accounting system. You may want to adopt the same system your accountant uses, for ease in preparing the year end figures. But check it will give you the management information you need.
- Your accountant can provide you with a 'trial balance' to get started. The best time to implement a system is usually at the beginning of a new accounting period.
- You need to decide who has access to the new system, and what measures you are going to introduce to maintain security.

6.2 Learning a new system takes time. Check the vendor can provide adequate **support** and **training** for you and your employees.

- How much training will you need to get up and running?
- Different personnel will need different levels of training.

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**.

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