

Choosing accounting software



Choose the right accounting software package and you will save time and money, make fewer mistakes, and gain a better understanding of your business finances.

Good business accounting software is designed for people who are not accountants.

This briefing explains what to consider before you make a purchase:

- The benefits of accounting software.
- How to establish your accounting needs.
- What level of software to choose.
- How much will it cost.

1 Why use accounting software?

Basic accounting software is cheap and fairly easy to use. Unless your business processes fewer than ten transactions each month, accounting software will almost certainly save you time and money.

1.1 Accounting software can make many tasks easier.

- Book-keeping is simplified and automated. For example, when you enter an order, the software will update your stock levels and customer records. You can also translate the order into a sales invoice automatically.
- Checking bank statements, VAT returns, monthly management accounts and more can be completed quickly.
- Some software supports online banking and online tax filing.
- Most packages offer optional features to help you run payroll.

1.2 Accounting software provides a range of real time **management reports**.

- For example, see who owes you money, check your bank account balance or, how much VAT you owe.
- Generate your balance sheet, profit and loss or cash flow reports, or view performance against budget.
- Some software may allow you to estimate how profitable particular job has been.

1.3 The software makes it easy to prepare for your **annual accounts**, or for an audit.

1.4 Accounting software may allow data to be shared and used in different ways. For instance:

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- Use information about outstanding debt to generate automatic debt-chasing letters.
- Identify your best customers, then automatically send them an exclusive offer.
- Identify employees who are claiming expenses, then check they are genuine.

2 Identify your needs

Before considering specific accounting software packages, think about what you want to do with it and how it can help your business. Being clear about your priorities helps you evaluate packages.

2.1 What are your **business objectives**?

For example, you may aim to capture 10% of a given market within five years, or want to open ten new shops.

Accounting software will include features that can help you achieve these objectives.

2.2 **Who** is going to use the software?

- These people should have a say in what software you choose.
What would your employees like to see from a new accounting system? What issues are there with your current way of doing things?
- Get your accountant involved. They may be able to suggest or recommend packages (see 6.1). It's also important that they can work with the software to produce your end-of-year accounts and to satisfy audit requirements.

2.3 What **management information** is crucial to the running of your business?

Accounting software isn't just about complying with the law. It can provide information to help you run your business and make decisions.

- For example, a retailer needs instant access to stock information.
- Your accountant or consultant may be able to use data to improve your business.

2.4 Can the software handle all the **book-keeping** tasks you need it to perform?

Accounting software can help you with day-to-day financial tasks, including:

- Sales, invoicing and receipts.
- Purchases and payments.
- Banking and cash management.
- VAT, tax and accounts.
- Stock control and payroll.

2.5 What **special needs** do you have?

- For example, do you have more than one business, or trade internationally?
- If you run an online business, can the software integrate with your ecommerce solution?

If you buy and sell in different countries, you need software that can automatically convert currencies using the correct exchange rate.

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

3 Ease of use

These days, accounting software is easier to use than ever. Packages tend to be powerful, but are designed so you can easily access and understand the main features.

3.1 Can the software interface be tailored to suit **your needs**?

Features to look for include:

- The ability to add new fields and controls.
For example, do you want your sales ledger to contain additional information, such as the name and contact details of the person who placed the order?
- The option to set defaults for fields.
For example, do you want your payroll software to add a list of standard benefits automatically when you add details of a new employee?
- The option to define a range of values.
For example, can you minimise data entry errors by defining entries in advance?
- The option to customise documents and screens.
For example, do you want company branded invoices?

3.2 Can you freely import and export information?

Make sure the software allows you to import data. This avoids the need to enter information manually when setting up.

Also ensure you can freely export all your data. This will make it easier to move to another package in future, should you need to.

3.3 Can you use the software anywhere?

Cloud accounting software (see 5.1) is accessed by signing in over the internet rather than running on your computer.

This means you can check your figures and perform financial tasks from almost anywhere, as long as you have an internet connection.

Cloud accounting software usually includes mobile apps (for smart phones and tablets), giving you even more freedom in when and how you work.

4 How data is stored

4.1 Check how the software handles **sales** and **purchase** transactions.

Most software provides these functions in the form of a sales and purchase ledger.

- Can you input detailed information on your customers and suppliers?

4.2 How flexible is the structure of the **nominal ledger**?

Most accounting software is constructed around the nominal ledger, which brings together your assets, liabilities, income and expenses.

- Can you categorise different items according to departments or cost centres?
- More flexible systems allow you to define how your accounts are allocated.

Compliance

The simplest accounting packages are easy to use and often look more attractive. But they may not provide you with a sufficiently high level of compliance.

A Check that the software provides an **audit trail**.

- You must be able to track all deals that occurred during the year.
For example, the software should allow you to delete an incorrect entry, but should also record what was deleted, so you can check if necessary.
- The software should conform to good accounting practices.
For example, an invoice should remain open in the next accounting period if you have only received part payments.

B Check how the software manages **back-ups**.

- The software should ensure that you do not accidentally revert to using old data.
- You should be able to keep records as long as required.
For example, most account information needs to be kept for six years and most payroll information for three years.

- Can you structure the order in which your asset, liability, income and expense accounts appear?
Simple systems require items to appear in the order in which they occur on the balance sheet or profit and loss account.
- Does the software allow you to input a full range of transactions?
- What budgeting facilities does the ledger allow for?
- Can you generate separate ledgers to track specific pieces of information?

4.3 The more **flexible** the software is, the more you can tailor it to your business. This can make a major difference to the overall usefulness of the software.

- Will your accountant be able to use the reports to prepare year-end information?

4.4 Some cloud accounting packages help get your accounts set up correctly by asking a few questions about your business at the start.

5 The options and costs

Accounting software doesn't have to be expensive. But you are likely to incur costs when setting up the system and training your employees to use it.

5.1 There are three main types of accounting software:

- **Cloud computing software** is accessed over the internet. All your data is stored safely by the software provider, so you can sign in and use it from anywhere. Cloud software offers great flexibility and you usually pay by the month, spreading your costs. Cloud accounting software is often the best option for small companies.
- **Desktop accounting software** is installed on your computer. In general, you can only use it on that computer and all of your data is stored there.
The popularity of desktop software has fallen since cloud accounting software became commonplace. However, using it does mean that all accounting data is kept within your business.
- **Server-based software** runs on a central server in your business. This means it can be accessed by several people at once. Server based software is often used by larger companies that have the resources to set up and manage the software, access levels, security and backups.

“Software as a Service (SaaS) is a compelling model for acquiring, using and paying for accounting software. It is fast to implement and offers low upfront costs. No large initial outlay of capital is required to license the software and the solution is typically purchased on a per-user, per-month basis, easing the burden of licensing software.”

William Parker, UK country manager, accountsIQ

5.2 Cloud accounting packages meet the needs of most **small businesses**.

- Popular packages include Sage One, Intuit QuickBooks Online, Xero, Freshbooks, Kashflow, and FreeAgent.

5.3 Desktop and server-based packages may take more time and require more IT knowledge to set up.

- Popular packages include Sage Instant Accounts and Sage 50, Intuit QuickBooks Desktop and Mamut AccountEdge.

5.4 Accounting software is often available with add-ons or modules that handle different aspects of your accounts and financial management.

- Add-ons usually provide functions such as payroll, connecting to your ecommerce system and so on.

5.5 When considering a cloud accounting package, make sure you understand how cloud software differs from traditional packages.

- Cloud accounting software runs on a server operated by another company. You pay a regular fee (usually monthly) to access it over the internet.
- There are no upfront costs and management costs are lower as the cloud provider takes care of the infrastructure and technical support.
- Cloud software allows you to access your data anytime, anywhere so it's easier to collaborate with your accountant or advisors.
- However, your company's financial data resides outside your business, so you need total confidence in the cloud provider. Make sure they encrypt your data and back it up regularly.

5.6 Look for **accredited software**.

- The Institute of Chartered Accountants in England and Wales maintains a list of accredited accounting software. Visit www.icaew.com for more information.

5.7 People in your business will need **training** to use the software.

- The person responsible for managing your accounts will need a detailed understanding of the system.

- Employees responsible for particular functions need to be able to perform those tasks only.

For example, a sales person may only need to know how to raise an invoice.

- Thorough training can be costly, but still less expensive than learning by trial and error.

5.8 **Maintenance** and **support** are key aspects to consider when purchasing your software.

If you opt for cloud software, the monthly fee usually includes ongoing updates and support.

6 Making a purchase

It's a good idea to shop around for advice. Find someone who understands the needs of your business and the capabilities of different software packages.

6.1 Most **accountants** can advise businesses on what software to choose. But some are more experienced than others.

- Good accounting software can reduce reliance on your accountant, so they may have a vested interest not recommending the most appropriate package.
- Additionally, they may prefer you to use software that makes their life easier. But you need software that's right for your company.

6.2 Some accountants are software **resellers**.

- Larger accountancy firms may have a dedicated accounting software department.
 - Again, they may have a vested interest in selling certain software. Seek independent advice if you're unsure.
 - Many resellers are also software developers. They can customise software to meet your exact needs.
- For smaller businesses, the costs of having a system customised will usually outweigh the benefits.
- It's often possible to customise cloud accounting software yourself, by picking add-ons that best suit your business.

6.3 Be wary of software that is new or only has a small user base.

- A large user base removes a significant element of risk. It usually indicates an established product with better support and more investment in upgraded versions of the software.

Expert contributors

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