

# Unit 5:

## Computer Application

### Role Of Computers In Accounting

One of the earliest applications of the computer in accounting was for the purpose of processing of a pay roll in the U.S.A. Later on, computer application extended to sales transactions which involve the invoicing, billing and updating of customers accounts. Posting to customer's ledger for transactions taking place frequently is done by computers at the touch of a button. Computers play an important role in maintaining up to date inventory records so that management can take quick decisions to get suppliers without obstructing the productions process or supply to its customers. The preparation of the trail balance and then financial statements – balance sheet and income statement – requires the processing of innumerable business transactions. The business transactions are recorded, analyzed and summarized through computers with speed and without error. The only requirement is that data and instructions are fed to the computer by knowledgeable person.

In the field of financial accounting, the roles of computers involve:

- a) Preparation of sales ledger e.g., Debtors' accounts.
- b) Preparation of purchases ledger, i.e., accounts of suppliers.
- c) Preparation of general ledger e.g., accounts of income and expenses, cash account etc.
- d) Processing and maintaining pay rolls.
- e) Maintenance of stock records.
- f) Classification of business transactions through sorting, merging and updating.
- g) Preparation of trial balance.
- h) Preparation of trading and profit and loss accounts and the balance sheet.

In the field of management and cost accounting, computer applications enables:

- (i) Costing calculations and costing records.
- (ii) Forecasting/budgeting.
- (iii) Estimating job costs.
- (iv) Project appraisal.
- (v) Credit controls.

Computer application in accounting is more widespread than in any other business activity. Accounting is primarily concerned with procedures of recording, classifying, summarizing and interpreting business transactions in money terms. In one sense, it is concerned with the storage, processing and reproduction of

accounting information when required. Computers perform these functions and thus are correctly termed as Accounting Machines. Accounting cycle begins with the recording of business transactions pertaining to purchases and sales of goods, receiving and making of payments in cash, incurring of expenses to maintaining the business and so on. The increase in the volume of business transactions would make the maintenance of books of accounts manually not only difficult but might make them inaccurate because of basic limitations of human factor. The computers can record all business transactions with speed and post them to their respective ledger accounts with accuracy. Computers have proved very economical in maintaining customers' accounts. The customers get complete information about their unpaid amounts with complete details of their transactions with the enterprise. This procedure helps the business entity in recovering the amounts due on time. The computer can provide correct calculations with all the required details to the satisfaction of employers and employees.

## What Is Accounting Software?

Accounting software is a computer program that assists bookkeepers and [accountants](#) in recording and reporting a firm's financial transactions. The functionality of accounting software differs from product to product. Larger firms may choose to implement a customized solution that integrates a vast amount of data from many different departments. Small firms often choose an off-the-shelf product.

## Understanding Accounting Software

Accounting software is an invaluable resource for modern businesses. Software allows detailed tracking of financial transactions and near-instantaneous reporting and analysis. Before accounting software, these tasks had to be performed by hand, using large transaction [journals](#).

Ad hoc reporting was generally impractical due to the labor involved in consolidating the manual entries. Accounting software automates these tasks, reducing the costs of accounting and allowing better financial decision-making through timely reporting.

Accounting software also allows for the storing of numerous amounts of data without having to take up physical space. This results in companies needing less office space because they no longer need large file rooms to store binders of data. Less office space allows for cost savings.

The ability to easily access accounting information through accounting software makes it easier to complete [audits](#), particularly those that require evaluating information from years prior. This not only assists with [internal audits](#) but also assists external groups, such as the [Internal Revenue Service](#) (IRS), in case they need to investigate financials for tax purposes.

## Accounting Software Choices

There are accounting software packages for all companies, from Intuit's Quickbooks for small to midsize businesses to offerings from Microsoft, SAP, and Oracle for large enterprises. Some of the distinguishing features are functionalities in expense reporting, [LIFO](#) and [FIFO](#) inventory reporting, [point-of-sale](#) integration, batch management, document management, and multi-currency transaction recording.

Also important is where or how the accounting software is deployed: on-premises, hosted as [software-as-a-service](#) (SaaS), or in the [cloud](#). There are generic accounting software packages that can be used right away for all types of companies, while other packages require customization for the specific needs of an industry or business. As with other types of software packages, pricing for accounting software can take the form of a flat-rate (e.g., a monthly subscription), time-based, per user-based, and tiered-rates depending on the level of service.

Depending on the accounting software chosen, representatives from the software company may visit a customer's office and demonstrate the accounting software as well as implementing it properly and securely within the firm's accounting department.