

Chapter 5 - Computerised Accounting System

Question:1

State the four basic requirements of a Database Applications.

Solution:

The following are the four basic requirements of a Database Application.

- a. **Front-end Interface-** It acts as an interactive connecting link between the user and the database oriented software through which the user communicates or interacts to the back-end database.
- b. **Back-end Database-** It is the data storage system that is hidden from the users. It responds to the requirement of the users to the extent the user is authorised to access.
- c. **Data Processing-** It is a sequence of actions that are taken to transform the input data into useful information for taking various decisions.
- d. **Reporting System-** It is an integrated set of objects that includes all the relevant information that constitutes a report.

Question:2

Name the various categories of Accounting Package.

Solution:

The Accounting Packages are classified into the following categories.

- a. Ready-to-use or Readymade Software.
- b. Customised Software
- c. Tailored or Tailor-made Software.

Question:3

Give examples of two types of Operating Systems.

Solution:

The following are the two types of Operating System along with their examples.

- a. Single-User Operating System for example, DOS, Windows 95/97
- b. Multi-User Operating System for example, UNIX, LINUX

Question:4

List the various advantages of Computerised Accounting Systems.

Solution:

The mentioned below are the various advantages of Computerised Accounting Systems.

- a. Speed

- b. Accuracy
- c. Reliability
- d. Up-to-Date Information
- e. Real Time User Interface
- f. Automated Document Production
- g. Scalability
- h. Legibility

Question:5

Give two examples each of the organisations where ‘ready-to-use’, ‘customised’, and ‘tailored’ accounting packages respectively suitable to perform the accounting activity.

Solution:

‘Ready-to-use’ accounting packages are basically used by the small-sized enterprises. For example, grocery stores, medical stores, etc.

On the other hand, ‘Customised’ accounting packages are basically used by the medium and large business. For example, shopping malls, hospitals, etc.

Whereas, ‘Tailored’ accounting packages are basically used by the geographically scattered businesses. For example, MNC’s, Communication Industries, etc.

Question:6

Distinguish between ‘ready-to-use’ and ‘tailored’ accounting software.

Solution:

Basis of Difference	Ready-to-Use Accounting Software	Tailored Accounting Software
(i) Nature of Business	This software is used in small and conventional businesses.	This software is used in large and typical businesses.
(ii) Adaptability	Its adaptability is very high.	Its adaptability is very specific and cannot be used by every business houses.
(iii) Linkage to other Information System	Its interface with the other information system is limited.	Its interface with the other information system is unlimited.
(iv) Number of Users	It has limited users.	It has huge number of users.

(v) Installation and Maintenance Costs	The installation and maintenance cost is low.	The installation and maintenance cost is comparatively higher.
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Question:7

Define a Computerised Accounting System. Distinguish between a Manual and Computerised Accounting Systems.

Solution:

Computerised Accounting Systems is based on the concept of database. It is an accounting information system that processes the financial transactions and events in accordance to the Generally Accepted Accounting Principles (GAAP) to produce reports as per the requirements of the users.

The computerised accounting is one of the database oriented application, where in the transactions data is stored in a well-organised database. The accounting systems are of two types namely Manual and Computerised Accounting Systems.

The following are some point of differences between Manual and Computerised Accounting Systems.

Basis of Difference	Manual Accounting Systems	Computerised Accounting Systems
(i) Identifying	The identification of transactions is based on the application of the accounting principles.	The identification of transactions in computerised accounting is also based on the application of accounting principles
(ii) Recording	In Manual Accounting Systems, the recording of financial transactions is done through books of original entries, i.e. Journal.	In Computerised Accounting Systems, the data of such transactions is stored in a well designed database.
(iii) Summarising	By ascertaining the balance of various accounts, transactions are summarised to produce Trial Balance in the Manual Accounting Systems. Consequently, the generation of ledger accounts becomes a necessary condition.	In Computerised Accounting Systems, 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.

(iv) Classification	In Manual Accounting Systems, 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 Computerised Accounting Systems, the stored data is processed to appear as classified, such that no data is duplicated.
(v) Adjusting Entries	Adjusting entries are recorded to match the expenses and revenues generated of the accounting period. So, under Manual Accounting System, these entries are made to stick to the principles of cost matching revenue.	In Computerised Accounting Systems, no such adjusting entries for errors and rectification are made. Thus, Journal and vouchers are prepared and stored to follow the principles of cost matching revenue.
(vi) Financial Statements	The preparation of financial statements hypothesises the availability of Trial Balance under the Manual System of Accounting.	However, in Computerised Accounting System, journal vouchers are prepared and stored to follow the principles of cost matching revenue, but there is nothing like passing adjusting entries for error and rectification.
(vii) 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.	In the Computerised Accounting Systems, to create and store the opening account balances in the database, year-end process is used.

Question:8

Discuss the advantages of Computerised Accounting Systems over the Manual Accounting Systems.

Solution:

The following are the various advantages of the Computerised Accounting Systems over the Manual Accounting Systems.

- 1. Speed-** The speed of a computer is very high and takes very less time in performing various difficult operations. The accounting data is processed comparatively faster through the Computerised Accounting Systems than it can be done through the 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.

On the other hand, in Manual Accounting Systems, posting of same data is required a numerous times to prepare different types of accounting reports. This increases the possibility of accounting errors.

3. Reliability- As the Computerised Accounting Systems is well-equipped in performing repetitive operations, so it is comparatively more reliable to perform the operations than the manual system. Also, the Computerised Accounting Systems overcome the limitation of Manual Accounting Systems such as tiredness, boredom or fatigue, etc., thereby enhances the degree of reliability.

4. Up-to-Date Information- In the Computerised Accounting Systems, whenever the 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 period of time.

On the other hand, the accounting records maintained under the Manual Accounting Systems fail to reflect the latest status. This is because it depends on the human mental capability and patience to update the records each time a transaction happens.

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 the real-time basis is facilitated under computerised system of accounting. This is very difficult to avail such facility under manual system as this call 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 Systems, the accounting reports such as, Cash Book, Trial balance, Statement of Accounts, etc. are very easy to obtain. 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 manual system. This is because the accounts books are prepared by different employees, thereby subjected to vary from person to person.

7. Scalability- The computerised systems of accounting are highly scalable as the requirement of additional manpower is mainly confined to data entry for recording and storing the additional vouchers in the computers. 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 Systems, 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 materials involve errors due to misinterpretation.

Question:9

Describe the various types of accounting software along with their advantages and limitations.

Solution:

The various types of accounting software are:

1. Ready-to-use
2. Customised
3. Tailored

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-size 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.

Customised Software- Customised software is the software that 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.

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 the large business organisations with multi-users and geographically scattered locations. It is designed to meet the specific needs of the users and form an integral part of the organisational MIS. It has infinite number of users.

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 a 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-size 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 organisation, where the number of transactions is very large.
3. It fails to cater 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.

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 organisation.
2. It caters 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 loss and unauthorised access of 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 to the developers.
4. It lacks standard training module.

Question:10

'Accounting software is an integral part of the Computerised Accounting Systems' Explain. Briefly list the generic considerations before sourcing accounting software.

Solution:

The accounting software does form an integral part of the Computerised Accounting Systems. 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 Systems, as the accounting professionals are responsible for accounting and not computers.

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 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 having different configurations. It should provide some flexibility among 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 data 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 determines the selection of accounting software. 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.
4. **Training Needs-** Another factor that affects the choice of software is the 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.
5. **Level of Secrecy-** The level of expected security is one of the important factors that an organisation bears in mind before sourcing accounting software. Software should be able 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 capability of accounting software to transfer data is another important factor to be considered for its selection. 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.
7. **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.
8. **Vendor Reputation and Capability-** The selection of software is also affected by the capability and 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.

Question:11

‘Computerised Accounting Systems are best form of accounting system’. Do you agree? Comment.

Solution:

Yes, we agree with this statement that ‘Computerised Accounting Systems are best form of accounting system’. It becomes very easier to work with Computerised Accounting Systems leading to reduction in the accounting errors. Moreover, the computerised accounting reports are highly reliable, thereby enhances the overall efficiency.

Due to the following positive aspects, the Computerised Accounting Systems certainly enjoy an edge over the Manual Accounting Systems.

1. **Speed-** The speed of a computer is very high and takes very less time in performing various difficult operations. The accounting data is processed comparatively faster through the Computerised Accounting Systems than it can be done through the 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.

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