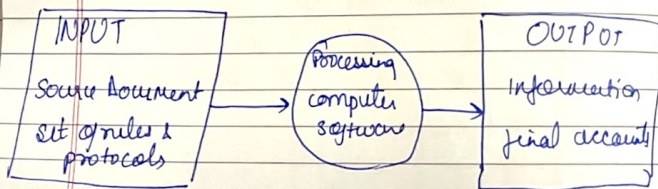


## UNIT: 5

Computerized accounting is ~~also~~ accounting done with the aid of a computer.

Computerized accounting <sup>system</sup> is a software application that automates financial records and reporting processes to make them faster, more accurate, and easier to manage. It reduces the manual entry of data, eliminates redundant operations, and reduces accounting error & risk with built-in controls.

Accounting software is used by accountants to record and track financial statements. It is used to classifies, money, and resources. It is used to make accounting easier and more accurate by reducing the error risk. It is a software for financial record-keeping and analysis.



## Advantages / Features

1) **Accuracy:** computerized accounting is designed to be accurate to the minutest details. Once the data is entered into the system, all the calculations, including additions, subtractions are done automatically by software. It is most accurate than manual system as it anticipates to remove common errors and correct them.

2) **Data Access:** using accounting software it becomes easier for different individuals for accessing data outside of the office securely.

3) **Scalable:** when the company grows, the amount of accounting necessity not only increases but becomes more complex. With computerized accounting everything is easier as shifting through data using software is easier than through a bunch of papers.

4) **Speed:** using computerized accounting, the entire process of preparing accounts becomes faster. Also the statements and reports are generated quickly at the click of a button.



5) Cost-effective: Using computerized accounting is more efficient than paper-based accounting, work will be done faster and time will be saved.

6) Availability of information: Data is instantly available and can be made available to different users in different locations at same time. This is called data sharing.

### Disadvantages / Limitations

1) Cost: Computer hardware needs replacing and software needs to be updated from time to time with the availability of new versions.

2) Health dangers: Extensive use of computers may lead to many health problems such as eyestrain, muscular pain, backache etc. in result reduces working efficiency as well as increases medical expenditure.

3) Security: The danger of viruses and hacking into the system from outside create a strong need for security of system.

4) System failure: The danger of a system crashing due to some failure of hardware can lead to subsequent loss of work. This occurs when no back up is retained.

5) Unemployment: The adoption of computerized accounting software means a lot of work is done by fewer employees. Such moves sometimes leads to lay-offs. When lay-offs have <sup>not</sup> been done, employers live in fear of anticipated job loss.

### Difference B/w

#### Manual Accounting

It is a system of accounting that uses physical registers and account books for keeping financial records.

Data is recorded in the account books.

All calculation is performed manually.

#### Computerized Accounting

It is a system of accounting that uses an application software for keeping financial transactions.

Data is recorded in the database.

All calculations are performed by computer.

Speed is slow

Backup is not possible

Trial balance prepared when necessary

Financial Statement is provided at the end of period or quarter

It is a time taking process

Books can be kept safely and cannot be stolen easily

It is much more difficult to edit the report or make changes

Speed is fast

entries of transactions can be saved and backed up

Total balance is provided instantly on daily basis

It is provided at the click of button

It consumes less time

risk of cyber attack to steal the data

Any changes can be performed easily

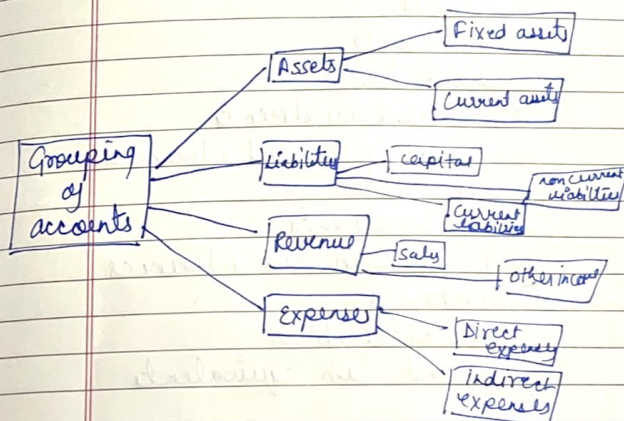
## Grouping the Accounting head

In accounting, grouping is concerned with comparable things, characteristics together. They are displayed under a

typical head. ~~category~~

There is a need of proper systematic grouping of accounts. The major groups or heads could be Assets, liabilities, revenue, expenses and owner's equity.

The sub groups or minor heads could be capital, non-current liability, direct expenses etc.



$$A = E$$

where  $E = L + C$

$$A = L + C$$

A = assets  
E = Equities  
C = Capital  
L = Liabilities

$$\text{Assets} = L + C + (\text{Revenue} - \text{Expenses})$$



- 1> Equity and Liabilities
- Non-current liabilities
  - Current liabilities
  - Short term provisions
  - Long term provisions
  - Share capital

2> Assets

A. Non-current Assets

Fixed Assets

Tangible Assets

Intangible Assets

Non-current Investments

Long Term Loan and Advances

B. Current Assets

Current Investments

Short Term Loan and Advances

Inventories

Trade Receivables

Cash and Cash Equivalents

3> Revenues

Sales

Other Income

4> Expenses

Salary and Wages

Depreciation

Manufacturing expenses

Administrative expenses

Interest

Material consumed



## Types of files

### 1) Master file (records)

It contains permanent data pertaining to entities.

For eg customer file will contain details of a customer such as customer's name and contact address.

### 2) Transaction file

It contains records pertaining to events currently being processed, such as sales, receipts of goods, etc.

It captures detailed transaction data.

Transaction data are periodically posted to related master file.

### 3) Report file

These are derived from records within Master or transaction files eg data may be periodically extracted from the accounts receivable master file to construct an aging schedule.

### 4) Backup file : This is a copy of a current file generated so that the original file can be recreated from it.

5) Suspense file: This is a collection of those records of a transaction file that appear to contain erroneous or questionable data.

6) Sort file: It stores data which is arranged in a particular file.