**Computerized Accounting System**

A company’s accounting system is the core of its financial management, as it processes all transactions within the organization. A computerized accounting system 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. An accounting system is a set of procedures and record-keeping systems for managing the financial and operational activities of an organization. Basically, it’s a method for tracking and managing the business’s finances.

**What Accounting software does:**

* Accounting software automates and streamlines the accounting processes by using computers to record and track a business’s financial transactions.
* It is software for financial record-keeping and analysis.
* It records the purchase of goods and services, sales value and other financial transactions.
* Accounting Software saves time, money and resources.
* It is a business tool for bookkeeping and other financial operations. Accountants use this software in recording and tracking financial transactions.
* The software is designed to make accounting tasks easier and more accurate.

**Features of a Computerized Accounting System:**

**1. Data Security:** A computerized accounting system allows users to store their data in a central location. In this way, if any piece of paper that contains valuable information is lost, no one is at risk of having their information stolen. All the data is hence stored at a central location.

**2. Improved Reporting:** In Accounting software, various things are automated, and very less things are recorded manually. This helps in improving reporting of transactions and statements.

**3. Accuracy and Speed:** The automation of accounting processes with the help of various accounting software ensures that accounting work is done fast and accurately.

**4. Scalability:** Computerized Accounting system is so flexible as to accommodate the changing business volume.

**5. Quick Decision Making:** Since a computerized accounting system generates real-time information, managers are quick to come up with instant decisions or solutions to a particular problem.

**6. Advanced Features:** While some accounting software is designed for sole proprietors and small business owners, others are tailored for larger enterprises. If the business is operated at a large scale, you may want to consider a computerized accounting system that comes with features like inventory management and multiple user access.

**7. Reliability:** A computerized accounting system produces standard and accurate accounting information consistently.

**Advantages of Computerized Accounting System:**

**1. Accuracy:** Accounting errors are one of the biggest problems that businesses face in their accounting process. Accounting software is designed to anticipate common errors and correct them before they are added to the company’s records. It is more accurate than most manual systems.

**2. Simplicity:** Regardless of the size of a company, accounting software is designed to be straightforward and easy to use. This means that even new employees can quickly understand how to use the system and record their financial activities.

**3. Financial Report Accuracy:** Accounting software is designed to be completely accurate. Companies can be assured that their financial reports have no errors. This means that managers can quickly make decisions based on the accounting data.

**4. Standardized Financial Reporting:** The use of accounting software in a business ensures the production of standard financial statements over the years. These reports are very vital when comparing a company’s financial performance over the years, or when comparing different businesses that are similar in operation.

**5. Greater Control:** A computerized accounting system helps the management of a company to have greater controlover its operations. This is more suitable for a company which is large in size and has multiple departments. All vital information is easily available with one click.

**6. Integration:** Most Accounting systems are usually integrated with other vital accounting systems, such as online banking. This means that important business processes are performed together and with speed.

**Disadvantages of Computerized Accounting System:**

**1. Cost**: Although accounting software is designed to simplify bookkeeping and reduce the cost of accounting services, it can also be costly to set up and maintain. Many businesses decide to use computerized accounting systems once they have reached a certain level of growth.

**2. Lack of Expertise**: Many business owners like to keep their accounting in-house. This means that they may not want to rely on an outside service to handle their bookkeeping. In this case, they may choose to use manual systems until they have the resources to implement computerized accounting tools.

**3. Heavy Installation and Training Costs:**The cost of accounting software depends on its use**.** Some software goes at very high prices that are unaffordable to the business. Besides acquisition costs, installation and training costs can also be so high and beyond the company’s reach.

**4. Disruption of Work:** As newer versions of both the hardware and the software are introduced in the market, there is a need for businesses to update them regularly. Employees must be retrained for efficient use of such new tools. Re-installation and retraining result in a disruption of work.

**5. Loss of Employment Security:** The adoption of computerized accounting software means a lot of work is done by fewer employees. Such a move at times leads to lay-offs. Where lay-offs have not been done, employees live in fear of anticipated job loss.

**6. Compromised Accuracy:** The accuracy of financial records is as good as the data fed to the accounting software, thus the saying, ‘garbage-in, garbage-out.’If the accuracy of the data entered is compromised, the software is bound to produce faulty or misleading accounting information.

**7. Potential Fraud:** Since most of the financial/accounting data is stored in the cloud, professional hackers may gain access to a company’s records. Such actions may expose the assets of a business to greater risks.

**8. Technical Failures:** The accounting software may be rendered useless, when the premises where a business is housing are affected by technical glitches, such as regular power outages and computer virus attacks.

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| --- | --- | --- |
| **Basis for Comparison** | **Manual Accounting** | **Computerized Accounting** |
| Meaning | Manual Accounting is a system of accounting that uses physical registers and account books, for keeping financial records. | Computerized Accounting is an accounting system that uses an accounting software, for recording financial transactions electronically. |
| Recording | Recording is possible through book of original entry. | Data content is recorded in customized database. |
| Calculation | All the calculation is performed manually. | Only data input is required, the calculations are performed by computer system. |
| Speed | Slow | Comparatively faster. |
| Adjusting entries | It is made for rectification of errors. | It cannot be made for rectification of errors. |
| Backup | Not possible | Entries of transactions can be saved and backed up |
| Trial Balance | Prepared when necessary. | Instant trial balance is provided on daily basis. |
| Financial Statement | It is prepared at the end of the period, or quarter. | It is provided at the click of button. |

## What is a General Ledger?

General Ledger in simple language is grouping of transactions of similar nature.  An organization has multiple transactions in a day. Every transaction led to two entries as per the double entry system of bookkeeping. These entries are then posted in respective accounts called ledgers.

**Examples:** Let us assume, an organization Apple Ltd trades in fruits.  It sells 20 kilos of strawberries at Rs. 100 per kilo to its buyer for cash on 8th August.  The entry will be

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash A/C |  | Dr | 20000 |  |
|  | To Sales A/C |  |  | 20000 |

## **Simplified meaning of General Ledger and Process**

Let us simplify this concept with the following illustration: We pay monthly bills for credit cards, mobile phones, electricity, etc. Over a period of one year, we may want to analyze our expenses. We have filed all the bills in a single file, then we will have to find every bill month wise and then total that head of expense and then compare the various expenses. But this task will be simplified if we categorize the bills according to the relevant expenses and file it accordingly from the beginning of the year.    
  
For example, all mobile bills in one file, all credit card bills in one file and so on. We can analyze the expenses with a lot of ease. Similarly, as and when transactions are entered into, the resultant entries are categorized and placed in ledgers.  These ledgers are then totalled at period end to form a [Trial balance](https://cleartax.in/s/trial-balance).

## **Classification of General Ledgers**

General ledgers are classified according to their nature. This classification facilitates the preparation of financial statements. The classification is as follows:

* **Expense Ledgers:**All expenses incurred will be posted in this ledger. Purchase Account, Rent Account, Electricity account, Maintenance Account and the like will all fall under this category.
* **Income ledgers:**All income accrued/earned will be posted in this account. Sales, interest received, Discounts received accounts will fall under this category.
* **Capital ledger:**All accounts pertaining to Capital introduced/drawings will fall under this ledger.
* **Asset ledger:**All accounts pertaining to assets will be posted in this ledger.  Cash, Bank, Debtors, Machinery, Furniture accounts and the like will fall under this category.
* **Liability ledger:**All accounts pertaining to debts or obligations of the organization will be posted here.  This will include Borrowings, Creditors, Accounts payable and so on.

## **Benefits of General Ledger**

* The general ledger provides the position of the business at any given point of time.  For example, a Cash ledger will reflect the cash in hand as on date, the bank ledger will reflect the bank balance.
* It facilitates Bank Reconciliation since all the transactions pertaining to a single bank account are recorded in a single place.  A
* lso since the ledgers are classified at the time of creation itself, an organization can view all its debtors’ ledgers at one go.
* For auditors, the general ledger is an insight to an organization’s transactions. Detailed analysis of ledgers can give the auditors a deep understanding of the business.

The very base of accounting is Journal entry and General Ledger is the skilful grouping and presentation of the Journal entries. General ledgers provide structure to accounting and facilitate preparations of trial balance which in turn facilitates preparation of financial statements.

## **Control Accounts**

With the automation of accounts, along with manual data entry there are also some systems generated entries. Hence ledgers from a robust ERP system will reflect entries from various sub systems integrated in one ledger.  The entries from sub systems will have a particular transaction code and can be easily identified. Similarly, system generated entries have specific codes and can be identified.

Also, the concept of subsidiary ledgers and main ledgers has become imperative with the advent of automation. All data entry is performed on a subsidiary system and the only a summary is posted to the accounting system.

Types of files used in computerized accounting

* There are numerous types of files used for storing data needed for processing, reference or back up. The main common types of processing files include

1. **Master file**

* A master file is the main that contains relatively permanent records about particular items or entries. For example, a customer file will contain details of a customer such as customer ID, name and contact address.

1. **Transaction (movement) file**

A transaction file is used to hold data during transaction processing. The file is later used to update the master file and audit daily, weekly or monthly transactions. For example, in a busy supermarket, daily sales are recorded on a transaction file and later used to update the stock file. The file is also used by the management to check on the daily or periodic transactions.

**Reference file**

A reference file is mainly used for reference or look-up purposes. Look-up information is that information that is stored in a separate file but is required during processing. For example, in a point-of-sale terminal, the item code entered either manually or using a barcode reader looks up the item description and price from a reference file stored on a storage device.

**Backup file**

A backup files is used to hold copies (backups) of data or information from the computers fixed storage (hard disk). Since a file held on the hard disk may be corrupted, lost or changed accidentally, it is necessary to keep copies of the recently updated files. In case of the hard disk failure, a backup file can be used to reconstruct the original file.

**Report file**

Used to store relatively permanent records extracted from the master file or generated after processing. For example, you may obtain a stock levels report generated from an inventory system while a copy of the report will be stored in the report file.

**Sort file**It stores data which is arranged in a particular order.

* Used mainly where data is to be processed sequentially. In sequential processing, data or records are first sorted and held on a magnetic tape before updating the master file.

## **UNIT-4**

## **8 Types of Cost in Cost Accounting**

### #1 – Direct Cost

Direct costs are among the most common. **They are the direct cost associated with the production of a product**. Direct costs would include labour or materials. They may also include distribution costs and other expenses, depending on the method of accounting. The most obvious example of a direct cost would be a car manufacturing company. The direct costs would be the total cost of the individual parts themselves.

### #2 – Fixed Cost

The most obvious example of a fixed cost would be a lease. If you need to pay $3,000 a month for the next 2 years for a property, then this is a fixed cost. The defining characteristic of a fixed cost is that it does not change. A fixed interest rate repayment on a loan is also a fixed cost (provided it is not tied to a variable interest rate). Regardless of how well or poorly the business is doing, a fixed cost will always remain a fixed cost. Fixed costs are easier to calculate as they tend to be more tangible.

### #3 – Variable Cost

In direct contrast to a fixed cost, a variable cost can change depending on business performance. The more products you produce, the more you will pay for packaging and distribution. But remember that a variable cost is not a direct cost. Even if you pay more for components and if you pay more for hours worked, this still goes under direct costs in most instances.

### #4 – Operating Cost

These are sometimes referred to as operating expenses. These can be either fixed or variable. Operating costs are costs that are associated with daily business activity but are distinct from indirect costs. Rent and utilities are typical examples of operating costs. They are essential for business operations but are not involved in the manufacturing process directly or indirectly.

### #5 – Opportunity Cost

This is usually only relevant when deciding between more than one potential business opportunity. The opportunity cost is the cost associated when you go with one investment, and potentially lose out on other investments. What has to be understood is that there is always a potentially superior investment, and you need to shoot for ‘good’ as opposed to perfect. If you are deciding to rent vs buy a new piece of equipment, then you could compute the opportunity cost with all of the variables.

### #6 – Sunk Cost

Sunk costs are costs that will not be recovered by the business. They cannot be recovered regardless of what happens. They are excluded from future business decisions. If you have invested money in a business that has gone bankrupt, it is a sunk cost already (even though you may recuperate some of the revenue through the court system).

### #7 – Controllable Cost

Controllable costs are ones where a manager (or board) decides what will happen at a particular cost. Bonuses, charitable donations, advertising, office supplies, employee events, are all examples of controllable costs. But their value is not so easy to calculate. While they are a cost, you cannot simply reduce them down to zero and expect to run a successful business.