

Guide from [insert your firm's name here]

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[Insert a line about your business here]

Using accounting software

Good accounting software puts you in control of your business. You can automate regular tasks, including keeping records and completing statutory returns.

Accounting software can also provide useful management information, help you prepare forecasts and monitor business performance.

1. Routine savings

With accounting software, you should only have to enter information once. The software automatically uses it wherever it is needed.

You can create invoices and bills on screen

- You can search for a specific customer or supplier in order to insert their contact details, rather than entering them manually.
- Your accounting software should also store information about products or services, so you can insert names, prices and other details automatically.
- Calculations for items such as VAT, discounts and commissions should be automatic. Most packages will let you set criteria for these depending on circumstances. For instance, you can apply discounts only to certain customers.
- The software should check dates, customer numbers, VAT codes and other entries for accuracy.
- Most accounting software allows you to send documents like invoices, statements and remittance notes via email. You should also be able to save or print them.
- Some packages offer electronic invoicing, where the invoice is transmitted to your customer's purchasing system for payment.

Routine book-keeping is handled by the software

- As you enter details of sales, purchases and other transactions, the software will update your accounts automatically. For instance, if you record a purchase of stock, the cost will be recorded correctly and your stock level will be updated.
- As a result, you should be able to view the latest management information on customer status and stocks whenever you need it.

The software should give you immediate updates on your cash position

- The impact of payments and receipts on the cash position will be calculated and recorded automatically.
- The software should provide details of your bank balance, together with information on payments that have not yet cleared.

- Check the software can handle and collate different bank accounts, as well as any credit or debit cards.
- Many packages can connect to your online banking. This allows them to download details of your latest transactions and reconcile them with your accounts, giving you a truly up-to-date cash position.

Most accounting packages offer an additional payroll module

- Payroll software makes it easier to calculate and print payslips and send payroll data to HMRC. You may have to pay extra to use the payroll functions.
- All businesses must now report payroll data to HM Revenue & Customs each time they pay their employees at the time they pay them.

2. Completing statutory returns

Automatic book-keeping makes it easy to prepare statutory returns and annual accounts.

Software should simplify and speed up the preparation of VAT returns

- As long as you enter all your transaction details, the software should show all the information you need for your VAT return.
- Accounting software should also be able to display your VAT liability at any time, and keep track of when your next tax bill is due

The software will make it easier to deal with HMRC

- You should be able to produce a statement showing profits (or losses) for the year to date.
- Preparing forecasts will help you estimate future profits and how much tax you will owe. Your cash flow forecast will show when the tax bill will arrive, and whether you will have the cash to pay it.

Some accounting packages can automate tax and VAT returns

- The software might be able to send your return to HMRC automatically.

The software helps your accountants prepare your year-end accounts

- Larger companies are obliged to have their accounts audited, so it makes sense to take your accountant's advice on the selection of accounting software. Your software must be able to maintain a satisfactory audit trail.
- All accounting software should be able to produce a profit and loss account, summarising the performance for the year. Check the software can also provide information for any explanatory notes you want to provide with your returns.
- Accounting software should be able to produce a balance sheet summarising assets and liabilities.

VAT without tears

Any package should be able to handle invoice-based VAT accounting.

The figures needed for your VAT return should be automatically available, together with full lists of all transactions.

Check the software can handle any VAT scheme you use

- For example, if you use the VAT cash accounting scheme or the flat rate scheme.
- Some packages have difficulty coping with non-standard VAT schemes.

You should be able to specify the VAT rates for different products

- Check that the software can cope with different VAT rates and regulations, particularly if your business makes sales abroad.

Check how easy it is to change the way the software handles VAT

- This will be important if your business is not registered for VAT, or if you expect to register or de-register in future.

3. Management information

Accounting software gives you instant access to information that can help with your daily activities.

You should be able to tighten up your credit control

- You will be able to run reports on your total credit position.
- You can spot potential problems by analysing the information by various criteria, such as geography or salesperson.
- The software should also be able to produce reports showing the payment history and outstanding balance for each customer to help you determine how much credit to offer them.
- Accounting software can be particularly effective when integrated with a customer relationship management (CRM) system to give your sales team access to every customer's history.

Accounting software makes it easy to establish a cost control system

- Establish an expected 'standard cost' for different items and measure actual costs against them.

The software can be used to provide you with detailed sales information

- You should be able to analyse sales by different categories, such as customer, outlet or salesperson.
- You can identify seasonal variations.

Accounting software can help you monitor your stock position

- Movements in stock levels should be picked up automatically.

- You may need additional hardware to gather information on fast-moving stock.
- For example, you may want to connect POS ('point of sale') terminals to your accounting software.
- With accurate, detailed stock level information, you can streamline your inventory, minimising the amount of cash tied up in your warehouse.

4. Preparing forecasts

All accounting software should make it easier to prepare revenue and expenditure forecasts.

These forecasts will enable you to check actual performance against expected performance. As a result, you can identify where and why you have done better (or worse) than you expected.

You will be able to prepare budgets showing the sales, costs and profits you expect

- The software should be able to handle recurring costs like rent and wages.
- You can use past experience to forecast sales levels and to identify the cost of fulfilling your orders.

You will also be able to prepare cash flow forecasts

- The forecasts show what cash you expect to come in, and when (if at all) you expect to run into problems.
- Such forecasts will enable you to take steps to avoid problems.

Accounting software makes it easier to make 'what if' calculations

- For example, you will be able to identify the effect if your sales assumptions turn out to be over-optimistic.

It is easier to understand forecasts if you can represent the information graphically

- Make sure the software either produces graphs or allows you to export the information into a spreadsheet.

Your accounting data will build up to become a valuable resource

- Make sure you can draw on historical data to improve projections.

5. Monitoring performance

Accounting software makes it easier to see how well your business is doing overall, and how well individual parts are performing.

You can compare performance against budget or against other comparable periods

- Set up a system that allows you to monitor each individual area.
- You will be able to identify problem areas and pinpoint the cause of poor performance. For example, if your sales are behind forecast, you may be able to trace this back to a marketing underspend.
- You should be able to identify problems earlier and take action to fix things sooner.

You can use the software to determine the real performance of each department

- The software should allow you to break down your costs for different departments, products and individuals. You can match costs with income to determine how much each activity earns you.
- More advanced software allows you to combine information from different departments to determine the real costs of a project.
- The software should allow you to measure the worth of a product or division, in terms of its ability to generate cash. For example, it may be worth maintaining a low-profit product if it generates cash to develop other products.

You can get an overview of key performance indicators through a 'dashboard'

- This is displayed graphically and easy to understand. Think of it as a snapshot of the state of your business.
- It can be made available throughout your company, so all employees know how the business is performing.

The software should help you produce management accounts

- Monthly management accounts will give you a good idea of how well your company is performing against targets. Some companies may want to produce them more often.
- The accounts should cover the latest accounting period, and also show the picture for the year to date.
- You can check the performance of each part of the company, and produce a 'profit and loss' account summarising overall performance. Make sure the software can handle non-cash items, such as depreciation, and pre-payments and accruals.
- You can produce a cash flow breakdown by division.
- The software should also let you produce a 'trial balance', totalling all debit and credit balances and checking for mismatches.

You can update budgets and forecasts easily

- If you need to, you will be able to feed in the actual performance to date to amend your forecast for the year.

Information overload

Accounting software can produce detailed reports covering every area of your business. Think carefully about how you use and interpret this information.

With so much data, information overload can be a problem

- Stay focused on the core objectives of your business.
- Be wary of jumping to conclusions. For example, a lower-than-expected profit can be caused by many things.

Ensure you interpret data correctly and measure the effect of changes properly

- For instance, try not to make several major changes to your marketing at once. If you do, it can be difficult to discern the impact of each change.

6. Getting started

If you are using software for the first time, or are radically upgrading your system, you may have to change how you do things.

You might need help to get a system up and running

- Having a system compatible with your accountant's can make it easier to prepare figures. You may want to adopt the one your accountant uses, for ease in preparing year-end figures. Only do this if you are confident it meets your own requirements.
- The best time to implement a system is usually at the beginning of a new accounting period. However, you can switch at any time, as long as you enter in the right starting figures.
- You need to decide who has access to the system, and how you will maintain security.

Learning a new system takes time

- Allow time to learn the system properly. Trial and error could be very expensive.
- Make sure you can get adequate support and training for you and your employees.
- Think about how much training you will need. Different personnel will need different levels of training.

Expert quote

"The businesses that are going to succeed in the new world will be those that are the most agile, relying on accurate key performance indicators and data that can now be delivered in seconds, not days. Today's accounting systems offer so much more; they are financial management solutions that are proven to improve operational efficiency and responsiveness." - Paul Sparkes, IRIS Accounting and Business solutions

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