

CBSE CLASS 11 ACCOUNTANCY
FINANCIAL ACCOUNTING-2
REVISION NOTES
CHAPTER-13
COMPUTERISED ACCOUNTING SYSTEM

➤ **Concept of Computerised Accounting System**

Computerized accounting systems are software programs that are stored on a company's computer, network server, or remotely accessed via the Internet. Computerized accounting systems allow you to set up income and expense accounts, such as rental or sales income, salaries, advertising expenses, and material costs.

The accounting database is well-organised with active interface that uses accounting application programs and reporting system. Every computerised accounting system has two basic requirements:

- 1) **Accounting Framework:** It consists a set of principles, coding and grouping structure of accounting.
- 2) **Operating Procedure:** It is a well-defined operating procedure blended suitably with the operating environment of the organisation.

➤ **Comparison between Manual and Computerised Accounting**

Accounting, by definition, is the process of identifying, recording, classifying and summarising financial transactions to produce the financial reports for their ultimate analysis. Let us understand these activities in the context of manual and computerised accounting system.

Basis	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

➤ **Advantages of Computerised Accounting System**

Computerised accounting offers several advantages vis-a-vis manual accounting, these are summarised as follows:

- 1) **Speed:** Accounting data is processed faster by using a computerised accounting system than it is achieved through manual efforts. This is because computers require far less time than human beings in performing a task.

- 2) **Accuracy:** The possibility of error is eliminated in a computerised accounting system because the primary accounting data is entered once for all the subsequent usage and processes in preparing the accounting reports. Normally, accounting errors in a manual accounting system occur because of repeated posting of same set of original data by several times while preparing different types of accounting reports.
- 3) **Reliability:** The computer system is well-adapted to performing repetitive operations. They are immune to tiredness, boredom or fatigue. As a result, computers are highly reliable compared to human beings. Since computerised accounting system relies heavily on computers, they are relatively more reliable than manual accounting systems.
- 4) **Up-to-Date Information:** The accounting records, in a computerised accounting system are updated automatically as and when accounting data is entered and stored. Therefore, latest information pertaining to accounts get reflected when accounting reports are produced and printed.
- 5) **Real Time User Interface:** Most of the automated accounting systems are inter-linked through a network of computers. This facilitates the availability of information to various users at the same time on a real time basis (that is spontaneously).
- 6) **Automated Document Production:** Most of the computerised accounting systems have standardised, user defined format of accounting reports that are generated automatically. The accounting reports such as Cash book, Trial balance, Statement of accounts are obtained just by click of a mouse in a computerised accounting environment.
- 7) **Scalability:** In a computerised accounting system, the requirement of additional manpower is confined to data entry operators for storing additional vouchers. The additional cost of processing additional transactions is almost negligible. As a result, the computerised accounting systems are highly scalable.

- 8) **Legibility:** The data displayed on computer monitor is legible. This is because the characters (alphabets, numerals, etc.) are type written using standard fonts. This helps in avoiding errors caused by untidy written figures in a manual accounting system.
- 9) **Efficiency:** The computer based accounting systems ensure better use of resources and time. This brings about efficiency in generating decisions, useful information and reports.
- 10) **Quality Reports:** The inbuilt checks and untouchable features of data handling facilitate hygienic and true accounting reports that are highly objective and can be relied upon.
- 11) **MIS Reports:** The computerised accounting system facilitates the real time production of management information reports, which will help management to monitor and control the business effectively.
- 12) **Storage and Retrieval:** The computerised accounting system allows the users to store data in a manner that does not require a large amount of physical space.
- 13) **Motivation and Employees Interest:** The computer system requires a specialised training of staff, which makes them feel more valued. This motivates them to develop interest in the job.

➤ **Limitations of Computerised Accounting System**

The main limitations emerge out of the environment in which the computerized accounting system is made to operate. These limitations are as given below:

- 1) **Cost of Training:** The sophisticated computerised accounting packages generally require specialised staff personnel. As a result, a huge training costs are incurred to understand the use of hardware and software on a continuous basis because newer types of hardware and software are acquired to ensure efficient and effective use of computerised accounting systems.

- 2) **Staff Opposition:** Whenever the accounting system is computerised, there is a significant degree of resistance from the existing accounting staff, partly because of the fear that they shall be made redundant and largely because of the perception that they shall be less important to the organisation.
- 3) **Disruption:** The accounting processes suffer a significant loss of work time when an organisation switches over to the computerised accounting system. This is due to changes in the working environment that requires accounting staff to adapt to new systems and procedures.
- 4) **System Failure:** The danger of the system crashing due to hardware failures and the subsequent loss of work is a serious limitation of computerised accounting system.
- 5) **Inability to Check Unanticipated Errors:** Since the computers lack capability to judge, they cannot detect unanticipated errors as human beings commit. This is because the software to detect and check errors is a set of programmes for known and anticipated errors.
- 6) **Breaches of Security:** Computer related crimes are difficult to detect as any alteration of data may go unnoticed. The alteration of records in a manual accounting system is easily detected by first sight. Fraud and embezzlement are usually committed on a computerised accounting system by alteration of data or programmes.
- 7) **Ill-effects on Health:** The extensive use of computers systems may lead to development of various health problems: bad backs, eyestrain, muscular pains, etc. This affects adversely the working efficiency of accounting staff on one hand and increased medical expenditure on such staff on the other

➤ **Sourcing of Accounting Software**

Accounting software is an integral part of the computerised accounting system. An important factor to be considered before acquiring accounting software is the accounting expertise of people responsible in organisation for accounting work. People, not computers, are responsible for accounting. The need for accounting software arises in two situations:

- a) when the computerised accounting system is implemented to replace the manual system.
- b) when the current computerised system needs to be replaced with a new one in view of changing needs.

➤ **Accounting Packages**

Every Computerised Accounting System is implemented to perform the accounting activity (recording and storing of accounting data) and generate reports as per the requirements of the user.

The accounting packages are classified into the following categories:

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

Each of these categories offers distinctive features. However, the choice of the accounting software would depend upon the suitability to the organization.

➤ **Generic Considerations before Sourcing an Accounting Software**

The following factors are usually taken in considerations before sourcing an accounting software:

- **Flexibility**

An important consideration before sourcing an accounting software is flexibility, viz. data entry and the availability and design of various reports expected from it. Also, it should offer some flexibility between the users of the software, the switch over between the accountants (users), operating systems and the hardware. The user should be able to

run the software on variety of platforms and machines, e.g. Windows 98/2000, Linux, etc.

- **Cost of Installation and Maintenance**

The choice of the software obviously requires consideration of organisation ability to afford the hardware and software. A simple guideline to take such a decision is the cost benefit analysis of the available options and the financing opportunities available to the firm. Sometimes, certain software which appears cheap to buy, involve heavy maintenance and alteration costs, e.g. cost of addition of modules, training of staff, updating of versions, data failure/restoring costs. Conversely, the accounting software which appear initially expensive to buyers, may require least maintenance and free upgrading and negligible alteration costs.

- **Size of Organisation**

The size of organisation and the volume of business transactions do affect the software choices. Small organisations, e.g. in non-profit organisations, where the number of accounting transactions is not so large, may opt for a simple, single user operated software. While, a large organisation may require sophisticated software to meet the multiuser requirements, geographically scattered and connected through complex networks.

- **Ease of Adaptation and Training needs**

Some accounting software is user friendly requiring a simple training to the users. However, some other complex software packages linked to other information systems require intensive training on a continuous basis. The software must be capable of attracting users and, if its requires simple training, should be able to motivate its potential users.

- **Utilities/MIS Reports**

The MIS reports and the degree to which they are used in the organisation also determine the acquisition of software. For example, software that requires simply producing the final accounts or cash flow/ratio analysis may be ready to-use software. However, the

software, which is expected to produce cost records needs to be customised as per user requirements.

- **Expected Level of Secrecy (Software and Data)**

Another consideration before buying accounting software is the security features, which prevent unauthorised personnel from accessing and/or manipulating data in the accounting system. In tailored software for large businesses, the user rights may be restricted to purchase vouchers for the purchase department, sales vouchers to the billing accountants and petty cash module access with the cashier. The operating system also matters. Unix environment allows multi-users compared to Windows. In Unix, the user cannot make the computer system functional unless the user clicks with a password, which is not a restriction in Windows.

- **Exporting/Importing Data Facility**

The transfer of database to other systems or software is sometimes expected from the accounting software. Organisations may need to transfer information directly from the ledger into spreadsheet software such as Lotus or Excel for more flexible reporting. The software should allow the hygienic, untouched data transfer.

- **Vendors Reputation and Capability**

Another important consideration is the reputation and capability of about the vendor. This depends upon how long has he been the vendor is in business of software development, whether there are other users of the software and extent of the availability of support mechanisms outside the premises of the vendor.