

Accounting Basics and How to choose Efficient Accounting Software

A presentation by Dinesh Singh
CEO, Quantum Auditing

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If you are in
business, it is meant
to be profitable!!

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What is Accounting

- Accountancy is defined by the Oxford English Dictionary (OED) as "the profession or duties of an accountant".
- Accounting is defined by the American Institute of Certified Public Accountants (AICPA) as "the art of recording, classifying, and summarizing in a significant manner and *in terms of money*, transactions and events which are, in part at least, *of financial character*, and interpreting the results thereof."
- Early accounts served mainly to assist the memory of the businessperson

The Need for Accounting

We need accounting to answer important questions, such as:

- Am I making or losing money from my business?
- How much am I worth?
- Should I put more money in my business or sell it and go into another business?
- How much is owed to me, and how much do I owe?
- How can I change the way I operate to make more profit?

Accounting and Business

- Accounting is the system a company uses to measure its financial performance
 - by noting and classifying all the transactions
 - in a manner that adheres to certain accepted standard formats.

It helps to evaluate a Company's past performance, present condition, and future prospects.

What Accountants Do

Accounting consists of these functions:

- Recording
- Classifying
- Summarizing
- Reporting

Before any recording can take place, there must be *something to record*.

In accounting, the *something consists of a transaction or event* that has affected the business.

Evidence of the transaction is called a document

What Accountants Do: Recording

Accountants do not record a conversation or an idea.

They must first have a document.

- Sales Invoice
- Purchase Invoice
- Payment Vouchers
- Payroll Slips

Recording is carried out listing transactions in a chronological order.

What Accountants Do: Classifying & Summarizing

How can this data best be used?

It must be classified and summarized in a meaningful way, to answer questions like:

- What were total sales this month?
- What were the total expenses and what were the types and amounts of each expense?
- How much cash is on hand?
- How much does the business owe?
- How much are the accounts receivable?

What Accountants Do: Reporting

- The records kept by the accountant are of little value until the information contained in the records is reported to the owner(s) or manager(s) of the business.
- These records are reported to the owners by preparing a wide variety of ***financial statements***

Significant areas for reporting ..1

- Credit Control for cash flow management
- Management Accountants for internal information
- Financial Accountants for statutory submission to external parties.
- Tax Accounting deals with corporation tax

Significant areas for reporting ..2

- Forensic Accounting deals with fraudulent activity
- Payroll Accounting (WPS)
- Treasury Accounting deals with cash management and money market funds
- Asset Accountant manages fixed assets and depreciation

Language of Business

Today, accounting is called as the language of business

- Trading ventures began to require ***more capital than a single individual was able to invest.***
- The development of ***Joint Stock Companies*** created wider audiences for accounts, as investors relied on accounts to provide the requisite information.
- This development resulted in ***accounting and disclosure regulations*** and a growing need for independent ***attestation of external accounts by auditors.***

Accounting & Reporting Standards-GAAP/IFRS

- The body of rules that governs financial accounting in a given jurisdiction is called Generally Accepted Accounting Principles, or GAAP.
- Recently there has been a push towards standardizing accounting rules made by the International Accounting Standards Board ("IASB").
- IASB develops International Financial Reporting Standards ("IFRS") establish broad rules as well as dictating specific treatments.

Accounting Basics

- When you have a firm grasp of the accounting fundamentals, you can deal with any kind of accounting problem.
- First, you must understand certain simple principles of accounting or ***Accounting Basics***

The Business Entity Concept

- Business is treated as an entity separate and distinct from its owners and any other people associated with it.
- This principle is called the Business Entity Concept.
- It simply means that accounting records and reports are concerned with the business entity, not with the people associated with the business.

The Accounting Equation

- The basic accounting equation is:
$$\text{assets} = \text{liabilities} + \text{equities}.$$
- This is the balance sheet.
- The foundation for the balance sheet begins with the income statement, which is:
$$\text{revenues} - \text{expenses} = \text{net income or net loss}.$$

Double-entry Book-keeping

- In a double entry accounting system, every transaction is recorded in the form of debits and credits.
- In simpler terms, a debit is the application of money, and credit is the source of money

Types of Accounting

The two methods of tracking your accounting records are:

- Cash Based Accounting
- Accrual Method of Accounting

Cash Based Accounting

- The cash method recognizes revenue when payment is received, and recognizes expenses when cash is paid out.
- Expenses are recorded when cash is paid out and revenue is recorded when cash or check deposits are received.

Accrual Method of Accounting

- The accrual method of accounting requires that revenue be recognized and assigned to the accounting period in which it is earned.
- Similarly, expenses must be recognized and assigned to the accounting period in which they are incurred.

The Matching Concept

- The accrual method relies on the principle of matching revenues and expenses.
- Expenses for a period, which are the costs of doing business to earn income, should be compared to the revenues for that period.
- In other words, the expenses for the period should accurately match up with the costs of producing revenue for the period.

Cash versus Accrual Accounting

- Accounts Receivable (Debtors) is part of an accrual accounting system.
- Double-entry accounting is the most accurate and best way to keep your financial records. Each transaction affects two or more categories or accounts, so *everything stays in balance*.
- A cash accounting method only counts income when money is received, and it does not keep track of Accounts Receivable

Account Types

These Account types are used to denote if the money is owned or owed by the organization.

The three main categories are:

- Assets
- Liabilities, and
- Capital

Assets

- Current Assets- Cash, Debtors, Inventories (items that can be turned back into cash)
- Fixed Assets- Property, Plant & Equipment (items not meant for sale, used in production of finished goods)
- Intangible Assets- Goodwill, IP (valuable because they can be licensed or sold outright to others)

Liabilities

- A Liability is a legal obligation of a business to pay a debt.
- The most common liabilities are Bills Payable and Accounts Payable.
- Accounts payable is a promise to pay suppliers or lenders specified sums of money at a definite future date.

Current Liabilities

- Current Liabilities are liabilities that are due within a relatively short period of time.
- These are exactly like their receivable counterparts except the debtor-creditor relationship is reversed.

Capital

- Capital, also called net worth, is essentially what is yours – what would be left over if you paid off everyone the company owes money to.
- If there are no business liabilities, the Capital, Net Worth, or Owner Equity is equal to the total amount of the Assets of the business

Linking the Income and Balance Sheet

- The Balance Sheet and an Income Statement are, in a way, twin reports.
- Since these statements are usually studied in relation to one another, it is highly desirable for them to ***tie together with one common figure.***
- Equity section of the balance sheet lists Profit/Loss as a part of the total equity. This ties the income statement to the balance sheet report.

Managing Your Business

We have covered the areas of accounts, debits, credits, and the accounting equation. In order to control your business you must manage key areas.

These areas are:

- Cash / Sales / Expenses / Inventory etc

Does computerized accounting help ?

Advantages of Computerized Accounting

- The arithmetic of adding up debits and credits is done automatically
- You do not have to re-enter data for posting
- Audit trails or details are automatically maintained
- Financial statements generated by simply selecting the appropriate menu item.
- Retrieve the latest accounting data quickly, such as today's inventory, the status of a client's payment
- Data can be kept confidential by security passwords

How to choose Efficient Accounting Software

- Finding the best accounting software program for your business can be a challenge, with an explosion of shrink-wrapped software products and online application offerings.
- It's real important to get this right.
- In a lot of cases, it can make the difference between *businesses that are profitable versus not profitable.*

Types of Accounting Products

The range of accounting software products has been growing steadily.

There are a few general categories to choose from:

- small business payroll and accounting
- full-service business management programs
- online Web-hosted applications, and
- free programs

Small Business Payroll and Accounting

There are several top-selling accounting software programs you can buy

- off the shelf, or
- over the Web

These meet most small business needs by providing the accounting tools and reports you need to use your financial data.

Business Management Software Programs

- Higher-priced and more full-featured
- May also include other financial functions, such as point of sale/inventory/CRM/payroll

Select a Business Management Software, which integrates all business processes into one solution.

Web-hosted Accounting Applications

- 'Software in the Cloud' model
- Cloud Computing, also known as Software as a Service (SaaS)
- Looks beyond to more sophisticated and sensitive applications like financials.

Free accounting software

Most small businesses need to be skeptical of "free" programs, particularly when it deals with the financial data of your business.

Understand your Accounting Needs

- Address both managerial and financial needs. Last thing you want is to have to repeat this process within the next two years.
- Unexpected growth that forces an upgrade is terrific, but good planning at this stage can help you avoid having to change software too soon.

What you need to know about your business

- one of the mistakes is in believing you don't need to know anything at all about accounting because the software will just take care of it
- you need to understand small business accounting – We can't use any SW if it's like garbage in and garbage out (GIGO) if you don't understand what you're putting in.

Type of Business you operate

- If you are a **manufacturer**, you need to have an understanding of **inventory** and handling of parts and labor.
- If you are a **retailer**, you may also need to have an understanding of your **inventory through a point-of-sale program**.
- A **doctor's office** needs specialized programs for **billing insurance companies**

Talk to your accountant and IT staff

- Most accountants would want you to use that same accounting software they have **used earlier**.
- You also need to understand your **hardware situation**.
- Business accounting software packages use **big databases**, so take a good look at your **disk space**. As your accounting data grows, the more room it will need. This is the most important item to review, but not the only one.
- You will need to evaluate **the age of your system**, as well as your **back-up procedures and storage media**.

Know your budget limitations

- A key consideration is your budget. Off-the-shelf software, are all very affordable.
- Industry-specific accounting software, also referred to as vertical software, the costs are higher.
- Annual maintenance fee are required for you to receive updates and upgrades as they are produced.
- You also have to pay for the VAR's services.

Reach out to other businesses and SW consultants

- Find out what everyone else is using in your industry. Okay, maybe not everyone else, but at least a few of your competitors.
- There are also consultants that will help you narrow down your options for the best financial accounting software for your business.

Create your wish list

- Document what you want the business accounting software to do
- Decide which features you can live without.
- Some business accounting software can be used on a **trial basis**, for limited number of days of use or limited functionality.
- Try before you buy..

Make your decision

- Now it's up to you. The journey ends here....
- You've talked to many people, inside your organization and out
- You've read vendor literature and third-party reviews.
- You have used a few of the programs, or a least had a tour of the screens.

Deciding Factor

So what is the deciding factor?

Prioritize your needs analysis and make sure the software you choose meets most of the features that are important to you, if not all

There is no 'best' business accounting software package, but there is one that's best for your business.

If you are in business,
it is meant to be
profitable!!

Thank You!!