

# Accounting Basics and How to choose Efficient Accounting Software

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

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- The Need for Accounting
- Accounting and Business
- What Accountants do
- Significant areas for Reporting
- Language of Business
- Accounting and Reporting Standards-GAAP/IFRS
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  - Types of Accounting-Cash and Accrual
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- **HOW TO CHOOSE EFFICIENT ACCOUNTING SW**
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# What is Accounting

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- 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

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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

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- 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

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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

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*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

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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

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- 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

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- 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

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- 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

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***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

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- 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

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- 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

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- 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

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- 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

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- 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

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The two methods of tracking your accounting records are:

- Cash Based Accounting
- Accrual Method of Accounting

# Cash Based Accounting

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- 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

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- 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

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- 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

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- 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

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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

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- 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

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- 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

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- 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

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- 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

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- 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

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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

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- 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

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- 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

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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

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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

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- 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

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- '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

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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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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- 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

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## ***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!!