



## Concept of a Computerized Accounting System

A computerized accounting system is an accounting information system that processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports per user requirements utilizing hardware and software to accomplish this task.

Every accounting system, manual or computerized, has to adhere to a set of well-defined concepts and rules called *accounting principles*. In addition a system needs to be set up in order to provide the necessary financial information required by users either manually or using computers and software.

Modern computerized accounting systems are based on databases. A database is implemented using a database management system, that manage and organize data and provide access to the stored data by the use of computer software (programs).

A database is a group of files that that organize and store information about such things as customers, suppliers, employees, accounts, sales, inventory, bank accounts, etc.

Accounting information is entered, processed, organized, stored, and reported on utilizing this database.

## Comparison between Manual and Computerized Accounting

Accounting is the process of identifying, recording, classifying and summarizing financial transactions to produce the financial reports for users needing or requiring this information.

How this is done Manually or with a Computerized System.

- *Identifying* : The identification of transactions, based on application of accounting principles is the same for both a manual and computerized accounting system.
- *Recording* : The recording of financial transactions, in a manual accounting system is done using books of original entry (journals) while the data regarding transactions is stored in an accounting database (defined earlier) in a computerized accounting system.
- *Classification* : In a manual accounting system, transactions recorded in the books of original entry are further classified by manually posting into ledger accounts.

In a computerized accounting system the data is entered using input screens and all the journals and ledgers are automatically updated.

- *Summarizing* : In a manual system the ledger balances are manually summarized to produce a trial balance. As a result, preparation of ledger accounts becomes a pre-requisite for preparing the trial balance. However, in computerized accounting, the originally stored transactions data are processed to automatically produce the balances of various accounts shown in the trial balance report at any time requested.
- *Adjusting Entries* : These entries are recorded to match the expenses of the accounting period with the revenues generated by them and to correct any errors discovered made while recording transactions.

These entries are also made when using a computerized accounting system; however, most errors are caught when entering the original transactions using the designed input screens.

- *Financial Statements* : In a manual system of accounting, the preparation of financial statements requires a trial balance.

However, in computerized accounting, there is no such requirement. The generation of financial statements is independent of producing the trial balance because such statements can be prepared by direct processing of the originally entered and stored transaction data.

- *Closing the Books* : After the preparation of financial reports, the accountants make the books ready for the next accounting period. This entails recording and posting closing entries to the general ledger accounts. All revenue and expense account balances are set to zero.

In computerized accounting, this step is normally automatically performed.

The same steps called the accounting cycle are basically adhered to whether a manual or computerized accounting system is being used.

### **Advantages of Computerized Accounting System**

Computerized accounting offers several advantages over a manual accounting system, these are summarized as follows ;

- *Speed* : Accounting data is processed faster by using a computerized accounting system.
- *Accuracy* : The possibility of error is reduced using a computerized accounting system because the primary accounting data is usually entered only once and updated and used by the

system wherever needed.

Normally, accounting errors in a manual accounting system occur because of repeatedly posting the same original data several times when preparing different types of accounting reports.

- *Reliability* : The computer system is well-adapted to performing repetitive tasks and as a result is less prone to errors.
- *Up-to-Date Information* : The accounting records in a computerized accounting system are updated automatically whereas a manual system requires periodically manually updating the records. Therefore, by using a computerized system the latest information pertaining to accounts get reflected when accounting reports are produced and printed.
- *Real Time User Interface* : Using a computer system, authorized users have the availability of current information at the same time on a real time basis (immediately).
- *Automated Document and Report Production* : Most of the computerized accounting systems have standardized user defined formats for accounting reports and documents such as sales invoices that are generated automatically. Some even allow the users to design custom reports.
- *Storage and Retrieval* : A computerized accounting system allows the users to store data in a way that does not require a large amount of physical space.

This is because the accounting data is stored on hard-disks, CD's, floppies etc. that occupy a fraction of the physical space used for manual books of accounts such as ledgers, journals invoices, and other accounting records.

In addition, the system permits the fast, up to date, and accurate retrieval of data and information.

## **Summary**

If you have not computerized your accounting, you should seriously consider doing so. Most of the software being offered has a trial version that you can use to see if it fits your needs. Also there are now many free excellent accounting software solutions now being offered.

Your main costs are learning the software and converting your old system over to the new system.