The Purpose of Keeping Accurate Accounts

It is important for a business to create and maintain accurate financial records and to know about the different users of financial information. Every business has to meet internal and external reporting requirements to show its financial health and to meet legal and other requirements. The reasons why businesses therefore keep accurate records are:

Assessing its financial position - businesses assess their financial position every year so they know the business is making efficient use of resources to provide the necessary financial return to achieve a profit or suffered a loss, they do this through analysing the cash flow, profit and loss account, and balance sheet. Businesses can find out if it as the ability to generate cash to ensure continued trading and to make dividend payments. This can be done by using figures from the profit/loss account and balance sheet to work out appropriate ratio such as acid test ratio which shows the liquidity of the business.

Compare the company's performance with previous years – this can show businesses their future prospects and predict future trends to show profit and loss. Good records provide the financial data that help you operate more efficiently, thus increasing the profitability of your enterprise. This is because accurate and complete records enable you, or your accountant, to identify all your business assets, liabilities, income and expenses which, when compared to appropriate industry averages, help you pinpoint the strong and weak phases of your business operations over the years. Records can be compared by working out gross profit and net profit margins for pervious years which will show if the business as increased or decreased their profits over the years. This will also show if the business as understated or overstated their profits over the years.

Raise finance – can support businesses wanting to raise money by comparing the accounts and to pay of expenses. Need to raise finance to show bank manager for a successful bank loan. Good records are essential for the preparation of current financial statements, such as the Income Statement (Profit and Loss) and the Cash Flow Projection. These, in turn, are critical for maintaining good relations with your banker. They also will present a complete picture of your total business operation which will benefit you as well.

Comply with statutory requirements – the Accounting Standards Board issues accounting standards. The Statement of Standard Accounting Practice (SSAP) was introduced with the aim of limiting the ability of accountants to use diverse accounting procedures, therefore businesses must comply with legal requirements. Good records are required for the preparation of complete and accurate tax documents. For example, poor records often lead to the preparation of income tax returns that result in underpayment or overpayment of taxes.

Make decisions – this will provide information that will help managers make decisions about the future trends of the business. Any record keeping system should be accurate, reliable, easy to follow, consistent as to the basis used and be very simple. Good record keeping is vital in regards to meeting the financial commitments of the business and providing information on which decisions for the future of the business can be based. While the business maintains records to monitor and record its

normal business activities, it is also necessary because of obligations under the taxation laws.

Keep stakeholders informed – can improve investor's confidence and can make more contributions by investing in more money into the business if they are regularly informed about the success of the business. Paying high dividends to shareholders and informing them on future dividends can make shareholders invest more money.

Internal and external stakeholders interested in the business

The following stakeholders are internally involved in the business:

Owners/shareholders are interested in whether the business is making a profit – to receive dividends, state of financial affairs, financial structure, and future prospects and to know how good a job management is doing. Managers – involved and interested with the performance of the business, also concerned about the financial structure and information relating to their to make decisions. Employees – concerned about with their job security and how the business is going to develop to ascertain themselves for promotion needs, also financial structure to support wage claims.

The following stakeholders are externally involved outside the business:

Brokers – require the same sort of interest as owners, but brokers advise clients about the nature of their investments. Need to know company performance in order to advise clients accurately. Lenders – interested in whether the business as the ability to pay interest and make repayments on the loans. Therefore interested in the cash flow statement, assets and ability to pay debts. Customers – interested to know suppliers are secure for the future so customers will want to develop long term trading. Therefore also interested in the size of the business, profits and financial information. Community – can be interested in the business providing jobs for the community and contributing to community projects. Community also interested whether business activity is affecting the communities environment. Competitors – will be interested in the financial information which can be freely obtained if PLC so the competitors can stay one-step ahead. Other information maybe published in the press, looking at activities of competitors to think ahead. Suppliers – concerned about the businesses ability to pay for materials or services. If pay off materials quickly suppliers can be committed for long term trading for the business.

Accounts for social clubs

	Business	**Club and Society**
Primary objective	To make a profit	To provide a facility or service
Main accounting statements	Trading profit and loss account, and balance sheet.	Income and expenditure and balance sheet.
Financial performance	Profit and loss	Surplus income over expenditure, and deficit income over expenditure.
Funding	Income	Accumulated fund

Few clubs and societies records are kept in double entry. The cash book is the minimal accounting record a business can have, the equivalent to this is a receipts and payments accounts, which are made yearly. There are two complications with the receipts and payments book that societies and clubs do not take into account; this is that it does not account for accruals or pre-payments, and there is no distinction between capital and revenue expenditure, so that they cannot claim for depreciation.

The income and expenditure account allows for three things, prepayments, accruals, and depreciation for fixed assets are allowed.

Social clubs have other forms of revenue such as the bar: raffles: restaurants: membership fees: shops for goods: and fund-raising activities. These things are done to burst membership. The areas which cause concern or complications within Social clubs, are overdue subscriptions: long life membership: entrance and joining fees: donations: and depreciation.

Comparison and contrast between the preparation between Limited companies and partnerships.

The format of accounting is almost the same as that set out by the Sole Trader, although there are a few differences; the initial capital is going into the business by means of a capital account for each member of the partnership. Each partner also has a current account and a drawings account. The net profit is appropriated or shared out according to previous agreed ratios. Partners may be charged interest on their drawings and may receive interest on capital. On admission or retirement of a partner there may need to be a new situation to be arranged.

There are two types of Limited companies, Private Limited Company, and Public Limited Company. Shares of a Public Limited company are available to the public; Limited companies are not available to the public only family friends and members.

Limited companies must keep to accounting records by law, by statuary requirements they must have a Trading Profit and Loss account, Balance sheet, Annual report, and an External Auditors report. Limited companies have share capital; authorised share capital is what the company decides originally how many shares they have.

Dividends are appropriations of profit; debenture holders take priority when there is a payout of dividends. There is an order of preference debenture holders come first, and then preference share holders, and ordinary share holders. Revenue reserves are available to share out as a dividend capital reserves are not.

There are many complex rules and regulations there is an option to buy pre-prepared companies, from Companies House in Cardiff. Within a limited company there must be a minimum of two directors, one a managing director, and the other is a legal secretary.

A limited company has unlimited liability, a partnership does not. This means that a limited company can only lose what belongs to the company, and not personal assets, whereas a partnership personal assets may be ceased.

Comparison and contrast between the preparation of accounts for a sole trader with a non profit organisation.

The sole trader only requires minimal statements which is the bank statement and the cash book. The cash book is full accounts to perform final accounts. Their business aim is to make a profit.

A non-profit organisation minimal statement to perform the final accounts is the receipts and payments account. Their aim differs from that of a sole trader; they aim to provide a service or to entertain. In the adjustment account the subscriptions are the main problem because if the members do not pay, it has to be individually treated.

As a business the sole trader has a profit and loss account, this is a legal requirement and is used to calculate the business's tax liability on which the business pays onto the net profit.

Customers of a non-profit organisation will want to know that their subscription funds is looked after and spent well, this is why are accounts are drawn up for non profit organisations such as social clubs, as it is not a legal requirement.

However the law does require for a sole trader; a balance sheet, a cash flow statement, and a profit and loss account.

Final accounts have to be verified by external auditors, by law. Most companies have an internal auditor as well. The sole trader has to have accounts verified, by law. A non profit organisation may have their final accounts verified, but it is not a legal requirement.

A Sole trader has opening capital, whereas a non profit organisation does not, instead they have an accumulated fund, which provides a balance of net assets. Donations

may increase the accumulated fund. Non profit organisations often let rooms for money for occasions such as weddings or parties, this will also add to the accumulated fund. Club and Society accounts are very different although there are few parts that are similar to Sole Traders. The layouts of the accounts are different; the non-profit making account is divided into four groups. These include purchases, trading Account, subscriptions and operating costs. The purchase's section does not appear on the sole trader account as one section. Sole trader accounts have purchases and payments but not together under one section.

The sole trader account shows the Gross profit, which is the same as the Club account. The sole trader account shows the net profit at the end of the sheet, but the club account is different as it shows the Net profit or loss then at the end it shows the income and expenditure. The areas highlighted in pink show where the differences occur between the accounts.

Excise duty is a tax charged in the UK for manufacture and production of some goods.

Concepts and conventions

Accounting concepts and conventions as used in accountancy are the rules and guidelines by that the accountant lives. All formal accounting statements should be created, preserved and presented according to the concepts and conventions that follow.

In the United Kingdom, four of the following accounting concepts are laid down in Statement of Standard Accounting Practice number 2 (SSAP 2: Disclosure of Accounting Policies), the four concepts are going concern, prudence, accruals, and consistency. These four are also identified as fundamental by Companies act 1985, which adds a fifth concept to the list, (the separate valuation principle).

- Going concern concept
- Accruals or matching concept
- Consistency concept
- Prudence concept
- Materiality concept

The prudence concept

Revenue and profits are not anticipated, but are recognised by the inclusion in the profit and loss account in the form of cash or assets, otherwise known as conservatism. Basically the concept says that whenever there are alternative procedures or values, the accountant will choose the one that results in a lower profit, a lower asset value and a higher liability value. The concept is summarised by the well known phrase 'anticipate no profit and provide for all possible losses'. Thus, undue optimism can never be part of the make up of an accountant! The danger is that

if an optimistic view of profits is given then dividends may be paid out of profits that have not been earned.

Although the accruals concept is universally accepted in trading and manufacturing organisations, there are occasions when the concept of conservatism overrides the application of the accruals concept. A typical example would be the accounts prepared for professional firms of accountants, lawyers and medical practitioners. In these accounts, recognition is generally given to the accruals concept insofar as it relates to expenses. In computing the incomes, however, a rather conservative approach is followed and only those items that are actually realised are accounted for in the accounts. This treatment has been accepted by the accountancy profession on the grounds of conservatism, although it generally defeats the concept of the accruals concept.

When the accountant has a choice between two alternative treatments, remember, he should select the one that shows a less encouraging position of the financial situation. To follow the principle of conservatism is not easy; and good judgement is necessary to decide the right course of action.

There is however, a great deal of difference between being conservative and being over conservative. The rule of conservatism should not be stretched to the point where it might eventually result in distorting the financial results. For example, capital items such as buildings, vehicles, machinery etc, which are capitalised in accordance with GAAP, must always be capitalised and no deviation should be recommended on the grounds of conservatism.

Going concern

Accounts are prepared under the assumption trading will be continuous. In the final accounts an example of this is the depreciation, buying a product and paying it off over a fixed period of time, the company would not invest in something which had to be paid off in a number of years or moths if they didn't believe the company would still be running at this time. This concept is the underlying assumption that any accountant makes when he prepares a set of accounts. That the business under consideration will remain in existence for the foreseeable future. In addition to being an old concept of accounting, it is now, for example, part of UK statute law: reference to it can be found in the Companies Act 1985. Without this concept, accounts would have to be drawn up on the 'winding up' basis. That is, on what the business is likely to be worth if it is sold piecemeal at the date of the accounts. The winding up value would almost certainly be different from the going concern value shown. Such circumstances as the state of the market and the availability of finance are important considerations here

Accruals concept

The accruals concept is also known as matching concepts, it states that revenue and costs must be recognised as they are earned or incurred, not as money is received or paid. This is shown in the final accounts in the form of prepayments and accruals. Otherwise known as the matching principle. The purpose of this concept is to make sure that all revenues and costs are recorded in the appropriate statement at the appropriate time. Thus, when a profit statement is compiled, the cost of goods sold

relevant to those sales should be recorded accurately and in full in that statement. Costs concerning a future period must be carried forward as a prepayment for that period and not charged in the current profit statement. For example, payments made in advance such as the prepayment of rent would be treated in this way. Similarly, expenses paid in arrears must, although paid after the period to that they relate, also be shown in the current period's profit statement: by means of an accruals adjustment.

Another principle followed by accountants relates to matching costs with revenue. Expressed simply, all related costs should be matched with the corresponding revenue and should be accounted for in the same time period in which the revenue is recognised. A good example would be the treatment of deferred revenue expenditures that are usually spread over a number of years, during which the organisation is expected to earn additional revenue out of the expenditure.

While this treatment is an accepted principle, there may be a counter-treatment, argued by another group, to charge the item as an expense, the entire amount in the year it was spent, on the grounds of conservatism. In other words, there may be a direct clash between the accruals and conservatism principles. To resolve such an issue, the professional accountant would first look at the two concepts discussed earlier, that is, materiality and consistency. In this case, the concept of conservatism may be applied if it passes the other two tests of materiality and consistency.

The Consistency concept

Because the methods employed in treating certain items within the accounting records may be varied from time to time, the concept of consistency has come to be applied more and more rigidly. For example, because there can be no single rate of depreciation chargeable on all fixed assets, every business has potentially a lot of discretion over the precise rate it chooses to use. However, if it wishes, a business may vary the rates at which it charges depreciation and alter the profits it reports at the same time. Consider the effects on profit of charging depreciation at 15% this year on £10,000 worth of fixed assets and then charging depreciation at 10% next year on the same £10,000 worth of fixed assets. This year you would charge £1,500 against profits and next year it would be only £1,000, using the straight line method of providing for depreciation. Because of these sorts of effects, it is now accepted practice that when a company chooses to treat items such as depreciation in a particular way in the accounts it should go on using that method year after year. If it is NECESSARY to change the method being employed or the rates being charged then an explanation of the change and the effects it is having on the results must be shown as a note to the accounts being presented. The same rule applies for the consistency concept as applies to the materiality concept. Once an error is discovered in the books, it has to be corrected immediately, despite the fact that similar errors may have been left undetected in a number of prior periods accounts. The fact that the error consistently remained in the books for a considerable period of time should not in any way encourage an accountant to advocate the consistency concept - thereby allowing the error to remain uncorrected.

However, within the general framework, judgement may have to be applied for amounts which are not material. In other words, the materiality concept may be recognised so long as it is not in conflict with Generally Accepted Accounting

Principles (GAAP). Thus, it is possible for an organisation to follow the principle of capitalising capital expenses and yet expense out capital expenses items which cost less than a predetermined limit, say £400, or where the expected life of the asset does not exceed, say, 3 years.

Materiality concept

We are concerned here with the idea that accountants should concern themselves only with matters that are significant because of their size and should not consider trivial matters. The problem, of course, is in deciding what is and what is not material: we are concerned here with RELATIVE IMPORTANCE. As far as an individual is concerned, the loss of a £10 would be important and MATERIAL. As far as Chevron or Barclays Bank are concerned, the loss of £10 could be considered unimportant in many circumstances and therefore immaterial.

The material concept is only items material in amount in their nature will effect the true and Fairview given by a set of accounts. There is no certain value we use but anything over 5% of value has a material aspect.

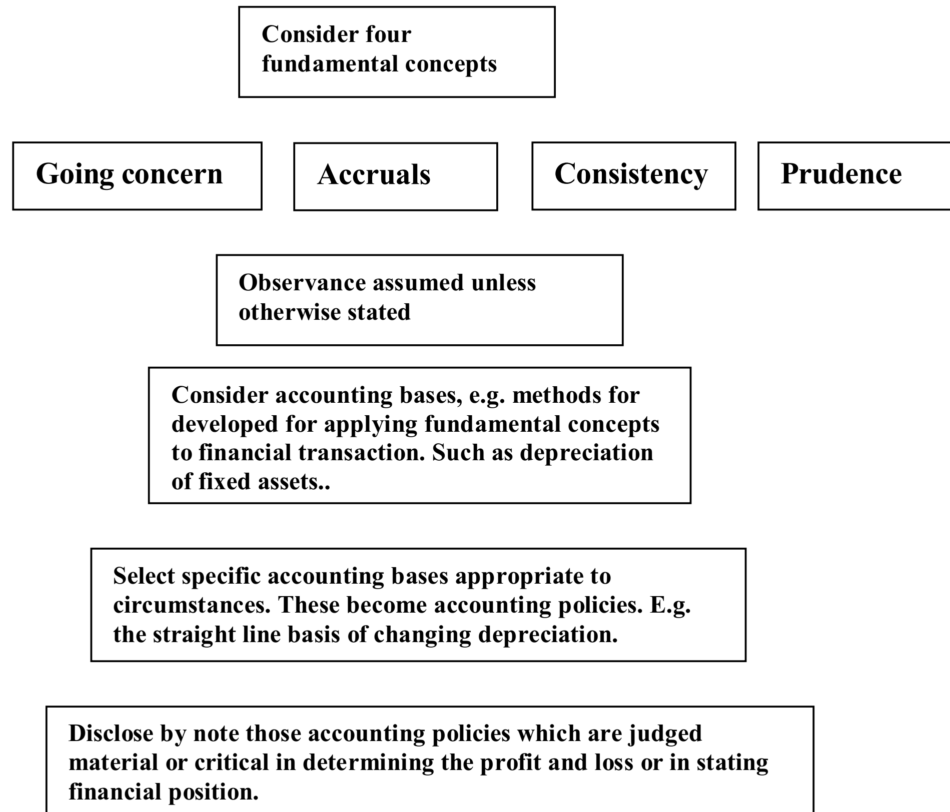
The materiality concept does not apply while recording cash transactions. Thus, small amounts cannot be omitted from the cash book on the grounds that they are not material. As a general rule, therefore, every cash transaction has to be recorded in the cash book - regardless of the materiality of the amount involved.

Again, the principle of materiality does not hold good when errors of principle are detected which need correction. If it is discovered that a capital item has been erroneously expensed, or a different method of depreciation other than that used in previous years has been applied for a particular asset, the errors should be corrected immediately. The concept of materiality cannot be used as a defence for not correcting the errors.

The context of materiality is important for example, £20,000 may not effect the fixed asset of 25 million because it is below 5%, however £20,000 in stocks worth £25,000 will have an enormous effect.

SSAP2 and the Companies Act

The SSAP2 is the four concepts going concern, accruals, consistency, and prudence. It is summarised below:



The four accounting concepts stated in the SSAP 2 are given statutory force within the 1985 Companies Act, which refers to them as 'fundamental principles'. In addition the Act lays own two other principles:

1. it is not permissible to set off amounts representing assets or income against amounts representing liabilities or expenditure, or vice versa.
2. in determining the aggregate amount of any item in the accounts, the amount each component item must be determined separately.

The Companies act 1985 requires companies to include a note to the accounts noting that the accounts have been prepared in accordance with applicable accounting standards, or give reasons and details of material departures from these standards. The review panel and the Secretary of State for Trade and industry have the power to apply to the court for revision of the accounts were non compliance is justified. This means that the companies' standards have the force of law whereas previously they had no law stature.

Company Law

Limited companies are required by law (the Company Act 1985) to prepare and publish accounts annually. The form and content of the accounts are regulated primarily by CA 1985, but must also comply with accounting standards.

Financial statements are prepared on the basis of a number of fundamental concepts, or accounting principles as they are called in the Companies Act 1985. Many figures in financial statements are derived from the application of judgment in putting these concepts into practice. It is clear that different people exercising their judgement on the same facts can arrive at different conclusions.

Accounting standards

To deal with the subjectivity and to achieve comparability between different businesses, accounting standards were developed. Between 1970 and 1990 the standards or SSAPs were devised by the Accounting Standards Committee. It was later felt that the rules were too detailed and companies found it too easy to find or develop loopholes. This gave birth to the new regime this was the replacement in 1990 by the Accounting Standards Board. They stated that; 'their intentions were on the principles, rather than fine details'. Its standards are called the Financial reporting Standards. It is supported in its aim by The Urgent Issues Task Force and the Review Panel.

The Urgent Issues Task Force is a branch of the ASB. Their function is to cover issues that were not previously covered by the existing standards. Given the urgency the normal standard setting process would not be practicable.

European Union

It is now necessary to comply with EU regulations and legal requirements decided on by the EU. It does this by enacting UK laws to implement EU directives. The companies act 1989 was enacted to implement the provisions of the seventh and eighth directives, which deal with consolidated accounts and auditors. There are also other European influences which have an impact on financial accounting, such as the International Accounting Standards Committee. The IASC was set up in 1973 to work for the improvement and harmonisation of financial reporting. Its members are all maintained within the accounting profession.

The IASC have set objectives, these are to formulate and publish interest and accounting standards to be observed in the presentation of financial statements and to promote their worldwide acceptance and observance. To work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements. The IAS's have helped both to improve and harmonise financial accounting around the world. The standards are used as national requirements, a basis for some national requirements, international benchmark for countries developing requirements, by regulatory authorities, for domestic and foreign companies, and by companies themselves.

GAAP

The GAAP is a set of rules governing accounting. The rules are believed to derive from the Company law, CA 1985, accounting standards, international accounting standards and statutory requirements in other countries, particularly in the US, and the stock exchange requirements.

True and Fair view

True and fair view is not defined in company law or accounting standards. for practical purposes it can mean accurate and not misleading. The company law requires that the balance sheet must give a true and fair view of the state of affairs of the company at the end of financial year. The profit and loss account must give a true and fair view of the profit and loss of the company for the financial year.

The Companies Act states that the directors may depart form any of its provisions if these are inconsistent with the requirement to give a true and fair view. This is commonly known as the 'True and Fair overview'. It has been treated as an important loophole in the law and has been the cause of much argument, and dissatisfaction with the accounting profession.

Depreciation in financial statements

The consistency concept ensures that eth same calculation method-straight line reducing method and revaluation are the most popular ones-will normally be used for similar assets. The accruals concept, where costs are matched to the period to which they refer, means that each year's profit will be charged with its own share of the total depreciation. The firm can change its depreciation policy and method of calculation, but only for a good reason.

The purpose of applying depreciation is therefore to adjust annual profits, to avid charging the full amount of depreciation in a single year, which would distort the year's profits. This leads to a fairer comparison between the profit figures for the years over which the asset is owned.

Depreciation is subjective; the accountant has to decide which method of calculation to use. If selecting the straight-line method, decisions must be made concerning twoof the three figures involved in the calculation (the estimated life of the asset, and its expected resale value) if the reducing balance method is used, the percentage written down each year must be decided.

Since depreciation is a provision, an adjustment will be made when the asset is disposed of. The firm will make either a loss or a profit on sale, which is recorded in the profit and loss account. Over the full life of the asset the total depreciation charged will be the same regardless of method selected and amounts charged, because of the final adjustment. For this reason, total profits over the asset's life will also be the same, even though the individual figures will vary

Capital and revenue expenditure

Capital expenditure appears in the balance sheet, and revenue expenditure appears in the profit and loss account. This is important distinction in the financial statements because, if revenue expenditure is wrongly classified as capital expenditure, expenses will be understated and net profit will be overstated. If capital revenue is wrongly classified as revenue expenditure, expenses will be overstated, and net profit will be understated. Capital expenditure does not affect profit calculation but expenditure does.

Capital income and revenue income

Capital income is the proceeds from the sale of non trading assets such as the sale of fixed assets including fixed asset investments. The profits or losses from the sale of fixed assets are included in the profit and loss account of the business, for the accounting period which takes place.

Revenue income is the income derived from the following sources;

1. The sale of trading assets, e.g. stock or if a service provider a fair from a taxi driver.
2. Interest and dividends received from investments held by the business.

Chairman's Report:

Is a feature of most company's annual reports and includes details of past events.

Director's Report:

The Companies Act 1985 requires a report by the directors to be attached to every balance sheet it must include future developments, dividends recommended, amount to be reserved, names of directors, directors interests in shares and debenture of the company etc. The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

The directors are obliged under company law to prepare financial statements for each financial year and to present them annually to the Company's members in Annual General Meeting. The financial statements, of which the form and content is prescribed by the Companies Act 1985 and applicable accounting standards, must give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year, and of the profit for that period.

The directors are also responsible for the adoption of suitable accounting policies and their consistent use in the financial statements, supported where necessary by reasonable and prudent judgements. The directors confirm that the above requirements have been complied with in the financial statements.

In addition, the directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Group and to prevent and detect fraud or any other irregularities.

Auditors report

The responsibility of the auditor is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

The auditors report to the company their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the

Companies Act 1985. They also report to you if, in their opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if they have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

The auditors read the other information contained in the annual report and consider the implications of their report if they become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the business review, the corporate governance statement and the remuneration report.

The auditors also, at the request of the directors (because the company applies the Financial Services Authority listing rules as if it were a listed company), review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by auditors of listed companies, and they report if it does not. The auditors are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Auditors conduct their audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

The auditors planned and performed their audit so as to obtain all the information and explanations which are considered necessary in order to provide them with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming their opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

The FRSSE

In December 1996 the ASB published and Exposure Draft of the *Financial Reporting Standard for smaller entities.* (FRSSE) this was published in its final form in November 1997. This represents a major simplification of financial accounting for smaller entities. The FRSSE provides preparers and auditors with a single reference point. A single comprehensive accounting standard, containing the measurement and disclosure requirements most relevant to their circumstances. A company that chooses to comply with the FRSSE is exempt from all other accounting standards, and UITF Abstracts. The FRSSE contains in simplified form the requirements from existing accounting standards relevant to the majority of smaller entities.

Auditor's Report:

An auditors report is usually short and gives the auditors opinions that the accounts are true and fair and comply with statutory requirements. An auditor report is an essential document that must be produced. The report must also include the addresses of the members of the company, the financial statements, the date of report etc.

Advantages using computerised accounting system:

1. **Reduction in processing cost**: The large reductions in the cost of hardware and software, and the availability of user – friendly packages, the manual system has lost its comparative cost advantage.
2. **Speed of processing**: The computer can process many thousands of transactions at incredible speeds, and high – speed printers enable output to be produced at thousands lines per minute.
3. **Error reduction**: Once programmed, the computer is virtually error – free in both processing and performing mathematical calculations. Manual system are much more prone to human error.
4. **Automatic posting**: Once data have been entered all posting is performed automatically by the computer. This is done at high speed and virtually error – free.
5. **Automatic production of documents and reports**: The computer can be programmed to produce automatically up – to – date reports on request and accounting documents such as invoices, cheques and statement of account.
6. **Improved reporting**: The computerised system can be used to generate a wide range of reports such as analyses of sales by product, salespeople and customers.
7. **Faster response time**: Provides the users with the ability to seek and receive very quickly answers to a wide range of queries.
8. **Lower costs and salaries**: there is less need for extra trained staff.
9. **Database queries**: the database can be queried directly or via a reporting tool, for example Crystal reports. For example all customers' profit which is less than 10% can be clearly identified and separated.
10. **Larger companies**: need quick automated consolidation of numbers- branch results sent daily via WAN to head quarter's data centre.

11. **Decision making:** this is made simplified by the fact that software packages can compare previous accounts automatically. Summarised accounts are available immediately after the end of any period.

Disadvantages using the computerised accounting system.

1. **Computer fraud:** the use of computers by programmers to assist in defrauding business entities of huge amounts of money.
2. **Power failures:** the other forms of system breakdowns or crashes. Such system therefore require an elaborate program of constantly backing – up computer records.
3. **Computer virus:** program which introduced to computer systems can go undetected and gradually destroy all the files maintained in the system.
4. **Computer hackers:** unauthorised people can gain access to a computer files and make amendments to those files.
5. **Errors:** manual system may be more flexible and easier to change how the account prefers to lay out their accounts. E.g. allocated to cost or profit centres.

Consideration of computerised records.

If you wish to cut your amount of work from that of a paper based system, a computer and printer will organise your business it a substantial amount of time. The financial information is stored in exactly the same way as a paper based system. The main difference is that the computer makes all the entries for you, based on the information you enter, and then will prepare the accounts. There are less worries of the accounts balancing because each entry you make will be automatically be entered into the right ledgers. All of the transactions have to be entered accurately. If a mistake is made and a figure is entered into the wrong account, for example entering a sale to the wrong customer, the computer will not recognise the mistake, and will continue to make the double entry.

There are therefore some potential problems with a manual and computerised system. If used correctly and a careful eye for error is used, then the computer based system will save the user time in the long run.

The benefits of a computerised computer system allows staff cuts to be made, as a book keeper will no longer be needed, but instead someone who is comfortable with the software. There will also be a large cut in paper based records. All finances can be accessed through the computers memory. In essence a computer based system will give the company more control.

All management information can be accessed, and analysed. Within minutes it is possible to see how well the business is performing. This can be analysed, daily, weekly, monthly, or annually, or whatever the company prefers. The balance sheet and profit and loss accounts are updated with each entry the user makes. The user can see in a glance at how the company is doing in reference to profitably and liquidity. These can be accessed at any time, and fast action can be taken if finances are not going as planned. The user can also analyse debtors and creditors with immediate reports on;

- Who owes you money
- How long they are taking to pay you
- Who you owe money too
- How long their invoices have been outstanding

All this information is not readily available with a paper based system. It could take several hours to prepare this sort of information with a paper based system.

A computerised system can be used to look after all your invoicing for the company. This saves duplication because in the event you need to enter all your sales into your records. Then all is needed is to access the software to produce the relevant invoice. A computer based invoice will also convey an image of professionalism about your business. Also if an invoice is not paid immediately a follow up invoice can be produced quickly. Accounting records are kept up to date, and will then spend less time on the accounts.

Most software packages have a payroll facility built onto their programme, or is available as an add on package. When employing staff it saves a lot of time. The calculation of wages and production of wage slips is extremely repetitive, especially when employees are paid the same amount week after week. The computer system will also keep record of the statutory reductions such as Income Tax and National Insurance. When the time comes the software can calculate the necessary returns and how mush is due to be paid. The main limitation of payroll is that the core information has to be kept up to date. Both Tax and National Insurance are subject to periodic change by the government, and the business must make sure that the changes are correspondingly amended within the system.

If the company is registered for VAT the company can calculate the VAT by a computerised accounting system. The system will control the entire process of calculating eth VAT and then producing relevant figures for return. It will take into account all of the input and output VAT, based on transactions for the relevant period. The price of the software is equalled out on the amount of time saved compiling the returns manually.

A computer based accounting system enables a company to produce all of the forecasts and financial statements, such as, Cash flow forecasts, operating budgets, balance sheet, and profit and loss account. It is simple to base the forecasts on historic performance, while asking eth computer ‘what if?’ questions. For example, once the business has prepared the basic forecasts the company could increase in sales to see what the results would be. On the other hand the company could decrease the sales, or

an increase in costs, or both, to see how it would affect the business. These calculations would take several hours to do manually. In addition to the example above, the company can undertake a detailed analysis of the company's costs within minutes, comparing any number of comparing figures using the computer. These benefits offer more control that a manual based system.