

# HOW TO CHOOSE THE RIGHT ACCOUNTING SYSTEM FOR YOUR BUSINESS

<http://www.sideroad.com/Accounting/accounting-system.html>

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When clients ask me, "What accounting system do you recommend?" two words immediately come to mind – "It depends." I say this for three reasons.

First, there are various types of accounting systems on the market. There are manual systems, computerized systems, single-entry systems, and double-entry systems.

Second, the predisposition of individuals is a major factor. For instance, some people love working with the computer. Other people can barely get by. Some people hate working with numbers, others love it. Some people simply don't have the time and have to pay someone else to perform accounting tasks.

Third, the level of activity of the business may be quite small or quite large and this is another major factor to consider. Let's explore each reason:

Regarding the first reason, if you are keeping the books for a very small organization, a single-entry system may suffice. You can find the "Dome" and "Ideal" bookkeeping systems at your local office store. Personally, I have tried both systems for small businesses and have found them confusing. The reason for the confusion is that there are no checks and balances to catch mistakes. Although, a double-entry system is harder to learn it is much easier for maintaining accuracy.

Not so many years ago, accountants used manual systems to record transactions. They had big, hardbound covers with yellow "Wilmer" ledger pages. I was still using those back in 1978. What a relief when desktop computers came along!

However, there are some manual systems in use today that are still very effective. These are the "one-write" systems. Safeguard Business Systems, Inc. is the grand daddy of the one-write systems and my choice because the layout of their forms makes sense and is easy to use. A one-write system is sometimes called "checks on a shingle" because the checks are stacked like shingles on a journal page. The checks have a carbon strip on the back where the date, payee, purpose, check number, etc., is automatically recorded on the journal when the check is written. The journal also has a column for recording bank deposits. In the center of the journal is a column for a running checkbook balance.

The beauty of this system, and why it remains popular, is that you don't need to know accounting to record all the pertinent information that will be required by your accountant. The journals can be stored month by month and, if you don't need a financial statement but once a year, all the required information is already recorded and organized. Think about it. You have to write the checks anyway. Isn't it nice that you only have to write the information one time?

Small business accounting software programs such as People's Choice, QuickBooks, PeachTree, MAS90, One-Write Plus, etc., are absolutely necessary because they are general ledger double-entry systems that produce financial statements, namely, a balance sheet and profit & loss statement. It is hard to get along without them because they are such a time saver. The question is, "Which one fits you the best?" This leads us to the second reason.

What are your personal predispositions? Are you computer literate? Do you have the time or staff to enter all the transactions into the computer on a timely basis? Is it convenient for you to cut a computer check on the fly? Will your business stay at the same address long enough to use all those pre-printed computer checks. Do you want to carry a checkbook with you when running errands and making business purchases? These are the factors to consider when deciding whether to have computerized checks or manual checks.

You know you have to have a computer and an accounting software program. That's a given. There are various check writing systems, from your standard little checks you get when you open your bank account, to the "Three-on-a-Page" checks with stubs, to single checks with a voucher attached, to the one-write systems. You can, and many people do, use a manual check writing system in combination with an accounting software package. The checks are manually entered into the computer from the check register and coded to the appropriate general ledger account. The remaining information can be recorded into the computer using the general journal. You can do this yourself, if you know how and have the time. Or, you can hire someone to do it. It depends on your preference and your financial resources.

The third reason to consider is the size of your business. I'm not referring to large businesses because they have to be computerized and have their own accounting staff. I'm discussing small business applications here. If you are just getting started and the business is very small and you can't afford a computer then I recommend the one-write system. When you can afford to buy a computer and an accounting software system, you will want to consider one of the lower priced accounting software systems that cost in the neighborhood of \$200.

When selecting a system, you will want to ask whether the accounting package can handle your accounting needs as you expand your business. For instance: after the basic package, can you add on Job Costing, Payroll, Accounts Payable, Accounts Receivable, Inventory Management, Cash Flow reporting, etc.? Most of the packages have all these modules and more. Therein lies the difficulty. The complexity of these systems makes it hard for the beginner to begin. The software manufacturers all claim their systems are simple and easy to learn. This doesn't always turn out to be true. I recommend that you start out with the essentials and, as your knowledge base increases, add more complexity. Pick a system that is straightforward, easy to follow, and, this is important, in which it is easy to make changes and correct mistakes. Some systems make it extremely painful just to change a name in the general ledger. It is true that the more expensive systems offer the greatest flexibility. MAS90, by Best Software, is an example of an accounting software package that has been well thought out. However, it can run into the thousands of dollars depending on how many modules you want to buy.

QuickBooks has many fine features, however, in my opinion, it has some strange quirks. For instance, when setting up your chart of accounts you are given an option to have names and/or numbers. That's cool but, hidden in the system is the button that turns on the preference for numbers. As you set up your categories you can put in the beginning balances. Don't miss one or make a mistake because in that system you don't get a second chance. You have to enter any numbers left out in another section. Plus, if you made a mistake you can't easily change the number. Maybe there is a way to make these adjustments. If so, it isn't obvious, which is my point. Why make you suffer?

I have found that the People's Choice software is well designed for the very small business. Their basic module does not include a full-blown accounts payable and accounts receivable module. You can add these on when you are ready for them. In fact, they are offering a start-up system for free.

Look to see whether the system will automatically bring up the next check number when entering checks. That's a big time saver. In addition, look at the report called "Detail of the General Ledger" to see how it is laid out. This report is invaluable as an investigative tool. It tells you, by account, exactly what transactions were posted and where they came from. This should also be a very simple and straightforward report but, often it isn't. Last, the financial statements should be easy to read, spaced properly on the page, and, professional looking.

In summary, determine whether you want to have a combined manual/computer or full computerized system. Let the size and complexity of your business and your budget determine which accounting package to buy. When doing so, keep in mind simplicity and flexibility. Sometimes having all the bells and whistles is worse than not having them. You must be committed to learning the system. Learning only part of the system can be frustrating. First, take the time to plan your accounting needs, then, set up your accounting framework. It pays to do so, since all the data collected is organized into that framework.