

BCM-102
FINANCIAL ACCOUNTING
UNIT-18 Uses Of Computer In Accounting
(B. COM. FIRST YEAR)

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Role of Computer in Accounting

- Till recently manual system of maintaining books of accounts such as Journal, Cash Book, Special purpose books, ledger and also writing of annual financial statements was satisfactory and complete method. Under manual system, as you might know, accountants were required to prepare books of accounts, summary of transactions and financial statements manually. However, with the advancement in technology, system of maintain accounting records has changed from manual to computerized.
- Computerised system of accounting makes use of various machines, like counting machines, bar code readers, which are capable of performing different accounting functions. All these machines are connected with each other through a computer which further helps in operating these machines and leads to writing of financial records in a systematic manner and helps in the maintenance of accounting data on a real-time basis.

Components of Computerized Accounting System

- Every computerized accounting system has two basic requirements;
- *Accounting Framework*: Accounting framework is composed of a set of principles, coding and grouping structure of accounting.
- ❖ *Operating Procedure*: It is a well-defined operating procedure blended suitably with the operating environment of the organization.
- The four basic requirements of computerized accounting system are as mentioned below;
- *Front-end Interface*: This software helps the user to interact with the back-end database and to enter the transactions into the software. For example, a transaction relating to sale of goods may be dealt with the accounting system through a sales voucher, which appears on the monitor of user and when entered into the system is stored in the database.
 - *Back-end Database*: This is used for storage of data and is hidden from the user. User can extract information from this data base to the extent he is authorized to access it.
 - *Data Processing*: Data processing is done to organize the raw data into information which can be useful for decision making purposes. A large number of actions in a systematic way are taken to transform the data into decision useful information.
 - *Reporting System*: This system helps the user in generating a report from the database as per his requirement. Modern accounting softwares are highly advanced and make it possible for the user to generate hundreds and thousands of different kinds of reports in different formats for use in decision making.

Functions of Computerized Accounting System

- **Source Documents**
- **Recording of Data**
- **Data Storage**
- **Preparation of Trial Balance and Financial Statements**

Transaction Processing System in Computerized Accounting

- **Data Entry**
- **Data Validation**
- **Processing and Revalidation**
- **Storage and Reporting**

Need for Computerized Accounting

- **Numerous Transactions**
- **Instant Reporting**
- **Reduction in paper work**
- **Flexible and Up-to-date reporting**
- **Accounting Queries**
- **On-line facility**
- **Saves in Operational Cost**
- **Accuracy**
- **Security**
- **Access to Information to multiple users on Real Time Basis**
- **Legibility**
- **Efficiency**
- **Customer Relationship Management**

Comparison between Manual and Computerised Accounting

- **Identification of Account Head**
- **Recording**
- **Classification**
- **Summarization:**
- **Adjusting Entries**
- **Financial Statements**
- **Closing the Books**
- **Reports**
- **Linking with other networks**

Selection of Accounting Software

- Accounting software in computerized accounting system is like a foundation of the house. Efficiency of the whole accounting system is dependent upon the software selected for this. Many organizations have wasted a lot of money in the past because of wrong selection of computerized accounting software. Need to buy accounting software may arise at the time of introduction of computerized accounting system in the organization for the first time or it may arise later on also at the time of replacement of existing system. A number of factors have to be considered before acquiring accounting software like the scale of business transactions, variety of business transaction, safety of data, requirement of putting data online, accounting expertise of people responsible in organization for accounting work etc.

- Depending upon the suitability of the software to the organization, one may select any one of the following three types of accounting softwares:
 - **Ready to use**
 - ❖ **Customized**
 - ❖ **Tailored**

Factors Affecting Selection of Accounting Software

- **Scale of Organization**
- **Reports Generating Facility and Other Functions**
- **Ability of Employees and Requirement of Training**
- **Flexibility**
- **Cost of Installation and Maintenance**
- **Reputation of Software Developer**
- **Secrecy**
- **Linking with Other Networks**

Limitations of Computerized System of Accounting

- **Fraud Prone**
- ***System Failure***
- **Training**
- **Adverse Effect on Employment Generation**
- **Inability to Check Unanticipated Errors**

Summary

- The use of computers, due to increase in scale of business, in accounting has become inevitable. In the initial years of the emergence of the concept of business on this planet, you might have studied while studying the need of maintaining accounts, that because of limited scale of operations entrepreneurs used to memorize the business transactions and were not maintaining detailed written records. With the passage of time, scale of operations of businesses increased and it became impossible for them to memorize business transactions and then they started maintaining accounts of business transactions in written form. Till last few years accounts of business organizations were maintained in manual way. All the books required to be maintained as per double entry system were written manually by the accountants.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2