Chapter- 1

Overview of Computerised Accounting System

Computerised Accounting System

Computerised Accounting System refers to the process of accounting with the help of Computers and Accounting software. It receives the transactions as its inputs and processes it as per the Accounting Rules and generates various types of reports as we require.

Features of Computerised Accounting System (CAS)

1. **Simple and Integrated** – Computerised accounting is quite simple and integrates all business operations such as sales, finance, purchase, inventory and manufacturing. With computerized accounting, accurate, up-to-date business information is available at the fingertips.
2. **Accuracy and Speed** – With the help of Computerized accounting, a large volume of data can be processed and reports can be generated with a high speed and accuracy.
3. **Scalability (Flexibility)** – CAS enables to process any volume of data in tune with the changes in the size of the business.
4. **Transparency and control** – CAS provides greater transparency for day to day business operations.
5. **Reliability** – CAS makes sure that the accounting information is accurate and secured.

Components of CAS

a. Procedure - A logical sequence of actions to perform a task.
b. Data - The raw fact for any business application.
c. People - Users.
d. Hardware - Computer, associated peripherals and their network.
e. Software - System software and application software.

Data and Information

Data is raw, unorganized facts that need to be processed. Data can be something simple and useless until it is organized.

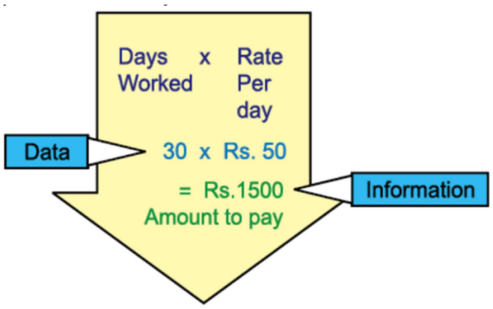
When data is processed, organized, structured or presented in a given context so as to make it useful, it is called information.

A computer is an information processing machine. Computers process data to produce information. In Computerised Accounting System, It receives data from the Accountant in the form of transactions, processes the data and generates reports which are useful to the user.

Example : 1

Data	Processing	Information
Sold goods to Mahesh – 20,000 Received Cash from Mahesh - 12000	Mahesh's A/c Debited - 20,000 Mahesh's A/c Credited - 12000	Balance payable by Mahesh Rs.8,000

Example : 2



Data Element: Every data may have different Data Element (Data item). For example, if a transaction is considered as Data, its Date, Account Name, Account Code, Amount etc can be said as Data Element.

Accounting Cycle

It refers to the different steps to be followed in the accounting process, which are as follows:

1. Recording of transactions in journal.
2. Posting of entries into ledger accounts.
3. Preparation of trial balance.
4. Passing adjusting entries.
5. Passing the closing entries.
6. Preparation of financial statements.

In CAS, all the above steps are carried out with the help of computers.

Grouping of Accounts

Grouping of Accounts is the process of classifying the ledger accounts and organizing them under major heads of accounts. The group of account determines where to place a particular ledger account under trading account, Profit and Loss A/c or Balance sheet. It helps in presenting summarized reports and information.

Basically, the accounts are classified into Assets, Liabilities, Incomes, Expenses and Capital

In CAS, the above accounts are grouped as follows based on the accounting equation (A = C + L)

1. Assets
    a. Fixed Assets
        i. Land
        ii. Buildings
        iii. Plant and Machinery
        iv. Furniture and Fixtures
    b. Current Assets
        i. Cash
        ii. Bank
        iii. Debtors
        iv. Inventories

2. Liabilities
    a. Secured Loans
    b. Unsecured Loans
    c. Creditors
    d. Provisions

3. Capital
    a. Share capital
    b. Reserves and Surplus
        i. Capital Reserve
        ii. General Reserve
        iii. Balance of Profit and Loss Account
4. Revenues
    a. Sales
    b. Other Incomes
5. Expenses
    a. Materials consumed
    b. Salary and wages
    c. Manufacturing expenses
    d. Administrative expenses

Codification of Accounts

Codification refers to allotting code numbers to accounts in a hierarchical structure. In CAS, codes are necessary because the computer cannot understand that whether the item is an expense, income, asset or liability. When it is coded the computer can easily identify them.

For example, we can allot numeric codes for the major account groups, their sub groups and ledger accounts as follows:

1. Assets
    1.1 Fixed Assets
    1.1.1 Land
    1.1.2 Buildings
    1.1.3 Plant and Machinery
    1.1.4 Furniture and Fixtures

Types of Codes

1. Sequential Codes

The code is sequential when each succeeding code is one number greater than the preceding code. These codes are primarily applied to source documents such as invoices, cheques etc

Codes	Accounts
AC001	Arun Traders
AC002	Goodluck Furniture Mart
AC003	Rajendra Kumar

2. Block Codes

In block code, a range of numbers is partitioned into a desired number of sub ranges and each sub range is allotted to a specific group.

Codes	**Account Group**
001 – 500	Direct Expense
501 – 1000	Indirect Expense
1001 – 1500	Direct Income
1501 – 2000	Indirect Income

Mnemonic Codes

The term Mnemonic means a technique for remembering anything more easily. A mnemonic code consists of alphabets or abbreviations as symbols to codify an Account. E.g. Salary Account can be coded as 'SLR', Building Account can be coded as 'BLD', SJ for Sales Journal, CB for Cash Book etc.

Other Examples: Trivandrum – TVM, Delhi – DEL, Bangalore – BLR, Kalpetta - KPTA

Methodology to develop coding structure

Let us examine how to develop a coding structure for each of the students coming under Higher Secondary education department. First of all we have to design a hierarchy of the school system and attributes of the students. It can be as follows

School Code - Year of Admission - Combination Code - Admission No.

The coding for the students will be as follows based on the above consideration

School Code	5 Digits
Year of Admission	2 Digits
Combination Code	2 Digits
Admission No	4 Digits

Thus, if we allocate a 13 digit code to a student who is studying in the school 12020, who got admission in the year 2015 in the combination commerce (39) with Admission No.3456, the code will be as follows:

1202015393456

Security Features of CAS Software

Every Accounting Software ensures Data Security, Safety and Confidentiality by providing the features like Password Security, Data Audit and Data Vault.

a. Password Security

Password is the key to allow the access to the system. Computerised Accounting system protects the unauthorized persons from accessing to the business data. Only authorized person, who is supplied with the password, can enter into the system.

b. Data Audit

It enables one to know as to who and what changes have been made in the original data thereby helping and fixing the responsibility of the person who has manipulated the data and ensures data integrity.

c. Data Vault

Accounting software provides additional security through data vault. Vaulting will save data in encrypted form to ensure its security. Encryption scrambles (hide) the information so as to make its interpretation extremely difficult or impossible. For e.g. if we opt for “Tally vault”, in the list of companies instead of company name a few asterisks (****) would be shown.

Advantages of CAS

1. Timely generation of repots.
2. Efficiency in record keeping.
3. Saves time and money.
4. Confidentiality of data.
5. Automated document preparation.
6. Transparency and reliability.
7. Accurate and updated information.

Demerits of CAS

1. Danger of hacking.
2. Technological problems.
3. Non-availability of skilled personnel.
4. Chances of data loss.
5. Obsolescence of technology.
6. Huge training cost.
7. Unprogramed reports cannot be generated.

Accounting Information System (AIS)

It refers to the software and hardware components used to record, process, store and report financial transactions and information

Accounting information system and its various sub systems may be implemented through computerized accounting system. The sub systems of AIS are briefly described below.

1. Cash and Bank Sub system – It deals with the receipts and payments of cash. Both physical cash and electronic fund cash.
2. Sales and Accounts Receivable sub system – it deals with recording of sales, maintaining of sales ledger and receivables.
3. Inventory sub system – it deals with recording of different items purchased and issued specifying the price, quantity and date.
4. Purchase and Accounts payable sub system – it deals with the purchases and payments to creditors.
5. Pay Roll Accounting sub system – It deals with payment of wages and salaries to employees.
6. Fixed Asset Accounting Sub system – it deals with recording of purchases, additions, deletions and usages of fixed assets.
7. Expense Accounting Sub system - It records expenses under different groups such as Direct and Indirect Expenses (manufacturing, administrative, financial, selling and distributions etc.)
8. Tax Accounting Sub System – It deals with compliance of GST or VAT, Excise, Customs and Income Tax Rules.
9. Final Account sub system – It deals with the preparation of final Accounts.
10. Costing sub system – It deals with the ascertainment of cost of goods produced.
11. Budget Sub system – It deals with the preparation of budgets.