Edexcel

A Level

Accounts

CODE: (4AC1)

Unit 02 - Section 09

Information and communication technology (ICT) in accounting

Chapter 11 – information and communication technology (ICT) in accounting

INTRODUCTION

There are many definitions of **information and communication technology**, most of which include reference to the following:

ICT is the technology that gathers, stores, processes and analyses a range of data.

In terms of accounting, this means:

1 gathering information from business transactions 2 storing this information in ledgers

3 processing the information into control accounts and management reports

4 analysing the information - this final stage could include financial statements, budgets or costing information.

ACCOUNTING USES OF ICT

Apart from being used to record transactions, store information and process information, ICT can also analyse information for managers and users of financial information. This is very important. Uses of ICT in accounting include:

● inventory control

● updating and monitoring trade receivables and trade payables, including invoicing, age analysis and automatic reminders to customers investments and cash

● non-current asset register

equity, provisions and non-current liabilities

● recording purchases and expenses

recording income

maintaining the wages and salary payroll system.

SPREADSHEETS

Spreadsheets are very commonly used in an accounting computer system. The screen is divided into vertical columns and horizontal rows, and each cell thus formed has a unique grid reference. Using this template, it is possible to build financial and statistical models. These will be used for budgets and cash flow charts, as well as aids in preparing job estimates or profit projections.

Spreadsheets are also ideal for producing and maintaining inventory records and any statistical projections that a business may need.

Spreadsheets are particularly useful for producing budgets. It is relatively easy to set up a spreadsheet for a budget period and enter the relevant information in the rows of the spreadsheet.

ACCOUNTING SOFTWARE PACKAGES

There are many different accounting software packages that can be purchased. These packages will perform many, if not all, of the tasks that would normally be manually entered. Transactions may be entered into a software package, which will produce the double-entry records based on this one entry. Although the exact capabilities of each package will vary, it is possible that most, if not all, of these packages will be able to produce invoices for purchases and sales.

This book does not recommend any system in particular. However, the following websites give you an idea of what is available:

• Kashoo (www.kashoo.com)

• Sage (www.sage.com)

• Intuit QuickBooks (www.quickbooks.intuit.co.uk). Historically, computer hardware and software systems were extremely complex and generally only suitable for large companies with the finance and skilled experts required to install, operate and maintain them. Recent advances in applications development has resulted in many accounting applications becoming available specifically for smaller businesses.

EPOS

EPOS is an acronym for 'electronic point of sale' and is a growing part of the e-commerce activities of businesses. It is used by retailers and is an electronic method of allowing customers to pay for goods and services electronically.

It allows business to update their inventory records instantaneously. The inventory can then be re-ordered automatically. This prevents a product being out of stock because of a time delay between being purchased by the customer and the business being aware that inventory has been sold. It keeps track of sales and provides accurate pricing information.

ADVANTAGES OF USING ICT

There are many advantages of using a computer system.

⬤ It is quicker to write up the books, transactions need only to be entered once and the double entry will automatically be entered.

⬤ It can be more accurate than a manual system; single entry and arithmetical errors should be eliminated.

⬤ The information is up to date; if the data is entered promptly it should provide real-time information for the users.

⬤ It is faster to provide annual accounts; the financial statements of the business can be produced quickly. It has cost-saving advantages; it should be less labour-intensive to run a system using ICT, thus reducing variable labour cost.

⬤ It provides an audit trail of transactions so that it is easy to look back at what has happened.

⬤ Multi-site companies benefit from the amalgamation of accounting data from different branches or manufacturing plants.

Although the many advantages of a computerised accounting system were listed above, it is possible to use a computer without any accounting package and still achieve many benefits. A computer in itself:

● is time saving

● saves on storage space (and therefore office space)

● can handle vast amounts of input with a reduced number of staff

● increases accuracy

● produces reports quickly and cheaply

● increases job satisfaction for the operators

● allows for more effective use of an operator's time.

DISADVANTAGES OF USING ICT

Having listed all the many advantages gained by using computers for some or all of the accounting functions, there are still a few disadvantages.

• Costs of installation are high and could represent a high capital expenditure for the business.

• Revenue expenditure associated with computer systems may be high - the useful economic life could be short and so depreciation costs will be high.

• Staff must be trained to use the systems. This will be an ongoing cost as systems are updated.

• Some staff may feel threatened if they are not computer literate.

• Modification of a package/system requires expertise and is costly.

• Computers may crash or malfunction with a loss of information when there is no back-up.

• Health and safety issues may arise - staff who use ICT for many hours per day might suffer from eye strain and RSI (repetitive strain injuries) along with issues associated with poor posture at their computer.

• One of the disadvantages of using spreadsheets, such as Excel, is that firms need to develop formulae and templates for making the computerised system user-friendly. It takes time and highly skilled staff are required.

• Security breaches can occur if unauthorised persons gain access to confidential information.

One important limitation that may or may not occur is that of vulnerability. Every system should have good antivirus protection. It must be designed to prevent hackers gaining access, especially when the system is open to public ordering on the web. Security is often seen as a major disadvantage of using ICT in accounting. However, it does bring the benefit of allowing a business to restrict access to information to authorised staff by the use of passwords. Security of accounting information is important.

• Back-ups are important, as they ensure that if anything goes wrong there is a copy available to access.

• When using a computer system, passwords must be created to restrict access. This gives management some form of control and prevents an operator from gaining unlimited access to the entire system.

• Operators are only able to access the areas for which they are responsible.