

ACCOUNTING SOFTWARE: CONSIDERATIONS FOR SMALL BUSINESSES

Whether you recently picked up the entrepreneurial spirit or you're a small-business veteran, you're part of a growing number of Americans who are striking out on their own. This country has witnessed substantial growth in small businesses—businesses that generally are run by one or a few owners/managers and have five or fewer employees. If you're like many small business owners, you've probably given some thought to your accounting software. You need a package that can track the essential information necessary to review your revenues and costs, and print invoices and checks. But do not be fooled by the simplicity of such needs, and don't buy an accounting software package you'll outgrow in six months, which will just leave you frustrated. You should assess your long-term business needs carefully and thoughtfully before proceeding with an accounting software purchase.

Assessing Your Accounting Needs

For most small businesses, selecting an accounting package may seem daunting. The numerous choices available today only add to the confusion. Before purchasing any accounting package, it is best to perform some simple due diligence. Here are some suggestions to help you plan, and potentially save you dollars and aggravation.

First, define your goals. That is, ask yourself, "What do I want my accounting system to do?" To start, define the nature of your business: service or professional, retail, wholesale, and so forth. Does your firm maintain inventory? Is your firm a manufacturer? Or, perhaps your firm is like Silkies, Inc., located in Vista, California, which makes custom silk floral arrangements. Though Silkies does not manufacture the actual item, it does customize the arrangements based upon specifications from their customers. Also, many businesses find that they provide a combination of services and product. By defining the nature of your business, you can eliminate some accounting systems that would not fit your business model.

Second, ascertain how many transactions your company incurs in an average month. A simple way to determine the number of transactions is as follows: for accounts receivable, note the number of invoices submitted to customers per month on average. Do the same for accounts payable. Add the two numbers together and multiply the sum by five. This will be your average number of monthly transactions for accounts receivable and accounts payable combined. The number of transactions processed monthly is important in ensuring that whatever accounting system you choose can meet current and future growth of your business. Also, it is a means of determining your computer system requirements. For example, a small consulting practice may find that QuickBooks SimpleStart© works well for them. However, a larger business processing hundreds or thousands of transactions per month would find such an accounting system limiting.

Organizational structure is the next determinant for accounting systems. For example, does your firm have multiple departments, divisions, or even subsidiaries? Do you have a need for job or project costing? Your accounting system should have the ability to present financial and

ACCOUNTING SOFTWARE: CONSIDERATIONS FOR SMALL BUSINESSES

managerial reports in a way that will represent your organizational structure. Therefore, keep in mind how flexible various accounting systems are in this manner. Flexible systems should also allow for a variety of costing methodologies. Complex systems will allow you to track direct and indirect costs, as well as overhead, which is valuable for manufacturing firms. Programs such as Peachtree would not be sufficient for manufacturing, but Microsoft© Dynamics would. If you require hybrid cost methods, note this requirement. Most programs can handle LIFO or FIFO, yet always inquire if they do.

You also need to determine how many workstations will access the accounting system concurrently. Today, multi-user systems are more popular than ever. Most programs require licenses based on the number of workstations accessing the program concurrently, thus increasing cost.

Customization needs such as unique invoice, packing slip, statement, or other forms, can help refine your decision-making process because custom programming may be necessary.

Finally, be prepared to have a budget in mind for your accounting system. This will help determine which systems within your price range are best for you.

Hardware and Network Requirements

Upon considering the above determinants for your accounting system, you can begin determining your hardware and network requirements. The amount of transactions incurred each month will dictate memory and hard disk space. The complexity of the system will affect network and system performance. The number of users on your system also will have a bearing on your network needs.

Most off-the-shelf products probably are adequate if you have concluded that your business has only very basic accounting needs. However, if you are now in a conundrum, it might be time to seek some consultation. The last thing you would want is to expend your company's significant resources repeatedly to implement new accounting systems.

A value-added provider (VAP), consultant, or similar professional can assist you in your systems research. Such advice can be especially valuable when your expertise is in areas other than computers, software, or accounting. Contact a number of the accounting software manufacturers, such as Sage's Peachtree, Ame Small Business, Microsoft© Dynamics, QuickBooks Pro, DacEasy or Simply Accounting. There are plenty of other excellent manufacturers as well that are competitively priced. All manufacturers can recommend a consulting firm to meet with you and discuss your needs.

According to Nick Jones, president of Professional Technology Group, LLC (a leading software consulting firm in Visalia, California), "The consultant really needs to understand the client and

ACCOUNTING SOFTWARE: CONSIDERATIONS FOR SMALL BUSINESSES

propose to them what best meets their needs." The consultant should help you first discover what you want to do with your accounting system, then help you determine what you expect to achieve from it.

By implementing the goal-setting objectives above, small businesses can avoid many of the costly headaches they might otherwise experience in selecting an accounting system.