

USING ACCOUNTING SOFTWARE

STUDY TEXT

Qualifications and Credit Framework

AQ2016

This Study Text supports study for the following AAT qualifications:

AAT Foundation Certificate in Accounting – Level 2

AAT Foundation Diploma in Accounting and Business – Level 2

AAT Foundation Certificate in Bookkeeping – Level 2

AAT Foundation Award in Accounting Software – Level 2

AAT Level 2 Award in Accounting Skills to Run Your Business

AAT Foundation Certificate in Accounting at SCQF Level 5

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INTRODUCTION

HOW TO USE THESE MATERIALS

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chance of success in your AAT assessments.

They contain a number of features to help you in the study process.

The sections on the Unit Guide, the Assessment and Study Skills should be read before you commence your studies.

They are designed to familiarise you with the nature and content of the assessment and to give you tips on how best to approach your studies.

STUDY TEXT

This study text has been specially prepared for the AQ2016 qualification introduced in September 2016.

It uses a case study approach to guide you through the syllabus and builds up your knowledge and skills chapter by chapter. The text is based upon Sage Business Cloud Accounting.

Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to the feedback form in MyKaplan.

Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

Progression

There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example 'I will finish this topic by 30 June', or for overall achievement, such as 'I want to be qualified by the end of next year'.

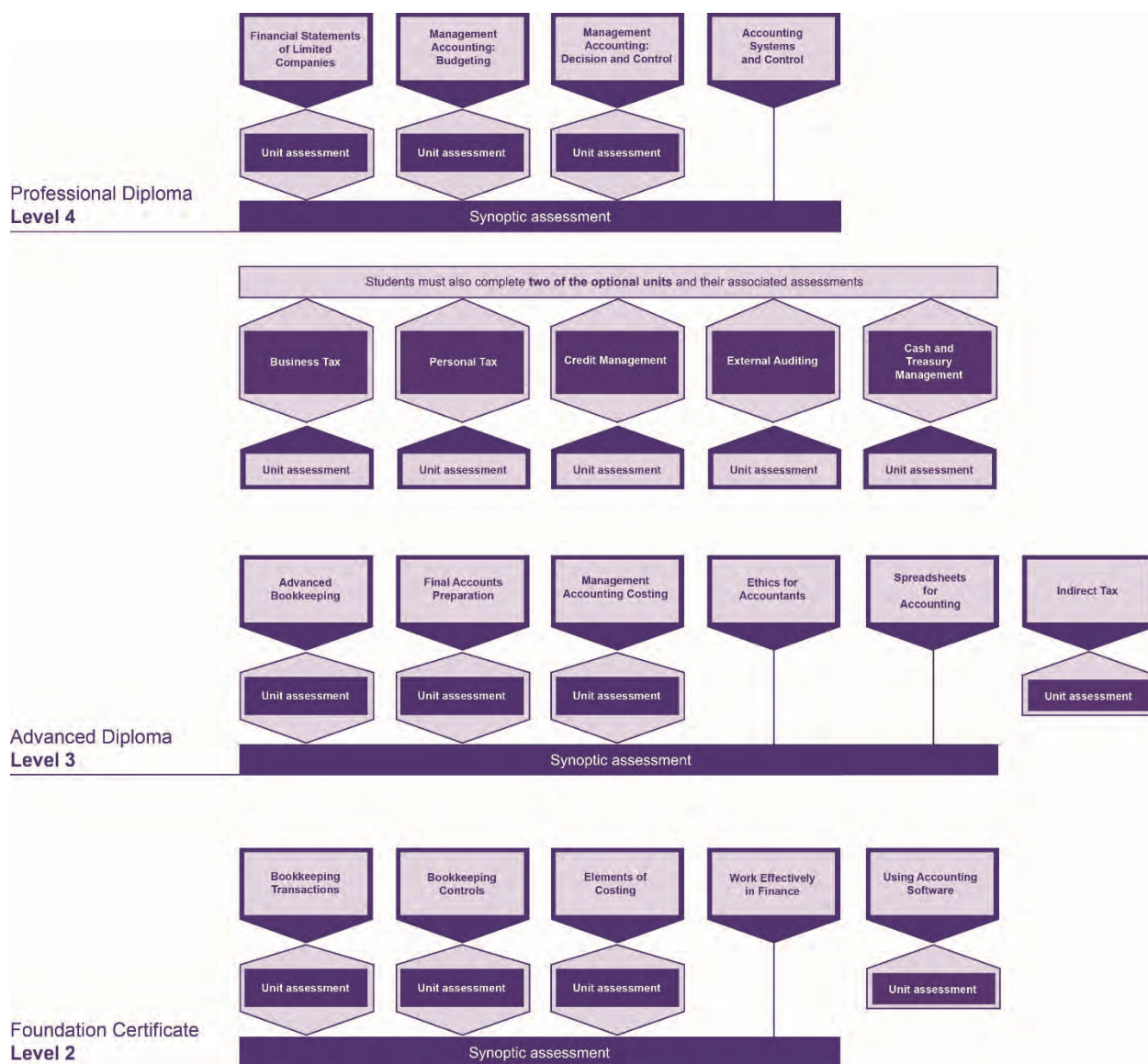
Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another.

We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.

USING ACCOUNTING SOFTWARE



UNIT GUIDE

INTRODUCTION

This unit provides students with the knowledge and skills needed to carry out typical bookkeeping transactions and tasks using accounting software. In the modern business environment, processing data and information into accounting software is a necessary task in most finance roles. This unit teaches students the practical steps for processing accounting information electronically and will allow students to reinforce their understanding of the sequence in which bookkeeping tasks are carried out.

On completion of this unit, students will have the practical ability to enter accounting transactions into accounting software and to perform bank reconciliations accurately. Students will be able to enter information into accounting software and understand the main features of accounting software. They will learn how to set up general ledger accounts for new and existing businesses and process the typical bookkeeping entries expected of students at this level, including the processing of sales and purchase documentation, recording bank and cash entries and carrying out bank reconciliations accurately. Students will also learn how to produce reports using the software and understand the purpose of these reports.

Students must have access to a suitable specialised accounting software package as part of their study for this unit and for the assessment. Spreadsheet software alone will not allow full unit content coverage, so cannot be used for the study or assessment of this unit. The program selected by learning providers must be capable of producing reports in at least one of the following formats at various stages of the process: XLS, XLSX, CSV, DOC, DOCX, PDF, BMP, GIF, JPEG, PNG.

Screenshots may also be submitted using one of these formats. Assessment evidence submitted in alternative file formats will not be marked.

Using Accounting Software is a **mandatory** unit in this qualification.

THE ASSESSMENT

Test specification for this unit assessment

Assessment type	Marking type	Duration of exam
Computer based unit assessment	Human marked	2 hours
Learning outcomes		Weighting
1	Set up accounting software	25%
2	Process sales and purchases transactions	35%
3	Process bank and cash transactions	20%
4	Perform period end routine tasks	15%
5	Produce reports	5%
Total		100%

STUDY SKILLS

Preparing to study

Devise a study plan

Determine which times of the week you will study.

Split these times into sessions of at least one hour for study of new material. Any shorter periods could be used for revision or practice.

Put the times you plan to study onto a study plan for the weeks from now until the assessment and set yourself targets for each period of study – in your sessions make sure you cover the whole course, activities and the associated questions in the workbook at the back of the manual.

If you are studying more than one unit at a time, try to vary your subjects as this can help to keep you interested and see subjects as part of wider knowledge.

When working through your course, compare your progress with your plan and, if necessary, re-plan your work (perhaps including extra sessions) or, if you are ahead, do some extra revision/practice questions.

Effective studying

Active reading

You are not expected to learn the text by rote, rather, you must understand what you are reading and be able to use it to pass the assessment and develop good practice.

A good technique is to use SQ3Rs – Survey, Question, Read, Recall, Review:

1 Survey the chapter

Look at the headings and read the introduction, knowledge, skills and content, so as to get an overview of what the chapter deals with.

2 Question

Whilst undertaking the survey ask yourself the questions you hope the chapter will answer for you.

An introduction to computerised accounting

Introduction

The aim of this manual is to guide you through the computerised accounting aspects of your studies.

To complete this manual you will need an understanding of the basics of double entry bookkeeping and you will need to be signed up to Sage Business Cloud Accounting which is an online integrated computerised software system for accounting.

If you have another version of SAGE, or even another accounting package, you may not be able to use this manual efficiently.

Instructions for signing up to Sage Business Cloud Accounting are provided in the next chapter. This will apply to students who have purchased a study course with Kaplan. If you are studying independently or via a college, you will need to arrange your own access to Sage software.

Sage Business Cloud Accounting is an online service, and will be updated on a regular basis (every 2 or 3 weeks). Some updates will include minor improvements and additional features, others will be much more significant. When updates are made you will be notified with a message accessed directly from Sage Business Cloud Accounting. Students are advised to read these messages and understand them. The printed copy of this text is based on the Sage Business Cloud Accounting service at the point of publishing and therefore some of the screens and navigation that you see may have changed slightly.

This text uses a **case study approach** to guide you step-by-step. It assumes that you have never used a computerised accounting system before. Even if you have, it is worth starting at the beginning to ensure that you don't 'jump ahead' too quickly.

ASSESSMENT CRITERIA

An introduction to using accounting software

CONTENTS

- 1 Manual and computerised bookkeeping
- 2 Benefits of a computerised system
- 3 Accounting documents
- 4 Coding
- 5 Risks of using a computerised system

1

Manual and computerised bookkeeping

The double entry system of bookkeeping that is still used today was developed in Italy in the fifteenth century. With the introduction of affordable and reliable information technology in the last thirty years, it was perhaps inevitable that business organisations would look to find ways to computerise their bookkeeping systems. Now it is rare to find an organisation which does not use some form of computer to aid the day-to-day record keeping that is an essential part of running a business whether large or small.

For very small organisations, a simple spreadsheet to record monies in and out of the business may suffice. However, once a business becomes larger or more complex, it may be beneficial to introduce a computerised bookkeeping system. There are many proprietary versions on the market, each of which works in a similar way. However, they will each offer different approaches to data entry, presentation of reports and so on, as well as different 'extras' such as stock management modules, budgeting and tax planning. Some systems, including Sage Business Cloud Accounting, also allow a business to integrate a computerised payroll function.

2

Benefits of a computerised system

The main benefits of a computerised bookkeeping system are:

- Quicker, more efficient processing of data
- Fewer mathematical errors – because the system completes all the double entry and other mathematical functions (e.g. calculation of percentages) there is reduced opportunity for human error
- Accounting documents (e.g. invoices, statements etc.) can be generated automatically, using tailored documents designed to incorporate company details, logos etc.
- The range of information that can be easily produced in reports is wide and varied, meaning businesses can report to various internal and external groups (e.g. management, directors, shareholders, banks etc.) in an appropriate format

- There is no need for manual processing of data – computerised bookkeeping systems complete all the double entry automatically
- Hardware and software prices have fallen dramatically over the last thirty years, making a computerised system affordable to all organisations
- Allow data to be easily transferred into other programs – e.g. a spreadsheet or word processing package.

3

Accounting documents

Business organisations rely on relevant documentation to record the transactions that it undertakes. Without an appropriate piece of supporting documentation, there is no way of knowing what has been bought, from whom and for how much, nor indeed what has been sold. With a high proportion of modern transactions being on credit, an accurate and comprehensive system of recording transactions is essential.

Many business documents are referred to as '**Primary Records**'. They include:

- Purchase orders
- Delivery notes
- Purchase invoices
- Credit notes
- Sales invoices.

These documents are used to record business transactions in the first instance. For example, if an organisation wishes to purchase a new computer printer, it may first raise a **purchase order** which is sent to the supplier. The supplier would issue or deliver the printer along with a **delivery note**, to record the safe receipt of the goods. A **supplier invoice** requiring payment would follow. If the printer was faulty, it could be returned and a **credit note** issued.

In order for a transaction to be correctly recorded in a computerised accounting system, the appropriate documentation must first be raised and then the details entered into 'the system'; indeed, many organisations employ accounting staff whose job is primarily to enter the data accurately and completely from the source documents.

There are many other documents which are also essential in maintaining an up-to-date and accurate accounting system. Bank statements, schedules of direct debits/standing orders, supplier statements, correspondence from suppliers and customers and so on also provide invaluable information which can be used to check the computerised bookkeeping system for accuracy.

In the course of the case study which follows, you will be required to enter details from a range of source documents and use other documents to maintain a computerised bookkeeping system for a small company.

4 Coding

All computerised bookkeeping systems work by the use of codes. Each supplier and each customer must be given a unique code by which the computer software can recognise them. It is vital that there can be no confusion between two suppliers with similar names. For example, you may be fully aware that John Green and John Greenwood are entirely different people, but it could be easy for a computer to mix them up. Each must therefore be given a unique code by which they can be identified.

Similarly, each product manufactured or sold by an organisation may be given a unique code. Also, employees are usually 'coded' – you could check your pay slip to find your own Employee Reference Number.

Finally, every type of income or expense, asset or liability, is given a unique code to identify it. This makes entering transactions quite straightforward, since you need only refer to the relevant four digit code rather than a long narrative description.

Codes must be unique. However, they should also be recognisable by the person dealing with the system. For example, if a supplier was coded "SMITH006", this would be far more recognisable than a purely numeric code such as "0827329".

Care must be taken to issue codes that are not ambiguous. The use of a combination of letters and numbers (an alphanumeric code) often achieves this.

In Sage Business Cloud Accounting, when you create a new customer or supplier record, you are provided with a 10 character limited alphanumeric field to enter the customer or supplier code. The code can be whatever you require the code to be as long as it is unique within the system and 10 characters or less. Many organisations have a set structure for coding, and if this is the case in your organisation you should follow it.

5

Risks of using a computerised system

Computerised accounting systems may offer a lot of advantages to businesses, but organisations must also be aware of the potential risks posed by such systems. These risks can be categorised as:

- **Physical risks** – caused by system failure, theft, damage or loss or corruption of data and of access to systems or data by unauthorised users (e.g. by a compromise to password security)
- **Virus threats** – the risk of a computer virus (or similar) being introduced to a network, with the resultant loss of or damage to data
- **Legal threats** – from contravention of legislation such as the Data Protection Act (1998) by an organisation in the way that it stores or uses personal data.

Accounting data is particularly at risk, because it is highly confidential and potentially highly valuable to other people. Hence you must remain especially vigilant to risks to data security.

Virus threats

All computers that are linked to 'the outside world' (e.g. via a network or to the internet) are susceptible to security threats. Many people are familiar with the threat posed by viruses or other similar threats.

A virus is a piece of software that is used to maliciously infect your computer. What is more, it then has the ability to replicate itself and infect any other computer that is connected to yours. Of course, this also means that your computer is at risk of being infected by other computers as well.

Introduction of the virus to a system usually takes place when you open a file that has been deliberately infected – for example, an email attachment or a web-site, an infected piece of software, or an infected memory device (e.g. a memory stick).

The consequences of being infected by a virus are many:

- Infecting all other computers you are linked to
- Deleting particular files – especially files which are essential to the normal operation of your computer
- Altering files so they are no longer legible

- Slowing down your computer by taking up huge amounts of memory – leaving your computer extremely slow and unable to perform basic tasks
- Accessing your data and sending it to other people
- ‘Reading’ your passwords for essential sites such as on-line banking – enabling somebody else to access your bank account
- Wiping your hard-drive – deleting everything from the computer.

Safeguards against viruses

Firewalls: these are designed to prevent hackers gaining access to a computer network via the phone line. These can be a piece of software (now often built in to operating systems such as Windows) or a hardware firewall, which is effectively a box which acts as a barrier between the modem (the phone line into your computer) and the computer itself. An effective firewall is an essential aspect of computer safeguarding, particularly where users have access to the internet.

Effective IT policies: most organisations now have clearly defined IT policies regarding the private use of the internet and e-mails, not allowing employees to install their own software (e.g. games) on work computers.

Using virus protection software: this is the most important method of protecting computer systems. It acts as a guard dog, constantly watching for suspicious files, blocking or destroying them and advising the user that there has been an attempt to compromise the security of the system. As virus protection programs are constantly being updated with details of new viruses, it is essential that it is kept updated and current at all times. An out-of-date program is no protection against the most recent viruses.

Personal vigilance: Be very wary if you receive unsolicited emails from addresses that you do not recognise. Do not open any emails that you are suspicious of – you should report these to your IT manager or your supervisor. However, you should also be wary of emails (particularly those with attachments) from addresses you **do** recognise – remember, if somebody you know has a computer which has been infected there is a high probability that their computer will then try to attack your computer as well.

Be very careful when accessing the internet. Only use sites you need for work. Be wary of links to other sites that you do not recognise. Again, if you are in any doubt, or suspect that your computer may have fallen victim to a virus, inform your supervisor.

Passwords

Passwords are one of the most common – and most abused – forms of computer security. In most businesses the access to each computer is protected by a password, as well as access to different pieces of software. Even individual files and documents can and should be protected if they contain confidential or sensitive information.

The choice of password is very important; you should be able to remember it, but it should not be easily guessed by others. Ideally, a password should:

- Be at least 6–8 characters long
- Contain a mixture of upper and lower case letters, numbers and symbols
- Not be a recognisable word.

Under no circumstances should you choose something like your own name, your child's name or your pet dog's name – these are far too easy for someone with only a small amount of knowledge about you to guess. You should also avoid obvious combinations such as 'password' or '123456'.

You should be able to remember your own password. Do not be tempted to write it down in your diary, on a scrap of paper in your top drawer, or on a sticky note attached to the monitor!

You should also never tell anybody else your password – even your most trusted colleague. If you do suspect that somebody knows what your password is you should change it immediately.

Many systems are configured to require you to change your password every few weeks – even if yours is not, this is good practice.

Backups

Sage Business Cloud Accounting is a cloud based computer system and as such does not require the end user to perform backups. Backups are automatic and are managed by Sage.