Computers in Accounting

Q.1. State the relationship between accounting. Information system and Management Information System.

Ans: Accounting information is the part of management information system. AIS identifies, collects and communicates economic information about an entity to a variety of users correct decisions can be based on both the system MIS provides information to take decisions and manages an organization effectively.

Q.2. Differentiate between customized Accounting Software and Tailored Accounting Software on the basis of (i) Nature of business (ii) Number of users (iii) Training Requirements and features of customized software.

Ans:

Basis of difference	Customized Accounting Systems	Tailored Accounting System
Nature of Business	Large, Medium Business	Large, Typical Business
Number of Users	As per specifications	Unlimited
Training Requirements	Medium	High

1. They are designed to suit the specific requirement of users.
2. Level of secrecy is higher.

Q.3. Explain advantages of Tailor Made Accounting System.

Ans: (1) It is designed to meet the specific requirements of the users & form an important part of organizational MIS.
   (2) The secrecy and authenticity checks are robust in such software.
   (3) They offer high flexibility in terms of number of users.

Role of computers in accounting

   (1) **General Ledger**: Once a transaction is recorded through a computer, it is automatically posted to various accounts. As such, the ledgers always contain upto-date information.
   (2) **Accounts Receivable**: This software is used to maintain the upto-date &accurate accounts of the debtors.
   (3) **Account Payable**: It keeps a upto-date record of all the creditors.
   (4) **Pay-Roll Accounting**: It prepares the wages & salary sheet of thousands of employees very accurately and in time.
   (5) **Inventory Control**: It keeps a complete record of receipts and issue of all the items in the stores. As such, the information regarding the stock in hand of each item.

Q.4. Explain any three advantages of computer system.

Ans: (1) Speed – It can perform variety of jobs at much higher speed than human beings.
   (4) Accuracy – It performs the job with high degree of accuracy.
   (5) Reliability – Computers are more reliable than human beings and it does not get tired.
   (6) Versatility – Computer is capable of being used in any area of application like business, industry, technology and communication etc.
   (7) Storage – Computer system has huge capacity to store data in a very small physical space.

Q.5. Write in brief the meaning of computer. Explain any two elements of computer system.

Ans: A computer is an electronic device, which is capable of performing a variety of operations as directed by a set of instructions. A computer system is a combination of six elements.

(1) Hardware – Hardware of computer consists of physical components such as keyboard, mouse, monitor and processor.

(2) Software – A set of programs which is used to work with such hardware is called its software.

(3) People – People interacting with the computers are also called live ware of the computer system.

(4) Data – These are facts and may consist of numbers, text etc. These are gathered and entered into a computer.

(5) Procedure – The procedure means a series of operations in a certain order or manner to achieve desired results.

(6) Connectivity – The manner in which a particular computer system is connected to others say through telephone lines, microware transmission, satellite link etc. is the element of connectivity.

Q.6. Explain limitations of computer system.

Ans:

(1) Lack of common sense – Computers work according to the stored programs, they simply lack common sense.

(2) Zero IQ – Computers are dumb devices with zero intelligence quotients. They can't visualize and think how to respond in a particular situation.

(3) Lack of Decision Making – Computers cannot take decisions on their own because they are programmed and do not have any thinking ability.

Q.7. Explain components of computer.

(1) Input Unit – It controls various input devices which are used for entering data into the computer system. Keyboard and Mouse, Magnetic Tape and Magnetic Disk etc. There are other devices which respond to voice and physical touch.

(2) Central Processing Unit – CPU processes the data according to the instructions it receives for example arithmetical and logic unit (ALU), memory unit and control unit.

(3) Output Unit – After processing the data information is produced in understand able and readable form e.g. visual display unit, printer, graphic plotter etc.

Q.8. Name the most popular accounting package and its features.

Ans: Tally

Features of Tally

(1) Simplify   (2) Speed   (3) Flexibility   (4) Real time processing.

Q.9. Explain in brief any three types of accounting reports.

Ans:

(1) Summary Report – It summarizes activities of the organization in the form of summary report e.g. – Profit & Loss Account and Balance Sheet.

(2) Demand Reports – These are prepared only when the management requests thereon e.g. Bad Debt Report, Stock Valuation Report.

(3) Customer Report – These are prepared according to specification of management e.g. Top ten customer's report, purchase analysis & vendors analysis report.

(4) Exception Reports – According to the conditions the reports are prepared e.g. short supplies, over stocked etc.

(5) Responsibility Report – MIS specifies the base of management responsibility e.g. Cash position.

Q.10. Explain various stages in Automation of Accounting Process.

(1) Accounting process in a computers environment.

(2) Sourcing of Accounting Software

(3) Creation of account groups and hierarchy

(4) Generation of reports.

Q.11. Define AIS.

An AIS gathers data describing the organization's activities maintains a detailed financial record of the organizations operations transforms the data into information and makes information available to users.

Q.12. Explain the factors to be considered before selecting accounting software.

Ans: The various factors to be considered before selecting software –

(1) Flexibility – Accounting Software should offer some flexibility between the users of the software, operating system and the hardware.

(2) Cost of installation and maintenance – Cost benefit analysis can be done to assess the affordability of hardware and software. Software with least maintenance and less alteration cost should be considered.

(3) Size of organization – The size of the organization affects the software choices e.g. Non-profit organizations opt for simple operated software.

(4) Ease of Adaptation and Training Needs – some accounting software's are user friendly and capable of attracting users. These require simple training.

(5) MIS Reports – Software that requires producing the final accounts and cash flow are ready to use software.

(6) Expected Level of Secrecy – Before buying accounting software security features are to be considered to prevent manipulations in the accounting system.

(7) Exporting and importing data facility – The accounting software should allow hygienic, untouched data transfer. It has to be linked with MIS Software.

(8) Vendor's Reputation and Capability – Vendor's reputation depends on how long has been the vendor is in business of software development and to see whether other users of the software and the availability of robust mechanism.

Q.13. Explain the term data and differentiate between Data and MIS.

Meaning of data – Data is meaningful raw facts and information on which processing can be carried out.

Data Vs MIS – Data is basic component of the information or raw and unorganized information. But MIS is processing data into information on which is then communicated for appropriate decision making.

Q.14. Write short note on the following packages: (1) Ready to use (2) Data Base.

Ans: (1) Ready to use – This software is suitable for small scale organizations with less number of transactions because the cost of installation is low and the number of users are limited. This software is easier to learn and is easily adoptable. This software has certain limitations.

(a) Level of secrecy is low.

(b) Promo to data frauds.

(2) Data base – The data, after being collected has to be stored so that different people can use them. It requires creation of database. A database is as hard collection of inter-related data tables, files or structures designed to meet varied informational need of an organization. Its purpose is reduce duplicity and also to facilitate better data access.

Q.15. Distinguish between Manual Accounting and Computerized Accounting.

Basic of Difference	Manual Accounting	Computerized Accounting
1. Recording	It is done through books of original entries	The data content of financial transaction is stored in well designed accounting database.
2. Classification	Its done by posting into ledger accounts	The stored transaction data is processed to appear as classified so that same is presented in the form of are port.
3. Summering	The transactions are summarized to produce trial balance by ascertaining ledger of various accounts.	The originally stored data is processed to turn out the list of balances of various ledger accounts from the trial balance reports.
4. Adjusting Entries	These entries are recorded to match the expenses of accounting period with the revenue generated by them. Adjustment entries for all errors are passed.	Journal vouchers are prepared and store to follow the principle of cost matching revenue but adjustment entries for error of principle are passed.
5. Financial Statements	In manual system of accounting financial statements are prepared on the basis of trial balance.	In computerized accounting there is no such requirement.
6. Closing the books	In manual system of accounting closing entries are passed to close the books.	In computerized accounting the closing balance are stored in database to be used as opening balances.

Q.16. Explain the advantages of the computerized Accounting System.

Ans:

(1) Speed – Accounting data is processed faster by using a computerized accounting system because computers require less time in performing a task.
(2) Accuracy – The possibility of error's eliminated because the primary accounting data is entered once and issued subsequently for preparing accounting reports.
(3) Reliability – Though computer system is capable of performing repetitive operations. They are immune to tiredness, boredom and fatigue.
(4) Up to- date Information – The accounting records are updated automatically as and accounting data is entered and stored.
(5) Legibility – The data displayed on computer is legible because the alphabets, numerals are type written using standard fonts.

(6) Efficiency – The computer based accounting system ensure better use of resource and time. This brings about efficiency in generating decisions, useful information and reports.

Q.17. Explain various limitations of computerized Accounting System.

Ans:

(1) Cost of training – The computerized accounting packages generally require specialized staff personal. It also requires huge training costs are incurred to understand the use of hardware and software.

(2) Staff Opposition – Whenever the accounting system is computerized there is a significant degree of resistance from existing accounting staff because of the fear that they shall be made redundant and largely because of thinking that they should be less important to the organization.

(3) Disruption – The accounting processes suffer significant loss of work time when an organization switches over to the computerized accounting system.

(4) System Failure – The danger of the system crashing due to has did are failure and subsequent loss of work is a serious limitation of computerized accounting system.

(a) Ill effect on Health   (b) Inability to check unanticipated errors.

Q.18 Explain various advantages of Ready- made software.

Ans: 1. They are economical as they are prepared not for any particular users but for users in general.

2.They are developed by a group of experienced professionals who take care of all the problem cases.

Q.19 What do you mean by automation of accounting process and explain its advantages?

Ans: When the entire accounting process is done by means of computer or computers, it is called automation of accounting process.

Advantages:

1. Less Paper Work: As compared to manual accounting, there is less paper work in case of computerized accounting.

2. Less Cost: Maintaining books of accounts under computerized system of accounting is less costly as compared to manual accounting.

Q.20 What do you mean by human ware?

Ans: People interacting with the computer and executing the programs software are known as human ware.

Q.21 Explain the various categories of accounting software.

Ans: Accounting software can be divided into 3 categories-

1. Operating Software- Operating software is a set of specialized programs that make interface between the user & computer hardware.

2. Utility Software- It is a set of computer used to perform supporting operations in a computer utility software usually focuses on how the computer infrastructure operates. E.g. Disk cleaner, Anti-virus etc.

3. Application Software- It is the user oriented program which is designed and developed for performing certain jobs, such as accounting, word processing & designing.