

# **Free Accounting with Free Software**

**Yogesh Patel**

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## **Acknowledgement**

**By**

**the International Association of Bookkeepers**

**&**

**the International Association of Accounting Professionals**

“Together with the related software, Adminsoft Accounts, this book is acknowledged by the IAB and IAAP to be a useful and cost effective tool in the pursuit of efficient financial management. With thousands of users worldwide and testimonials from business owners, bookkeepers and accountants, Adminsoft Accounts has demonstrated that it is appreciated by its users and advocates.”

## A Forward by the Software Developer, Mike Towle

I started developing software for businesses in 1982. However, in 1984 I started my own business developing software for small businesses. Things like invoicing, stock control, payroll, etc. Anything that was accounting or administration related. Much of the software I produced was for specific clients, and was a one off. In other words, it would run on one site, sometimes even just on one computer. Slowly, a yearning grew within me to do something more, something bigger. I wanted to develop some software that would be used not just by one or two people, but also by thousands.

By the early 2000's the internet had really taken hold. Possibilities opened up for the marketing and distribution of the software across the world without spending large amounts of money. Therefore, in June 2003 I began work on what would become the Adminsoft Accounts system. As I wanted the software to be used by as many people as possible, I made the decision that it should be free. Development took a long time. It was 28<sup>th</sup> December 2006 before the first version (v3.062) was released on the internet for anyone to download.

You may be wondering why the first version of Adminsoft Accounts is called version 3. Well, I had developed two accounts systems previously that ran under the MS-DOS operating system. Therefore, it was natural for me to call the newest Windows accounts system version 3.

Unlike most other accounting programs, when designing Adminsoft Accounts the priority was to assume that the user would not have a strong accounting background. The software can be used by just about anyone. All the necessary accounting functions are taking place in the background, and you will come across much of them during the course of reading this book. It has also been designed to operate in many different countries. Accounting principles are largely the same from country to country, but the terminology changes. When Adminsoft Accounts is installed, it loads up the necessary terminology depending on which country you reside in. So for example, what would be called 'Sales Ledger' in the United Kingdom is called 'Accounts Receivable' in the United States. Even simple words like 'Cheque' in the United Kingdom, are changed to 'Check' if you are in the United States.

At the time of writing, the bulk of Adminsoft Accounts has been developed, and is in use by many thousands of people across the world. Development will continue, but will mainly be confined to lots of small improvements, making it easier and slicker to use. The help system in particular will be constantly revised and improved. Nevertheless, this book makes it more structured, and task based. It is vital not to ignore the fact that many new users need as much help as they can. I envisage Adminsoft Accounts being available for as long as the Microsoft Windows operating system is in wide spread use. I think that will be a long time!

In May 2009, Yogesh Patel first suggested to me that he wanted to write a book on accounting with the dual purpose of helping businesses and IAB students, and wanted to base it on my free accounting system. However, as we progressed with the work, he brought the book closer to my vision expressed above, and structured it for all users of the software, making the book task based, but incorporating the IAB examination elements in them. This is unique, and has not been done before. He brought the IAB closer to this project, and allowed them to view the work as it was being developed. This was followed up with an Acknowledgement by the IAB.

Yogesh had tried out many other accounting programs, and had concluded that Adminsoft Accounts compared well to the main accounting software products available, and had the big advantage in that it was free. Students could download and run a full version of Adminsoft Accounts and work through the examples in the book, at no cost. It was an honour to have my software selected by Yogesh, and subsequently acknowledged by the IAB. I have enjoyed working with Yogesh over the last couple of years to help bring the project to fruition. It will, I am sure, be a great success.

# Why You Should Read This Book

This book has three primary objectives:

1. ***To be quick and task based for any business.*** Therefore, the users, once the system is set up properly, can just pick up the book, look up the task, and complete it without reading the whole book. Then get on with what they do best as entrepreneurs. The knowledge builds up as you go along. The theory can explain what is happening.
2. Provide all information required to ***prepare and pass any computerised bookkeeping examination***, like the Level 3 Diploma by the IAB.
3. To be able to ***do this with the best free software*** available which meets all standards of accounting and double entries allowing all eventualities to be covered. In addition:
  - a. The software offered must match any commercial accounts program
  - b. The software business must not hassle the user with bombardment of offers or upgrade sales pitches, nor should it lead to hidden paying options when you need to complete a crucial task
  - c. The software must not disturb Windows files or environment
  - d. The software must be very portable, even should run from the USB or a CD independently if the whole program is copied there!
  - e. The software must work without restrictions to days, records, limitations to the number of companies, or Windows versions.

If you can benefit from any of these three objectives in any way then please read on.

These objectives are three diverging forces, yet I hope I have been able to bring them to a focus through this book opening up a variety of possibilities and opportunities. It is my sincere hope that it creates a genuine free alternative to other accounts software.

For the third objective, it was very long painstaking job to go through a wide range of software to test them to meet the standard. The standard I had set myself to was the examination papers in computerised bookkeeping by the International Association of Bookkeepers. This covered the second objective, but proved to be the failure for majority of the free software available.

To achieve these three objectives, following three forces came together under the author's direction:

1. The author of this book, Yogesh Patel
2. The software developer, Mike Towle
3. One of the most respected and recognised accounting bodies, the International Association of Bookkeepers with the help of its CEO, Malcolm Trotter

The draining costs of software and their constant expensive upgrades are major obstacles to worldwide education and betterment of enterprise in poorer countries. It is author's sincere desire to help in this direction making the software and examinations accessible internationally to everyone, through the accounting bodies like IAB and this software, but mainly by removing the cost of running expensive software.

This book genuinely removes any excuse anyone has in any country, may that be by individuals, governments, or educational institutes. So let us hope that it is used towards the betterment of accounting education and putting businesses around the globe on a sound financial footing.

Undoubtedly, I am grateful to Mike Towle, Malcolm Trotter, and IAB.

I also hope that other accounting bodies will be open to lend a helping hand in this cause. I do hope that instead of a mean spirit prevailing, they will use this book and the software towards setting up examinations with the restriction of cost removed for the students around the world, offering them a real opportunity in accounting education. I can only see the committees, meetings, and wasted interests hindering such a noble goal. Where there is a will, there is a way: this book project has proved it. Now I hope others also go for gold. I urge all fair-minded organizations to contact me to join the network to further the accounting education, and help the small business community around the world.

For businesses, this is genuinely task based accounting. The proposal is not to sit for hours labouring to learn accounting! Most entrepreneurs I have met, just want to get on with running a business. You are in good company with this book. You really do not need to learn the theories if you so desire.

'I got this invoice landing on my desk: now, what do I do?', 'I want to buy the van: how do I enter it in my software?' –such questions start flying at you as soon as you open the door to your business. Push them out of the way for later, and you will then be in trouble. The only time demanding task is in the initial set up, Section 2 Chapter 1. Sort out that once, then open the book whenever you need to complete a task. Find it from the list, go to it, complete it, get out, file the documents (Section 1 Chapter 2), and get on with your other job. Do set up the system parallel to the one recommended in Section 1 Chapter 2. You will reap the benefits. The bonus is a huge saving on future accounting.

I do want to have your feedback, so that together we keep improving the outcome, and the quality of experience.

***A word of caution:*** As a business, if you are able to achieve your record keeping for the financial aspect, it ***DOES NOT*** replace your accountant or a qualified bookkeeper. Keeping records is one thing, accounts and tax, correct postings, and the implications of your records is quite another. In any business, you execute all kinds of complex pecuniary actions. The tools available help you to organize them in some sort of order. However, it is not the mechanical approach, but the application of the knowledge of a theory that allows a true extraction of the result required. *This statement is not for only this book and accounts software; it applies to all of them, including the dominant and expensive commercial software Sage or QuickBooks, and the bundle of books, training, and programs that mushroom up around it costing you thousands of pounds.*

Hence, if you are going to use the accounts software, settle for a little, which still does the lot! This book is where you should start.

Yogesh Patel FIAB FBDO DROpt AIC  
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# **Section 1**

**Basic understanding of accounting and working practices**

# Chapter 1

## The anatomy of the Basic Business Transactions

### Why do I need to understand all these complex accounting elements?

Time to time you will come across a complex transaction.

When that happens, follow the money and the asset as shown below to find your answer.

By breaking up the elements and identifying what category they fall in to you may be able to see their journey, consequently giving you a clue how your entry should be in the accounting system. If you are still confused then you may need to discuss the issue further with your accountants and take their instructions.

However, do spend a little time on the given diagrams, understand the issues, and I believe you will mostly find your answer, in turn saving you some money.

Too many businesses fail because they do not have their finances and bookkeeping in order. The business position becomes unreliable, in turn making the business take wrong decisions. Therefore, no one who wants to be successful in business can ignore the principles of accounting and bookkeeping.

Claiming not to understand the basics of your bookkeeping is only an excuse.

### Accounting in a nutshell

First, you should learn the accountancy equation needed to keep your house in order.

### Assets = Liabilities + Capital (Owner's Equity)

All your **assets** give you the worth of your business value. You possess these items, including cash, car, debtors, machinery, stock, property, etc.

Assets are weighed up against **liabilities**, what you owe to others, including loans to be paid back and creditors.

Investment and owner's **capital** make up the difference.

If these are the groups, then they all three have a list of individual accounts.

By the way, **debtors** are the parties you are awaiting money from, and the **creditors** are the parties you have not yet paid.

**Balance sheet** is nothing but a view in the equation against owner's interest, i.e. equity or capital. The equation is just expressed differently as below, and the balance sheet is presented in that order:

### **Asset – Liabilities = Capital (Owner's Equity)**

After all, your investment started the business rolling. Hence, with assets and liabilities all counted, you would want to know what the total sum stands at.

You are in a business to make money, so the balance should be positive. Otherwise, you are losing money and in trouble.

To keep a true picture of the equation, and it balanced up as well, **you cannot have a single entry**. The whole tenet of using the double entry system is to have two entries of the same amount: one positive, one negative. Just because you have an error, does not mean you can dump a single entry somewhere so that you can carry on ignoring the error. Your accounts will lose credibility and any meaning, and will not balance up, except by a fraudulent single entry! You also will not have a true picture of your business and therefore will take wrong and fatal decisions. Entertain single entry if you want this, and unacceptable fraudulent accounts.

### **So how do you maintain integrity of your accounts?**

To avoid any errors in accounting, step in Luca Pacioli, an Italian and a Fransiscan Monk, who in 1494 devised the principles of double entry bookkeeping, which serve us well even today. To keep the equation in balance, the account on one side receives a benefit while the account on the opposite side gives the benefit.

He called these entries **debits** and **credits**, additions and deductions. To keep the equation above in balance, for every debit you have to have a credit, and vice versa. So to recap: **Debit** gains the benefit, and **Credit** parts with the benefit. In other words, debit is *the receiver* and credit is *the giver*. Therefore, when you write a cheque for the salary, bank is the giver, hence you credit the bank, and the salary account is the receiver, so you debit it. Hence, assets and expenses increase with debits. Liabilities, capital, and income rise with credits.

**Credit** is sometimes abbreviated as **Cr**



**Debit** therefore is represented as **Dr**

