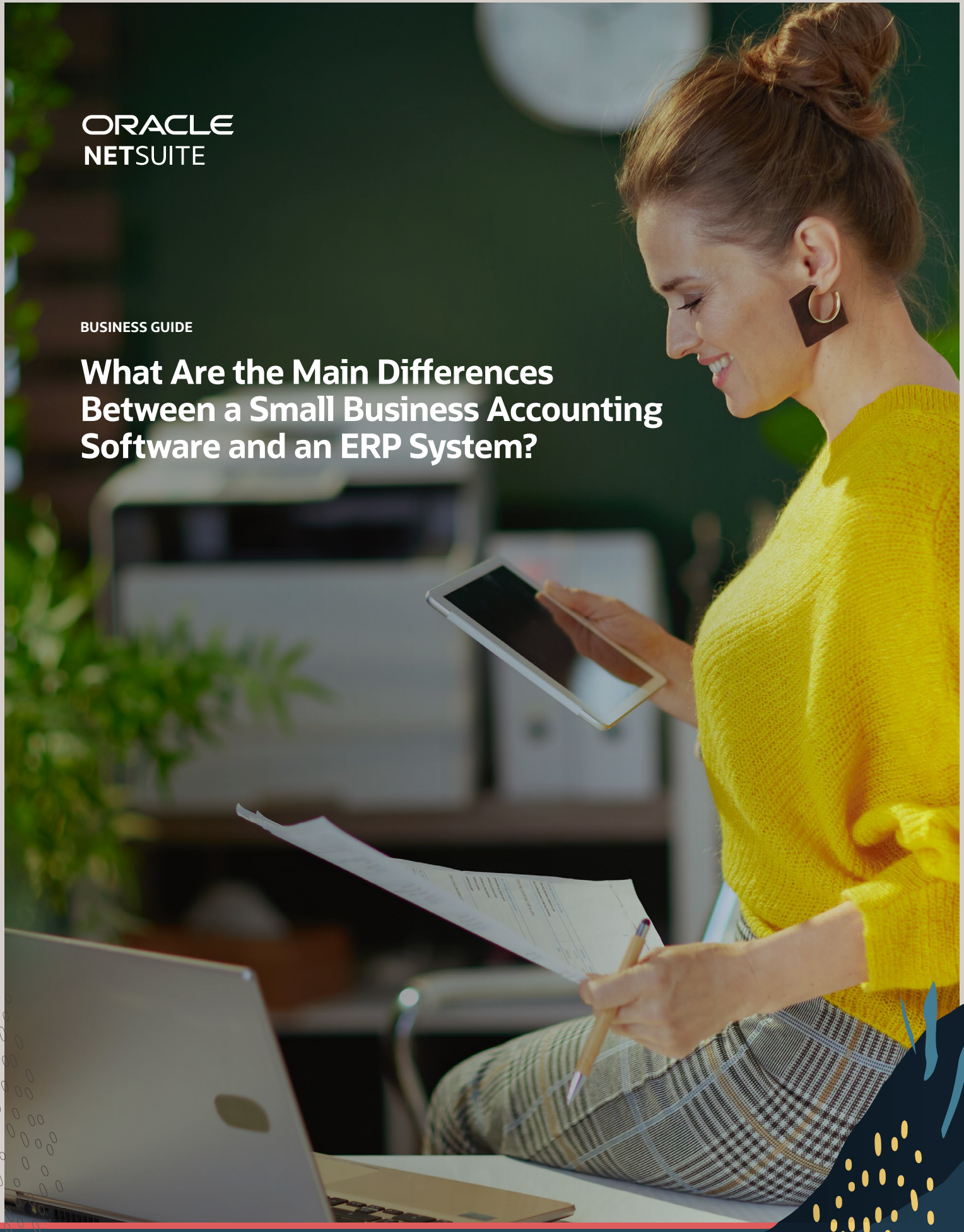

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What Are the Main Differences Between a Small Business Accounting Software and an ERP System?

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What Are the Main Differences Between a Small Business Accounting Software and an ERP System?

As small business applications such as Xero, MYOB, and QuickBooks have grown in feature sets and capabilities, it has become more difficult to tell the difference between accounting and ERP (Enterprise Resource Planning) software.

At one time, accounting software just handled the General Ledger — the debits and credits necessary to produce financial statements for a business. But over the last few decades, accounting software has expanded to include more robust features such as integrated payroll, invoicing, payments, quotes, purchase orders, and inventory — features that previously were the exclusive domain of ERP systems.

Now, with the industry trend toward cloud-hosted applications, it's possible to augment the capabilities of accounting software even more through integrations with third-party programmes. For instance, many small business CRMs integrate with accounting applications to sync customer contact information, thus minimising or eliminating data entry. Almost every ecommerce shopping cart will sync orders with a separate inventory application and send sales figures into the accounting system.

These expanded features and integrations have made it difficult to know where small business accounting software ends and ERP systems begin. As a decision-maker, it can be overwhelming, too. Thanks to this "ecosystem" of cloud accounting apps, many thriving businesses are able to continue to use accounting software even after they've outgrown the feature set of a typical small business accounting application.

However, stringing together a set of separate apps presents its own challenges. Information may not flow cleanly or quickly from one application to another. Employees may have to learn a variety of systems, each with a different user interface. And it simply may not be possible to keep track of complex capital structures in accounting software that is designed for small businesses.

At some point, small business accounting software and integrations with third-party apps can't do the job anymore. That's where ERP comes into play.

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CHAPTER 1

What Is ERP?

ERP stands for Enterprise Resource Planning. An ERP system is a set of integrated applications that collect, store, manage, and interpret data from all sorts of business activities. These activities include sales, marketing, purchasing, manufacturing, inventory management, shipping, payment, and more. In essence, a well-designed ERP system should encompass the entire core workflow of a business from the initial purchase of the product to the customer order to final delivery and customer service.

A key word in ERP is “Resource”. Inside the workflow for the business, an ERP system should also track all business resources (assets) and commitments of resources (liabilities and equity).

An essential part of an ERP is a common database accessed by all the applications in the system. One benefit of a common database is that information added through one business function is instantly available to all other business functions.

CHAPTER 2

What Is Accounting Software?

Accounting software is, in essence, a subset of the features available in a larger ERP system.

The primary purpose of accounting software is to record financial transactions in the General Ledger, which provides the basis for the core financial statements (income statement, balance sheet, and statement of cash flows).

In addition, most small business accounting software provides modules that take care of invoicing, payables, and payroll. Some will also provide additional sales and ordering tools such as quotes and purchase orders. Inventory is typically very simple, often with no manufacturing or assembly capability.

Because small business accounting software is designed primarily for owner-managed businesses, approval workflows are often minimal or non-existent for items such as customer invoices or vendor purchase orders. A business using accounting software that wishes to expand beyond the capabilities of the built-in modules may have the option of integrating with third-party applications (referred to by some vendors as add-ons). In this instance, the accounting software exchanges data with the add-ons through software connectors called APIs (Application Program Interface). The accounting software and the third party application each still maintain their own separate database.

CHAPTER 3

The Key Differences Between ERP and Accounting Software

Today a small business can connect a number of third-party cloud programmes to their accounting software that will replicate many of the functions of an ERP. While there may be similarities on paper, an ERP has several advantages.

1. Multiple interfaces vs single interface.

A well-designed ERP system will track all key information relating to resources in an organisation in a single interface.

Accounting software focuses on financial transactions, so non-financial information, such as notes essential to proper customer relationship management, is usually not stored in the accounting software. Instead, users must access multiple systems in order to retrieve information necessary to accomplish their work.

Impact: Switching between multiple interfaces to carry out a core business task can reduce efficiency.

2. Full access vs approval workflows.

Accounting software is designed for small organisations so approvals are often minimal or non-existent, and typically cannot be customised. In contrast, ERPs allow for customisation of sophisticated approval workflows.

Here's an example: In Xero, any user with "Standard" permissions has full access to sales invoices, quotes, bills, and purchase orders.

These users can both enter and approve any transactions in these modules.

Impact: Accounting software doesn't require users to seek approval by an administrator. Access is either all or nothing.

3. Multiple sync vs single database.

ERP systems are designed to handle all aspects of the business, so it is not usually necessary to integrate with third-party applications (although this is now possible with ERPs as well). A significant benefit of an integrated system is that information is stored in a single database. This ensures that information is current and up-to-date across all functions within the ERP.

Accounting software often needs to integrate with third-party applications to add in-depth inventory, CRM, and other business functions. While this extends the viability of the accounting software, the business has to now deal with multiple databases.

Information may not flow quickly and evenly among applications connected in this way. Especially if you're attempting to integrate more than one business application with the accounting system, as is often the case.

Impact: A business may need to wait for multiple databases to sync data or deal with occasional glitches in syncing caused by updates to connected applications.

CHAPTER 4

Timing the Switch From Accounting Software to an ERP System

One of the most important factors in a growing business is making sure it has systems that can support it as it expands. Small businesses often try to squeeze as much performance from their existing systems to delay investing in more powerful systems.

When a small business pushes an accounting system beyond its limits, it can hobble its growth. The business, in effect, may sacrifice more lucrative opportunities if it avoids investing the capital and effort in suitable business software.

So what are the tipping points in accounting software? When does a business need to step up to an ERP?

- Incomplete syncing between multiple applications. The proliferation of third-party business software lets small businesses do an amazing range of activities. However, it can be a real challenge to keep information in sync between separate systems.

Information may only sync in one direction, for example. Or some fields will sync while others will not.

The result is often inconsistent databases, and there is no certainty that the information is consistent across all systems. This commonly presents a problem for customer contact information stored in the CRM.

If the accountant updates the customer phone number in the accounting system, does that sync back to the CRM so the sales people see the updated information? If the sync is one way from the CRM to the accounting system, as is often the case, then it will not. Or perhaps the information isn't synchronised.

ERP systems solve the problem of inconsistent customer data by unifying all CRM information in a single database linked to every other module (accounting, inventory, help desk, etc).

- Periodic syncing is too slow. Another factor to consider if you're using third-party programmes with your accounting software is the frequency and speed of syncing data. Due to inherent limitations of APIs, accounting software vendors limit the frequency with which third-party applications exchange information with the accounting software database.

  As a result, third-party programmes typically sync information sporadically. Inventory management applications usually sync no more than once per day, and ecommerce applications may limit the periodic journal entries to once per month.

  Many businesses require real-time, up-to-date information. Thanks to a single database, information is shared among applications in the ERP system instantly, or with minimal delays.

- Reporting lacks detail. If you're thinking about switching to an ERP system, you probably have one or more inventory, ecommerce, or payroll system syncing with your accounting software. The odds are that those systems don't sync all transaction data to the accounting system. Instead, they sync a daily or monthly journal entry to record sales, cost of goods sold, inventory changes, etc.

  One challenge of this approach is that detailed information that may be useful to decision-makers is not available via accounting reports. Users seeking detailed information have to search for it in another application. This may be time consuming or impractical.

  A benefit of switching to an ERP is that it is possible to "drill down" from a high level view to the original transaction detail, including source documents.

- Unable to track multiple entities. Most accounting software is designed to track the assets, liabilities, and equity of a single entity. However, for many reasons, it is often preferable to structure a small business using more than one legal entity.

  One way to attempt to track the activity of multiple legal entities in accounting software is to segment transactions by an additional dimension other than accounts. By using "classes" or "tracking categories", as they are often called, it's possible to produce a segmented income statement and balance sheet.

  There are limitations to this method, though. For example, it is difficult to report easily on financial activity when there are different ownership percentages among various affiliated entities.

  ERP solves this problem by allowing "multi-ledger" accounting functions. This tracks transactions by each legal entity, instantly consolidates the data, and reports on the business as a whole.

- Cost of training and using multiple applications. It's harder to train employees when they have to learn many different applications with different user interfaces. ERP systems generally present a similar user interface and navigation structure across all the modules. This makes it easier for employees to work across different modules, since they don't have to learn a new interface for each function.

  Multiple separate databases also present a security risk. When employees resign, it can be difficult to ensure that access is revoked to all systems.

  When an ERP is in place, access to all modules may be revoked by deactivating a single login. This also makes it easier to audit access permissions among current employees who have changed jobs and should no longer have the same levels of permissions.

  For example, a sales agent may move into a customer service role. If the CRM is separate from the support ticketing system, IT or managers may neglect to remove the former sales agent's access to the CRM application.

- Stuck on desktop systems. Small businesses are often as guilty of hanging onto outdated technology as large enterprises. An enterprise may stick with legacy software beyond its useful lifespan because the application was custom created for a specific purpose.

  A small business may keep using old software running on a server because of the hassle in retraining on new software, or the time it would take to find a suitable programme as a replacement. The business may even be reluctant to pay a monthly fee for an alternative cloud software system if it is already using software under a perpetual licence at no addtional cost.

Cloud computing has revolutionised the delivery of software, as the business no longer needs to own a server, and the associated expenses of maintenance and upgrades.

Cloud software has many other advantages; it is accessible from anywhere on any computer or device with an internet browser, it can be used by staff on their mobile phones or tablets, it connects easily and often free of charge, and so on.

Conclusion

Cloud computing has brought to small businesses a dizzying array of business applications that were previously unaffordable or non-existent. The number of ways to extend accounting software is nearly limitless.

However, business owners need to be very aware that just because it is possible to integrate multiple applications to support their operations, it may not be the most effective or efficient approach.

A small business often shies away from investing in a single system because it is unaware of the hidden costs in working with multiple applications. These untracked costs — delays in information, troubleshooting issues between applications, higher training costs, and time lost switching between systems — can far outweigh the sticker price of an ERP.

An ERP system customised to a company's exact business processes can give it a platform for many years of growth.

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