

Choosing Accounting Software

Posted At : April 27, 2021 10:22 AM | Posted By : Admin

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How to Choose and Set Up Small Business Accounting Software

Editors Note - Most companies and organizations already have some kind of accounting/bookeeping software. Newly formed organizations get to pick and each year, several Computing Center clients review what they are using and consider making changes. This HP Tech@Work article reviews the basics and some of the more popular software titles.

The U.S. accounting industry saw more than **\$110 billion in sales in 2020**, proving that many businesses still prefer to outsource some of their financial services to professionals. But what if you want to use software to keep it in-house? That's a possibility, too.

The market for U.S. accounting software reached **\$3,759.4 million in 2018**, with strong growth projected, especially in cloud-based services. Here's more about the most popular services available today and how you can pick the right one for your company.

What is small business accounting software?

Small business accounting software is designed to help businesses keep good financial records, including income and expenses. It also provides simplified reporting and planning tools to help you see the health of your business at any time. It can be stand-alone, where you input all the data yourself, or it can connect to your financial institutions' data to automate populating the fields.

Most people use double-entry accounting, however, to ensure that what you enter matches what your bank or credit card statements report. Software can also help companies stay compliant with the tax or payroll code.

Today's online accounting software for small businesses comes in a variety of forms. There are the more traditional disks and downloads, but there are also cloud-based solutions that provide immediate access to your bank accounts, payroll, and tax information.

There is a lot of overlap between products, too, with some boasting that they're an end-to-end software product. In reality, most tools are one of three major financial solutions:

1. Bookkeeping software



With some knowledge gained through using it, small business bookkeeping software could potentially give you the same experience as a bookkeeper, including recording debit and credit transactions. In addition to “balancing the books,” this software can pay vendors, categorize transactions, record customer payments, and prepare basic financial reports.

2. Accounting software

Accounting software usually includes everything you'll get from bookkeeping software, but it also features forecasting and more sophisticated reporting. As it tracks your numbers, it gives you an easy way to look for trends, anticipate cash flow, and prepare for tax liability. Modern accounting software is typically very user-friendly, too, especially for newcomers.

3. Tax prep software

When it comes time to calculate your quarterly taxes, submit payroll taxes, or file your annual return, you'll need this software. It's designed specifically for tax purposes, and that's what it does best. It's possible for some bookkeeping or accounting software to include basic tax functions, too, but dedicated tax prep software can calculate your tax liability, perform worksheet calculations, and transmit your returns directly to the state or federal tax authorities.

Best accounting software for small business

Software companies release new accounting solutions all the time, but our top picks have earned praise from clients of all sizes and have some history behind them. If you're not willing to take a chance on brand-new software, consider these established brands.

1. QuickBooks Online

Perhaps the biggest name in bookkeeping, [QuickBooks](#) is well-known by small business owners and has a long history of excellence. It's more expensive than other cloud-based solutions, but it has just about everything you'd need, including cash flow projections, payroll features, and easy integration with hundreds of third-party apps. The recent hybrid sales tax addition is a nice perk, too.

Pricing*: Plans range from \$12.50 to \$150 per month

2. GoDaddy Bookkeeping

Equipped with the essential tools for sole proprietors and smaller businesses, [GoDaddy Bookkeeping](#) shines with customized invoicing features that connect to third-party payment apps like PayPal. It allows you to track credit card transactions, payments, mileage, hours, and more. A basic tax feature calculates self-employment tax as you go to help set aside cash for later, too. It's also affordable for an entry-level, cloud-based tool.

Pricing*: Plans range from \$4.99 to \$14.99 per month

3. FreshBooks

This service combines the best of a full-featured accounting tool with the simplicity of a user-friendly freelancer app. **FreshBooks** is popular for its ability to plan projects, track hours, and get multiple teammates on the same page. It has other intuitive perks, such as an automated mileage tracker for iOS, too. It's a well-balanced option for businesses of all sizes, so add it to your "must-see" list.

Pricing*: Plans range from \$4.50 to \$15 per month. Custom plans available

4. Sage 50Cloud

Windows users looking for a desktop solution that frequently updates with online data may find a lot to like about **Sage 50Cloud**. It's pricier than many cloud-based options, but it's also one of the most advanced as it offers more tools and reporting through a variety of customization features. It has everything larger businesses will need, but it may be overwhelming for the freelancer or small team.

Pricing*: Plans range from \$56.08 to \$139.58 per month, billed annually

5. Wave

Wave's biggest advantages are its simplicity and excellent price. It's technically free accounting software for small businesses and freelancers at the basic plan level, and it has everything most of these entities need to send and track invoices, accept payments, store receipts, and balance the books. Additional features, such as payroll and bill pay, cost extra.

Pricing*: Accounting plans are free. [See their website](#) for credit card processing costs and payroll services fees

6. Kashoo

A clean interface and quick-loading features make **Kashoo** a favorite among those who only need a bare-bones solution. It doesn't track inventory or time but offers double-entry accounting, simplified project cost tracking, and sending invoices. Live support and a low price make it especially appealing.

Pricing*: Plans range from free to \$30 per month

7. Xero

Xero is a lesser-known double-accounting tool that gives competitors a run for their money with online support features, project tracking, and cash flow reporting. Its integration with the Gusto payment platform will be familiar to many small business owners, too. On the whole, Xero is intuitive and full-featured, making it well worth your consideration.

Pricing*: Plans range from \$5.50 to \$31 per month

8. ZohoBooks

ZohoBooks has become a solid pick for larger businesses and those with more complex financial tracking and reporting needs. It shouldn't be a surprise that it excels in document management, either, because Zoho

has earned its reputation as a cloud-based tool that can organize any digital workspace with ease.

Pricing*: Plans range from \$9 to \$29 per month

How to choose the right accounting software

Given that businesses come in all sizes, there's no single piece of software that will work for everyone. Instead, ask yourself these questions before picking an accounting tool.

- Am I a freelancer or sole proprietor with simple tax needs?
- Do I need my estimated taxes tracked as I go?
- Will I need payroll services?
- What invoicing service do I already use or like? Will my accounting tools replace it?
- What payment processors or gateways does my business use? Will I need easy integration with Stripe, PayPal, or other tools?
- What reporting can help me? Do I need pre-filled reports? Or will I want to customize my own?
- How important are cash flow projections in my line of work?
- Will my accounting suite also need to be a project tracker with billable hours and mileage included?
- How much am I willing to pay? Can I afford a one-time or annual payment?
- Do I want cloud-based services? Is a mobile app important to me?

Compare your answers to the features included in the software we outlined. You can also take advantage of the many free trials available to see if it's a good fit before you pay for anything.

How to set up your accounting software

Once you download the software or set up an account, you'll need to get a few things ready to make the onboarding process go smoothly. While most software will guide you through this process, expect to do the following:

1. Get your bank and financial account numbers, including passwords for logins.
2. Have your credit card and other payment accounts (like PayPal) login available.
3. Allow the software to populate the information from your accounts, using security verification to finish the process.
4. Set up your clients in the system, including contact information, rate, project fee, and terms of payment for each.

Other important info to keep in mind

As you begin to use the software, you may find that some automated transaction information doesn't match your actual budget categories. This is common, and most software needs a period of training to get everything to accurately populate. If you see expense tracking put into the wrong category, edit it as soon as possible.

Don't forget to review transactions regularly, as well. You'll want to stay on top of your data. Software solutions can make things easier, but they're not an excuse to have a hands-off approach to your finances. Remember that you can always go to customer support with questions. Many accounting tools also have a robust user community that's available to help you troubleshoot common issues.

Summary

What are the benefits of accounting software for small businesses? In addition to the potential cost savings

compared to hiring a professional, the software can help you understand your business better. When someone else handles the finances, it's easy to become distant and not have a grasp on your financial situation. But if you regularly work with your numbers and use software to update, report, and forecast, you'll have a more accurate view of your business health than if you wait for your annual accounting report each year.

Many business owners assign the use of the software to someone on their team but then keep access for up-to-the-minute views of their money status. Even for the more robust (and expensive) software tools, the ROI is apparent after only a few months of use.

About the Author: Linsey Knerl is a contributing writer for [HP Tech@Work](#). Linsey is a Midwest-based author, public speaker, and member of the ASJA. She has a passion for helping consumers and small business owners do more with their resources via the latest tech solutions.

*All pricing is as of March 2021