



Accounting Beyond the Spreadsheet: The Pitfalls and Limitations of Accounting Software

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Introduction: Is Your Small Business Outgrowing Your Accounting Solution?

Do you...

- Have more than a handful of clients and are actively seeking more?
- Create invoices, estimates and reports using Word or Excel?
- Spend time carefully backing up your documents every month on a back-up drive?
- Wonder how you can spend your time more efficiently?
- Wish you had more real-time control and visibility over your accounting?
- Run your business on your mobile device?
- Discover errors in your business reports sometimes?

If you answered yes to three or more, the days of sending invoices using Word or Excel are over. You've crossed the threshold from amateur freelancer to confident small business owner and you need an accounting system to match.

There's no shortage of accounting software on the market. Choosing the right one can be tricky. We've got your back! We'll help you identify which features are ideal for small businesses, what to avoid and how to use the accounting software you choose to achieve the best results.



Chapter 01

Avoid: Accounting Software That's Not on the Cloud

Software used to be a product you bought from an office supply store and installed on your desktop computer. Not anymore.

Those days are coming to an end.

Not only is traditional software expensive, you need to invest precious time into learning all its functionalities—even the ones that don't apply to your small business. Then, just once you've mastered it, there will inevitably be an upgraded version to pay for and figure out.

The contemporary solution to traditional software in a box is software as a service (SaaS), also known as cloud-based computing. And you're probably already using it. From file sharing (DropBox) to project management (BaseCamp) to collaboration (Google docs) to social networking (Facebook), cloud-based tools are becoming increasingly recognized as smart, efficient solutions for businesses, particularly small ones that don't have an IT department.

Considering a cloud-based solution? You're not alone. Businesses large and small are investing in cloud computing at a rapid rate.

A hand in a dark suit sleeve holds a white paper airplane against a green chalkboard background. The words "ACCOUNTING SOFTWARE" are written in large, white, chalky capital letters. Several white, fluffy cloud cutouts are scattered around the text and the hand. A small white flame or smoke trail is visible behind the paper airplane.

ACCOUNTING
SOFTWARE



Cloud computing spending is growing at 4.5 times the rate of IT spending since 2009 and is expected to grow at better than 6 times the rate of IT spending from 2015 through 2020. According to International Data Corporation, worldwide spending on public cloud computing will increase from \$67B in 2015 to \$162B in 2020.



Source: Forbes

Advantages of a Cloud-Based Accounting Solution

- **Security.** Forget about hard drives that take up space and are vulnerable to fire, flood and other disasters. When you put your accounting in the cloud, it's out of reach. Plus, cloud accounting platforms manage security for you, including spam proofing and file back-ups so no one can touch your business's information.
- **Accessibility and mobility.** When you're on the cloud, you can take care of your accounting tasks wherever there's an Internet connection. From invoicing to estimating to recording expenses, you can do it from anywhere. All you need is your laptop, tablet or phone and you have all your accounting information and functions at your fingertips.
- **Automatic updates.** Cloud-based apps are built and updated regularly based on user insights and demands so you're always using cutting-edge technology. No updating or upgrading required.
- **Cheaper and easier to use.** Most cloud accounting platforms offer their product on a monthly, annual or pay-as-you-go subscription basis, so you only pay for what you need. And if you choose cloud software designed for small businesses, you'll only get functions relevant to the type of accounting you need to do, saving you from combing through hundreds of fields that don't apply to you.



Chapter 02

Consider: Security

When it was first introduced, one of the biggest concerns about cloud-based computing was security. And rightfully so. It's scary to think of putting your private information into a "cloud".



As you consider a cloud-based accounting solution, you want to know that your data is secure and that the software company you choose is reputable and adheres to best practices. Good accounting software providers include information about security safeguards directly on their websites.

Security Features to Look for in a Cloud-Accounting Solution

- **SSL encryption.** You should see a lock icon in your browser whenever you're logged into your account so you know your data is secure.
- **Firewalls.** The accounting application—and your data—should be securely behind a firewall provided by a reputable company.
- **Vulnerability scanning.** The accounting software company's servers should be regularly scanned for vulnerabilities by a third-party security provider to test for intrusions from the Internet as well as inside the network.
- **Intrusion detection.** All traffic coming in and out of the software company's network should be monitored by an Intrusion Detection System. Certified security experts and an in-house IT team should coordinate and respond quickly to any unusual activity.
- **Strong encryption.** All private information, including credit card numbers and bank account information should be encrypted using an advanced encryption standard (AES).
- **Data center security.** The company's data servers should be located in state-of-the-art facilities that provide constant surveillance, redundant power feeds and generators, powerful fire suppression and monitored climate control.
- **Multiple servers and data centers.** Back-up servers and data centers should be housed in different locations in case the primary data center is compromised by natural disaster.
- **Regular backups.** Data should be backed up every day in a secure offsite location to ensure that data and records can quickly be restored in case of an extreme weather event.



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Chapter 03

Look for: Features You'll Use

One of the challenges small business owners have always faced is finding accounting software tailored to their needs. Traditional software is often too complex for a solopreneur who simply wants to send professional invoices, manage her expenses and be prepared at tax time.

The Basics: 4 Accounting Software Features Every Small Business Needs

1 Invoicing. You should be able to easily create a professional-grade invoice that you can print or send directly to your clients by email straight from the software. Invoices should feature your logo and contact information and be stored in one place so you can see at-a-glance exactly who owes what and when.

2 Payments. The fastest and most efficient way to get paid fast is to accept credit cards online. Look for an accounting solution that allows your clients to pay you straight from a link in your invoice. It should also automatically record when payments are made, send late payment reminders and offer an auto-billing function for recurring invoices.

3 Expenses. The simplest way to manage expenses is to find an accounting solution that allows you to digitally store your expenses and that automatically categorizes them so you can see your profit vs. loss any time you log in. Tax time will be a snap because your expenses are already accounted for.

4 Estimates and Proposals. Your accounting solution should allow you to put together an estimate in just a few clicks. It should be stored so that it can be easily transformed into an invoice once the project is complete.

FreshBooks research shows that small businesses that accept credit cards online get paid up to 11 days faster!



The Advanced: 3 Accounting Software Features Your Small Business Will Need as It Grows

1 Time tracking. Accounting solutions with time tracking built right in allow you to know at-a-glance exactly how long tasks really take. Look for ones that can produce an accurate time log and be easily pulled onto an invoice. If you have a small team or sub-contract to other professionals, you'll want software that allows others to track their time, so you have a handle on everyone's productivity.

2 Collaboration. Some accounting software allows you to invite employees or contractors to collaborate, manage and share information, files and updates. This eliminates time-consuming toggling between multiple tools.

3 Reporting. A good reporting system collects, stores, analyzes and gives you access to important data so you can take the pulse of your business at any given time, including:

- What's my business's total profit so far this year?
- How much did I make last year?
- Which clients pay on time? Which are chronically late?
- How much have I paid in taxes in the last 6 months?



Chapter 04

**Ensure:
A Good Fit
with User
Experience,
Customer
Support,
Integrations
and Cost**

Choosing an accounting solution is a big commitment.

If you're going to put your hard-earned dollars and invest your precious time into accounting software, it better be easy to use, well supported and integrate well with the other technology you use to do business. Here are a few considerations to keep top-of-mind as you shop around.

Is It Easy to Use?

Most cloud-based accounting solutions are built intuitively enough for everyone to use, but each will have its own unique user experience. The key is to find one that feels best to you. Here are some easy ways to find out:

- **Pore over the product website.** Review descriptions of the software's features and watch introductory videos and product.
- **Take advantage of free trials.** Dedicate some time to playing around with the features you're most interested in to see if the software fits your needs.
- **Ask existing users about their experience with the software.** Check with other professionals in your industry to see what they use and how they like it. Search the Internet for reviews and product comparisons from publications you can trust. The software company's website will likely feature testimonials, which can be illuminating. And if they have a blog, review it to see what value it might add as you use the software.



What's the Customer Support Like?

No matter how easy the product may be to use, it's important to be able to access high-quality customer support when you need it.

Although you may choose to ask questions by email, live chat or by submitting an online form, be sure that you can reach a live person during business hours. Avoid companies that don't list phone numbers on their website. It may signal that they're not committed to supporting their customers.

Pay close attention to what reviewers (both customers and tech editors) say about a product's customer service. And check out the FAQ section on the company's website to see how much information you can find if you need to self-serve after hours.



Does it Work with My Favorite Apps?

Some accounting solutions, such as FreshBooks, are integrated with the apps you know and love to conduct your business, including:

G Suite	Invoice Google Contacts and preview client emails right in the application.
Stripe	Clients can pay you in your accounting solution using their credit cards without being redirected to another site.
Fundbox	Get advance payments for outstanding invoices.
Shopify	When an order is placed in Shopify, automatically create an invoice

Check to make sure the accounting software works well with your favorite apps—and think ahead to technology you may want to use in the future. Does it look like the software company is committed to continually adding integrations to make business owners' lives easier and more efficient? That's a good sign it'll be around in the long term.



How Much Does It Cost—and Will It Grow with My Business?

Savvy small businesses try to keep their overheads low. Accounting software that costs an arm and a leg—and needs to be replaced as the business grows—is not a cost-effective solution.

Many cloud-accounting platforms are offered on a subscription basis, making it more affordable than traditional software. Look for a solution that offers plans you can upgrade as your business grows so you're only paying for what you use.



Chapter 05

Understand: What You Should Be Able to Measure

Most accounting software has reporting features that offer small business owners insight into how their business is performing, often called key performance indicators (KPIs).

But how do you know what KPIs are most important—and how to use them to determine the health of your business?

We asked Lei Wang, owner of LW Accounting Services in Toronto, Ont., which KPIs best reflect whether your business is thriving, coasting or failing.

Revenue Trends

“If you’ve been in business for awhile and are looking to grow, you should know whether your annual revenue is trending upward or downward,” said Wang.

How long you measure your revenue will depend on how long you’ve been in business, but Wang recommends you assess your annual revenue over a period of three years. “However, you can definitely look at monthly revenue trends if you’re a start-up.”

You’ll know you’re on the right track if you’re consistently bringing in more revenue each year, which is helpful confirmation that your approach is working. If you’re flip flopping or find yourself in a downward trend, you’ll know it’s time take stock of the factors that may be contributing to the instability.



Profit & Loss (P&L)

P&L reports should be a hallmark of the reporting function of your accounting software. They give you a record of your business income and expenses over a specific period of time and either show a profit (income exceeding expenses) or a loss (expenses exceed income).

It's most helpful to analyze your P&L regularly so you can:

- Monitor where you're spending your cash on expenses and look for ways to curb it if it's affecting your profit
- Identify what times of the year you tend to have less work and make less money so you know when to cut back or amp up your sales efforts
- Help inform your revenue trend—you may be on an upward trajectory in terms of income, but if your profits are being drastically lowered by expenses you can figure out why and fix it



Business Budget

Wang says every small business should create (and stick to) a budget. It usually includes goals or projections for earnings over a specific period of time (monthly, quarterly, annually) and maximum amounts to spend on expenses like marketing, equipment, payroll, insurance, rent, etc.

“I highly recommend having a budget so you can see if you’re meeting specific sales targets. If you are, great. If you aren’t, you need to take a closer look at why not.”

He acknowledges that it’s hard to predict your revenue when you’re just starting out, but you can control how much you’re spending in expenses. “You should have a good idea of how much you should spend and stay within that limit.”

Creating revenue targets is important so you have a clear line of sight to what profit and success looks like to you. Reviewing the budget regularly will give you helpful feedback about what you’re doing right and exactly how much you need to improve by.



Why Are These Reports So Important Compared to Others?

The main goal of measuring some simple KPIs is to gauge the health of your small business. “These factors help you identify if something is wrong at an earlier stage so you can be proactive in dealing with the problem,” said Wang.

Other helpful KPIs most accounting software offers at-a-glance access to include:

- **Outstanding revenue.** Stay tuned in to how much money is owed you at any one time. This can inform your expense budget and ensures you don’t let anyone become too overdue in paying you.
- **Income by customer.** You should know which customers are most important to your bottom line so you can be sure they feel valued—and so you can look for others like them.
- **Revenue by service.** Most small businesses offer a variety of services. Which ones bring you the most revenue? Stay focused on profitable services and look for ways to grow them.

How Often Should You Be Managing Accounting Tasks?

Wang says the most successful small businesses he works with tend to be well-organized and take care of their accounting on a weekly basis. “Unfortunately, what often happens is that small business owners get busy and once they’re busy the first thing they stop doing is bookkeeping.

“If you’re doing bookkeeping only quarterly, you’re missing out on early indicators that can help warn you of problems your business might have, as well as opportunities that might help you grow,” said Wang.

Chapter 06

Know: What Your Accounting Software Won't Do

Sure, your new software will make it easier for you to send professional invoices and estimates, organize your expenses and gather insights about your business to propel it forward.

But none of that will happen unless one important factor kicks in:



You may have chosen the most efficient accounting solution on the market, but if you don't use it properly, it will be a waste of time and money.

How to Make Sure Your Accounting Software Improves Your Business

- **Use the time tracker.** Want to get paid for every minute you devote to a project? Nothing ensures that happens better than the time tracker built into your accounting software. When your time is tracked in one place, it's easy to invoice and you get a true understanding of how you spend your time, so you know precisely how much money you make per task.
- **Send invoices on time and record when they've been paid.** Your accounting solution may send automatic reminders to your clients when they miss your payment terms... but it won't nudge you when it's time to invoice. That's your responsibility. Keep your financials moving forward and your accounting up to date by using the software for its most important purposes.
- **Input your expenses in a timely way.** Get in the habit of filing your expenses daily, weekly or—better yet—immediately after you incur them. A smart accounting software solution will allow you to digitally store your expenses straight from your phone, tablet or laptop, so your receipts can skip the shoebox phase altogether.

- **Review reports and be prepared to act on the insights.** If you've chosen an accounting solution that features reports (wise decision!), set aside time each month to look them over. When you get insights like exactly how much you're spending and earning, how long it takes each client to pay and where you're spending your money, you're empowered to know your weak points and make necessary changes.
- **Pay your taxes.** By organizing your financials in one spot, your accounting software will absolutely make tax season simple and seamless. But it won't pay your taxes for you, proving there are still some manual tasks you'll never escape altogether.
- **Commit to best practices.** Make a plan for how you'll use your accounting software. You might set aside time each week or you may integrate accounting tasks into every day. Cloud accounting software with mobile capabilities makes it easy to send invoices and estimates and record expenses on the go, rather than waiting to manage it all at once. Experiment with what works best for you and stick to it.



Chapter 07

Know Yourself: When to Hire a Bookkeeper

Even though most cloud-accounting software for small businesses is smart, cost-effective and easy-to-use, it may not be for everyone.

When It Might Be Time to Hire a Bookkeeper

Do any of these statements describe you?

"Numbers make my head swim."

"I'm so busy with running my business that I don't know where I'd find time to shop for a solution, much less learn how to use one!"

"I'm nervous about adequately meeting all tax and government requirements. I'd feel better if I had guidance from a professional."

"I'd rather spend my time working on literally anything besides accounting."



Whatever your objection to bookkeeping, it's valid.

After all, you didn't get into business for yourself to be tied to onerous tasks you're not suited to do.

- Outsourcing your accounting might be a solution that makes sense for you. Here are some things to consider:
- Can I afford to outsource my bookkeeping?
- If I'm not managing accounting tasks myself, can I be sure I'll use the time I "save" productively?
- Does my business need a bookkeeper? (If you're simply sending invoices and recording a few expenses, it may not be a worthwhile expense.)
- What do I need a bookkeeper to do? Take care of all accounting needs for me, including invoicing and managing expenses—or do I just need help at tax time?

You Can Have Your Accountant and Accounting Software Too

If having a dedicated accountant seems like an expense your small business isn't ready to incur, there are hybrid options to consider.

Some accounting software solutions, including FreshBooks, partner with bookkeeping services so businesses can get the benefit of a professional bookkeeper that prepares monthly financials. The peace of mind that comes with a professional checking your work and helping you out at tax time may be a valuable expense. And if your business scales up and you decide it's time to outsource all of your bookkeeping, you'll have a professional who's familiar with your work to take over.



Are You Ready for Accounting on the Cloud?

Choosing accounting software may seem like a daunting task, but it's a sign that you're ready to take your business to the next level. Many small business owners find that streamlining their accounting tasks and gaining more insight into the way they spend their time is a game changer.

What will it do for you?





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