

Accounting System versus ERP System?

Whether our companies have one employee, one hundred employees, or one hundred thousand employees we all know that we need a reliable way to track the money our businesses make and spend. We may joke about disliking “bean-counters,” but the bottom line is that we know the necessities of successful business management require reliable people and systems to manage finances. Additionally, if we do business with the federal government, there is a litany of rules and regulations demanding compliance that we must consider. The question is; *“How do we know when we have crossed over the line that differentiates between our need for an Accounting System and the driving business requirement of an ERP System (Enterprise Resource Planning System)?”*

Before addressing “how,” it might be helpful to provide a common definition “what”. While the following descriptions are not all inclusive, they will help in establishing a common frame of reference.

Traditionally Accounting Systems record historical data; information that has already happened and is useful for comparative reporting, budgeting, planning, etc. On the other hand, ERP’s, while containing and being dependent upon what has happened in the past, also contain “real-time” or nearly “real-time” transactions. Given this basis, it follows that ERP’s are frequently larger and more robust than accounting systems. ERP’s often cost more to purchase, require more time to implement and necessitate more user training.

An Accounting Systems commonly includes the following functional areas:

- Financial accounting: General ledger, fixed asset, payables, receivables, cash management
- Purchasing: Purchase Orders, receiving, inventory
- Fixed Assets
- Billing
- Payroll or interfaces with payroll providers

An ERP commonly includes the following functional areas:

- Financial accounting: General ledger, fixed asset, payables, receivables, cash management, financial consolidation
- Management accounting: Budgeting, costing, cost management, activity based costing
- Human resources: Recruiting, training, payroll, benefits, 401K, diversity management, retirement, separation
- Manufacturing: Engineering, bill of materials, work orders, scheduling, capacity, workflow management, quality control, manufacturing process, manufacturing projects, manufacturing flow, product life cycle management
- Supply chain management: Supply chain planning, supplier scheduling, order to cash, purchasing, inventory, product configurator, claim processing
- Project management: Project planning, resource planning, project costing, work break down structure, billing, time and expense, performance units, activity management
- Customer relationship management: Sales and marketing, commissions, service, customer contact, call center support

For either business solution data may reside in a single database and application, multiple databases and applications, within manually manipulated electronic spreadsheets and paper reports, or a combination of any and all of the above. Additionally, for those of us working on Uncle Sam's contracts, there is a requirement for "cost basis" or "project-focused" record keeping. Hand-in-hand with this requirement is a functionality that calculates and applies indirect burdens and allows for preparation of incurred cost submissions.

Accounting System versus ERP

Regardless of your preferred solution, the goal of a financial system is to have a single version of the truth. Business Executives frequently find themselves unraveling a twisted version of Rubik's Cube when faced with disparate reports and statistics coming from different internal departments. Do the forecasts coming from Business Development cause muffled but skeptical sighs from your key Business Analyst? Does your request for a comparison of target to actual rates require weeks of preparation? Does your staff spend hours working on jobs that "should be" a simple compilation of data? What kind of information do you need to make effective decisions? Do you have the visibility into your back office that allows you to submit both timely and realistic proposals? Has a lack of information cost you profitability? How difficult is it for you to pass audits? Do you have the tools you need to manage your existing business? Defining requirements and the gaps between those requirements and your present systems, manual or electronic, is one of the keys to deciding between an Accounting System and an ERP.

In addition to business needs, choices are impacted by a combination of preferences, pricing and personnel. While a software's price tag is frequently the most obvious and initial consideration, few businesses take the necessary time to consider the cost of making "do" with current systems or delaying decisions. Consider discussing current processes with those individuals spending hands-on time in your current system. Is there room for improvement or is your current process maximizing your investment? Are day-to-day business processes being cramped by the size or type of the business tools you employ? Evaluating your current proficiencies will aide in choosing a system that meets your needs.

In addition to the less tangible items mentioned above, an objective look at raw system costs is a must for a wise decision. In quantifying those costs there is more than software to consider. What is the cost of implementation? What is the cost of training users? If deployed internally, what is the cost of hardware? What is the cost to maintain the hardware? If a hosted or SaaS (Software as a Service) solution is deployed, how do those costs compare? It is important to "do the math" in these situations.

In short, take the following steps to determine the system that is best for you:

- Define your business requirements
 - Assign levels of priority to those requirements
 - Identify the gaps between your present system and business requirements
- Assess current capabilities
 - Gather feedback from internal users
 - Identify causes of gaps
 - Due to lack of functionality?
 - Due to lack of training?
 - Due to lack of resources?
 - Due to lack of ability?

- Quantify the costs
 - Tangible costs of your present systems
 - Opportunity costs of your present systems
 - Tangible costs of potential systems

As always, WJ Technologies stands ready to assist you in the process of making a decision that is right for you.