

3.4: Accounting Software-An Overview

Learning Objectives

1. Identify the uses of personal finance software.
2. List the common features of personal financial software.
3. Demonstrate how actual financial calculations may be accomplished using personal financial software.
4. Discuss how personal financial software can assist in your personal financial decisions.

Many software products are available to help you organize your financial information to be more useful in making financial decisions. They are designed to make the record-keeping aspects of personal finance—the collection, classification, and sorting of financial data—as easy as possible. The programs also are designed to produce summary reports (e.g., income statements, cash flow statements, and balance sheets) as well as many calculations that may be useful for various aspects of financial planning. For example, financial planning software exists for managing education and retirement savings, debt and mortgage repayment, and income and expense budgeting.

Collecting the Data

Most programs have designed their data input to look like a checkbook, which is what most people use to keep personal financial records. This type of user interface is intended to be recognizable and familiar, similar to the manual record-keeping that you already do.

When you input your checkbook data into the program, the software does the bookkeeping—creating the journals, ledgers, adjustments, and trial balances that generations of people have done, albeit more tediously, with parchment and quill or with ledger paper and pencil. Most personal financial transactions happen as cash flows through a checking account, so the checkbook becomes the primary source of data.

More and more, personal transactions are done by electronic transfer; that is, no paper changes hands, but cash still flows to and from an account, usually a checking account.

Data for other transactions, such as income from investments or changes in investment value, are usually received from periodic statements issued by investment managers, such as banks where you have savings accounts; brokers or mutual fund companies that manage investments; or employers' retirement account statements.

Most versions of personal financial software allow you to download account information directly from the source—your bank, broker, or employer—which saves you from manually entering the data into the program. Aside from providing convenience, downloading directly should eliminate human error in transferring the data.

Reporting Results and Planning Ahead

All personal financial software produces the essential summary reports—the income statement, cash flow statement, and balance sheet—that show the results of financial activity for the period. Most will also report more specific aspects of activities, such as listing all transactions for a particular income or expense.

Most will provide separate reports on activities that have some tax consequence since users always need to be aware of tax obligations and the tax consequences of financial decisions. Some programs, especially those produced by companies that also sell tax software, allow you to export data from your financial software to your tax program, which makes tax preparation—or at least tax record keeping—easier. In some programs, you need to know which activities are taxable and flag them as such. Some programs recognize that information already, while others may still prompt you for tax information.

All programs allow you to play “what if”: a marvelous feature of computing power and the virtual world in general and certainly helpful when it comes to making financial decisions. All programs include a budgeting feature that allows you to foresee or project possible scenarios and gauge your ability to live with them. This feature is particularly useful when budgeting for income and living expenses. (Budgeting is discussed more thoroughly in Chapter 5.) Most programs have features that allow you to project the results of savings plans for education or retirement. None can dictate the future, or allow you to, but they can certainly help you to have a better view.

Security, Benefits, and Costs

Programs are designed to be installed on a computer or smartphone, or run from a web browser. Product and service providers are very concerned with security.

As with all Internet transactions, you should be aware that the more your data is transferred, downloaded, or exported over the Internet, the more exposed it is to theft. Personal financial data theft is a serious and growing problem worldwide, and security systems work diligently to keep up with the ingenuity of hackers. The convenience gained by having your bank, brokerage, tax preparer, and so on accessible to you (and your data accessible to them) or your data accessible to you wherever you are must be weighed against the increased exposure to data theft. As always, the potential benefit should be considered against the costs.

Keeping digital records of your finances may be more secure than keeping them scattered in shoe boxes or files, exposed to risks such as fire, flood, and theft. Digital records are often easily retrievable because the software organizes them systematically for you. Space is not a practical issue with digital storage, so records may be kept longer. As with anything digital, however, you must be diligent about backing up your data, although many programs will do that automatically or regularly prompt you to do so. Hard copy records must be disposed of periodically, and judging how long to keep them is always difficult. Throwing them in the trash may be risky because of “dumpster diving,” a well-known method of identity theft, so documents with financial information should always be shredded before disposal.

Personal financial software is usually quite reasonably priced, with many programs selling for less than \$100. Buying the software usually costs less than buying an hour of accounting expertise from an accountant or financial planner. While software cannot replace financial planning professionals who provide valuable judgment, it can allow you to hire them only for their judgment and not have to pay them to collect, classify, sort, and report your financial data.

Applications will not improve your financial situation, but it can improve the organization of your financial data monthly and yearly, allowing you a much clearer view and almost certainly a much better understanding of your situation.

Application Selection

The personal finance application ecosystem is constantly changing with new applications, new features, and new payment models introduced regularly. Start with an internet search for “free personal finance software” or “free personal finance app” and compare the results to your personal goals and needs.

Summary

- Personal finance software applications provides convenience and skill for collecting, classifying, sorting, reporting, and securing financial data to better assess your current situation.
- To help you better evaluate your choices, personal finance software provides calculations for projecting information such as the following:
 - Education savings
 - Retirement savings
 - Debt repayment
 - Mortgage repayment
 - Income and expense budgeting

Exercises

1. Explore free online resources for developing and comparing baseline personal financial statements. One resource is a listing from [PC Magazine](#).
2. Compare and contrast the features of popular personal financial planning software such as Quicken, NerdWallet, RocketMoney, etc. In your personal finance journal, record your findings. Which tool, if any, would be your first choice, and why? Share your experience and views with others taking this course.
3. Watch [Managing Money: Six Principles of Personal Finance](#) (6:36 minutes) from financial services firm Charles Schwab and answer the questions below:
 1. What are the six principles of personal finance described in this video?
 2. How is each principle relevant to you and your personal financial situation?
 3. Are you already following one or more of these principles?

4. If you have an hour and want to dive into a preview of the rest of this text, watch [The Basics of Personal Finance and Budgeting](#) (51:41 minutes) from Wayne State University. This video begins by acknowledging the impact of home mortgage [redlining](#) on the racial wealth gap that exists in the United States today.

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