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ERP FOR SMALL ACCOUNTING COMPANY

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ABSTRACT

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The main goal of this thesis was to research and document the process of a choosing ERP (Enterprise Resource Program) for a small accounting firm. This objective narrowed the research topic quite well and in the end there would be clear end result if one was chosen or not.

The reason behind this work was that task management and work time monitoring were done by using excel sheets. This method had its own difficulties and it was decided to look for a better solution.

First requirement specification was created, which contained all the mandatory features that ERP must contain. Four mandatory features were identified and they were task tracking, task timelines, work time monitoring and ERP integration to existing accounting program. Requirement specification included also optional features that would be good to have but lack of those would not prevent the ERP-procurement.

Completing requirement specification lead to call for offers from several ERP-vendors. Responses then lead to meetings and further discussions with ERP-companies.

Thesis end result was achieved when one manufacturer was chosen and ERP was taken in to use.

Digitalization, ERP, SME, accounting

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1 INTRODUCTION

Accounting for Finnish companies is mandated by Tax Administration and sometimes it can be quite complicated and time consuming. In order to understand this complexity we can for example take a view on a construction industry which in Finland is one the most regulated business or even the most regulated in view of taxation. There are several historical reasons behind this, but mostly this is due to the association of grey economy or illegal evasions of taxes. Finnish Tax administration has created several different tax rules for Finnish construction industry. Examples of these specialized taxation rules are the reversal value added tax rule (8 c) and 15 000 € reporting requirement per sub-contractor per building project. There are similar regulations in other businesses also and top of all there are three different value added tax classes (10%, 14% and 24%) instead of just one.

The digitalization of everything and road to paperless world has created the need of tailored software ERP (Enterprise Resource Planning) for many different industry branches. ERP-programs have developed from their state of complex multibillion enterprise solutions to more affordable and user-friendly solutions providing its users real time financial data on selected key points (i.e profitability) and possibly information on other selected task management.

When accounting firm considers a new customer the before mentioned complications make it difficult to estimate the billing rate of customer to be profitable for accounting firm. Without accurately measuring the profitability of a client then the end result is more like a work of art instead of scientific method. When ERP is used correctly it will eventually show is the client profitable for the accounting company in the long run.

Client of this thesis is a small Finnish accounting company that is located in northern part of Finland and currently employs three people. It was established in 2003 and services that it provides to its customers include bookkeeping, payroll counting, management of both accounts payable and receivable and as a special service closing of the bankruptcy estates jointly done with law firms.

In this thesis the goal is to determine what would be the best ERP-solution for this small Finnish accounting company. The viewpoints are official reporting requirements, availability of different software solutions and the exact true needs of this small accounting company.

Chapter two is based on own perceptions and experiences, while working on accounting firms. Theory in chapter three is supported by several sources that can be found in references section. Chapter four describes ERP selection process and in chapter five conclusions are made based on previously mentioned chapters.

The SMEs companies can be defined in many ways, but according to Statics of Finland the definition of SME is clear. The following criteria's need to be met for company; less than 250 employees and revenue must not be exceeding 50 million euros annually or balance sheet not surpassing 43 million euros. They must be independent and parent-daughter company structure cannot exceed more than 25 percent of the voting rights meaning that the ownership in a company cannot belong to a one single company or jointly to several enterprises to more than 25 percent. This means that SMEs are individually owned. According to these criteria's (employee number, revenue and ownership structure) we can define what is truly (independent) SME and what is not (SME Concepts Statics Finland 2022.)

2 SERVICES PROVIDED BY ACCOUNTING COMPANIES

There are several services that accounting companies provide to their clients. Usually services include bookkeeping, calculation of salaries, tax filing and consultation. In general the accounting company can provide essential help and if needed in a wide area of expertise to their clients. The service cycle could consist enterprise's whole life span from creating company to the end of it (merger, bankruptcy or controlled run down). Below are short basic descriptions of these aforementioned services.

2.1 Bookkeeping

Bookkeeping is the main and core function of any accounting company. Bookkeeping comes from law requirement and must be done for taxation reporting reasons (Value Added Tax, Corporate Tax). Company costs must be separated into several sections (personnel costs, outsider service costs, financing costs) in which some costs can be fully retracted, some without VAT (employee car benefit fuel), some only partially (representation expenses) or some expenses that cannot be redacted at all (interest on taxes). Capable bookkeeper can identify these quickly and correctly and therefore by doing this increasing every counterparty's efficiency.

Balance sheet must show what company holds and owns, these can be buildings, machinery and financial papers for example (assets). On the other side of the balance sheet are what the company owes and to who (liabilities). One way of thinking this is that assets usually generate income and liabilities usually only generate costs. It has been said that the true value of company lies in its equity which is assets subtracted with liabilities.

Typically fiscal year is 12 months and in the end of fiscal year financial statement report must be compiled and delivered to tax administration which determines taxation status. After this tax administration makes a written decision where it states does the company need to pay any additional taxes or in case of the company has overpaid on taxes then the extra funds will be returned to company bank account (Kirjanpitoasetus 1339/1997).

2.2 Calculation of salaries

For a normal worker one of the most important matter is salary, which should arrive on bank account calculated correctly upon on agreed time. Income tax (depends on how much is estimated to be earned in a year) is calculated from persons salary which is then withheld and separately transferred straight to tax administration. Side costs (for example mandatory insurances for accidents and unemployment) are calculated and they are also withheld from employees salary. Eventually salary receiver obtains only net salary portion from employer which has all the above mandatory costs redacted from salary.

In Finland there are several work union agreements and depending on which union's work agreement is followed the salary calculation can alter significantly. At the same time there must be tracking on earned holidays and the use of them with payment of holiday allowance, while remaining holidays are left in balance for further use.

2.3 Tax filing for tax administration

Almost every company must send their VAT-filings (VAT on purchases and VAT consisting sales) monthly, quarterly or yearly. Financial statement containing profit loss statement must be sent to tax administration after companys fiscal year. Upon receiving fiscal statement the tax administration decides how much tax must be paid (normally 20% profits) or how much losses can be used for reductions following next fiscal years (normally losses must be used in 10 years) before losses are expired to be used in taxation.

There are also other reporting requirements for tax administration and one of the most common is dividend reporting that actually needs to be reported practically twice before and after the company has made the dividend payment(s).

2.4 Consultation

Consultation revolves mainly on taxation or matters closely related to taxation. Basic questions are what business expenses can be redacted or can the VAT be reduced from companys purchases. The more complex situation may include ownership changes or other arrangements where tax

efficiency is in critical role.

Sometimes consultation can be about good administration and making sure that multiple owners of Limited Company are treated equally as the law of Limited Liability Companies Act requires (osakeyhtiölaki).

3 DIGITALIZATION AND BENEFITS OF ERP

The world is changing in rapid space. Efficiency, cost and practicability are the key driving forces for the digitalized revolution. The traditional accounting industry is no exception in that.

3.1 What is an ERP (Enterprise Resource Planning)-program

History of ERPs dates back to 1960s when they were first introduced as a tool of maintaining company's inventory of stock. They were developed as solution to replace the manually monitoring the inventory. The development of ERP was done either inhouse or by a third party specializing them. By the 70s the programs had evolved more by calculating material costs and giving users a warning if inventory was closing in to zero on specified items. Addition of this feature can be seen as a first sign that software is actually giving information to the company and therefore guiding its operations by telling the procurement to start sourcing for more items. In 1990s even more features were added to ERPs and now they would be able to be monitoring tasks that were related to project management, financial administration and human resources departments. This can be seen as start to what modern time ERPs are today. (Kalliokoski ym. 2001, 46.)

3.2 The benefits of ERP

The benefits of using ERP system is most visible when compared the situation before using the ERP-system. Economic efficiency, predictability and for management is important to know what is happening, what has happened and what will happen in the future. In optimum scenario this can be done in real-time and this should be seen in profitability and as easier management when everyone knows what tasks need to be executed next. The benefits of these potentials could be the following items; increase in efficiency (optimum resources are allocated for each project based on the data), possible new business models (more services can be offered to existential customers based on the collected data) and processes become independent of specific works since any worker would be able to execute well defined and controlled process. (Hörkkö 2015.)

In ideal situation this can be done with one single system without the need of users changing

between different systems. The reporting and analyzing becomes easier since all the information and data can be sourced from one single system. The second benefit would be revealing the most problematic process since it can be observed from the system what processes take the longest time. (itewiki 2021.)

3.3 Digitalization opportunities

Digitalization can be seen as converting analogues source items (e.g paper) into electronic form which then be processed, transferred, stored, accessed and displayed. This digitalized information can be accessed from anywhere that has internet connection. (Lahti & Salminen 2014, 19.)

Digitalization can increase companys growth rate substantially since the customers can be anywhere from the world. Downsides is that customer experience has changed to more demanding for example customer response time expectation has been shortened. (Ilmarinen & Koskela 2015, 195.)

Second major effect of digitalization is the increased productivity and work well-being, according to research results. Digitalization has reduced the job tasks done in paper have substantially and at the same enabled sharing critical documents (project plans, schedules, contracts), electronical signing remotely (comparable to handwritten signing in the eyes of the law) and group meetings that can be held online. (Perttula 2018.)

Third major effect of digitalization is the change of leadership. The products can be sourced globally, many services can be done remotely and marketing has to change more to experiences based and focused on Social Medias channels. (Ilmarinen & Koskela 2015, 13–14.)

This means that what worked before does not work in digital world and company must adjust its operations to this digital world and perhaps company has to do major changes the ways it does business. (Ilmarinen & Koskela 2015, 195.)

Leading the change emphasizes the ability lead people through change and communicating the change process to employees effectively. Digitalization emphasizes the right strategic decisions,

setting clear goals, monitoring personal progress and foremost of all enabling people to give their best in order to achieve common goals. (Ilmarinen & Koskela 2015, 229–230.)

Another important factor in leading is actually managing the information since the problem might actually be that too much easily accessed information is available, while in the past the problem was totally opposite. (Vornanen 2018.)

3.4 Application Protocol Interfaces (APIs)

API (Application Programming Interface) defines how program offers data or services to other programs or systems (Fig 1). APIs main benefit is that they enable collecting data automatically from different sources without user interaction (for example complex file copying or changing file formats). This greatly reduces time, minimizes the user error(s) and therefore increase the overall efficiency. (Bloch 2018).

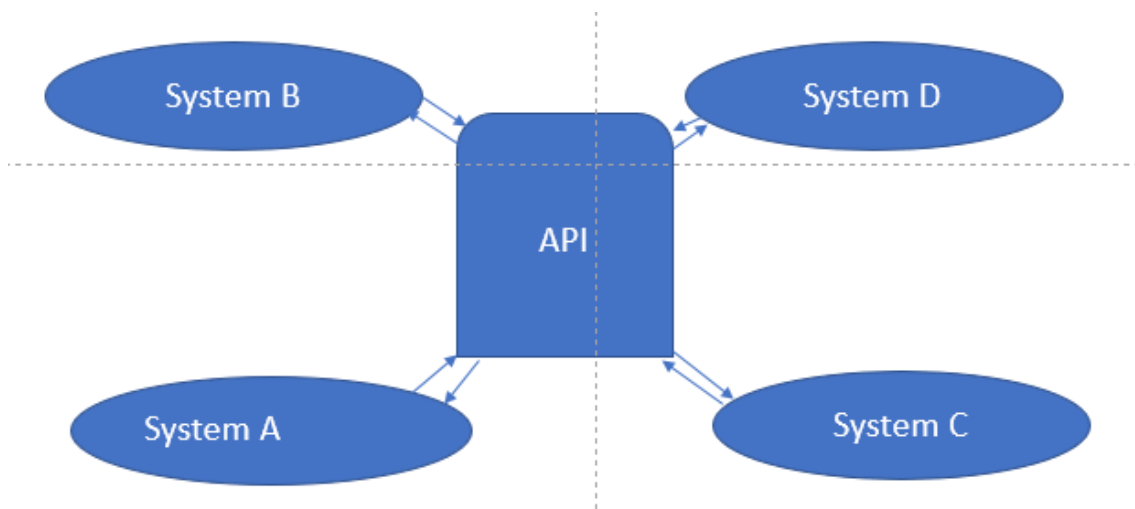


FIGURE 1. Different systems communicating and transferring data with each other through API

3.5 Using requirement specification as a tool for ERP request of proposal

Requirement specification was originally created for software engineering industry. According to Tieturi Oy requirement specification is a process where all the system and user demands are written down in a document. It can be divided into multiple steps and at first different requirements are gathered from several sources for example the needs of the end user. Demands must be clear,

complete, comprehensive and logical. In consideration are also taken the possible restrictions of these demands (usually they are time and money).

In second step these requirements are written down and analysed. At its best successful requirement specification saves costs, speeds up user adaptation and fulfils the goals that were set in the beginning of process initially. In software development industry it was noted that adding new features or changing features in the middle of coding increased the development costs and time significantly (Tieturi Oy 2023)

4 ERP SELECTION PROCESS FOR CLIENT

Using requirement specification the clients requisites were summarized and written down including also non-mandatory features that would be good to have but they would not be critical when the choice is made between different ERP software vendors. This formed the base for call for offers which was then sent to multiple suppliers.

Requirement number one was that all the work needs to be followed (how long a task took, what tasks are done and what are the deadlines for the next upcoming tasks) in order for the billing being correct. Time measuring was important since there are customers that are billed via hourly and other clients have fixed monthly fee.

Requirement number one solved two important things as the first one being that all the agreed work gets done for the client in timely manner and second one is that all the completed work gets billed from the client instead of being left hidden.

In both cases (hourly and fixed rate) there has to be clear answer to the question is the client profitable or not for the accounting company. The accurate task time measuring enables the calculation of costs and profitability analysis for each of the clients. The time that client consumes is not only used in the bookkeeping but can actually be spent on answering e-mails, phone calls, requesting missing material from client or advising client how to use the accounting system from their end. Every firms financial management is unique and no two companies are the same. Those clients that are not profitable, (i.e billing does not cover the time used in clients) should appear when enough data is collected during following months.

Requirement number two was that in accountant level there should be clear timeline visible what task needs to be done next and what are task(s) deadlines. This helps employee on day-to-day job planning and to have concrete feeling that employee can effect their work.

Requirement number three was work time monitoring (working hours in a day- ,week- ,month- , or in a year-level) which can also be beneficial for employee enabling to track overtime work and to use that time somewhere later in the future as a holiday.

Requirement number four was integration of between the accounting program and the ERP-software using APIs. Fulfilling this requirement enables the creation of invoices automatically when work task is marked completed by the bookkeeper. This saves managements time compared to manually checking if for example monthly bookkeeping is done and the actual time spent on creating manually invoices.

Requirement specification also included possible but not mandatory features such as client portal where customer can deliver bookkeeping material instead of just sending the material to accountants work e-mail.

In requirement specification was defined that all the costs must be explained and described detailly in the call for offerings. That requirement enables that starting expenses are clearly understood and what are the actual monthly costs per accountant.

4.1 Koho, Innox, Taxdome and Procountor ERPs

Koho ERP was build at first for finnish accounting firms in 2014 and since then it has expanded to other industry fields as well. Currently it has the leading market share and 7 000 accountants are using Koho's ERP. Koho's logic is based on timer clock that is set on when employee starts his or hers workday and user stops the clock when goes to lunch or in the end of workday when it is time to go home. When clock is running a work task x is selected form the list and when completion of it and/or switching to another task y the time spent on x is recorded. (Ilkka 2023.)

Innox Oy was founded in 2006 and originally as a consultation company, but when solving clients problems Innox started to develop solutions to action guidance. Innox is tailored for accountants and finance auditors (Innox 2023).

Taxdome is multinational company that is used in over 25 different countries by firms that have customers in 94 countries. Taxdome was originally developed taxation purposes in 2017. Taxdome calls itself as an it-company which originated from deep understanding the needs of taxation and accounting. Taxdome has a mission to improve your both relationships to work and your work colleagues by making your everyday life easier and better (Taxdome 2023).

Procountor ERP is very similar to KOHO ERP and when conducting further research it is built on KOHO's platform with some graphical changes.

4.2 Summarization of features

Below in (Table 1.) are presented on the left required features and on the right ERP-vendor supporting status. It can be seen that all vendors support the required features defined in requirement specification.

TABLE 1. Supported features vendor comparison

Feature / Vendor	KOHO	Innox	Procountor ERP	Taxdome
Task tracking	Supported	Supported	Supported	Supported
Task timelines	Supported	Supported	Supported	Supported
Work time monitoring	Supported	Supported	Supported	Supported
Integration to accounting software	Supported	Supported	Supported	N/A

KOHO was selected since it turned out to be most suitable and answered best to clients needs.

5 RESULTS AND CONCLUSIONS

Currently task completion and job time monitoring are done through excel-sheets which are according to ERP-vendors the most common way of doing this in small accounting firms. This method has couple of drawbacks since the work time is recorded in 30-minute increments which means that tasks that take between 5 to 30 minutes would have exactly same execution time. Decreasing the half hour increment in the other hand would mean that filling the workdays information would become more tedious. Second issue is that checking if task was done or not needs to be done by hand and making sure that pointer is on correct customer row and on correct column or in correct excel tab. Lastly an invoice needs to be created by hand including information that might be needed to be gathered yet again from the same excel sheets.

Software programs are re-programmable and if the software architecture has been designed well then implementation of new feature(s) could be added later on if decided so. It could be argued that if one software vendor would implement a software feature that would start draw clients from their competitors, then those vendors would have to follow and have that same feature in their ERPs sooner or later. However this might not come without a cost to end user of ERP so therefore it is important that the required features are immediately available for use and pricing is transparent as possible.

Clients decision was made on based on pricing (including current and long term history of price increases), availability of features that were agreed on requirement specification and demonstration of using ERP-program. Demonstrations of ERPs were the most convincing part of the whole selection process since questions could be asked during the demonstrations and you could experience ERPs working logic.

KOHO has been in everyday use for couple of weeks now and it can be said that filling excel sheets has not been missed. However, without any prior teaching or experience using KOHO (or any other ERP) is not recommended.

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