



A comprehensive guide to Xero accounting software for businesses

Save money and streamline your finances

No doubt you've heard of Xero accounting software. You've probably seen the tech company's **'Marathon' advert** on TV or online. In it, Kiwi comedian Rhys Darby explains the all-too-common experience of busy business owners in the 21st century: "sometimes, running a business can feel like running a marathon... in the desert... through quicksand!". It's hard to disagree with a statement like that!

"But Xero accounting software can help keep your business finances running smoothly," Darby exclaims. "Soon that marathon will feel more like a fun run... on roller skates... with a jetpack!". Ultimately, it's a message that we agree with.

We think more businesses should be using Xero and the wealth of tools it offers. It frees up your time, reduces errors, and helps you make better business decisions. It also helps accountants and finance professionals fine-tune their advice so it's relevant, timely and more effective.

Xero, and cloud accounting in general, hasn't been universally adopted yet, so you might not know exactly what it does. This guide will help answer any questions you may have, so, keep reading to learn what Xero is, what it does, and why you should use it.

What is Xero and cloud accounting?

Xero is a New Zealand-based technology company that provides cloud-based accounting software for small and medium-sized businesses all over the world.

'Cloud accounting' might sound like an amorphous buzzword, but it's actually at the heart of Xero and what sets out this type of software from the desktop software solutions that came before it (i.e. programmes you would download onto your PC via a digital link or product CD).

In the context of software, 'cloud' simply means 'online'. So, cloud accounting software is accounting software that you access and run via the internet, either from a PC, laptop or phone. In that sense, you can think about cloud accounting as internet banking.

Xero explains: "Every time you access your bank data, you're using the cloud. The cloud makes data and software accessible online anytime, anywhere, from any device. The hard drive on your computer or laptop is no longer the central hub."

So, in the case of cloud accounting, you keep your business books online, including records of income and expenses, as well as assets and liabilities. From there, you can auto-generate financial reports and track metrics in real-time to easily assess your business's financial health. Your accounting data is all encrypted, much like the data in your bank account, so only people with the login details can view it.

Why use cloud accounting?

There are several compelling reasons why small businesses should consider using cloud accounting, and Xero accounting software in particular.

- 1. Accessibility:** Xero allows business owners and their teams to access financial data from anywhere, at any time. All you need is a device with an internet connection. So, whether you or a team member are at the office, on a business trip or working from home, you can log into your Xero account and view real-time financial information.
- 2. Real-time updates:** With cloud accounting, all your financial information is updated in real time as you upload a new expense or invoice. This means you can view your current cashflow, outstanding invoices and expenses in an instant, facilitating better decision-making and financial planning.
- 3. Collaboration:** Cloud accounting platforms like Xero encourage collaboration between business owners, accountants and other stakeholders. Multiple users can access the same accounting data simultaneously, eliminating the need for exchanging files and sending emails. This streamlines communication and ensures everyone is working with the most current financial information.
- 4. Automation:** Cloud accounting software can automate many manual accounting tasks, such as bank reconciliation, invoicing, expense tracking and more. This can save your business time while reducing the risk of errors, allowing you to focus on more strategic activities.
- 5. Scalability:** Cloud accounting is highly scalable, meaning it can grow with your business. As your company expands, Xero can accommodate increased transaction volumes and additional users without the need for expensive hardware or software upgrades.

What can you do with Xero accounting software?

Cloud accounting has actually been around for a while now. Surprisingly, the first cloud accounting software, NetLedger (now NetSuite), was launched in 1999. However, developers aimed their product at large international organisations to give them a way to all work with the same data.

It took a few years for cloud accounting to catch on amongst small businesses. Quickbooks released its cloud software in 2004, followed by Xero in 2006 and Sage in 2013. That means software companies have had plenty of time to develop and refine their products to help their customers like never before. For example, in 2008, Xero offered:

- **Business dashboard** to help you keep an eye on your finances by tracking bank balances, invoices, bills and more.
- **Online invoicing** to create, send, receive and report on all invoices which are held in one place.
- **Reporting features** to track finances and collaborate with advisers in real time.

- **Bank reconciliation tools** that import your bank statements into Xero and automatically match them to transactions already entered into the software.
- **Expense claims** software, allowing you to approve or decline them online (now an optional add-on).

As of 2023, Xero offers all of these features **plus:**

- **Bills payment:** Track and pay bills on time. Get a clear overview of accounts payable and cashflow.
- **VAT returns:** Xero can calculate VAT and file returns with HMRC.
- **Accept payments:** Accept online payments by credit card, debit card or direct debit straight from your Xero invoice.
- **Data capture:** Scan a document and the information is automatically keyed into Xero.
- **File storage:** Manage and share documents, contracts, bills and receipts safely from anywhere.
- **Inventory tracking:** Xero's inventory control system populates invoices and orders with items you buy and sell.
- **Multi-currency:** Pay and get paid in over 160 currencies with multi-currency accounting with instant currency conversions.
- **Purchase orders:** Create and send purchase orders. You can also easily keep track of orders and deliveries at every step.

- **Quotes:** Create professional online quotes using Xero software or the app. Send quotes to prospective clients instantly from your phone or desktop.
- **Fixed asset management:** Xero makes it easy to track fixed assets and work with your accountant to manage them, keeping your books up to date.
- **Manage Xero contacts:** See details of a customer's or supplier's sales, invoices and payments in one place.

And these optional add-ons for an additional fee:

- **Payroll:** Xero can automatically calculate pension and tax to simplify compliance and reporting.
- **Project tracking:** Quote, invoice and get paid for jobs. You can also keep track of costs and profitability with project and job tracker software.
- **Submit CIS returns:** Including automatic CIS calculations and reporting.
- **Analytics:** This tool lets you see future cash flow, check financial health and track metrics.

The best part of Xero is that every single one of these features can be used on your PC, laptop or your phone through the Xero accounting app. You really can run a business productively from anywhere!

The Xero 'ecosystem'

The benefits don't end there; other tech developers have created thousands of apps to integrate with Xero. It's one of the reasons why we at James Scott love Xero!

This 'app ecosystem' means almost every online tool you could need for the running of your core business can be accessed through Xero. Plus, the data you input through your apps will flow into Xero, constantly updating your dashboard with real-time information.

So, if you decide Xero Payroll is not for you, there are over 30 other solutions available to use that will integrate with Xero's main software. There are also a number of CRM, debtor tracking, payment and reporting apps, as well as tools that will connect your point of sale to Xero.

You can find all integrated apps in the [Xero app store](#), which you can filter by function or industry.

Xero vs Sage

Xero isn't the only cloud accounting software provider out there, with the other major player in the market being Sage. So, how does Xero stack up?

Price: Sage (just)

On the surface, the two are quite difficult to differentiate. Both providers have three packages: start, standard and premium (called 'plus', in Sage's case). Each is £14, £28 and £36, although Sage offers the first two months free.

Packages: Xero

In terms of functionality, Sage shares many features with Xero. However, some tools, such as CIS management and submission and reports automation, come with Sage's standard plan — as opposed to Xero, which offers them as add-ons for an additional monthly subscription.

Yet, unlike Xero, Sage's basic plan doesn't include receipt capture, while its expense tracking system is quite basic as it is unable to automatically categorise expenses.

Ease-of-use: Xero

Xero is easy to learn and use, thanks in part to its sleek and intuitive design. So, cloud accounting beginners might have an easier time with Xero over Sage, which can be quite confusing at times.

Customer support: Sage

If you do encounter a problem with Xero, you might struggle to find a solution given there is no telephone support — unlike at Sage.

However, both Sage and Xero have online support hubs brimming with articles and guides on the various aspects of their software.

Do I need an accountant if I use Xero?

There's a misconception that with cloud-based software like Xero, you'll never need an accountant again. It's even an idea some software companies have leaned into.

While it's true that Xero is user friendly it will never make up for the compliance know-how and broader insights you get from a professional, qualified accountant.

Tools like Xero are just that — tools. Don't know how to use them? You could end up making costly mistakes or missing something that hurts your business further down the line.

Xero will only save you time if you know how to use it properly. An accountant certified to use Xero in their practice can help you utilise Xero for maximum benefit.

But the main advantage of pairing Xero with an accountant is that you'll gain access to a financial professional who will understand your business figures and be able to give you real time insights and forecasts, so that you can manage and plan your cash flow effectively.

By having access to your information, there'll also be less need for us to bother you, asking for various documents. The alternative? It's common for traditional accountants to get client information months down the line, resulting in a missed opportunity or avoidable trouble turning into an inevitable problem.

Instead, everything's on the cloud, so you know our emails and phone calls will actually be important. With access to your Xero account, we can see what you see: completely up-to-date financial information, making our advice more useful, effective and relevant to your situation now.

In other words, Xero accountants are great business advisers.

Getting started with Xero accounting software

Xero is extremely easy to get started with. Just purchase the package you want, create an account and you're in.

First, watch the video tutorial Xero has loaded onto your dashboard — it will show you exactly where everything is and what you need to do to get the most out of Xero. Broadly speaking, you need to add and upload your:

- bank account to Xero to supercharge your bank reconciliation
- organisational details and branding so they appear on invoices
- financial details, including financial year end and VAT information
- users, including your coworkers, accountant and bookkeeper
- invoice reminders

Switching from another software to Xero

If you're switching from one cloud accounting software, such as Sage, to Xero accounting software, then you'll have to follow the process we've listed above and fully explained in the tutorial video. However, there are some extra steps:

- After you've created a new Xero account, make an account with MoveMyBooks, which picks up your individual transactions in your old system and feeds them into Xero. If you want to move your payroll across, this unfortunately cannot be done through MoveMyBooks and must be transferred manually.
- Next, you have to enter Xero and select 'new conversion' and follow the instructions to convert your data. The conversion is free for the current and prior financial year. You can transfer additional years, but you will have to pay a fee.
- Allow the data conversion to run. You'll know it's complete when you receive an email confirming your conversion was successful. Do not continue to work with your old system after the backup has been taken as no new transactions will be posted into Xero.

If you're still struggling to get started with Xero or are just unsure how to make the most out of the many functions, there's a wealth of tutorials and guides on the Xero website, which should be able to help. We've compiled the most useful [Xero tutorial videos](#) into a single webpage for your convenience.

Alternatively, you can always talk with a Xero accountant, who should be able to go through the system to make sure you understand it.

At James Scott, we love Xero and everything it has to offer small and medium businesses. That's why we're a Xero gold partner. We're here to help you with all things Xero accounting software.

**Ready to find
out more?**

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