

## Contractors and the rise of the online contractor accountant

[Limited company contractors](#) can take complete control of every aspect of their contracting business in real time by using an online accountancy service. Online accountants are available 24/7, every day of the year, from anywhere in the world where a contractor might be working and can access an internet connection.

Online accountants typically provide their services via SaaS, or 'software-as-a-service'. This is tech-jargon for delivery of a service on-demand over the internet. In some markets, SaaS is well established, eg Salesforce.com, but in the contractor accountancy space there are currently only a few suppliers genuinely offering an online service.

So, why would limited company contractors want to manage their financial affairs online? What benefits does having the capability to check running totals of corporation tax on Christmas Day bring to a contractor's business? We've asked a couple of online accountants the same questions, and more, to see what all the fuss is about.

### How contractor accountants compare

First, we'll start with some basics. Contractor accountants' service delivery tends to fall into five broad categories, and most contractor accountants offer a combination of at least three of these services:

1. The traditional approach, where the contractor delivers to the accountant a bin bag of records for the previous year and the accountant sorts out the mess. An increasingly rare occurrence these days, but it still happens
2. Spreadsheet-based accounting, usually around Excel or other common spreadsheet formats, manually completed by the contractor and emailed or posted on a CD to the accountant's office, who then does all the sums
3. Software-based accounting, using Sage or QuickBooks and any one of a large number of commercial software packages, which the contractor learns to use, inputs the data and sends the file, or a feed, to an accountant who generally uses the same software, or has to convert the data from the contractor's version to the accountant's version
4. Online record-keeping, where the contractor records all transactions online, and the service may have additional basic functionality, like invoice issuing and expenses forms, but there is no computational back-end doing live calculations
5. Online contractor accountancy, which is a complete, seamless end-to-end service. The contractor records all their transactions online and the service provides detailed live management accounts, with feeds to bank accounts, HMRC, Companies House – the whole caboodle that includes a real live team of accountants as an integral part of the service.

Apart from the bin-bag solution, each approach requires the contractor to complete varying degrees of transaction logging/data input, but the output can be very different. We decided to dig a little deeper and look at how spreadsheets, anecdotally the most common process currently used, compared with a genuine online contractor accountant.

### Spreadsheets versus online

Superficially, the data entry element of each approach is similar. A contractor taps away at a keyboard recording transactions. But it's not quite as simple as that. We asked Darren Fell, co-founder of online contractor accountant [Crunch](#), to tell us why.

"If you only look at recording data, then yes, there is little difference between spreadsheets and online," explains Fell. "However, if we look at the full feature set that both options offer, we see that spreadsheets are more process intensive, more prone to errors and slower." Typical examples are:

- o Spreadsheets don't have automatic checking. Say you inputted £500 in an expenses line when it should have been £50; an online system is intelligent enough to flag this, whereas a spreadsheet usually can't
- o Spreadsheets still require huge duplication of effort; contractor to spreadsheet, email to accountant, accountant to their own systems and software. With online, there is one single entry for each transaction
- o Time lags between inputting the data into the spreadsheet, the spreadsheet arriving with the accountant, the accountant processing the data and the processed data getting back to the contractor. "Real online' means real-time," says Fell.
- o Spreadsheets can be so much more work, Fell explains: "Say, at the end of the week you need to input expenses and raise an invoice. Using a spreadsheet means entering the expenses in one part, time and rate in another, copying the data to Word, opening Outlook, attaching a file, sending an email. Doing it online means using one screen, one set of data entry and then the invoice is automatically generated, emailed and even chased seven days later!"
- o The transaction data entered by the contractor online is not just sent to the contractor's online accountant – it is delivered into the exact same system used by the accountant.

"Alongside efficiency, simplicity and accuracy, usability is the killer USP [unique selling proposition] for online," continues Fell. "We've taken three years to design Crunch to fit the mental map of contractors and freelancers who actually use the system and accountants see the transaction data coming through in clear 'accountancy-speak' at their end.

"Plus, our market tells us that contractors like to work online, just as they do with their online banking, and don't feel the need to visit their accountant at all, let alone have regular appointments, as many other small business owners do."

“ Alongside efficiency, simplicity and accuracy, usability is the killer USP for online ”

Darren Fell, Crunch

## How online contractor accountancy performs live calculations

According to James Poyser, partner of online accountant [InniAccounts](#), the back-end of the online service that contractors never see is the engine room that drives all the benefits – things like the live calculations.

"As a contractor inputs their hours and rate to create an invoice, then inputs expenses including mileage, the VAT and corporation tax are calculated live," says Poyser. "So, in the same session, the contractor can see what profit they've just made, calculate the dividend and then pay a dividend via bank transfer. "And", he continues, "the engine room works 24/7, 365 days and always has the latest allowances, making calculations in real-time, as and when contractors want them."

In addition, with online contractor accountancy, you can include fail-safes that prevent contractors from making potentially costly and serious mistakes as Crunch's Fell explains: "If there is not sufficient profit from trading to that point in the financial year, then the contractor cannot pay themselves a dividend, only a salary, with PAYE calculations built-in. This is combined with the hand-holding offered by the team of accountants who are also behind the service"

## Better, faster, cheaper

SaaS models are attractive in the wider world of IT and business because they can cost effectively and efficiently deliver a service. No physical software is created or despatched, upgrades are ongoing and seamless and the ongoing development is spread over many users, and with no user-maintenance time.

So, if you take away the enormous development cost of the software, then SaaS can be very cost effective, allowing suppliers to offer high-end services for online contractor accountancy that compare very favourably with more traditional solutions. For example, leading suppliers to the market are, at the time of writing, charging between £60 and £75 per month for their all-inclusive, top-end services.

## What to look for

When looking for an online contractor accountancy service, key features to look for include:

- o Single-process, web-based data and transaction entry
- o One screen expenses and invoicing
- o Client and supplier database
- o Live ongoing corporation tax, salary and dividend calculations
- o Automated VAT returns, live ongoing VAT calculations
- o Bank integration and auto-reconciliation
- o HMRC integration
- o Companies House integration
- o Standard forms, like P60, P11D, PAYE and payslips, are all produced.

Fell urges contractors to be demanding from their service providers: "Contractors looking for a genuine online accountancy solution should be satisfied with nothing less than hand holding and advice from accountants on top of a system that can precisely calculate salaries, dividends and even print a payslip and the board meeting minutes approving the dividend, if there is profit in the business."

## Contractors' time is money

Not all of the online contractor accountants currently have all of these features – yet. But for contractors who want to be in control of their own finances when it suits them and at a compelling price, this is clearly an attractive way forward.

Contractors, by the nature of their business, know exactly what their time is worth. Therefore, if using an online accountancy system is faster than traditional services, then the contractor's time saved can be easily calculated. They can use their extra time to earn more through contracting, or to get their weekends back!

**Published: Thursday, March 04, 2010**

[Tweet](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.



Be the first to comment on this article

Also of interest...

Related Guides:

- [Setting up a limited company for contracting](#)
- [How to change your accountant](#)
- [Choosing an accountant for your limited company](#)
- [Contractor accountants: count the true cost with the ContractorCalculator checklist](#)

Related Calculators:

- [Limited Company Calculator](#)

Related Internet Links:

- [Crunch](#)
- [Inniaccounts](#)



ABCe verified website - last audit confirmed **130,682 monthly unique visitors**