Community Experience Distilled

Learn to use Xero to make bookkeeping tasks simple and gain valuable business insights effortlessly

Learning Xero

Jon Jenkins

"Xero is smart, simple, secure, and easy-to-use online accounting software designed especially for small businesses."

Learning Xero begins by tackling the initial set up of Xero to ensure optimum configuration for success. From there, the next logical step is to set up the automated bank feeds. When your bank data is ready for importing, we will tackle the most common transactional items, sales invoices and purchase bills. Then we will start checking reports and analyze what is working or not and make changes to workflows and setups. The end result is that you will have a fully configured system ready to use and best practice solutions to what have been, for years, unnecessary roadblocks in your business.

Who this book is written for

This book is intended for those who want to learn how to use Xero to get better insights from their business data and learn the best practices of bookkeeping using Xero. Perhaps you have never used Xero, or perhaps you want to migrate from an existing accounting application to Xero. In either case, this book will get you up and running quickly. It would be useful to have a bit of familiarity with basic bookkeeping concepts, but no prior experience of Xero is required.

What you will learn from this book

- Configure Xero from scratch and fine-tune it ready for use
- Set up bank feeds and automate the bank reconciliation process
- Create workflows and segregations of duties for sales and purchases
- Run payrolls, giving employees the ability to request time off and generate their own payslips
- Produce reports to gain a better understanding of your business data and make better quality decisions
- Import and export data ready for analysis
- Use the power of a mobile device to run your business from the palm of your hand
- Manage your inventory with fully automated transaction processing

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Foreword by Gary Turner, Managing Director, Xero
In this package, you will find:

- The author biography
- A preview chapter from the book, Chapter 1 'Setting Up Xero for Success'
- A synopsis of the book’s content
- More information on Learning Xero
About the Author

Jon Jenkins graduated from Oxford Brookes University, Oxford, United Kingdom, in 2007 with a bachelor of science degree in applied accounting. He has been a certified chartered accountant since 2006 at the age of just 25. Jon began working in 1999 with Allied Leisure PLC and quickly rose up the career ladder using passion and drive to improve processes, procedures, and systems. Seeing the difference small incremental changes could make to businesses, each subsequent job has been all about improving processes, procedures, and systems, and it is these experiences that have culminated in him writing this book. In 2011, he founded a company called Smart Accountancy Systems focused on client care and a wider range of services using cloud accounting software. Jon holds regular seminars for businesses wanting to explore or discover the possibilities of how the cloud can increase productivity, profitability, and provide better job satisfaction. He is also the cofounder and CEO of Hindsight, a new software development and Xero add-on, which enables advisors to get even better business insight into client affairs so they can raise their service level yet another notch.

I would like to thank Packt Publishing for enabling me to publish this book. I never thought that I would be in a position to do such a thing.

I would also like to express my gratitude to Emma Chen and my children for their love, patience, and support, not just during the time I have taken away to write this book, but in the many late nights and long weekends that have been given up for me to follow my passion. I hope that one day I am able to repay the favor.

Finally, a big thank you to Amy Harper for reviewing the book and pointing out my errors sometimes! Without her support, we would not have gotten this over the line.
The way in which we work is changing beyond all recognition and this change is unlike anything we will see again in our working lifetime. The change is being driven by technology and software. You can embrace it and use it to your advantage or you can be swallowed up and spat out.

The idea behind this book is to give you an insight into how you could be working and saving yourself a whole bunch of time to get your life back. Do you really want to spend your life chained to your desk? I don't think so.

Throughout this book, we will guide you through the way in which you should do your bookkeeping using Xero and how to get the best from the system. Whether you are an experienced bookkeeper or a business owner, we hope to enlighten you to the possibilities that online accounting software offers you.

There is only one constant in business and that is change. Use this book as a catalyst to change the way in which you work.

What this book covers

Chapter 1, Setting up Xero for Success, guides you through how to set up Xero correctly to get the most from the system from day one.

Chapter 2, Breaking the Bank, introduces the reader to the joys of automated bank feeds which some say is the greatest thing since sliced bread.

Chapter 3, Using Xero to Excel at Sales, walks you through how to get those invoices out of the door in the most efficient manner.

Chapter 4, Learning Xero Purchases, teaches you how to manage your suppliers' bills and keep on top of paying them on time.

Chapter 5, Processing Payroll in Xero, introduces you to the latest edition of the Xero product enabling you to pay your employees and deal with autoenrolment pension obligations.

Chapter 6, Xero Expenses and Xero Touch, ensures there is no excuse for losing receipts and missing out on claiming back your tax-free money.
Chapter 7, *Managing Inventory*, helps you to keep track of all those widgets you buy and sell in your business and maintain accurate accounting records effortlessly.

Chapter 8, *Real-Time Reporting*, concludes that it is possibly one of the greatest inventions of modern time. No more waiting until the end of the month or year to see where you are today.

Chapter 9, *Supercharging Xero with Add-ons*, states that if Xero is the greatest thing since sliced bread, the add-on ecosystem is the butter and jam. Accounting is no longer a dirty word in most offices with seamless integrations to other products.

Chapter 10, *Xero Tips and Tricks*, tells you that a party's not a party without a few things to wow your audience. I guarantee there will be something you can all learn from this last chapter.
1

Setting Up Xero for Success

Throughout this chapter, we will cover the Xero core settings to make sure you are getting the most from Xero. Setting Xero up properly will save you time in the long run and ensure you get the best out of it from day one. Think of this book as a concentrated version of the instruction manual. You'll get to know about the best bits without the hard work. We'll begin by running through the Xero Setup Guide, each section in this chapter also doubles as help for that section within the General Settings. So, if you have already completed the Setup Guide, you can still work through this chapter using general settings within Xero. It also means you can refer back to this chapter at a later date should you wish to edit your settings.

These are the topics we'll be covering in this chapter:

- Configuring the initial set up of Xero
- Using settings to navigate Xero and find the main menu settings
- Setting up Xero for initial use and adding new users
- Setting up the default settings

Initial configuration

This initial section covers what to do when setting up your Xero organization, so if you have already completed this, well done. Please do not ignore this section as you may find something that needs tweaking, and it is better to get it right now than when you have started posting transactions.
When going through the initial configuration, you will be asked some basic information, such as the name of the organization and where you pay taxes. You will be asked to choose a plan that relates to the functionality you need. You can upgrade or downgrade at a later date should you find your existing plan no longer fits your requirements. Finally, you will need to enter your debit or credit card details for payment purposes. You will be billed monthly, and the amount will be taken by your provided card. If you have other Xero subscriptions already at this point, you will also be given the option to add the bill to your current billing account, which means you will get one invoice and make one payment per month covering all Xero organizations you have.

**Setup Guide**

We have devised this chapter to walk you through the Setup Guide, but please note that each section of the Setup Guide is included in the Xero settings in its own right, so you can work through the entire process by yourself. Or, if you have already done the initial setup, you can just refer to the individual section in this chapter that relates to the *Settings* option you need.

At any point, you can update or amend the *Organisation Settings* using the top menu within Xero. Just go to *Settings* | *General Settings* | *Organisation Settings*. It is worth taking a look at this after completing the Setup Guide as there are other options available that are not completed during the Setup Guide, such as adding your business logo. There are also several other options as to what contact details you can add, such as Skype and DDI.

For settings that you wish to use on a regular basis, you can attach them to the *Settings* submenu as a *Favourite* by clicking on the star icon next to the setting you wish to appear as such. To remove the favorite, simply click on the star next to that setting option as depicted in the following screenshot. This makes navigation a bit quicker.
If you are setting up a new organization, you will be ready to enter the **Setup Guide**, which looks like this:

As you can see, there is a series of settings to tackle as depicted by the menu, but don't worry, you do not have to complete this all in one go, and some of it will not be relevant to you.

From the start screen, you will see an option to watch a guide to the setup process, and we recommend that you watch at least the *The Quick Start Guide* video before starting:
There are links to other frequently asked questions that you can read, but we would suggest at this point you dive in as you will be guided through each part of the Setup Guide in this chapter.

When you are ready, click on Next to carry on. You will now see at the bottom of the page you have the Back and Next buttons, and you can also Save and Quit, so you may come back to complete the Setup Guide later. You do not have to complete the process in one session, but you do have to complete it before you can start processing data.

Should you wish to move a bit more quickly, simply click through Next to get to the end and start using the system. You can update the settings later, but just remember that what you are asked for in the Setup Guide is the bare minimum for getting Xero ready. If you have the information at hand, you may as well go over it now rather than miss something important.

### Organization Settings

The first section is all about your organization's details, and you can complete as much or as little as you like. At this point, please note that what you enter here will appear on an online invoice generated by Xero, so if you are a limited company and it is a legal requirement to have the registered office address and company registration number on your form, do it here.
The social links at the bottom of the **Organization Settings** page will also appear on online invoices that are linked to your profiles, giving customers the ability to follow, share, and connect.

You are guided through each section in the Setup Guide, and the part you are in is highlighted green. This also refers to the section headings in this chapter and what the items are called in the Xero's **General Settings** for ease of use. After entering the **Organization Settings** and clicking on **Next**, you will be asked if the business is VAT registered before continuing to enter the **Financial Settings**. Click on **Yes** or **No** to continue.
Financial Settings

Financial Settings are where some of the more serious stuff sits, so please be careful what you touch in here. We highly recommend that you are cautious and make sure you understand the implications of changing Financial Settings before doing so. In the following sections, we highlight a few of the major ones to watch out for.

Financial Year End

Select the Financial Year End for your organization using the drop-downs provided. It is important to get this right as this will drive the reporting side of Xero in terms of calculating your year-to-date figures:

If you don't know what your financial year end is, we suggest taking a look at your latest set of accounts or checking with your accountant. You can change this under Financial Settings later as it is not uncommon for a company to change its financial year end.

VAT

Xero can handle all the standard VAT schemes as highlighted in the following screenshot. Keep in mind that should you change your VAT scheme, it is important to follow HMRC guidance in terms of what you need to do on the next VAT return as Xero does not automatically do this for you.
It is imperative that you get your VAT scheme correct; otherwise, you may have issues reconciling your VAT control account and getting your first VAT return in Xero correct. It may look right, but it might not include all the transactions you need, especially if you are on a Cash Scheme, so make sure that the opening Receivables and Payables you enter have VAT split out. If you are unsure of your VAT scheme, look at the settings in your previous system and use the same VAT scheme, or speak to your accountant.

Be careful when moving to or from the Flat Rate Scheme as Xero does not automatically change the VAT codes assigned to the account code, so you will need to do that manually from within the Chart of Accounts settings.

It is important to add the VAT number within Financial Settings as this drives the VAT number that appears on your sales invoices. It is an HMRC requirement for your sales invoices to include your VAT number if you are VAT registered. The VAT number must be entered if you wish to submit your VAT return directly to HMRC from within Xero.

**Invoice Settings**

What you can complete during the Setup Guide in terms of the Invoice Settings is limited in relation to what you need to do, so we would suggest that when the option comes up to do this, you skip this section by clicking the **No, skip this step** button:
Once you have completed the Setup Guide, go to Settings | General Settings | Invoice Settings, where you can then complete your invoice template and default invoice settings, such as your invoice number sequence.

**Invite users**

At this point in the Setup Guide, we would not recommend you invite users because you are not finished yet. It makes more sense to invite people to the party when it's ready to start, unless you need help setting up, of course. We would, in most instances, suggest reaching for the No, skip this step button.

Once you have completed the Setup Guide, you can invite users from Settings | General Settings | Users. It is as simple as adding their name and e-mail address and selecting the relevant permissions:
One of the best things about using cloud software such as Xero is you are not normally limited by the number of users you can have (if you are using other software, please check). There are no additional license fees for Xero; it is one simple monthly charge regardless of the number of users. This means you can now stop and take stock of what you get people within the business to do.

You have an opportunity to make the business more efficient and allow people to enter their own expenses, and answer any customer queries or self-serve reports they may need. There are plenty of options in terms of what people can see and process, so it is important to review each user role in turn to ensure there is something that meets your requirements before changing all your internal processes.

Permission levels
There are so many different user role combinations and different editions in Xero as it is extremely flexible, but that also means it can be difficult to determine who can do what.
Refer to the Help section in Xero, which can be found by clicking on the question mark in the upper-right corner and typing in the search box what you are looking for:

We highly recommend that you look at information on user roles in the Help section, as shown in the following screenshot:

The top two articles are of particular importance and contain some very useful comparison tables. At this point, it is also worth pointing out that many of the Xero add-ons available through the Xero Marketplace will require standard or adviser access for full functionality, so make sure you consider this when making decisions about user roles.
Edit permission levels

Some user roles are only available as part of the Partner Edition, the Partner Edition being the solution provided to accounting partners who sell directly to the end users. There are versions of the software only available via a Xero Partner using the Partner Edition.

To edit a user's permission level, simply navigate back to Settings | General Settings | Users, and then select the user you wish to edit. You will be presented with the following screen, which will allow you to update the options available and then click on Save. The user's access will now be changed. Should you wish to delete a user, click on the Delete User button in the bottom left-hand corner of the screen. Think carefully about the role you provide to users. In most instances, you will only want management and advisors to have the adviser role, for example.

Currencies

Xero has full multi-currency capabilities, and throughout the Setup Guide, you may decide to switch this on by adding a different currency or two. The edition of Xero you subscribed to at the very beginning will determine whether this option is available. If you are operating multi-currencies for sales invoicing, bank accounts, or supplier invoices, now is as good a time as any to turn them on:
Setting Up Xero for Success

Simply click on the Add Currency button and then choose the currency you wish to add to Xero using the drop-down option. When you use Xero, it uses the exchange rate from http://www.xe.com/, which is updated automatically every hour, so you know you are always using the most recent exchange rate. Should you desire, this can be overridden when posting transactions.

If you decide you would like to do this later, you can do so by going to Settings | General Settings | Currencies.

Chart of Accounts

Getting the Chart of Accounts set up correctly is fundamental to having a good experience using any accounting system. Xero gives you a couple of options here, and we have broken them down into using the Xero default Chart of Accounts and importing a Chart of Accounts. Before implementing either option, we would suggest reading both and then making a decision on which is the best fit for your organization.

Xero default Chart of Accounts

In most instances, using the default Chart of Accounts provided by Xero will be perfectly acceptable, and you can make changes later should you wish. It is quick and easy; simply click on Use the default Chart of Accounts provided by Xero option, as shown in the following screenshot, and then click on Next:
Your Chart of Accounts will be generated and look similar to the following screenshot. The tax rate used will be based on your selection about VAT in the Financial Settings section.

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
<th>Type</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>Sales Income from any normal business activity</td>
<td>Revenue</td>
<td>20% (VAT on Income)</td>
</tr>
<tr>
<td>250</td>
<td>Other Revenue Any other income that does not relate to normal business activity and is not recurring</td>
<td>Revenue</td>
<td>20% (VAT on Income)</td>
</tr>
<tr>
<td>270</td>
<td>Interest Income Gross interest income</td>
<td>Revenue</td>
<td>No VAT</td>
</tr>
<tr>
<td>310</td>
<td>Cost of Goods Sold Cost of goods sold by the business</td>
<td>Direct Costs</td>
<td>20% (VAT on Expenses)</td>
</tr>
<tr>
<td>320</td>
<td>Direct Wages Payment of wages/salary to an employee whose work can be directly linked to the product or service</td>
<td>Direct Costs</td>
<td>No VAT</td>
</tr>
<tr>
<td>325</td>
<td>Direct Expenses Expenses incurred that relate directly to earning revenue</td>
<td>Direct Costs</td>
<td>20% (VAT on Expenses)</td>
</tr>
</tbody>
</table>

Use the default Chart of Accounts provided by Xero (you can modify these in the following screen)

Import from file (Xero)
Add/edit account

Before you confirm your Chart of Accounts, whether using the Xero default or your own imported version, you will need to check it over, and at this stage, it is a great opportunity to edit anything that needs updating.

From the Chart of Accounts, simply click on the Name of the account, which is a blue hyperlink:

![Chart of Accounts screenshot](image)

This will then take you into the Account Details, where you can make any adjustments. In the following screenshot, you’ll see that you can amend the Account Type, which determines where the account will sit amongst reports, and on the right-hand side, there is a useful diagram showing you where your account will sit within the Profit & Loss and Balance Sheet.

Using the checkboxes in the bottom-left corner, you can turn on the ability for accounts to sit on the dashboard in an Accounts Watchlist to keep a close eye on important accounts. You can decide which account codes will display when people enter an expense claim, which can be important to stop people anywhere they like. Finally, you can also choose an account to act as a bank account, which comes in very useful if items are cleared through a director's loan account, for example.
If you wish to change a lot of these settings, you can opt to set them as on or off on an import file, so if you have lots of codes, why not set the status on the import file and save yourself some time? Even if you have used the default Chart of Accounts, now is your chance to go back and import a file.

Once you have finished editing, simply click on **Save**.

### Add a bank account

If you have your bank account details to hand, then you should add your bank account at this point by going to the **Add Bank Account** option. Enter your bank account details. If you choose **No** when you get to the **Account Balances** screen, you will not be able to balance your conversion balances. You could enter the bank balances in the suspense account for the time being and adjust your conversion balances once you have your bank account set up.
If you did not import your bank account as part of importing your Chart of Accounts or decided to use the default Xero Chart of Accounts, you can add your bank account when confirming your Chart of Accounts by clicking on the **Add Bank Account** button. From here, you will see that you can also choose to add a PayPal or Credit Card account:

![Add Bank Account](image)

Complete the details as requested. Ensure you choose the correct **Your Bank** option; otherwise, it will not be possible to enable your bank feeds to automate the collection of your banking data. Where a direct feed is available for a bank, you may wish to choose the alternative to not incur additional charges, but please check with Xero first to see if additional charges apply for that bank.

**Change tax rate**

Before confirming your Chart of Accounts, you may wish to check that your tax rates are correct, especially if you are converting from another system. If they need attention, then you can click on the **Change Tax Rate** option and use the dropdown to select the correct option. If you wish to change several accounts to the same tax rate, check them off first to apply the change to multiple accounts at the same time.
Don't forget to click on **Save** when you have finished editing.

To change Tax Rates going forward, use **Settings | General Settings | Tax Rates**.

Now that you have finished editing your Chart of Accounts, you can click on Next to move on.

Although we have not worked all the way through to the end, we are going to switch over now to the **Import Chart of Accounts** option. This is due to the fact that once we get past this stage, the remaining elements are the same regardless of which method you choose.

**Import Chart of Accounts**

You can import from a file, so if you have a Chart of Accounts from another system you wish to use, then you can. If you have lots of Xero organizations, you may also have a preferred Chart of Accounts you have built which you can export from another organization and import where you want it. You will need to have the file prepared and ready for import, and we strongly advise at this point that you use Xero's **Help** option and search import your chart of accounts. Use that guide to help you through the import process.
The file must be in CSV or TXT file format and can only be 700 rows long, including your header row. There are examples at this stage that you can download from Xero to help you do this quickly. This may save you time in the long run as you can add your Conversion Balances to the import file, and this will save you needing to do this separately later.

As highlighted at the beginning of this chapter, you can import a Chart of Accounts at a later stage by going to Settings | General Settings | Chart of Accounts.

Once your file is ready for import, select Browse and navigate to your file. If you have been working on the file, make sure it is saved and closed. Now, you are ready to Import your Chart of Accounts.

We highly recommend you make a decision about your Chart of Accounts before processing any transactions. Also, think about the clean slate you have with your new Xero system; use it wisely and as an opportunity for a bit of housekeeping.

If you encounter any problems when importing a Chart of Accounts, Xero will highlight what the issue is, telling you which line in your import file has a problem. This allows you the opportunity to correct the problem in your import and try again.

**Account balances**

Now that you have confirmed your Chart of Accounts, you need to let Xero know your conversion date. This ensures Xero can deal with reporting correctly. If your year end is May, then you will select June as your conversion date as Xero assumes you are starting on the first day of the following month. This is a slight change for those of you used to entering closing balances and therefore entering May as the conversion date. Doing this will cause you a problem with reporting, so please make sure that the highlighted date shown at the bottom of the screen is the last date of the period you are finishing before using Xero.
If you are moving to Xero from another system, we would advocate doing so at the end of a quarter or financial year.

**Conversion balances**

If you did not select to Import your Chart of Accounts, including Conversion Balances, then you will now want to add your conversion balances. You can select not to enter your balances at this point, but you will have to do it at some stage. If you do not have the information to hand, at least add your bank account balances so you can make sure that you can reconcile your bank account. This is the actual bank statement amount, not the cashbook balance if transferring from another system. If you have unpresented items, you will need to set up a separate account to post these to when they clear the bank.

Clicking Show All Accounts will present you with the full Chart of Accounts list for you to enter your conversion balances.

**Process**

If you have an Accounts Receivable or Aged Payables balance, then we would suggest entering these at 0.00 and then using the Import facility within Xero to import any aged receivable or payable invoices.
Alternatively, you could import these first before entering the **Aged Receivables** and **Aged Creditors** balances. Before you can confirm your **Conversion Balances**, the amounts on these accounts must match what you have posted in Xero. If you try and enter balances without any invoices in Xero, you will be confronted with the following:

![Setup Guide](image)

If you only have a few invoices that make up your conversion balances, then why not hit the **Add Invoice** or **Add Credit Note** options to manually enter the items that make up your conversion balance? Enter invoices and credit notes as they appeared on your previous accounting system.

**Import invoices**

If you have many invoices and credit notes that need posting, then you can make use of the import facility within Xero. At this point, you may as well complete the Setup Guide by clicking on **Next** and then **Finish**.

Using the **Help** facility, do a search for **import invoices, bills, and credit notes**. This document is invaluable to guiding you through how to import your transactions.

Once you have imported the invoices and credit notes, you can navigate to **Settings** | **General Settings** | **Conversion Balances** to complete the conversion balances process. If the transactions imported match the **Aged Receivables** and **Aged Payable** amounts entered and the overall totals match, the balance will be **0.00**, so you can now save your conversion balances. At this stage, lock the conversion dates to avoid anyone inadvertently causing a problem with your opening balances.
Comparative balances

As well as adding the most recent year, you may also want to add some prior year information for reporting purposes, so you can run comparative year-on-year reports. Xero allows you to enter this by using the Add Comparative Balances option. This gets done after the setup has been completed.

To add comparatives, you will want to visit Settings | General Settings | Conversion Balances.

Summary

We have successfully prepped Xero and made it ready for use. In this chapter, we ran through the major General Settings, set up your Default Settings, and explored some of the common tasks associated with getting the system right for your company, including financial settings, invoice settings, inviting users, currencies, Chart of Accounts, and conversion balances. We have also looked at what is critical for getting Xero set up for use and what can be reviewed later.

In the next chapter, we will start looking at the actual processing of information and begin walking through how to deal with day-to-day bookkeeping in an efficient manner.
Where to buy this book

You can buy Learning Xero from the Packt Publishing website.

Alternatively, you can buy the book from Amazon, BN.com, Computer Manuals and most internet book retailers.

Click here for ordering and shipping details.