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Chapter 1

Getting to Know Xero

As a fresh-faced graduate, I arrived in Cheltenham, England, to start my first real job at an aerospace manufacturing business. Using a pencil, I worked with a team of account clerks, processing journals on huge A2-size (420 × 594) sheets of paper. Towards the end of the day, we all handed our paper to a tiny grey-haired lady. She gathered the paper and, using a huge noisy mechanical calculator, added up our journal entries and updated the trial balance. When all the work was entered and the debits equalled the credits, she rang her bell, signalling we could go home.

One day a magical grey box arrived on my desk, and inside its screen were rows and columns. ‘What is this sorcery you have brought to our office?’ my fellow workers cried. I explained the magical box was a computer and what was inside was a spreadsheet. I could enter numbers and formulas and the computer would process the results. (Yes, I’m a dinosaur and worked in offices pre-computers!) Pretty soon after that, we said goodbye to the mechanical calculator and shipped it off to the local museum.

In the last 30 years, desktop accounting software has replaced a team of accounts assistants and grey-haired ladies ringing bells. And, as the internet evolves, the

practice of accounting continues to undergo revolutionary changes. Using Xero as your accounting system, you have the ability to access and process accounts online from anywhere you can access the internet. Furthermore, this accounting software has the capability to seamlessly communicate with other software solutions, reducing the need for mundane data entry.

In this chapter, I give you a rundown of Xero, covering what it is and what it can do for you. I help you explore the different editions available (based on the needs of your business), take you through the My Xero home page and Xero Dashboard and outline the different user roles available. (Again, the user role you choose depends on the needs of your business and how much involvement you want to have in its accounts.) Finally, I give you an overview of how Xero's tools and reports can help you with your strategic planning.

Understanding the Advantages of Xero

Xero is a subscription-based online small business accounting software. It does everything you would expect business accounting software to do; however, Xero offers so much more, including the following:

- » Users who've been given permission to access the Xero data file can access Xero over the internet and complete accounting tasks anywhere, any time. Furthermore, users can access the same file simultaneously.
- » You can authorise transactions that occur on your bank, credit card and online payment gateway statements to directly feed into the Xero system. Just like receiving email into your inbox, transactions feed into your accounts, ready for you to process. See Chapter 4 for more on bank feeds.
- » You can create and send invoices, account for expense claims and purchases, and do your bank reconciliation via mobile devices, meaning you can issue your clients with invoices while you're on site with them.
- » Through the concept of a single ledger, both you, as the business owner, and your bookkeeper and accountant can access the same data, reducing the need to transfer data and improving efficiencies. Your bookkeeper can support keeping records accurate and up to date, while your tax accountant can finalise end of year accounts directly into the business organisation. See Chapter 11 for more on this.
- » Xero has an open API, which allows data to securely flow between connected solutions. This has inspired an ecosystem of solutions to be purposefully built to connect with the Xero platform (and beyond). This minimises data entry, improves accuracy and hopefully helps with cash flow! More complex

communication connections can include CRMs (for managing customer relationships), inventory management, e-commerce, POS, time tracking, job management and other integrated business solutions. With Xero at the core of your business's operations, you can create a fully connected business platform. See Chapter 16 for more on this.

Xero has been described as similar to those vitamins disguised as gummy candies — users enjoy the software so much they forget they are actually doing accounting.

PROS AND CONS OF WORKING IN THE CLOUD

Do you recall the first time the internet really worked for you? I do. From my apartment in Toronto, I co-ordinated a reunion with friends from Singapore, New York and Texas via email. We were to meet beside the Snuffleupagus at Sesame Place in Pennsylvania. I was so impressed: I arrived at 10 am and everyone was there! We hugged and shrieked in excitement. Using email had saved us a small fortune in telephone charges, and it was a breeze to use — all of us from the moguls to the mums understood how to do it. These days, imagining a time before email is hard. And one day, imagining a time when everyone didn't conduct all their business in the cloud will be hard!

Working *in the cloud* means working via the internet — the files you're accessing and working on aren't stored on your computer. As with everything, benefits and concerns of working online exist. But, indisputably, working across the internet is the way of the future. Governments worldwide are funding infrastructure that enables access to high-speed internet connections, ensuring their citizens remain competitive.

Without realising it, you may already be using cloud services. If you're using a smart phone, email, internet banking, ordering groceries online or chatting with friends via FaceTime, you're embracing the internet — and these devices or services make use of the cloud.

If you're not already convinced, here are some of the benefits of cloud computing:

- **Reduced costs:** Working online means you have no requirement for in-house servers to host other computers on the network. This reduces your ownership, maintenance and insurance costs.
- **Real-time data:** You can access accurate and timely reports, which can assist with informed decision-making.

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- **Productivity gains:** The time taken to respond to issues is minimised because data can be accessed wherever you can access the internet. Integration features mean you don't need to re-key data, because fields are matched and flow from one area to another. You also don't need to install or upgrade anything on your computer.
- **No platform issues:** Mac or PC? You no longer have any need to worry what platform you're working on because you access the internet via an internet browser.
- **Collaboration:** Multiple users from around the globe can simultaneously log in and view the same information, depending on their access levels. Yes, you can review business reports while cruising the Nile!
- **Flexibility:** Applications can evolve to suit business needs.
- **Reasonable pricing:** Many applications have reasonably priced packages available and offer options to suit different business requirements, from the micro through to the enterprise business. You can start with a low-cost package and, as you grow your business, move to a bigger package.
- **Reliable data backups:** Data is stored online. If your computer crashes, or the business floods or is affected by fire, you can still access your data via the internet.
Note: Backups of your own important data should still be made — just think of the online backups as a double safety net! In the case of Xero, you can manually download the complete General Ledger from Xero (see Chapter 9) or use an automated back-up solution such as Ledgerscope (www.ledgerscope.com/ledgerscope-backup) or Control C (www.control-c.com) — see Chapter 16 for more on apps.
- **Cool factor:** Getting out your smart phone after enjoying a coffee meeting with a client, taking a photo of a receipt and uploading it straight to your accounting package as an expense claim is pretty darn cool!

As with everything, you should be aware of some aspects of cloud computing. Here are some of the concerns to keep in mind:

- **Availability of internet access:** Access to the cloud is dependent on internet access. No, or slow, internet access may affect your decision to work online.
- **Data storage questions:** Because data can be stored anywhere in the world, you need clear information on its actual location. What country, and under what jurisdiction, is the data stored in? Concerns are also growing about the amount of water needed to cool data storage centres. **Note:** Xero data is stored with Amazon Web Services (AWS) in the United States, a leading hosting provider with robust infrastructure. AWS claims to have significantly improved its water-use efficiency and has a goal to be 'water positive' by 2030, meaning it will return more water than it uses.

- **Longevity:** Will the software provider be around to look after your data forever (well, as long as you need it to be, at least)? **Note:** Once a Xero subscription is cancelled, the data is archived for seven years. The subscriber can request reactivation of the subscription.
- **Security:** What security is being maintained over business data? **Note:** The security encryption of Xero is equivalent to that used by online banking. If you're happy to use online banking, you should be happy to use Xero. All users require unique passwords to access the application, and Xero logs users out after 60 minutes of inactivity. Xero also includes mandatory two-factor authentication.
- **Ownership:** Who has ownership of your data in the cloud? **Note:** With Xero, the direct subscriber to Xero owns the data.

Everything you do in business incurs some risk, including the way you operate. If you consider the risks of your own computer crashing, or being susceptible to a virus, floods, theft or fires, you may be far better off putting your faith in an organisation that has the infrastructure and systems in place to better protect and store your data.

Exploring Xero's Different Editions

Xero offers a number of different editions. As your business grows, you can upgrade packages, or, if you decide you no longer need a larger package, after 30 days you can downgrade.

The editions come in starter, standard and premium packages, though the names vary slightly by region. The uses and features of each package are as follows:

- » **Ignite/Starter (CA)/Early (US):** The Ignite package is suited to the micro or start-up business, with limited transactions. This package allows you to send and receive 20 invoices per month and 5 approved bills each calendar month. You can have an unlimited number of draft or historical invoices, bills and credit notes. You can reconcile unlimited bank statement lines. Bills and receipts can be captured in the document collection and management software Hubdoc. Hubdoc is powered by Xero. A variety of customisable reports are available, including short-term cash flow and business snapshot dashboards. Most versions do not include payroll — except the AU version, which has payroll for one person.
- » **Grow/Standard (CA)/Growing (US):** This package is suited to the typical small business. Using this package, you can send and receive hundreds of invoices per month, and reconcile hundreds of bank statement lines per week. Some versions include the option to record payroll for one to two people.

- » **Comprehensive/Premium (CA)/Established (US):** The AU, NZ and UK versions of this package include the option for up to five employees to be processed through the payroll system. The CA and US editions can connect with payroll providers. As well allowing you to send and receive hundreds of invoices per month and reconcile hundreds of bank statement lines per week (and offering all the features included in the smaller packages), this package also includes advanced reporting options, multi-currency capabilities, payroll direct deposit (in the US version) and auto-superannuation (in the Australian version).
- » **Ultimate:** The AU, NZ and UK package size grows in relation to the number of employees to be processed through the system, beyond five employees.



TIP

Depending on the region, different packages may include (or may include for an additional charge) expense claims, tracking project options and the ability to make payments online. Check your region's Xero package offerings for more information.



REMEMBER

All editions allow you to access your files anywhere online, invite unlimited users, use live bank feeds and cancel online at any time. (Just bear in mind a cancellation takes 30 days to take effect, during which time subscription charges are still incurred.)

All editions also include the following features:

- » Automatic online backups
- » Demo company files so you can explore options
- » A free trial version before you sign up (only available if you sign up to Xero directly, rather than through an accountant or bookkeeper)
- » No set-up fees, upgrade requirements or contracts
- » Unlimited customer support

Depending on the regional option you select, you may have access to additional features in Xero. For example:

- » The Australian version includes a robust in-built payroll and activity statements (see Chapters 6 and 10), and the premium version allows for automated superannuation payments.
- » The US version includes W-9, 1099 and GAAP compliance, as well as integration with the Track1099 e-filing and preparation tools (Chapter 10), and the ability to produce checks (Chapter 7).

- » The New Zealand version includes GST return and e-filing functionality, connecting you directly to Inland Revenue.
- » The UK version includes VAT returns, VAT audit returns and online filing facilities with HM Revenue and Customs (HMRC) (Chapter 10).

Additional functionality can be attained by subscribing to specific add-ons. Their availability is dependent on the package and the region, so check the offering in your regions for more information. Examples of possible add-ons include the following:

- » Claim Expenses is a claim-tracking tool for managing employees' expenses. Its availability is dependent on your region and package.
- » Track Projects is a job-tracking tool.
- » Analytics Plus powered by Syft is a collection of advisory tools, including a short-term cash flow projection and business snapshot.
- » The UK version includes the option of Submit CIS returns for the Construction Industry Scheme and Pay with Wise, a bills payment solution.

CHECKING THE COMPANY HISTORY PAGES

New Zealand is not only famous for rugby, spectacular scenery and hobbits scurrying around Middle-earth. Somewhere along the way, it has also become the incubator and launch pad for many digital enterprises, including Xero. Founders Hamish Edwards and Rod Drury first met in 2003, when Hamish was virtual CFO of Rod's software company. In April 2006 co-founder Craig Walker joined the team. (His offer from Drury went something along the lines of 'I'm doing my next big thing — you in? You start on Monday'.) Frustrated by clunky desktop-based accounting packages, technology evangelist Drury wanted more. On 1 May 2006, Walker started writing code on what would become the first version of the yet to be named Xero. The fourth co-founder, Philip Fierlinger, joined in July 2006. By this time, accounting expertise plus technological ingenuity plus business acumen equalled Xero, revolutionising and simplifying how business owners run a business.

Discarding existing models, Edwards, Drury, Walker and Fierlinger started clean and built a single ledger online accounting system that enabled integration with bank feeds. Co-founder Gary Turner joined in 2009 as the Managing Director of their UK operations.

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Due to the online nature of the software, no longer do users need to wait for annual updates. Online updates are implemented by head office in the wee hours of the morning. Businesses don't need to waste time installing updates and upgrading files — they simply start their day accessing new features.

Xero is listed on the Australian Securities Exchange. It is available globally and has local teams in Australia, New Zealand, the United States, Asia, South Africa and Europe.

Homepage: Checking Out the Dashboard

Once you have set up your Xero account (see Chapters 2 and 3), you just have to log into your account, using your password, to access the My Xero homepage — what Xero calls the Dashboard. Across the top of the dashboard is the menu bar for quick access to all areas of Xero.

Here's a quick overview of the different parts of Xero's main dashboard's menu bar:

- » **Dashboard:** Provides an overview of bank, credit card and online payment gateway accounts; a Chart of Accounts Watchlist; a Task list and simple Income and Expenses bar graph; and, a summary of invoices owed to you, bills to pay, expenses to review, total cash in and out and recent invoice payments.
- » **Sales:** Here you can access Sales overview, invoices, payment links, online payments, quotes, products and services, customers and the sales settings.
- » **Purchases:** Here you can access the Purchase overview, Bills, purchase orders, expenses, suppliers and purchase settings.
- » **Reporting:** Here you can access All reports, the Budget Manager features, and the Report Settings.
- » **Accounting:** Here you can access more advanced settings such as conversion balances, and the Adviser area. (**Note:** The Accounting area can only be seen by users with Adviser access; see Chapter 4 for more on setting access for users.) You can also access fixed assets from here (Chapter 14).
- » **Payroll:** For editions with inbuilt payroll functionality. (**Note:** Payroll is not covered in this book.)
- » **Contacts:** Shows customers, suppliers and employees added as Contacts, your Contact Groups (see Chapter 5 for more on both areas) and a list-building feature called Smart Lists.
- » **Projects:** Provides access to setting up job tracking, including quoting, invoicing and time tracking (Chapter 12).

Understanding Your Team's Needs

‘Avast belay, yo ho, heave ho, A-pirating we go, And if we’re parted by a shot, We’re sure to meet below!’ . . . and that was my one line in the Singaporean pantomime production of *Peter Pan*. In the theatre, everyone in the crew has a defined role, yet each role is interdependent on the other players. If the lighting guy had missed his cue, we would have been in darkness; if the sound guy flicked the wrong switch, we might not have been able to hear; and if I had forgotten my one line — well, the audience may well have wanted their money back! We supported each other, we improvised and we covered each other’s backs, for the greater good of the production and the audience’s enjoyment.

Xero is an innovative and time-saving product — but it doesn’t work on its own. If you set up and activate all your business bank accounts and maybe set up a few coding rules (see Chapter 4), you can save yourself a lot of time. But don’t think you can then ignore Xero and return in 12 months’ time to find everything done for you! If you try this approach, what you’re likely to have is lots and lots of pieces of a puzzle, waiting to be reviewed, coded and reconciled.

The Xero file needs to be processed on a regular basis, with reports prepared, taxes submitted and data analysed to help with informed business decisions. Ideally, you need to establish a supportive Xero advisory team who are focused on helping your business achieve its goals. The collaborative and transparent nature of Xero lends itself to working with this team of specialists, who in their own way support each other and your business. Your team might include:

- » **Accountants:** Your accountant works from the top of your business down, looking at the overall business. Just like you can go to different types of doctors, you can also access different types of accountants for the health of your business:
 - *Tax accountants* assist businesses in meeting compliance obligations, preparing financial statements and preparing tax strategies. Tax accountants can review reports and provide rolling tax advice during the year. They can maintain the Fixed Asset Register and prepare depreciation schedules from within the accounts. Tax accountants can enter the end of financial year journals directly into Xero’s single ledger and confirm that your financial reports from Xero match your prepared financial reports.
 - *Management accountants* assist businesses with strategic planning, business growth, cash flow budgeting and financial analysis. Management accountants assist in developing a useful chart of accounts — customising report layouts so information is presented in an informative manner — and issue monthly management reports. Using visuals, words and

numbers, a management accountant can help you understand how the business is tracking and what can be done to improve it.

» **Bookkeepers:** These experts clean the data, working from the bottom of businesses up. They're entrenched in the detail, assisting with data collection, reconciling reports, and following up with accounts payable and accounts receivable, and payroll management and reporting. Bookkeepers can identify complicated transactions, such as a fixed asset purchase, and flag them for the tax accountant to review and approve.

Your bookkeeper may assist with the preparation of consumer tax reporting where relevant.

» **Xero partner:** Investing in up-front support from a Xero implementation specialist gets you started faster and ensures you're heading in the correct direction. You may work with a few different Xero experts:

- *Advisers* gather your business data and help you efficiently and effectively set up your Xero data file. They also provide ongoing support and guidance on how to use Xero.
- *Digital integrators* are able to suggest and install various add-on and app solutions that can benefit your business, and they provide you with ongoing IT support.
- *Trainers* instruct you in using Xero within your business environment.



REMEMBER

Collaboration and communication are the keys to success. You and your team need to clearly communicate with each other, maintain open relationships and respect each other, and you each need to understand the interdependent nature of each other's role. Avoid having people on your team who are always ready to lay the blame on other parties — it's unproductive and drains resources. Working at the coal face of small business, I'm sometimes concerned by the animosity and disrespect some people show one another.

Here's how each member of your team can use Xero to get along:

- » The management accountant asks the bookkeeper to code all transactions in Xero related to a particular project to a specified tracking option (see Chapter 12 for more on tracking).
- » The bookkeeper uses Xero's Discuss feature to ask the tax accountant for advice on how to code the purchase of computers (see Chapter 8 for more on the Discuss tab and Chapter 14 for more on fixed assets).
- » The tax accountant advises all users of your Xero file to code any cost relating to entertainment to the entertainment expense code — clearly detailing what

it was for and who was in attendance — so she can review expenses at the end of the period (see Chapter 11).

- » The Xero implementation specialist provides training to all users to show them how to effectively and efficiently use Xero!

For many start-ups and micro businesses, the ‘team’ could be one person wearing several hats — that is, the business owner may play many of the roles mentioned in the preceding paragraphs — and, indeed, the roles can overlap (even if performed by different people). Or you may need a few people in your team to suit the nature of your business. Working with a team of specialists provides you with leverage and a depth of knowledge in the business that can facilitate business growth.

FINDING, AND KEEPING, A GREAT ACCOUNTANT

I hate group assignments. I'm sure it's just a technique teachers use to minimise marking. I always seem to end up with someone utterly incompetent on my team who slows everything down, and I end up carrying this person through the assignment. I first experienced this while at university when, for one of my subjects, I was the leader of our computer programming group assignment. Our group met, decided on a plan of attack, divided up the work and arranged to meet up again so everyone could pass their work to me. I would then just have to compile it.

When the day came for everyone to submit their work, one of the team members — I'll call her the *stunned mullet*, because her total lack of interest was all she contributed to group discussions — handed me her computer programming submission. It was a print-out with someone else's name on it. I asked around and eventually found the actual author. I approached him and a great friendship formed. And now (not so many years later), he has the great honour of doing my taxes!

The benefits of having a great relationship with an accountant who knows and understands your business are many. Accountants provide advice over myriad topics and can assist with:

- Developing tax-minimisation strategies
- Formulating business goals
- Identifying suitable key performance indicators (KPIs)

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- Keeping you abreast of changes to financial legislation that affect your business
- Preparing budgets and cash flow forecasts
- Providing specialist advice to suit your business circumstances and help you achieve your life and business goals

Once you've found a good one, your accountant can form an integral part of your business advisory board. Developing a consultative, positive, practical and effective working relationship with a modern tax accountant is critical for your business's ongoing success.

So how do you find a modern, savvy, actively involved accountant? Most are in high demand and many have closed books, so ask around your business networks for recommendations and introductions. A list of Xero-certified accountants can be found on the Xero website (www.xero.com/advisors). If you have a couple of options, take a look at the accountant's website — if you're using Xero software, you want the accountant to be technically sophisticated and a decent website is a basic requirement.

Once you think you're ready to meet with a possible accountant for your business, here are some aspects you can find out more about:

- Does the accountant have experience in the industry your business is within? Some businesses are a little complicated; for example, e-commerce, import, export, gambling and wine businesses have specific idiosyncrasies. Is the accountant aware of them, or will it be a steep learning curve that you end up paying for?
- How long has the accountant been established?
- How many existing clients does the accountant have using Xero?
- How well does the accountant know Xero?
- How will you communicate with each other and how often?
- Will the accountant monitor your business and offer timely insights on a regular basis or as and when you need them? What suits your requirements?
- What services does the accountant offer?
- What qualifications does the accountant hold?
- Do they outsource work? To what locations?
- Who will be doing the work? Trainees or qualified accountants?
- Can they provide a copy of the engagement letter?

- Do they have any questions for you? (And they should — to ensure they are gauging whether your budget and expectations fit what they can offer.)
- What are the fees?

There are no right or wrong answers here, and your choice will depend on what you want out of the relationship. Above all, make sure you feel comfortable with your accountant — gut instinct is important. And once you've found one you can work with, keep that accountant close to your business.

Integrating Xero into Your Strategic Planning

Strategic planning is the exercise of defining the vision for your business and developing goals to move forward and bridge the gap from where you currently are to where you want to be. As a small business owner, you may see undertaking strategic planning as daunting, overwhelming, time-consuming and unnecessary. But wait there! By utilising Xero and inviting your team to view transparent data, and ensuring the data entered into Xero is accurate, you're in a better position to understand where your business is at and what it can achieve.

Generating accurate, complete and timely data entry

I have a client who went on a cruise around the Greek Islands. While he lay on a deck chair eating dolmades and drinking ouzo, he reflected on one of his many businesses that imported electronics and sold them in Australia: Why was one of the business segments not making money? The electric bikes had a significant profit margin applied to them, so why was that business segment running up losses? He considered winding up that segment of the business, but before he pulled the plug he called me in to review the records. I examined and corrected the custom invoices — a regular error in importing businesses. But the numbers still did not reflect the story my client felt they should tell. I delved further and realised the bookkeeper had overwritten the purchase price and entered the exact same purchase and sales price. (Bizarre but true.) The reworked accounts improved the bottom line of that segment by a quarter of a million dollars! The money had been diverted to another segment, which they had originally thought was profitable.

Running a successful business involves continually making correct decisions. Effective automation and integration can produce timely clean data, allowing you

to surface information for brave, fast, data-informed decision-making. So your job is the brave, fast, data-informed decision-making, and this book shows you how to surface the timely clean data in Xero!

Introducing Management Reporting and the analysis capabilities of Xero

An older accountant told me a story. He worked for a large organisation producing and distributing monthly management reports. A cheeky upstart joined the company, took the older accountant's reports, added colour to them, turned the main data into graphs and everyone loved them. Imagine that! Well, Xero is that cheeky upstart.

Colour and graphs guide you around your business reports in Xero. Teeny red and green indicators scattered across many reports alert you to be pleased or concerned with comparative movements. Management Reports highlight cash movements, profitability, performance and the position of the business. (See Chapter 12 for more on Xero's Management Reports, the Budget Manager tool and Analytics Plus.)

Taking Advantage of Support Options

If you have any questions about Xero, hopefully the following chapters in this book can provide all the answers. But, if your problem is perhaps beyond the scope of this book, you do have other support options available. Xero offers an amazing amount of support material on its website, including training videos — go to central.xero.com/learning and www.youtube.com/xero to check them out.



TIP

You can also access support around the clock from Xero. First click the Help icon (the question mark) and use the field that allows you to search for support articles. If you can't find the answer you need in the articles, you can then click Go to Xero Central at the bottom of the drop-down box which takes you to central.xero.com/0/, where you can click on the relevant topic. To contact Xero support, click the blue button in the top right corner labelled 'Contact Xero support', enter the query, and if the response does not solve your problem, click the blue button labelled 'I still need help' at the bottom. There you can describe your issue in detail, and even add up to three attachments to your email.

Once signed up to Xero, you're sent regular e-newsletters updating you with all the relevant news. When you're logged onto Xero, a small bell appears at the very top of the screen. Clicking on the bell displays messages from Xero — informing

you, for example, about feature updates and any bank feed issues. Xero has also added an AI chatbot on the top-right corner of the dashboard called JAX (Just Ask Xero) — see the nearby sidebar for more. If you have an issue when reconciling your accounts, you can also make use of the Discuss tab to leave a message for your Xero Adviser (see Chapter 8 for more).



TIP

Access any support you need to help your business. For example, an IT specialist can ensure you're accessing a high-speed internet connection. This may involve reviewing your existing network and your internet provider's plan. Technology is rapidly advancing, so reviewing this set-up on a regular basis can improve productivity.

COMBINING XERO WITH AI

The term 'artificial intelligence' was first coined in the 1950s, when Alan Turing's paper 'Computer machinery and intelligence' explored the question 'Can machines think?' This paper laid the groundwork for the field of artificial intelligence (AI) and introduced the concept of the Turing Test, testing if a machine can exhibit intelligent behaviour equivalent to a human. Now, almost 80 years later, everything seems to be infused with AI — mattresses monitor your sleeping habits, toothbrushes track your hygiene habits and robot lawn mowers know how your grass grows. And, yes — your small business accounting software is also infused with AI.

The AI media hype over the last few years has been intense, and you could be forgiven for thinking AI emerged recently. The reality is many of the online solutions you're already using have for years been supported by some form of AI. Used smartly, AI has the potential to make some tasks faster and improve your business decision-making. But it's important to know what's happening, be the human co-pilot in the loop and make sure you oversee any actions taken.

In simple terms, AI is the intersection of algorithms and data. Within your business is lots of data. Running this data through AI tools can surface powerful information to support sustainable decision-making.

Importantly, AI is not automation. Automation reduces manual work by carrying out routine tasks consistently, when pre-defined conditions are met. Any process that includes a repetitive task can potentially be automated. Founded in 2006, Xero was built automation-first. Bank rules that auto-code transactions, repeating invoices and bills, and matching bank feeds to invoices and bills are all examples of automation within Xero — or, as I like to call it, automagic in Xero!

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AI goes further than automation and reduces cognitive load by making reasonable suggestions based on the patterns in the data. While automation is predictable, however, AI can be unpredictable. It can 'hallucinate' — that is, confidently create an incorrect response. For example, AI may review a restaurant charge, look back over past data patterns and suggest it's a travel meal expense. However, the AI lacks the full context of the situation, and it would be necessary to confirm with the employee if the charge was indeed a travel meal expense, or if it was for a client meeting or entertainment expense.

If you don't understand the fundamentals behind the data and the AI assumptions, you can quickly create a big mess of your bookkeeping records. Keep this in mind when exploring the AI options within Xero (or, indeed, any online solution).

Xero has introduced AI in some targeted areas. Using AI-enhanced optical character recognition (OCR), some data can be extracted from receipts and bills, and used to auto-populate bills in Xero. Predictive analytics uses historical data combined with modelling to find patterns and forecast outcomes in the form of cash flow forecasts within the Analytics Plus tool. Using machine learning (ML) powered predictions, contact and account codes can be predicted for transactions not otherwise matched in the bank reconciliation. Conversational AI is being used in Xero's AI superagent 'JAX' (Just Ask Xero). This assistant can help with task-based actions, communication guidance, business and best practice advice, and learning support all related to running your business in Xero. In addition, JAX is powered by OpenAI, helping it surface relevant business insights via its deep web-research capabilities.

When you're working in your business and within Xero, JAX can be your first point of call for low-impact queries. Simply click on the sparkle icon at the top of the screen to access JAX, and send a message or ask a question. Within the Settings option, you can opt to activate JAX queries via email, SMS or WhatsApp.

As JAX is conversational AI, you can converse with it in non-English languages. An unexpected bonus for non-English speakers, as it opens Xero up to more users.

One final aspect to keep in mind is that the infrastructure producing AI requires massive computing power, which in turn requires lots of electricity, cooling systems and resources. As an end user, you can mindfully adopt habits to reduce the environmental impact, such as being intentional when asking questions. You can also monitor your business's carbon usage via the carbon accounting solutions on the Xero App marketplace (go to apps.xero.com/function/carbon-accounting).

The evolution of technology within Xero since its launch in 2006 is exciting, but remember that automation and AI are tools that can support bookkeeping and accounting work. They do not (yet) replace human expertise and experience. As I outline in this chapter (and through the rest of this book), you have the option to engage an advisor, accountant or bookkeeper to underpin your Xero journey — and I encourage you to do so.

Using Xero in a Training Environment

Xero For Dummies is a comprehensive resource for any Xero training environment. At the time of writing, no Xero training platform is available, so if you want to organise a training session you need to establish your own live Xero training file — which is easy to do.

I recommend taking the following steps as you prepare for a workshop-style training session:

1. Set up a single Xero file.

See Chapter 2 for more on setting up a Xero file. This file can also be re-used for different training groups — though you may prefer to start with a fresh file each time.

2. Before you start the session, invite students in as Users to the file.

Make sure students have time to accept their access to the Xero organisation. Let them know that if they already have access to another Xero file, they should use that same email address and password. Also, remind students to bring their email address and password to the training session.



REMEMBER

Remind users that they're entering information into a shared training file, so they shouldn't enter private information.



TIP

You can access sample data and lesson plans at www.heathersmithsmallbusiness.com/XeroTM; the password to access these files is 'Charlie'.

ACCESSING XERO ON YOUR SMART PHONE

You can download the Xero Mobile app from the App Store and use it on Apple and Android mobile devices. Limited features that can be accessed via the mobile version include the following:

- A dashboard view of bank account balances and some simple reports
- Bank reconciliation
- Ability to create new invoices, and view draft, unpaid and overdue invoices (see Chapter 6)

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- Ability to create new bills, and view draft, unpaid, overdue bills and recent spending (Chapter 7)
- Ability to add and view contact details — and call contacts from your phone (Chapter 5)
- Ability to submit receipts and expense claims (Chapter 7)
- Ability to upload files to the organisation's Files inbox and attach files to receipts or invoices
- Ability to customise dashboard widgets
- Access your Advisor and submit a Support ticket
- Access Tap to Pay to receive a payment

You can access full Xero features on your mobile device via a browser at m.xero.com. It is ubercool that Xero can be accessed on your phone!