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**Brian Tankersley** • Jun. 06, 2014

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Xero is a micro-business SaaS accounting platform which is well established in Australia and New Zealand, and was launched in the U.S. in 2012. The company has made significant investments in personnel to compete with other small business accounting software providers in the U.S. market, and has hired a long list of industry veterans to manage its U.S. operations, including Peter Karpas (U.S. CEO), Jamie Sutherland (U.S. President), Ian Vaicin (U.S. VP- Marketing and Product) and many more.

In its fiscal year ended March 31, 2014, the company nearly doubled its global headcount and increased sales by 83% to approximately NZ \$70 million, but its loss ballooned to approximately NZ \$35 million from NZ \$14 million in the year ended March 31, 2013.

Xero offers a wide range of service plans for businesses to choose from, which range

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Xero offers a partner program for U.S. accounting professionals, which includes discounts on service plans, training, special low cost plans for accountants, and other benefits. For more information on this program, visit [www.xero.com/us/partners](http://www.xero.com/us/partners). (We reviewed the Xero Partner Edition in our January 2014 review of Virtual CFO Systems at <https://www.cpapracticeadvisor.com/review/11294688/2014-review-of-xero-accounting-and-xero-partner-platform>).

### **Basic System Function: 4.5 Stars**

The dashboard is the first screen viewed by users when accessing a company database and is shown below. Users can filter results, add transactions, and drill down to see the details supporting values on this page. The functions can also be accessed from the list of tabs at the top of the screen, and they are logically arranged. Through direct connections to financial institutions and indirect links through data aggregator Yodlee, most Xero plans support download of transactions from thousands of U.S. banks and credit card companies. A single chart of accounts is set up by default, without variations for different kinds of businesses. Users can either modify the chart of accounts to meet their needs or import a new chart of accounts from a Microsoft Excel file.

Xero does not natively support job costing or inventory accounting, although users can easily deploy solutions for these needs from the Company's add-on partners. The product's ecosystem of add-on applications is impressive, and there are more add-on applications for Xero than any other product reviewed here. Unfortunately, many of the add-ons are designed for business practices and regulatory requirements in Australia, New Zealand, and the UK, where most of the company's users are located. Xero is supported in many popular add-on data plumbing applications,

including Zapier and itDuzzit, which provide integrations with other applications

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each item will be sent to the proper recipient, along with a customizable mail merged message and an optional link to pay the invoice online using a number of payment gateways.

Xero supports sales tax and VAT calculations through its Tax Rates settings, and provides reporting through sales tax summary and sales tax detail reports within the product.

Payroll bundling increased the price of some U.S. Business plans in the fall of 2013. Unfortunately, the Xero Payroll service which is included with many Business plans is available in only seven states (CA, FL, NJ, NY, TX, UT, and VA) as of May 2014. Blog posts on the company's website acknowledge that it will take a long time to add support for all 50 states. Fortunately for users in the other 43 states, third party payroll is available from ADP and Monchilla, but the bundled pricing means that many Business plan users will pay for bundled Xero payroll service as part of their subscription even if payroll is not supported in their state.

The product does not have a traditional "audit trail" report, but instead lists "History and Notes" at the bottom of each invoice, bill, transaction, expense claim, and contact. These entries describe what has been added, deleted, or changed, and also identify the user who made the change in the system.

Xero supports multiple currencies in plans starting with the \$70 per month Premium 10 plan, and translation into the home currency is automatic based on exchange rate tables maintained by the Company. The product itself is only available in English, but invoices can be created in any language by changing the captions and titles on the invoice template to the desired foreign language wording.

The general ledger supports tracking of different cost centers and profit centers by using "tracking categories," which are an added field on all invoices, bills,

transactions, and receipts so that income and expenses can be analyzed for each

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relationship management applications, inventory management, and many other commonly used functions. As mentioned above, many of these solutions were created to meet the large number of customers in Australia, New Zealand, and the United Kingdom, so users should examine them closely to be sure that they are compatible with the business practices and compliance requirements in the U.S.

Since Xero is designed for small companies with relatively simple accounting requirements, tools are not readily available to support manufacturing and product costing, but a wide range of partner solutions exist which purport to meet these needs.

Xero allows users to print checks, but does not allow users to initiate electronic payments from within the application.

### **Management Features: 4.5 Stars**

Xero has three major dashboards: the Dashboard (home screen), the Purchases Dashboard, and the Sales Dashboard. Each screen summarizes key performance statistics used to assess the health of each company for the relevant functional area. The product has a wide range of reports, some of which can be customized and saved for reuse. The product does not have a simple tool for creating other custom reports, although all reports can be exported to Excel and rearranged, if necessary. There are a number of third-party reporting tools available through the Xero add-on marketplace.

There is no limit on the number of users who can have access to a company, although user rights are granted only by assigning a "role" to each user. Xero Business Edition users are granted access to functions using five different roles: Administrator, Read Only, Invoice Only, Standard, and Financial Advisor. Users of the Partner Edition are limited to five standard roles: Administrator, Managed Client,

Cashbook Client, Financial Advisor, and Practice Admin. In both versions,

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plumbing tools like Zapier and itDuzzit can also be used to connect Xero to a wide range of solutions.

### **Help and Support: 4.5 Stars**

The company's partner program has created different categories for accountants and bookkeeper members of its Certified Advisor program, which should make it easier for prospects to select the desired level of service from their provider. Xero's advisor website ([xero.com/advisors](https://xero.com/advisors)) allows visitors to show the location of listed advisors on the map, which has many more advisors than last year.

Support for U.S. clients is based in the company's U.S. headquarters in San Francisco, although some more technical support calls may require resources from Xero's world headquarters in New Zealand. Support is available only in English at this time.

### **Summary and Pricing**

**Pricing: Xero Starter: \$9 / month** (Send 5 invoices + Receive 5 invoices per month plus reconcile up to 20 bank statement lines per month)

- **Xero Standard: \$30 / month** (unlimited invoices and bank transactions, payroll for 1 employee, 5GB of file storage)
- **Xero Premium 10: \$70 / month** (all Standard features, plus multi-currency, payroll for up to 10 users, payroll direct deposit, and 10 GB storage)
- **(Other plans, including Xero Premium 20 (\$90/mo) and Premium 100 (\$180/mo).** These plans include additional document storage and include payroll for 20 and 100 employees respectively.

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imported from bank to general ledger accounts and automatically perform other tasks based on definable criteria.

- The company has a strong ecosystem of add-on products (more than any other application in this review), however, many of these solutions are localized for the Australia/New Zealand markets where Xero has a much stronger presence.
- Supports download of bank account and credit card transactions from thousands of financial institutions in the U.S.

#### **Potential Limitations:**

- Xero Payroll is available only in seven states (CA, FL, NY, NJ, TX, UT, and VA), so prospective users who cannot wait for the company to begin supporting a particular state should plan on using a third party payroll service like ADP.
- The bulk of Xero's subscribers are in Australia and New Zealand, but U.S. subscriber count should be bolstered by the company's late April announcement of its strategic alliance with retail tax chain H&R Block.
- Inventory tracking and valuation are not supported natively in Xero, although there are available add-on solutions which can meet this need.

#### **Best Firm Fit:**

- Service-based micro businesses that need to manage cash, receivables, payables, credit cards, and general ledger, along with support for multiple currencies.
- Companies that would like access to a large ecosystem of add-on products.
- Users who are comfortable spending time setting up rules to automatically classify transactions into specific accounts based on selection criteria, so they can use the resulting near real time data to manage their business.

## **2014 Overall Rating: 4.75 Stars**



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