

A Research on Some Challenges of Computer Based Accounting Practices in SME'S

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Abstract – The advent of IT has offered significant improvement to the way financial transactions in business are processed by professional accountants. Hence, in most parts of developed countries, it is almost impossible to function as an accountant without requisite IT skills. However, the pattern seem not attain similar forte in SMEs especially in developing economies. Consequently, this study would provide answer to the degree of computer-based accounting systems adoption by SMEs in India. E-Accounting is new development in field of accounting. E-Accounting might just be the beginning of a new era where world would be extending its arms to India with perspective that "India is the place which can deliver the best". So e-Accounting has visited India with a rainbow of opportunities. Online accounting through a web application is typically based on a simple monthly charge and zero-administration approach to help businesses concentrate on core activities and avoid the hidden costs associated with traditional accounting software such as installation, upgrades, exchanging data files, backup and disaster recovery.

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INTRODUCTION

Accounting plays a critical role in the success or failure of contemporary business institutions. Accounting systems are responsible for recording, analyzing, monitoring and evaluating the financial condition of companies, preparation of documents necessary for tax purposes, providing information support to many other organizational functions, and so on. Prior to the advent of personal computers, businesses were limited to manual methods for keeping track of financial data. According to Tavakolian (1995), the manual accounting systems consisted of paper ledgers, typewriters and calculators. Typewriters were used to type invoices and cheques, and all calculations were performed using calculators. However, with this system it was possible for errors to be introduced into the data since they could go undetected for quite some time. Like many other industries, the accounting industry changed with the arrival of personal computers. A computerized accounting system is able to handle financial data efficiently, but the true value of an accounting system was that it was able to generate immediate reports regarding the company. What is therefore e-accounting practice? E-Accounting refers to Electronic Accounting, a term used to describe an accounting system that relies on computer technology for capturing and processing financial data in organizations. In the literature, two more terms have been used to describe E-accounting: computer-based Accounting System and Accounting Information System (AIS). Stefanou (2006) observed that although accounting information system does not require a computer to

function, the computerization of the accounting function, the term AIS is used primarily to denote the computer-based AIS. In this study the terms E Accounting and financial information system are used to refer to any accounting system that depends on Information and Communication Technology (ICT) for performing its information system functions. Unlike other information systems, Accounting was one of the first functional areas to benefit from computerization when computers were initially introduced to organizations.

Promoting business operation through Technology innovation is directly related to improving Entrepreneurial performance. The advent of Technologies across the globe has altered the norm of the game and expectations of the new mode of economics activities. The norm of inter and transnational trading changed dramatically to admit the increasing number of financial transactions and trade-related activities that take place via the Internet and technologically assisted tools (Sam, Hoshino and Tashir, 2012). The traditional view of entrepreneurs record keeping suggest that it is a paper based and hand of the organization accountant to prepare the annual tax return. Porter & Millar (1985) mentioned in this competitive advantage, over the years, information technology had played a major role, changing the nature of business who knows its effects. With the introduction of new technology and more user friendly software, computerized accounting system (CAS) appears to reduce the problems in book record keeping practice. Furthermore, with the new and rapid financial information, new updates and

changes will be available for others in making decisions.

Development in information technologies (IT) over the years is fast converting this hitherto luxurious business resource into a necessity as organizations have now recognized the alignment of IT as business enabler to support business processes (Runge & Lee, 2002). Without doubts, the emergence of numerous information technology platforms has created a world of strategic opportunities for businesses managers including professional accountants alike. The increasingly low costs associated with generalized accounting commercial packages as compared to customized applications; the emergence of vendors who provides industry specific packages; the growing demand by SME businesses who are often unable to engage full-time in-house systems development staff; and the trend towards downscaling organizational structures into strategic business units (SBU's) as well as the resulting move towards distributed data processing systems environment has made the adoption of commercial software by SME's a great appeal (Hall, 2011). Accountants recognize the need for AIS's to be able to capture input from non-accounting evidence in order to support input from financial information for improved business decision (Brecht & Martin, 1996). Ultimately, information provided by computerized accounting systems must possess the basic attributes recognized under any GAAP as those of any good accounting information.

Developed and emerging economies of the world both recognized the enormous contribution to growth and development by SME's. Studies have shown that SMEs provide the keystone on which most economies of the places reliance.

Without doubt, SMEs represents the flag-sheep of any economic growth in the world. Hence, the fusion of IT in the strategic success of SMEs in contemporary economies makes the application of computerized accounting systems inevitable as it determines their ultimate survival. SMEs must continually evolve qualitative strategies, plan and control activities effectively, and take decisions aimed at optimizing the use of resources. It is necessary that they also build accounting information systems required to integrate management's requirements for planning, control and decision making. These accounting information systems are significantly enabled through computer technologies and are often designed in accordance with techniques relevant to achieve qualitative decision-making objectives as key success business drivers.

MEANING & CONCEPT OF E-ACCOUNTING

E-Accounting is new development in field of accounting. In an electronic accounting system, source documents and accounting records exist in digital form instead of on paper. E-Accounting might

just be the beginning of a new era where world would be extending its arms to India with perspective that "India is the place which can deliver the best. So e-Accounting has visited India with a rainbow of opportunities.

E-accounting involves performing regular accounting functions, accounting research and the accounting training and education through various computer based /internet based accounting tools such as: digital tool kits, various internet resources, international web-based materials, institute and company databases which are internet based, web links, internet based accounting software and electronic financial spreadsheet tools to provide efficient decision making. This discussion implies that e-accounting can also be viewed as online accounting.

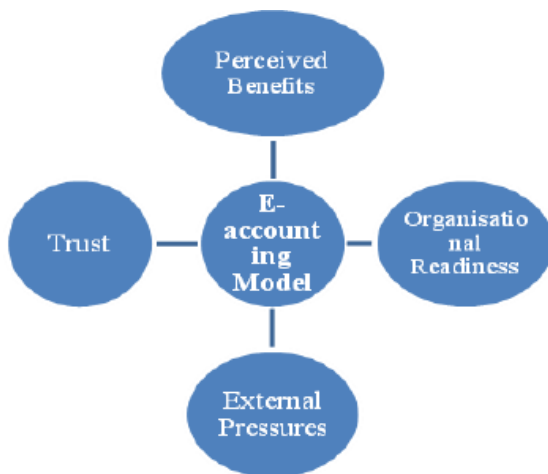
E-accounting has also bring global opportunities in the field of business as its easier and less time consuming to do business globally by using electronic data transfer and communication. The introduction of the Internet has revolutionized the process of business automation. Revolution is all about transformation for the good. Outsourcing, in this sense, has grown in necessity and has gained a prominence in boardroom meetings. The evolution of technology made what was unthinkable, possible. Welcome the revolution!

It means all your transactions will record in online server or data base, just like website or blog or web blog. But for opening or making accounts will uses login id and password. In E-Accounting the accountant and employer both feel satisfaction because, this is cheap and without software defaults or failure. Your accounts saves in online server or database, so there is no need to record manually. By this way we can save large amount of money spending on manual books and different accounting software. But for using e-accounting we should learn it first, because without learning of E-Accounting, you never expert in E-Accounting. Almost all companies uses same system of online accounting but some advance companies makes own system of their online or E-Accounting. They need only those dedicated person who know Internet and computer well, without this they cannot appoint any E-Accountant. E-Accounting Concept is adopted international level. The International Accounting Standards Board is also in favors of E-Accounting. It is developing new standards which can be utilized for E-Accounting at international level. The International Federation of Accountants is searching all the tools of E-Accounting for quality accounting education and its development. There are long list of international accounting organizations that is supporting E-Accounting. We can include in this list The UK's Financial Reporting Review Panel , The UK and Irish Auditing Practices Board , American Accounting Association (AAA) , Association of Chartered Certified Accountants ,

Accounting Education foundation of Nova Scotia , Foundation for Accounting Education . All major accounting relating to General ledger Book keeping and maintenance , Bank reconciliation MIS Cash management , Account Payable and Receivables , Billing Payroll , Budgeting Management of Records Asset , management Detailed financial analysis , Collection management , Credit management , Generation of financial reports Financial statements are totally online . Company's entire accounting project can be easily outsourced by E-Accounting system.

E-ACCOUNTING ADOPTION MODEL

Hart and Saunders have developed e-accounting model, explaining impact of e-accounting. They identified four factors - perceived benefits, organizational readiness, external pressures and trust - as the main reasons that could explain the e-accounting adoption behavior of small firms and the expected impact of the technology. Of these factors, external pressure and organizational readiness were considerably more important than perceived benefits and trust. Their model is as below.



- Perceived benefits refer to the level of recognition of the relative advantage that e-accounting technology can provide the organization.
- Organizational readiness refers to the level of financial and technological resources of the firm. Further, financial readiness refers to financial resources available to pay for installation costs, implementation of any subsequent enhancements, and ongoing expenses during usage, whereas technological readiness is concerned with the level of sophistication of IT usage and IT management in an organization.
- External pressure to adopt refers to influences from the organizational environment. The two main sources of external pressure to adopt are competitive

pressure and the imposition by trading partners. As more competitors and trading partners become e-accounting capable, small firms are more inclined to adopt e-accounting in order to maintain their own competitive position.

- Trust is mainly considered as openness and reliability. Openness may, for example, mean willingness to share rather than withhold information and thus improve the efficiency of the partners' operations. Reliability may concern transmission of accurate data and information between the partners.

E-accounting impact refers to the actual benefits adopters receive from utilizing e-accounting. It is assumed that the level of integration of e-accounting is positively related to the benefits an adopter can receive. Usually, the adoption of e-accounting requires coordination between at least two organizations, the relationship between the organization and its prospective trading partner(s). According to the Accounting Board (2000) the use of e-accounting will lead to a more efficient and reliable accounting as well as reduce the costs of accounting.

IMPORTANCE OF E-ACCOUNTING

In a fast paced world, the clients need to have control over financial data to know their 24x7 financial positions, from any geographic locale. In this regard, main benefits of e-accounting can be listed as below.

1. E-Accounting helps businesses keep their financial data & accounting software in a safe, secure environment, allowing real time access to authorized users, irrespective of their location or computing platform.
2. This is possible due to an Application Software hosted on a remote but safe and secure environment by and ASP (Application Service Provider) that allows access to users of financial information with different levels of permission and password.
3. One can send paper documents through an e-fax or by scanning and e-mailing it. Once we receive the scanned image of the document, the transaction is posted in Accounting.
4. No need of in-house bookkeepers' training and expertise

5. No problems with employee turnover, vacations, sick leave and absenteeism
6. No communication difficulties between the accountant and business owner or organization due to load / work pressure.
7. The business organization can concentrate on the revenue side of business, and spend as little time as necessary on the accounting and payroll function.
8. The accounting function receives attention only when a critical need arises. No time wastage.
9. No Payroll related costs, FICA, workers compensation, unemployment, vacation/sick benefits, health insurance benefits, and many other expenses.
10. Cost saving on office space (rent for additional offices)
11. Save time and money, the cost is low (in some cases: free).
12. Gain greater control of finances by moving from paper records to computerized accounting software.
13. Transactions that affect the company's bank account can be sent automatically to the online accounting application.
14. They are portable. The company can access its documents from almost any computer with a broadband connection.
15. If the company's computer crashes, its documents are still safe on the server.

ROLE OF E-ACCOUNTING FOR ECONOMIC DEVELOPMENT

As an unavoidable result of the new technologies like the internet and mobile solutions, new business opportunities and operations emerge. Nowadays, the economy has information and communication technologies, which entails the development of e-accounting. The term —e-accountingll or —digital accountingll refers to the application of technologies related with online/internet to the both public and private sector accounting implementations.

1. New technologies, like the Internet and mobile solutions, have provided new business opportunities and operations.
2. According to IFAC (2002:1) e-business is believed to have a significant impact also on accounting systems, through changing

business processes and the evidence available to support business transactions, and leading to changes in the accounting records maintained and the accounting procedures followed (Gullkvist, 2003:536). The accounting profession must be able to deliver good, reliable and timely measurements of both the results of operations and the health of the companies 156 *European Journal of Economics, Finance And Administrative Sciences - Issue 38 (2011)* involved in affiliations to interested stakeholders in both summary and detailed data as desired by the information users.

3. To make the information produced and provided in the electronic accounting information system more reliable, electronic accounting principles were developed by the International Federation of Accountants (IFAC). These principles, including accounting information security and accounting information process principles can be observed by the two groups in the table below. (IFAC, 2002:9–11).
4. In E-Accounting the accountant and employer both feel satisfaction because, this is cheap and without software defaults or failure. Your accounts saves in online server or database, so there is no need to record manually. By this way we can save large amount of money spending on manual books and different accounting software.

CHALLENGES OF E-ACCOUNTING

E-commerce is rapidly transforming the way accounting and auditing functions are performed, posing new challenges to the accounting profession. Electronic commerce has also increased the complexity of transactions as they are being increasingly done among parties who have never met. In such an environment, it is important to have an assurance about the quality and reliability of trading partners, financial viability of companies, data security, reliability of systems and many such issues.

Website Development Costs: Development of a website is the first step in the direction of e-commerce. It would engage organizational resources for planning, infrastructure built-up, hardware acquisition, software tools, domain registration, as well as graphics and content development.

Cost of Operating a Website: Once the website development is complete, the operating stage begins where one has to address to issues such as personnel training, data backup, creating linkages,

monitoring —hits, ll continuous updating, etc. Security Threat: Internet security is a broad term that refers to the various steps individuals and companies take to protect computers or computer networks that are connected to the Internet. One of the basic truths behind Internet security is that the Internet itself is not a secure environment. The Internet was originally conceived as an open, loosely linked computer network that would facilitate the free exchange of ideas and information. Data sent over the Internet—from personal e-mail messages to online shopping orders—travel through an ever-changing series of computers and network links. As a result, unscrupulous hackers and scam artists have ample opportunities to intercept and change the information. It would be virtually impossible to secure every computer connected to the Internet around the world, so there will likely always be weak links in the chain of data exchange.

Viruses: Well-known causes of computer problems are viruses, or damaging programs that are introduced to computers or networks. Some viruses rewrite coding to make software programs unusable, while others scramble or destroy data. Many viruses spread quickly and operate subtly, so they may not be noticed until the damage has already been done.

Hackers: Hackers may hack password and attempt to over-whelm the system with information from the outside so that it shut down. Another common method of attack used by hackers is e-mail spoofing. This method involves sending authorized users of a computer network fraudulent e-mail that appears as if it were sent by someone else, most likely a customer or someone else the user would know. Then the hacker tries to trick the user into divulging his or her password or other company secrets. Finally, some hackers manage to shut down business computer systems with denial of service attacks. These attacks involve bombarding a company's Internet site with thousands of messages so that no legitimate messages can get in or out. One of the most effective ways to protect a computer network that is connected to the Internet from unauthorized outside access is a firewall. A firewall is a hardware security device that is installed between a computer network and the Internet. It acts like a Web server, routing traffic, but also blocks external users from accessing the internal computer system. Of course, a firewall cannot protect information once it leaves the network. A common method of preventing third parties from capturing data while it is being transmitted over the Internet is encryption. Encryption programs put data into a scrambled form that cannot be read without a key.

METHODOLOGY

This study relied on a sample of systematically selected SMEs throughout the country. We sampled 50 SMEs from the NBSSI database. SMEs in India are defined as firms employing less than 50 workers.

Out of the 100 questionnaire sent out, 28 were received, representing 56%. The resulting response rate was expected for a survey of this type considering that empirical studies involving SMEs have been known to generate far lesser percentage response rates. The sample included both users and non-users of e-accounting systems. The survey instruments included open ended and closed ended questionnaires. We also followed up with personal or telephone interviews with managers of these firms. In order to ascertain the benefits of e-accounting, we focused on SMEs that adopt accounting software in their operations. Users of accounting software were selected from the client lists of some accounting software application providers.

An examination of prior research on the adoption of EDI was taken as a starting point for this study. The researchers identified three factors - perceived benefits of EDI, organizational readiness, and external pressures - as the main reasons that could explain the EDI adoption behavior of small firms and the expected impact of the technology. Of these factors external pressure and readiness were considerably more important than perceived benefits.

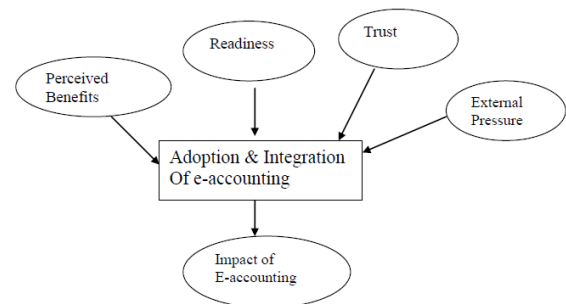


Figure -1 : E-accounting Adoption Model

1. Perceived benefits refer to the level of recognition of the relative advantage that EDI technology can provide the organisation (Iacovou et al. 1995:468). These benefits can, according to the researchers, be grouped into *direct benefits*, for example reduced transaction costs and higher information quality, and *indirect benefits or opportunities*, which refer to the impact on business processes and relationships, for example increased operational efficiency, better customer service, and increased ability to compete.
2. Organizational readiness refers to the level of financial and technological resources of the firm. Further, financial readiness refers to financial resources available to pay for installation costs, implementation of any subsequent enhancements, and ongoing expenses during usage whereas technological readiness is concerned with the level of sophistication of IT usage and

IT management in an organization (Iacovou et al. 1995:468-469).

3. External pressure to adopt refers to influences from the organizational environment. The two main sources of external pressure to adopt are *competitive pressure* and *the imposition by trading partners*. As more competitors and trading partners become EDI-capable, small firms are more inclined to adopt EDI in order to maintain their own competitive position (Iacovou et al. 1995:470).
4. Trust between the small and medium-sized accounting agency and the client is considered to be an important factor for the adoption of an e-accounting system, and for the further integration of the system as well as information sharing. Continuity with the same clients increases the likelihood of building a trustful relationship.

EDI Adoption is the process during which the small business becomes capable of transacting via EDI. EDI integration is the phase during which a firm alters its business practices and applications so that they interface with its EDI applications internally with other applications and externally with other trading partners. Adoption and integration can also be undertaken at the same time.

CONCLUSION

The introduction of the internet has revolutionized the process of business automation. E-accounting or online accounting is new development in field of accounting. E-accounting has visited India with a rainbow of opportunities. E-accounting is the application of online and internet technologies to the business accounting function. In e-accounting, source documents and accounting records exist in digital form instead of on paper. All major institution and organization at national and international level are in the favors of e-accounting. Perceived benefits, organizational readiness, external pressures and trust are the main factors that could explain the e-accounting adoption behavior of small firms and the expected impact of the technology. E-accounting helps businesses keep their financial data and accounting software in a safe, secure environment, allowing real time access to authorized users, irrespective of their location or computing platform and offers a number of benefits.

The study examined the e-accounting practices among Indian SMEs. The study revealed that almost all the SMEs sampled attach a lot of importance to financial information by employing at least degree holders and Chartered Accountants to handle their accounting information. The study also showed that majority of the firms put in place accounting softwares to generate their financial information. This

has the tendency to reduce cost, enhance clerical works, and provide sufficient space to store data and process information for management decision in a timely manner. This study is limited to small and medium-sized accounting agencies for which some adoption factors, assumed to be relevant in this context, are tested.

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