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Financial Accounting in Digital ERA

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ABSTRACT

The 21st century is sometimes referred to as the Digital Age due to the fact that so much of what we do is done digitally. This includes accessing our news, information and entertainment on mobile devices like smart phones and tablets. Digitalization is transforming companies and other organisations more fundamentally than the business world has ever seen. As companies are transformed, so too are their financial and accounting functions, and in turn, their financial statement audits. At the Institute of Chartered Accountants of India (ICAI), the council constituted the Digital Accounting and Assurance Board (DAAB) as an enabling board to proactively assess the impact of digitalization on accounting and audit. To help firms to assess the current digital competence of their firms and to build their competencies for their own growth and profession at large, the DAAB has provided the instant toolkit “Digital Competency Maturity Model (DCMM)”. In order to stay competitive, the firms will now have to be open to change and adopt an agile mindset. The making of the paperless office by Digitalization of accounting and administrative process, involves four solutions that can be combined to suit the particular business needs. Along with updating the business firms with the new and improved technology, in the area of financial accounting, another most important factor that needs to be simultaneously upgraded and automated are the Finance and Accounting professionals. As valued advisers to the organisations they work with and for, accountants must maintain a watching brief across a broad range of technologies and trends. Some of the recent advancements popular within the world of accounting are cloud accounting, artificial intelligence, digital service delivery etc.

More and more industries are shifting into the digital age and it is time that we embrace these changes.

Keywords: Digitization, Technology, Digital competency, Accountants, Artificial Intelligence

I. INTRODUCTION

Digitization is the transition of accounting and reporting documents and storage from a traditional paper-based system to an electronic format. As companies face mounting pressure to optimize pricing, cost and efficiency, more business are creating a “paperless office” within their accounting functions. Because it reduces process time and errors, improves transparency on income, helps business leaders make better decisions about how to lift business performance. It can also make an organization more competitive.

It is also important to take note of the huge effort of Government on digitization and the already visible changes in tax law compliance including the new transformational legislation on Goods and Services Tax where every aspect of compliance and regulation is digital and in other areas of financial services transactions, etc.

The need to Bring Financial accounting into the Digital age

In this digital era, it's more than a little ironic that the financial and accounting function at many companies is still stuck in the 20th century. Rather than adopt new accounting system that take advantage of digital technologies, some companies are still using costly and inefficient legacy systems that were developed two or even three decades ago.

There are a number of potentially negative impacts of using outdated legacy financial accounting systems here in the Digital Age, including the following:

- High maintenance, service and other hardware and software costs.
- Low productivity
- Greater inefficiency
- Slow data processing and information reporting
- Stale and outdated information

And finally, there is a risk of losing a competitive edge to other companies that are using leading-edge financial accounting systems to lower maintenance and service costs, increase efficiency and productivity, improve access to current data, and serve customers better.

The Digital Society

The digital society is bringing in a new framework of unwritten rules of the game wherein not only the way the businesses are being carried out is getting radically transformed, but its silhouette is equally evident in the related value chain and more importantly the financial reporting chain as also the assurance chain.

One may think what does this dawn of information technology and a digitized society has to do with financial accounting. An orthodox view would be that it does not concern us, but a pragmatic and rational school of thought is that a digital society brings with it its own set of challenges and one needs to embrace the reverberations not as complexities. It is now largely seen that using the frontiers of technology is likely to positively impact and transform the landscape of the concept of financial accounting.

Digital Competency

Digital Competency in a generic sense of the term has two parts – Digital – referring to “involving or using computer technology” and Competence – “indicates sufficiency of knowledge and skills that enable someone to act successfully and efficiently”. Digital Competency, thus, is a measure of skill and competence on use of computer and related technology.

ICAI, through DAAB, has initiated a process of laying out self-evaluation matrices to gauge relative maturity level as regards digital competency, relating to financial accounting system. Such instant toolkit is Digital Competency Maturity Model.

Digitalization of financial accounting in Digital Era

With the necessary technologies and regulatory frameworks in place to support a digitized business environment in accounting, organizations only need to implement the right technologies, systems and procedural changes to start deriving benefits.

The message is clear: Change is already here, and its pace is accelerating.

- Four solutions that can be combined to suit the business needs:
- Integrated document management systems
- Electronic storage of accounting ledger
- Automatic recording and e-storage of invoices
- E-invoicing

Benefits of Digitalization

Cost saving

- Stronger accounting information, improved analytics and better control.
- Automated collection and payment processes through structured electronic document sharing.
- Improved transparency of processes.
- Increased overall productivity and competitiveness.
- Improved data accuracy and real-time reporting for better decision-making.
- Streamlined processes that provide timely feedback to reflect how the business is performing.
- Higher employee productivity and efficiency.

Significant Forces

Digitization is the process of converting information of any type into a digital format. Digitizing information makes it easier to preserve access and share. Once information is digital it can help automate processes and systems that were previously manual or in-person. Digitalization will reach a high point in the next few years due to three significant forces:

- Consumer pull
- Technology push
- Economic benefits

Digitalization and Accountants

Accountants have always exploited emerging technologies to help themselves to complete their tasks more accurately, quickly or simply. But all of the technology developments were simple propositions by comparison with the myriad technologies that are now rapidly reshaping the worlds of business and accountancy. A 'new normal' is emerging.

It is impossible to predict the future with any degree of certainty. By keeping informed about technologies as they evolve, considering new technologies as they emerge and then assessing their implications and those they serve and support, accountants can be prepared to minimize the burdens and maximize benefits.

Some technology trends which the accountants are significantly exploiting to maximize benefits and potentials are as follows:

- Mobility
- Cloud
- Social collaborations
- Big data
- Payment systems
- Cyber security
- Robotics
- Augmented and virtual reality

Recent Advancements

There are some noteworthy technologies, techniques, and programs now available that stand out from the majority and are quickly becoming quite popular within the world of accounting.

- Cloud Accounting: Cloud Accounting is a piece of software currently available that enables firm to keep records of company data and accounts in a cloud-based storage system online, allowing this data to be accessed easily from anywhere in the world.
- Artificial Intelligence: Many monotonous duties that were once taken care of by hand are now being carried out automatically by programs similar to human work. Artificial intelligence describes a machine or software that can demonstrate behaviour indistinguishable from that of the human brain.
- Digital Service Delivery: Accountancy practices are offering self-service features, such as online data vaults that can be used to access statutory and management reports and other materials that have been worked on.

Opportunities offered by Digitalization

- Faster and more connected workforce across the globe.
- Ease of access, scalability, data sharing and collaboration.
- Speeding up month-end processes.
- The cost of public service delivery and compliance can be minimized.

- Full automatic classification and analysis of accounting data.
- Internal audit can provide assurance on controls and policies to govern data privacy and security.
- Apply virtual reality to areas of accounting and finance.
- Replacing human with software based entities.

Challenges Posed by Digitalization

- Security concern on potential theft or loss of information.
- Working pattern will change as the internet becomes more pervasive.
- Inadequacy of traditional approaches to IT cost/benefit analysis.
- Risk to sensitive corporate data.
- Financial benefits can be hard to unlock.
- Shortage of data mining and interpretation skills.
- Increase in number and value of transactions will increase fraud.

Recommendations

In the light of all this research and all the material which is being used to conduct this research and reviews conducted, I came to the decision that we are in a world that is constantly changing and evolving, thanks to our continuous advances in technology and the humble world of accounting is not exempt from this. The upgraded technologies are more beneficial and helpful than some of the outdated legacy system. Updating the accounting, in general, financial accounting, in particular, to new digital era is beneficial to firm, accounting professionals and various stakeholders. The company and its various segments, whether small or big, should always be in pace with the changing and evolving world.

II. CONCLUSIONS

Accounting, like essentially any other industry in the world today, is quickly being reshaped by technology. Nowadays, technology is simply a quick fix for any problem that needs solving and any job that needs doing, regardless of the industry, and accounting is no different. One conclusion that can be drawn is that the focus of accounting is beginning to shift from process- and data-based to client-based. In coming years, many transactions will be made and recorded by artificial intelligence and automation systems, no doubt. The digital era, of course, offers many opportunities but at the same time it opens up number of challenges. Nothing in future is certain, technology will keep on updating and the financial accounting need to be in pace with the developments. The present and future technologies promise to be both interesting and challenging.

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