

The Impact of Computerized Accounting System in, SME (Special References in Rewa Devison)

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ABSTRACT

Computerized accounting system plays a major role in improving the financial reporting among small medium business industries. It seems that small medium entrepreneurship has problems in presenting financial reports using computerized accounting system when compared with the other developed and developing countries in India. This study examines the impact of using computerized accounting systems (CAS) in financial reporting among SME in India. Further this study is based on a survey carried out among small and medium sized entrepreneurships to determine the extent to which development and implementation of computerized accounting systems had taken place, and subsequently an analysis was made as to how much this introduction may impact on improvement in outcome indicators and productivity. The data were collected using questionnaires. The methodology espoused for this study is case study research approach for which the data gathered were respondents in India were involved in this study. The study established that computerized accounting system had a great impact on quality of financial reports. The findings shows a strong significant positive relationship between the variables ($r=0.741$, $p>0.000$) which implies that computerized accounting system and financial reporting among SMEs in India. Finally, this paper conclude that understanding the impact of using computerized accounting systems (CAS) in financial reporting is very significant to the small medium industries can make use of these information to advance appropriate strategies to present financial reports successfully in future.

Keywords: Accounting, Report, Financial Position, Accounting System, CAS

I. INTRODUCTION

Accounting system according to an Italian monk, Luca Pacioli (1491), is the combination of personnel records and procedures that a business uses to meet its need for financial data. Financial accounting also encompasses the summary of information and presentation of periodic reports such as profit and loss statement and balance sheet. The historical firms of accounting were of different degree of sophistication according to the need and technique of the time, this is the why modern accounting is based on the double entry system and the recognition of the dual nature of each transaction and this gives a co-ordinate support for the control of all the transaction of a business.

Accounting system according to business dictionary is an organized set of manual and computerized accounting methods, procedures and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data for management decisions. Furthermore, there are two major types of methods used in recording accounting information, such methods are manual accounting system and software accounting system or computerized accounting system.

Manual accounting system extends and includes the method of processing, recording, journalizing transaction posting to the ledgers and preparing the financial statements which provide decision makers with useful information in making decisions. These decisions relate to the allocation and use of scarce economic resources such as money, land, labour and capital. These manual accounting systems are wholly used for preparing income tax return, report to managers, bills to customers and other forms of providing accounting information.

Today's modern technology brought into use the computer, this technology is the application of science to gathering, recording, processing and communicating of business information by means of electronic media. Most common tool for application is the computer and it involves all the transaction processing system management information system various business support system etc. The computer is a central force in the advancement of various organizations.

Any enterprise development, we are all dependent on this particular trade, accounting and accounting information from the point directly relates to the venture's future decision-making, the further development of enterprises to provide

accurate basis. Therefore, ensure the correctness of the accounting data, the strengthening of internal control is very important.

Accounting is most stable of the management disciplines to manage the financial healthiness of any business. In spite of its stability and continuity, accounting has seen major changes during the past century. Computerized accounting system is a tool which, when incorporated into the field of Information System, were designed to help in the management and control of topics related to firms' economic-financial area. This paper is intended to pursue the concept of computerized accounting system and financial reporting. Now a day, business organizations adopt information technology gradually. In the way organizations use computerized accounting system in their business to entertain many advantages and avoid numerous disadvantages. Financial reports are precisely generated by computerized accounting system and it helps to make business decisions through timely preparation of financial reports and financial reporting.

II. ACCOUNTING SYSTEM

Every organization must operate accounting system due to the fact that it is generally recommended for companies to report on its financial position to the stakeholders for better decision-making and other policy implementations. The decision to choose whether a company would operate manual or computerized accounting system depends on the company itself Accounting system as defined by business dictionary.com states as An organized set of manual and computerized accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for management decisions. Basic accounting software demands not only ICT skills, but also thorough accounting knowledge. By contrast, current accounting software can be run with only a simple understanding of the accounting practice. Nowadays, with in depth help menus and also the vast information that can be sourced online free of charge, resources to assist users The advancement in technology especially the Internet has generated new methods of communicating with customers both current and potential in the banking world. Ecommerce has not only changed the way businesses specifically banks market their products or services, but also how these products or services are normally delivered, knock with computers is highly significant in this direction. in their use of accounting software are easily to come by

III. COMPUTERIZED ACCOUNTING SYSTEM

There is the need to create innovative services and products to respond to the varying consumer demographics and their lifestyles. The intense competition among banks calls for regular overhaul of the banking activities or services in order to guarantee customers with quick but efficient service delivery Moreover, due to the high level of competition that exist in the banking sector it is apt to accept the need and benefits of regularly replacing old products with new or modified ones in order to enhance their performance. An enhanced service through computerized accounting system can serve as a very strong marketing or advertising tool for banks by attracting customers from outside and within the sphere of the existing markets. Computerization of the accounting system could lead to reduction in cost such as salaries, higher returns by participating in international banking services and an improved security system which reduces fraud.

IV. TYPES OF ACCOUNTING SOFTWARE

- 1) **Accounts Receivable Software:** The accounts receivable must consists of a detailed listing of customers and the amounts of money each owes the company or bank and other information like the date the debt was incurred, address and phone numbers of each customer. Businesses considering the installation of accounts receivable management software must undertake an extensive research into the available alternative solution to ensure it includes the key potentials that would enable accuracy and integrity of its financial reporting. The right accounts receivable software solution updates the ledger accounts with appropriate transactions automatically.
- 2) **Accounts Payable Software:** The company or organization considering the implementation of accounts payable software solution must first of all realize that the best ones are the one that provide a rapid return on investment. The main characteristics of accounts payable that increase the payback include early payment awareness that enable the company to make use of discounts offered. More so, the ability to write cheques to suppliers and to have the correct debits and credits applied to the company account makes balancing the books easy.
- 3) **General Ledger Software:** A ledger account refers to an accounting record that summarizes all transactions affecting each individual item such as Bank, Stock, Creditors, Vehicles or Capital. In the financial statements all items have its own ledger account and so in this case the bank can have so many ledger accounts to manage considering its numerous customers, without computerized accounting system, it would be virtually impossible to locate one ledger account out of hundreds accurately and conveniently.
- 4) **Accounting Packages and Chart of Account:** A number of Software packages have been developed to assist in the accounting field and some of such packages are Tally, Busy, SAP, Quick Books etc. Even though some of these

software mentioned here are developed for small businesses, they are also designed specifically for accounting purposes in the banks, market, firms, companies or general accounting.

V. NEED OF THE STUDY

- 1) The studies undertaken in the field of CAS behavior need to be updated time to time as per changing business environment, and technological up gradation. Therefore, the present study is an extension of the existing research on CAS and its related issues.
- 2) Majority studies are on cross- borders (globalized studies) and review of literature show that the majority domestic studies fail to capture the CAS in SMEs in Maharashtra and particularly in Rewa. Therefore for filling up, some research gap in existing studies, the present study is needed and hence undertaken.

VI. OBJECTIVES OF THE STUDY

Formulating proper objectives for research study is essential as whole study depends on it. Objectives give speed in the investigation process and also proper direction to researcher in research. Therefore the main objectives for this study are formed by the researcher as follows:

- 1) To study and assess owners' and organisational characteristics of small and medium business enterprisers.
- 2) To study and assess the perception of businessmen towards pattern of keeping and maintaining accounting system in small and medium business enterprises.

VII. RESEARCH METHODOLOGY

Research in common parlance refers to a search for knowledge. Once can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation. In the present study, both primary and secondary sources of data are used as under. Secondary data are collected from the following sources:

- 1) *Books, Magazines, Newspapers*
- 2) *International and National Trade and Research Journals*
- 3) *Website, Internet*

The Primary Data are collected following process:

- 1) *Primary Data collected on the basis of interview, observation, discussion, pilot survey and questionnaire.*

VIII. DATA ANALYSIS AND INTERPRETATION

1. After completion of data collection, questionnaires were edited properly.
2. Questionnaire codification, tabulation, was processed.
3. Logical conclusions are drawn and summarized in a systematic manner based data analysis and interpretation.

IX. SAMPLE SIZE AND SELECTION

Taking into consideration the time and cost factor, researcher had distributed / administered 350 questionnaire based on pilot survey and simple random as well as convenience method. The questionnaire was also emailed to some SMEs based on list provided by Chamber of Commerce, Rewa. The chart 1 shows the process followed for selecting final sample size.

Table 1: Process of Selection Sample Size and Selected Final Size

Location	Questionnaire administered			Questionnaire received			Questionnaire Rejected			Final selected sample size			% of Sample
	1	2	3	1	2	3	1	2	3	1	2	3	
Rewa	40	10	50	38	07	45	04	00	04	34	7	41	82.0
Gurh	35	05	40	30	05	35	00	00	00	30	5	35	85.0
Hanumana	35	05	40	30	05	35	04	00	04	26	5	31	75.0
Semania	165	15	180	150	15	165	06	03	09	144	12	156	87.8
Simmour	35	05	40	27	03	30	03	02	05	24	01	25	62.5
Total	310	40	350	275	35	310	17	05	22	258	30	288	82.3
Universe of the study										3751	101	3852	
Sample selected % to universe										6.9	29.7	7.5	

Extent of CAS adoption in SMEs in Rewa Division: Descriptive based results and analysis:

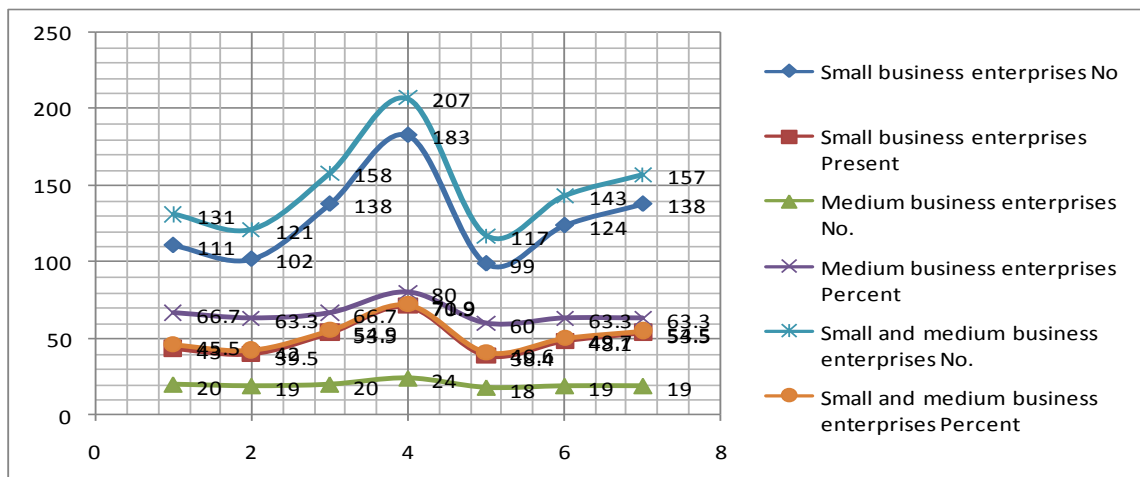
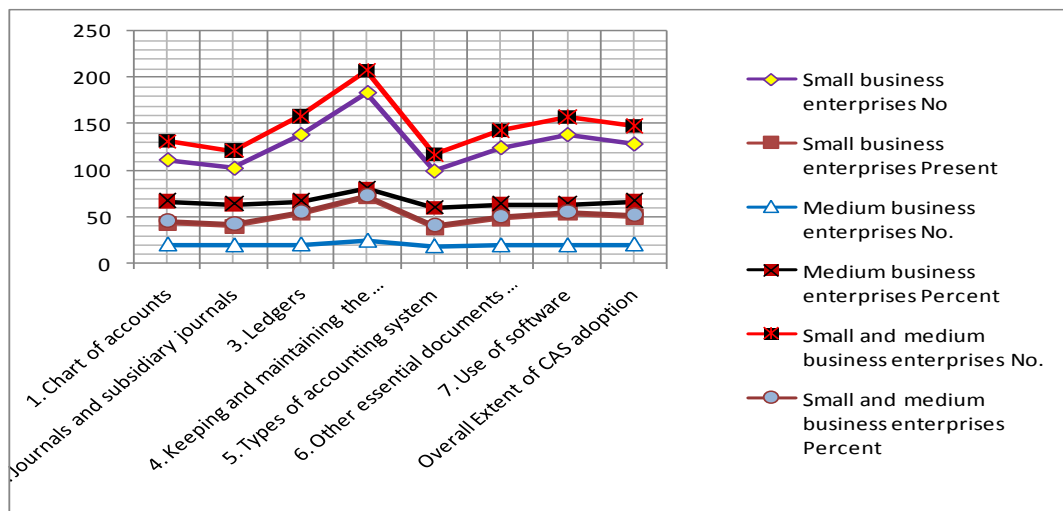
Indicator wise extent of CAS adoption is assessed, whereas in the present section, overall CAS adoption in small and medium business enterprise is assessed. Seven dimensions are selected for measuring, identifying and understanding the CAS adoption in SMEs. The 7 indicator are (1) chart of accounts, (2) journals and subsidiary journals, (3) ledgers, (4) maintaining the integrity of an accounting system, (5) types of accounting system, (6) other essential documents preparation and (7) use of software. Average of the 35 indicators is the overall CAS adoption in SMEs. The Table 2 presents CAS adoption in SMEs for 7 Indicator.

Table 2: CAS adoption in small and medium business enterprises (Yes responses)

CAS adoption in small and medium business enterprises (Yes responses) Dimension	Small business enterprises		Medium business enterprises		Small and medium business enterprises	
	No	Present	No.	Percent	No.	Percent
1. Chart of accounts	111	43.0	20	66.7	131	45.5
2. Journals and subsidiary journals	102	39.5	19	63.3	121	42.0
3. Ledgers	138	53.5	20	66.7	158	54.9
4. Keeping and maintaining the integrity of an accounting system	183	70.9	24	80.0	207	71.9
5. Types of accounting system	99	38.4	18	60.0	117	40.6
6. Other essential documents preparation	124	48.1	19	63.3	143	49.7
7. Use of software	138	53.5	19	63.3	157	54.5
Overall Extent of CAS adoption	128	49.6	20	66.7	148	51.4

Source: Questioner

- Highest CAS adoption is seen in maintaining the integrity of an accounting system in SBEs, MBEs as well as SMEs to the extent of 70.9 percent, 80 percent and 71.9 percent.
- Lowest CAS adoption is observed in preparing types of accounting system in SBEs, MBEs and SMEs to the extent of 38.4 percent, 60 percent and 40.6 percent.



- Overall result shows 128 (49.6 percent) respondents of SBEs, 20 (66.7 percent) respondents of MBEs and 148 (51.4 percent) respondents of SMEs out of 258, 30 and 288, agreed on CAS adoption. It means that CAS is adopted in SBEs, MBEs and SMEs to the extent of 49.6 percent, 66.7 percent and 51.4 percent respectively.

X. IT IS EXPRESSED AS UNDER

“There is no significant difference between small business enterprises and medium business enterprises on CAS adoption.” Overall testing results are presented in Table 3 as under.

Table 3: CAS adoption differences and chi-square test

CAS adoption differences between SBEs and MBEs		Referred Tables	<i>x² test result</i>	Hypothesis accepted/ rejected with justification or reason
Measures of difference	Difference in %			
1) Mean difference for 1 to 7	17.1	Table 1.2	<i>x² = 2.13</i> Table value=12.59 df=6 @5 percent level of significance	No- significant difference as <i>x² < Table value</i> (2.13 < 12.59) Hypothesis – 8 Accepted
2) Maximum difference (Journal and subsidiary journal)	23.8			
3) Minimum difference (maintaining the integrity of accounting system)	9.1			
4) Actual difference (2 minus 3)	14.7			

It is revealed from Table 3 that CAS adoption mean difference and actual difference is 17.1 percent and 9.1 percent. This means actual difference (maximum- minimum 23.8 – 9.1= 14.7) (14.7 percent) is lower than mean difference (17.1). It clearly shows that there is no significant difference on CAS adoption between SBEs and MBEs in overall CAS adoption dimension. Hence hypothesis is accepted.

Table 3 shows that, the calculated value of chi- square (*x²*) is 2.13 and Table value is 12.59 at 5 percent level of significance for 6 degree level of freedom. Since 2.13 < 12.59, hypothesis -8 is accepted. In other words, it can be said that calculated value (2.13) of chi- square is lower than that of Table value (12.59) of chi- square at 5 percent level of significance for 6 degree of freedom which means there is no significant difference between small business enterprises and medium business enterprises on CAS adoption.

Hence the hypothesis that there is no significant difference between small business enterprises and medium business enterprises on CAS adoption is accepted.

XI. MODEL OF CAS ADOPTION AND HYPOTHESIS TESTING RESULT

The hypothesis testing can be expressed or summarized by way of employed model for this study purpose, which is based on 7 dimensions, difference in CAS adoption between SBEs and MBEs and *x²* test.

XII. FINDING

Extent of CAS adoption in SMEs is studied and assessed in after measuring and identifying CAS adoption by taking 7 indicators. The average of 7 indicators is the overall extent of CAS adoption in SMEs. Findings are summarized as under:

- CAS adopted by small business enterprises in Rewa is to the extent of 43.0 percent in preparing chart of accounts, 39.5 percent in preparing journals and subsidiary journals, 53.5 percent in preparing ledgers, 70.9 percent in keeping and maintaining integrity of an accounting system, 38.4 percent in preparing types of accounting system, 48.1 percent in preparing other essential documents and 53.5 percent in purchasing and using software respectively. Overall 49.6 percent CAS is adopted in SBEs in Rewa
- CAS adoption in medium business enterprises (MBEs) shows that CAS adoption by medium business enterprises in Rewa is to the extent of 66.7 percent in preparing chart of accounts, 63.3 percent in preparing journals and subsidiary journals, 66.7 percent in preparing ledgers, 80.0 percent in keeping and maintaining the integrity of an accounting system, 60.0 percent in preparing types of accounting system, 63.3 percent in preparing other essential documents and 63.3 percent in purchasing and using software respectively. Overall CAS adoption in medium business enterprises in Rewa is to the extent of 66.7 percent.
- CAS adoption in SMEs in Rewa is to the extent of 45.5 percent, 42.0 percent, 54.9 percent, 71.9 percent, 40.6 percent, 49.7 percent and 54.5 percent in preparing chart of accounts, journals and subsidiary journals, ledgers,

maintaining the integrity of an accounting system, types of accounting system, other essential documents and use of software respectively. Overall CAS adoption in SMEs in Rewa is to the extent of 51.4 percent.

- CAS adoption by SBE, MBE and SMEs in Rewa is to the extent of 49.6 percent, 66.7 percent and 51.4 percent.
- All the seven dimension shows that CAS adoption in medium business enterprises is higher than that of small business enterprises.
- Overall CAS adoption difference between small and medium business enterprises is to the extent of 17.1 percent.
- CAS adoption (overall) is medium business enterprises (66.7 percent) is higher than that of small business enterprises (49.6 percent). It is higher by 17.1 percent.
- Hypothesis “There is no significant difference between SBEs and MBEs on CAS adoption”, is accepted.

XIII. SUGGESTIONS

Government of Madhya Pradesh and Government of India should implement strategies towards achieving this goal, like:

- Cheaper loans from financial institutions for purchase of Hardware
- Currently loans for purchase of software are not legally allowed. This leads to use of pirated software that leads to a number of technical issues. Government should take steps to finance at least some part of software cost through financial institutions.
- SME owners who do not understand accounts, find it difficult to use CAS even if they are tech savvy. Education Ministries through various Universities and affiliated colleges or Commerce Ministries through institutions like District Industries Centers or various Chambers of Commerce should arrange regular seminars, training courses on subjects like ‘Finance for non-finance managers’, ‘Using computers in business management’, ‘Using CAS effectively and completely’, etc.

Software development companies / software developers should establish communication / dialog with actual users like these SMEs under consideration, to:

- understand why users find their software complex and so the extent of adoption is less.
- understand how they can make their software user friendly and precisely aligned with business needs of these SMEs.

Software development companies / software developers should study whether providing user interface in regional languages will help in increasing extent of adoption of CAS.

Governments, through their institutions like District Industries Centres should engage services of qualified CAs / accountants cluster wise to visit these SMEs on a monthly basis and guide and help them to adopt CAS and use it completely and effectively on a regular basis.

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