

ASTUDY ON THE CONCEPT OF CLOUD BASED ACCOUNTING

Nilutpal Narayan Konwar

Department of Accountancy, Mangaldai Commerce College,
Mangaldai, Darrang, Assam

Abstract:

Accounting, the language of business, has been serving every commercial activity ever since the beginning of trade. The practice of accounting has been improving continuously due to the need of translating the economic activities into figures. Additionally, the expansion of IT (Information Technology) and the emergence of the internet have also restructured this art of recording. Cloud accounting technology is one of the tremendous IT innovations of 21st century that delivers computing services over the internet. In order to provide particular and relevant information along with a real time overview of the business to the stakeholders, accounting has also embraced cloud computing solutions. Although cloud accounting is gaining more and more popularity day-by-day, still many businessmen and professionals are not quite sure about its concept, benefits and significance in shaping the future accounting. In this paper, an attempt has been made to provide a theoretical overview of cloud based accounting including its concept, benefits, shortcomings and some other relevant aspects. In this study, data has been collected from the most recent studies and researches conducted by accounting experts or professionals.

Keywords: Cloud Based Accounting, Cloud Technology, On-site Accounting.

Introduction

The cloud is a virtual space or platform that exists on the internet. People can place their digital resources like software, applications and files in cloud to make them accessible at anytime, from anywhere and from almost any device having an internet connection. Cloud computing is an on-demand hostage services delivery technology over the internet. Therefore, in cloud computing, the users can access software applications remotely using the internet through a cloud application service provider. Cloud based accounting or simply cloud accounting refers to store data on a remote server, from where users can edit and save their financial data to carry out transactions online. Thus, in cloud accounting data is sent to the cloud, where it get processed and finally returned to the users. In this system all application functions are performed off-site (not on

the user's desktop) which eliminates the necessity of installing accounting software on individual desktop computer of business organizations. Usually, traditional accounting software is bought like a product and installed on user's desktop computer, on the other hand, cloud accounting is an on-line service. The users have to pay for the use of cloud accounting software to an expertise service provider for accessing the data via internet, and not for the software itself. Thus, Cloud accounting technology is transforming the use of accounting applications and is modernizing the whole business environment.

Objectives of the Study

The study has been carried out with the following objectives:

1. To understand the concept of cloud based accounting,
2. To examine the process of cloud accounting and cost of cloud accounting software,

3. To identify the pros and cons of cloud based accounting system.

Significance of Study

The study has the following significance:

1. The study is crucial to identify the usability of cloud based accounting software.
2. The study will be helpful for conducting further research study on various other parameters.

Research Methodology

The Methodology of the research study is as follows:

1. **Research Type:** This belongs to descriptive type of research study.
2. **Sources of Data:** The research study is based on secondary sources of data that include websites, journals, etc.

What is Cloud Based Accounting?

Cloud based accounting, also called web-based accounting or online-based accounting refers to performing basic accounting tasks such as managing and balancing the books of accounts, using software that is accessed through the internet. Cloud accounting comprises all the features of on-site desktop accounting, but moves the whole process to the cloud and expands upon it. In cloud accounting software a user has to log in always-up-to-date online solution for storing data

safely on a cloud server. In such system, third-party accountants or staff can also manage accounts receivable, accounts payable, the general ledger and much more. Cloud accounting software doesn't run on a local server or hard drive, but runs on a cloud service provider's platform.

Cloud Based Accounting Vs. On-Site Accounting

Traditional accounting system is also called on-site/ on-premises or desktop accounting since it ran either on the accounting team computers' hard drives or on a company's own server. In such situations, all the users of the software needed a computer with the specific software installed or to be within the vicinity of server. Because of storing data locally instead of cloud, the system was risky in terms of loss or damage of data. Although the on-premises accounting software provided major advantages over manual accounting methods, yet the system could not match the scalability or flexibility of cloud software. For example, the upgrading the accounting software was an expensive and time-consuming exercise for the business. In case of cloud based accounting software, the service provider takes the responsibility of maintenance and upgradation and the users/customers has to pay an annual licensing fee.

The key differences between cloud accounting and on-premises accounting are tabled below:

Basis of Distinction	Cloud Based Accounting	On-Premises Accounting
<i>Meaning</i>	Cloud Accounting is based on cloud based computing and it is a recent/newer concept.	On-premises accounting is based on traditional computing and it is an older concept.
<i>Data Storage</i>	The accounting system and information/data is stored in the cloud i.e. on the internet.	The accounting system and information/ data are stored in user's desktop computer.
<i>Nature of Approach</i>	It is an internet/cloud based approach for performing accounting activities.	It is a desktop based approach for performing accounting activities.
<i>Backup</i>	The system is automatic and there is no need for manual backup of data files.	The system is not-automatic and there is requirement for manual backup of data files.

<i>Usage</i>	The accounting software can be used by multiple users at a time.	The accounting software can be used by a single user at a time.
<i>Access</i>	The software can be accessed from anywhere, from any device via internet connectivity.	The software can only be accessed in the desktop in which it has been installed.
<i>Internet connectivity</i>	Uninterrupted/constant internet connectivity is required.	Constant internet connectivity is not required.
<i>Upgradation</i>	The software upgradation is automatic.	The software requires manual upgradation.
<i>Maintenance</i>	The software maintenance is done by the cloud service provider.	The software maintenance is done by the company's IT department.
<i>Business Structure</i>	It supports multi-entity business structures.	It has been designed for single business entity.

Mechanism of Cloud Based Accounting

An electronic device, a web browser and internet connectivity are the three essential prerequisites for availing the facility of cloud accounting. Different users of accounting such as the accountants, the controllers, the chief financial officers and other related parties receive login credentials for accessing the cloud accounting system in a laptop, Smartphone, or tablet through a web browser. The service provider may also offer a mobile app for availing the experience of cloud accounting on phones and tablets.

In cloud accounting, company's bank accounts are typically integrated with the software, for this reason all transactions are automatically posted to the correct/appropriate digital ledger. There is also a home dashboard (indicator panel) that displays the important financial information of the users such as amount of available cash, past-due payments from customers, bills due in the next five days, etc. All information update immediately as soon as the software receives new information and from that data users can generate more additional information/details.

To experience the cloud accounting software, one should follow the below mentioned steps:

Step 1 Choosing the best cloud accounting software as per needs of the business.

Step 2 Creating a Login ID that comprises User Name and a Secure Password.

Step 3 Uploading client's data and integrating bank accounts.

Step 4 Managing financial data in the Cloud.

Security Measures of Cloud Based Accounting Software

Cloud based accounting software provides a strong security system for the stored financial information. It uses encryption and rewriting of the input (Information/data) to convert it into secured unbreakable code, and then stores the data. The security system is just like the security system of online banking. Following are the important security measures offered by cloud based accounting software:

1. Secure premises,
2. Security staff,
3. An off-site automatic backup server,
4. Regular security audits,
5. High-level digital security software with inbound and outbound encryption,
6. Multiple segregated networks,
7. Multiple built-in user authentication methods,
8. Dedicated anti-malware staff,
9. Customer service and technical support,
10. Automatic updates, etc.

Cost of Cloud Based Accounting Software

Cloud based accounting software is less expensive as compared to on-premises accounting systems because it reduces many expenses of an organization. In case of cloud accounting software, there is no need to purchase additional hardware or expand the IT staff of the company to monitor and maintain the system. The customers/users of this software have to pay an annual license fee to the service providers for accessing their service. This annual license fee is the minimum cost of the software. An organization has to pay additional price for the number of users and products used. Thus, the cost of cloud accounting software varies from concern to concern and it is recurring in nature.

Benefits or Importance of Cloud Based Accounting

The major benefits or Importance of cloud based accounting software are highlighted below:

- 1. Automatic and Fast System:** Since bank accounts are connected to the cloud accounting, transactions post automatically into the system and there is no need for manual data entry. Further, the software can automate account reconciliations, match bank statements and invoices to ledgers in order to close the books more quickly.
- 2. Accessibility:** As mentioned above, the cloud accounting system can be accessed from any device via internet connectivity simply by entering login credentials. One can access the system on mobile devices too. Users don't need to be on a certain computer/ in a specific location to see any financial information from the solution.
- 3. Cheaper System:** Cloud accounting system is cheaper to own and operate than on-premises accounting system. There's no need to buy neither hardware nor the business has to worry about the upgradation and maintenance of the software.
- 4. Data Security and Backups:** The security features of cloud based accounting software are better than on-premises accounting software. Additionally, the cloud based system provides regular data backup feature to servers in multiple locations. It reduces the risk of fire and natural disaster. Since data is not stored

on the device itself, therefore; no one can steal sensitive information along with hard drives or devices.

5. Scalability: Cloud based accounting system can be customized by an organization, irrespective of its size and nature to suit the needs of the business. As it has the ability to scale (Enlarge), the functions of the software can be expanded to meet the growing needs of the business. The flexibility of the cloud accounting software plans permits the user to choose the most suitable one.

6. Facilitates Collaboration: Cloud accounting software permits all the authorized users to access all the data stored in the server. Thus it facilitates collaboration. There is not even a single information gatekeeper in the system.

7. Faster Implementation: Usually, companies can implement cloud accounting system faster since there is no need to purchase and set up servers and no need to train IT team.

Drawbacks or Limitations of Cloud Based Accounting

Following are some of the important drawbacks of cloud based accounting:

- 1. Data Security:** Security is one of the primary concerns for using cloud based accounting because there may be financial information/data including confidential files which may steal by unauthorized parties through phishing site scams or may become viral due to service disturbance. Data leaks can be disastrous, for the client as well as for the cloud accounting service provider.
- 2. Recurring Costs:** Usually cloud based accounting is less costly and more efficient than on-site accounting. However, the service providers of cloud accounting often charge a scaling fee based on storage space, computational capacity and bandwidth used by the client. The cost is recurring in nature.
- 3. Absence of Human Supervision:** Primarily, cloud based accounting is done through the use of pre-programmed software removing the presence of a human other than that of the client. In some situations or to certain clients it may create certain disadvantage,

as software can very often malfunction, potentially costing the client in terms of time and money.

4. Technological Limitations: Like other technologies, cloud based accounting also have its own limitations such as cellular data area coverage, internet connection speed, software design, etc. All these factors act as potential roadblocks preventing cloud accounting from reaching its full potential.

5. Bandwidth or Data Limitations: The cloud accounting service provider can limit the amount of data storage and computational power utilization of clients, in order to prevent them from defaulting on payments.

Suitability of Cloud Based Accounting

Cloud based accounting may be suitable for the following categories of business firms/companies:

1. Companies having small budget, since cloud accounting software is less costly to invest as compared to traditional software.
2. Business firms where employees work remotely or from home.
3. Small companies who cannot arrange adequate data security to be safe with their own strength.
4. Business firms which avoid potential threat of technology at office that could destroy hard drives and data.

Conclusion

Cloud based accounting/cloud computing is a recent technological development in the field of accounting that has the potentiality of influencing the world significantly. We have seen that it provides many benefits to the users and business firms. For example, it reduces the operating cost of users by spending less on software upgradation and maintenance. However, there are certain other challenges of cloud computing, that must be overcome. People always want to keep their data secure and private. But in this connection, there are no standards or regulations worldwide to provide data

security through cloud computing. Furthermore, users also worry about their data disclosure and data ownership. Hence, once the standards and regulation regarding data protection are established worldwide, cloud based accounting will transform the future.

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