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Confidence Joel Ihenyen
Ph.D., Department of
Accounting, Niger Delta
University Wilberforce Island
Amassoma, Nigeria

Levi-Owonaro
Department of Accounting,
Niger Delta University
Wilberforce Island Amassoma,
Nigeria

Seimieghe Prisca
Department of Accounting,
Niger Delta University
Wilberforce Island Amassoma,
Nigeria

Accounting system challenges and its impact on global environment of modern business

Confidence Joel Ihenyen, Levi-Owonaro and Seimieghe Prisca

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Abstract

Changes in the current corporate environment have been drastic due to the quick growth and acceptance of globalization and the massive progress in information technology. This study examines accounting system challenges and its impact on global environment of modern business. Key concepts such as accounting, accounting system, global environment and modern business were clarified. Challenges Associated with Accounting System and its impact on global business environment was discussed extensively. Finally, the study gave a vivid presentation of the future of accounting systems in Global Environment of Modern Business. It was recommended among others that corporations, governments, and civil society must work together to strengthen the global economy.

Keywords: Accounting, accounting system, global environment, modern business

1. Introduction

Changes in the current corporate environment have been drastic due to the quick growth and acceptance of globalization and the massive progress in information technology. These changes have introduced new challenges that the traditional accounting procedures can't handle. Hence, this presentation will explore the accounting system challenges and its impact on global environment of modern business.

The main objective of this study therefore is to:

1. Clarify the concepts of accounting, accounting systems and global environment of modern business
2. Identify the challenges associated with accounting system.
3. Discuss the impact of accounting system challenges on global environment of modern business
4. Discuss the future of accounting system in global environment of modern business

2. Conceptual Clarification

A. Accounting

There are several possible definitions of accounting. Accounting is "the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results," as defined by the Miriam Webster online lexicon (2007). Whether it's for internal use (management accounting) or for dissemination to other parties (finance accounting), this term covers it all. Internal reporting and management accounting systems may be tailored to the specific requirements of each business.

Financial accounting standards are set by organizations like the Financial Accounting Standards Board (FASB) in the United States and its international equivalents. The weaknesses in external reporting are the focus of many of the points presented here. Formally, the FASB says that financial reporting is not a goal in and of itself. Instead, it is meant to give business and economic decision-makers information that will help them make smart choices about how to use limited resources (FASB, 2008, p. 9). This statement tells us a lot since it gives us a yardstick by which to evaluate accounting's efficacy: does it help with the effective distribution of assets?

Corresponding Author:
Confidence Joel Ihenyen
Ph.D., Department of
Accounting, Niger Delta
University Wilberforce Island
Amassoma, Nigeria

In a narrower sense, accounting is used to report to stakeholders on the creation of (usually historical) revenue and cash flow streams and evaluations of financial status. There is a significant distinction to be made. The reporting of past revenue streams is substantially less susceptible to manipulation than reporting of future income streams. The criteria of dependability make accountants highly leery of questionable pledges of cash, and this includes the future to a greater or lesser degree, therefore most of accounting is focused on the past. However, many users have various needs, necessitating various safeguards. Accounting, like marketing, is under attack, but for different reasons.

b. Accounting Systems

Fullerton and McWatters (2021) ^[4] defined accounting systems as software programs designed to manage and process financial transactions and data in an organized manner. These systems can range from simple spreadsheets to complex enterprise-level software. The basic functions of accounting systems typically include recording financial transactions, tracking accounts payable and receivable, managing inventory, generating financial statements, and analyzing financial data. Some systems may also have additional features such as payroll processing, tax management, and budgeting. Ahmad *et al.*, (2014) ^[1] presented a list of accounting systems as:

- a) **Manual accounting systems:** These systems use paper-based records and ledgers to track financial transactions.
- b) **Spreadsheet-based accounting systems:** These systems use spreadsheet software such as Microsoft Excel to manage financial data.
- c) **Desktop accounting systems:** These systems are installed on a local computer and provide more functionality than spreadsheet-based systems.
- d) **Cloud-based accounting systems:** These systems are accessed through a web browser and are hosted on remote servers. They provide real-time access to financial data from anywhere with an internet connection.
- e) **Enterprise resource planning (ERP) systems:** These are sophisticated programs that handle many aspects of a company's operations, such as finances, stock, employees, and clients.
- f) **Global Environment of Modern Business**

Curtis and Payne (2018) ^[3] described global environment of modern business as the complex set of economic, social, political, and technological factors that affect businesses operating in a globalized world. This environment is characterized by rapid technological advancements, changing consumer preferences, intense competition, and increasing concerns about sustainability and social responsibility.

Fullerton and McWatters (2021) ^[4] submitted that one significant aspect of the global environment of modern business is the rise of digital technology and the Internet. The Internet has been a game-changer for the business world, enabling companies to instantly connect with consumers all over the world. This has led to increased competition, as companies compete for customers on a global scale.

Another critical factor is the increasing importance of sustainability and social responsibility. Companies are

increasingly being scrutinized for the effects they have on society and the environment, and consumers are becoming more conscious of the impact their purchasing decisions have on the planet. As a result, businesses are implementing sustainable practices and socially responsible policies to meet these demands.

Globalization has also had a significant impact on the global environment of modern business. Businesses are increasingly operating across borders, and this has led to greater cultural diversity and the need to adapt to different market conditions and regulations.

Political factors such as trade policies, tariffs, and political instability can also affect businesses operating in the global environment (Muyanu & Brook, 2017) ^[7]. Companies must navigate these challenges to remain competitive and ensure their long-term sustainability.

In summary, the global environment of modern business is complex and constantly evolving. Businesses must be aware of the trends, challenges, and opportunities in this environment to succeed in a globalized economy. This requires an understanding of the impact of digital technology, sustainability and social responsibility, globalization, and political factors on their operations.

3. Challenges Associated with Accounting System

Accounting systems face several challenges that can affect their effectiveness and efficiency. Tabner, (2007) ^[9] identified summarised these challenges as:

1. **Security risks:** Accounting systems often contain sensitive financial information, which makes them vulnerable to security breaches and cyber-attacks. Theft of data, monetary fraud, and damaged reputations are all possible outcomes of these dangers.
2. **Integration issues:** Accounting systems need to be integrated with other business systems such as inventory management and payroll to ensure accurate financial reporting. However, integrating different systems can be complex, leading to errors and inconsistencies.
3. **Complexity:** Accounting systems can be complex and require specialized knowledge and training to use effectively. This complexity can make it difficult for small businesses with limited resources to manage their financial operations effectively.
4. **Data accuracy:** Accounting systems rely on accurate and timely data to generate financial reports. However, errors in data entry, system glitches, and other factors can lead to inaccurate financial reports, which can have significant consequences for businesses.
5. **Cost:** Accounting system setup and upkeep may be costly, especially for start-ups. Some companies may be unable to afford the investment in necessary software, gear, and trained staff.
6. **Regulatory compliance:** Accounting systems must comply with various legal and regulatory requirements, including tax laws, financial reporting standards, and data privacy regulations. Non-compliance can lead to fines, penalties, and legal liabilities.

4. Accounting System challenges and its Impact on Global Environment of Modern Business

Accounting systems face several challenges that can impact the global environment of modern business. Boolean (2017)

^[2] presented potential challenges that can impact the global environment of modern business as:

1. Paper-based accounting systems require significant amounts of paper. Manual accounting systems rely heavily on paper, which can lead to significant paper waste. This waste can contribute to deforestation and increase the carbon footprint of businesses. The impact on the environment can be mitigated by adopting computerized accounting systems that use electronic records, thereby reducing paper consumption.
2. Energy consumption associated with maintaining and operating accounting systems can contribute to greenhouse gas emissions, exacerbating climate change. Businesses can adopt sustainable energy practices to minimize their carbon footprint, such as using energy-efficient hardware and adopting renewable energy sources.
3. Data breaches and cyber security threats associated with accounting systems can compromise sensitive financial information, leading to reputational damage and financial losses. This can have a ripple effect on the environment by undermining public trust and creating negative environmental and social impacts.
4. For start-ups without the capital to invest in cutting-edge software and hardware, the expense of setting up and maintaining an accounting system might be prohibitive. This can create a barrier to entry for small businesses and limit their ability to compete effectively, leading to economic and social impacts.
5. Energy consumption: Computerized accounting systems require energy to operate, which can increase a business's energy consumption and carbon emissions.
6. Electronic waste: Accounting systems rely on electronic devices such as computers, printers, and scanners, which can contribute to electronic waste when they become obsolete.
7. Lack of sustainability reporting: Without proper accounting systems, businesses may not be able to track their environmental impact and report on their sustainability performance accurately.
8. Non-compliance: Failure to comply with environmental regulations can lead to fines and penalties that can impact a business's financial performance and reputation.

5. The future of accounting systems in Global Environment of Modern Business

The future of accounting systems is closely intertwined with the global environment of modern business. As businesses become increasingly aware of the impact of their operations on the environment, accounting systems will play a crucial role in helping businesses track and manage their environmental impact (Romney & Stein, 2013) ^[8]. Here are some ways in which accounting systems can contribute to a more sustainable future for businesses:

- **Adoption of cloud-based accounting systems:** Inman and Mehra (2013) ^[4] reported that cloud-based accounting systems can reduce paper waste, energy consumption, and electronic waste associated with traditional accounting systems. They also offer businesses greater flexibility and mobility, allowing them to manage their finances from anywhere, at any time.

- **Integration with sustainability reporting:** Accounting systems can be integrated with sustainability reporting frameworks to help businesses track and report on their environmental performance accurately (Boolean, 2017) ^[2].
- **Use of artificial intelligence and machine learning:** With the aid of AI and ML, companies may better analyse their financial data and make choices that reduce their negative influence on the environment. (Inman & Mehra, 2013) ^[5].
- **Focus on sustainable supply chain management:** Accounting systems can help businesses track the environmental impact of their supply chains, allowing them to identify opportunities to reduce their carbon footprint and promote sustainable practices (Tabner, 2007) ^[9].
- **Integration with environmental regulations:** Accounting systems can be integrated with environmental regulations to help businesses ensure compliance and avoid fines and penalties.

Generally, the future of accounting systems is likely to be more closely aligned with sustainability and environmental performance. By adopting sustainable accounting practices and integrating accounting systems with environmental reporting and regulation frameworks, businesses can promote sustainability and contribute to a more sustainable future.

6. Conclusion and Recommendation

The challenges of accounting systems can have significant environmental, social, and economic impacts on the global environment of modern business. Businesses must adopt sustainable practices that minimize their environmental impact, protect sensitive financial information, and promote economic growth and social well-being. To achieve this goal, corporations, governments, and civil society must work together to strengthen the global economy. The future of accounting systems is likely to be more closely aligned with sustainability and environmental performance. By adopting sustainable accounting practices and integrating accounting systems with environmental reporting and regulation frameworks, businesses can promote sustainability and contribute to a more sustainable future.

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