

**Dr.RituSoni,**  
**Department of Accounting,**  
**Rashmi Vyas,**  
**Department of Management**  
**Faculty of Commerce,**  
**Mahila PG Mahavidyalaya, Jodhpur**  
**(Rajasthan)**

## **Digitalization in Accounting and Microfinance**

### **Introduction**

It is evidenced from the past few records that the introduction of Digitalization has brought into many technological advancements in the country which has not only transformed the living style of individuals but has also contributed in the drastic changes in the business world. This Digital revolution has resulted in a shift of analog business becoming digitalized. The digital transformation has not only affected the core operational areas of business but also have an impact on the central functions of business Such as Purchasing, Human Resources, Accounting and Finance.

This study provides an insight into “How the Accounting function and Micro Finance activities gets affected by the introduction of Digitalization in the Business scenario”.

### **Concept of Digitalization**

The meaning of digitalization is a transforming analogue knowledge and information to become a stored digital form of knowledge and information. This provides easier access to knowledge and information in real-time and enables a global exchange between people and plugged in digital appliances.

According to **Pearce-Moses (2005)**, “Digitization is the process of transforming analog material into binary electronic (digital) form, especially for storage and use in a computer”. **Witten and David (2003)** define Digitization as, “the process of taking traditional library material that are in form of books and papers and converting them to the electronic form where they can be stored and manipulated by a computer”.

The US Institute of **Museum and Library Services (IMLS)** defines digitization as, “the process of converting, creating and maintaining books, art works, historical documents, photos,

journal, etc. in electronic representation so they can be viewed via computers and other devices”.

The basic idea of digitization is to make full use of ICT facilities for accessing worldwide resources and beneficial for society as well as business at the same time. The main reasons to digitize are to enhance access and improve preservation.

### **Digitalization in Accounting**

Income, Expenses, Investment, Saving Goals, analysis, Debt Control and Profitability are just a few concept in financial planning, which is not only related to business as well as an individual also. For taking decisions regarding these concept, we need right financial information to the right user at the right time and accounting is one of the branch of knowledge which provides financial information to users.

Accounting is not only a language of business but also a language of all economic activities and involves reporting financial information internally and externally. Internal accounting is called as cost and management accounting and is primarily concerned with operating decisions and is communicated to all internal users. External accounting is called financial accounting and involves reporting financial information to external users. In other words accounting is an information system which provide financial information to their users. Users may be firms, companies, government, institution or an individual. Accounting is a process of systematic and scientific recording, classifying, summarizing, analyzing, reporting, interpreting and communication of financial transaction. Accounting is a continuous system that shows the financial positions of a business entity and maintain data or information related to business. For making right decisions management depends on statistical data and information that accounting provides. Functions of accounting is ascertainment of profit and loss, financial position, interpretation and analysis of accounts and statements, development of accounting system, collection of statistical and economic data etc.

The society is gradually growing and becoming more and more digitalized and automated, which requires constant renewal of business strategic management. Companies have to consider new technical requirement (digital transformation) and need to improve them into every function of business. Digital transformation in accounting is one of the biggest development in business scenario which can bring more smoothness in the function of accounting.

### **Positive Impact of Digitalization in Accounting**

Digitalization is the transitioning of accounting and reporting documents and storage from a traditional paper based to an electronic format. Digital transformation in accounting reduces process time and error, improve transparency on income, helps to business leaders for making better decisions about how to lift business performance and also make an organization more competitive. Following is the positive impact of digitalization in accounting:

**Paperless Accounting.** In traditional accounting system journal, ledger and trial balance is prepared in books and papers and financial statements are prepared in form of report. In other words traditional accounting was paper based accounting system but through the advancement

of technology documents and papers are transformed into digital form which convert the paper based accounting system into paperless accounting system.

**Management of Data Quality.** Earlier data was generated and their validity, accuracy and checking was done usually after year, but with the help of digitalization speed and accuracy both has enhanced and validity and checking of data can be done for more than one time in an accounting year.

**Automation of Accounting System.** Earlier each process of accounting system was done by different person separately as like journalization, ledger posting trial balance etc. but through digital transformation in accounting each process of accounting system automatically comes into regular process to the fullest possible extent.

**Real- time reporting.** Managerial decisions needs financial information in right time which is done through the financial reporting and through digitalization high-speed databases is used for decision and play a great role in reporting.

**Creation of transparency.** Digital transformation in accounting helps recording and analysis of transactions since inception to end users which creates fully transparent accounting system.

**Large scale data analyses.** Advancement of technology provides many programs and software which help to analyzed large scale accounting data through which decision makers can take right decisions regarding business.

**Visualization of Reporting.** Advancement technology provides digital visualization tools to prepare the results of our data analyses in graphical form for reporting purpose to the respective target audience.

**Cloud computing.** Cloud computing is the type of internet computing that provides servers, storage, applications and data transfer services. Cloud computing is the path where the consumers enjoys the services at “Anytime, Anywhere” for sharing data more easily and keep their data store safely. Due to digital inclusion cloud computing accounting system has developed. Cloud computing accounting is the internet base accounting which has record, storage, secure and easy to share and many more facilities in it.

**Cost Reduction.** Due to digitalization cost reduction benefit can be received by companies such as, man power reduced, paper based accounting convert paperless accounting, data analyzed and data received timely for decisions also stop delay cost.

The process of digitalization is indeed advancing rapidly, although then there are some **obstacles** found in implementation of digitalization in accounting such as: it is very expensive, conflicts in the internal allocation of personnel between short term operational objective and medium and long term strategic objective, Digitalization of processes which are not yet adequately optimized, Lack of transparency concerning the financial consequences of digitalization project, etc.

## **Digitalization and Micro Finance**

Every individual have certain dreams and they all strives for fulfilling their dreams. To accomplish dreams one needs to employ various resources such as skills, efforts and money. Money required by an individual to accomplish the dreams can be made available with the help of various banking services but banks provides these services to only employed group of individuals. Here arises the problem for unemployed and low income earning group personals. In order to overcome the problem of these groups the micro finance facility was introduced.

Micro finance is an arrangement where all banking services are made available to unemployed and low income earners for carrying out their small business ventures. This facility was introduced in order to promote the development of small scale entrepreneurs. It has its origin with the view to help that group of the society which does not have collaterals against which standard loan can be raised from the banking institution.

The meaning of the term microfinance sometimes gets confused with the term micro credit. Both the terms micro finance and micro credit have different meaning and thus vary in the scope of application. Micro credit is a narrow concept emphasizing on the availability of money on credit terms to the small entrepreneurs whereas Micro finance is the wider concept which focuses on all the banking services provided to the small entrepreneurs other than not just only providing credit. Providing the financial services to the rural, unemployed population is a quite tedious task. There were various problems that popped out as a challenge in front of the microfinance institutions. The major problem of which was that the financial assistance was not forwarded to the person originally claiming it but on the other hand it was been miss utilised by the various middlemen, and the chances of committing the fraud with uneducated and unemployed people was very high. To overcome these problems major steps were adopted by microfinance institutions from time to time. And now in the era of digitalization, various digital inclusions are made by the institutions in order to safeguard the interest of unemployed, lower income group and rural population.

Digital inclusion in microfinance is seemed to be one of the biggest development for protecting the interest of microfinance clients as well as microfinance providers. Some of the major digital developments adopted are:

1. **Mobile Device:** Use of mobile devices has brought a drastic change in the life of individuals. Now a days mobile devices are used for various functioning such as digitization of physical records which brings an increased level of transparency as well as helps in saving processing time of individuals and institutions.
2. **Biometrics:** This is an advanced feature of digitalization where the ATMs are linked with the Aadhar. In this biometric identity authentication is required before performing the transactions like withdrawing or depositing money into the bank accounts of the individuals. This system enables a secured transaction.
3. **Personal Digital Assistant:** It is a complete enabled platform running software programme which helps in standardising the lending procedures of microfinance institutions.

4. **Management Information System:** Through this information is readily made available to the institutions which helps in tracking the client's repayment schedules and mentioning the progress of microfinance clients.

The digital inclusion in microfinance services have benefits as well as challenges for microfinance providers. Some of the benefits are:

#### **Benefits to microfinance providers**

- Digitalization helps in increasing the outreach and portfolio diversification at lower cost
- It helps in reducing the cost of providing financial assistance.
- With digitalization loan recovery may be increased.
- It helps in reducing the chances of fraud.
- Digitalization improvises the customer service by providing faster and convenient services.

Digital inclusion in microfinance not only brings benefits for microfinance providers but also lay down certain challenges for the providers of microfinance. Some of the important challenges faced by the providers of microfinance are:

- Infrastructure is a major challenge because in India there is lack of proper infrastructural facility in order to support the level of digitalization.
- Adequate technology adoption is not possible due to lack of affordability for the microfinance providers.
- There is lack of clarity on the use of cloud services as well as regulatory restrictions also acts as a major challenge for various micro finance institution.
- Lack of knowledgeable and skill full workforce is another big challenge.
- Change acceptance rate is very low in country like India and here therefore change management is a tedious task for the micro finance institution.
- Budget is also a big issue because the micro finance institution does not have adequate funds to introduce the concept of digitalization in their work system.

#### **Conclusion**

Of course Accounting and Finance are two separate entity but in one soul. All Financial decisions are based on accounting system and advancement of Information technology have come up as boon for Accounting and Finance. Microfinance institutions in order to take decisions of providing financial assistance, needs to analyse the final accounts as well as needs to access the financial position of the clients. This process requires great time and effort which can be reduced by the use of digitalization in Accounting. This will enable the microfinance providers with the easy access of information for taking a profitable decisions. Although digitalization is a time consuming and very expensive venture, but it is a powerful way of recording, storing and analysing, reporting and sharing of financial and accounting data which is the most helpful tool for the microfinance institutions for providing the sanction of various banking services to the unemployed and rural population.

On the basis of the above discussion, it could be concluded that the digitization of various activities of accounting and microfinance has brought into various drastic and amazing changes

which facilitates easy and timely functioning of the various activities of the micro finance institutions and accounting system. No doubt this has also brought into several challenges, if the microfinance institutions and accounting system tries to overcome these challenges than this would result into the most profitable venture in accounting and finance sector. Digitization of activities will lead to reduced chances of committing fraud in account preparation as well as will help in reducing the amount of non-payment of the loan to micro finance institutions.

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