# CLOUD ACCOUNTING THE SOLUTION FOR MULTI-ENTITY FINANCIAL MANAGEMENT

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**ABSTRACT:** *Constituting a growing presence in the contemporary world economy, groups of companies have over time aroused the interest of specialists in the field of economics who have focused on studying the particularities of organization and operation of these entities and finding techniques and methods that allow a global approach of these structures. Cloud technology has revolutionized our daily lives in recent years. Cloud accounting software now offers all the functionality and reliability of local accounting software but with many additional benefits that only online technology can offer. Cloud computing providers have significantly lower operating costs than companies that manage their own IT infrastructure due to their global level and the ability to aggregate the demand of more cloud computing users. From an economic perspective, cloud computing offers the possibility to access IT resources without having major expenses, thus significantly reducing the impact on the costs of newly established companies. The aim of this paper is to explore the factors that have led to the rapid growth of users of cloud accounting software.*

**Keywords**: *Cloud computing; Accounting software, Cloud migration, Globalisation, Consolidation*

**JEL Classification: M41, H30, H20**

## INTRODUCTION

The current national and international business environment is extremely dynamic and competitive. The main objective of an economic organization is to generate financial benefits for its shareholders (Geambaşu, 2012). Thus, for a company that operates and performs in this environment, elements such as access to information, speed of transmission, speed of decision making, staff mobility and flexibility in managing accounting activities are becoming increasingly important. In recent years, the interest of organizations to improve their business processes has become more and more accentuated (Geambaşu, 2012). For most CFOs, it is well known that a strong accounting system is a critical component of the information system, which conditions the smooth running of business.

Given that information technology has evolved extremely rapidly in the last decade, there is a need for a new approach to computerization of accounting, which can have a positive impact on the business. Cloud Computing technology has already penetrated the business environment, where companies are motivated by the cost and efficiency advantages of the new technology.

For many companies, accounting is a cumbersome and time consuming process. Collecting and recording data, organizing information, reconciling accounts and generating reports can prove to be difficult, costly and error-prone activities. This is often due to the use of an outdated accounting system in terms of information technology, which prevents information from being provided in real time, affecting the organization's ability to react to the competitive business environment, and causing for the business to operate at an optimal level. Traditional accounting systems are proving to be inefficient in relation to technological alternatives in the market (Arslana, et al., 2009).

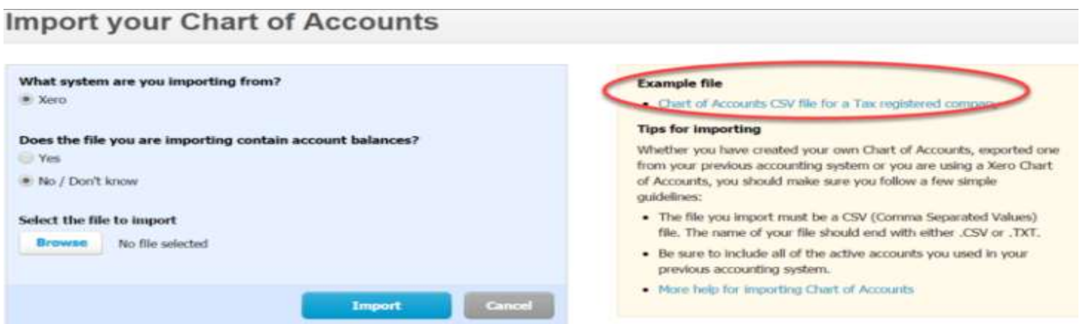
## 1. ADVANTAGES OF CLOUD COMPUTING IN ACCOUNTING

Through Cloud Accounting, accounting firms can compete with those that offer accounting services at a much lower cost. By encouraging clients to scan related invoices on a daily basis, the accountant can have real-time information that can be used to generate adjacent services to add value. Cloud Computing can provide new classes of applications and provide services that were not possible before. Thus, compared to traditional accounting, the Cloud accounting system can make the transition from basic accounting records to real-time business analysis, using large amounts of resources to understand customer needs, buyer behavior, supply chains and more far away. Process automation allows the financial department to collaborate with the other internal functions of a company by facilitating access to data and provides business units with analysis tools. This improves the decision-making process and enables managers and executives to perform their tasks more efficiently, with the help of real-time information, without compromising data integrity.

Similar to how the browser-based version and the mobile version of cloud accounting software can connect to each other, these applications can also connect to other third-party Internet-based applications. Connecting to different applications can simply mean transactions automatically related to basic accounting software or even adding and improving features in basic accounting software. As mentioned above, mobile applications with accounting software allow the storage of images with receipts with user-borne expenses. Some applications, such as *AutoEntry*, have taken a step further by incorporating OCR technology that interfaces with cloud-based accounting services. Optical Character Recognition (OCR) is software that converts document images into editable computer text files (Wyle, 2007). This allows users to scan forms, such as physical invoices and other images, such as PDFs, to make them searchable and fillable. This allows the program to identify key information on a form (e.g. seller name, date and amount) and send it to the system automatically. Another technology that could increase the transmission of data retrieved from OCR is artificial intelligence (AI). Artificial Intelligence is a computer-based system that mimics human behavior (Laudon, 2018). Through machine learning, which is the process of improving computer programs without explicit programming (Laudon, 2018), software can learn to perform tasks and even improve them.

## 2. CHALLENGES IN IMPLEMENTING CLOUD ACCOUNTING TECHNOLOGY

Although the benefits of Cloud Accounting technology are recognized at the corporate level, the implementation of Cloud applications is quite slow, due to the uncertainty of management in terms of control and ownership of information. According to a KPMG study, data security and confidentiality are among the main concerns of users regarding the use of Cloud Computing-based services. Security concerns are based on the fact that confidential company information is stored on a server that can be accessed via the Internet and not on your own computer. In an interview with Intacct, Bob Scott, executive editor of The Progressive Accountant, said that Cloud Accounting applications are changing the way people work, but at the same time this shift is quite slow as accountants are generally more focused on business perspective than a technological one. Thus, they must look at this system of work as an opportunity, understand the changes and how they can benefit from these applications. The main concern of accountants for the transfer to a new system is justifiable. A successful business to be efficient and knowledgeable about what it offers. The transfer to a new system requires not only time to implement the system, but also for employees to become familiar with the software. The impact and complexity of moving to the cloud is related to the software, size, business style and technological experience of the company trying to implement it. As with any software change, the first thing you need to focus on is getting old information about the new software. For some cloud computing solutions, this task may not be as difficult as others. Many cloud software use CSV files to read accounting data from other software. These files are easy to manage through Microsoft Excel and are plain text, tabular versions of the user's accounting data. Although these systems have a means of importing previous data, they do not allow all types of files and may not be able to recognize every form or file uploaded. Recent transactions will need to be entered manually and other transactional information, such as direct entries in the general ledger, will need to be entered as summary information, such as a test balance sheet. If you do not have software or file types that comply with import restrictions, your historical data will need to be saved to your desktop. This will mean that the information on the cloud accounting software will start as summary information, with no historical data in it.




Source: https://fitsmallbusiness.com/import-chart-of-accounts-xero-course/

| *Code | *Name | *Type | *Tax Code | Description | Dashboard | Expense Claims | Enable Payments | Balance |
|---|---|---|---|---|---|---|---|---|
| 120 | Accounts Receivable | Accounts Receivable | Tax Exempt (0%) | Outstanding invoices the company has | No | No | No | |
| 130 | Prepayments | Current Asset | Tax Exempt (0%) | An expenditure that has been paid for i | No | No | No | |
| 140 | Inventory | Inventory | Tax Exempt (0%) | Value of tracked items for resale. | No | No | No | |
| 150 | Office Equipment | Fixed Asset | Tax on Purchases (! | Office equipment that is owned and cor | No | Yes | No | |
| 151 | Less Accumulated Depreciation | Fixed Asset | Tax Exempt (0%) | The total amount of office equipment c | No | No | No | |
| 160 | Computer Equipment | Fixed Asset | Tax on Purchases (! | Computer equipment that is owned anc | No | Yes | No | |
| 161 | Less Accumulated Depreciation | Fixed Asset | Tax Exempt (0%) | The total amount of computer equipme | No | No | No | |
| 200 | Accounts Payable | Accounts Payable | Tax Exempt (0%) | Outstanding invoices the company has | No | No | No | |
| 210 | Unpaid Expense Claims | Unpaid Expense Claims | Tax Exempt (0%) | Expense claims typically made by empl | No | No | No | |

Source: https://fitsmallbusiness.com/import-chart-of-accounts-xero-course/

## 3. SECURITY

Not having the physical possession of the company's data and the thought of data security breaches are concerns that make managers uneasy. However, what organizations do not see is that cloud service providers often offer security measures that are superior to the security that many companies have on their internal servers. I propose that cloud service providers comply with best practices for protecting customer data with some of the most sophisticated techniques. Despite the security issues discussed above, many people have no problem using a cloud service known as mobile banking. An internet connection is all that is needed to access your bank account and personal financial information. Despite the amount of personal data that can be accessed via the Internet, consumers use mobile banking because they trust the cloud security that the bank has implemented. The banking and financial industries are some of the most regulated when it comes to security, due to the amount of sensitive and private data they manage

(Probasco, 2017). Similar to banks, cloud accounting providers use a high level of encryption. The servers in the data centers of cloud-based accounting providers offer a minimum of 128-bit encryption, and some offer up to 256-bit encryption. By making additional use of firewalls and intrusion detection software, providers ensure that data is secure because it is transported to data centers and stored indoors. Although encryption provides safeguards against direct access through hacking, such measures are unnecessary if a hacker guesses or gains access to the user's login information (i.e., user ID and password). Fortunately, security measures have also been implemented. Cloud accounting providers have different authentication techniques to ensure that the person who logs into the account is the authorized party. In addition to username and password, companies can implement two-factor authentication. This is a technique that requires the user to enter several forms of identification before they can connect. Some companies may also have the user enter a security pin that is emailed or sent as text when trying to connect. Another means of two-factor authentication is to ask the person logging in to answer a security question before they can access the data. In order for an unauthorized party or hacker to access your account and financial information, they must not only know your username and login, but they must also have access to registered devices or email accounts to validation codes. If, however, someone can successfully log in to your account, there are security measures in place to warn you and prevent further action. Many software vendors have a feature that, when enabled, notifies the authorized user that someone is connecting to the application. When such a login is made, the application warns the user, either by text or by e-mail, that a connection attempt has been made. If the login attempt was not authorized, the software will automatically disconnect the user and block additional access from that location or computer. Cloud software also includes permissions for users, which limit what data certain people can see and edit. If someone successfully enters the undetected system, they would need the appropriate user permissions to retrieve the data they are following. The audit log that is embedded in most software programs will also report when the data is changed and who changed it. This allows constant monitoring within the system.

## 4. FINANCIAL CONSOLIDATION

Corporations are nevertheless subjected to a plethora of sophisticated financial reporting obligations, as well as increased scrutiny from auditors and stakeholders. While transaction systems like enterprise resource planning (ERP) systems often feature general ledger modules that summarize outcomes at period's end, ERPs are unable to support the lengthy financial close process on their own. Financial consolidation and reporting tools bring substantial value by allowing for flexible, accurate, and quick reporting, and they interact with any ERP system with ease. It's difficult for most publicly traded corporations to compile historical data into monthly or quarterly reports. Meeting the business needs for both statutory/legal and management reporting is one of the most difficult tasks. Financial reporting that helps regulate public firms listed on the world's stock exchanges, as well as the related obligations outlined by governmental authorities such as the United States Securities and Exchange Commission, is referred to as statutory reporting. This is usually a prerequisite for quarterly reporting.

- The Financial Accounting Standards Board is a body that sets standards for financial accounting (FASB). The Financial Accounting Standards Board (FASB) provides financial accounting and reporting regulations for the United States.
- The International Accounting Standards Board (IASB) is a body that sets international accounting standards (IASB). In Europe and other nations, the IASB publishes International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).
- The government is in charge. Local governments or stock exchanges can issue accounting standards directly.

- Industry that is regulated. Companies in regulated industries, such as banking, insurance, and utilities, face unique accounting and reporting responsibilities.
- Authorities in charge of taxes. Local tax rules must be followed by all businesses.

## 5. MANAGEMENT REPORTING

Internal and management reporting are not the same as external or statutory reporting. Management reporting standards are determined by a company's managers, and the information is often not shared with governments or external parties. Management reporting obligations are typically vary for different organizational levels, and the reports are more analytic in nature than statutory reports. For example, statutory reporting does not need thorough budget variance analysis, which is an important part of management reporting. In addition, management reporting is frequently used to determine incentive-based pay. Financial consolidation and reporting apps are frequently adopted in an effort to shorten the financial closing and reporting cycle for a company. What is the significance of a quick close? Externally, timely and high-quality financial reporting is perceived favorably by investors and is an indicator of good governance. Internally, management will always want to know as soon as feasible how corporate plans are doing in comparison to expectations. Managers will have more time to assess and maybe change tactics if the closing is accelerated. The average time it takes for subsidiaries to complete their financial closure and report to the corporate center is twelve working days, although the fastest subsidiaries can deliver their financial data in as little as two days. Consolidation of the results takes on average ten working days, therefore the first consolidated results are delivered to the group management after twenty second working days. When we look at the fastest company in our analysis, we notice a significant difference. On the third working day, this company was ready to report and had a complete understanding of the group's financial performance.

## CONCLUSIONS

Cloud accounting software has come a long way since its inception. A software solution that was seen a few years ago as inferior to its desktop counterpart has taken great strides to be a desktop application replacement solution. Although there are still issues with cloud computing, most of them have been addressed in recent years. Cloud accounting can be seen as a secure option, both digitally and physically, that offers cost savings, convenience and a user-friendly interface. While the final implementation decision rests with the user, the three vendors discussed in this thesis sell their software to SMEs. I think these are the companies that can benefit the most from cloud accounting software right now. I believe that most cloud solutions on the market right now do not have the depth of inventory systems and industry-specific features that are needed for these solutions to excel in a larger, inventory-based organization, or companies that require industry-specific solutions. The users who receive the most benefits are service-based or limited inventory-based organizations looking for convenient and affordable accounting software. With the new technology an accountant can provide real-time reporting and business profitability consulting services, cost analysis or decision support. Accounting processes are to be highly automated, supporting transparent information, which makes professional accountants reconsider their position and perceive analysis and consulting as the basis of the role they play. The need for consolidated financial statements is obvious, they provide a more comprehensive picture of the real situation of a group, an image that can not be provided by the balance sheets of component companies, they allow the overall financial situation and results of the group to be expressed in a way global. The main factor in generating this need is the existence of multinational companies and multinational groups in foreign capital markets. In order to act as players in international capital markets, groups of companies must first have comparable, but sufficient or relevant information on existing investment opportunities. The existence of consolidated information at the level of a group of companies, especially when operating beyond the borders of the national economy, is a precondition for the economic success and performance of the group. The objective of the consolidated financial statements is to present the financial position, performance and evolution of the financial position of the entities included in the group of companies as if they were a single company. In any company, but especially in a group of companies, the substantiation of managerial decisions and, in particular, of investments has become a necessity due to the risks that could arise and cause a failure of the actions taken, but also due to significant costs. involved in the adoption and implementation of an inappropriate decision. Obtaining the information provided by the consolidated financial statements is a real and solid basis for substantiating investment decisions, strategic decisions and, last but not least, executive management decisions. An investment decision based on reliable, comparable, consolidated and realistic accounting information is subject to a high degree of success.

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