THE EXPANSION OF ACCOUNTING TO THE CLOUD

Keywords
Cloud accounting
Cloud computing
Accounting software

JEL Classification
M49, O33

Abstract

The world today is witnessing an explosion of technologies that are remodelling our entire reality. The traditional way of thinking in the business field has shifted towards a new IT breakthrough: cloud computing. The cloud paradigm has emerged as a natural step in the evolution of the internet and has captivated everyone’s attention. The accounting profession itself has found a mean to optimize its activity through cloud-based applications. By reviewing the latest and most relevant studies and practitioners’ reports, this paper is focused on the implications of cloud accounting, as the fusion between cloud technologies and accounting. We addressed this innovative topic through a business-oriented approach and we brought forward a new accounting model that might revolutionize the economic landscape.
Introduction

After supporting the large-scale spread of the internet, globalization has brought forward another significant progress in the IT domain: cloud computing. These solutions have emerged in the last decade and they have proposed a different way of thinking about the provisioning of IT software or infrastructure.

The cloud has proven to be a great opportunity for every economic or non-economic field, even for our daily activities (remote access of emails through mobile devices, online banking, data storage or sharing sites). In fact, it is a natural step of evolution for a technology to be absorbed by a domain in order to upgrade itself and evolve towards a new dimension; it can be a new vision for simplifying and optimizing the basic process. Therefore, the accounting field was also marked by the rapid spread of IT tools. In order to avoid repetitive and time-consuming operations, accounting professionals have used various accounting applications over time.

By adopting cloud-based solutions and embracing its benefits, accounting practice can easily expand and experience an original perspective. This innovative paradigm could be the inception of a cloud-based philosophy in the accounting sphere.

The current paper is focusing on the fusion of cloud computing solutions in the accounting field. Considering the novelty of this subject, we should be aware that the academic literature available until now does not provide relevant information on this topic. Most information on cloud accounting was rather provided by practitioners and this is the reason why the most meaningful papers focusing on these solutions are generally surveys, technical reports or market studies.

Based upon the most recent and most significant papers, this theoretical article presents the impact of cloud accounting in the business environment. In this paper, we have included important benefits that could empower an organisation and some of the concerns that practitioners might face.

The cloud accounting revolution?

The 21st century accounting could be greatly marked by the adoption of a new paradigm: cloud computing. Recent studies show that the cloud computing spending will reach $ 73 billion by 2015 and could reshape the entire economic landscape (Tulsian, 2012).

Therefore, the accounting field can also benefit from the usage of cloud technologies. Some might view cloud accounting as a disruptive alternative for the traditional way of doing accounting, but an informational revolution cannot be achieved without an increasing pace of change or without the courage to follow a vision. A mentality shift is necessary in order to evolve and expand, even in the accounting domain. Is cloud accounting the spark that can inspire this revolution? According to some market surveys, the answer is affirmative. But of course, a revolution could have two meanings: a path for growth and progress or an unfortunate event. We will further discuss these opposite points of view and establish a comprehensive framework for this phenomenon.

First of all, it is essential to understand what these solutions are involving. Experts have explained that cloud accounting provides the same functionalities as an ordinary accounting software installed on the client’s computer; the difference is that the applications actually runs on the cloud service provider’s servers. Cloud accounting software is replacing stand-alone accounting software that would normally be installed on one or on several personal computers.

In other words, the financial software is provided as a service rather than as a product. The cloud application can be accessed through a web browser from any location or device, using an internet connection. This way, there is no need to install any software or invest in infrastructure. A company’s financial data is securely stored and ran on the provider’s servers. Every operation is processed “in the cloud”. Therefore, cloud accounting is empowering all users (business owners, accountants, auditors or clients) who can work in a collaborative way with the same financial data regardless of their location: the office, their home or anywhere else.

If we consider the two opinions that we mentioned before, we discovered that some of the accounting professionals are eager to embrace cloud accounting solutions; others are rather sceptical about them. According to an Australian survey carried out in April 2013, the preference for cloud accounting is prevalent for younger accountants and business owners (CCH, 2013). It seems that users aged 18-34 have the largest uptake of cloud-based solutions, and they are also more likely to switch to these services in the future. The same study shows that 60% of the 77% of accountants who are not using cloud accounting solutions already will probably do so within the next two to three years. Accountants and managers that are over 50 are not so receptive to migrating their accounting work onto a cloud-based solution. Only 13% of accountants and 6% of managers that are over age 50 are already using cloud-based applications compared to 29% accountants and 31% business owners aged 18-34.

A survey conducted in the United Kingdom (Liquid Accounts, 2014) in March 2013 shows that 65% of companies have already embraced the cloud accounting vision or were intending to adopt cloud-based applications in the near future. A year ago, when a similar survey was carried out, only 23% of
the respondents were using cloud accounting software.

The fact that cloud accounting is getting more attention as time goes by is not a surprise. Many accounting software companies are promoting cloud solutions in order to make people aware of the potential benefits ensured by the cloud. Of course, both locally installed accounting applications and cloud accounting solutions will continue to co-exist, but we can definitely see that traditional software has already lost its prevalence. The reason for this dramatic shift is the need for efficiency, performance and lowered costs (which are especially significant for small and medium sized companies). After understanding the utility of these solutions, accountants have supported this increased level of adoption for cloud accounting applications.

Naturally, there are some representatives of the accounting profession that are rather sceptical about these technologies. Some accountants consider cloud-based software an obvious threat for their future work (CCH, 2013). We should emphasize that cloud accounting is not excluding the human factor from a company’s life; it is actually optimizing its activity.

Cloud accounting has evolved as a mean to simplify the complicated and repetitive tasks that accountants have to perform on a daily basis. These solutions should have been seen as a response to an issue, and not as a threat.

We consider that this mentality has been sustained by misunderstanding and possibly because of the novelty of these solutions. As a matter of fact, almost every progress achieved in our collective evolution has been initially denied or criticized (see the cases of several noteworthy inventors throughout our history). Time will certainly reveal whether this creative technology will be a viable and large-scale adopted paradigm or not. Those who are not receptive or unable to adapt and evolve are likely to be sceptical about these innovative IT tools.

Still, in order to share the digital reality that we are living today, companies and accounting professionals are now able to discover a different perspective and take advantage of these modern technologies.

The current economic context is very unpredictable and complex; companies (and small-sized ones in particular) are sometimes struggling to figure out the best approach for surviving on the market. This is why the accounting department should benefit from all available opportunities and efficiently meet all informational needs of the business. By giving technology a chance to justify its usefulness, accountants can enable a superior level of business insight that could elevate any entity’s performance.

What does Cloud accounting promise?

There is no doubt that cloud computing can redesign the accounting software market (Sommer, 2014). Cloud accounting promises to be a wise choice so that the accounting workflow would be faster and more efficient. Because this concept is rather novel and many professional are not aware of its benefits, we further include the most relevant advantages ensured by these solutions.

One of the most impressive gains is the cutting of costs. Especially for small and medium sized businesses, initial investment in computer infrastructure and software is generally burdening. In the traditional accounting model, applications are bought as products and installed on every existing computer. As opposed to that old-fashioned model, when using cloud accounting, users are only paying for the use of accounting software offered by a service provider and accessed over the internet. This way, there is no need for substantial expenditures with hardware and applications (devices, licences, maintenance and IT staff).

Cloud accounting enables organizations to extend and improve collaboration and communication with business partners who are able to access factual and up-to-date financial information in the same time, over the internet, regardless of their location. This way there is a real possibility to shift from paper-based accounting reports to real-time financial dashboards and insight into profitability. A clear advantage of working collaboratively is the fact that by means of improved remote access, clients can easily pay invoices online and other business partners can be able to use real-time financial data to make the right business decisions.

Through a cloud-based application, practitioners can perform repetitive and resource-consuming activities, therefore optimizing the accounting workflow. These solutions can become a great opportunity for accounting to expand and move towards a bright future. This new way of doing business can be a step forward into another stage – a technology-based one. In a challenging economic context, companies can either develop or disappear just as rapidly, depending on their potential to evolve and adapt to the most suitable technological framework.

Is there any downside?

Cloud accounting software can be seen differently according to each user’s own perspective. If we consider the possible shortcomings, we should admit that the most frequent concern mentioned in the literature (Păcurari & Nechita, 2013) is referring to the safety of the sensitive data and the privacy of data from unauthorized access, information theft or computer hacking. The security concern is in fact, the major obstacle for the migration of companies to the cloud.
Regarding this issue, it is essential to understand that in most cases, it is more likely that the external cloud service provider can guarantee a higher level of security than the one that would usually be ensured by each entity for their internal computers. Hence, the entire business can become more reliable and secure. Furthermore, cloud providers are compelled to follow specific security standards that prove they are trustworthy and entitled to provide these cloud and security related services (even automatic back-ups that are performed on a scheduled basis by the cloud provider).

Another issue that companies might have in mind is the loss of control over data. In this scenario, the business would be vulnerable, but that is only possible if the service quality and availability is not fully stipulated in the contract.

A discontinuity of the internet connection could also interrupt the user’s activity. However, this is a false issue because all cloud service providers have got precise and rigorous service-level agreements with their own network providers, and the user never has to experience downtime. Another aspect that should be taken into consideration is the possibility to test the cloud solution for a limited trial period of time before adopting it. This way, companies are able to know if cloud accounting is suitable for them, before making a long-term commitment.

Conclusions
The 21st century has brought forward an undeniable revolution in the information technology field that is also influencing the economic environment. Cloud computing is the latest successor of the internet phenomenon and its strong impact has inevitably reached the accounting domain.

After thoroughly examining the literature addressing this subject, we have come to the conclusion that slowly but surely, the world of bookkeeping is embracing the cloud vision. The various and considerable advantages ensured by cloud services have proven that another revolution is close: the expansion of accounting into the “cloud computing era”.

Based upon an evaluation of the cloud accounting offering, we have presented in this material, the most relevant benefits than can be provided by cloud accounting solutions and the possible weaknesses as perceived by the economic actors. We have also discussed the different perspectives that are related to these solutions: some practitioners are eager to discover the assistance given by cloud-based applications, while others are rather sceptical about them. Through this theoretical paper we did not intend to present an exhaustive perspective on this subject. We would like to remark that there is not much academic literature available on this topic. Still, there are several market studies, practitioners’ handbooks and surveys that can give an overall picture for the cloud accounting model. The most probable reason for this is that the concept is relatively new, even for practitioners. We should also mention that this paper is based upon a business perspective on cloud accounting. Further research of this subject could refer to other implications and issues.

Acknowledgment
This work was supported by the European Social Fund through Sectorial Operational Programme Human Resources Development 2007 – 2013, project number POSDRU/159/1.5/S/134197, project title “Performance and Excellence in Doctoral and Postdoctoral Research in Economic Sciences Domain in Romania”.

This work was supported by the European Social Fund through Sectorial Operational Programme Human Resources Development 2007 – 2013, project number POSDRU/159/1.5/S/142115, project title “Performance and Excellence in Doctoral and Postdoctoral Research in Economic Sciences Domain in Romania”.

Reference list:

