Comparative Study of Traditional Accounting System and Modern Accounting System

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Abstract

Indian accounting is set to face new challenges from the developed countries after outsourcing accounting work. To meet the challenge accounting sector in India needs tangible improvement in terms of quality and output. To fulfill these needs, Indian accountants must be well formed about the latest trends in accounting industry, i.e. about new techniques of voucher entries, new methods of accounting of branches and departments and new system of automation of accounting work. This should be possible only with the accountants interface millennium technology (Modern accounting) in bringing about which is playing an important role in the era of globalization. The aim of present paper is to highlight the traditional and Modern accounting concepts.

Keywords: Indian accounting, modern accounting, trends, automation, needs.

Introduction

Accounting is the system a company uses to measure its financial performance by noting and classifying all the transactions like sales, purchases, assets, and liabilities in a manner that adheres to certain accepted standard formats. It helps to evaluate a Company’s past performance, present condition, and future prospects. A more formal definition of accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof.

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tangible improvement in terms of quality and output. To fulfill these needs, Indian accountants must be well formed about the latest trends in accounting industry, i.e. about new techniques of voucher entries, new methods of accounting of branches and departments and new system of automation of accounting work. This should be possible only with the accountants interface millennium technology (Modern accounting) in bringing about which is playing an important role in the era of globalization.

Accounting has been done manually till the 1980s. Before the advent of fast and cheap computers, accounting traditionally was processed manually with all transactions recorded in columnar papers and kept in voluminous binders. Once computers became popular and software affordable, accounting tasks moved into this medium, where concepts stayed the same but mechanics changed from papers to programs. When the advent of fast computers and easy-to-use, accurate and reliable software started. An accounting system is a collection of processes, procedures and controls designed to collect, record, classify and summarize financial data for interpretation and management decision-making. Modern accounting involves making use of computers therefore it is called as computerized accounting. It includes accounting software to record, store and analyze financial data. A Modern accounting system brings with it many advantages that are unavailable to along accounting systems.

Research Design:

Statement of the problem:
The aim of present paper is to highlight the traditional and Modern accounting procedure, aspects and need of accounting system which can be generate the importance of modern accounting.

Objectives of the study:

1) To know the Traditional and Modern Accounting procedure
2) To evaluate the aspects of Traditional and Modern accounting
3) To analyze the need and importance of Modern accounting
4) To study the comparison between traditional and modern accounting
**Scope and limitations:**
The present study covers up the Traditional and Modern Accounting procedure, aspects, comparison between Traditional and Modern accounting and applicability of modern accounting.

**Data Collection:**
For the purpose of study, necessary data was making available from secondary sources i.e. journals, books, newspapers, websites etc.

**Accounting Procedures**
Before starting to record business transactions, accountants have to decide what accounts to maintain and also specify the rules on how to allocate transactions to particular accounts. A Chart of Accounts and an Accounting Manual are the typical accountancy documents that are created to achieve these ends. The recording of day-to-day transactions into books of account is known as book-keeping. Book-keepers refer to the chart of accounts and accounting manual when necessary and allocate business transactions to the correct accounts.

**Traditional Accounting**
There was a sales book, purchases book, cash book and more. Transcribing the transaction details from these "Books of Prime Entry" into ledgers that contained the accounts for income, expenses, assets, liabilities etc. For example, a credit sale to customer X was "posted" to both the Sales account and X's account. Each account has a "debit" column and a "credit" column, in addition to date, description and reference columns. The transaction amounts were entered either in the debit or the credit column, depending on the nature of the transaction. Periodically, the debit and credit columns were totaled and each account's "balance" was extracted. It was a debit balance if total debits exceeded total credits, and vice versa. The balances were then listed in a "Trial Balance". If all transactions have been correctly accounted under double entry accounting principles, the total of Debit Account Balances will be the same as the total of Credit Account Balances and the trial balance will "agree." The balances in the Trial Balance were categorized into Income, Expense, Asset, Liability and Equity categories and summarized in an Income and Expense Statement and a Balance Sheet, which are the main financial statements.
Modern Accounting

Modern accounting eliminated all the steps above, excepting the first step of recording the transactions into a book of prime entry, in this case a computer data entry screen. Modern accounting mainly use the computer device. The accounting software then sorted the entries by type of transaction and date to generate a day book "report", sorted them by affected accounts to generate a ledger report and did all the balance computations and summarizations to come up with Income & Expense Statement / Balance Sheet reports.

Golden Rules of Accounting

Traditional Accounting

Traditional accounting is also known as manual accounting. One of the most famous and commonly used term in the field of accounting and finance is “Three golden rules of accounting”. The phrase itself shows that these rules form the very basis of accounting and act as a cornerstone for all record keeping. They are also called the traditional rules of accounting or the rules of debit and credit.

<table>
<thead>
<tr>
<th>Type Of Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal A/C</td>
<td>The receiver</td>
<td>The giver</td>
</tr>
<tr>
<td>Real A/C</td>
<td>What comes in</td>
<td>What goes out</td>
</tr>
<tr>
<td>Nominal A/C</td>
<td>Expenses and losses</td>
<td>Incomes &amp; gains</td>
</tr>
</tbody>
</table>

Modern Accounting

If you are passing an entry in the journal, you may use the Modern Accounting Approach instead of the usual Traditional Approach.

<table>
<thead>
<tr>
<th>Accounts Involved</th>
<th>Debit/Credit</th>
<th>Rule Aplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture A/C</td>
<td>50,000</td>
<td>Furniture is real a/c so Dr. what comes in</td>
</tr>
</tbody>
</table>
You should try to use the modern approach at least once to find out which one is easier to understand and apply. It is true that some people find the modern approach easier to apply than the traditional golden rules of accounting.

<table>
<thead>
<tr>
<th>Type Of Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset A/C</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>Liability A/C</td>
<td>Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>Capital A/C</td>
<td>Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>Revenue A/C</td>
<td>Decrease</td>
<td>Increase</td>
</tr>
<tr>
<td>Expenses A/C</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>Drawings A/C</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

**Aspects of Traditional Accounting**

Traditional accounting systems, even in today’s world where modern accounting systems seem to triumph over paper based systems, can still provide an effective and useful way of recording business transactions and can deliver an efficient accounting information system for the small business owner.

A Traditional accounts system, if developed correctly can deliver timely and accurate information. In many ways, particularly for the smaller business, in a well designed Traditional accounting system the advantages outweigh the disadvantages. The Traditional system, though requires a greater understanding of how to book keep, can be easier to manage, once the key concepts of double entry book keeping have been learnt. The basic book keeping skills needed, once mastered, apply to all the books of account and can be applied to any business, whether you are setting up a Traditional accounting system for a
plumber, website designer or even a book keeping business, the fundamentals are the same but the different aspects are as follows.

<table>
<thead>
<tr>
<th>Positive aspects of Traditional Accounting</th>
<th>Negative aspects of Traditional Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Applies to any business</td>
<td>1) Prone to human error</td>
</tr>
<tr>
<td>2) Easier to set up</td>
<td>2) Longer to generate reports</td>
</tr>
<tr>
<td>3) Can be more flexible than a modern accounting</td>
<td>3) More suited to smaller businesses</td>
</tr>
<tr>
<td>4) More secure</td>
<td>4) Records susceptible to perils such as fire and water</td>
</tr>
<tr>
<td>5) Does not need electricity or batteries</td>
<td>5) Disaster recovery plans harder to implement</td>
</tr>
<tr>
<td>6) Cheaper</td>
<td>6) Can take longer</td>
</tr>
<tr>
<td>7) Greater “impression” of control</td>
<td>7) Not particularly suited to environments where there are a large volume of transactions</td>
</tr>
</tbody>
</table>

### Aspects of Modern Accounting

Modern accounting is also known as computerized accounting. Accounting is a crucial function for every business – large or small. The following role played by modern accounting.

- To put information close to accountants.
- To improve the capacity of accounting research and extension specialists to organise, store, retrieve and accounting information exchange.
- To evolve mechanism of information sharing.
- To develop accounting database for easy access and database decision making.
- Access to the storehouse of information is easy.
- Accounting data will available universally.
One accountant can deal with various companies through effective utilization of modern accounting.

Positive Aspects

Cost

Modern accounting systems offer several advantages for small businesses. Systems for small and medium-sized businesses can be purchased off the shelf at low cost. These programs allow managers to see the company's financial position in "real-time" and make adjustments to the business strategy as needed. Modern systems can also provide instant reports on stock evaluation, profit and loss, customer accounts, and payroll and sales analysis, allowing faster adjustments in your business strategy. In addition, transactions need to be input only once, and with some training, anyone in the company can handle the inputting.

Time

Using a modern accounting system can save you time. Accounting software allows faster data entry than traditional accounting, and allows documents such as invoices, purchase orders, and payroll to be collated and printed quickly and accurately. Because of its efficiency and ease of use, modern accounting systems also allow you to improve inventory control and payment collection, saving time and improving cash flow. Because modern systems update some records automatically, your account records will always be up to date, saving time in updating.

Computerized accounting systems

The ability of companies to develop and use computerized systems to track and record financial transactions. Paper ledgers, manual spreadsheets, and hand-written financial statements have all been translated into computer systems that can quickly present individual transactions into financial reports. Most of the popular accounting systems can also be tailored to specific industries or companies. This allows companies to create individual reports quickly and easily for management decision making. Significance of computerized accounting systems can be summarized as follows:
Increased functionality

Computerized accounting systems have also improved the functionality of accounting departments by increasing the timeliness of accounting information. By improving the timeliness of financial information, accountants can prepare reports and operations analyses that give management an accurate picture of current operations. The number of financial reports has also been improved by computerized systems; cash flow statements, departmental profit and loss, and market share reports are now more accessible with computerized systems.

Improved accuracy

Most computerized accounting systems have internal check and balance measures to ensure that all transactions and accounts are properly balanced before financial statements are prepared. Computerized systems will also not allow journal entries to be out of balance when posting, ensuring that individual transactions are properly recorded. Accuracy is also improved by limiting the number of accountants that have access to financial information. Less access by accountants ensures that financial information is adjusted only by qualified supervisors.

Faster processing

Computerized accounting systems allow accountants to process large amounts of financial information and process it quickly through the accounting system. Quicker processing times for individual transactions has also lessened the amount of time needed to close out each accounting period. Month- or year-end closing periods can be especially taxing on accounting departments, resulting in longer hours and higher labor expense. Shortening this time period aids companies in cost control, which increases overall company efficiency.

Negative Aspects

Using a Modern accounting system comes with its own set of problems, such as the need to protect against data loss through power failure or viruses, and the danger of hackers stealing data. Computer fraud is also a concern, and you need to instigate a system of controls for who has access to the information, particularly customer information. If there is a security breach and data is stolen, management can be held personally liable for the loss of data. You also
need to make sure that the data has been correctly entered into the system, as a mistake in data entry can throw off a whole set of data.

Applicability of Modern Accounting

Modern accounting/Computerized accounting applicable in various fields for various purposes

Financial reporting

Reports issued to outside investors and stakeholders have been improved by computerized accounting systems. Improved reporting allows investors to determine if a company is a good investment for growth opportunities and has the potential to be a high-value company. Companies can utilize these investors for equity financing, which they use for expanding.

Income tax.

Because tax laws are frequently changing, it is becoming exceedingly difficult to deal with them. Therefore, manual tax preparation is becoming more and more difficult and time consuming. Fortunately, tax preparation software is currently available for companies. Therefore, instead of processing tax manually, companies can use computer software to perform the same functions. As a result, even complex calculations can be performed via computers in a short period of time.

Audit.

If auditors perform auditing functions manually, it takes time. However, audit software packages are currently available for auditors. For example, trial balance software enables auditors to input the working trial balance, handle all types of adjusting entries, and automatically compute the adjusted trial balance.

Word processing.

Accountants use word processing software to prepare reports, billings, memos, and financial statements.
Graphics software.
Many auditors and managerial accountants use the graphics software to graph the data in financial statements and reports.

Image processing.
Image processing captures electronic image of data so that it can be stored and shared. With the help of document imaging, accountants can scan paper documents into the computer and process all of the files electronically. Companies that use document imaging are moving toward paperless offices.

Electronic data interchange (EDI).
EDI enables companies to exchange documents electronically with each other. For example, computerized network enables purchaser and the supplier to exchange purchase orders and invoices electronically in the form of images.

Electronic funds transfer (EFT)
EFT enables companies to make payment and collection electronically. In this case, when company wants to pay for accounts payable to a supplier, it can do it via EFT. Furthermore, whenever company makes sales, transactions are immediately charged to consumer’s bank account and simultaneously credited to company’s account. In addition, all relevant accounts such as accounts receivable and cash are updated immediately by the computerized system. The use of the computerized systems mentioned above has led to the automation of accounting information system. Accounting information systems equipped with these kinds of technologically advanced tools can now perform accounting functions more effectively and reduce costs.

Comparative Analysis: Traditional Accounting and Computerized Accounting

Speed
The most glaring difference between traditional and computerized accounting is the speed of operations. With an accounting program, data is entered once and it is saved. The program provides management with reports in a speed never dreamed possible in the traditional days. No more waiting days or weeks to know whether your business is making a profit. Using computerized accounting, information can be accessed in a matter of minutes. Once data is
available in the system, it can be used in reports, queries and analysis. 

**Accuracy**

Computerized systems have drastically increased accuracy of calculations when compared to the traditional, manual system, in which columns had to be added up, numbers moved from one page to the next, and trial balance and financial statements manually compiled. If errors occurred, many hours had to be spent trying to find and correct them. With accounting software, this problem is eliminated. In the case of accounting spreadsheets, adding simple formulas still may be needed, but it is an easier and more accurate process. Efficiency goes through the roof when a computerized system is used.

**Costs**

The traditional manual accounting system with paper and pencil is cheaper than the computerized version, in which a firm needs a computer, software, printer and other expenses associated with a system. The manual system may work for small businesses up to a certain point, but with the affordable costs of computers and software, many firms are opting for the computerized system. They are easy to use, and finding experienced employees to run the system is not a hurdle.

**Backups**

When using a manual system, the risk of losing data is real. If important papers are damaged or destroyed, that work may have to be re-created. Copies of the original work can be made, but that could be expensive and time-consuming. Accounting on a computerized system offers the choice of saving work on a CD, portable or external hard drive, flash drive, or even online. Many firms back up data every night as a precaution. If something happens the next day, the data can be restored from the backup.

**Conclusion**

Accounting programs or software can help accountants or business owners create sales forecasts, economic business models and other business decision tools. They will also automatically input the business' financial information, limiting the number of human data entry errors. Standard defaults and mathematical verification processes are additionally important features of accounting software. These processes ensure that the company's accounting books are always in balance and do not violate any preset requirements. Small
business accounting software packages are usually basic programs created with the non-accountant in mind. This allows owners and managers to complete traditional accounting functions without much formal training or technical knowledge. Small business owners may also be able to transfer this information electronically to their public accountant for tax purposes. Electronically transferring information is usually more accurate and timely than handing over a stack of manual accounting ledgers.

Advancements in the technology have enabled companies to computerize their systems. As accounting systems are being computerized, accountants must gain the skills to use computerized systems. The use of computerized Accounting systems has brought opportunities for companies to perform the accounting functions more effectively and efficiently because the use of computerized accounting has brought significant time and cost saving and perform accounting functions has brought a chance for companies to progress toward paperless offices. Companies applying a production system may as well apply it more effectively if they use computerized systems. Such tools as electronic data interchange and electronic funds transfer can provide companies with opportunities to apply production system more effectively and save money. Modern accounting has following advantages.

1. The arithmetic of adding of debits and credits column is done automatically and with total accuracy by the computer.
2. Audit trial or details are automatically maintained.
3. Produce financial statements simply by selecting the appropriate menu items.
4. Retrieve the latest data quickly i.e. today's inventory, status of clients payment or sales figures to date.
5. Data can be kept confidential by taking advantage of the security password systems.

Using a computerized accounting system keeps all of the information organized and in one places the computer hard drive. Finding and accessing information on an accounting software program is much easier than the traditional method. Specific data can be found using system functions, which usually include a "find". For example, finding information about a vendor on a manual system could take many steps and significant time. The same process in a computerized system most likely would yield the information in a snap, with less confusion.
and aggravation. Before deciding whether your business is better suited to a manual accounting system or a computerized accounting system, careful consideration should be given to your own preferences. There is no right or wrong decision. At Accounts man we believe in the adage “horses for courses”. If you are more at home writing up ledgers and books then perhaps some of the more modern accounting software packages may not be for you as often there is a steep learning curve to get to grips with a modern computerized accounting system. Though at this juncture, it should be said that the modern accounts software is being written in such a way as to make it much more user friendly to business owners than the older more complex programs of days gone by. Most small businesses will probably start out using a manual accounts system or a hybrid between the two. Though as the business develops the need for a speedier solution to record the transactions of the business will become increasingly more pressing

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