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## ROLE OF COMPUTERIZED ACCOUNTING IN BANKING SECTOR

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**Abstract:** *Digitalization accounting system and information technology can play crucial role in banking sector. Banks using manual banking systems cannot adapt itself to changing business environment and cannot delivering quick and efficient services to their customers. On the other hand, banks operating with computerized accounting/banking systems can offer much improved, efficient and fast services to their customers by them much more competitive. Advancement in technology and globalization has brought a very high competition within the banking industry. The desire for foreign investment opportunities due to less stringent regulations in the financial sector with regional economic integration have compelled most local banks to modernize. This article is related to of accounting systems in banking sector. It also presents how banks digitalization of accounting has helped eradicate many problems in the banking field, comparing and giving insights into differences between computerized accounting systems and manual accounting/banking systems.*

**Keywords:** *Computerization Accounting system, Manual Banking system, Banks, Accounting Software*

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## **INTRODUCTION**

After the introduction economic reform in the form Liberalization, Privatization and globalization, there is increase in growth of service sector in India. There is rapid increase in service sectors like banking, insurance, transportation, communication etc. But before 1991 the number of accounts holders in the various banks in both rural and commercial banks were very few. The use of manual banking system made it uneasy to serve customers in a more diverse ways as urgent demand for information coupled with reconciliation of financial statements of the various institutional customers were very hard to come by. But with the introduction of Computerized Accounting System, the more tedious banking functions through the use of manual banking system have been reduced. The use of computerized Accounting System in the various banks is drastically changing the way banking activities are being organized. Electronic commerce is now regarded as the panacea for the new commercial revolution that is taken place in the advance world which in one way or the other lacking in India and by offering reasonable banking products and services to customers, Indian banks had to adopt computerized Accounting System. The recent improvement in the country's infrastructure has made banking sector to adopt this technology in order to improve their services for their customers.

## **CURRENT SCENARIO F BANKING SECTOR**

Information and communication technology (ICT) has in particular brought a complete paradigm shift on the banks performance and on the customer service delivery in the banking industry. In a bid to catch up with global development, improve the quality of customer service delivery, and reduce transaction cost, banks have invested heavily in ICT and have widely adopted ICT networks for delivering a wide range of value added products and services. The ICT development has a significant effect on development of more flexible and user friendly banking services. Customer satisfaction and customer service delivery is a key parameter for banks to ascertain how effectively banks achieve their objectives of customer acquisition, retention and increased market share. Today, information and communication technology has become the heart of banking sector, while banking industry is the heart of every robust economy. If it collapses so will the economy. ICT revolution has distorted the conventional banking business model by making it possible for banks to break their comfort zones and value creation chain so as to allow customer service delivery to be



separated into different businesses. Thus, for example, primarily Internet banks distribute insurance and securities as well as banking products, but not all the products they distribute are produced by their group (Delgado and Nieto, 2004).

## **MANUAL BANKING SYSTEMS**

Manual can be referred to as anything physically done or operated by the hand. Manual as defined by Dictionary.com refers to anything that is “Done, operated, worked, etc., by the hand or hands rather than by an electrical or electronic device”. (Dictionary.com) This concept when applied to banking can be described as the process whereby the mainframe activities of the bank such as customers, management and accounting information are received and recorded by handwriting without computerized or electronic supported devices. With Manual banking all information about a customer including opening of an account, cash and cheque deposits as well as withdrawals, not to talk of information on the ledgers, mortgage, overdraft and other credit agreements including international banking services are processed by handwritten. This concept when applied to banking can be described as the process whereby the mainframe activities of the bank such as customers, management and accounting information are received and recorded by handwriting without computerized or electronic supported devices.

## **PROBLEMS WITH MANUAL BANKING SYSTEM**

1. Processing of customer information takes a very longer period of time.
2. Customers waste precious time in joining long queues at the bank for their banking activities.
3. There is also huge labour cost, in terms of salaries and its related cost.
4. Errors of commission and omission are very prone in the bank.
5. The manual banking system makes banking with the bank very dull, unpleasant and Uncompetitive.

## **ACCOUNTING SYSTEM**

Every organization must operate accounting system due to the fact that it is generally recommended for companies to report on its financial position to the stakeholders for better decision-making and other policy implementations. The decision to choose whether a company would operate manual or computerized accounting system depends on the company itself Accounting system as defined by business dictionary.com states as An



organized set of manual and computerized accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for management decisions. (Business dictionary. com, Quoted 10.1.2015) Basic accounting software demands not only ICT skills, but also thorough accounting knowledge. By contrast, current accounting software can be run with only a simple understanding of the accounting practice. Nowadays, with in depth help menus and also the vast information that can be sourced online free of charge, resources to assist users in their use of accounting software are easily to come by. (ICT in Accounting, Simmons, Hardy 2011, 372) The advancement in technology especially the Internet has generated new methods of communicating with customers both current and potential in the banking world. Ecommerce has not only changed the way businesses specifically banks market their products or services, but also how these products or services are normally delivered, knack with computers is highly significant in this direction. (ICT in Accounting, Simmons, Hardy 2011, 372)

## **COMPUTERIZED ACCOUNTING SYSTEM**

There is the need to create innovative services and products to respond to the varying consumer demographics and their lifestyles. The intense competition among banks calls for regular overhaul of the banking activities or services in order to guarantee customers with quick but efficient service delivery Moreover, due to the high level of competition that exist in the banking sector it is apt to accept the need and benefits of regularly replacing old products with new or modified ones in order to enhance their performance. An enhanced service through computerized accounting system can serve as a very strong marketing or ad advertising tool for banks by attracting customers from outside and within the sphere of the existing markets. Computerization of the accounting system could lead to reduction in cost such as salaries, higher returns by participating in international banking services and an improved security system which reduces fraud

## **TYPES OF ACCOUNTING SOFTWARE**

1. **Accounts Receivable Software:** The accounts receivable must consists of a detailed listing of customers and the amounts of money each owes the company or bank and other information like the date the debt was incurred, address and phone numbers of each customer. Businesses considering the installation of accounts receivable



management software must undertake an extensive research into the available alternative solution to ensure it includes the key potentials that would enable accuracy and integrity of its financial reporting. The right accounts receivable software solution updates the ledger accounts with appropriate transactions automatically. Invoices are added and customer payments in regards to outstanding invoices are also deducted. The software checks that payments have been applied to a specific invoice or identify that it covers multiple invoices. There should be regular reports generated in detailed, such as an accounts receivable aged listing so that customers at risk of defaulting could easily be identified.

2. **Accounts Payable Software:** The company or organization considering the implementation of accounts payable software solution must first of all realize that the best ones are the one that provide a rapid return on investment. The main characteristics of accounts payable that increase the payback include early payment awareness that enable the company to make use of discounts offered. More so, the ability to write cheques to suppliers and to have the correct debits and credits applied to the company account makes balancing the books easy. (Accounting Software)
3. **General Ledger Software:** A ledger account refers to an accounting record that summarizes all transactions affecting each individual item such as Bank, Stock, Creditors, Vehicles or Capital. In the financial statements all items have its own ledger account and so in this case the bank can have so many ledger accounts to manage considering its numerous customers, without computerized accounting system, it would be virtually impossible to locate one ledger account out of hundreds accurately and conveniently. (ICT in Accounting, Simmons, Hardy 2011, 373) The general ledger software is a very important software solution for all businesses since it is the main accounting record of the business. Key features companies must look for in general ledger accounting software are its ability to trace budget and financial data so as to produce accurate financial statements, detecting fraud so easily, tracking budget and financial data to produce accurate financial statements that can bring out better income statement, balance sheet, and general ledger reportage. When the best general ledger software is chosen, it helps to develop year-end



reports and statements quickly and accurately. The general ledger software automatically passes data from subsidiary ledgers such as accounts payable and accounts receivable for quick and accurate double entries as well as balance sheet balance sheet.

4. **Accounting Packages and Chart of Account:** A number of Software packages have been developed to assist in the accounting field and some of such packages are Quick Books, Mind Your Own Business (MYOB), Cash flow Manager, Attaché, Econet and Temenos T24. Even though some of these software mentioned here are developed for small businesses, they are also designed specifically for accounting purposes in the banks, especially the Temenos T24 software which is currently in use by Amanano Rural Bank Limited. It functions in such a way that once a customer's data is entered, the accounting records of that particular customer are updated automatically, and also customers reports pop-up so easily. Links between the bank and its staff, as well as other information are easily accessible and can be produced quickly, accurately and efficiently. These accounting packages that have been outlined here earlier bring out transactions using accounting records such as the general ledger accounts. (ICT in Accounting, Simmons, Hardy 2011, 373) Furthermore, if some of the customers have the same names or similar names it may be very difficult to identify which account they belong to. To tackle these issues, a bank or business can use a Chart of Accounts to arrange its ledger accounts. A chart of accounts is a catalogue of all the accounts, which detects and organizes each ledger account individually by assigning to it an account number or code. (ICT in Accounting, Simmons, Hardy 2011, 373)

## **BENEFITS OF COMPUTERIZED ACCOUNTING SYSTEM**

Computerized accounting many has benefits such as accuracy in issuance of bank statements and fast processing of financial statements as well as easing the highly cumbersome auditing procedure. As electronic commerce is now regarded as the panacea for the survival of any modern day business.. The introduction of this computerized banking system will improved banking activities in a very convenient way. This will as resulted in most banks making huge profits. Data processing and analysis at the bank are faster, accurate and timely which meets management need for decision-making. Retrieving



information such as balance sheets, income statement is made easy. Problems related to balance sheet and income statement can be easily identified and solved instantly. There will be improvement in the overall performance of the bank as a result of computerization of the accounting system.

## **THE DISADVANTAGES OF USING ACCOUNTING SOFTWARE**

But an accounting software package is not necessarily the best idea for every small business. If you are self-employed or own a small business, you should consider the downside to utilizing accounting software as well as advantages gained.

- **Cost:** Although some small business accounting packages are reasonably priced, the cost of the software is not the only cost of using the software. Accounting software requires minimum standards for computer use in regards to RAM, processor speed and hard drive memory. Making a backup of your accounting data may also require more storage space than an Excel spreadsheet, which is easily copied to a flash drive. Technical support for the software may cost extra, and you can incur annual licensing fees in order to receive upgrades. If you are not skilled in software installation or accounting setup, you may also incur the cost of hiring a consultant to perform those tasks for you.
- **Difficulty:** Some accounting software packages are designed specifically for non-accountants, but you will still experience a learning curve when converting to any software package. If you have never used accounting software before, learning the accounting terms, layouts and determining a proper setup may be more difficult than the benefits received from utilizing the software. Running your own business already comes with enough stress and aggravation. You should not add the stress of learning accounting software to the mix unless it is absolutely necessary or the gains from utilizing the software outweigh the losses.
- **Time:** Processing expenses and invoices in accounting software will usually take more time than simply logging the expense on a ledger pad or spreadsheet software and creating handwritten invoices or spreadsheet-based invoices. If using the computer is not a large part of your daily routine, the time required to process basic daily financial data may outweigh any benefit gained from the software.



- **Maintenance:** Maintaining accounting software not only includes performing upgrades to the accounting software package, but also maintaining and upgrading all the necessary equipment to utilize the accounting software as new versions can require upgraded equipment. That equipment often includes your PC or laptop, monitor, printer, Internet connection and modem, backup drive and operating system. If you do not wish to spend the time and money to keep your equipment in compliance with the accounting software, it is best to stick to spreadsheet or ledger accounting.
- **Dependence on computer:** If you use computer for accounting, then you will depend on computer. It will reduce your IQ power. So after all you should do some calculation on hand so that your mental level will also update and active.
- **Failure of system:** This is also disadvantage of computer accounting, So always make backup of your computer accounting records. I am also suggesting you to clean the dust of your computer. This dust is very dangerous for slowing and stopping of computer system.
- **Expert on computer accounting is not the expert in Accounting Science:** This is not true that expert in computer accounting is expert in accounting. Because general graduate in any subject can work computer accounting without any help but for making expert there will take 10 to 12 years. So always prefer expert accountant
- **Problem of software:** In computer accounting you can face of choosing of correct and effect software for this I always prefer tally 7.2 or tally 9 which is best for me and also for you.

## **CONCLUSION**

The main aim digitalizing accounting system is to uplift the standard of service delivery in order to compete effectively and also for satisfying customer needs. Banks operating on computerized banking system offer an improved service delivery, efficient and faster services to their customers which makes them highly competitive within the banking industry. The introduction of computerized accounting system into the banks has its own challenges just like the inception of any other programme or project at the first instance, problems such as installation cost, unstable power supply, computer failure, lack of expertise were expected. There is an urgent need for all the Rural Banks in the country to





migrate to the use of computerized accounting system. It is also recommended that banks should hire highly trained experts in the field of information technology to manage any unforeseen contingencies that can disrupt the smooth flow of the banking activities. Such future eventualities can be frequent power failure, which can create software problems.

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