

Challenges of Accounting in Global Organization

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Introduction

With more and more global organizations looking to managerial accounting solutions the field of accounting has evolved drastically as per the needs and demands of the society and the economy. Earlier accounting was only limited to dealing with financial information of small business organizations. However with organizations entering the global market and growth in the economy the need for accounting has expanded so that the interests of the large global organizations can be catered for. There are two pivotal users for accounting practices that compromise of external and internal users. The internal users consist of the management of the organization while the stakeholders, the investors and the creditors are considered to be the external users. The global economic crisis has been used largely to blame the role of accounting

of organizations and their downfall. Organizations make use of financial accounting largely that has been based on the principles of traditional accounting. The main goal of accounting in any organization is to develop the financial statements for the external users of the organization. The 21st century has been witness to immense progress in the field of accounting however it has been facing its own set of challenges with the global financial crisis being the most imperative of all.

Project Objectives

- To understand the challenges that the global organizations are facing in accounting.
- The challenges that accounting brings for organisations
- The shortcomings that are found in organizations due to accounting errors

Project Scope

- To have a better understanding of the challenges those are faced by organizations all over the world.
- To analyse the existing gaps in the currently reviewed literature.
- Identifications of research gaps and recommendations

Literature Review

According to Vomáčková, (2012) accounting in the global organizations has been facing problems that have arisen out of the unstable economic environment. The research discusses at length the practices of traditional accounting that are used till date in China that is in accordance to the changing economic conditions. However with the change in the environment these traditional practices of accounting will give way for e accounting, a concept that is being researched and analyzed. The internet has become the most pivotal point for the smooth functioning of all organizations; there has been a drastic improvement in the way technology is now being used for business organizations. E commerce is based upon the concept of digitalization and transfers all the transactions into one common space. This concept has certainly gained immense attention from global companies. Informatization is the crux of these business processes. With the growth of e-commerce becoming more and more advanced traditional accounting has been severely impacted and has led to the creation of several new models for accounting. This accounting system is built entirely on the internet platform and will certainly have an influence on the vital aspects of accounting that comprises of reporting of data, recognition of funds and measurement.

Pinnuck,(2011) argues that the challenges that arise from business operations are another problem being faced by the accounting departments in organization. This is largely due to the fact that the Information Technology industry has been growing at a rapid pace. In present day scenario most organization have become production centric, thus indicating that the production

process of the business is mainly covered by the internal control system. With IT becoming the pivotal point of focus, attention is being paid to training employees, conducting research in the market and communication. These help in creating values that have a much higher proposition in comparison to the values of the services that the organization is providing (Malsch and Gendron, 2013). Thereby leading all global organizations to make use of IT services rather than being dependant on capital intensive services. Traditional accounting has been confronted with a problem arising for the measurement of performances; organizations need to keep up the change in practices by changing their accounting practices as well. These services need to become more efficient as business organizations are getting leaner. The concept of lean accounting is largely used by organizations during the development of new accounting practices which largely concentrate on giving accounting information that is more accurate and helps decision makers to take suitable actions. While traditional accounting is mainly dependent on the cost of labor and the effective utilization of the capacity it has not helped a business organization in a very effective manner.

Implementation of the International Financial Reporting Standard provides equal chances for organisations to develop and create a financial statement that is consolidated and lends help to stakeholders for a better understanding of the financial matters pertaining to the business is analysed by Giner et al., (2016) . Implementing the IFRS is a possibility for various business organisations all over the world but is not close enough for them to attain success due to the fact that its implementation needs resources that are uncontrolled. The question is not if there is a need for having an accounting system that is standard all over the world but it is the need for countries the world over. As it simplifies the flow of financial communication within an organisation as it makes use of IFRS experts that are unilingual. However getting these IFRS

experts is an obstacle in its own self and without them an organisation will fail to implement the system. Hence global organisations are facing an acute shortage of accountants and auditors that understand the IFRS system at length (Christensen et al., 2015).

Challenges arising from Organizational Structures: in the age of technology business

organisations are adopting an organisational structure is of vertical hierarchy and consists of several layers. For various types of functions that comprise of market research, production and accounting are all separate entities. Along with feedback that is not sophisticated in nature and inconsistent information transfer led the structure to garner a poor response and incur high costs to the management of the organization (Chapman, Cooper and Miller, 2009). In the present day scenario where informational technology has been going rapid transformations and advancements organisational structures have new features in them. The concept of work specialization is not the guiding principle that is used for the labour division. All the departments in an organisation carry out specific functions, for example a department for production will be accounted for the sales and the engineering. While the middle management layer will not act as a link for the top management and the workers like it used to early thereby losing its credibility. The communication systems that are being used now days are more sophisticated in design thereby eliminating the need for several management layers (Gray, Adams and Owen, 2012). With the prevalence of IT systems and the internet organisation can now deal with change in a swift manner. For instance Microsoft emails provided easy communication and were able to lower the communication gap that existed about the top management and the workers. Internal information costing has also declined drastically due to the improvement of Information Technology leading to a fall of the vertical hierarchy. This gap that is prevalent amongst the executives and the top management will gradually decrease and eventually fail to exist. The

changes in the business environment have lead organizations to be lesser dependent for usage of labour. They also refrain from usage of their machinery at all times for delivering excellent business performances (Parker, 2012). Global organizations now look to technology and innovative measures for boosting their performance and at the same time enhancing their inventory turnover while focusing on a controlled use of machines and labours. These changes that are taking place in the business environment could act as obstacles for traditional accounting if the traditional methods lack the features and resources to measure the organisations business performance

Research gaps

The world is currently facing a technology revolution that is having an impact on the way businesses processes run and the economy. Special softwares for accounting are gaining credibility for being one of the most intrinsic components of the accounting industry. With the increment in information speed there is a higher demand being created for current information. Technology has caused business organisations to go all automatic thereby lowering their man power for carrying out tasks (Pinnuck, 2011). Business and financial transactions can be carried out with the click of the mouse and have lesser workers involved in them. This has led to an increment in the efficiency of the functioning of business organisations; however it has caused problems in segregation of duties that are important. Subsequently comprising the internal controls and increasing the chances of fraud (Svoboda, 2016). Hence new features need to be developed so that the efficiency is enhanced in such a manner that it can balance out the internal controls.

The next gap that has been found in the critically analysed literature is that in order to be successful in the current financial environment, business organisation has to further enhance their skill set. This implies to all accounting departments of organisation. Communication amongst accountants needs to be effective (Weaver and Woods, 2015). As change in technology does not mean that communication will become fogged rather it becomes the most vital part for ensuring that no errors are made. Another imperative skill that is essential for all accountants to possess is to be analytical in nature. With the immense competition arising, accountants for global organisations need to be able to carry forth complex calculations, provide a clearer explanation for their findings and not just be limited to developing financial reports.

. For accounting in global organisations to be successful, it imperative that accountants are easily adaptable. It needs to be a global talent that helps them to work at one instance with a small sized business in one country and at the same time handle another client located on a different continent. Usage and application of international accounting will only be possible with the successful implementation of the IFRS system along with the appropriate global skills that can help business organisations to perform complex business operations the world over and at the same time reduce their labour costs (Giner et al., 2016). Following a standardized accounting system will help in enhancing the skills and the quality of the accounting professionals.

Organisations will be able to hire services from accounting firms the world over and not just be limited and constrained to a particular city. Hence there is a need to capitalise on the rising global talent for professionals that have the appropriate skills irrespective of their location.

Ethics in accounting has a pivotal role to play. Now days, global business organisations have a challenge of rightful ethical practises that are mandatory to be followed. This highlights the

importance for having accounting professionals who value and stand by their ethical practises. It's of grave importance that accounting firms have a strict ethical principle as failing to abide by them can cause an organisations reputation to be tarnished greatly. These ethical principles need to be advocated by business organisations in their trainings so that the highest forms of ethics are followed by accounting professionals to provide the best possible services to their clients.

Conclusion

In concluding it is very imperative to have a complete understanding of the above mentioned challenges that are accounting is facing in global organizations. In modern day time, the economy is growing rapidly along with the progress of the society hence usage of the latest trends in accounting has a pivotal role to play in the success of a business organization. We need to understand the history of financial accounting so that we can clearly recognize the challenges that lay ahead. The world needs to have an accounting standard that is uniform in nature and is followed by all global organizations the world over. Implementation of the IFRS will certainly solve the challenges that organizations are facing currently, however it needs highly trained professionals that are lacking. The research gaps that have been highlighted that there is dire need for more stringent ethical practices pertaining to accounting in global organizations. Hence it is suggested that organizations need to retain their accounting professionals and hire new ones

as well, provide trainings so that this new system of standardization can be implemented in a successful manner.

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