

Comparative Study of Traditional Vs Digital Accounting Practices in SMEs

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Abstract

This study explains how small and medium-sized enterprises (SMEs) are moving from manual to digital accounting systems. The change is important because it helps to improve accuracy, save time, and meet legal requirements. The paper compares traditional accounting, which uses paper records and manual calculations, with digital accounting that uses software and automation. It looks at how both methods affect business operations, decision-making, and financial performance. The results show that while manual accounting can still be useful for small or low-transaction businesses, digital accounting gives better control, accuracy, and long-term growth. Therefore, digital accounting is becoming the preferred choice for modern SMEs.

Keywords: Accounting, Small and medium enterprises, Traditional accounting, Digital accounting, SMEs

1. Introduction

Accounting is the process which includes collecting, evaluating, and reporting the financial transactions of a company to regulatory bodies, supervisory agencies, and tax collection organizations. Accounting's financial statements provide a brief description of a company's operations and financial status by summarizing financial transactions throughout a given accounting period. Analyzing a company's previous

success, current state, and potential for the future is beneficial. Small and medium enterprises (SMEs) are that business that have limited scope or covering limited area of the whole so this is an issue at first for them that whether they should adopt computerized system of accounting or stuck to traditional method. In today's dynamic business environment, accounting has become a crucial part of every organization. Small and Medium Enterprises (SMEs) are the backbone of developing economies like India, contributing significantly to employment and GDP. Traditionally, accounting in SMEs was carried out manually using books and ledgers, but the emergence of technology has introduced digital accounting systems that make financial management faster, easier, and more accurate. This project focuses on comparing traditional and digital accounting practices in SMEs to understand their benefits, limitations, and impact on business performance.

2. Background

Till 1980, accounting in small and medium enterprises (SMEs) was done manually. Before affordable and fast computers were available, businesses used to record every financial transaction on paper sheets arranged in columns and stored in large files. When computers became more common and reasonably priced, accounting gradually shifted from manual bookkeeping to computer-based systems. The basic accounting principles stayed the same, but the tools and techniques changed—from pen and paper to digital software. With the rise of faster computers and user-friendly, reliable software, SMEs began using computerized accounting systems. These systems help record, store, and analyze financial data easily and accurately.

3. Need of this research

This research is needed to understand how digital accounting improves accuracy, efficiency, and financial management compared to traditional methods. Many SMEs still depend on manual systems due to cost or lack of awareness. The study highlights the benefits, challenges, and importance of adopting digital accounting for better decision-making and long-term growth. This study helps SMEs understand how digital accounting enhances accuracy, saves time, and ensures compliance. It guides businesses and policymakers in adopting modern systems for better financial control, transparency, and growth.

4. Objectives of the Research

1. To compare traditional and digital accounting practices in SMEs.
2. To find reasons behind SMEs' choice of accounting system.
3. To suggest ways to promote digital accounting in SMEs.

5. Research Methodology

The data for this study is largely collected from secondary sources such as: from books, journals, research papers, websites, and government reports. The data is analyzed to compare the effectiveness and practicality of both accounting systems in real business scenarios.

Traditional Accounting

Traditional accounting is a manual, paper-based system of bookkeeping in which all financial transactions are recorded in physical journals and ledgers. It operates on the fundamental “golden rules of accounting” and relies heavily on human effort and accuracy. One of its main features is the double-entry system, where every transaction is recorded as both a debit and a credit, ensuring that accounts remain balanced and mathematically accurate. This approach, also known as accrual accounting, records transactions when they occur rather than when cash is actually exchanged.

Type of Account	Debit	Credit
Personal A/c	The Receiver	The giver
Real A/c	What comes in	What goes out
Nominal A/c	Expenses and losses	Incomes & gains

Modern accounting

Modern accounting is a new and improved way of keeping and managing financial records with the help of technology. Unlike old manual methods that used paper and books, modern accounting uses digital software like Tally, QuickBooks, and Zoho Books. These tools make it easy to record transactions quickly, prepare reports instantly, and avoid calculation mistakes. Modern accounting is not just about

recording data but also about helping in financial planning and making better business decisions.

Type Of Account	Debit	Credit
Asset A/c	Increase	Decrease
Liability A/c	Decrease	Increase
Capital A/c	Decrease	Increase
Revenue A/c	Decrease	Increase
Expenses A/c	Increase	Decrease
Drawings A/c	Increase	Decrease

Rules for Modern Accounting

Type Of Account	Debit	Credit
Asset A/c	Increase	Decrease
Liability A/c	Decrease	Increase
Capital A/c	Decrease	Increase
Revenue A/c	Decrease	Increase
Expenses A/c	Increase	Decrease
Drawings A/c	Increase	Decrease

Comparison of Traditional and Digital accounting

- Traditional accounting focuses on manual bookkeeping and basic record maintenance, while modern accounting emphasizes automation, analysis, and strategic financial management.
- Data in traditional accounting is stored physically, but modern systems store and process data electronically or on the cloud.
- Modern accounting provides real-time reports and analysis for better decision-making, unlike traditional systems.
- Traditional accounting offers limited accessibility, while modern systems allow remote access and multi-user collaboration.
- Modern accounting ensures better data security and compliance compared to traditional manual methods.

Mode of Accounting Used

Mode of accounting	No. Of SMEs	Percentage
Traditional accounting	15	30%
Modern accounting	25	50%
Hybrid system	10	20%

Interpretation: The data shows that the majority (50%) of SMEs have adopted digital accounting practices. About 30% still rely on traditional bookkeeping, while 20% use a combination of both. This indicates that digital accounting is gaining popularity among SMEs due to its convenience and accuracy.

Reasons for Choosing Accounting System

Reasons	Traditional Accounting (%)	Digital Accounting (%)
Low Cost	40	10
Easy to Use	30	20
Accuracy	10	45
Time-Saving	5	60
Data Security	5	50
Government Compliance	10	55

Interpretation: Traditional accounting is mainly preferred for its low cost and simplicity. In contrast, digital accounting is chosen for being accurate, time-saving, and compliant with taxation systems like GST. This proves that SMEs adopting digital systems experience greater efficiency and reliability in financial management

Challenges	No. of SMEs	Percentage
High Initial Cost	10	20%
Lack of Technical Knowledge	12	24%
Fear of Data Loss	8	16%
Resistance to Change	15	30%
Others	5	10%

Challenges faced by SMEs in using digital accounting

Interpretation: The main challenge SMEs face in adopting digital accounting is resistance to change (30%) and lack of technical skills (24%). Although digital tools offer better accuracy, many small businesses hesitate due to the need for training and initial setup cost. The above analysis clearly shows that most SMEs are shifting toward digital accounting due to its accuracy, speed, and compliance benefits. The interpretations are consistent with the study's findings and conclusion, which emphasize that digital accounting enhances efficiency and transparency, while traditional methods remain useful mainly for smaller or less tech-aware businesses.

6. Findings & Suggestions

- Most SMEs are gradually shifting toward digital accounting systems.
- Digital accounting improves efficiency, transparency, and decision-making.
- Traditional methods are still used by small or rural businesses due to lack of awareness and resources.
- Digital systems reduce errors, save time, and provide better data security.
- Government should provide training programs for SMEs on digital accounting tools.
- Affordable accounting software should be made available for small businesses.
- Awareness campaigns should be conducted in rural areas to promote digital practices.

7. Conclusions

The study concludes that digital accounting has become essential for SMEs in the modern business environment. While traditional accounting offers simplicity, it lacks the efficiency and accuracy needed in today's competitive world. Digital accounting not only saves time but also helps in real-time financial analysis, compliance, and growth planning. Therefore, SMEs should gradually shift toward digital platforms for long-term sustainability and success.

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