Best Accounting Practices for Online Businesses

Name:

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Chapter 4: Data Analysis and Discussion

4.1. Introduction

This chapter will present the findings of this research. It should be noted that the findings presented here are a mere synthesis of existing findings from previous studies, but they were fully guided by the research questions and objectives. The chapter will contain two main sections, including results and discussion.

4.2. Results

As indicated in the methodology chapter, the main codes/categories derived from the coding process were fourfold. These codes served as the themes that will be discussed in this results chapter.

4.2.1. Current Accounting Practices in Online Businesses

From the content analysis that was conducted, some of the phrases that kept appearing that relate to the current accounting practices in online businesses were 'advanced accounting software', 'cloud-based platforms', 'automated transactions', 'data analytics', and 'complex web regulatory frameworks.' One prevalent accounting practice that online business has adopted recently involves the use of advanced accounting software and cloud-based platforms. The research by Kamau et al. (2023) reported that at least 30% of online businesses they surveyed use such advanced accounting tools as QuickBooks, Xero and Zoho Books. It is worth noting that the study only focused on small and medium-sized enterprises (SMEs). These tools come with standard business-friendly features (e.g., accounting and invoicing) and perform such tasks as bank reconciliation among others. According to the study, there is a positive correlation between customer satisfaction and the usage of advanced accounting tools by online businesses (Kamau et al., 2023). The use of advanced accounting software and cloud accounting was further confirmed by Wyslocka and Jelonek (2015). Out of 134 online businesses that were surveyed in this study, the researchers noted that at least 9% of the respondents use cloud accounting platforms for their accounting. According to the study, cloud accounting platforms help online businesses to track their income and expenses and manage payrolls (Wyslocka and Jelonek, 2015). It is worth noting, however, that this study was conducted in Poland and focused on SMEs only, thus its findings might not reflect the practice of other countries or types of businesses.

Automated transaction recording is another significant accounting practice that online businesses engage in. Gustafsson and Jerkinger (2021) wrote that through integrated systems, financial data from various sources (e.g., online sales) is automatically recorded into the companies' ledgers. The studies by Törnqvist and Forss (2018) and Gustafsson and Jerkinger (2021) revealed that accountants are more satisfied with automated transaction recording because it reduces manual data entry and the risk of errors. According to a report by the Institute of Chartered Accountants in England and Wales (ICAEW) (2023), some of the automated processes that online businesses enjoy include client accounting and bookkeeping, bank feeds, final accounts production, invoice processing, expense processing, paying of bills and wages, debt chasing, tax checking, dividend calculation, and producing business reports.

4.2.2. Influence of Technology on Online Businesses Accounting

When attempting to contextualize the influence of technology on online businesses, it was noted that such technology as artificial intelligence (AI), big data, and blockchain are significantly reshaping their accounting practices. According to Cleland (2017) and Moll & Yigitbasioglu (2019), blockchain, which is the underlying technology for such cryptocurrencies as Bitcoin and Ethereum, has gained significant attention because of its decentralized and distributed ledger system, which enhances trust among unknown network users without requiring intermediaries.

Cleland (2017) writes that the major influence on blockchain for accounting practices for online businesses is the concept of triple entry bookkeeping. While traditional double-entry bookkeeping records transactions with a debt and credit, blockchain adds a cryptographic signature as a third-party, which improves the integrity and authenticity of transactions. According to Moll & Yigitbasioglu (2019), such major online retailers as Microsoft, Amazon, Etsy, Shopify, and PayPal among others, accept cryptocurrency as a mode of payment. It has significant implications for accounting information systems, auditing, and assurance processes. For example, smart contracts that are facilitated by blockchain automate the execution of contract terms, disrupting such industries like insurance by reducing processing costs and expediting claim management through automated identity and contract verification.

AI, specifically machine learning, has the ability to learn from examples and can process large volumes of structured and unstructured data (Sutton et al., 2016). Companies with a huge online presence like Ernst and Young and Deloitte have been harnessing the ability of AI and machine learning to perform such tasks as fraud detection and tax return assistance, even though Moll and Yigitbasioglu (2019) argue that there are growing concerns among professionals in the field of accounting regarding their readiness to address the requirements of AI. Moll and Yigitbasioglu (2019) further argue that despite the potential of blockchain and AI, it is important to note that their adoption will be slow, similar to such technologies like TCP/IP.

4.2.3. Regulatory Compliance Challenges in Online Business Accounting

Any business, whether brick-and-mortar or online business, has to adhere to various accounting regulations to ensure they are transparent, accountable, and legally compliant. According to Bunn et al. (2020), taxation law is one of the regulations that online businesses need to adhere to. Online businesses are required to accurately report their income and expenses, ensuring compliance with local, state, and international tax laws. This includes understanding the tax implications of cross-border transactions and sales tax obligations. As discussed by Garbowski et al. (2019), until 2015, the HQs of such e-commerce players as Amazon, Apple, and PayPal were in Luxembourg because of the low rate of value added tax on eBooks and other online services compared to countries in Europe and North America.

Such financial reporting standards as Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) also apply to online business. They offer such businesses a framework for recording transactions, valuing assets and liabilities, and preparing financial statements in a standardized way (Wüstemann, 2012). The study by Regulation (2018) argued that data protection regulations (e.g., the General Data Protection Regulation (GDPR)) apply to online businesses, as well, because they handle sensitive financial information about their clients. By complying to such regulations, online businesses will be ensuring the secure handling and storage of client data and preventing unauthorized access to such data.

The study by Mosteanu and Faccia (2020) focused on regulations for publicly traded online businesses. The researches argued that complying with securities' regulations is a must for such companies. These businesses must provide accurate and timely financial disclosures to regulatory bodies and other stakeholders in order to prevent insider trading to ensure they are fair and transparent in financial markets. Lastly, Khisamova (2020) discussed anti-money laundering (AML) and Know Your Customer (KYC) financial regulations as they apply to online businesses. The researchers reported that online businesses require robust systems to identify and verify customers, detect and report suspicious transactions, and comply with AML regulations to prevent financial crimes.

4.2.4. Best Accounting Practices in Online Businesses

According to the synthesis that was conducted, it was noted the online businesses need to apply a holistic approach comprising of different technological innovations to improve their accounting practices. Online businesses should consider using tailored accounting software tailored to their needs. According to Azudin and Mansor (2018), online businesses have specific needs depending on their size and complexity of their operations. For instance, small online businesses can consider using freely available mobile applications for their accounting, while larger or publicly trade online businesses can use advanced cloud-based tools like Oracle or SAP. In their study, Madakam et al. (2019) argue that online businesses with optimal accounting practices tend to select software that streamlines processes, automate repetitive tasks, and offer real-time financial insights because they enhance data entry, reconciliation, and financial reporting. Such practice can be complemented by regular updates and upgrades of the software to ensure that online businesses stay ahead in terms of efficiency, addressing bugs, enhancing security, and ensuring compliance with evolving accounting regulations.

Another best practice that was noted from the data synthesis was optimization of inventory management systems. According to Kokina and Blanchette (2019) and Mosteanu and Faccia (2020), online businesses that manage to stay ahead of the curve have implemented inventory management systems that focus on accuracy to reduce discrepancies between recorded and actual inventory levels. The next best practice is integrating online payment systems to their websites. This includes credit card processing, digital wallets, and cryptocurrencies as practiced by such companies as Amazon and Etsy, who offer clients diverse payment options to boost their sales.

The last best practice as per the literature synthesis was focusing on efficiency metrics. Khisamova (2020) and Azudin and Mansor (2018) advise online businesses to exploit accounting software for automated tasks, real-time data processing, and analysis, which tends to improve overall time efficiency in accounting practices.

4.3. Discussion

It has been noted in the synthesis above that the use of accounting software is one of the best accounting practices of online businesses because they have revolutionized the accounting process. The content analysis revealed that using accounting software has positive outcomes for online businesses, which stresses the role they play in improving the effectiveness of the accounting process. Such automation features as data entry, transaction processing, and report generation tend to reduce manual work considerably and improve the accuracy of reports, which is in line with the study conducted by Madakam et al. (2019). As illustrated by Madakam et al. (2019), online businesses particularly enjoy such benefits as data accuracy and reduced manual data entry tasks when using automation features for their accounting. Using accounting software not only streamlines accounting workflow, but it facilitates the constant flow of data between different phases of the accounting cycle (Belli et al., 2019).

The content analysis also revealed that such features as data analysis and reporting that come with accounting software provides online businesses with valuable insights regarding their financials. These insights allow decisionmakers to make well-informed decisions regarding the financial health of their businesses. According to Ferraris et al. (2019), having accurate and real-time financial information enables businesses to identify patterns and evaluate their profitability promptly. Therefore, using accounting software is one of the best practices for online businesses because it ensures optimization of the process and acts as a strategic tool for decision-making.

With regards to inventory management, the content analysis found that such technological innovations as AI, machine learning, and big data can positively influence accounting practices of online businesses. The analysis found that implementing advanced inventory tracking systems that leverage AI and big data leads to more accurate and real-time data on stock levels. According to Caraban et al. (2019), these technologies not only reduce errors in financial report, but also save time with regard to reconciliations of financial statements. Optimizing inventory turnover rate through technology-driven inventory management systems significantly impacts accounting processes. Higher inventory turnover rates indicate faster product sales, reducing carrying costs and increasing cash flow. This, in turn, influences financial statements positively, contributing to improved profitability and working capital management (Tan et al., 2023).

The content analysis also noted that online businesses need to conform to a number of regulatory frameworks to safeguard their accounting practices. Data protection laws safeguard the handling of financial information and maintain consumer privacy. In a study conducted by Mosteanu and Faccia (2020), the researchers also noted that online businesses have to adhere to electronic transaction regulations so as to validate the legality and authenticity of digital transactions. Lastly, it was noted that online businesses need to adapt their tax and cybersecurity regulations due to the fact that they most likely operate in numerous jurisdictions. Both tax and cybersecurity regulations play a key role in ensuring the businesses remit the appropriate amount required by tax authorities and protecting financial data from online threats.