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INADEQUATE ACCOUNTING SYSTEM OF A MEDIUM SCALE DISTRIBUTION FIRM IN SRI LANKA: A CASE STUDY.

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ABSTRACT

This study explores the reasons behind the inadequate accounting system of a medium-scale distribution firm in Sri Lanka, where a problematic manual accounting system has been run for many years, and provides recommendations to overcome this issue. Due to the firm's existing accounting system, many problems have arisen: issues in inventory management, delays in preparing financial statements, and errors in the accounting process. This study adopts a qualitative methodology using semi-structured interviews for gathering data. Our findings suggest the main reasons for having an inadequate accounting system in this firm: inherent issues in the manual accounting system, the impact of information technology, lack of knowledge of accounting staff on new technology, obstacles that resist organizational change, the inappropriateness of record keeping, the reluctance of senior management to hire qualified staff, poor job assignment for accounting staff, and the attempt of top management to reduce the number of staff members. This study highlights the importance of a proper accounting system for entities that have not been enforced by the regulatory bodies to record financial information, and this study aids in identifying reasons behind the inadequacy of their accounting systems.

Key Words: Accounting system, Inventory management, Preparing financial statements, Errors in accounting process, SMEs

1. Introduction

Accounting is one of the most important functions of any organization. Due to this, there should be an adequate accounting system for an organization. An accounting system is a system which employs in a business to organize financial information. In other words, an accounting system is an organized set of manual and computerized accounting methods, procedures and controls established to gather, record, classify, analyse, summarize, interpret and present accurate and timely financial data for making decisions. A proper accounting system is being necessitated for any kind of businesses. As example Amoako (2013) says that most finance providers assure themselves with financial information generated from an adequate accounting system with the purpose of reducing risk. According to Kundeliene (2011), objective and timely information provided by the accounting system to the management of the organization determines the economic efficiency of business process. A proper accounting system is crucial for any type of business and it ensures to provide good, relevant and timely financial information to management for their decision making process (Mohamed, 2013).

Good accounting information is characterized by reliability, relevance, adequacy and comparability so that information is useful for various stakeholders that include investors and government agencies for their decision making (Ekienabor & Oluwole, 2019). Having proper information on time is an important fact that you can raise the level of its effect to the decisions and its delay may lose its core and potential values (Viet Ha, Hung, & Phuong, 2018). Aigienohuwa and Ezejiofor (2021) also say due to prolonged delays, information might lose its relevance and it becomes less valuable for economic decision- making. By presenting financial statements that are irrelevant and do not meet the objective of timeliness, decrease or remove the ability of the financial statements as an instrument for stakeholders to make decisions (Fujianti, 2016). Delays in disclosure of financial statements obviously reduce the efficiency of financial markets (Ozcan, 2019).

Financial statements are generated through the accounting process. Therefore accounting process is free from errors is important. Accounting error refers to an unintentional misstatement happened in financial statements due to the omission of an amount or disclosure (Bunget & Dumitrescu, 2009). One of the most important qualitative attributes of accounting practice is reliability of financial reporting and financial information reliability can be achieved when the information is neutral, complete and free from material error (Ekienabor & Oluwole, 2019). Errors in accounting process tend to prepare inaccurate financial reports and those inaccurate financial reports lead to bad decision making. Further, inaccurate financial statements may be the result of carelessness, lack of information, misinterpretation data or dishonest employees. Not only that, errors in financial process loss the faith of stakeholders.

It is crucial for firms to remain competitive and survive in the marketplace to pay attention on purchased goods inventory and the management of such inventory (Wallin, Rinungtusanatham, & Rabinovich, 2006). The investment in inventories represents the substantial part of current assets / working capital. Thus, having proper control and management of inventories is essential for an organization (Manohar & Appaiah, 2017). Balancing the trade-off between the supplies of inventory with demand is a challenge in

inventory management. Ideally, an organization wants to have enough inventories to satisfy the demand of its customers and no lost sales due to unavailability of inventories (Atnafu & Balda, 2018). Poor inventory management causes lots of bad consequences to a business such as missed sales, unnecessary investment in inventories and risk of inventory becomes obsolete. Dissatisfied customers, too much cash tied up in warehouses and slower sales are also caused by mismanaged inventory (Khobragade et al., 2018). According to Panigrahi (2013), a firm will have to experience serious problems connecting to long-term profitability and may fail to survive, if it disregards the management of inventories.

Regardless of the size of the business, selecting the right accounting system is required for tracking its performance. An effective accounting system is accurate, useful and timely. The selection of an accounting system for a firm depends on several factors such as needs and accounting skills of the firm, initial investment and further expenses. By today, information technology has been able to do a significant impact to the accounting field. According to Kloviene and Gimzauskiene (2015), regularly the accounting system has developed as software and instruction and organizations will be enforced to grab new opportunities and resources thereby ensuring their fast response, decision making and satisfactory performance. Thus, currently lots of organizations tend to use computer based accounting systems rather than manual systems. However, organizations should run a proper and efficient accounting system. If not they have to face many disadvantages. As Amoako (2013) says, an inadequate accounting system is a crucial factor for small business failures. Therefore, having an adequate accounting system is a critical factor for an organization.

The firm selected for this study is ABC Enterprises located in Rawatawatta, Sri Lanka. It was established in 1998 as a sole proprietorship. The business of this firm is distributing locally purchased and imported Plywood Sheets, Melamine Sheets, MDF Boards, Hard Boards, Alucink Sheets, Amano Sheets, Plywood Doors and etc. They are currently importing these items from China and they intend to import from India and Malaysia in future.

The problem of this study is the there is no adequate accounting system in the ABC Enterprises. Their existing manual accounting system is a time – consuming process and occurs considerable number of errors. Due to this, they are facing three major issues as delays in preparing financial statements, errors in the accounting process and issues in inventory management. This study is based on two research questions. They are; why current accounting system of ABC enterprises is inadequate? And how to overcome the issues of the current accounting system of ABC enterprises? There are two research objectives as; to identify reasons behind the inadequacy of the current accounting system of ABC enterprises and to provide recommendations to overcome the issues of current accounting system of ABC enterprises.

2. Literature Survey

Under the literature survey it presents a summary of past literature in relation to key definitions, reasons behind an inadequate accounting system and strategies/ techniques which can be used for overcoming the problem.

2.1. Key Definitions

Accounting System: According to Taiwo (2016), accounting system means an organized set of manual and computerized accounting standards, procedures, methods, principles and controls followed by an entity to collect, record, classify, analyze, summarize, interpret and present accurate and timely financial information for management decisions. Accounting system provides a way to view and analyse financial data and serves main basic functions such as gather and store data, provide relevant financial information, offer controls and forecasts of future (Christauskas & Miseviciene, 2012).

Timeliness of Financial Statements: Timeliness of financial information means having information available to decision makers at the time when that information is capable of influencing their decisions. Usually, the older information is less useful (The Conceptual Framework for Financial Reporting). Viet Ha et al. (2018) mention that the characteristic of timeliness means making information available for the decision makers before losing its value and the capability to impact those decisions. According to Akle (2011), the timeliness of financial reports means issuing financial statements to users for making decisions based on their requirements, because information loses its value if it is not available spot on time.

Errors in accounting process: According to Adali and Kizil (2017), errors do not include any intention, but there exists ignorance and carelessness and accounting errors refers to inappropriate behaviours against Generally Accepted Accounting Principles (GAAPs). DeFond and Jiambalvo (1991) mention in their study financial statement errors as matters resulting from misapplication of accounting principles, mathematical mistakes, or the omission or misuse of facts that happened at the time the financial statements were prepared.

Inventory Management: Inventory management is concerned in maintaining minimal inventory levels by considering several factors such as supply and delivery lead times, supply and demand uncertainty, batch size and product variety (Rumyantsev & Netessine, 2007). According to Atnafu and Balda (2018), inventory management is very critical to a business because it is custom-made to minimizing costs or proliferating profits while satisfying demand of customers by ensuring that balanced items of inventories are available at the right quality, quantity and that are obtainable at right time and in the right place.

SMEs: Small and medium sized entities are the entities that do not have public accountability and do not publish general purpose financial statements for external users (Institute of Chartered Accountants of Sri Lanka). According to Karadag (2015), SMEs are worldwide recognized as the crucial actors of socioeconomic development as these economics units play a vital role in generating new jobs, economics growth and innovation.

2.2. Reasons behind an inadequate accounting system.

Impact of the information technology (IT): IT has improved the performance of traditional accounting systems. The use of IT in the business accounting scope enabled a significant growth of processed accounting information, to reduce amount of routine tasks, to automate them, to receive reports and other relevant information quickly

(Kundeliene, 2011). Modern information technology has a positive and more significant impact on finance and accounting. Therefore, information technology is the most significant technology in accounting and finance departments (Thalha, wang, Maia & Marra, 2022). According to Kloviene and Gimzauskiene (2015), if organizations are not able to identify the IT instruments which allow to estimate and support decision making processes, it is difficult to use the accounting system effectively.

Lack of knowledge of accounting staff on new technology: According to Liyan (2013), the quality of accounting information depends on the reliability of hardware and software and the ability of people who use the accounting software. Hence, knowledge of accounting staff regarding new technology including information technology and accounting software is important to run an adequate accounting system within a firm. Further, accountants must get the skills to use computerized systems with the advancement of technology affected on accounting as well as accountants must be familiar with the software tools for performing accounting functions more effectively and efficiently (Ghasemi et al., 2011).

Cost of hiring qualified accountants: The majority of SMEs do not pay their attention to keep complete accounting records due to lack of accounting knowledge and the cost of hiring professional accountants (Madurapperuma, Thilakarathne, & Manawadu, 2016). Ageygunasekera and Fonseka (2012) indicate in their research findings that most of the SMEs have a separate accounting function but the person who involves with that function is not a fully qualified accountant.

Firms' resistance to change: In today's business environment is continuously changing. Therefore, organizations should have a capability to innovate and implement planned change for their success unless they are unable to survive (Hamel, 2002 cited by Hammond, Gresch, & Vitale, 2011). An individual may resist change due to their perception regarding consequences of the change, the fact that the changes does not match with theirs or their group's concept of values, or that the results of the change are not believed to be important (Found, 2015).

Lack of attention on record keeping: Zotorvie (2017) reveals that majority of SMEs fail to keep proper accounting records which are relevant for their businesses. According to Amoako (2013), majority of SMEs are uninterested in maintaining complete accounting records because they think there is no need to keep accounting records and it discloses their financial position. Ageygunasekera and Fonseka (2012) mention in their study that in Sri Lanka, the accounting standard for small scale enterprises introduced by the Institute of Chartered Accountants of Sri Lanka is not being adopted by many of the small entities in keeping accounting records.

Issues in job assigning for accounting staff: It is difficult to assign tasks for employees in the organization. Issues can be occurred because of improper job assignment. Such as, efficiency reduces due to absenteeism, lack of job satisfaction, grievances increase and deteriorating labour relations. Further, if the management assign tasks for employees who are not qualified to do the job, some problems can be occurred. Those are jealousy and plain disinterest in the task (Eiselt & Marianov, 2008).

2.3. Strategies/ techniques which can be used for overcoming the problem.

To overcome the problem, it can be recognized several suggestions as stated in the literature. First one is an inventory management system. Inventory management system has a capability to track sales and available inventory, informs a storeowner when it is time to reorder and how much to purchase (Khobragade et al., 2018). An inventory management system acts as an indicator for monitoring and reporting the level of existing inventory and a controller for receiving information from different inventory suppliers and combines such information on existing inventory amount (Salvo, Mackenzie, Bennett, Relyea, & Morelli, 2002). Second one is using accounting software (Computerized accounting system). According to Ghasemi, Shafeipour, Aslani, and Barvayeh (2011) there are many advantages of computerized accounting systems. Such as, increased functionality, improved accuracy, faster processing and better external reporting. Further, they say that by today, software packages come with a variety of specialized features or a generic program. Companies can customize those features according to current business operations. Thereby, companies can create reports quickly and it is easy for management to make decisions. Third one is Enterprise Resource Planning (ERP) system. According to Kamhawi (2008), ERP system is packaged business software that facilitates a company to manage the efficient and effective use of resources (materials, human resources, finance and etc.) and it provides a total integrated solution for the organization's information-processing requirements and gives a process-oriented view standardized about the enterprise. Budgeting is another technique that come under management accounting. According to Lidia (2014), budgets are universally accepted management tools for planning and efficient management of activities and resources of the entity. Another one is variance analysis. Aruomoaghe and Agbo (2013) mention in their study the application of a variance analysis as a tool for performance evaluation associated with its costs and benefits to the organization as a whole. It is reasonable for managers to exercise caution in the use of variance analysis so that the correct decisions will be made. Further, managers should exercise considerable care in their use of a standard cost system and it is important for managers to go out of their practice to focus on positive rather than just on the negative. Thereby, managers can identify unintended consequences which interrupt to the organizational objectives. Ratio analysis is another useful tool. Ratio analysis is required to determine whether the firm has been improving or is declining financially over the time period, to determine whether the firm encountered standard within the industry, to measure the profitability of the firm, to compare the financial activities of the firm with other firms in the industry and to determine whether the firm has performed up to the standard required by the industry (Adedeji, 2014).

3. Methodology

Interpretivist paradigm is more related with this research because this is humanistic and deals with people's perceptions. Interpretivist paradigm is known as phenomenological, qualitative, humanistic and subjectivist paradigm. According to Thanh and Thanh (2015), interpretive paradigm supports researchers to see the world through the experiences and perceptions of the participant. Qualitative method was used for this study. There is a strong relationship between interpretivist paradigm and

qualitative methods used for data collection (Thanh & Thanh, 2015). Semi-structured interviews were conducted with three employees of the Accounting Division for collecting primary data.

Table 1: Interviewees

Code	Job Title
R1	Accountant
R2	Member of the accounting staff
R3	Member of the accounting staff

Source: Author developed

Conceptual Framework

This is a graphical presentation of key factors that are behind an inadequate accounting system.

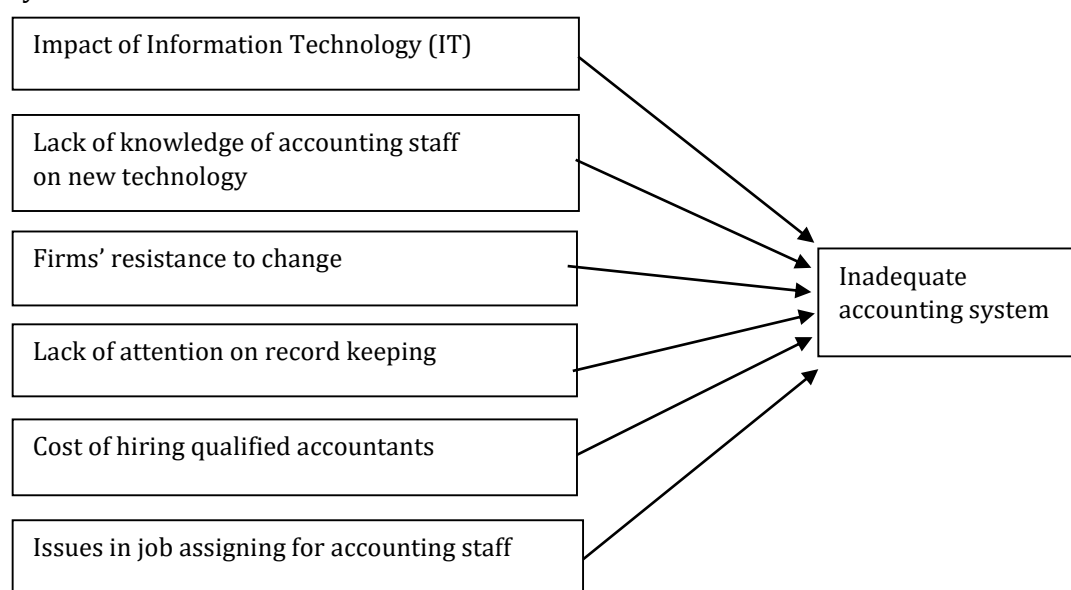


Figure 1. Conceptual Framework

4. Data Analysis

ABC Enterprises has a manual accounting system. As all the respondents identified, major issues of the manual system are time consumption and high probability of errors. Those are inherent to a manual system. Further, it has proved that the firm is running manual system with them for a long time. Supporting to this the accountant (R1) mentioned,

“We use a manual system, we have to check one by one. It spends more time and there is a high probability of errors. If we do it manually, it takes more time and many documents are needed. Further, several person should check it.”

According to above statements, it is clear that this firm is facing many issues due to the existing manual accounting system. One of the reasons for their inadequate accounting system is the impact of information technology. Information technology changes time to

time and it influences businesses in favorable or unfavorable manner. ABC enterprises also has an impact of information technology. Supporting to this, R2 stated,

“If we have a computerized system entered all the records, it will help for us to decide the price based on trend.” Further, she expressed, “There will be a need of a computerized system if we think to develop our company and expand or attract new customers because we can only handle few number of customers through manual system. Therefore, we cannot create large customer base through it.”

To face to the dynamic technological environment and take advantages from it, the staff of the any organization should have sufficient knowledge on new technology. Then businesses can adapt new features of technology to their business activities. Specially, to run a proper accounting system, accountant and accounting staff should have knowledge on new technology. ABC Enterprises has identified this need. R3 stated,

“It is essential. Otherwise accountant cannot carry out things properly. Technology changes time to time. Therefore, accountants should know its impact on the firm’s accounting system. He should know how to use technology properly. Accountants of medium scale companies like our one should also have that knowledge.”

It is important for ABC enterprises to change with time and technology like other firms. It helps them to survive in the market with the competition. But there are some obstacles to resist it. To support this R1 expressed,

“As I think, they have a desire. But the problem is they have not a sufficient knowledge about technology. Therefore, they are afraid to suddenly introduce a system because they don’t know how it operates and what will happen to the firm after introducing the system. Therefore, they are afraid of referring to a change. The owner of this firm also has a doubt about the way which a system operates.”

Paying attention on record keeping is more important for every firm as well as ABC Enterprises. They have paid their attention on record keeping. But according to the R1, ABC enterprise has not paid their attention on record keeping. She stated this as,

“Indeed, there is no a separate thing for keeping accounts. We keep records for preparing financial statements at the end of the year. But we don’t maintain separate ledger accounts. However, normally we keep separate records about selling goods and customers. But we don’t keep those as separate accounts.”

Having a qualified accounting staff who has sufficient knowledge and experience in the accounting field is important for many organizations as well as the ABC Enterprises. It inherits benefits to the firm rather than cost associated with them. To support this the R1 stated,

“For our firm, as I think having a qualified staff is important. Even though we are a medium scale business we engage with many transactions. We import goods, purchase from local suppliers, pay taxes etc. We engage with big transactions that exceed one lakh. If a mistake happened regarding a transaction, it may

adversely impact to the business. Therefore, having a staff who has sufficient knowledge on accounting is important. They know how to improve remaining accounting system. I think that they will be able to handle the accounting system more than this.”

Even though there is a necessity for a qualified staff, the senior management of the ABC Enterprises is not interested in hiring such a staff due to several reasons. The main reason for this is cost associate with a qualified staff including high salaries. In addition to that there are other reasons also. An accounting staff member R2 elaborated this as,

“It takes much cost for the graduate than normal person’s salary. They will not work for that much lower salary. If a qualified staff is appointed, it has to provide more facilities. Graduates will never work in a manual system. That persons try to improve their work experience.” Further she mentioned, “If our workload can be done by a normal person, they will not like to keep a graduate by paying high salary.”

There should be a proper job assignment for employees. Roles and responsibilities should be clearly mentioned. A proper job description should be provided to each employees, mentioning their job roles. Otherwise, disruptions may happen for conducting business activities smoothly and effectively. However, in ABC Enterprises, the job assignment for employees is very poor. The R2 explained this as,

“Works are allocated to each one. But it has disadvantages. In practically, single person is not done a single job as like he is the accountant, he is the cashier, he is customer service handler. In this case, it has not divided exactly as like this. All are doing a job with collaboration.”

According to above factors it seems that staff members of ABC Enterprises are not assigned jobs properly. Their roles and responsibilities are not clear. There is no responsible party for a specific task. Everyone involves in every task of the firm.

Due to this situation, ABC Enterprises has to face many issues. The R2 elaborated,

“Sometimes we think other person has taken the records. Based on that assumption we do not keep the records. See, we have not also done and other person has also not done. At the end it has not kept a record. When we keep records collaboratively, the other person cannot move forward until the person absent for few days completes those records of absent days. So it increases workload of absent days and present. It brings those type of issues. The person absent only knows at what point he ended recording. Until he comes it cannot keep records.”

In addition to the above reasons identified in the conceptual framework, another reason can be identified. It is the attempt of top management to reduce the number of staff members. The R1 elaborated this as,

“You told about the cost of hiring qualified staff. I am not talking about the cost of hiring qualified staff. This firm is trying to reduce the number of employees. They want to fulfil tasks by existing employees even though they are not qualified. Then employees do not work properly because they have many tasks.

Our business runs by sales. Therefore, they mainly focus on sales and they want to maximize their sales by existing employees.”

5. Key Findings and Discussion

This study explored the reasons behind the inadequate accounting system of ABC Enterprises. Based on the evidence obtained from the interviews conducted with the employees of the firm, it was able to achieve this objective. ABC Enterprises has impact on Information Technology. I.e. if they use IT for their accounting system, it will improve. They are facing for many inconveniences because they do not use IT in a significant level. In literature, many researchers highlight the importance of IT and the adverse impact of not using it. As example, Kloviene and Gimzauskiene (2015) say that if organizations are not able to identify the IT instruments which allow to estimate and support decision making processes, it is difficult to use the accounting system effectively. Further, lack of knowledge of accounting staff on new technology was identified as another reason. Even though the employees of ABC Enterprises have a basic knowledge on technology, they cannot run a computerized system without a proper training. In literature, Abu-Musa (2006); Moghaddam et al. (2012); Ghasemi et al. (2011); Liyan (2013) highlight the important of having knowledge on new technology for accounting staff to run an accounting system.

Found (2015) says, an individual can resist change due to their perception regarding consequences of the change, the fact that the changes does not match with theirs or their group’s concept of values, or that the results of the change are not believed to be important. ABC Enterprises also has obstacles which resist the organizational change. Here, those are lack of sufficient knowledge about technology, lack of people available to put a step towards a change and cost of change. It can be seen the inappropriateness of record keeping in ABC Enterprises. They keep records for the purpose of preparing financial statements. But according to the evidence, it seems that they do not do it properly. It is not followed the correct accounting process. Zotorvie (2017) reveals this matter in his study as majority of SMEs fail to keep proper accounting records which are relevant for their businesses. Not only him, many researches emphasize this including Osman, 2013; Adaane & Bonney, 2018; Ageygunasekera & Fonseka, 2012.

In addition to that, the senior management of this firm disincline to hire a qualified staff. Main reason for this is cost associated with a qualified staff including high salaries. This is comparable with the findings of Madurapperuma, Thilakarathne, & Manawadu, 2016; Zotorvie, 2017. According to them, cost of hiring qualified accountants and lack of accounting knowledge of some owners or managers are the main reasons for entities’ failure to maintain proper accounting system. In ABC Enterprises, the job allocation for the accounting staff is poor. Roles and responsibilities are unclear and they have to concentrate on many tasks of the firm. Due to this many errors and mistakes happen in their accounts. Eiselt and Marianov (2008); Chen and Lin (2000) mention about the job allocation and consequences of poor job allocation in their studies. In addition to those, it could be identified another two reasons behind the inadequate accounting system of ABC Enterprises. Those are inherent issues in manual accounting system and the attempt of senior management to reduce the number of staff members.

Key findings of this study i.e. the reasons behind the inadequate accounting system of ABC Enterprises can be summarized as; inherent issues in manual accounting system, impact of information technology, lack of knowledge of accounting staff on new technology, obstacles which resist the organizational change, inappropriateness of record keeping, the reluctance of senior management to hire a qualified staff, poor job assignment for accounting staff, and the attempt of top management to reduce the number of staff members. Most of findings are similar to the factors identified from the literature.

6. Conclusion and Implication

The study emphasizes the importance of having an adequate accounting system in any firm. It leads to protect small and medium scale businesses to enhance their economic contribution to the country as well as people. Based on the evidence gathered from interviews, it was able to achieve first research objective namely to identify reasons behind the inadequacy of the current accounting system of ABC enterprises. Accordingly, it was able to identify seven reasons. This provides an opportunity to identify grey areas of practicing accounting system in the real world. Small and medium enterprises, sole proprietors and partnerships who have not been enforced by the regulatory bodies to record financial information can identify the importance of record keeping to motivate themselves on voluntary book keeping in a fair manner. On the other hand, they can identify the importance of a proper accounting system to achieve long term goals of the firm. Specifically, the selected firm can take the advantage of the research to overcome their issues of accounting system through practicing provided recommendations at the end of the research.

Finally, it can be concluded that accounting system is a critical thing for any organization. If it is not an adequate one, that firm will have to face many inconveniences and it will affect to the success of the firm.

7. Recommendations

The problem of this study is not having an adequate accounting system with the ABC Enterprises. Under this problem, three major issues can be identified such as issues in inventory management, delays in preparing financial statements and errors in accounting process. To overcome this problem, it can be provided following recommendations.

7.1. Computerized Accounting System

It is an accounting information system which processes the financial transactions and events as per Generally Accepted Accounting Principles (GAAP) to produce reports according to user requirements. Modern computerized accounting includes concept of data base, a set of computer programs manage and organize data effectively and provide access to the stored data by the application programs. As the advantages, it is neat, uniform, accurate and legible than manual job, enhancing speed and accuracy of preparation of accounts by increasing the efficiency of employees through time saving, greater possibility of controlling more information, high reliability and security. In order to adopt computerized accounting system there were types of software such as ready

use software, customized software and tailor made software. The selected organization is medium size enterprise. Therefore, ready to use software are more suitable for them due to low cost and there is no requirement of special training of using it.

7.2. Proper Manual Accounting System

This firm can run the existing manual accounting system properly. For that it is necessary to follow accounting process correctly. I.e. collecting data, recording, classifying, summarizing, analysing and interpreting. Collecting data means gathering data about the transactions through source documents. Then those data should be recorded in books. First those are recorded in journals. Here, it is essential to record all transaction without any mistake. In classifying, transactions are classified into assets, liabilities, income, expenses and capital accounts. Here, transactions are copied to ledger from journals. Summarizing means preparing financial statements for making decisions. Finally, those information should be analysed and interpreted to understand the real situation of the firm. For that, it can be used techniques like ratio analysis (e.g.:- Gross Profit Ratio, Net Profit Ratio, ROE etc.) and variance analysis (e.g.:- material variance, labour variance, variable overhead variance etc.).

It is important to follow accounting principles and standards in each steps in the accounting process. As example, LKAS 37 provides definitions to identify assets and liabilities. Further, allocating jobs for accounting staff so that the roles and responsibilities are clear is also important. For instance, one person for handling suppliers, one person for handling debtors, one person for handling cash, one persons for preparing financial statements, analysing and interpreting them. Then the chance for escaping transactions is low. In addition to that, it is better double checking records because the chance for occurring errors is high in a manual system.

7.3. Inventory Management System

It is important for every firm to maintain proper Inventory Management System. Inventory Management System means the combination of technology (hardware and software) and processes and procedures that oversee the monitoring and maintenance of stocked products. It can be either computerized inventory management system or manual inventory management system. Now the firm uses manual inventory management system and it has some inherent limitations. Those are they have to depend on the information provided by the storekeeper and he takes available stock counts manually. Then there is a high probability for errors and it spends more time. But, if the firm can use computerized inventory management system, they can manage inventory efficiently and effectively rather than manual inventory management system.

7.4. Keeping the accounting system up to date

Business environment including the technical environment changes always. Further, different professional bodies introduce different practices, techniques and methods that can be used for the accounting. Those things were able to eliminate the limitations of traditional accounting. As examples, better budgeting and beyond budgeting could avoid the limitations of conventional budgeting and ABC Costing could eliminate most of problems in traditional absorption costing method. Therefore, it is important to explore

the changes around the accounting environment regardless the entity's accounting system is manual or computerized.

If this firm refers to a computerized system, it will be important to concentrate on the technical environment too. It will be advisable if the computer system is compatible with the latest computer hardware, components and software. Further, using modern security techniques to avoid the computer system being vulnerable to various disasters like virus, cyber-attacks and other physical damages is also essential. On the other hand, if this firm decides to go with existing manual accounting system removing its issues, it should be concentrated on contemporary accounting techniques like mentioned above.

7.5. Accounting Internal Controls and Internal Audit

Internal controls mean the policies, procedures and tasks that taken together to assist effective operations of an organization, ensuring the quality of internal and external reporting and ensuring compliance with applicable rules and regulations with internal policies. If this firm implements accounting related internal controls, frauds, errors and mistakes behind their accounting system can be mitigated. Some of accounting controls that they can implement are, segregation of duties, access controls, standardized documentation, periodic reconciliations and approval authority.

It is not enough implementing internal controls. An internal audit is required to monitor the effectiveness of internal controls. Internal audit examines the financial and operating information, reviews the efficiency and effectiveness of operations and reviews the compliance with laws and regulations while monitoring the effectiveness of internal controls. The scope of internal audit may depend on the requirements of the firm.

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