African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary

African Journal of Emerging Issues
(AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

FINANCE

INFORMATION TECHNOLOGY AND FINANCIAL REPORTING PRACTICES IN SMES IN CALIFORNIA, USA

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Publication Date: April 2023

ABSTRACT

Purpose of the study: IT encompasses a wide range of activities and applications, including hardware and software development, data management, networking, and cybersecurity. IT has transformed the way businesses, organizations, and individuals operate and communicate. Hence, the study examined the impact of information technology on financial reporting practices in SMES in California, USA.

Research Methodology: The study utilized the descriptive research design. The target population was 195 SMES in California. The research did sampling of 160 participants that were chosen from the target population of 195 SMES in California. Questionnaires were utilized to gather the data.

Findings: The impact of information technology on accounting and financial reporting practices in SMEs has indeed been significant. The use of IT has transformed traditional accounting practices and has allowed businesses to streamline their financial operations. With the help of IT tools such as accounting software, SMEs can now store and manage financial data more efficiently. This has not only made the process of recording and processing financial transactions faster but also more accurate. SMEs can access financial reports in real-time from anywhere, making it easier for them to stay on top of their finances. Moreover, it has also made it easier for SMEs to comply with regulatory requirements by providing accurate financial data to auditors and tax authorities.

Recommendations: SMEs should also be cautious and take measures to protect their financial data from potential threats. The study recommended that SMEs should choose an accounting software that suits their needs and budget. The software should provide necessary features such as automated bookkeeping, invoicing, financial statement preparation, and real-time financial data access. SMEs should provide adequate training to their employees to effectively use the accounting software and other IT tools. SMEs should consult with IT experts and accounting professionals to determine the best IT infrastructure and accounting software suitable for their business needs.

Keywords: *Information Technology, Financial Reporting, SMES, USA*

BACKGROUND OF THE STUDY

Accounting is the process of identifying, measuring, and communicating financial information about an organization to various stakeholders (Popescu, 2020). This information is used by stakeholders to make informed decisions about the organization, such as whether to invest in it, lend to it, or do business with it. Financial reporting, on the other hand, is the process of preparing and presenting financial information in a standardized format, such as financial statements. Financial statements provide a summary of an organization's financial performance and position, including its revenues, expenses, assets, liabilities, and equity. Accounting and financial reporting practices involve a set of rules, principles, and standards that govern how financial information is recorded, analyzed, and reported (Palepu, Healy, Wright, Bradbury & Coulton, 2020). These practices are designed to ensure that financial information is reliable, relevant, and useful to stakeholders, and that it complies with applicable legal and regulatory requirements.

Hussein (2021) noted that IT refers to the use of computers, software, networks, and other digital technologies to process, store, retrieve, and transfer data. IT encompasses a wide range of activities and applications, including hardware and software development, data management, networking, and cybersecurity. IT has transformed the way businesses, organizations, and individuals operate and communicate (Ivančić, Vukšić & Spremić, 2019). It has enabled the automation of many tasks and processes, improved efficiency and productivity, facilitated the sharing of information across borders and time zones, and created new opportunities for innovation and growth. Examples of IT applications include email, social media, cloud computing, online collaboration tools, e-commerce platforms, mobile apps, and artificial intelligence. Information technology has had a significant impact on accounting and financial reporting practices in recent years (Schmitz & Leoni, 2019).

This impact has been felt across all aspects of accounting and financial reporting, from the use of accounting software to the use of electronic financial statements.

Accounting software has become increasingly popular among businesses of all sizes (Maruschak, 2021). This software allows businesses to automate many of their accounting functions, including accounts payable, accounts receivable, and payroll. This automation not only saves time, but it also reduces errors and increases accuracy. Cloud computing has also had a significant impact on accounting and financial reporting practices. Almagtome. (2021) argued that cloud computing allows businesses to store their financial data in remote servers, which can be accessed from anywhere with an internet connection. This has made it easier for businesses to share financial data with their employees and stakeholders. Electronic financial statements have become increasingly popular in recent years. Electronic financial statements are digital versions of financial statements that can be accessed online (Spilnyk, Brukhanskyi & Yaroshchuk, 2020). These statements are easier to read and understand than traditional paper-based financial statements.

Electronic payment systems, such as PayPal and Apple Pay, have also had an impact on accounting and financial reporting practices (Seldal & Nyhus, (2022). These systems allow businesses to accept payments electronically, which reduces the need for paper checks and invoices. E-invoicing is also growing popular recently. E-invoicing is the process of sending invoices electronically. This reduces the need for paper invoices and makes it easier for businesses to track their financial data. In businesses of all sizes, mobile accounting has become increasingly popular. Mobile accounting allows businesses to access their financial data from anywhere with an internet connection (Chan, Hogaboam & Cao, 2022). This has made it easier for businesses to manage their finances on-the-go.

Data analytics has also become key in accounting and financial reporting area. Data analytics allows businesses to analyze their financial data in real-time, which helps them make better financial decisions (Saleh, Marei, Ayoush & Afifa, 2022). Artificial intelligence additionally has an impact on accounting and financial reporting practices. Artificial intelligence allows businesses to automate many of their financial processes, which saves time and reduces errors. Blockchain technology has the potential to revolutionize accounting and financial reporting practices. Blockchain technology allows businesses to store their financial data in a secure, decentralized

database, which reduces the risk of fraud and errors (Abad-Segura, Infante-Moro, González-Zamar & López-Meneses, 2021).

Big data has also has a substantial impact on accounting and financial reporting practices. Big data allows businesses to analyze big amounts of financial data in real-time, which helps them make better financial decisions (Faccia, Mosteanu, Fahed & Capitanio, 2019). Cybersecurity has become critical in accounting and financial reporting practices. Cybersecurity protects businesses from cyber-attacks, which can compromise their financial data (Jawaid, 2022). Information technology has had a significant impact on accounting and financial reporting practices. Accounting software, cloud computing, electronic financial statements, electronic payment systems, e-invoicing, mobile accounting, data analytics, artificial intelligence, blockchain technology, big data, cybersecurity, compliance management, and digital transformation have all contributed to this impact (Melnychenko, Volosovych & Baraniuk, 2020). As technology continues to evolve, it is likely that the effect of IT on accounting and financial reporting practices will only continue to grow.

RESEARCH METHODOLOGY

The study utilized the descriptive research design. The target population was 195 SMES in California. The research did sampling of 160 participants that were chosen from the target population of 195 SMES in California. Questionnaires were utilized to gather the data.

RESEARCH FINDINGS AND DISCUSSION

The results presented in Table 1 describe the correlation analysis

Table 1: Correlation Analysis

		Accounting	Information Technology
Accounting	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Information Technology	Pearson Correlation	. 207 **	
	Sig. (2-tailed)	0.000	0.000

The correlation results from Table 1 show that the information technology was positively and significantly related with accounting and financial reporting practices (r=.207, p=.000). This concurs with Lestari (2020) who reported that the deployment of IT and the use of good governance principles has an impact on the quality of accounting information.

This section consists model fitness, analysis of variance and regression of coefficient. The findings presented in Table 2 show the model fitness

Table 2: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.207a	0.251	0.143	0.032147

The results from Table 2 show that information technology was found to be satisfactory in explaining the accounting and financial reporting practices in California. This was supported by the coefficient of determination, also known as the R square of 0.251. This implies that information technology explain 25.1% of the variations in the accounting and financial reporting practices of SMES in California.

Table 3: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.95	1	8.95	124.31	.000b
	Residual	13.98	195	0.072		
	Total	22.93	194			

The result in Table 3 indicates that the overall model was statistically significant. The findings show that accounting and financial reporting practices is a good predictor in explaining the information technology among the SMES performance in California. This was supported by an F statistic of 124.31 and the reported p-value of 0.000 which was less than the conventional probability significance level of 0.05.

Table 4: Regression of Coefficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.265	0.042		6.310	0.043
Information Technology	0.742	0.324	0.352	2.290	0.011

According to the results presented in Table 4, it was discovered that information technology was positively and significantly related to accounting and financial reporting practices (β=0.742,

p=0.011). This was supported by a calculated t-statistic of 2.290 that is larger than the critical t-statistic of 1.96. The results indicates that when the rate of information technology improves by one unit, the accounting and financial reporting practices of SMES in California will increase by 0.742 units while other factors that influence the accounting and financial reporting practices are held constant. Mosteanu and Faccia (2020) articulated that digital corporate reporting technology improves the relevance and reliability of accounting measurements.

CONCLUSION

The impact of information technology on accounting and financial reporting practices in SMEs has been significant and far-reaching. IT has transformed the way businesses manage their financial data and has made accounting and financial reporting more efficient and accurate. SMEs have been able to automate many of their accounting processes, such as bookkeeping, invoicing, and financial statement preparation. This has not only saved time but also reduced the likelihood of errors. IT has also made it easier for SMEs to comply with financial reporting requirements, such as tax regulations and audit standards. Additionally, IT has made it easier for SMEs to access financial information in real-time, allowing them to make informed decisions quickly. The availability of cloud-based accounting software has also made it possible for SMEs to access accounting tools that were previously only available to larger businesses. However, SMEs should be aware of the potential risks related with IT, such as cybersecurity threats and data breaches. As such, it is important for SMEs to have proper IT infrastructure and cybersecurity measures in place to protect their financial data. In conclusion, the impact of IT on accounting and financial reporting practices in SMEs has been overwhelmingly positive. It has enabled SMEs to improve efficiency, accuracy, and access to financial information. However, SMEs should also be cautious and take measures to protect their financial data from potential threats.

RECOMMENDATIONS

Based on the analysis of the effect of information technology on accounting and financial reporting practices in SMEs, the study recommended that SMEs should choose an accounting software that suits their needs and budget. The software should provide necessary features such as automated bookkeeping, invoicing, financial statement preparation, and real-time financial data access. SMEs should provide adequate training to their employees to effectively use the accounting software and other IT tools. This will ensure that employees are familiar with the software and can utilize its

features properly. SMEs are required to take measures to protect their IT infrastructure from potential cybersecurity threats and data breaches. These measures include regularly updating software, using strong passwords, installing firewalls, and limiting access to sensitive financial data. Further the study recommended that SMEs should regularly back up their financial data to avoid data loss in case of system failure or cybersecurity threats. SMEs should consult with IT experts and accounting professionals to determine the best IT infrastructure and accounting software suitable for their business needs. SMEs should consider adopting cloud-based accounting software to enable them to access their financial data from anywhere and on any device. This will also eliminate the need for on-premise IT infrastructure, reducing IT costs.

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