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AUTOMATION IN ACCOUNTING AND FINANCIAL REPORTING PROCESS: A STUDY ON DIGITAL LENDING

Dr. Anshu Gupta*
Kishan Kumar Panday **

Abstract:

The aim of this paper is to grasp the concept of automatic accounting practices and the financial information process in the context of digital lending. Manual system has given way to digital transaction recording in financial and managerial accounting. Automated accounting is identifying, recording, summarizing the financial report. Digital lending is the process of employing an automated accounting procedure to check and analyze an individual's credit worthiness. It's digital accounting that offers all sufficient financial data in a digital format at a low cost and with very little effort. This paper further aims to explore how automated accounting is helping digital lending companies to understand and enrich their financial, managerial, strategical information in such a manner that could boost up the overall strategy.

Keywords: *Automated accounting, Financial Reporting System, Digital Accounting, Digital Lending Strategy.*

Introductions:

The process of recording monetary transactions electronically using a digital accounting system is known as automated accounting. Digital accounting is a Transformation of paper-based accounting

into software-based computerized accounting systems that can be manipulated and transmitted **(Deshmukh Ashutosh,2006)**. Accounting is the language of business, it involves the recording of the transaction, summarizing of transactions and report financial affairs. Management requires taking decisions within the stipulated time therefore Information should be supplied with a minimum delay to the decision-making body. Digital accounting is innovation such as big data analytics, CSM, data keeping and internet of thing, application and cloud base computing (**Ritter & Pedersen, 2020).**

***** Assistant Professor, Department of Commerce, DDU Gorakhpur University, Gorakhpur- (U.P.)
****** Research Scholar, Department of Commerce, DDU Gorakhpur University, Gorakhpur-(U.P.)

A company's efficiency and productivity are anticipated to help it succeed in business. Digital technology can help with content evaluation and creation, collaboration, and data analysis. Digital technology can be effective in assessing and creating content, collaboration, data analysis. Now-days accounting is needed to have inter-disciplinary approach, digital accounting is combination of digital (information) technology and accounting **(Lehner and Martikainen, 2019).** A successful entity is using the latest technology to support their routine works that enhancing their business. In the modern era of technological advancement, artificial intelligence technology has been developed in accounting and it is being used by many organizations in accounting operations.

Digital lending is lending through the Web and mobile-based application by utilizing the technology of assessing and authentication. It is the process of deciding the credit to those who are seeking a loan through digital channels, right from receipt of application **(T Ravikumar, 2019)**. Digital lending is neither required to be present physically nor to produce any financial document, it uses blocks chain based artificial intelligence technology which

fetches all required information digitally, assesses the creditworthiness of the seeker, and helps to understand whether credit can be grant or not digitally. Automation in digital lending is the key to maximizing application processing speed, some aspects are still not ready for it, while the scoring model can be implemented using a predictive machine learning algorithm **(Sarungu CM2020)**

Literature review: Digital accounting is facilitating a well-designed financial reporting system for fintech based digital lenders. The lender uses an internet-based financial analytic mechanism to assess the creditworthiness, the risk involved and financial hunger of the prospective credit seeker. In the meantime, artificial intelligence technology handle entire accounting, transaction recording, provides information, right from credit rating to bank account statement analysis.

T Ravikumar (2009) has concluded in his paper that digital lending is significantly growing as it is involved automated technological processes to assess eligibility, risk perceptions and creditworthiness. It facilitates less time consuming, cost and risk in matching the lending criteria. A financial institution who is using digital accounting and financial reporting system are in more advantageous positions in insuring their business competitiveness.

Mills and McCarthy (2014) In his research that organizations are establishing credit accessibility and recovery standards that how technology influences the process. There is empirical evidence that small financial institutions and lender communities are more successful as they rely on digital nderwritings that is more accurate. Employ experienced bankers, reviewing sales documents extensively, cash flow, and considering borrowers collateral and digitally.

Lehner O, Leitner S, & Eisl (2019) in his study find that the accounting information systems (AIS) have become an innovative way to collect data and analysing of financial transaction, decisions making has been improved by using the autonomous process. Financial report facilitatesin decision-making, using advances technology, organization is trying to create digital accounting environment. Artificial intelligence (AI) is multi-functional, cognitive capabilities to make decisions in complex scenarios. Therefore, digital transformation in accounting bring organization on more developed in automation and robotics that would results in "fully autonomous accounting system (FAAS)".

Ogoti, G. N. (2019) In his research has analysed the status quo and prospect of digital lending. He observed there is a significant role of technology in processing digital credit, risk factors, Credit assignment becomes easy. He has concluded in his research, automation in accounting is helping to analysed the risk involved in granting credit through digital channels.

Chukwuani, V., & Egiyi, M. (2020) In his research, he has concluded that an organization that has welcomed the artificial intelligence-based accounting process has become more valuable. Accountants should equip themselves with an automated accounting process it would enhance the accuracy and quality of the financial reporting. The digital accounting process helps them to reduce the workload and cost control .After an extensive study of the literature related to digital accounting and lending, it is quite clear that digital accounting has become one of the core areas that cannot be ignored by financial companies. Accounting is not only recording the transactions but has also become a source of important information related to the business entity. Digital lending cannot go without the technology of automated accounting. Digital lending required a mechanism of assessment, Disbursement, recording, taxation, fee, structure and recovery recording in real-time when it accrued, artificial machine learning, cloud computing, a financial algorithm is facilitating a way forward to digital accounting and lending.

Objective: Since the internet has become the basic need of human beings and creating various opportunities for both, whether its services provider or user. Products and services are available at the fingertips. Marketer best practice is to fulfil the shouted need of the consumer. The objectives of this paper is to understand that how digital accounting is helping to make decisions quick and easy for financial institutions. What is an artificial intelligence, cloud computing and data analytics assisting in financial and managerial accounting methodology and reporting systems in digital lending? What kind of accounting methodology and strategy is being used by the digital lender?

- To explore and understand digital accounting and its perceptions
- To know the methodology and status of digital accounting for credit assessment.

Research methodology: Research methodology may be a quantitative or qualitative one, the qualitative research methodology is exploring the subjective phenomenon and synthesizing it to understand problems **(Creswell, John W 1994).** The research methodology comprises the observation of secondary data/information combined with interview or other forms of observations. All the relevant sources like books, journals, newspapers, and relevant websites have been used to make the study an effective one. This study will theoretically explain the effective use of digital accounting in digital lending. Digital lending model and process of digital lending to satisfy the objective of the study.

Conceptual framework of digital accounting and financial reporting in digital lending: Accounting nowadays has been modernized in multiple ways. Now there is almost no human involvement in accounting. A firm whether it is a small scale or a large business, is using accounting software and other means of customized accounting and transaction recording systems like ERP software which helps in managing the day-to-day activities and business processing. "Enterprises resource planning (ERP) is the integrated management process in real-time mediated through software and technology"**(Enterprise Resource Planning, 2010)** it facilitates the collection, storage, manage and interpretation of the information from many departments of the organization and also helps in accounting, procurement, project management, risk management and compliances **(Deshmukh Ashutosh,2006).**

Different parties may be interested in the financial position of a particular company entity, therefore digital accounting helps in real-time financial reporting. Financial reporting is important to management, shareholders, investors, customers, and governments. Financial reports cannot be prepared without using an appropriate method of accounting. The financial report supplies information about assets, liabilities, profitability, fund flow and cash flow. For the reliabilities of this information, the business firm is using the automated accounting that starts right from transaction recording and ends on the financial report. “Financial reporting is the functions of accounting related to the finance department of an organization and includes modules for financial accounting, sub-account accounting, accounts receivable, payable, revenue management, billing, grants, expense management, project management, asset management, accounting, joint venture, and debt collection”**(oracal.com).**

Digital solution in accounting: Business/organizational digital transformation is occurring not only in fundamental areas such as production and distribution, but also in financial and human resources. Because of the fierce competition, value addition is unavoidable; no business would want to be left behind in terms of technical advancement. A sequential flow of the event is the basic aspect of the accounting in a digital accounting solution.

Features of Digital Accounting Solution

1	**Paperless accounting**	It facilitates the digitalisation of all invoices or the document of transactions involved.
2	**Interfaces to (external) systems**	Receive invoices and other files from suppliers or banks that can be accepted directly into the accounting system via an interface.
3	**Management of data quality**	Validate the quality and accuracy of data.

4	**Process automation**	latest digital capabilities to fully automate routine processes.
5	**Uniformity of systems**	The fundamental systems of accounting are, for the most part, consistent.
6	**Integrated consolidation system**	In the company, digital accounting has a consolidation system that allows direct access to the corporate division's data.
7	**Real-time reporting**	For quick analysis, it employs state-of-the-art technologies like high-speed databases.
8	**Creation of transparency**	The systems are used to allow analysis from the top of the organization to the smallest detail of end-to-end processes such as buying and selling.
9	**Big data analyses**	Digital technology expertise in the area of big data in accounting systems; i.e. analysis of large amounts of data from different source systems.
10	**Tools for visualisation**	The firm actively employs digital visualization tools to produce the results of its data analysis in a graphical form and to varying degrees of detail for the respective target audience.
11	**Cloud computing**	Most of the firm's applications have been moved to cloud solutions.

(Source: KPMG report on the Digitalisation in Accounting)

Process of digital lending: Traditional credit granting is Tough for both consumers and financial institutions, as it involves huge time in paperwork for assessing the creditworthiness and repayment capacity of the borrower, nowadays, after the introduction of the use of financial technology**(fintech)** has become less time-consuming. digital accounting adaptation and the financial algorithm is being used to check out the past financial track record of the consumer, it is backed by the artificial

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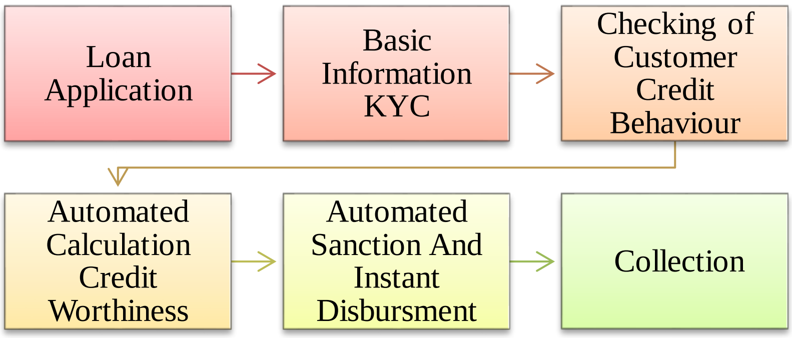
intelligence which takes a very few moments to fetch and verify the eligibility for a credit limit of the prospective customer. These mechanisms check the customer financial need pattern, previous loan record, ongoing loan and credit line and payment defaults if any.

Model of Digital Lending Process



As per the above model, the entire process starts right from the submission of a loan application through a digital channel and the algorithms lead next to intensive KYC procedure. Customer credit behaviour assessment involves the checking of creditworthiness of the customer if all parameters of the pre-defined credit policy of the company have been satisfied the disbursement takes place immediately into the bank account of the customer.

Risk Management and Credit Underwriting: risk management becomes inevitable and it is a necessary part of the lending and advancing business. In digital lending there is more risk is involved as there is neither physical interaction between the lender and borrower nor any collateral security become part of the lending agreement. Finance companies comprehensively use underwriting and risk management.

Underwriting is a structured process used by financial institutions to ascertain the degree of vulnerability in the event of non-payment, delay in payment of dues. It is a type of analytical function.

The five fundamental C's involved in Credit Risk

I. The capital
II. The credit history of the customers
III. The capacity of repayment
IV. Collateraland
V. Condition of the Loan.

these five terms are digitally manipulated during the evaluation of each loan application, the software financial algorithms would decide whether an application will be immediately rejected or passed

The above risk model shows how risk is handled by the financial body, integrated with the firm's objective and securing optimum risk-adjusted returns after analysis of risk, maintenance of risk profile. **(ISACA2009)**

Proposed Framework Source: (ISACA,2009)

Designing a successful digital lending transformation: the

future of any business organization always depends upon what they choose today like the policy, the plan, the procedure and technology. In today scenario the business is becoming more challenging and complex as new technologies and research are arriving frequently. Digital lending cannot be static, new technology in finance/ accounting and taxation is being generated by the developer and tech solution companies, the designing of a successful lending structure will depend upon, how the tech structure is being used and implemented by management. Optimistic unlimited data or multiyear information projects are rarely suitable foundations for digital lending transformations.

1. **End-to-end digital process:** this design suggests that there should be an end-to-end digital process for digital lending, no physical activity should be in the middle of the process. Accounting of the firm, credit assessment of the consumer, granting of the loan, and collection of the loan must be done digitally. If there is any physical process involved it will create disruption in the process, which ultimately will be costly for the firm.
2. **Momentum for automation: the** digital lending firm should create the Momentum and environment to create a fully autonomous system of work. There should not be any ambiguity in the mission of digitalization. risk managers can be afraid of a fully automated approval process for digital loans.

Growth of Digitalization in financial business. The recent past year exemplifies the significant changes in the Indian business environment's history. There has been a great deal of change, and the organisation has successfully responded to it, as there is a lot of possibility of growth. In 2016, the Indian govt Demonetise some currency notes, thereafter, a trend of digitalisation begins in Indian business. Payment, selling, and buying become more digital, therefore the proper mechanism to record the transaction required, simultaneously there was a huge demand for credit, but financial instituting was in a difficult situation to operate their normal course of action. Digital technology has helped the financial institution in managing the business effectively. Today Organizations focusing on equipped themself with the latest technology of production, distribution, financial, human resource planning and public relation. Digitalisation has been a requirement of modern business

Conclusion: Since the birth of LPG, the business has become more difficult to run in general, as multinational corporations have harmed the future of small businesses in the industry. They have massive machinery, corporate resource planning, big data analytics, and an artificial intelligence-based robotic system in their operations. Hours of data analysis are required to keep them self-reliable and competitive in the market. Accounting is one of the most important activities that the organisation should perform well. Accounting is the foundation for financial data or reprints.Accounting facilitates seamless decision-making; nevertheless, if there is a lapse in recording business transactions, a company may suffer. Previously, accounting was reliant on human effort; an accountant was expected to enter transactions, summarise them, and prepare trading and loss accounts, profit and loss accounts, and balance sheets for businesses; however, with the introduction of digital accounting, this has become easier and faster, as a computerised system of accounting is now in place.

The collapse of conventional accounting and lending systems has resulted in digital lending. Traditional lending, which includes banks and NBFCs, currently involves an extremely time-consuming and tedious credit appraisal process. However, an increasing number of millennials are posing a challenge to the traditional approach; as users of smart technology who have everything at their fingertips, they are creating demand.

Digital lending in future will be a core part of the array of financial offerings, those not taking steps towards achieving Digitization of loans will not be relevant. Digitalization of the formal sector of credit lending is inevitable, increasing market growth of digital lending will attract more innovation in digital accounting. the accountant must be adapting the digital innovation in accounting it is no threat for them but it will help them to be still relevant in their profession.

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