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COMPARATIVE STUDY BETWEEN TRADITIONAL WAY AND MODERN WAY OF ACCOUNTING

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ABSTRACT

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position. It helps to evaluate a Company's past performance, present condition, and future prospects. Indian accounting is set to face new challenges from the developed countries after outsourcing accounting work. To meet the challenge accounting sector in India needs tangible improvement in terms of quality and output. To fulfill these needs, Indian accountants must be well formed about the latest trends in accounting industry, i.e. about new techniques of voucher entries, new methods of accounting of branches and departments and new system of automation of accounting work. This should be possible only with the accountants interface millennium technology (Modern accounting) in bringing about which is playing an important role in the era of globalization. Accounting has been done manually till the 1980s. Before the advent of fast and cheap computers, accounting traditionally was processed manually with all transactions recorded in columnar papers and kept in voluminous binders. Once computers became popular and software affordable, accounting tasks moved into this medium, where concepts stayed the same but mechanics changed from papers to programs. When the advent of fast computers and easy-to-use, accurate and reliable software started. An accounting system is a collection of processes, procedures and controls designed to collect, record, classify and summarize financial data for interpretation and management decision-making. Modern accounting involves making use of computers therefore it is called as computerized accounting. It includes accounting software to record, store and analyze financial data. A Modern accounting system brings with it many advantages that are unavailable to along accounting systems.

POINTS BEHIND THE STUDY

The aim of present paper is to highlight the traditional and Modern accounting procedure, aspects and need of accounting system which can be generate the importance of modern accounting. Objectives of the study:

To know the procedure of Traditional and Modern accounting. To evaluate the aspects of Traditional and Modern accounting. To analyze the need and importance of Modern accounting.

To study the comparison between traditional and modern accounting.

SCOPE AND LIMITATIONS

The present study covers up the Traditional and Modern Accounting procedure, aspects, comparison between Traditional and Modern accounting and applicability of modern accounting.

COLLECTION OF DATA

For the purpose of study, necessary data was taken from secondary sources i.e. journals, books, news papers, websites etc.

ACCOUNTING PROCEDURES

Before starting to record business transactions, accountants have to decide what accounts to maintain and also specify the rules on how to allocate transactions to particular accounts. A Chart of Accounts and an Accounting Manual are the typical accountancy documents that are created to achieve these ends. The recording of day-to-day transactions into books of account is known as book-keeping. Book-keepers refer to the chart of accounts and accounting manual when necessary and allocate business transactions to the correct accounts.

TRADITIONAL ACCOUNTING WAY

There was a sales book, purchases book, cash book and more. Transcribing the transaction details from these "Books of Prime Entry" into ledgers that contained the accounts for income, expenses, assets, liabilities etc. For example, a credit sale to customer A was "posted" to both the Sales account and A's account. Each account has a "debit" column and a "credit" column, in addition to date, description and reference columns. The transaction amounts were entered either in the debit or the credit column, depending on the nature of the transaction. Periodically, the debit and credit columns were totaled and each account's "balance" was extracted. It was a debit balance if total debits exceeded total credits, and vice versa. The balances were then listed in a "Trial Balance". If all transactions have been correctly accounted under double entry accounting principles, the total of Debit Account Balances will be the same as the total of Credit Account Balances and the trial balance will "agree." The balances in the Trial Balance were categorized into Income, Expense, Asset, Liability and Equity categories and summarized in an Income and Expense Statement and a Balance Sheet, which are the main financial statements.

MODERN ACCOUNTING WAY

Modern accounting eliminated all the steps above, excepting the first step of recording the transactions into a book of prime entry, in this case a computer data entry screen. Modern accounting mainly uses the computer device. The accounting software then sorted the entries by type of transaction and date to generate a day book "report", sorted them by affected accounts to generate a ledger report and did all the balance computations and summarizations to come up with Income & Expense Statement / Balance Sheet reports.

GOLDEN RULES OF ACCOUNTING

Accounting in traditional way

Traditional accounting is also known as manual accounting .One of the most famous and commonly used term in the field of accounting and finance is “Three golden rules of accounting”. The phrase itself shows that these rules form the very basis of accounting and act as a cornerstone for all record keeping. They are also

Debit	Credit
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called the traditional rules of accounting or the rules of debit and credit. Type of Account		
Personal A/C	The receiver	The giver
Real A/C	What comes in	What goes out
Nominal A/C	Expenses and losses	Incomes & gains

Accounting in modern way

If you are passing an entry in the journal, you may use the Modern Accounting Approach instead of the usual Traditional Approach.

Accounts Involved Debit/Credit Rule Applied
 Purchase Furniture worth Rs. 50,000 therefore Furniture A/C Dr. 50000
 Furniture is real a/c so Dr. what comes in

You should try to use the modern approach at least once to find out which one is easier to understand and apply. It is true that some people find the modern approach easier to apply than the traditional golden rules of accounting.

Type of Account

- Asset A/C
- Liability A/C
- Capital A/C
- Revenue A/C
- Expenses A/C
- Drawings A/C

Debit

- Increase
- Decrease
- Decrease
- Decrease
- Increase
- Increase

Credit

- Decrease
- Increase
- Increase
- Increase
- Decrease
- Decrease

Aspects of Traditional Accounting Way

Traditional accounting systems, even in today’s world where modern accounting systems seem to triumph over paper based systems, can still provide an effective and useful way of recording business transactions and can deliver an efficient accounting information system for the small business owner. A Traditional accounts system, if developed correctly can deliver timely and accurate information. In many ways, particularly for the smaller business, in a well designed Traditional accounting system the advantages outweigh the disadvantages. The Traditional system, though requires a greater understanding of how to book keep, can be easier to manage, once the key concepts of double entry book keeping have been learnt.

Aspects of Modern Accounting Way

Modern accounting is also known as computerized accounting. Accounting is a crucial function for every business – large or small .The following role played by modern accounting.

To put information close to accountants.

To improve the capacity of accounting research and extension specialists to organize, store, retrieve and accounting information exchange.

To evolve mechanism of information sharing.

To develop accounting database for easy access and data base decision making. Access to the storehouse of information is easy.

Accounting data will available universally.

Comparative Analysis : Traditional and Modern Accounting

Time & Speed

The most glaring difference between traditional and computerized accounting is the speed of operations. With an accounting program, data is entered once and it is saved. The program provides management with reports in a speed never dreamed possible in the traditional days. No more waiting days or weeks to know whether your business is making a profit. Using computerized accounting, information can be accessed in a matter of minutes. Once data is available in the system, it can be used in reports, queries and analysis.

Correctness & Accuracy

Computerized systems have drastically increased accuracy of calculations when compared to the traditional, manual system, in which columns had to be added up, numbers moved from one page to the next, and trial balance and financial statements manually compiled. If errors occurred, many hours had to be spent trying to find and correct them. With accounting software, this problem is eliminated. In the case of accounting spreadsheets, adding simple formulas still may be needed, but it is an easier and more accurate process. Efficiency goes through the roof when a computerized system is used.

Costs

The traditional manual accounting system with paper and pencil is cheaper than the computerized version, in which a firm needs a computer, software, printer and other expenses associated with a system. The manual system may work for small businesses up to a certain point, but with the affordable costs of computers and software, many firms are opting for the computerized system. They are easy to use, and finding experienced employees to run the system is not a hurdle.

Backups & Storage

When using a manual system, the risk of losing data is real. If important papers are damaged or destroyed, that work may have to be re-created. Copies of the original work can be made, but that could be expensive and time-consuming. Accounting on a computerized system offers the choice of saving work on a CD, portable or external hard drive, flash drive, or even online. Many firms back up data every night as a precaution. If something happens the next day, the data can be restored from the backup.

Conclusion

Accounting programs or software can help accountants or business owners create sales forecasts, economic business models and other business decision tools. They will also automatically input the business' financial information, limiting the number of human data entry errors. Standard defaults and mathematical verification processes are additionally important features of accounting software. These processes ensure that the company's accounting books are always in balance and do not violate any preset requirements. Small business accounting software packages are usually basic programs created with the non-accountant in mind. This allows owners and managers to complete traditional accounting functions without much formal training or technical knowledge. Small business owners may also be able to transfer this information electronically to their public accountant for tax purposes. Electronically transferring information is usually more accurate and timely than handing over a stack of manual accounting ledgers.

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