

CHANGE TO IFRS WITH A HIGH LEVEL OF DIGITAL ACCOUNTING

Zsófia Hajnal

John von Neumann University

Abstract: IFRS (International Financial Reporting Standards) began in 1973. The primary purpose of the IFRS creation was to unify the principles, methods, and procedures of entities' financial statement preparation and clarify all kinds of related concepts. The standard-setters created a serious of accounting standards, which are understandable, high-quality, and easy to use. Basically, it is obligatory to make an annual report in accordance with the IFRS principles for all business unit and listed on the stock exchange market. Furthermore, other kinds of company can decide, that they prepare all annual reports based on the IFRS. ¹In Hungary the IFRS using is becoming more widespread. The IFRS is compulsory for the financial institutions, and that companies who are on the Budapest stock exchange market. Some companies can choose like the joint venture companies. I search the difficulties, regarding those company, whose come over to IFRS at the first time, so the first-time users of the IFRS. I would like to know that those company where the digital accounting is developed, the changing will be a bit easier, and faster or not (Lakatos et.al 2018).

I had an opportunity to make an interview with the financial manager of a company, where they use digital accounting at a higher level and they would like to switch to IFRS in the coming years. I would like to examine such questions as, for example, how digitalization affects/helps the accounting field. What difficulties can be eliminated much easier and faster with it. In my article I present, summarize and analyze, the main conclusion of the interview based on my opinion a SWOT analysis presents very well what was said.

Key words: digital accounting, International Financial Reporting Standards

Fist time adaptation of IFRS

For the IFRS first time users need to count some difficulties. This kind of difficulties could be to choose the appropriate specialist. The company has to use a trained bookkeeper, whose IFRS qualified. Furthermore, the auditor and tax specialist can be also a difficulty factor, because every company, whose prepare the annual and financial statement based on the IFRS the auditing is obligatory. For example, according to the data from the Ministry of finance the certificated IFRS experts is less than 2.500 person in Hungary, which is very little.²

I prepared the Figure 1 based on Lakatos –et. al. (2018), which illustrates better the steps, and the preparation process, the first adaption of IFRS.

Based on the Figure, the first part will be the analysis of the deviation. The company has to investigate the differences between the IFRS and Hungarian regulation. What kind of effects will be for the property and financial statement. The next one is the second step. For the changing the company has to have enough sources to invest and improve the accounting, controlling, IT and HR system. The company reconsider their own feasibility and formability. The last step will be the application and operation part. Here the company has to prepare comparative data. Regarding to the IFRS, two previous years data has to be shown in the financial statements, and later on if it is necessary than improve the stabled system. Furthermore, the education of the users is one of the key elements of the IFRS adaption.

Another question to be answered is the chosen currency of the company, and the exact date of the conversion. This may not seem like such an important point, but it is. When they start preparing the data collection for the conversion, it is very important which period they are investigating, and in which currency. The IFRS does not specify this precisely.

If a company would like to use the IFRS, they must examine the used valuation procedures, the exact classification of assets and liabilities, and the applied accounting policy. They must be amended to comply to the IFRS rules. The IFRS does not provide a precise scheme for the transition, neither for the balance sheet, and nor for the profit and loss statement. It only formulates framework principles and procedural processes.

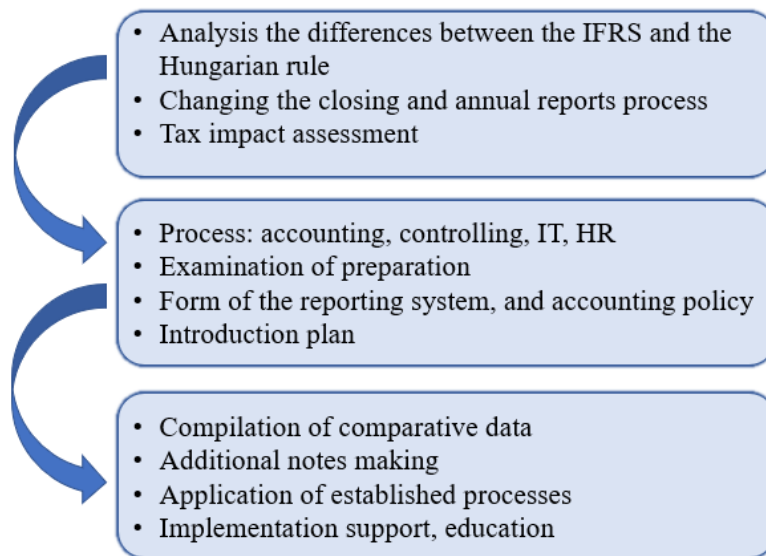


Figure 1: First steps to adopt the IFRS

Source: Lakatos et. al, 2018

The first adaptation of IFRS depends on the companies' activity as well. There are some investigations what focuses on the sector specialties where the entity exists (Pataki, Tangl 2017).

Features of digital accounting

First of all, what means digital accounting?

“Digital accounting refers to creating, transferring, managing, and storing financial information in an electronic format. It involves the use of software solutions to digitize and automate many of the manual processes accountants deal with on a regular basis.”⁴

All accounting transactions will be working in an electronic system, instead of the papers using in a huge measure. There so many fields of accounting, where should have more innovations and process, which can speed up the financial system at a company. On the other hand, nowadays the environment protection get more and more focus. For example, the digitalization escalates for the accounts payable, and receivable, procurements, audit documentation, expense management, monthly/quarterly and yearly close process, and also for the client's contracts and agreements.

The digital accounting has a lot of benefits such as decontaminate from many manual working, which means it will save times, in a same time improve the productivity (Vajna, Tangl 2017) Easy and fast invoicing and payment, costs effective, it can fill in the Enterprise Resource Planning (ERP) system.⁶ The ERP system has been a huge improving in the last few years, because of the digitalization it was also necessary. This is a software program, which collect all data from the different departments (activities) inside of a company, and it works up. This program makes a possibility to represent a different report for all business level.⁴

Regarding the digital accounting one side of problems can be, that to measure the benefits and cost. Basically, to list the costs and benefits is not so hard, but to qualify there, it can be more difficult. Usually the costs are immediately visible, understandable, and exact, in front of this, measuring the benefits are more undefinable. Those company whose adopt to IFRS has to consider the ratio of costs and benefits (Deshmukh 2006).

Table 2: Costs and benefits

Benefits	Costs
The time period will be faster. This involves all kind of payments, all transactions and collections, monthly/quarterly/yearly closings of the books, and reports. More time will be available to make more analysis, which can be on a higher level, or widely.	Expensive investments should have the company, regarding hardware, and software.
Much less the opportunity to make a mistake.	For this investment needs to talk with a specialist, which can be also expensive.
Improve the efficiency.	If the based program is invested, that they have to continuously improve, which can be expensive.
All this digitalization, the cash management can develop also.	Not just the system should be improved, but the specialized person/teams too. They should be retrained too.
Cost savings, for example on papers.	
Faster, effective monitoring.	
More safety.	

Source: based on Dechmukh (2006)

The sum of the results in a SWOT analysis

The SWOT analysis is one of the most best-known business analysis tools. In light if this I prepared an analysis for the digital accounting using, which will provide a bigger picture for us (deep interview 2023).

Strength of the digital accounting are the follows:

- The workflows are much faster and more efficient.
- Large amounts of information are available for the users in a short time.
- The verification process is also more efficient and it can be more precise.
- When the system is established, the application of processes will be more regulated.
- As a result of the development of digital accounting/processes the system is much more environmentally friendly.
- Furthermore, the contact with the economic participants is faster, even at the international level.

Weaknesses of the digital accounting are the follows:

- It is very difficult to create the activation system, and later on the regulation can also cause problems.
- It is very difficult to create the compliance of GDPR principles, moreover, it is also hard to monitor and manage this, and without proper shaping, data can be in danger.
- That fact cannot be neglected, that there are fewer and fewer competent professionals, unfortunately in general the digital skills are low.
- It is very difficult to create and implement the full completeness within a business, included all departments.
- The form of the entire system takes a very long time, even years.

Opportunities of the digital accounting are the follows:

- Accounting and bookkeeping data can be more transparent.
- Automation processes can develop faster and faster.
- The home office opportunity is gaining more and more space.
- The discovery of risks within the company becomes much easier. This can be any type of risk, for example investment risk, or environmental risk.
- Due to the digital accounting the international data can also abut, for example the parent company invoicing, customs relations, tax authority relations. Various economic transactions become visible, even for foreign investors too, or another example the B2B, business to business transactions.

Threats of the digital accounting are the follows:

- It is much more difficult to filter out a small but serious error in a too large data set.
- In a too large data set, the transparency of the system becomes more difficult, and it is also difficult to understand the relationships.
- There is also the risk, that the tool is used by an incompetent person.
- The initial investments can be very expensive and not all companies can afford it.
- Furthermore, usually the managers of the small and medium enterprises are not receptive to this kind of development. For this development, they should use specialist advice, which can be also expensive for them.

Based on this a SWOT analysis clearly shows that a company needs to take into accounting many factors in order to continuously develop.

Conclusion of the research

Overall, it can be said that transition to IFRS should be considered in all circumstances and preparations should be started in time. Those company, whose adopt the IFRS need to collect all the information in order to be able to present an accurate and reliable picture in their various financial statements and annual reports. Furthermore, it become clear to me what advantages and disadvantages digitalization has. Those company, whose has a high level of digital accounting, it is an easier to get more information for the IFRS changing. It is not a short-term investment. For all companies that switch to the application of IFRS they can attribute a more significant role for themselves at the international level for different market participants, including even wider investors, suppliers or customers.

Literature

1. Lakatos L.P., Kovács D.M Madarasiné S.A., Rózsa G.M-I (2018): *International Financial Reporting Standards I.* volume Budapest Hungarian Chamber of Auditors.
2. Pataki-L., Tangl A. (2017): *The consequences of the introduction of IFRS on the accounting registration obligations of enterprises, regarding to agricultural enterprises.* In: Czeglédy, Tamás (szerk.) *Managementhajó nemzetközi vizeken: Managementship on International Waters*, Sopron, Magyarország : Soproni Egyetemi Kiadó 200 p. pp. 59-73.
3. <https://penneo.com/blog/audit-accounting-digitization/> (access date: 28.04.2023)
4. Vajna I., Tangl A. (2017): *The lean effect of the 5S and standard work development in different automated machine process standardization*, In: Illés, B. Cs.; Nowicka-Skowron, M.; Horská, E.; Dunay, A. *Management and Organization: Concepts, Tools and Applications*, Harlow, Egyesült Királyság / Anglia: Pearson Education Limited 242 p. pp. 67-74.
5. <https://fullyaccountable.com/what-is-digital-accounting/> (access date: 27.04.2023)
6. Deshmukh A. (2006): *Digital Accounting: The Effects of the Internet and ERP on Accounting* Chapter I.

