CHAPTER ONE

INTRODUCTION

1.1 Background of computerised accounting system

A proper accounting system has a great impact on the success of any new company, especially the small ones. Statistics have shown that 40% of all new companies in USA failed within the first year of operation due to the lack of planning and tracking finances (Sibley 1998, p.1). Hence, the implementation and usage of accounting system, even if it is simple, is crucial for the future success of any company, irrespective of the company's size.

The increase in business competitiveness in the late 20th century had forced companies to adapt new technology to redesign business processes, improve products, and support organisational changes for better performance. One area of new technology is computerisation. A study showed that IT had provided competitive intelligence for effectively implementing business changes in American and Japanese companies (Guimaraes, Sato & Kitanaka 1999, pp.41-49).

IT has progressed tremendously over time and IT has the potential to revolutionise the way businesses operate: it had already happened in manufacturing and even accounting (Business Europe 1998, pp.1-3). The availability of vast amounts of historical data in recent years and the enormous increase in the processing power of computers had made many decision makers to begin to rely on computerised decision support systems to help them in complex decision tasks (Sriram, Ram & Jones 1998, abstract). Accounting is very important in business (Wiersema 1997, pp.40-42) and computerised accounting system is no different in this case. The usage of such system has enable accountants to spend more time on decision making as it can automatically handle the tedious sorting of entries (Miller 1999, p.1).

Computerised accounting system encompasses automated transaction cycles, Internet resources, electronic tax record retention requirements, expanded coverage of data encryption techniques, expanded coverage of object-oriented programming, digital signatures, bar coding and automatic identification technology (Bodnar & Hopwood 1998, abstract).

In implementing such system, small and medium companies must understand that there are several steps needed to be done. They must first understand their own IT needs. Knowing their needs allows them to select a system and software that best suits them. They can then modify the system if required. Once the computerised accounting system is successfully tested, only then can small and medium companies implement the system.

1.2 Problem statement

Many small and medium companies know the importance of computerised accounting to keep up with the IT age. However, there is a lack of research in the usage of computerised accounting system by small and medium companies. More research is carried out on larger organisations (Johansson & Samuelson 1998, p.1). It is the intention of this research to provide a reference for small and medium companies contemplating the use of a computerised accounting system. This research will also provide some guide for small and medium companies selecting an accounting software.

1.3 Research background

1.3.1 Research objectives

This study covers the pre and post implementation stages of computerised accounting system in small and medium companies. In defining the limitation of this study, 4 major areas to be addressed are identified. An empirical research is then conducted to study these areas, as outlined in the following objectives:

1. To study the extent of usage of computerised accounting system in small and medium companies
2. To study the basis of selection of the system by these companies
3. To identify the main features that they require from the system
4. To identify the percentage of companies that maintain their system
5. To study the impact of the system on the company's performance

1.3.2 Scope of study

The scope of the study is confined to small and medium sized companies. In studying the usage of accounting system, focus will be on the accounting software usage. This study covers the pre and post stages of the system implementation. In particular, the emphasis is on 4 major areas considered to be important:

- The initial selection process
- Required features of the system
- Maintaining the system
- Impact of the system on the performance of the company as compared to the manual accounting system

1.3.3 Research methodology

The research methodology used is a three-page self-reply mail survey questionnaire on a sample of 250 companies. An incentive in the form of a summary report is included in order to increase the number of responses by the sample. The details of the research are outlined in Chapter Three.

1.3.4 Data analysis

For the purpose of this study, several methods of statistical analysis are used. The Statistical Package for Social Sciences (SPSS) program is used with the following statistical methods of analysis:

- Frequency count
- Tabulation of average scores
- Standard deviation values
- Reliability analysis

1.3.5 Limitations of study

The study conducted is limited only to small and medium companies that are listed in the Yellow Pages in the Malaysia Online web site (http://www.mol.com/).

Information that requires personal interviews with representatives of the company is omitted due to the constraint of time and the costs likely to be incurred. Among such information omitted include (a) the exact start-up, (b) how and why small and medium companies went into computerised accounting system and (c) details of any existing computerised system in use. Such information could not be obtained through a single written correspondence. Neither would the company reveal such information to an anonymous person through a telephone interview.

The main measurement method used is based on Likert scale. This is used to make it easier for the respondents to indicate how strongly they agree or disagree with the questions posed. This is easier for them and would attract their attention for answering. But the drawback is that detailed information cannot be obtained since open ended response questions are not used. Follow up interviews (except e-mail reminders for response) for further information and follow up calls for the responses are not conducted due to the same reasons mentioned which are time and costs constraint.

1.3.6 Significance of study

The study conducted is expected to bring the following benefits:

1. To provide a reference for small and medium companies contemplating the use of computerised accounting system
2. To provide some guide for small and medium companies in selecting an accounting software

1.4 Organisation of study

The write up of this study is divided into five chapters. Chapter One describes the background and objectives of the study, including the significance and the limitations of the study. Chapter Two outlines the Literature Review related to this subject. Chapter Three describes the research methodology used in carrying out the research and the statistical tools used for analysing the data via the SPSS program. Chapter Four describes the results of the research and analysis done on the data obtained from the survey. The conclusions and recommendations are presented in Chapter Five.