

## Effects of Cloud Accounting on Medium and Small Businesses

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**Submission: 26.08.2025. Accepted: 25.02.2026. Publication: 13.06.2026**

### Abstract

One major technical development in the realm of company accounting and financial management is cloud accounting. More and more companies are ditching antiquated accounting software in favor of cloud-based solutions, thanks to the explosion of internet-based services and digital technology. The term "cloud accounting" describes the practice of keeping track of money using the internet and using online accounting software and cloud computing. This article examines the idea of cloud accounting and how it affects SMEs in regards to performance, accessibility, cost management, and operational effectiveness. The many benefits that small and medium-sized enterprises (SMEs) reap from cloud accounting include better cooperation among company stakeholders, automated accounting processes, safe data storage, and real-time access to financial data. Cloud accounting systems are subscription-based, making them more inexpensive and adaptable for small firms compared to traditional accounting systems. Traditional accounting systems require expensive infrastructure and manual upkeep. Small and medium-sized enterprises (SMEs) have become much more efficient and accurate in their accounting operations thanks to features like online invoicing, payroll management, financial reporting, inventory tracking, and tax management.

**Keywords** Cloud Accounting, Small and Medium Enterprises (SMEs), Cloud Computing

### Introduction

Technological developments in the modern digital economy have revolutionized the way accounting and financial operations are managed by businesses. More sophisticated and web-based accounting solutions are progressively replacing older, more manual approaches that depended on locally installed software and heavy reliance on human record-keeping. Businesses of all kinds, but notably SMEs, have taken to cloud accounting, one of the most groundbreaking developments in this sector. By utilizing cloud computing technology, cloud accounting provides enterprises with a versatile, economical, and efficient way to manage their financial information. In cloud accounting, users access their financial data from anywhere with an internet connection and use online accounting software. Cloud accounting solutions are web-based alternatives to more conventional methods of bookkeeping that rely on the installation of software and physical equipment on individual workstations. Accounting data is accessible 24/7/365 from any internet-connected device, including smartphones, tablets, and laptops. Financial management procedures in modern firms have been made faster, more accurate, and easier to access because to this technological development. By creating jobs,

encouraging innovation, and substantially increasing national income, small and medium-sized enterprises (SMEs) are vital to economic growth. However, problems with insufficient capital, outdated facilities, a lack of qualified staff, and ineffective management are common for SMEs. For smaller companies, traditional accounting systems might be too costly, labor-intensive, and difficult to manage. Here, cloud accounting has shown to be a great way for SMEs to cut costs without sacrificing efficiency in accounting and financial administration. Automation of bookkeeping processes, online invoicing, payroll administration, tax computation, inventory tracking, and real-time financial reporting are just a few of the significant benefits offered by cloud accounting solutions. Accounting procedures are made easier and more error-proof with these technologies. Quicker and better decisions can be made by company owners and managers thanks to real-time reporting on financial performance, spending tracking, and monitoring. With cloud accounting, numerous users can access financial data at once, which increases collaboration among auditors, managers, accountants, and financial consultants. The low overhead is another major perk of cloud accounting. It can be costly to implement and maintain traditional accounting systems, as well as to set up systems to back up data and provide technical support. However, small and medium-sized enterprises (SMEs) can save money and use cloud accounting solutions because they often work on a subscription-based approach. Accounting systems can be easily scaled up or down by businesses without requiring substantial investments in new hardware or software. Cloud accounting has become increasingly important in today's corporate world because to the fast expansion of digitization, e-commerce, and online business activities. Businesses can streamline their operations with cloud-based accounting solutions that interface with payment gateways, customer relationship management systems, banking services, and inventory management software. Financial reporting and company analysis have also been improved in both speed and quality thanks to cloud accounting platforms' use of data analytics, automation, and artificial intelligence. Cloud accounting has many benefits, but it also poses certain problems for small and medium-sized enterprises. Problems with deploying cloud-based systems may arise from concerns about cybersecurity, data privacy, internet dependence, software compatibility, and a lack of technical understanding. While adopting cloud accounting services, businesses must comply with financial requirements and maintain sufficient data protection procedures. To top it all off, cloud accounting solutions can not be successfully implemented without staff training and tech awareness.

### **The Value of Cloud Computing for Accounting and Finance**

An integral part of today's sophisticated systems for managing money is cloud computing. Data storage, software programs, servers, databases, and networking are all examples of computer services that are delivered through the internet instead of depending on physical infrastructure and locally installed systems. Organizations' storage, processing, management, and analysis of financial information has been revolutionized by cloud computing in the realm of financial management. A growing number of businesses, particularly SMEs, are relying on cloud-based

solutions to help them save money, work more efficiently, and make better decisions. The adaptability and accessibility offered by cloud computing is a huge boon to financial management. With cloud-based financial systems, customers may access their accounting and financial data from any internet-connected device, at any time, from any place. The ability to remotely monitor financial activities enhances operational efficiency and provides convenience to business owners, managers, accountants, and auditors. Businesses with several offices or that use remote workers would appreciate this adaptability. The efficiency and speed of financial activities are greatly enhanced by cloud computing. Manual procedures, paperwork, and postponed reporting are commonplace in conventional methods of financial management. Accounting, billing, payroll, tax computations, planning, and reporting are all made easier with cloud-based solutions. The use of automation in financial record keeping promotes accuracy, saves time, and decreases the likelihood of human error. Organizations may keep a constant eye on their financial performance and make quicker business decisions with the help of real-time data processing. Saving money is another major perk of cloud computing. Expensive hardware, software, installation, maintenance, and data storage infrastructure are required by traditional financial management systems. Less capital investment is required for cloud computing because it uses subscription-based or pay-as-you-use methods. With the ability to extend services as needed, cloud solutions become more budget-friendly, making them a good fit for small and medium-sized enterprises (SMEs) with limited funds. When it comes to financial processes, cloud computing also improves data security and backup management. To keep sensitive financial data safe from hackers and other cybercriminals, cloud service providers employ cutting-edge security methods including data encryption, firewalls, multi-factor authentication, and routine system monitoring. There is less chance of data loss because of human mistake, natural catastrophes, or technological faults when data backup and recovery methods are automated. System dependability and availability in financial management are both enhanced by storing data securely in the cloud. Among the many advantages of cloud computing for financial management is the ability to access financial reports in real-time. In order to efficiently monitor cash flow, expenditures, sales, and profitability, managers should take advantage of cloud-based technologies that offer quick access to updated financial information. Decisions about investments, budgets, and strategies can all benefit from real-time reporting's increased openness. Companies can react swiftly to changes in the market and financial threats when they have access to precise and up-to-date information. With cloud computing, internal company communication and collaboration are even more enhanced. From various places, several users, including auditors, managers, financial advisors, and accountants, can access the same financial data at the same time. Financial reporting and approval procedures are streamlined as a result, and cooperation, coordination, and information sharing are all enhanced. Banks, tax authorities, suppliers, and customers may all be easily communicated with through the integrated digital platforms made possible by cloud systems. Systems for managing finances have been fortified even further by combining cloud computing

with cutting-edge technology like data analytics, machine learning, and artificial intelligence. Businesses can benefit from these technologies in a number of ways, including better decision-making, financial trend analysis, fraud detection, and company performance prediction. A company's bottom line and operational efficiency can both benefit from automated analytics technologies. There are benefits to using cloud computing for financial management, but there are also some drawbacks. Cybersecurity threats, internet dependence, data privacy, incompatibility of software, and a lack of technical knowledge are some of the challenges that organizations may encounter. When implementing cloud-based financial systems, businesses need to make sure they are secure and following all financial requirements. For cloud computing solutions to be implemented effectively, it is crucial to teach employees and raise their technology understanding.

### **Accounting in the Cloud vs. the Old Way**

The advent of new technologies and the widespread adoption of digital processes in company operations have caused accounting systems to undergo profound changes. For a long time, most businesses' accounting needs were fulfilled by using either locally installed accounting software or manual bookkeeping methods. But with the rise of cloud computing came cloud accounting systems, which let you manage your finances online and through the internet. There are a number of ways in which traditional accounting and cloud accounting systems vary from one another when it comes to the management of a company's financial records and transactions.

### **Standard Accounting Methods**

The term "traditional accounting systems" describes a way of keeping financial records that relies on either human intervention or software placed on office servers or local computers. This method restricts access to accounting data by requiring users to be physically present at designated places or use authorized devices.

Paperwork, local backup systems, and data input by hand are commonplace in traditional accounting. In most cases, businesses need specialized accounting departments, IT support, and hardware infrastructure to run these systems. Traditional accounting systems have served many businesses well, but they come with drawbacks such as slower processing times, less accessibility, and potentially greater operational costs.

Companies that need full internal control over their financial data and are located in areas with spotty internet service tend to favor more conventional methods. On the other hand, they could have problems with data storage, software upgrades, maintenance expenses, and the possibility of data loss as a result of hardware malfunction or natural catastrophes.

### **Accounting Systems on the Cloud**

Accounting solutions that are up-to-date and utilize cloud computing to store, process, and manage financial data online are known as cloud accounting systems. In contrast to on-premises systems, cloud accounting platforms run on servers hosted by third parties.

Accounting data is accessible 24/7/365 from any internet-connected device, including smartphones, tablets, and laptops.

Accounting software on the cloud streamlines a number of routine financial tasks, including bill generation, payroll processing, tax preparation, expense reporting, and more. Accounting professionals, managers, auditors, and company owners can all benefit from their real-time access to financial data and the ease with which they can collaborate.

With their subscription-based business models, cloud accounting platforms keep infrastructure and maintenance expenses to a minimum. The scalability, cost-effectiveness, and adaptability of these systems make them ideal for small and medium-sized businesses.

**Difference Between Traditional Accounting and Cloud Accounting Systems**

<b>Basis of Comparison</b>	<b>Traditional Accounting Systems</b>	<b>Cloud Accounting Systems</b>
Accessibility	Accessible only from specific computers or office locations	Accessible anytime and from any location through the internet
Data Storage	Data stored on local computers or physical servers	Data stored on remote cloud servers
Cost	High installation, maintenance, and hardware costs	Lower costs through subscription-based services
Software Updates	Manual updates required	Automatic software updates provided by service providers
Data Backup	Manual backup systems required	Automatic backup and recovery systems available
Collaboration	Limited collaboration among users	Multiple users can access data simultaneously
Scalability	Difficult and expensive to expand	Easily scalable according to business needs
Security	Depends on internal security systems	Advanced cloud security and encryption measures
Speed and Efficiency	Slower processing and reporting	Real-time processing and instant financial reporting
Maintenance	Requires dedicated IT support and infrastructure	Managed by cloud service providers
Internet Dependency	Can operate without internet in some cases	Requires stable internet connectivity
Risk of Data Loss	Higher risk due to hardware failures	Lower risk because of remote backup systems

### **Advantages of Traditional Accounting Systems**

Traditional accounting systems provide greater physical control over financial data and may be suitable for organizations with strict internal security policies. Businesses operating in remote areas with poor internet connectivity may also find traditional systems more reliable. Additionally, some organizations prefer traditional systems because they allow complete customization and internal management of accounting operations.

### **Advantages of Cloud Accounting Systems**

Cloud accounting systems offer several benefits such as remote accessibility, automation, cost efficiency, real-time reporting, improved collaboration, and secure data backup. They reduce paperwork, improve operational efficiency, and support faster decision-making. Cloud systems also integrate easily with banking services, tax platforms, inventory systems, and other digital business applications.

### **Challenges of Both Systems**

Traditional accounting systems may involve high operational costs, maintenance difficulties, and slower processing. On the other hand, cloud accounting systems may face challenges related to cybersecurity risks, internet dependency, data privacy concerns, and lack of technical expertise among users. Businesses must evaluate their operational requirements and technological capabilities before selecting an appropriate accounting system.

### **Conclusion**

Accounting on the cloud has been a game-changer for many types of businesses, but especially for SMEs in terms of financial management and overall accounting systems. Improved, more accessible, efficient, and cost-effective internet-based financial management solutions have revolutionized conventional accounting procedures brought about by the rise of cloud computing. To boost operational efficiency, financial visibility, and decision-making in today's digital business world, more and more companies are turning to cloud accounting solutions. Access to financial data in real-time, automated accounting operations, safe data storage, decreased operational expenses, and enhanced cooperation among company stakeholders are just a few of the significant benefits that SMEs may reap from cloud accounting. An online accounting system may streamline processes and cut down on human mistake with features like payroll processing, inventory management, online invoicing, and financial reporting. Through integration with other business applications and technical platforms, cloud accounting systems additionally facilitate digital transformation and company scalability. Thanks to cloud computing, firms may now access their financial information remotely and continuously monitor their business performance, greatly improving financial management. To better adapt to changes in the market, enhance budgeting procedures, and make educated judgments, managers can benefit from real-time monitoring and data analytics. Because they cut down on costly infrastructure, software maintenance, and specialized IT support, subscription-based cloud accounting platforms are ideal for SMEs. Efficiency, transparency, and a competitive edge in today's business world are all aided by cloud accounting. By utilizing state-of-the-art

cloud-based financial solutions, businesses may boost efficiency, cut down on paperwork, increase communication, and win over customers and investors. Cloud accounting is already very efficient and accurate; adding AI, ML, and automation technology just makes it better. Cloud accounting solutions have many advantages, but they also come with certain drawbacks, such as potential security breaches, worries about personal information being leaked, reliance on the internet, compatibility problems with other software, and a general lack of technical knowledge. Adopting cloud technology could be challenging for small firms due to a lack of digital awareness and insufficient infrastructure. Consequently, cloud accounting solutions cannot be effectively implemented without robust cybersecurity measures, staff training, consistent internet access, and adherence to all applicable regulations.

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