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IMPACT OF DIGITAL PAYMENTS ON ACCOUNTING SYSTEMS OF SMALL BUSINESSES

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Abstract:

Digital payments have transformed the financial ecosystem of small businesses. The rapid adoption of Unified Payments Interface (UPI), mobile wallets, internet banking, and card-based transactions has significantly influenced accounting practices, bookkeeping methods, financial transparency, and business efficiency. This research paper examines the impact of digital payments on accounting systems of small businesses, focusing on operational efficiency, accuracy of accounting records, taxation compliance, and financial decision-making. The study also highlights challenges such as cybersecurity risks, digital illiteracy, and infrastructure limitations. The paper concludes that digital payments positively influence accounting systems by improving transparency, reducing manual errors, and facilitating real-time financial reporting.

Keywords: Digital Payments, Accounting Systems, Small Businesses, UPI, Financial Technology, GST Compliance, Digital Accounting.

1. Introduction:

India has witnessed a remarkable transformation in digital financial transactions over the last decade. Government initiatives such as Digital India, demonetization, and the expansion of UPI have accelerated the adoption of digital payment systems among small businesses. Small enterprises increasingly use digital payment modes including QR-code payments, mobile wallets, debit cards, credit cards, and online banking.

Digital payment systems not only simplify customer transactions but also influence accounting systems by enabling automated recordkeeping, real-time tracking, and improved financial reporting. Traditional accounting methods based on manual bookkeeping are gradually being replaced with computerized accounting software integrated with payment gateways.

The rapid growth of digital payments has changed the way small businesses manage their accounting records and financial operations. Accounting systems integrated with digital payments help

businesses maintain systematic records, improve transparency, and comply with taxation requirements.

2. Objectives of the Study:

1. To analyze the impact of digital payments on accounting systems of small businesses.
2. To study the role of digital payments in improving accounting accuracy and efficiency.
3. To identify challenges faced by small businesses in adopting digital accounting systems.
4. To evaluate the effect of digital payments on financial transparency and taxation compliance.

3. Research Methodology:

The study is descriptive and analytical in nature. Both primary and secondary data sources are used.

Primary Data:

Primary data may be collected through questionnaires and interviews with small business owners, accountants, and shopkeepers using digital payment systems.

Secondary Data:

Secondary data has been collected from:

- Research journals
- RBI reports
- Government publications
- Research papers
- Online databases and articles

The study analyzes available literature and practical observations regarding the influence of digital payments on accounting systems.

4. Concept of Digital Payments:

Digital payments refer to financial transactions conducted electronically without the physical exchange of cash. Common digital payment methods include:

- Unified Payments Interface (UPI)
- Mobile Wallets
- Internet Banking
- Debit/Credit Cards
- Point of Sale (POS) Systems
- QR Code Payments

Digital payment systems provide convenience, speed, and security in financial transactions. They create automatic digital records that assist accounting processes and financial management.

5. Accounting Systems in Small Businesses:

Accounting systems are processes used for recording, classifying, summarizing, and reporting financial transactions. Traditionally, small businesses maintained manual books of accounts. However,

digital payments have encouraged businesses to adopt computerized accounting software such as:

- Tally
- Zoho Books
- Vyapar
- QuickBooks
- Busy Accounting Software

Many small businesses now integrate payment systems with accounting software for automated transaction recording and reporting.

6. Impact of Digital Payments on Accounting Systems:

6.1 Improved Accuracy in Accounting:

Digital transactions automatically generate transaction records, reducing manual errors in bookkeeping. Automated entries improve the accuracy of accounting information and reduce duplication of records.

Benefits:

- Reduction in human error
- Accurate transaction tracking
- Automatic reconciliation of accounts
- Better maintenance of financial records

6.2 Real-Time Financial Reporting:

Digital payment systems allow businesses to monitor cash flows in real time. Integrated accounting software provides instant financial statements, helping businesses make better decisions.

Advantages:

- Real-time income tracking
- Better budgeting and forecasting
- Improved cash flow management
- Faster preparation of financial statements

6.3 Increased Financial Transparency:

Digital transactions create an electronic audit trail, improving transparency and reducing possibilities of fraud and tax evasion.

Outcomes:

- Transparent financial records
- Better audit compliance
- Easier GST filing and tax reporting
- Improved credibility of businesses

6.4 Better GST and Tax Compliance:

Digital payments support automatic invoice generation and transaction tracking, which simplify GST return filing and taxation procedures.

Benefits:

- Easy maintenance of purchase and sales records
- Reduced tax calculation errors
- Improved compliance with GST regulations
- Simplified tax audits

6.5 Reduction in Cash Handling Costs:

Small businesses save time and operational costs associated with cash management.

Reduced Costs Include:

- Cash transportation costs
- Risk of theft
- Manual counting expenses
- Cash handling errors

6.6 Enhanced Business Efficiency:

Digital accounting systems improve operational efficiency through automation.

Improvements:

- Faster transaction processing
- Easy payroll management
- Efficient inventory control
- Better customer service
- Improved business decision-making

7. Challenges Faced by Small Businesses:

Despite the advantages, small businesses face several issues in adopting digital payment-based accounting systems.

7.1 Digital Illiteracy:

Many small business owners lack technical knowledge regarding accounting software and digital payments.

7.2 Cybersecurity Risks:

Online fraud, phishing, and data breaches pose major concerns for businesses using digital systems.

7.3 Internet Connectivity Issues:

Rural and semi-urban businesses often experience poor internet infrastructure.

7.4 Cost of Software and Technology:

Accounting software subscriptions and hardware costs may burden small enterprises.

7.5 Resistance to Change:

Traditional business owners may hesitate to replace manual accounting methods with digital systems.

8. Findings of the Study:

The study reveals the following findings:

1. Digital payments significantly improve accounting accuracy and efficiency.
2. Small businesses adopting digital accounting systems experience better financial transparency.
3. Digital payment systems facilitate GST compliance and tax reporting.
4. Real-time financial information helps in business decision-making.
5. Cybersecurity concerns and lack of digital literacy remain major barriers.
6. Integration of payment systems with accounting software improves operational efficiency.

9. Suggestions:

1. Government should provide digital accounting training programs for small businesses.
2. Affordable accounting software should be developed for micro-enterprises.
3. Cybersecurity awareness programs should be promoted.
4. Internet infrastructure in rural areas should be strengthened.
5. Financial institutions should encourage secure digital payment adoption.
6. Businesses should regularly update accounting software for security and efficiency.

10. Conclusion:

Digital payments have revolutionized accounting systems of small businesses in India. The integration of digital payment platforms with computerized accounting software has improved accuracy, transparency, and financial management. Small businesses are increasingly moving toward automated accounting practices that support real-time reporting and taxation compliance.

Although challenges such as cybersecurity risks, digital illiteracy, and infrastructure limitations exist, the benefits of digital payments outweigh the disadvantages. The future of small business accounting lies in greater digital integration, automation, and data-driven financial management.

Digital payment systems will continue to play a vital role in transforming the accounting practices of small businesses and improving their operational efficiency and financial sustainability.

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Questionnaire (Optional for Primary Data Collection)

Name of Business: _____

Type of Business: _____

1. Which digital payment methods do you use?
 - UPI
 - Debit/Credit Cards
 - Mobile Wallets
 - Internet Banking
2. Has digital payment improved your accounting accuracy?
 - Yes
 - No
3. Do you use accounting software integrated with digital payments?
 - Yes
 - No
4. Has digital payment simplified GST compliance?
 - Yes
 - No
5. What challenges do you face while using digital payment systems?
 - Cybersecurity Issues
 - Internet Problems
 - Lack of Technical Knowledge
 - Cost of Technology
6. Do digital payments help in better financial management?
 - Yes
 - No

Suggestions for improving digital accounting systems: _____
