

# Best Accounting Practices for Online Businesses

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## **Chapter 2: Literature Review**

### **2.1. Introduction**

Although online businesses have been in operation before, the practice became more critical during and after the containment of the COVID-19 pandemic, whereby it is now a common feature in the commercial world and particularly considering a globalized marketplace. Conversely, as a business practice, through records such as financial statements, business owners in general use accounting to facilitate the best decisions, policies, and operations (Demirkan et al., 2020). The operations of the online business platform, however, have notable differences from the traditional brick-and-mortar approach, but they still call for best accounting practices to ensure business operations are streamlined (Brukhansky & Spilnyk, 2021). Some of the notable best practices include employing qualified accounts professionals; maintaining accurate financial records; tracking expenses; understanding and meeting tax obligations; and embracing technology designed and developed for the accounting profession (Raewf & Jasim, 2020). This chapter will review previous studies that covered a similar subject matter to the current research to gain deeper understanding on what other researchers found about the best accounting practices for online business. The literature review will explore areas including technology, automation, accounting challenges, and reporting standards. To contextualize the review, the chapter will begin with a description of what accounting is as a practice and develop a theoretical framework.

### **2.2. Accounting as a Practice**

A general definition of accounting is the system through which commercial and financial transactions are recorded and summarized, and the results are examined, corroborated, and communicated to stakeholders, including regulatory agencies (Kruskopf et al., 2020; Moll & Yigitbasioglu, 2019). Ainsworth and Deines (2019) reported that the concept of accounting as a

practice can tracked back to ancient Egypt and Mesopotamia's civilizations, when taxation was introduced in response to the increasing volumes of goods and services exchanged. Presently, the practice has evolved to adapt to the dynamics of today's business world; however, Cai (2021); Khaghaany et al. (2019); Pavlykivska and Marushchak (2019) argue that despite the new approaches, the fundamental principles and significance of accounting remain the same in the working of any economy. Beerbaum et al. (2021) also noted that accounting is a set of activities rather than a single undertaking; ideally, it can be categorized into financial accounting and management accounting. On one hand, financial accounting is concerned with tracking an entity's business transactions, such as purchases/production costs, sales records, and salaries and recurrent expenditures while, on the other hand, management accounting involves analyzing financial data to facilitate decisions and execution of managerial functions (Beerbaum et al., 2021).

From the above, two underlying purposes of accounting as a practice can be inferred and justified. One is that management teams can derive information from accounting reports and use it to make decisions and formulate business strategies. This view is shared by Pavlykivska and Marushchak (2019), who argued that the purpose of analyzing financial data is to get deeper insights into how markets operate and understand why certain trends occur. Then, primarily because of taxation, some accounting aspects such as bookkeeping have implications for legislative and regulatory requirements. This view is shared by Spilnyk et al. (2022), who observed that most economies, whether developed or developing, require businesses within their jurisdictions to report their financial position. However, Khaghaany et al. (2019); Liu et al. (2019) also contended that due to the sovereignty of each country, there may be inconsistencies in how accounting practices are implemented, mainly because of differences in national

legislation. Nonetheless, because of the concept of globalization, the world is steadily moving towards harmonizing different accounting practices, even if at least at regional or bloc levels, such as the European Union (Beerbaum et al., 2021; Liu et al., 2019).

The above assertions are inferred to mean that the evolution of accounting as a practice and the way it applies to online business is considerably influenced by legislation as well as other noteworthy phenomena such as globalization and technological advancements, all of which have implications for accounting best practices in general. The primary focus of this literature review, therefore, is on accounting best practices as they apply to online business, which also entails electronic tools, automation, and accounting software, which will be explored in later sections of this chapter. At this point, it is worth noting that this literature review and the thesis at large are focused on online business in general and not a particular industry or entity that operates on online platforms.



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