

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

ACCOUNTING

Why and How Accountants Should "Think Blockchain"

For accountants, the two key important words in the above description are "ledger" and "technology". Accountants have deeply understood ledgers for centuries. They have been leveraging technologies for decades. Therefore, Blockchain, is not a ...

Nov. 13, 2018



BLOCKCHAIN

What is Blockchain?

Blockchain is a distributed, secure ledger (database) that uses cryptography over a peer-to-peer network technology to group transactions into BLOCKS and store them in a tamper-evident, interlinked CHAIN.

For accountants, the two key important words in the above description are “ledger” and “technology”. Accountants have deeply understood ledgers for centuries. They have been leveraging technologies for decades. Therefore, Blockchain, is *not* a challenge or threat to the profession but it is a phenomenal new opportunity that accountants must prepare for because the sheer transformative – and hence disruptive – impact of this technology is far too important for any accountant to ignore.

Blockchain and the accounting profession:

The key things to keep in mind concerning blockchain are:

- Blockchain enables transactions data to be exchanged securely without going through a central third party
- Unless there is (enough) verification and consensus by participating entities, no transaction enters Blockchain
- It is enormously expensive and difficult to tamper with the data on Blockchain

It means the time, effort and cost required to create books for each business and reconcile them can be drastically minimized. At the same time, the need to audit business transactions data can be nearly obviated. These two fundamental impacts of Blockchain are of extreme significance for the “work” that accounting and audit firms will do in the future. Blockchain will, therefore, require transformative “de-skilling” and “re-skilling” of the traditional accountant, CFO and auditor roles.

Accountants need to evaluate the impact of Blockchain on their own internal processes and more importantly, how their clients and prospects are adapting / will adapt to the Blockchain opportunities in their industries/professions.

Blockchain to trigger changes on the immediate horizon

- **Cryptocurrency+Smart Contracts:** Big Four firms are leading the way in the race to adopt Blockchain. Accepting Bitcoins as a payment method was just the start that Big Four kicked off. Blockchain Advisory and Auditing services are already a reality even if it is not a profession-wide experience so far. Smart contracts are already proving their ability to minimize “payments management and reconciliation” work.
- **IoT+Blockchain:** Internet of Things (IoT) is revolutionizing manufacturing, supply chain, and other industries. IoT combined with Blockchain is leading to what is being called the “Internet of Trusted Things” (IoTT). The difference is subtle but immense. It is because IoT is still not an inter-connected network within or across industries and hence expensive to establish identity (trust) among “transacting” parties and “exchanging” (interactions) data in trusted ways. IoTT reduces these costly “trust, transaction, interactions” requirements from the business. Imagine the velocity at which accounting data will be available to accountants.
- **Cybersecurity:** While Blockchain technology itself potentially increases cyber-defense capabilities, it does not address the proven weaknesses in “access” to any technology/network that cyber-criminals exploit. Cybersecurity services and Blockchain system access audits – including auditing what “value” was tokenized

to represent it on Blockchain are two promising, emerging new revenue segments for the accounting profession.

Day-to-Day Accounting and Blockchain

Essentially, clients in such industries that work mostly with digitized value e.g. capital markets, financial services, etc. will be the first ones to implement Blockchain. Other industries will follow suit sooner or later.

At the very minimum, CPAs and accounting firms need to learn about Blockchain and try to understand which clients are likely to implement Blockchain in their businesses. When CPAs want to adapt their accounting and audit processes for Blockchain, some of their current skills will be *less* useful in the future and they will need to learn new skills e.g. how to correctly implement business contract steps, terms, and actions into smart contract programs.

If a significant portion of accounting firms' revenue comes from audit, CPAs will want to assess the entire time and cost of collecting and organizing transactions information/data for audit purposes. Blockchain can (and will) obviate this need altogether, potentially diminishing accounting firms' revenue and profitability. At the same time, if CPAs establish processes to audit in real time – because Blockchain data gets created securely in real time, it gives their firms a new way of generating audit revenue. The key to identifying threats and opportunities is to “think Blockchain” when you think of your work processes and flows.

What will happen to the cloud software?

Cloud software essentially means CPAs access their firms' or clients' accounting and tax information that is saved or hosted on a remote computer, using a browser or app via the Internet. There is no automated, trusted, data exchange possible in the cloud unless an “authorized human” permits/processes.

Blockchain has the potential to kill cloud. Yes. Kill cloud. Blockchain will likely do away with the need to have “cloud” accounting software centrally hosted at some data centers. Blockchain will use the Internet to enable smaller, individual business-level accounting and other databases to interact with those of other similar smaller (or even larger) business entities. It's like door- to-door delivery of mail, without going through a central collection and distribution agency like the Post Office or a courier company. “Disintermediation” will be triggered by Blockchain. But it can kill cloud only in the way cloud is defined now. A business with entities in its supply

chain and products distribution/delivery chain can use a private, permissioned Blockchain. This is known as the “private cloud”.

Accounting, tax and audit cloud software providers will obviously adjust to this enormous shift Blockchain brings in. It has taken a few decades for current accounting software programmers to build the knowledge of accounting rules and processes into the software’s code. It is not easy for Blockchain-based accounting systems to replicate that deep knowledge instantly. But it will be considerably faster. Accountant-centric software solutions are likely to adapt faster as such software can fetch real-time data from Blockchain networks to keep processing it with deeply ingrained knowledge of accountants’ processes, in order to automatically create books and generate on-demand insights for accountants.

=====

Hitendra R. Patil is the director of practice development at [AccountantsWorld](#), and the author of *Accountaneur: The Entrepreneurial Accountant*.

[Accounting](#) • [Advisory](#) • [Auditing](#) • [News](#) • [Technology](#)

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved