

# **WHAT IS THE USE OF FINANCIAL COMPLIANCE? THE CASE OF SMALL BUSINESS IN AUSTRALIA**

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## **ABSTRACT**

The purpose of this paper is to explore the nature and type of financial records being kept in small businesses in Australia. The paper considers the Australian requirements for financial record keeping and the context in which small businesses are required to record and report. The research literature on the benefits of record keeping and the use of the financial information that they can generate for small businesses is considered. The findings from 121 responses to 1000 mailed survey questionnaires are considered and a discussion of these results includes comparison of the findings in the literature. The financial data used by these small businesses in their business performance evaluation is compared to what is known in the literature. These results have highlighted areas for further research via case study analysis.

## **INTRODUCTION**

Small businesses are important in the global economy, despite variations in how they are defined. In the UK for example small firms (businesses with less than 250 employees) represent over 90% of the business population and provide nearly two-thirds of the national employment (Mitchell and Reid, 2000). In Norway small businesses (1-19 employees) represent “(a)bout 95% of Norwegian firms” (Gooderham et al 2004, p. 6). America defines small business as businesses employing fewer than 500 employees (Holmes 2001) and it is estimated that in 2002 there were 22.9 million small businesses, employing 50.1% of the private work force and represent 99.7% of all employers (United States Small Business Administration 2005).

The Australian Bureau of Statistics (ABS 2002) estimated that in Australia during 2000-01 there were 1.2 million small businesses (employing less than 20 employees), with a total employment of almost 3.6 million people. This represents 97% of all private sector businesses in Australia. Small businesses dominate all industrial sectors although numbers are greater in the services sector in comparison to the manufacturing sector.

The small business sector makes a significant contribution to the Australian economy by providing employment, personal wealth, supply of goods and services and utilization of resources. However, while entry into small business is a simple process requiring an investment of individuals' resources, time and skills, as there are no minimum standards or qualifications required to be met prior to business entry, remaining in business can be difficult and requires meeting ones debts as required and complying with legislation relevant to business operations. The business owner's skills and knowledge may not extend beyond those relevant to their

industry. Financial skills may be very limited and hence, understanding financial requirements and how they can use financial information for performance purposes may also be very limited (Thomas and Evanson 1987; Holmes and Nicholls 1988). This can be problematic as “the compliance costs of taxation comprise the largest single element of the compliance burden by businesses” and government regulations have been “claimed to be one of the major obstacles to business success” (Chittenden et al. 2003, p. 94).

The purpose of this paper is to ascertain what record keeping and financial reporting small business owners use in their business. This is an important issue in the context of GST and annual taxation reporting as well as the introduction of International Accounting Standards. In order to better understand the role of financial record keeping and reporting this paper will explore the benefits found from record keeping and financial reporting, the impact or effect of the GST on the nature and type of record keeping, information available from record keeping, and the use of that information and what understanding can be gained from the use of such information. A study of small business in one Australian region was conducted to explore some of these issues and is reported in this paper. The type and size of small business revenues and expenses can vary significantly: from many transactions of small to medium dollar amounts to fewer transactions of greater dollar amounts. It is therefore important to consider if the record keeping, reporting and information used within businesses differ. The current recording and reporting requirements and their subsequent role in small business will be examined in detail in order to determine the use of financial information and possible improvements within current reporting requirements.

In the following sections the paper details the introduction of the Australian GST, benefits of record keeping and financial reporting to contextualize the research. In these sections the literature on small business financial recording and reporting together with the importance of financial management skills to small business success are considered.

## **THE GST, COMPLIANCE AND RECORD KEEPING IN SMALL BUSINESS IN AUSTRALIA**

### **The GST: Its Introduction and Effect**

On July 1, 2000 the Australian Commonwealth Government introduced a Goods and Services Tax (GST) of 10%. While the GST replaced a range of other Australian taxes, its introduction was met with much resistance from the business community generally. GST compliance requires accurate recording and reporting records regardless of the level of financial skills of small business owners and managers. The GST has increased the level of reporting of transactions and the frequency of reporting even though previous legislation did require all businesses to keep records which “record and explain” (ATO 2002) all business transactions.

The GST has made business an integral part of the taxation collection system and small business self assess their taxation obligation. The self assessment is dependent on the record keeping and financial information. The reporting timeframe to the Australian Taxation Office (ATO) has increased from annual taxation returns to monthly or quarterly taxation Business Activity Statements (BAS) in addition to the annual taxation returns. The timing of the BAS is dependent on how the small business registered for the GST. The BAS details the business receipts and payments together with the GST received and paid for the period.

This increased reporting has focused attention on the need for accurate recording and reporting of business operations in financial records. To overcome this, in the period prior to the introduction of the GST, the ATO and the accounting profession provided business advice to assist small business in understanding their role in the GST and the new recording and reporting requirements.

While the ability of small business to comply with the GST system is currently being researched together with burden of compliance, the question of whether the type of records are kept rather than simply issues of compliance has not yet been addressed. This is important as Melbourne newspapers have reported that the ATO is implementing additional investigations and audits to curb and reduce the perceived tax avoidance and continuing cash economy (Crawford 27 June 2003).

Further studies on the impact of the GST, for example that by CPA Australia, found there is “an incentive to keep up-to-date with record keeping” and produce reports regularly (CPA 2003, p. 6). However, this study did not address the nature or type of record keeping and/or reporting used by small business owners. CPA Australia reported that the ATO has identified poor record keeping as one of the major causes of tax compliance problems for small business. This has recently been reinforced in media articles from the ATO (Lawson 8 February 2005). CPA Australia also found that the role and volume of assistance provided by the accountancy profession had increased; with 50% of CPA Australia members experiencing service increases and 41% of small businesses experiencing an increase in their accounting costs as a result of compliance. These costs extended from recording of transactions to the preparation of compliance reports.

Petzke and Murphy (2001) examining the impact of the GST on small business, and hence argued that the goods and services tax was perceived by small business owners to be extremely costly for them in the first year following its introduction, both financially and in terms of the demand on the owners' time. This research found little evidence of the benefits that the Government claimed would accrue to small business with the introduction of the New Tax System (p. 20). Since the introduction of the GST the Australian government has tried to simplify the reporting in response to business backlash. This continues to be discussed and debated in business and government circles. Whilst it is encouraging that the GST has increased the timeliness of record keeping and reporting to the ATO, the use of financial information by small business needs further considerations.

### **Financial Management and Reporting: Benefits and Issues**

A range of research has found poor accounting systems strongly contribute to financial problems in small business by (for example McMahon 2001a; 2001b; McMahon and Davies 1994; McMahon and Holmes, 1991) and others. For example in his research into the different life cycles of small business, McMahon (2001a) found that of all financial problems encountered by small business, poor accounting systems account for 32% and poor cash flow 26%

Other research has linked improvements in business performance through use of financial information. McMahon and Holmes (1991) write that “the clearest and most startling distinctions

between successful and discontinued small businesses lie in their approach to the uses which can be made of accounting information” (p. 19). They go on to argue that “sound financial management is crucial to the survival and well-being of small enterprises of all types. Studies of reasons for small business failure inevitably show poor or careless financial management to be the most important cause (p. 19).

While there is clearly a relationship between business failure and financial management which relies on accounting information, the questions must be asked as to ‘what accounting and financial information is recorded and maintained in small business’ and ‘how is it managed?’. Also the question as to ‘what information do small business owners use to run and grow their business?

Answering such questions are important given the Australian Taxation Office state that micro-businesses (turnover less than A\$2 million) represents 12% of tax revenue but accounts for 68% of debts owed to the ATO, forming the highest compliance risk area. They stated that these businesses “struggle to keep up to date with their record keeping and will have difficulty with changes to the revenue system” (Lawson 8 February 2005). The variation in definitions re small and micro businesses blurs this picture, however the micro or smaller small businesses fall well within this group of concerning ATO clients.

To decrease the burden on small business perhaps compliance reports could be modified to be beneficial to small business owners in running their business? Or could it be that more timely financial information is sufficient benefit? Compliance taxation or modified reports may assist business in their monitoring of business performance if these reports contain the information small business use to monitor performance.

How small business can best use financial information to evaluate business performance is not addressed well in the literature. Although the GST has increased the volume of work for Accountants and small business themselves, CPA Australia argues that “few small businesses would dispute the need for regulation; the majority find its impact on their ability to operate to be quite substantial” (CPA 2003, p. 4). They go on to say “three quarters of small businesses claim that compliance obligations act as an incentive to keep up-to-date with record keeping and that they run financial reports regularly to manage the business” (CPA 2003, p. 6). However the questionnaire that was used to provide this finding did not identify what financial reports were produced and how were they used to manage the business: In other words the information that small business owners actually use to monitor performance has not been identified in detail. The next sections consider some ways in which records can be kept and the types of information contained within them.

## **Record Keeping**

McMahon (1999; 2001a; 2001b; 2003) considered financial reporting and its benefits for small business, particularly general purpose reports (Profit and Loss, Balance Sheet and Cash Flow statements) and the use of some figures from these reports for performance measurements. The research did not detail which of the figures or how the performance measurements from these reports were performed. In a study of manufacturing small businesses in Australia it was found that financial planning and control processes had a significant correlation with higher growth in

sales (Wijewardena and Zoysa, 2001). However these studies were based on small business in the manufacturing industry, which is only one of the many industries in which small business operate. In fact this industry represents only 7% (or 88,200 businesses) of small businesses in Australia in 2000-01 (ABS 2002), and hence the nature and type of financial management issues in this industry may be industry specific and may not be applicable to all small business operations.

Argilés and Slof (2003) found that financial reports were useful in the agricultural sector to improve performance, but only where the costs of obtaining the reports was less than the expected gain in performance from the use of these reports. In the case of the smaller farms, the cost was found to not always being worthwhile (Argilés and Slof, 2003). This research did not discuss how the farmers used the financial reports or what figures were important to the business owners to assist in the understanding of “*how* accounting information enhances performance” (p. 263). Other research by Kirby and King (1997) considered the role of the accountant assisting small business and identified the mismatch of expectations between the business owner’s and the accountant’s view of their roles.

In the literature review conducted by McMahon and Holmes (1991) of the North American small business financial management practice they discuss DeThomas and Fredenberger’s (1985) survey of 360 small businesses in Georgia, USA. This research found that 81% of those small businesses produced summary financial reports and of those, 91% produced general purpose reports. This review also discussed Thomas and Evanson’s (1987) study of 398 small pharmacies in the US. Thomas and Evanson found that 62.5% produced quarterly (at least) profit and loss and balance sheet statements. Of note over 85% from this sample outsourced the statement preparation to accountants. The ratio calculations and preparation of balance sheets were considered in relation to business performance and indicators of business performance. The findings at times were contrary to what was expected such as “less frequent preparation of balance sheets was associated with greater earnings” (p. 567). In their limitations they noted it is one thing to produce the information, another to use it, and if these statements are to be useful they must be understood by small business owners/managers (p. 569). The authors argue that the business owners “lack of association between financial ratio use and either survival or profitability may also indicated the level of sophistication in use of ratios has not reached” sufficient levels in business owners to make “discernible difference” (p. 570). DeThomas and Fredenburger (1985) found only 11% used financial statement information in their managerial evaluation even though 61% felt the information could be used for planning and decision making. Also they found 2% performed financial ratio analysis and performed historical comparisons of performance and position. This is a harsh finding for the 81% producing summary financial reports that only 11% use the financial statement information in their managerial evaluation. However it is consistent with the findings of Thomas and Evanson. Often short term planning is performed informally even “in the back of their minds” or “on the back of envelopes” (McMahon and Holmes, 1991 p. 22).

However given American small businesses are much larger than Australian small businesses transferring findings from one country to another may be problematic therefore it is important to gain a greater understanding of what small business are doing in relation to record keeping, how they are doing it and why they are doing it, in order to be able to better meet their needs and assist the longer term survival of the sector.

## **Compliance Requirements**

Taxation law require all businesses to keep records which “record and explain” all business transactions (ATO 2002, p. 33). The ATO recently advised that small businesses will be fined for poor record keeping (Lawson 8 February 2005), however did not define poor records. Accounting records could be as basic as a collection of receipts and cheque butts (often referred to as ‘shoe box’ accounting) or as sophisticated as a computerized accounting package (packages such as Mind Your Own Business [MYOB] or Quick Books) which are capable of detailing every transaction including all amounts owed to and owing by the business. The size and type of the business will impact on the level of record keeping most appropriate to that business, together with the importance placed on the recording by the business owner. Fewer transactions would allow for less sophistication in the recording system whilst larger volumes would require more.

Accounting professionals assist small business with their record keeping and compliance reporting and some small businesses may involve the accountant to prepare or review compliance reports produced by small business. These issues further vary the level of record keeping. Hence research must be able to differentiate findings involving record keeping and reports produced by accounting professionals to those maintained and produced solely within the small business. In quantitative research this can be done by incorporating a section on “accounting professional involvement” as a means of providing a control sample of the sound record keeping and compliance reporting.

## **Information Record Keeping can Provide**

Whilst a collection of receipts and cheque butts allows for the production of compliance reports, it is most difficult to produce performance reports without summarization. Computerized systems on the other hand allow for reports to be produced ‘at the push of a button’ but their value is dependent on both having accurate information entered into the program and owner/management having the skills to read and interpret the information produced.

Accounting education, accounting profession and literature at length, focus on the production of business performance reports and their benefits to business. This focus includes the production of performance evaluation reports including profit and loss determinations (Profit and Loss Statement - Statement of Financial Performance), statements of business worth (Balance Sheet - Statement of Financial Position) and statement of Cash Flows. Currently Australian legislation (Corporations Act) requirements for small business require only incorporated small businesses, that is, companies, to produce business performance reports. Given that is estimated that some 50 percent of small business are incorporated (Senate EWREC 2003), the remainder are sole traders, partnerships, and trusts who are not required by legislation to produce performance reports.<sup>1</sup> Therefore the ATO compliance reporting (BAS and Annual Income Tax returns) are at present the only required record of business reporting for all small business. These compliance reports are not business performance reports rather a report that allows the ATO to calculate business tax (payable or refundable) and statistical data. The ATO uses this data to identify business averages as well as to select businesses for taxation audits.<sup>2</sup>

Business reporting is an important issue to consider at present as Australian reporting entities move to the adoption of International Accounting Standards (IFRS) from January 2005, changing the financial reporting currently in place. As the business environment and media are currently focusing on financial reporting, consideration of small business financial reporting should also be made. For most Australian small businesses there are no specific accounting standards and legislation as noted above does not require small business to produce performance reports, which McMahon and others found to be important. At present only reporting entities and private companies defined as large by the Corporations Act are required to comply with Accounting Standards according to Chief Accountant of the Australian Securities and Investments Commission (ASIC) (Andrews 17 Feb 2005). All companies within Australia are required to lodge with ASIC annual financial statements however these maybe simple financial statements as only the defined large companies are required to comply with accounting standards. Where accounting professionals are used for the production of these financial statements (both small and large companies), the compliance with Accounting Standards may be performed even though the business may not be considered by ASIC and hence does not have to comply with IFRS. At present there is confusion and disputes in opinions as to the impact of the introduction of IFRS. Britain and other European Union countries are also introducing IFRS, however Australia is the only country in which the standards being introduced may apply to unlisted companies (Andrews 2005).

Despite the requirement to produce GST compliance reports and the research findings on the importance of financial management skills, it is unclear whether and how (if at all) Australian small businesses use the information contained within compliance reports to help them manage their business. There is a need to consider in more detail the role of compliance reports and the possible link of compliance reports to performance reporting. Research needs to examine both the practice and attitudes: where practice refers to how information is recorded, what information or complexity of information is recorded, financial management skills (or use of accounting professionals) to produce reports and utilise financial information, and attitudes refers to the owner's motivation for business as well as the importance they ascribe to financial information in determining business success. Research has focused on accounting professionals as advisors and service providers to small business, but there is a need to identify what small business want and understand from accounting information. The question of whether small business people view the importance of utilising performance reporting needs to be asked. Answering these questions will enable the attitude to information and operational use of reports to be better understood and will provide important insights for both academics and practitioners. These are important issues to consider from both an academic and practitioner perspective as financial management skills or lack there-of play a significant role in the small business failure rates.

The key question being addressed by the study in this paper is to identify how small businesses are recording financial transactions and what financial summaries and reports are produced from this information. The small business characteristics are considered in the nature and type of recording and reporting being performed is identify if these factors impact on the recording and reporting. The research methodology and approach to a study of small business financial information reporting and use is in the following section.

## **RESEARCH PROGRAM AND METHODOLOGY**

Twenty-four per cent of the 1.23 million private sector small businesses (or of the 97% of the Australian business population) are located in the state of Victoria, which is the second highest state based population of small business in Australia (ABS 2002). A random sample of 1000 small businesses were selected from the regional towns in Gippsland in South East Victoria via the public business phone records dated 2003 (Telstra White Pages 2003). Businesses were selected from each major town in this area so that each town was represented in the sample. However due to the dynamic nature of the small business sector, these records may not be an accurate listing of all businesses operating at any point in time.

A questionnaire was developed in three sections.

- Section One - Size and Nature of small business asked questions to identify business demographic data including number of owners, length of ownership, age of business, number of employees, annual business turnover, industrial sector and business structure.
- Section Two - Nature and type of financial records and reports in small business addressed questions including business receipt and payment methods, record keeping methods source of the production of taxation reports, summarization of financial information its timeliness. The existence and use of business plans were also included.
- Section Three - Use of financial information in business addressed the issues of business performance evaluation and usefulness of financial statements and other reports if produced.

The questionnaire was piloted prior to its finalization by sending it to business owners to complete or by the researcher sitting down with the business owner as they completed the questionnaire. This enabled the researcher to consider any language or interpretation issues and address these as they were raised. The final questionnaire was mailed to 1000 businesses with an explanatory letter and a follow-up letter was forwarded to all non responding businesses two weeks later.

From the 1000 sample, 103 questionnaires were returned to sender, and 156 replies were received. This reflected a response rate of 17.4%. Of the 156 replies, 121 small business responses were useable and have been considered in the subsequent analysis and discussions. Only businesses employing less than 20 employees were selected for continuation in the study. The low response rate may reflect the perceived sensitivity of the questions. While no financial figures were requested in the questionnaire, some unusable returns did indicate that the questions were perceived as being intrusive.

## **RESULTS**

Of the 121 businesses, 31% were aged 10 to 20 years, 41% were aged 20 years or older. A significant proportion of responding businesses were long established businesses: only 18% were aged between five to 10 years and 7% were less than five years old. Some 33% of the businesses had been run by the current owner for 10 to 20 years (33%) and another 29% had been operated by the current owner for 20 years or more. Again this indicates that the businesses were well established with only 21% of respondents operating their business for 5 to 10 years and 14% operating their business for less than five years.

Most responding businesses (69%) employed between 0-4 Equivalent Full Time employment (EFT), and therefore these businesses are also micro businesses. The business turnover was found to be well spread between various ranges: 13% had a turnover of less than A\$50,000 11% had a turnover of between A\$50,000 to A\$99,999, 16% were in the A\$100,000 to A\$199,999 range, 25% were in the A\$200,000 to A\$499,999 range, 19% in the A\$500,000 to less than A\$1 million and 10% had a turnover of A\$1 million or more. In 84% of cases this business was the business owner's main source of income. In 97% of cases the business records were maintained within the business.

In Table 1 it is possible to see that the receipt of monies and payment of monies varied with most small business owners accepting multiple receipt methods and making payments by multiple methods. The use of electronic means for both receipts and payments was found to be well used in these long established businesses.

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Insert Table 1 about here

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Table 2 details the many records used to record receipts and payments. In Table 2 we see that accounting software is used more for the recording of receipts than for payments. Eighty-six businesses or 71% of respondents advised the use of accounting software for receipts whilst only 77 or 64% used software for payments.

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Insert Table 2 about here

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Table 3 details the production of the taxation compliance reports. Fifty-eight percent of small businesses produce their own BAS and 11% produced their annual taxation return. Thirty-one percent of business owners used their accountants to produce their business BAS and 87% to produce the business annual taxation return.

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Insert Table 3 about here

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Table 4 shows the type of business financial summarization performed in the businesses. The summarization of revenues is performed more extensively than the summarization of any one cost category. The summarization of revenues is also performed more extensively than net profit summarization.

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Insert Table 4 about here

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Table 5 details the production of financial statements in small business. The profit and loss statement is more likely to be produced than balance sheets or cash flow statements.

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Insert Table 5 about here

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Of the 121 businesses, 83% of business owners advised they did not have a business plan and only 17% of businesses said that they did have a business plan.

Business owners were asked to rate the usefulness or otherwise of the various statements and reports for their business. Table 6 shows their responses. The profit and loss report was rated by businesses to be the most useful report. The balance sheet and cash flow were noted to be useful to varying degrees. BAS was found to be the least useful statement. Not many businesses owners said they produced other business reports to assist in their performance evaluation.

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Insert Table 6 about here

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How the business owners knew their business was performing is provided in Table 7. The most frequent response was 'by knowing money in the bank' with 54 responses and 'performance evaluation using financial statements and financial information' ranking second with 35 positive responses.

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Insert Table 7 about here

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## **DISCUSSION**

These findings assist in explaining what small businesses are doing with respect to financial recording and reporting. The use of accounting software was noted to be high, which is consistent with research on impacts from the introduction of the GST (Breen et al. 2004). It would appear from these findings that business owners do not utilize the cost or expenses information to the extent that they utilize revenue information. The lower use of accounting software and less summarization of cost categories could imply less focus on business expenses. This requires further investigation.

The usefulness of financial statements responses requires further comment. The sum of the useful and very useful responses for profit and loss reports was 87% (or 105 businesses), however only 69% (or 84 businesses) said they had this statement. Similarly with the balance sheet the favorable responses totaled 68%, (83 businesses) yet only 53% (or 64 businesses) had these reports. The most noticeable difference was in cash flow opinions where 70% (84 businesses) reflected favorable views yet only 36% (43 businesses) had this report. Thus while business owners had a favorable view of these reports, they do not necessarily have or use these reports.

The introduction of the GST in Australia, whilst increasing record keeping and reporting, could be argued to be of some assistance for small businesses. From the responses it is clear that small business owners are more likely to produce the BAS report than use an accountant. This would suggest that business owners are looking at their own financial reports and information each reporting period. These periods are more often than the annual taxation report and so could give regular and timely information to the business owners about performance.

The high percentage of businesses with financial statements, found by this study, compares favorably with the results from DeThomas and Fredenberger (1985) and Thomas and Evanson

(1987) studies. However in this study summaries were found to be mainly produced by the business and the reports are reviewed by the business owner. Whilst in some businesses the production of reports is outsourced, only 12 businesses or 10% advised that they outsourced the summarization function. Eighty-seven respondents (72%) advised that the owner reviews the summaries.

Argilés and Slof (2003) found financial reports to be worthwhile if the costs were less than the benefits. It could be argued that for Australian small business that the benefits are possible as the costs to generate financial reports from the records being maintained would not be large. The use of accounting software already in existence in small business allows for the generation of financial statements without further costs (apart from a push of the button and a few pages of paper)!! For those businesses with manual recording, much summarization is taking place and the formalizing of these summaries to financial statements would not be too onerous.

With accountants being the largest source for annual taxation returns, the production of financial statements by these professionals from the business records should be possible for minimum costs. These professions are in a very sound position to assist small business in the review and evaluation of financial statements to gain the insight of business performance from the statements.

In a further examination of the responses from businesses with business plans it was found that a higher majority of these businesses stated they knew how their business was performing through performance evaluation than those without business plans. These businesses (with a plan), on the face of the questionnaire responses, also had higher levels of financial summarization and made greater use of financial statements.

Limitations were experienced in this study through the self completing of the questionnaires by businesses. Also business owners who are weaker in the areas of record keeping and their use may not have completed the questionnaire therefore the findings may be biased as a consequence. Due to the number of responses received from the sample population it is not possible to make generalizations about small business recording and reporting. Whilst all industrial sectors and business types and variations in business ownerships were represented in the responses, the number of replies was not large enough to be statistically representative of any one group or of small business in general.

The benefit of this program of research is to gain a greater understanding of the role of recording and reporting in terms of the following issues:

- How might accounting standards, which are currently not specific to small business be improved?
- What is the potential for accounting practitioners to increase the usefulness of accounting information?
- How may ATO reports be adapted to increase their likelihood to contain information within them to be useful for performance management?
- What is the potential for including key data information fields as identified by small business in ATO reports?

- How may advice currently given by the various government agencies and consulting entities to new and existing small business on the usefulness and role of accounting information be improved?

## CONCLUSION

The purpose of this paper was to outline a research program to explore the nature and type of financial information used by small business to produce accurate taxation returns and whether small businesses use this financial information for other purposes. Financial information has been considered for its two key elements: record keeping and reporting. Record keeping refers to what records are maintained and what they record. Reporting of these records was also considered in the context of the introduction and operation of the GST regime.

The research program focused on reporting, as required by legislation, to identify the minimum standards that should exist in all small businesses. It was found that 97% businesses maintain their business records and it is from these records that financial information is gathered. The role of general purpose financial reports and compliance reports was considered in terms of their benefits and use within small business. Whilst businesses advised that they produce financial statements to varying degrees, the usefulness of the reports was much higher rated than the actual existence of the statements. To better understand why this is the case and how the statements are used in business performance evaluation and performance management further research is required. The research will also consider the assistance provided by accounting professionals in the recording and reporting process. Benefits of the small businesses' involvement in the taxation system have been considered and whilst record keeping is a compliance issue, it has enabled small business to have financial information sufficient for business evaluation. This positive aspect should be expanded upon to assist in educating small business of the value and role of financial information in the evaluation and how they may use this information to improve and monitor operations.

## ENDNOTES

1. Where accounting professionals are involved in the production of compliance taxation reports would usually be a matter of course to produce Profit and Loss reports and Balance Sheets for all business clients. These reports are available for performance evaluation and monitoring of performance, but the question remains unanswered as to whether they are used by small business.
2. Deductions or income allowable for taxation purposes vary from usual accounting treatment in many areas. Depreciation charges is a good example where amounts claimed for taxation does not reflect the business use or consumption of the business asset. Cash accounting may be applied for taxation purposes whilst accrual accounting may more appropriately reflect business operations. That is all cash received and paid may be advised to the taxation office rather than the business transactions that occurred in the financial year. Thus ATO compliance reports vary from performance evaluation reports and may be of limited benefit to small business for performance management.

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## TABLES

Table 1 Methods for business receipts and payments

	Monies Received		Payments Made	
	%	N	%	N
Not attempted	8	10	4	5
Cheque	4	5	21	
Cash	2	2		25
Electronic receipts	4	5	2	2
All	57	69	33	40
Cheque & Cash	13	16	10	12
Cheque & Electronic	10	12	29	35
Cash & Electronic	2	2	2	2
Total	100	121	100	121

Table 2 Methods for recording receipts and payments

	Record of recording receipts (N)	Record of recording payments (N)
Did not attempt	5	4
Receipt book	35	N/A
Cheque butt	N/A	83
Exercise/Memo book	6	10
Cash register	25	N/A
Cash book/Accounting printed book	23	20
Accounting software	86	77
Other	11	7
Total	191	201

Table 3 Producer of Taxation compliance reports

	Who completes the BAS		Who completes annual taxation return	
	%	N	%	N
Not attempted	2	2	4	5
Business	58	70	9	11
Accountant	31	37	87	105
Outside provider	6	7		
BAS not required	4	5		
Total	100	121	100	121

Table 4 Summaries of Financial data

	Yes		No	
	%	N	%	N
Transaction summaries	81	98	19	23
Sales/revenues	76	92	24	29
Gross Profit	59	71	41	50
Wages	54	65	46	56

Net Profit	50	60	50	61
Cost of Goods Sold	49	59	51	62
Utilities	45	54	55	67
Rent	34	41	66	80
Premise costs	31	37	69	84
Other Costs	26	31	74	90

Table 5 Financial statements produced.

	Yes		No	
	%	N	%	N
Profit and Loss	69	84	31	37
Balance Sheet	53	64	47	57
Cash Flow	36	43	64	78

Table 6 Business evaluation of the usefulness of financial statements and compliance reports

	Did Not Rate		Not Useful		Useful		Very Useful	
	%	N	%	N	%	N	%	N
Profit & Loss	10	12	3	4	35	42	52	63
Balance Sheet	19	22	13	16	42	51	26	32
Cash Flow	25	30	6	7	35	42	35	42
BAS	11	13	33	40	43	52	13	16
Annual Tax Return	12	14	13	16	44	53	31	38
Other Business Report	90	108	0	0	2	3	8	10
Other Business Report	95	115	0	0	1	1	4	5

Table 7 Affirmations of how businesses know how they are performing

	Number
Money in bank	54
Performance evaluation	35
Knowledgeable guess	26
Just know	18
Gut feel	17
Other business location	11
Did not attempt	5
Other	5
<b>Total</b>	<b>171</b>