



Financial Information In Small Business: Compliance and Beyond

*An abstract for the Small Enterprise Association of Australia and New Zealand 16th Annual
Conference, Ballarat, 28 Sept-1 Oct, 2003.*

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Abstract

Small business is a significant contributor to the Australian economy for employment and maintenance of owners' wealth. The entry process is simple, staying there is much more complex. The introduction of the Goods and Services Tax (GST) in Australia in July 2000, increased the frequency and level of reporting to the Australian Taxation Office (ATO) and made small businesses an integral part of the taxation collection system. GST compliance requires accurate recording and reporting of business operations in financial records regardless of the level of financial skills of small business owners and managers.

Recent studies have considered GST compliance and its burden on small business. For example the CPA Australia Small Business Survey 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 consider the nature or type of record keeping and/or reporting that were being maintained. In other research McMahon and colleagues (for example McMahon and Holmes 1991, McMahon 2001 a & b, McMahon and Davies 1994) found poor accounting systems strongly contribute to financial problems in small business and they have, at length, examined small business reporting primarily within the manufacturing sector. While general purpose reports (Profit and Loss, Balance Sheet and Cash Flow statements) overall have been considered, individual report figures or how management utilise the performance measurements from these reports has not been considered. In particular, neither the nature and type of financial information used by small business to produce accurate taxation returns has been explored, nor has the question of whether small businesses use this financial information for other purposes.

These are important issues to consider from both an academic and practitioner perspective as financial management skills or lack thereof play a significant role in the small business failure rates. Furthermore these are important issues as there are currently no accounting standards specific to small business in Australia and legislation does not require small business to produce performance reports, which McMahon and others found to be important.



The purpose of this paper is to address this issue and therefore it provides an overview of the literature on small business financial reporting, identifying areas for further research and the process by which such research can be pursued.