Technology and the Introduction of The Goods and Services Tax in Australia: A Small Business Perspective

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Abstract

This paper evaluates the increased use of technology in small businesses in Australia after the implementation of the Goods and Services Tax (GST) of 2000. A 2004 qualitative survey of small convenience stores was used to determine the accounting system employed to trace the receipt, and payment, of the Goods and Services tax required by the Australian Tax Office. Although an increase in the use of technology in these small businesses was observed, there was not a corresponding increase in the flow of information for decision-making purposes. Owner/managers still used their accounting information purely for compliance purposes, and did not avail themselves of the increased functionality that these systems offered.

Key Words: Small Business, Management Accounting Practices, Goods and Services, Tax

1.0 Introduction

When the Australian Federal Government implemented the Goods and Services Tax (GST) in July 2000, food (sold for home consumption), was zero-rated in an effort to provide equity to lower socio-economic groups within the community. This resulted in complications for food retailers, who then levied the tax on some items they sold, and not others. Food prepared and consumed in the home was zero-rated, whilst items as diverse as ice cream, soft drink and take-away food were taxed (Johnson, Freebairn, & Scutella, 1999). Rather than place a blanket tax on all sales invoices, food retailers then differentiated between items that they sold as either taxed or not taxed. They were obliged to trace each food item, and added the tax due at the end of the purchase. The GST for general food items was 10%. on sales value or one eleventh ($1/11^{th}$) of the total sales price paid by the end user. At the same time when they purchased their inventory, not all items were taxed, and it was necessary to keep track of how much tax was paid on each invoice. Food retailers were not able to assume that they were to charge the end user one eleventh of each invoiced item purchased as the GST component.

The Australian small businesses investigated in this study were small convenience stores (typically small retail stores), usually situated in residential areas, and open for long hours. These small convenience stores typically sold staple groceries, snacks and cigarettes. The process of collecting the GST required extra administration, and these facilities had minimal resources at their disposal to perform these additional tasks. Research was undertaken to discover how these businesses coped with the new requirements of the Australian Tax Office. The small convenience stores chosen as part of this research were situated in Cairns, the commercial and administrative centre of Far North Queensland, Australia.

2.0 Previous research into accounting practices in small businesses

Little has been written in the literature in regard to both management accounting practices in small businesses, and to the use of computer systems that are used to collect accounting data in these small businesses. Two qualitative studies, situated in England and South Wales, related to the focus of this paper.

Chen (1993) conducted a study in the use of computers in small businesses[1] in England, ten years after the introduction of the personal computer. The research looked into reasons for the adoption of computers, and how they were used in small businesses. Chen found that fifty percent of the small companies were using computers, regardless of industry type or size. All had general application packages (mostly word processing and accounting). The use of spreadsheets was found to be popular. The results of this study reported that computer systems within the organizations were often functioning below capacity. Chen came to the conclusion that computers were used primarily for basic and operational purposes rather than decision-making within the organization.

In Marriott and Marriott's (2000) study of fifteen small companies in Wales, a semi-structured interview approach was used to discover the relationship between the organizations and the accountants, the use of computers within the organization and the financial skills of the owners. Their study showed that while there appeared to be a potential for accountants to expend management accounting services, owner/managers did not seek their advice in regard to the choice or suitability of the accounting system. They also found that an increase in the use of technology would increase the ability of the organization to produce the minimal information required for external reporting purposes.

Chen (1993), and Marriott and Marriott (2000) covered the role technology and management accounting in small businesses. They showed that small businesses used computer systems and generic accounting packages to produce the minimal accounting information necessary for compliance purposes. In order to uncover the social construction of accounting practice within an organization, both these studies were qualitative.

3.0 Research Methodology

Accounting may be viewed not as a neutral activity, but an element of organizational practice, socially constructed, intertwined with the organization and the individuals within that organization (Humphrey & Scapens, 1996). Considering small businesses, Management Accounting Systems have often developed uniquely to cater for the small business' environment (Perren & Grant, 2000: 395). To better understand management accounting practices, from a social construction perspective, it is preferable to take a subjective viewpoint. Large scale surveys, and other objective measures, may not uncover the detailed interactive processes that occur within the organizational context (Remenyi, Williams, Money, & Swartz, 1998). Case studies are often chosen to collect in-depth qualitative evidence, and to bring out the richness of the use of the management accounting system within its environment.

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[1] defined in this particular study as less than 50 employees and not subsidiary companies

A database was constructed of thirty-six convenience stores situated in the Cairns area. Fourteen owner/managers were approached at random in 2004 and eight were interviewed to discover what changes they had made to their management accounting practices to comply with the requirements of the Australian Tax Office. A focused interview technique was used (Remenyi et al., 1998: 176). The duration of each interview was approximately one and a half hours. These interviews were taped, and transcripts of the interviews were returned to the participants for comment. Following are the findings from these interviews.

4.0 Findings and Discussion

The introduction of the Australian GST tax has led to an increase in the use of technology and accounting software packages in these small businesses. All participants reported a change in bookkeeping practice to record the GST collections and outlays. Originally most participants used a manual system to collate accounting data. Participants reported the original routines used to collate accounting information were basic, "easy"[2].

> "We did our books manually, sales ledgers were used, we recorded our purchases in ledgers as well."
> "At the end of the financial year we took our books and bank statements to the accountant who would add up the columns and make up the end of year financial statements and the tax return."

This owner/manager generally used a simple set of manual ledgers as his accounting system. Five of the participants used a manual set of ledgers. Three storeowners used some form of software to prepare the books for the accountant at the end of the year. One of the participants used an excel spreadsheet and the other two used small accounting packages.

All participants reported a change in their system to track the GST collected from the customer. Changes ranged from a minimum of adding an extra column in a ledger to installing computers, software and scanners. Half of the participants coped with the required changes by adjusting their registers so that they could handle different departments. Products which were GST-free were recorded in one department and products which had GST levied were recorded in another. An activity report was then printed at the end of the day. Installing scanners in these businesses was not considered appropriate because of the owner/managers' concerns regarding the cost, "they are very expensive".

A further participant, who noted that introducing scanner technology put "a huge strain on the resources of the business", still installed them. This participant and others opted for scanners because they were seen to be a more efficient way of tracking the tax.

> "Our retail group advised us that, statistically, scanning in Australia caused a five per cent saving in sales in a year… We found the system increased our efficiency, cut errors made by staff – just the general accuracy."

[2] Quotes from individual participants have not been identified to be consistent with the agreed anonymity of the participants.

Apart from the scanners, four of these organizations acquired other new technology as a direct result of the implementation of the GST. These included new computers and software. Another organization, which already had scanners, required a more advanced printer to “cope with the volume of labels it had to print that night”. Five organisations purchased new accounting software packages, whilst one updated a previously used package to cope with the new requirements.

No participants reported workshop attendance or training in regard to these new systems. Cost and time were considered to be constraints. One participant mentioned how time was a scarce commodity “This is seven days a week, we don’t have time to breathe”. This participant felt that the lack of time constrained owner/managers ability to fully prepare for the implementation of the tax and the increased reliance on new technology.

5.0 Perceived Possible Accounting Inaccuracies

The Australian Tax Office requires that the collection and outlays of GST be accurately recorded. Participants focussed on the possible inaccuracies in revenue recording and the resultant inaccuracies in the recording of the GST component. One participant of this research highlighted the increased accuracy expected as they changed from manual registers to scanning technology. As organizations attempted to correctly record GST collections errors were actually reported by both the users of manual registers and scanners.

People who manually entered data onto the register were more prone to making errors in both the price of the product entered and whether the product was subject to the GST.

> “Particularly when you have so many people coming in and [you] make one mistake [entering the price and GST or non-GST on the register] and that’s it. It’s human. You just can’t do anything about it. Unless you have a computer, maybe, with scanners, but they are very expensive.”

Two participants recognized that the use of a register with different departments was prone to error. The cost of the appropriate technology, such as scanners and other hardware, appeared to be a problem. One participant stated, “We *had* to buy retail Point of Sale software and computer” (emphasis added), but had no explanation as to why this purchase was necessary.

The use of scanners was not error free. One participant was still finding errors on the database at the time of the interview. “There was a huge amount of housekeeping to do in the computer after GST came in because it really wasn’t done beforehand… We are still finding things in our computer that is (sic) attracting GST and it (sic) shouldn’t.” This participant also reported problems when items were improperly scanned. When adjustments were made for an incorrect input at the time of sale, errors were detected in the GST accounts, as the appropriate corrections had not been carried through.

6.0 The Systems and the Accounting Process

Marriott and Marriott (2000) reported in their survey of small businesses that the owners ability to understand the financial reports[3] for their business varied widely, with many unable to fully comprehend the information they contained. If the owners of small business did have the required accounting expertise to understand basic financial statements it remained problematic when they would attempt to use accounting software packages. Marriott and Marriott (2000: 483) also reported owner/managers did not understand how an accounting package worked. Under these circumstances was unlikely that accounting package software would be used effectively or efficiently.

Of the seventy five percent of small business operator/manager participants in this research who used an accounting package, all but one used a management accounting package to collate revenue and purchases for the accountant. One small business operator/manager used the accounting package as a database for their small business's scanners, and used their sales reports produced for entry into an Excel spreadsheet. Originally most of these small business operator/manager participants used a manual ledger. As one participant has pointed out, "it only requires one extra column in the manual ledger to collate all the information necessary to do this". It is arguable that the accounting packages have not, in reality, made Australian GST tax compliance easier. In fact, one small business operator/manager participant noted that a new unfamiliar accounting package had made the tasks more complicated.

As in the survey completed in South Wales, sales and purchase ledgers were used (Marriott & Marriott, 2000: 481). However, it was noted that there were no adjustments at the end of the period for non-cash flow items such as bad debts and depreciation (bad debts would probably not be considered in this context as these stores generally do not give credit). Only one small business operator/manager participant in this research noted that the accountant came to the small business's location to carry out accounting work. In all other situations the small business operator/manager forwarded the information to their accountant. The accountant's played a vital role in GST and end-of-year accounting adjustments. Without end-of-year adjustments, general purpose financial reports generated from these computerized systems would not be accurate and, therefore, would be unsuitable for decision-making purposes. Thus the support of an accountant was vital to the small business operator/manager.

The use of integration, and the functionality of computerised accounting packages, discovered in this study was in line with Marriott and Marriott's study in South Wales (Marriott & Marriott, 2000). Only one of the fifteen companies in the Welsh study had an integrated system and the potential for accounting systems was under utilized (Marriott & Marriott, 2000: 481).

There is no evidence that any of the small businesses in this study used an integrated system. Scanner systems were used to produce reports regarding sales and the associated GST. These reports, or reports from manual registers, were manually entered into an accounting package, or alternately onto a manual ledger. There was no indication that accounting systems were used in the production of the payroll, and the scanner systems and their associated software were not used for inventory control

[3] In Australia these are the Balance Sheet and Income Statement

purposes. These computerized systems had more functionality than is being utilised by the owner/managers.

Integration and increased use of the functionality of the computerized accounting packages, combined with training in accounting information may lead to an increased capacity of the organization to incorporate computerized reports in the decision-making process. Only one owner/manager reported using his accounting programme for making ongoing business decisions "Many people who don't want to rock the boat have missed the benefits of better management". This small business operator/manager participant uses this management accounting program to record sales and purchase prices on this system. This program used to calculate total sales and cost of goods sold, had a greater functionality, including inventory control. As with most management accounting packages, it can probably produce a complete and accurate profit and loss statement, but this functionality is not utilized. This is in agreement with Chen (1993: 100), who found in a survey of small businesses that the computers were not used to their full capacities.

7.0 Conclusions

In this study Australian small convenience store business did not employ an accountant internally, but rather used the services of a public practicing accountant for tax compliance purposes and managerial advice. It is possible that small convenience stores, because the GST was not levied on all the goods sold, and because they lacked an internal expertise, may have found the implementation and compliance requirements difficult.

The accounting information was still used primarily for compliance purposes and there was little evidence to indicate that accounting information was being used for management decision-making. Small business owner/managers did not possess the skills and understanding to operate the systems and utilize their functionality to the produce accounting information that was reliable for the decision-making process. Without this understanding, systems appeared to be used as 'black boxes' into which data was fed, and from which a report emerged. Any inaccuracies contained within the reports produced were not discovered, and the report was taken as accurate, regardless of any weakness in the system, even though participants of the study were aware that mistakes were occurring.

The information currently produced by these systems could be produced by a manual set of books or a computerised spreadsheet. Unless the extra functionality contained within the technology and accounting packages was used, the introduction of such systems within these organizations was deemed unnecessary. The increased use of accounting packages in small businesses for compliance purposes was problematic, and until further training was undertaken by the owner/manager in both accounting, and the use of the technology, computerisation may be a backward step in the change in accounting systems.

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