Small Business Performance Requires a Better Understanding of Tax and Accounting Software
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Working Paper Series.

To what extent do small businesses need to know about businesses taxes, accounting software and financial statements? Recent Australian research demonstrates that small business owners with a higher understanding of tax and accounting software are more likely to achieve a higher level of business income. This greater understanding may enable owners to better manage their cash flow and highlights the importance of improving owners understanding of business tax and accounting software.

Small business success can be influenced by the managerial capabilities of small business owners, particularly of the owner at the commencement phase (DeThomas and Fredenberger, 1985), with there being a lack financial management skills at the start-up of their business (Peel, Wilson and Howorth, 2000). Inadequate management skills can be a major cause of failure for small businesses (Dahmen and Rodríguez, 2014). One important skill is cash flow management, as it has been identified as one of the most important problems for businesses in the United Kingdom (UK), USA and Australia (Holmes and Nicholls, 1998 and Peel, Wilson and Howorth, 2000). Managing cash flow may be influenced by the small business owners’ understanding of financial statements, accounting software and business tax.

Understanding financial statements may be important for small businesses when competing in the marketplace, in order to understand and manage their cash flow. Their larger competitors are more likely to employ experts in the fields of accounting or finance to propose financial decisions and implement effective cash flow management practices (Foley, 2018). In contrast, the small business may rely on the knowledge and abilities of the owner, or of an external advisor who is afforded a snap-shot view of the individual business situation (Foley, 2018). This means that, in order to remain solvent in the market, small business owners need adequate financial foundations that allow them to make smart financial decisions. They also need to implement strategic business plans that allow them to recognise risk, maintain cash flow and utilise assets to ensure maximum profit generation (Nunoo and Andoh, 2012). This can be a tough ask, as small business owners are multitasking in their business and carrying out a multitude of roles from primary generator of income, human resource manager and administration assistant to financial controller.

Accounting software may assist small businesses generate business data, produce financial statements and manage cash flow. However, for businesses to fully take advantage of this in the early stages of their life cycle or during growth periods small businesses should allocate sufficient financial resources to ensure they have adequate knowledge in order to exploit the software that exists (Matthews, 2007). For many small businesses accounting software can provide real-time reporting (Rich, 2012).
The cash flow of a small business can be impacted by a number of taxes, such as income tax, PAYG instalment, PAYG withholding, goods and services tax (GST), fringe benefits tax (FBT) and superannuation guarantee. Having a low understanding of tax can lead to non-compliance (Saad, 2014), which can lead to tax debts (Ahmed and Braithwaite, 2005; Chardon, Freudenberg and Brimble, 2016) and thereby adversely affect cash flow (Poppelwell, Kelly and Wang, 2012). A limited understanding of tax can result in a misunderstanding of the tax itself, along with not identifying the lodgment and payment obligations of the tax system (Poppelwell, Kelly and Wang, 2012).

Resource Based Theory (RBT) would suggest that owners or managers who efficiently and effectively make use of internal resources and implement strategies in their businesses have a greater chance of realising a competitive advantage over others in the same industry (Duschek, 2004). This research explores whether the internal resource of understanding of financial statements, accounting software and/or business tax by small business owners is related to their business success.

In a survey of over 100 Australian small businesses operating in the service sector, the results demonstrate that small businesses with a higher understanding of accounting software and business tax achieve a higher value of gross annual revenue, as well as net annual income. In contrast, the understanding of financial statements does not appear to be related to businesses with a higher gross or net annual revenue. This suggests that business performance is related to small business owners in the service sector having a greater understanding of accounting software and business taxes.

Additionally, the research also considered whether understanding of the small business owner had a relationship with the cash flow activities that they enacted in the small business. Some relationships were found such as contacting customers regarding outstanding accounts (relevant to all understanding scores), raising progress invoices (related to accounting software understanding) and negotiating shorter trading terms with customers (related to financial statement understanding); having enough cash to pay suppliers (linearly related to the understanding of business tax and accounting software); whereas negotiating extended trading terms with suppliers was significantly related to understanding financial statements.

These results demonstrate that it appears important for small business owners to have an understanding of the relevant business taxes, as well as accounting software, as the future success of their business may depend upon it.