Small Businesses and the GST: Changes in Management Accounting Routines

Susan Ciccotosto[a1] and Ruvendra Nandan[b]

[a] School of Business, Cairns Campus, James Cook University Qld 4870 Australia
[b] Department of Accounting and Finance, Monash University, Berwick Campus, Vic 3806, Australia

Abstract

The external imposition of the Goods and Services Tax in 2000 necessitated a change in management accounting routines in Australian businesses. The tax was not levied on certain food items for social and political reasons, complicating the accurate tracking of tax inputs and outputs where those food items, other food items and other products were sold within the business environment. The lack of resources available to small corner stores and their idiosyncratic nature made the record keeping, necessary to comply with the legislation, difficult to implement and maintain. The research investigated steps over time taken by these small businesses as they changed their routines and technology to meet the new requirements. Using a theoretical framework developed to explain management accounting change, it was discovered that changes in routines occurred to varying degrees form a simple increase in the number of columns in the ledger to the introduction new technology including computers, new registers and databases. All respondents reported fulfilling the requirements of the taxation department and were satisfied with their accounting processes.

Keywords: management accounting, change, routines.

Classification M41

[1] Corresponding author: Susan Ciccotosto, School of Business, James Cook University, P. O. Box 6811, Cairns Qld 4870, Ph (07) 4042 1496, Fax (07) 4042 1474, email susan.ciccotosto@jcu.edu.au

1. Introduction

The introduction of the Goods and Services Tax (GST) in Australia in 2000 necessitated changes in the management accounting practices of businesses in Australia, to meet the new requirements of the Australian Tax Office. It is beyond the scope of this paper to discuss in detail the requirements of the Australian Tax Office, the legislation involved and the influence tax legislation has on the administrative requirements of small businesses, therefore general aspects that concern this research only are highlighted.

According to Eng-Hin (2003) political debate on the equity issues that arose during the tax reform process were focused on the short-term ramifications**.** Politicians have vested interests to receive public approval for their actions. It is important to them that the public sees the reforms as fair and equitable. The Australian public was concerned that low-income earners would be disadvantaged under a GST that included food. A poll taken by Newspoll on 21-22nd of May 1999 showed that the majority of respondents would only accept a GST if food was exempt (Blount, 2000). The Liberal/National government's lack of a majority in the Senate made it necessary to compromise and come to an agreement with the Democrats to place a zero-rating on food (amongst other basic necessities such as prescription drugs) in order for tax reform legislation to pass through both Houses of Parliament. Issues in regard to possible compliance difficulties (and possible compliance costs this decision may have produced) do not appear to have been addressed during this debate.

By making food a zero-rated under the GST, an area of uncertainty had been created. Difficulties were encountered actually defining which foods should be zero-rated and which foods should be taxed. According to the legislation food that is meant to be prepared and consumed in the home was to be zero-rated, whilst items as diverse as ice cream, soft drink and take-away food are taxed (Johnson, Freebairn, & Scutella, 1999). The first hurdle that businesses had to overcome, especially in this case retail food outlets, was to understand which items were to be zero-rated and which items were not.

John Hockley (1991) explains that a goods and services tax is imposed at each stage of production and distribution of goods and services. The tax is confined to the value added at each stage of the production cycle, by allowing registered firms to credit the tax already paid by registered suppliers on the inputs required during the production process. This avoids a cumulative (or cascading) effect as each stage is taxed only once. The final tax paid by the consumer is the same as that of a retail sales tax. When a sale is exempt from the Goods and Services Tax no tax is paid and no credit is allowed for inputs purchased. Zero-rated goods and services, on the other hand pay, no tax and receive full input tax credits. Exports are usually zero-rated and, in Australia, basic food is also zero-rated. Accordingly businesses have to take into account both the tax paid on wholesale products and services, the tax received from the sale of goods and also which goods are taxed under the system and which are not.

Most businesses were able to simply add the GST to the end of the invoice they produced for each consumer. Unfortunately retail outlets that sold food, sold both taxed and zero-rated products. Some commodities such as tinned food and fresh vegetables were zero rated whilst other commodities such as cleaning products and dog food collect the GST. Retail food outlets were required to differentiate between items that they sold that are taxed and those that are not. This did not allow them to add a blanket amount to the purchase. They were required to trace each item and any tax that may be due on that item, adding the tax due at the end of the purchase, a more complicated process. At the same time when they purchase their inventory, not all items are taxed and it is necessary to keep track of how much tax is paid on each invoice. It cannot be assumed that one eleventh of each and every invoice is GST. This process required extra administration and logically compliance costs would be greater than a blanket GST would have required. Small corner stores moved from an accounting system that tracked inputs and outputs on a very general level, (invoice totals and daily sales) to tracking individual items purchased and sold.

In order to investigate this change, a framework developed by Burns and Scapens (2000) was been applied to data collected from small businesses, that had been required to change their management accounting practices to account for the implementation of the Goods and Services Tax (GST) in Australia in July 2000. Small businesses' management accounting processes are idiosyncratic (Perren & Grant, 2000), and therefore small firms of a similar size facing the same problem in the same industry (small convenience stores in a regional area of Australia) were chosen. They are typically small retail stores, usually situated in residential areas, which are open long hours and sell staple groceries, snacks and cigarettes. The research sought to investigate how accounting practices had changed in these businesses due to the implementation of the Goods and Services Tax (GST).

After looking at prior literature in section 2, the paper describes the theoretical framework in Section 3. Section 4 considers the methodological approach to the research. Section 5 is composed of the findings and Section 6, the discussion. This will followed by the conclusion in Section 7.

2. Prior Literature

According to Perren and Grant (2000: 393) management accounting research when taken from an objective viewpoint seeks to find how conventional accounting models and accounting processes are used within an organization. Arguing that management accounting in small businesses is of an idiosyncratic nature, and therefore does not normally utilise conventional accounting models, an objective viewpoint leads to an assumption that small businesses have little management information and poor control. Alternatively if the researcher takes a subjective standpoint, investigating accounting practice within the context of the small business, he/she uncovers effective information and control. Since the purpose of this research is to uncover management accounting processes within the small business environment, a subjective stance has been chosen (see also Kirby & King, 1997).

It is possible to view management accounting in small business as being socially constructed by the individuals in the organization who interact to share an understanding (Perren & Grant, 2000: 395-396). This subjective view of studies in management accounting is situated in Burrell and Morgan's (1979) interpretive paradigm. Subjective research seeks to understand the world as it is, the experience of the individual and the fundamental nature of the social structure. By acknowledging that management accounting practices are socially constructed, the boundaries between the phenomena of interest and the context in which it takes place become unclear (Yin, 1989). The context of the behaviour becomes important in the study of how management accounting is used by people and organizations. To uncover the communication and control which takes place in management accounting systems in small business it is necessary to undertake a subjective approach.

Early management accounting theory relied on neoclassical economics and the neoclassical theory of the firm to explain rational choices and the accounting processes with the organization. Jensen and Meckling (1976) used the neoclassical model of demand, supply and equilibrium to explain the contractual relationship between actors, especially owner/shareholders and management within companies. This model has been used to predict how individuals will choose rational and optimal outcomes within the marketplace. Since neoclassical theory had originally been developed to explain behaviour of markets and industry within those markets (Scapens, 1994), it was not originally intended to explain the process of management accounting change within organizations.

Neoclassical economics, assuming economic rationality and market equilibrium takes a snapshot of the organization at a particular point in time. It has difficulty explaining the process accounting undergoes as it changes over time (Burns & Scapens, 2000). In order to understand these changes it is important to view organizations as dynamic and active rather than merely constraints that will eventually delineate the economic equilibrium (Scapens, 1994). While individual actions and decision making was still be important to this study, the analysis has not been based on rational maximizing behaviour, the basis of neoclassical theory, but on how management accounting practices has changed over time, a process.

Management accounting change has been mainly focussed on large firms where there is the expertise and capacity to use innovation to solve problems (Mitchell & Reid, 2000) however some research has been undertaken using small firms. Some have explored the relationship between the small firm and the accountant (Kirby & King, 1997; Marriott & Marriott, 2000) or the technology used in the management accounting system (Chen, 1993). Others have concentrated on the costs of changes in the management accounting process (Pope, 2004).

This paper proposes to use a theoretical framework to examine management accounting change in the small firm. The next section explains the theoretical framework chosen and it is used in this study.

3. Theoretical Framework

Burns and Scapens (2000) developed a theory based on Old Institutional Economics to explain management accounting change within the organization. According to Old Institutional Economics, an institution "can be regarded as imposing form and social coherence upon human activity, through the production of *settled habits of thought and action*" (Burns & Scapens, 2000, page 6, original authors' emphasis). An institution represents "the way things are", ways of thinking and/or acting, which have become rooted in the behaviour and norms of a group. Individuals within the group (which make up the institution) take these norms for granted and shape their thoughts and actions accordingly. These previously implemented forms of behaviour are considered by the theory to be habits of thought and action. These habits no longer have any historical context; the group no longer associates the way they think and act with any particular set of circumstances that occurred in the past. They conform because it is "the way things are done". Institutions are formed from the production and reproduction of these habits, evolving from routine human activity. Human actions and the institutions that structure those actions are a duality in that they exist together and are part of each other. Institutions are both the medium and the outcome of the social action.

Institutions use rules, established formal routines, to control and co-ordinate the actions of the group. Previous assessment of the alternatives has given rise to rules to avoid the necessity of re-assessing the alternatives every time an action is undertaken. The formal management accounting system becomes one of the rules used by the institution to control and co-ordinate. As rules are carried out within the organization over time the individuals behaviour becomes programmatic and the rules become routine. Within an accounting context, routines are how accounting is actually done; they explain how individuals comply with the expectations of the formal accounting system. Routines do not always completely follow the rules set down by the organization and may be modified by individuals as they are implemented, so whilst there is an association between rules and routines they are not replicas of each other. In reality management accounting practices may not fully comply with the formal management accounting system.

Over time institutions evolve as the habits and routines within them change. Change can be brought about by internal or external factors. Within the institution individuals can question routines and rules but it is difficult to change them once they have been agreed upon. Unintended change may occur in the absence of monitoring systems and/or where the rules and routines are poorly understood or accepted by the individual. External factors such as improved technology or legislation can change the rules and procedures and hence the routines.

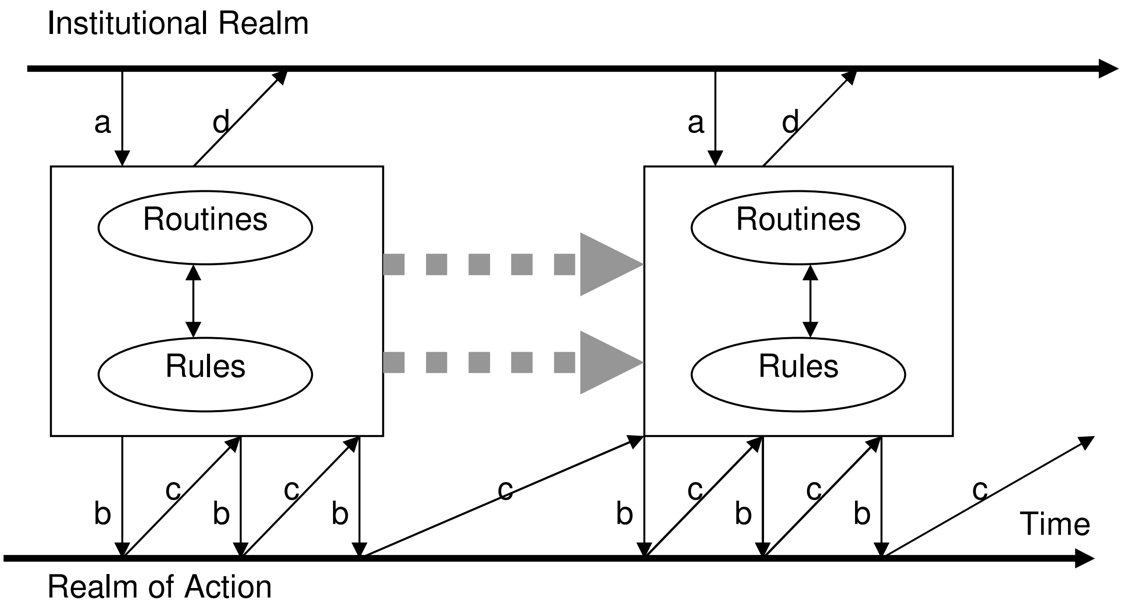

Figure 1: Process of Institutionalisation (Burns & Scapens, 2000, page 9)

Burns and Scapens (2000) have based their theoretical framework on work by Barley and Tolbert (1997). The framework is used to explain the changes in Management Accounting systems in case studies.

Figure 1 represents the relationship between the institution, the rules and routines embodied within it and the actions influenced by those rules and routines. The rules and routines are synchronic, that is they control and influence actions at a particular point in time. Over time rules and routines and the actions with which they are associated change. Both the Institutional Realm (top) and the Realm of Action (bottom) exist over time, changing and evolving.

In the beginning of this particular time period, a particular set of rules and routines exist. They have been encoded from institutional principles (arrow a). Actors then enact these rules and routines within their environment (arrow b). For various reasons they may or may not co-operate fully in this process. Repeated use of these behaviours leads to reproduction of the routines (arrow c). During this process the actors may not fully understand the new rules and routines or may not feel the changes are legitimate, especially if the new routines challenge existing thought. Changes are often monitored through this process to ensure appropriate behaviour. Eventually the new routine and rules become institutionalised and accepted (arrow d). Individuals no longer question them and forget their historical context. They become “the way things are done”. The new rules and routines become the norms of the institution. As time elapses different rules and routines are introduced and undergo a similar process as can be seen in figure 1.

Burns and Scapens’ (2000) theory using an institutional framework is useful as a way of seeing management accounting practice in an institutional setting. It brings into focus how management accounting routines actually take place within the organization, rather than some theoretical “ideal”. It expands the understanding of the connection between accounting and wider social and political groups. It can be used to show how the political system has affected accounting in small business and the social implications of political decisions on the small business owner within the context of management accounting (Scapens, 1994).

Scapens (1994), drawing from social sciences literature, in particular, Giddens’ (1984) structuration theory, viewed management accounting as organisational rules and routines evolving as a result of duality between human action and the institutions. The duality of action and structure is the key theme of the theory of structuration. We concur with Burns and Scapens’ (2000) claim that because of the ontological thrust in structuration theory and its abstract nature, it is quite useful in understanding the nature of management accounting, but not very useful in understanding the detailed processes of change in management accounting practices. Previously this framework has been used to examine accounting change in larger organizations. By focussing on small businesses which have been required to change their practices to cope with external legislation, this paper intends to use this institutional framework and data collected within small business practice when the Australian Federal Government changed taxation rules to understand better the processes of accounting change and the use of a theoretical model to explain those changes. According to the framework, this change can be understood by examining the rules and routines before and after the implementation of the Goods and Services Tax and how they have altered.

2.1. Using the framework in this study

To use this theoretical framework in this study it was necessary to identify the rules and routines, the institutional realm and realm of action in this context. The institutional realm represented the environment in which the institution was situated.

Small businesses are run on an informal basis and accounting practices differ between them. External users, who expect and enforce reporting of accounting information, require some formal accounting practices. Examples of these external users include the banks, who extend credit based on this information, and the Australian Tax Office, who use this information to raise taxes. Rules and routines within small business are affected both by these external entities and the attitudes and beliefs of the owner-managers (their ontology, see Perren & Grant, 2000). In these case studies we examine how the owner/managers set the rules and accompanying routines in regard to tax treatment and how the expectations of the tax office will be fulfilled within the organization. The realm of action contains the implementation of the rules and routines set down to produce the reports necessary to satisfy the requirements of the owner/manager and the external users, including the necessary information required by the Australian Tax Office for GST compliance.

Because external users have required financial reporting in the past, small businesses will have had some sort of accounting practice in place before the advent of taxation reform and, in particular to this research, the imposition of the GST. This accounting practice may have been simplistic[2]. Whatever forms the accounting system took; when the GST was implemented the rules were changed. Although the source of the changed rules was outside the organization it can be argued that, because the new reporting rules are a legal requirement, they exist within the organizational realm and all organizations must adhere to them. Actors must change their routines, the way they do the accounts, to comply with the new rules set out in the new legislation. This change of routines may take time to implement, depending on various factors including accounting support, understanding of legislation and changes in technology.

Basically, legislation was enacted requiring the impost of a GST, thus the rules changed, and new routines become necessary to meet the new criteria set down by the Taxation Department. The new routines were required to work alongside other routines already in place and may be influenced by them. Each institution coped differently with the change, experimenting until the actors "got it right", this then became "the way we do things". By examining the changes in the processes undertaken by owner/managers over time, we will illustrate the iterative progression of change within the differing organizations.

4. Methodology

A researcher can use a theoretical framework to see and understand the changes in accounting practice within an organization (Humphrey & Scapens, 1996; Scapens, 1994). Theory helps to illuminate a case study and its social reality. The use of a theoretical framework does not mean to imply that some "truth" will be discovered during the research, but rather that the researcher will be guided by the theoretical framework to an understanding of the interactions taking place within the case study, in this instance, understanding the process of change of management accounting practice (Scapens & Roberts, 1993). It is important that an appropriate theoretical framework is chosen carefully so that it will properly illuminate the research and guide the researcher into making sense of what is seen.

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[2] Accounting systems in small businesses are varied in complexity. Some micro-businesses were known to have a "shoebox" accounting system, which consisted of placing all the receipts into an empty shoebox and delivering the whole to the practising accountant. The accountant then built up the books of account from these primary documents.

Studying accounting in its broader economic, social and political contexts reveals the contingent nature of accounting and the different roles it serves. Accounting is not a neutral activity, but an element of organizational practice, socially constructed, intertwined with the organization and the individuals within that organization (Humphrey & Scapens, 1996). To understand management accounting practices, from a social construction perspective, it is necessary to take a subjective viewpoint. Management Accounting Systems are developed uniquely within the small business' environment (Perren & Grant, 2000: 395). 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 have been chosen to collect in-depth qualitative evidence and bring out the richness of the use of the system within its environment.

A focused interview technique was used (Remenyi et al., 1998: 176). Each interview was expected to take approximately one to one and a half hours. A schedule of questions was devised using simple language (such as using the term "bookkeeping" instead of accounting practice) to ensure the participants, who are not accounting professionals, understood the requirements of the study. Extra questions were used as prompts where necessary to gain the information required (Remenyi et al., 1998: 112). All questions in the interviews covered the same time frame, from before July 2000 until the present.

A list was compiled of small convenience stores in the Cairns area. Stores in this list that were known to be large[3] were excluded. A total of thirty-six convenience stores were included on the database. Stores were chosen at random. The owner/manager of each store was contacted in person by the researcher and asked for an appointment for an interview. Fourteen stores were approached for an interview. Eight of the owner/managers agreed to an interview.

If permission for an interview was granted, the interviewee was given information on the research to be undertaken, including an interview schedule, and an appointment was made. At the appointed time the interview was conducted and, if permission was given, audio taped. Transcripts were prepared from the recordings and from notes taken by the researcher/s. To ensure validity and shared understanding, a copy of the transcript was returned to the interviewee (Remenyi et al., 1998: 115), who was asked to contact the researcher if he/she wished to make any changes, or clarify inconsistencies, in the transcript within two weeks. Only one transcript was returned with minimal changes (mostly to grammar). In all eight interviews were conducted.

Interview transcripts provide a rich multi-dimensional picture (Remenyi et al., 1998: 166) of the change in management accounting practices and it is important that this richness is not lost (Remenyi et al., 1998: 112). It is also important that the themes emerge from the bottom up, rather than the researcher trying to discover evidence that fits the theory (Remenyi et al., 1998: 112). Silverman (2001: 153) points out that the researcher must not ignore contrary evidence in the data, only seeking extracts which support the researchers viewpoint, but must also take into consideration extracts which may have an alternative perspective.

Remenyi et. al. (1998: 112) considers that the researcher is best placed to consider which pieces of evidence are significant, compressing them into the themes or concepts discovered. The transcripts from the interviews were read and re-read and examined for recurrent themes; the researcher was guided by the theoretical

[3] Large has been classified as organizations with more than thirty employees

framework, however evidence was not ignored if it did not fit into either the theoretical framework or the opinion of the researcher. Expected themes included (as examples): “Accounting practices before the implementation” and “How accounting practices occur today”. The questions asked by the researcher were designed to bring out these details. Other themes emerging from the interviews included, but not limited to, “Cost” (both in the implementation phase and in the compliance phase of the change) as a concern for participants and “The relationship with the accountant”, where various opinions and expectations were voiced in regard to the association with the professional. The transcripts were then analysed and catalogued and evidence was gathered using the themes uncovered.

The next section will discuss the findings from the interviews. Quotes from individual participants have not been identified to be consistent with their agreed anonymity.

5. Findings

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. Changes ranged from the minimum of adding an extra column in a ledger to installing computers, software and scanners. Seventy five percent of participants use computer reports to provide summarized accounting data for compliance purposes.

Before the implementation of the GST, all participants relied on the accountant for all compliance work. After the implementation date, fifty percent complete their own Business Activity Statements (BAS), whilst the other fifty percent rely on their accountant to undertake this role. All participants use their accountant at the end of the financial year to complete the tax return and produce the general-purpose financial reports.

5.1. The old and new rules

The Australian Tax Office rules before the implementation of GST merely stated tax was to be paid on profit at the end of the financial year. According to the old rules, after the 30th of June in each year a return should be submitted to the office, correctly completed following all the rules and regulations set out by Federal tax law. These rules and regulations defined various aspects of the accounting equation such as what constituted revenue, what was considered to be a deductible expense and how depreciation could be calculated. The return had to be correct otherwise fines and extra tax would be levied ("Income Tax Assessment Act," 1936, s161, s262A, s266).

With the implementation of tax reforms and, especially for this research, the GST, the Australian Tax Office instituted new rules. A Goods and Services Tax was to be levied on certain goods and services. The organisations were required to trace the GST they pay and the GST they collect and forward this information on a regular basis (usually three monthly) to the Australian Tax Office, along with other information required to correctly fill out the BAS ("A New Tax System (Goods and Services Tax) Act," 1999, secs 9-5, 11-5, 11-20 31-5, 27.5). Again there are penalties instituted if the organization fails to perform this function correctly or punctually. At the end of the financial year, tax returns are again expected by the Australian Tax office summarizing business activity during the year. The figures, presented at the end of the year, are not permitted to differ greatly from the aggregate of those submitted during the year in the BAS, or further penalties apply ("A New Tax System (Goods and Services Tax Administration) Act," 1999, sec 40).

The owners of small convenience stores had always taken whatever steps were necessary to fulfil the requirements of the Australian Tax Office. "When we first bought the shop… someone from the tax department (sic) came and showed me how to set up your journals… and that's how I've done it ever since". These rules, as stated, were enforced by penalties and extra tax levies. Small convenience stores had no other economic option but to comply with these rules and had therefore to adjust their accounting procedures accordingly.

5.2. Old routines

In the theory, old routines existed before the change in rules took place. Before the implementation of the GST changed the rules, the owner/managers would collate the data, using any method they felt appropriate, at the end of the financial year. The Australian Tax Office did not specify how the accounting process was undertaken, providing that their information was "accurate" (complying with tax legislation and rulings). The eventual production of the taxation return and general-purpose financial reports ensured they complied with the expectations of the Australian Tax Office.

Routines before the GST were simple, designed to capture revenues and expenses on a cash basis. Accounting information was collated in an ad hoc manner; timing was not significant. The owner/mangers depended on their accountant to make certain that they were compliant with taxation regulation and to complete the taxation return. It was the role of the accountant to communicate with the Australian Tax Office. Only one participant mentioned any contact with the Australian Tax Office before the implementation of the GST – a field operative assisted the participant with setting up bookkeeping procedures when the participant first started trading. All of the participants relied on their accountants for end-of-year taxation and the production of general-purpose financial reports.

The original routines used to collate accounting information were basic, "easy".

> 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 used a simple set of manual ledgers as his accounting system, forwarding them to his accountant at the end of the year.

Three storeowners used some form of software to prepare the books for the accountant at the end of the year. One of these used an excel spreadsheet and the other two used small accounting packages. The balance (except for one participant who had just purchased the store) used a manual set of ledgers. At the end of the financial year these ledgers, the excel print out or profit and loss statements from the programme, bank statements and any relevant primary documents deemed necessary, were sent to a professional accountant for tax compliance purposes and processing into the appropriate financial statements. Seven of the participants reported using cash based accounting with only one using accruals.

5.3. Research Period before Implementation

All interviewees spent time accumulating the information necessary to facilitate the change over. "We spent twelve months, on and off, talking to different people, looking at different ways – researching how to go about the change. Time was spent before the implementation date collating data regarding which products were to be taxed for GST and which products were to be non-GST. Two participants reported collecting data on wholesale sales tax so that the reductions could be taken into account when recalculating prices and a claim could be made for wholesale tax paid on stock items. One interviewee reported complications due to a Golden Casket agency. "[T]he Golden Casket side of things are tricky with the way they work, the rentals, what's GST and what's not".

One participant spent some time adjusting the scanning system so that on the implementation date the changes would occur automatically and quickly.

> Every week I'd get three or four or five steps to do… had to do this and that… It was all quite simple really. It took me about three months, at work every day to change from sales tax to GST. There was a lot in it but it was relatively simple.

During this period participants reported an amount of uncertainty. One participant, who asked the Australian Tax Office for assistance, felt that the taxation agents who were sent to help were still undergoing a learning process themselves and were uncertain regarding particular aspects of the new taxation law. Others reported being very stressed during the change over and the responsibilities that the implementation of the GST would require. One participant acknowledged the increased responsibility "Suddenly… [y]ou're being held accountable for this and accountable for that". Another participant stated that, whilst change over to the new system went smoothly in his own store, he had many phone calls from people in other stores who required assistance with problems they were experiencing.

5.4. New routines

Within the New Tax System, businesses are required to submit a BAS on a regular basis – usually every quarter, with one participant submitting the form monthly. The BAS contains details regarding business performance and required payments to the tax department. Information included on this statement, depending on the business, may include income and expenses, employee wages and provisional profit. Tax may be payable on all or any of these components. Income and expenditure within the business environment incur GST collections and GST outlays respectively. Part of the new routines required by the Australian Tax Office was for owners to collate this information and forward the summary with the appropriate payment. The ability to correctly complete the BAS was then associated with the implementation of the GST and took place as part of the new rules

Fifty percent of the participants used their accountant to complete the BAS and the other fifty percent completed and submitted the statement themselves. Participants who submit their own statement report, used an accrual accounting system, whilst those who used their accountant's services to prepare and submit their BAS, remained on a cash-based system, with the accountant making adjustments for accruals at the end of the appropriate period.

Twenty five percent of the total participants who useee accounting programmes and the twenty five percent of the total who use the manual system relied on their accountant to complete the BAS. They sent their collated data (reports from the accounting packages or the manual ledgers), bank statements and any required primary source documents to the accountant to collate on a regular basis, possibly monthly or quarterly. These participants operated on a cash basis with adjustments for accounts payable at the end of the appropriate period calculated by their accountant.

At the end of the financial year, all the participants still relied on their accountant to finalize the taxation return and produce general-purpose financial reports for their business. Accountants who had submitted BAS on behalf of their clients usee the information already collated to complete the end of year reports. Other participants' accountants used BAS summaries, as well as reports from the accounting software or alternatively the manual ledgers, along with any necessary primary documents to produce the necessary documentation. Communication, which took place with the Australian Tax Office at the end of the financial year, still remained in the accountant's control.

5.4.1. Adjustment period after Implementation

Time was spent after the implementation date making sure the data being used was correct and accurate. One participant reported confusion between themselves and suppliers regarding GST inclusive items and non-GST inclusive items. "[W]e had to tell some of our huge suppliers that they were charging us GST on items that they shouldn't" .Another participant, using a manual register reported a transition period for the staff, as they became familiar with GST and non-GST products. "We really didn't know which is which and so we ask each other (sic)".

Yet another participant spent the next three months collating, with the assistance of their accountant, their invoices from each supplier, averaging the GST components and the non-GST components, so they are able to use an averaging technique to calculate GST inputs.

> The way my accountant set it up, everything is set up under one code [on the computer] and he works it out as a percentage… The first few times we had to play it by ear, and then he worked it out that your GST might be thirty precent of your purchases.
> Researcher: So thirty percent may be subject to GST and the rest not?
> Yes. The accountant works that out for you. He knows what percentage is taken more or less on average.

This average is then used to calculate the GST paid by the organization for future purchases, rather than gaining this information from the individual invoices that accompany each purchase.

5.5. Perceived Possible Accounting Inaccuracies

The Australian Tax Office requires that the collection and outlays of GST be accurately recorded. The 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.

> "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".

As organizations attempted to correctly record GST collections errors were actually reported by both the users of manual registers and scanners.

5.5.1. Possible Errors Using a Register

People who manually entered data onto the register could have been 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.

This participant was one of two who recognized that using a register with different departments was prone to error. The cost of the appropriate technology, that is scanners and other hardware, appeared to be a problem. One participant stated, "We *had* to buy retail Point of Sale software and computer", without actually stating why that was so.

5.5.2. Errors with the Scanners and Their Associated Databases

Neither was the use of scanners reported to be error free. On participant was still finding errors on the database at the time the research was being conducted. "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.

5.6. The Current Situation

Only one participant was still not happy with the routines now in place. This participant was considering changing to an on-line system that fed data into the accountant's system from the bank, hoping for a decrease in the amount of time taken collating the accounting data.

In all the other cases no further changes to the bookkeeping system were anticipated. "The accountant is happy and we are happy. So there is no need to change anything". "On reflection, five years down the track, the problem [recording accounting information for the GST] is not difficult".

5.6.1. The Owner's Present Viewpoint

Some participants stated that they are now more motivated to make sure the bookwork was current. "It's good because it keeps you up to date". Another participant employed a bookkeeper to enter data into the accounting package on a monthly basis, which would have resulted in more up-to-date data available (previously the data was entered into an accounting programme on an ad hoc basis).

There was widespread resentment amongst participants regarding the implementation of the tax. Participants commented on the difficulty and extra work that occurred and continues to occur because the GST was not placed on all products and they have, therefore, to continue sorting individual GST products from non-GST products and tracing their purchase and sale. "[T]hey should have put it on everything". "I wish it wasn't there. It does create the extra work". One participant observed, incorrectly, that the National Party was to blame for the difficulties that ensued when the GST was not levied on all goods in the store; another observed that they were collecting revenue for the Federal Government at a cost to themselves.

Continuing confusion was reported as participants attempted to logically sort new products into those that have a GST component and those that do not. One participant was confused when one brand of yoghurt did not have the GST levied on it and another did. Another participant commented that cooking chocolate did not attract the GST, whilst eating chocolate did. "Some of it is not logical". All participants reported using suppliers' invoices as a source of information regarding which of the products were zero rated for GST.

Participants have settled into the routines they have developed for themselves so that they can comply with the rules set down for them by the Australian Tax Office. "We've got used to what we are doing and everything is running smoothly for me"

6. Discussion

According to the theoretical framework, the rules change and this initiates an iterative process during which the accounting routines are changed to comply with the new rules. New routines may or may not reflect accurately the new rules. These changes in routines may or may not completely align the outcomes of these routines with the requirements set down by the new rules. Previous routines exist before the introduction of new rules and the new routines are frequently built on these previously existing routines.

Accordingly changes in the rules (in this research, the rules imposed by the Australian Tax Office) would cause a change in the routines in the organization. It is necessary to firstly examine the old and new rules and highlight the changes in routines required to comply with changes in the rules.

The change in requirements initiated by the Australian Tax Office has been shown by this research to change the rules applied to management accounting practices in small convenience stores. Before the implementation of the GST, these organizations used their accounting systems for end-of-year compliance purposes only. Information was collated at the end of the financial period by all participants and forwarded to the accountant for completion of the annual tax return and production of the general purpose financial reports as prescribed by external users, including the Australian Tax Office. After the implementation of the GST and the need to both track the flow of the tax through the organization and report on a more frequent basis to the Australian Tax Office, organizations were forced to implement strategies to collate the extra data required and ensure that this data was available in a more frequently and timely manner.

6.1. The Change Process

Changes occur in routines as the new rules are introduced according to the theoretical framework. The research uncovered actions by participants involving change in management accounting practice taking place before the implementation date. All the participants had taken some steps before the implementation date to gather information so that they could plan how they were going to put into effect the changes they expected to be necessary. They undertook the preliminary steps so that they would be able to meet the expectations of the Australian Tax Office when they opened on 1st July 2000. Those participants who had decided to keep manual registers, called in specialists to adjust the registers with different departments so that they could record sales of both GST and non-GST items. They may have simply trained staff in a casual manner on how to use the adjusted till and what items were non-GST and what items had GST levied on them. Others installed scanners and the appropriate software and ensured, by whatever means, that the database was compliant at the appropriate time.

Some participants reported being aware of the implication of the wholesale sales tax and had taken this into account, adjusting for this tax on both the cost of their inventory and the projected sale price of goods under the New Tax System. The day the GST came into effect all participants had prepared their systems to track input and outputs of the GST as required.

After the implementation date, during a period of adjustment, most participants reported a process of re-aligning their systems to achieve accuracy in accounting for GST collections and outlays. New routines were introduced by all participants. The Australian Tax Office still does not stipulate how organizations collate their data, but has changed the timing requirement for the information to be submitted. All respondents report entering accounting information into whatever system they use on a more regular basis. It was necessary to do so in order for the appropriate information to be available to calculate the GST inputs and outflows for the purposes of completing the BAS at the end of the accounting period as required by the Australian Tax Office.

To capture the inputs and outflows of the GST, one participant added an extra column to the ledger. As far as the documentation of the inflows and outflows of the business and how these were collated were concerned, for this participant there was little change. This participant was one of only two who reported staying on a manual bookkeeping system. All the other participants moved to an accounting package or changed or upgraded the accounting package already in use.

These accounting packages, however, were simply used to collate the accounting data. It is arguable that the entry of accounting data into an accounting package is not a great change in routine. The entry of such figures as invoice totals and sales for the period into either a manual ledger or an accounting package is little different. However the accounting packages can produce a report with all the details required for the BAS and some of the participants used these reports to complete their statement. Fifty percent of the participants completed the BAS themselves and forwarded the document to the Australian Tax Office at the end of the appropriate accounting period (usually quarterly). This was a major change in routine. The participants were now communicating with the Australian Tax Office themselves and relying on their own understanding of taxation matters in the short term rather than their accountant's knowledge. They had also shouldered the risk of failing to meet the requirements of the Australian Tax Office and the possibility of errors giving rise to penalties.

Some participants reported that the changeover to the new system occurred simply and without difficulty. Both had spent some time before the implementation date adjusting their scanners and software to enable new prices to be available to the scanners on opening. "Hit the button and rolled over… I came in at five thirty to check it, things like bread, milk, smokes (sic), papers they worked, so there wasn't any dramas really". Another participant with scanner technology who reported inaccuracies with the scanner database and how mistakes by persons on the counter were difficult to correct, eventually installed a new system that worked better. Fifty percent of the participants using scanners did not report problems after they had completed adjustments to their database. The other fifty percent had continuing database problems or were not happy with the accounting package they were using.

Those using manual registers generally required time to learn the difference between GST and non-GST items. One participant spent time averaging out the GST component of the invoices received so that it would be easier to calculate GST inputs in the future. Others spent time training staff and/or themselves.

It is possible to see measures of iteration in the routines after the implementation date, as expected by the theoretical framework, in all the organizations participating in this research. Some of the steps taking place before the implementation date are part of the process of the changes in routine. The changeover from the old routines to the new routines covers a time period from well before the implementation date to well after.

6.2. How long did they take to change over?

Different participants took different time frames to facilitate the changeover. Some time frames extended well before the date the GST came into effect and appear to finish not long afterwards. Others appear to have prepared fairly close to the implementation date and took some time after to become accustomed to the new routines.

For all participants preparations for changing over to the new routines took place before the change to the new rules. One participant reported beginning to collect information a year before the implementation date. Another took months to adjust his computerised accounting system so that there would be minimal disruption at changeover. Those participants who kept registers had to have those registers adjusted so that GST and non-GST purchases could be recorded. All participants acquired knowledge, however rudimentary; regarding which items would attract a GST levy and which items would not.

After the implementation date, participants reported an adjustment period. Changes in technology and the increased use of computerised accounting packages would have necessitated a period of learning. The need to fill out the BAS statement for those participants, who took it upon themselves to do so, also implies that these participants would have been required to acquire the necessary skills.

The implementation of the GST required change in accounting practice from all participants. The tax was implemented on 1st July 2000 and required participants to be prepared. The participants all prepared in different ways and to different extents. It would appear that the greater amount of preparation undertaken before the implementation date may have affected how quickly and easily the change in routines was accomplished. One participant who spent many hours resetting his hardware so that he could "[h]it the button" reported a smooth transition. This may have been due to the reliance on technology, however, and there has not been enough evidence gathered to say whether preparation, or technology, or perhaps some other variable, was effective in making an easier transition to the new routines.

This research shows that there is a period prior to the change in rules and their routines where research is undertaken into new requirements. It can be argued that changes to the rules that apply to any management accounting system rarely appear without prior knowledge and warning. There may be changes to resources and extra training provided to staff before the implementation of new rules to enable a smoother transition period and more successful and efficient changeover. In this research, managers were aware of the changes to taxation legislation well in advance of the implementation date. This caused them to prepare for the changes in the rules set down by the Australian Tax Office in various ways and to various degrees.

The theory discusses how new rules are introduced and an iterative process continues as the routines are gradually aligned with those rules. Since there is a process of discovery, learning and allocation of resources to facilitate the accounting change before it actually occurs, it can be argued that the iterative process of adjustment to new rules begins before these rules are implemented. This period of time may be used by the supervisory body to legitimise the new rules and train those who are responsible for the new routines as part of the process of moving an organization to a state where the rules constitute "the way things are done". This time of preparation before the new rules are enacted may play a part towards how closely the routines align with the rules and should be reflected as part of the theory.

6.3. The New Rules and the New Routines

Routines may not completely align themselves with the rules. The Australian Tax Office requires the payment of a GST of ten percent on all taxable goods, accurate tracking and records of the collection and outlays of the tax. The tax office threatens to impose penalties for non-compliance. The theory suggests that these routines may not accurately reflect these rules.

Completion of the BAS includes most of the information required for compliance purposes. At the same time the owner/managers who submit their own BAS did not mention any accounting or bookkeeping training to equip them for the required capability and extra responsibilities that go with this task. Those who used accounting programmes to produce the BAS may have had no knowledge of how the programme produces the report on which their BAS is based. In the survey of small companies by Marriott and Marriott (2000: 483) it was discovered that, while all the respondents could input data into their accounting package, only twenty seven percent could fully understand the reports that the package produced. In this research a participant, who was a trained bookkeeper, reported problems with a report (regarding the tax liability) produced by the accounting package and manually checked the reports produced. It is arguable that other participants in this survey would not discover any errors in the BAS report produced by their accounting package and be unaware of problems and inaccuracies in the reports produced by their programmes as they do not have the accounting training and skills that would enable them to recognise the error.

The new rules require that a GST of ten per cent be levied on specified goods and services. The amount of both taxation inputs (tax levied on purchases) and taxation collections (tax levied on sales) was to be accurately recorded by the organization and the balance forwarded to the Australian Taxation Office every quarter unless otherwise specified. It is noted in this research that inaccuracies have occurred with both scanners and manual registers. There was also confusion reported regarding which goods were zero-rated and which were taxed. Especially in the use of manual registers, it can be argued that an accurate recording of the sale of GST and non-GST items is not taking place. It is also possible that the participants could be levying GST and not including the amounts reported to the Australian Tax Office. It is highly unlikely that the participants would admit to the researcher any unethical behaviour in the manipulation of the tax. Source documents for taxation compliance purposes are produced by the system itself; that is the manual registers will reproduce the information that has been entered, regardless of the information's accuracy. It would be difficult to find an alternative source of information to substantiate the report from the manual register and, therefore, auditing by the Australian Tax Office may not produce a negative assessment. Penalties may be harder to apply and the result is a poor external monitoring process.

While there may be evidence to conclude that the recording of GST collections on the sales of goods may not be completely accurate, as far as GST outlays are concerned, seven out of the eight systems in place appear to accurately track the GST paid out by the organization. It is collated into the system using the invoices sent by other organizations. Barring errors on these invoices, the output appears to have been tracked correctly. One system put in place averaged the amount of GST inputs using historical data, and would not be completely accurate. The degree of inaccuracy would depend on any changes in purchasing patterns over time and whether there has been any further testing of the process. For instance, if the data was collected in winter regarding the purchase of milk, it is possible that summer weather will increase the percentage of flavoured milk purchased. Flavoured milk is subject to GST and plain milk is not. The change in consumption will lead to an increase in the GST outlays, which may go undetected. The Australian Tax Office apparently allows this possible inaccuracy to take place. Within the other systems accuracy could be explained because all outlays can be precisely traced to the invoices received for purchases, should an audit take place. The Australian Tax Office can trace all outlays to primary documents and has penalties in place to ensure that the routines align with the rules. The ability to trace GST outputs allows for monitoring in this area.

The amount of accuracy achieved by the organization in collecting the accounting information differs from organization to organization, according to the decisions made regarding how the system should be structured. We have seen that the ability the Australian Tax office has in monitoring the accuracy of this information may have an effect on its collation. This would concur with the theory in that the new routines may not completely align themselves with the new rules and that a monitoring process is likely to increase compliance.

6.4. Routines that Remain

The organizations existed before the implementation of taxation reform. There are elements of that pre-existing organizational structure in all of the cases. According to Burns and Scapens' (2000: 11) theory each institution will change according to the routines already in place. Whilst some participants made only minor changes to the old accounting practices and others made a more extensive change, elements of the original arrangements still existed. All participants used an accountant for the end-of-year taxation return and financial reports before the new rules were enacted and still did so. Even those who have introduced more technology still used a visual inspection of the shelves to monitor stocking levels. It would appear that the introduction of scanners in two of the four stores using them, was motivated by a need to accurately track the GST rather than an apparent change in the role accounting would play in its organizational context. It has always been necessary to keep accounting records for five years. All these routines remain in place.

Patterns of behaviour incorporated within the organizational accounting routines continued throughout the change. Each institution coped differently depending on the routines already in place (Burns & Scapens, 2000: 11). Only one participant reported changing his view of accounting practice within his organization as he started to use accounting information produced by his programme, installed for GST purposes, for decision-making.

Previous rules and routines have been changed to reflect the new rules imposed by the Australian Tax Office; however, as expected by the theoretical framework, old routines also remain.

6.5. Thoughts and actions,

The theory discusses how, over time, things become part of the routine of the organization and part of its context, things become "the way things are done". As they lose their historical perspective, actors accept the rules and routines as normal. It would appear that compliance with the GST has moved into a realm of acceptance. One participant stated "[W]e've got used to what we are doing". Another participant talked about being used to the way things are now done. It has now been over four years since the implementation of GST, it could be expected that the rules and routines are now entrenched and, according to the theory, have lost their historical context.

7. Conclusions

Management accounting practices appear to have changed in small convenience stores in the Far North Queensland area to cope with the new rules and regulations imposed when the Goods and Services Tax was implemented on the 30th June 2000. Different stores seem to have coped in different ways, depending on how they had previously complied with tax law and how accurately they wished to record the receipts and payments of the new tax. Owner/managers of the stores may have prepared for the changeover over differing time periods. Some owner/managers have apparently taken longer and prepared more than others. Others took more time to align themselves with the tax rules after implementation.

Burns and Scapens' (2000) theoretical framework has highlighted the process of change within the case studies of this research. It has explained much of the changes in the systems within the organizational context. Rules and routines, which existed before the implementation of GST, have been adjusted to encompass the requirements of the new rules and routines. This case study agrees with the theory that the rules are introduced and routines change to encompass the new rules. It has also highlighted that routines do not necessarily completely align themselves to the new rules, especially if monitoring is difficult. Participants also report that these changes have become embedded in the organizational context and are now "how things are done".

It is still possible, even given the idiosyncratic nature of small business, to discover the management accounting practices that form part of the structure of small business life in Australia. Levels of accuracy differ from business to business. There has been an increase in the use of technology to track the flow of GST, however business do not, in general appear to be taking advantage of the ability to use the technology to increase both the timeliness and amount of information available for the decision making process. It is recommended that further research be undertaken to discover what impediments exist within the small business context to increased use of information produced by management accounting for decision making.

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