

Accounting and tax system in small business entities

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Abstract: Small business entities play a vital role in economic growth; however, effective accounting and tax management are essential for their sustainability. This article explores the significance of accounting in small businesses, comparing cash and accrual accounting methods. Additionally, it discusses tax obligations, challenges in tax compliance, and best practices for financial management. By implementing accurate record-keeping, utilizing accounting software, and staying informed about tax regulations, small businesses can enhance their financial stability and ensure legal compliance. The study highlights the importance of financial literacy and professional guidance in overcoming accounting and taxation challenges.

Keywords: Small business, accounting, taxation, financial management, cash flow, tax compliance, bookkeeping, accounting software, tax regulations, business growth.

Introduction: Small businesses play a crucial role in the economy, contributing to employment and innovation. However, to ensure their sustainability and compliance with legal requirements, an efficient accounting and tax system is essential. This article discusses the key aspects of accounting and taxation in small business entities, highlighting their significance, challenges, and best practices. Additionally, the views of scholars are incorporated to provide a deeper understanding of the topic.

To begin with, accounting serves as the backbone of any business. It provides a clear financial picture, helping entrepreneurs make informed decisions. According to Needles, Powers, and Crosson, financial accounting helps businesses measure their economic performance and communicate financial information to stakeholders. Moreover, accurate accounting ensures compliance with legal requirements and tax regulations. Without proper record-keeping, businesses may face penalties, financial instability, or even closure [6].

Furthermore, accounting helps small business owners track their income and expenses, assess profitability, and plan for future growth. Collis and Jarvis argue that small firms often lack the financial expertise of larger companies, making proper accounting practices even more critical. By maintaining organized financial records, businesses can also attract potential investors

or secure bank loans. In short, accounting is not only a legal necessity but also a vital tool for business success [4, 100-110].

There are two primary accounting methods: cash accounting and accrual accounting. On the one hand, cash accounting records transactions only when money is received or paid. This method is simple and ideal for small businesses with limited transactions. On the other hand, accrual accounting records revenues and expenses when they are incurred, regardless of actual cash flow. Although more complex, it provides a more accurate financial picture.

According to Schaltegger and Burritt, the choice of accounting method significantly affects financial reporting and decision-making. They argue that accrual accounting provides a better representation of a business's financial health, making it preferable for long-term planning.

Additionally, small businesses often rely on accounting software to streamline their processes. Programs such as QuickBooks, Xero, and Wave help automate financial tasks, thereby reducing errors and saving time. Instead of relying solely on manual bookkeeping, integrating digital tools can enhance efficiency and accuracy. Marriott and Marriott highlight that small business owners benefit greatly from user-friendly accounting software, which reduces complexity and enhances financial control [5, 123-139].

When it comes to taxation, small businesses must comply with various tax obligations depending on their legal structure. For example, sole proprietors usually pay personal income tax on business earnings, whereas corporations may be subject to corporate tax. In addition, businesses must consider VAT, payroll taxes, and other local tax requirements.

At the same time, governments often provide tax incentives or exemptions for small enterprises to support their growth. According to Atkinson, many governments use tax policies to encourage small business development, such as reduced corporate tax rates and simplified tax filing procedures. Consequently, understanding tax regulations is crucial for avoiding legal issues and optimizing financial planning [1].

Despite the benefits, small businesses often face challenges in managing accounting and taxation. Firstly, limited financial knowledge among entrepreneurs can lead to errors or mismanagement. Blackburn, Carey, and Tanewski point out that many small business owners lack formal accounting education, which can result in poor financial decision-making [3, 293-317].

Secondly, changing tax laws and regulations can be difficult to keep up with. Therefore, hiring a professional accountant or tax consultant can be beneficial. Moreover, small businesses may struggle with cash flow management, making it challenging to meet tax deadlines. As a result, proper budgeting and financial forecasting are essential. Berisha-Namani emphasizes that financial planning is a crucial factor in small business success, particularly in managing tax obligations and cash flow [2, 45-57].

To address these challenges, business owners should invest in financial literacy and seek professional guidance when needed.

To ensure smooth financial operations, small businesses should adopt the following best practices:

Keep accurate records: Maintain all receipts, invoices, and financial statements for tax filing and financial analysis. Collis and Jarvis suggest that systematic record-keeping enhances financial transparency and compliance [4, 100-110].

Use accounting software: Automate bookkeeping to reduce errors and improve efficiency.

Separate personal and business finances: Open a dedicated business bank account to avoid confusion.

Monitor cash flow: Regularly review income and expenses to prevent financial difficulties. Blackburn et al. emphasize that poor cash flow management is one of the primary reasons small businesses fail [3, 293-

317].

Stay informed about tax regulations: Keep up with changes in tax laws to avoid penalties.

Consult professionals: Seek help from accountants or tax advisors when necessary.

CONCLUSION

In conclusion, an efficient accounting and tax system is fundamental for the success of small business entities. While proper accounting ensures financial stability and compliance, understanding taxation helps businesses avoid legal issues and optimize financial planning. Despite certain challenges, small businesses can overcome them by adopting best practices and leveraging modern accounting tools.

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