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Accounting choices in SME during the financial crisis

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ABSTRACT

THE TITLE OF ESSAY	Accounting choices in SME during the financial crisis
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KEY WORDS	Accounting, SME, Financial Crisis, Decision Making
RESEARCH QUESTION	Did SME make accounting choices during the financial crisis?
PURPOSE	<p>The purpose of this paper is to:</p> <ul style="list-style-type: none">• learn the kind of accounting choices available to small companies in Gothenburg made during the financial crisis.
THEORETICAL FRAMEWORK	In the theoretical framework we present earlier studies and models in this research area such as the definition of SME, decision making in general and accounting posts.
METHODOLOGY	The essay is a qualitative study applied on two case studies. Three interviews have been made as our empirical evidence.
EMPIRICAL EVIDENCE	Interviews have been made with two CEOs from different companies and one expert in auditing to get two different perspectives on our analysis.
ANALYSIS AND CONCLUSION	<p>In the analysis we summarise the most important information that lead to our conclusion. Our conclusion is that few accounting choices were made in SME during the financial crisis because of:</p> <ul style="list-style-type: none">• Strict regulation• Few external stakeholders• Factors affecting decision making• Less focus on accounting, more on managing

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1. Introduction

1.1 Background

In the summer of 2007, Dow Jones closed at its absolute record level. There was great confidence and optimism in the liquidity market. The economy had for a long time been thriving and there was great hope for the future. Just over a year later, in September 2008 the US investment bank Lehman Brothers declared bankruptcy and that became the starting point for a global financial crisis (Wissén 2011). Around this time, the market began to understand that the American crisis would spread also to Europe and Sweden, after which the Swedish government and central bank took action through a stabilization policy. Consequences of the crisis hit the Swedish economy quickly and unexpectedly. An example of this is the central bank's two-year forecast of the future repo rate. In February 2008, the predicted repo rate two years ahead was expected to be 4.25%, but the actual result in 2010 was only 0.25%. The SEK depreciated significantly against both the dollar and the euro, which can be explained by the fact that capital in general tend to leave small currency areas in times of crisis (Hultkrantz; Tson Söderström). So how did the financial crisis affect companies in Gothenburg? Västra Götalandsregionen together with SCB (Statistiska centralbyrån) makes a Business Tendency Survey every six months specified for businesses operating in Gothenburg and its neighboring municipalities. In its report, which was published in November 2008, they wrote that the situation in Gothenburg deteriorated considerably from spring 2008 to fall 2008. From lying on a cyclical ranking of +35, which is regarded as an economic boom (on a scale of -100 to +100), to a -8 in the fall 2008. They also wrote about the pessimism that prevailed among entrepreneurs in Gothenburg and the expectations of further decline in the economic situation and the drastic reduction in the number of employees in the near future (Västragötalandsregionen, 2008). Demand for goods and services declined rapidly, which soon resulted in poor profits in the financial statements.

Income statements and balance sheets shall give a true and fair view of the company's performance over the past year and show how its assets are financed. It should also be possible to compare different companies to each other and review their financial development over time, therefore it is important that they report according to common frameworks. In Sweden Redovisningsrådet and FAR provides such frameworks along with the Swedish accounting laws Årsredovisningslagen (ÅRL) and Bokföringslagen (BFL). The reports shall be done in accordance with laws and regulations, but there is still some room to make choices within the statutory regulations, known as accounting choices (Nilsson; Isaksson; Martikainen, 2002).

Most of the existing literature is written from an investor perspective, and is about large listed companies. These companies almost always have finance departments with a CFO specific IT programs for analysis of the financial information and formal procedures for decision making. But what does it look like in small, owner managed businesses? Since the Swedish law is very restrictive (Blomqvist, 2008) SME in general tend to not make many accounting choices in “normal times”, therefore it peaked our interest to see if SME became more active in accounting choices during the financial crisis. We also discovered fastly during our research in this area that there were very little literature or previous studies to find, which pushed us to do a research in this are and find out how SME acted during the financial crisis.

1.2 Definitions

Financial crisis - The financial crisis starting in 2008.

LVP - Lowest value principle.

ÅRL - Swedish annual accounts act: Årsredovisningslagen

BFL - Swedish accounting act: Bokföringslagen

SME - Small and medium entities

CEO - Chief executive officer

CFO - Chief financial officer

NYSE – New York Stock Exchange

1.3 Research question

- *Did SME make accounting choices during the financial crisis?*

1.4 Purpose

The purpose is to discover if SME in Gothenburg made any special accounting choices during the financial crisis. Since most existing studies are made on large, listed companies, we will contribute to the growth of knowledge with our study of accounting choices in smaller companies. This report will not only be relevant for academics but also for business owners and accountants who may get the benefit of our reasoning in their practical work.

1.5 Disposition

This paper is divided into sections, starting with the theoretical framework presented under chapter two. Chapter three provides a presentation of the data collecting method. Subsequently, chapter four includes the empirical evidence along with data from the interviews. Finally, the paper is concluded with an analysis and concluding remarks in chapter five and six.

2. Theoretical framework

In this section different theories and models from earlier research will be presented. These will later be used for analyzing of the empirical evidence. Lastly, our model is presented which illustrates our working strategy.

2.1 Method for theoretical framework

Our investigation needs both a theoretical framework and empirical evidence since our studied is barely researched. This means that there is a limited amount of literature and articles to obtain, therefore, it does not exist any concrete models and theories. Many medium-sized companies allow an external accountant manager to compile their accounting because they do not have a CFO or a person who have knowledge about accounting in house. Therefore we have chosen to interview accounting firm regarding accounting choices in SME in Gothenburg area. To increase the chances to find a respondent with knowledge in our field, we contacted auditors in large accounting firms. We searched an auditor who audits for SME in Gothenburg because this person will give us a general picture of the choices that was made during the financial crisis. We interviewed an auditor who works in KPMG in Gothenburg, the auditor helped us to figure out which posts were important for SME in Gothenburg during this period. This interview guided us to the right interview questions for the selected companies but also gave us a general picture of how SME acted in the financial crisis. We also wanted to know how SME made their decisions in accounting choices, which is why models for decision making are presented in the theoretical framework. In summary our theoretical framework is based on literature, articles but also on the interview with the auditor.

2.2 Definitions of SME

There are several definitions of what distinguishes small and large businesses. Since we want to study unlisted companies it is not relevant to choose a definition based on stock quotations, nor international definitions because our chosen companies are active in Sweden.

We have chosen to use the Swedish Annual Accounts Act's (ÅRL) definition of small and medium-sized companies; less than 50 employees, SEK 40 million in total assets and SEK 80 million in net income. The companies that are investigated in this essay are place in these ranges. Since they are operating in Sweden they shall produce their financial reports under the law, the definition in ÅRL is therefore the most relevant. Within that range it is the larger companies we are going to focus on, i.e. medium-sized companies with 20-30 employees and a net income around 10-30 million per year (ÅRL, riksdagen.se).

The European Commission established in 2003 that small companies are "those who have between 10 and 49 employees and net sales or balance sheet total that does not exceed EUR 10 million per year (European Commission website). Also this definition would be applicable to our chosen companies.

2.2.1 Recruitment processes in SME

SME in contrast to large companies are often characterized by prestigeless employments. They have informal or non-existent control systems and communication strategies of the communication between manager and employee. "High trust, open communication and familiar atmosphere" characterizes small businesses. Those who are employed are often relatives or acquaintances, which makes the relationship more intimate than in a large company (Wilkinson, 1999).

2.3 Stakeholders

When discussing stakeholders, a classical stakeholder model can be assumed. In such models the external stakeholders are usually customers, lenders, suppliers, state and shareholders. Large companies design their financial reports mainly for existing and potential shareholders (Thomasson; Arvidsson; Carrington; Johed, 2010). The main stakeholders in SME are the managers, the bank and the tax agency. They have no public shareholders which mean that the external stakeholders that the financial reports are addressed to become the state in terms of the Swedish tax agency and possible lenders in terms of bank and suppliers (Page, 1984). The reason why the owners are not mentioned here is because SME almost always are owner-managed businesses and they are therefore not as interesting from a stakeholder perspective.

Different stakeholders demand different information from financial reports (Beaver, 1998). Decision-making processes of the various stakeholders look very different but there are also similarities in the assessments they make based on the company's annual report, these are: the profitability, liquidity and solvency. What is most interesting in the discussion of stakeholders impact on accounting choices are *whom* the reports are addressed to? Who is the user of the financial reports? Naturally every company wants to make some different accounting choices depending on whom the report will be read by. Is it for example the tax office with the aim to require maximum tax on the profit, or is it the bank trying to establish a measure of a company's liquidity ratio to manage the bank's loan requirements? (Thomasson; Arvidsson; Carrington; Johed. 2010)

2.4 Engaged business managers

Blomkvist (2008) concludes in her academic thesis that accounting is often a burden and a “necessary evil” for the entrepreneurs in SME. This is because the Swedish law is strictly regulated when it comes to accounting and also because the managers of SME do not have the knowledge that is necessary for the accounting procedure.

Blomkvist (2008) writes that there is a correlation between how engaged the business manager is in the year-end procedure and if the company expand or not. Managers in non growing firms are only half as active in the year-end procedure compared with managers in the growing firms, called “Gazelle-firms” in Blomkvist’s report.

2.5 Accounting choices

The authors in *Accounting choice in troubled companies* (Skinner; DeAngelo; DeAngelo 1994) writes that the accounting choices in companies with financial troubles reflect the troubles in the company rather than actually changes the situation or having any impact on the finances. The accounting is thus not a way to try to make the company look more prosperous according to this study of 76 firms on NYSE. However, it is an indication of whether the company is doing well or not. The entries that are considered in this study and are subjective of accounting choices are earnings, cash flow, accruals, and noncash writeoffs.

Francis (2000) mentions several accounting choices that can be made. Not all of them are relevant in our study why we have chosen to focus on two of Francis examples; inventory valuation and accounts receivable in terms of whether a customer's payment is certain or uncertain. These posts were according to the auditor current during the financial crisis.

2.5.1 Decision making

When making accounting choices decision making plays an important role. How a decision is made depends on who is making it. Different people solve the same problems in different

ways. Personality, experience and knowledge are factors that affect decision making because these factors differ from person to person. Uncertainty also affects decision making, the bigger the uncertainty is the harder it is to make a decision (Edlund; Högberg; Leonardz, 1999).

One model that depends much on personality is the consequence model. This model tells us why it is important to make decisions fast, and thereby it helps companies to handle decision making under uncertainty. The model describes that companies often make decisions from uncertain information and therefore it is important to make decisions fast. Early decision making in a project give most far-reaching consequences but if we postpone the decision making the extent of the consequences will be reduced. At the end of the project the company have more knowledge and less doubts and therefore at this stage it does not require any big or important decision. The most important question in this model is: “How do you bridge the gap between doubt and decisions?” (Krogerus; Tschäppeler, 2013)

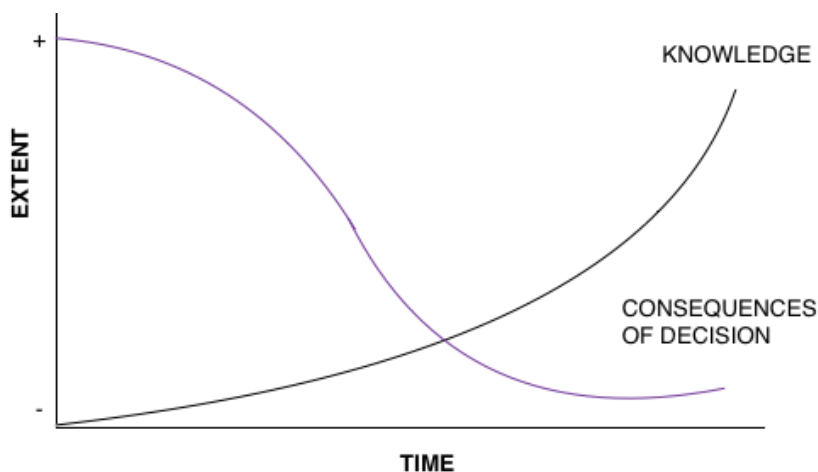


Figure 1: Consequence model. Source: Krogerus; Tschäppeler, 2013

In summary, personality, uncertainty and different kind of problems affect decision making. To reach the most successful solution the company must have a good cooperation between the involved operators and therefore it is very important to have good communication, control over the business but also openness in the decision process (Edlund; Högberg; Leonardz, 1999).

As it has been told above it is hard to make important decision. Decision making differs from company to company. Small companies and family companies rather use informal ways for management and control (Daily; Dollinger, 1992; Brunåker, 1996; Goffee, 1996). Here is one model that shows how to make decisions in formal and informal ways:

Normative models - This model is for rational decision making because it is based on unrealistic assumptions and therefore the model is theoretical. Since this model is based on assumption the decision-process is formed into a systematic and chronological process where the company takes one step at a time if the company uses formal way of making decision. Companies that make decisions in an informal way usually skip some steps that they define the objective and make choices without considering actions alternatives or consequences (Edlund; Högberg; Leonardz, 1999).

The rational decision model

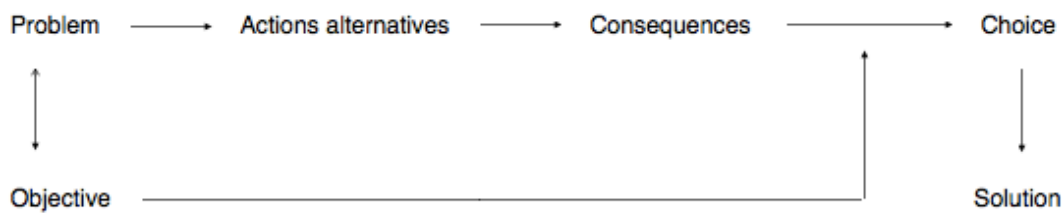


Figure 2: Normative model. Source: Edlund; Högberg; Leonardz, 1999

It predicts that objectives, resources, values and fact can be separated. Unfortunately the rational decision model does not give a complete realistic picture of how the decision making process actually are implemented. One reason is that the model's differences steps is in reality associated with big problems which is not concerned in this model (Edlund; Högberg; Leonardz, 1999).

2.6 Previous empirical research

Within our specific essay topic we have not found much previous research. However, there is some research done on large companies and some which deals with accounting choices but without the focus on financial crisis.

One available theory is the "Positive accounting theory" by Watts and Zimmermans (1986). Positive accounting is a division of academic accounting research with the aim to explain actual accounting practices, in contrast to normative accounting that will derive and try to find the optimal accounting standards. In other words it explains why accountants and business managers make the accounting choices they do. Briefly, their conclusion is that the accountant will make the choices that give them maximum benefit to themselves and the company in cases where options are available. The report is based on extensive empirical research available in the field of accounting choices. This report is also the basis for a lot of later accounting research.

Fields, Lys and Vincent (2001) wrote *Empirical research on accounting choice*, which is a literature survey based on for example Watts and Zimmermans study but also on other earlier accounting researchers studies. Fields, Lys and Vincent focus on three types of market imperfections that influences manager's choices; agency costs, information asymmetries, and externalities affecting noncontracting parties. What makes this study of great relevance for our theoretical framework is that it combines the accounting choices with the factors that influences manager's decision making.

Francis (2001), in turn wrote *Discussion of empirical research on accounting choice* on above mentioned article by Fields, Lys and Vincent. She considers four aspects on the article:

- Implications of the authors' selection of an expansive definition of accounting choice and their decision to classify this research by managerial motives.
- Implications of the authors' decision to include implementation decisions in their definition of accounting choice.
- Implications of the authors' call for research on the consequences of accounting choice, including the costs of defective accounting choices and the benefits of superior choices.
- Implications of the authors' call for a reconsideration of research designs that explicitly consider groups of accounting choices.

Some of Francis conclusions are that researchers have made relatively little progress in enhancing research designs and methods in the area. She also concludes that the study does not "provide direct evidence of the implications of accounting choice".

Dechow (1994) investigates in her paper under which circumstances accruals can increase earnings. Her hypothesis is that accruals can shorten the performance measurement interval, give a "greater volatility of the firm's working capital requirements, investment and financing activities" and lengthen the firm's operating cycle. Dechow does the research on big companies, but what makes her paper interesting to us is that she writes about accounting choices and what impact it may have on the companies profits.

Both Watts and Zimmerman (1986) and Dechow (1994) argue that the most successful way to decide on accounting choices is to select a portfolio of accounting methods. They assume both from the goal of an optimal choice of accounting method are a desirable profit for the year. Dechow also highlights a continued good reputation of the company as an incentive for making accounting methods.

Smith, Kestrel and Robinson (2001) write about accounting choices in troubled companies in Asia and Australia. They investigate how managers tend to change their accounting methods as a result of the pressure times of economic crisis entails. Their main purpose is to investigate how likely companies experiencing financial distress to make "income increasing policy choice" are compared to healthy companies. Their conclusion is that companies in critical financial situation tend to increase accounting choices aiming to inflate the earnings to make the results look better. This refers, however, to listed companies and do not focus specifically on the financial crisis in 2008 as our paper does, but it has a lot of similarities to our study since it interconnects the managers way of making decisions with accounting choices.

2.7 Posts

To obtain a general understanding of which accounting choices SME actually made during the financial crisis we have interviewed an auditor from an accounting firm operating in Gothenburg. The auditor gave us an understanding of which accounting posts were the most interesting for SME during the financial crisis.

2.7.1 Cost accounting

Accounting is in itself quite tightly controlled by laws and practices (Blomqvist, 2008), but to some extent the accountant can choose how certain things should be reported. Such a choice is whether to periodize their income and expenses or not (interview with KPMG's auditor).

Periodizing using the accrual basis involves certain risks such as to the supposed business event does not occur. This must be kept in mind when one reports such thing as on good grounds will be a business event in the future. Depending on how one chooses to report in this regard affects the event either the balance sheet or income statement and those are the choices that we are interested in (Bengtsson, 2002). There are several ways of manipulating cost accounting. A company can choose to depreciate their asset too slow or too fast depending on which effect they want to have in their result. Other ways to tamper with this post is to balance costs even if it does not generate any benefits in the future or abstain amortization of worthless assets, regarding both tangible and intangible assets. It is much easier to manipulate intangible assets such as goodwill and brand name (Nilsson; Isaksson; Martikainen, 2002).

Matching principle and precautionary principle guide the costs. Matching principle measures the company's presentations only when the related income and cost is taking into account under the same period. According to the precautionary principle a company must account revenues as late as possible while it is the opposite case for costs. Costs measures to the highest value among several values while assets and revenues measures to the lowest value among several values.

Costs occur when:

- A resource is consumed
- They are directly associated with same period as the revenue
- Change in the value of the asset

This is expenditure that are defined as cost based on matching principle and precautionary principle.

The most important cost for SME is personal cost. In Sweden personal costs consist of wages, withholding tax, holiday pay, statutory employer charges and other charges like social costs (Thomasson; Arvidsson; Carrington; Johed, 2010).

2.7.2 Inventories

Inventories shall be valued to the lower of acquisition value and net realizable value, this method is called lowest value principle (Nilsson; Isaksson; Martikainen, 2002). The meaning of acquisition value is the expense for the products production and/or acquisition. Shipping cost, customs duty and other costs to get the product to the inventory is allowed to be included in the purchasing price (Thomasson; Arvidsson; Carrington; Johed, 2010). It is a harder situation to value products that are self-manufactured. To measure the value we have to include all the cost for producing the product. The challenging part is to find these costs which are both direct and indirect cost (Marton; Lumsden; Lundqvist; Pettersson, 2012) Net realizable value is the sales value after deduction of estimated selling costs.

2.7.3 Accounts receivable

Accounts receivable are assets just like any assets. Thus, they should also meet the same requirements as the more general definition assets in order to get reported as such. However, what differs accounts receivable from other assets is the need to consider the risk of customers' propensity to pay or not to pay. This is only an assessment on how the future is believed to unfold. Consequently, the companies can, in this case, choose a more optimistic way, compared to a more pessimistic way of reporting accounts receivable (Nilsson; Isaksson; Martikainen, 2002).

There is no specific law on how to value accounts receivable other than to use LVP to measure the value. This means that the accounts receivable have to be valued to the lowest of initial value and the current value at balance sheet day. A company has to write down the value of account receivable when two types of losses occur. Realized losses arise when for example the culprit has gone bankrupt. The other type of losses is expected losses which transpire when the company's client suspends payments (Thomasson; Arvidsson; Carrington; Johed. 2010).

2.7.4 Debts

A liability can only be booked as a debt in the balance sheet when it meets the three following criteria.

1. The company has a duty in the future to relinquish or assign resources to one or several external partners.
2. It is impossible to avoid the liability

- Transaction has encountered and that is how the liability occurred. (Nilsson; Isaksson; Martikainen, 2002).

Albeit, it is costly to change debt agreements, which sometimes does not make it worth it, hence it induces refrain from making investments (Robert; Holthausen; Leftwich, 2002).

2.8 Our model

Our model is used to consider the existing models and theories in the studied area, which are presented in the theoretical framework. Together with the empirical evidence, we create a picture of reality that we later present in the analysis and from that make our conclusion.

From the previous research that can be related to accounting choices we can see three main areas. These are decision making, stakeholders' impact on accounting, and managers' involvement in the accounting procedure. The financial crisis affects accounting choices in SME and is a factor that influences this entire paper.

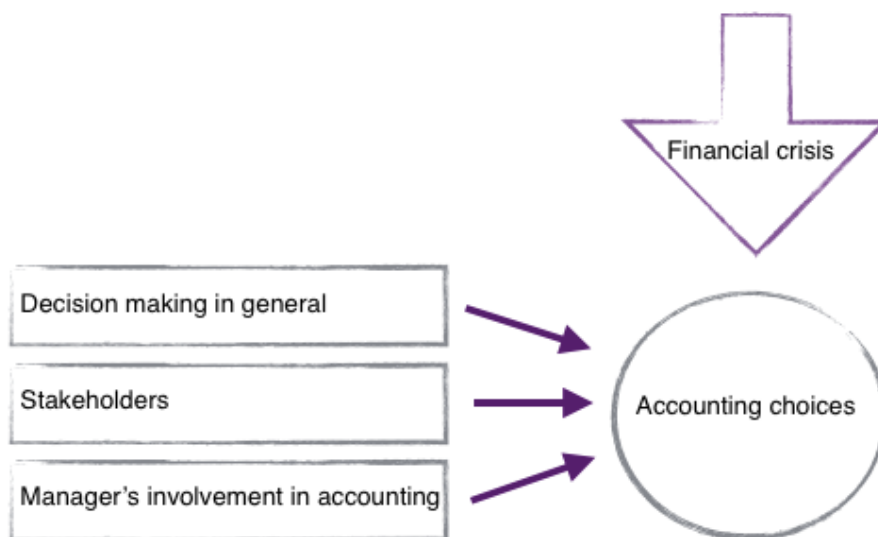


Figure 3: Our model

3. Methodology

In this chapter the choice of method will be presented. This methodology will characterize the following empirical evidence. We have followed Patel and Davidson (2011) structure of collecting and reporting credible empirical evidence. At first we present the choice of working procedure and methods. The research strategy is to do a qualitative study applied on two case studies. Further are the case studies presented where the selection and positioning of companies are described and also the interview methods. Lastly is the source critic presented.

3.1 Choices of working procedure and methods

To complete our study we needed to complement the theoretical framework with an empirical study. We have therefore chosen to do interviews with persons who have experience and possess this kind of knowledge, since this is the best way of collecting new facts and science in a poorly explored subject.

3.1.1 Qualitative study

We have done a qualitative study because the purpose with qualitative studies is to obtain a more fragment knowledge which is not received with quantitative studies. In qualitative studies it is more usual to collect the data progressively during the working procedure, but in quantitative study the researchers often collect all material before making the analysis (Patel and Davidson, 2011). We have made interviews with several companies and therefore it was more relevant for us to start analyzing right after the interviews because that was how we utilized the interview answers in the best way. We had also a fresher memory right after the interview and therefore our relationship to the collected material were more “alive”. Other advantage by analyzing the interview answers right away that there is a possibility to find information that generates new ideas and coming up with additional questions that may need to be asked to the respondents in retrospect. A qualitative study was most suitable for this essay and also because of the time budget we had to concern ourselves with.

3.1.2 Quality

Quality is important for the essay because it reduces the uncertainty in collecting information for a qualitative study. In order to achieve a good quality of the study it is important to know what we are researching on and make sure that we are doing it in a reliably way. There are two words that occur when talking about quality in an essay, reliability and validity, which are used differently depending on if it is a qualitative or quantitative study. In qualitative studies these two words are intertwined and it is hard to separate them from each other and that it is why the term reliability is rarely used (Patel and Davidson 2011). Therefore we are only going to use the word validity for our qualitative study.

3.1.2.1 Validity

The intention with validity is to describe an opinion, detecting phenomena, and to interpret and understand the meaning of the whole. It is important that good validity permeate all the parts in the research process (Patel and Davidson 2011). We have thereby focused on getting a contiguous storyline. In order to answer the question in the studied area the empirical evidence has been collected in a secure way. It has been collected through interviews where we have interviewed several companies on the same area to get a variation and fidelity. However, we could have had more number of interview persons in order to increase the credibility and get more views and experiences, but it has not been possible due to the time limitation.

3.2 Case studies

We have chosen our companies by a case study model, which means that we restrict our research to a few companies. The purpose with this method is to receive a holistic perspective and to obtain comprehensive information as possible. Case studies work perfectly when someone is studying processes and changes (Patel and Davidson 2011), which we are doing in this essay. We have made two case studies on SME in Gothenburg were one of them fared well during the crisis and the other did not. We wanted to see if there were any differences in accounting choices between companies that fared well during the crisis and those who got adversely affected. We also want compare these companies.

3.2.1 Selection and positioning of the companies

When we started to select companies we made sure that they go under our chosen definition of SME (see theoretical framework). It was also important to select companies after our case study were one fared well during the crisis and another one that got adversely affected. Looking into companies' net sale and income of the period we could see how they got affected by the crisis. Since we were afraid to not manage to get any interviews we selected companies and booked interviews with CEOs early. This because we wanted to make sure that we would have empirical evidence. This resulted that our selected companies are non-growing firms. According to Blomqvist (2008) CEOs in these companies tend to be less active in the financial statement compared to CEOs in growing firms. Not only wanted we to see if SME made accounting choices during the financial crisis but also if CEOs in non-growing firms became active under the financial crisis. The geographical position of the companies was also very important since we wanted a personal interview, i.e. companies that were easy to visit. We did not want to restrict our study to only one business sector because there are significant differences between different business sectors in how they were affected by the economic crisis. To create a fair comparability in the essay we had to demarcate ourselves and decided to interview only services companies in Gothenburg, which means that when we selected companies we made sure that they were service companies. Since this is the first time someone have made a study in this area in Sweden it was difficult to go through this unexplored and hence underresearched subject. As this subject is new to research, we as researchers of this thesis have struggled as there were no previous research to guide us.

3.3 Interviews

Our objective with interviews is to obtain a deeper understanding in our research area but also receive the respondents' view of the problem. To get a differentiated approach to the studied area, we have interviewed two business managers and one accountant. This way we get two different perspectives that increase reliability, completeness and precision of the results.

3.3.1 Data collection

As already mentioned our selected subject is not a well researched area and therefore it was important for us to have primary data. Primary data is data collected for the first time (Baines, Fill & Page, 2011). One advantage with primary data is that collected data provide a current image of the selected area and therefore the collected data will be directly applicable to our problem definition. We also know that the information is not distorted or changed along the way since it is first-hand information (Patel and Davidson, 2011). We have collected and used primary data in the form of interviews to create a deeper understanding in which accounting choices SME made during the financial crisis. It also increases the possibility that the essay will result in new knowledge contribution.

3.3.2 Interview methods

We contacted all our respondents through email where we briefly described what we are researching and also asked if they wanted to participate in the survey. We wanted to interview the person who possesses this knowledge. We also felt that it is advantageous if the respondents before the interview had the opportunity to reflect on their actions during this period. All the interviews were conducted in each of the company's offices. We were two interviewers, one of us asked the questions and ran the interview forward and the other one wrote down the most central and interesting answers. The goal of using a main interviewer was to increase the focus on the conversation, but also that the respondent would feel relaxed. This allows the respondent speaks freely and thus provides more open and "better" answers. All the important details and the answers were remembered since the other person focused on taking notes. We finished the interview by ensuring it is possible to return to the respondent if it would occur new questions that we felt needed clarification. We also made sure if they wanted to remain anonymous, which the auditor demanded.

Our interview questions to the companies differed from those that were asked to the auditor, since they possess different kind of knowledge but also have different professions. The interviews with the respondents were completely standardized interviews. This means that we asked identical questions in exactly same order to each respondent. By using this method it is easier to compare and generalize the companies and their answers. Our interview questions had a small structure, which means that they were formulated in way were all our respondents had maximum space to respond within. This also gives the respondent the opportunity to talk freely about their knowledge. This is how the interviews provide a more detailed picture. In summary we applied semi-structured interview which means high standardized interviews and low structure in our questions, this characterize that our interviews were qualitative. By using qualitative interviews our working method in the research is inductively. The purpose with this method is to discover and identify the qualities and character of the respondent (Patel and Davidson, 2011), which we are very interested in since we wanted to see what the respondents' perceptions are in our studied area. Another advantage with qualitative interviews is that they generate different type of information and give the reader a "thick description" i.e. give the reader a better understanding of the interpreted (Patel and Davidson 2011).

3.4 Secondary data

It is important to have a secondary data but also to be source critical in collecting the data, this will all be presented in this section.

3.4.1 Data collection

To get our research question answered we had to collect available data, also called secondary data. That can be made in several ways for example by different forms of self reports, attitude scales, observation, interviews, surveys, literatures and existing documents, tests and examinations. There is no ultimate way of gathering data. We have chosen to collect secondary data from books, scientific articles and electronic sources because these sources give us the best answer to our research question. We are also considering the time and resources that is available (Patel and Davidsson 2011). Secondary data is a good way of collecting data that saves time, money and is a great way to get background information for the collection of empirical evidence (Bryman and Bell, 2005). We believe that the combination of primary and secondary data that we have collected will provide a sufficient basis to answer our research questions and that the secondary data will complete the primary data.

Our secondary data consist of printed sources such as books, scientific articles, but also of electronic sources such as websites and databases. The literature is included in the theoretical framework while the selected companies' annual reports are used to supplement the interviews in the empirical evidence. To search for our secondary data we used mainly the University Library and Google Scholar to get an idea of which sources other researchers most frequently referred to.

3.4.2 Source critic

We have been very critical in selection of sources during our research. Our mentor, librarians and a language mentor to ensure that the chosen literature is relevant and credible, this has supported us in our critical review. This is done by selecting articles that are most cited by other researchers. Since our research area is not well explored it has been extra important for us to be critical in the selection of scientific articles.

4. Empirical evidence

In this section we are going to present a selection of the data obtained during the interviews that has conducted. The selection is based on relevant information for the studied area. We start by briefly describing the business activities of the companies. We also exhibit how and which accounting choices each company did during the financial crisis. We present all the information company by company.

4.1 Our selected companies

In this section we will introduce the companies that we have selected. The two chosen companies go under the definition of SME that can be found in our theoretical framework and are located in Gothenburg. We interviewed one company (Svenska GMK AB) that fared well during the crisis and the other company (Bellis Växtmiljö AB) who got adversely affected. Both of these companies are service companies. We will also present what accounting choices Bellis and GMK made during the financial crisis. Both of the interviewed CEOs told us that they did not change their accounting methods during the crisis, although there are certain posts that became important during this period. We are going to focus on the posts that were extra important in this period according to all of our three interviewed people, which are also presented in the theoretical framework.

4.1.2 Bellis Växtmiljö AB

Bellis Växtmiljö's core business is to sell plantings in pots to other companies and public areas, where they have a service contract for maintenance of the plants. One third of the revenue comes from sales of the product planting plus pot and two thirds comes from the subsequent service. This makes Bellis Växtmiljö a service company. Bellis started in 1982 and at that time they were a total of two full time workers and one half time employee. Now, 33 years later, they are 25 employees and have only one owner which is the CEO. Bellis Växtmiljö's net sales amounts about SEK 14.5 million that make Bellis the largest operator in the industry by a wide margin. The largest competitor in the same activity has 9 million in sales. Profit for each year the past few years have been just over 300 000 SEK. Today Bellis is serving plants at more than 1100 companies, with over 21000 plant arrangements. Bellis CEO is sole owner of the company and it is a non-listed limited company (CEO of Bellis; Bellis website).

	2008	2009	2010	2011	2012
Net Sales	16 727	15 329	14 590	14 518	14 082
Income of the period	344	411	488	472	362

All figures in thousand

Figure 4: Bellis Växtmiljö's net sales and income 2008-2012. Source: *Retriever Business database.*

Historically, 2007 and 2008 were historically the best years of Bellis, then “the air went out of the business”, says Bellis CEO, Gösta Sundström. Further, he says that the industry is certainly sensitive to economic cycles. The entire industry has had big trouble recovering from the recession in late 2008. He is still hoping for a recovery, but it seems to be going very slow.

4.1.2.1 Decision making

Bellis Växtmiljö is a company that makes their decisions fast because this give more results than waiting. If a problem is discovered through a quarterly financial statement or in any other way it is important to correct this problem as soon as possible, says Bellis CEO. According to the CEO they make decisions in this way because at Bellis they have good control over the business and can see almost everything that is happening in the company through their database. They focus a lot on costs which they can see through monthly financial statements which are analyzed and monitored. However, each quarter Bellis does an extra tight control of the company's financial position because customers are billed on a quarterly basis to reduce paper usage and billing work. This makes it easy for companies to make decisions. It is the owner of Bellis who make the final decision, which in this case is the CEO but because of the lack of knowledge he get some help to make the decisions. Bellis sits together with the auditor and the person in the company who is responsible for the area in question and makes decisions together, however the last word is up to the CEO.

4.1.2.2 Accounting choices

Bellis did not make any significant changes in accounting choices because of the restrictive laws but also because of lack of knowledge in the area. In a company like Bellis the most significant external stakeholders are the tax authority and their suppliers, since they do not have any bank loans. Towards this background, the following posts are of the greatest importance for the company. In bad times the information towards the lenders and suppliers becomes more important, since the company in such times have to prove their liquidity and solvency to get further finance. In good times on the other hand, the information to the tax authority becomes more important, because the company then reports a larger profit which the state wants to tax. Bellis CEO told us that to prevent large taxes when they report large profits the CEO gives himself a larger salary that year. These stakeholders are important but they do not affect their accounting choices much.

4.1.2.3 Cost accounting

This post was very important during the crisis since Bellis want to reduce costs with the decreased income. In service companies the post “personal costs” is very important since it is their largest cost. During the financial crisis this post were highlighted and got a lot of attention. It is both their largest “asset” in good times and their largest cost in bad times. To reduce the personal cost Bellis had to terminate two employees. When we asked Bellis CEO if there was something he would have done differently during the crisis if he got the chance he answered that they should have reduced the number of employees faster. CEO often knows the employees in person which make it harder to terminate them. The CEO of Bellis told us that they could have managed the crisis better if they terminated just two employees. Bellis chose not to do so since they set a value in allowing those who have worked for the company long should feel safe, being able to work on until the date of retirement.

We also asked Bellis about their depreciation time, the CEO told us that they depreciate after recorded in the books depreciation (Räkenskapsenlig avskrivning) where the depreciation time is five years. They choose not to revalue their depreciation time.

4.1.2.4 Inventories

In a normal year Bellis Växtmiljö turnover inventories to a value of about 1 million SEK. Inflow and outflow is conducted continuously and fast and has thus no major impact on the business and its accounting. According to Bellis CEO they decreased their inventories with the reduced revenues. It was not hard to do this as they bought inventories in short intervals. Bellis CEO also mentioned that the cost of having inventories is much cheaper today, and

therefore the inventories is not a big burden. Bellis valued their inventories under LVP, which always became acquisition value.

4.1.2.5 Accounts receivable

Bellis ranked accounts receivable one of the most important posts during the economic crisis. It was important to have shorter credit terms, send reminders and call those who did not pay in time. It was also important to receive money as fast as they could, because during this period many companies went bankrupt said the CEO. Bellis were extra urgent to get their payments in time during the crisis to avoid having claims. They estimate their doubtful receivables to between 50 000 and 70 000 SEK per year, which they think is relatively little compared to the total sales of over 14 million SEK. They did not notice any significant increase in accounts receivable during the crisis.

4.1.2.6 Debts

Bellis Växtmiljö has no loans in the bank. The CEO is proud of not having to take any loans to run the business (the building, however, is mortgaged to almost 50 %, but is owned by Bellishuset AB, a company for itself which leases the facilities to Bellis Växtmiljö AB). However, they do have continuous personal contact with their bank which then is mostly about liquidity and their current accounts at the bank.

4.1.3 Svenska GMK AB

GMK is an employment agency that provides competent labor in maintenance and outages in heavy industries like paraffin, nuclear power plants, vehicle etc. (GMK website). The company is located in Gothenburg and has six permanent employees in administration and around sixty employees in average on an annual basis. Under the peak seasons the number of staff can reach up to a maximum of 100 workers and in low seasons they may reach a minimum of 20 employees. GMK has two owners where they share 50% each of the stocks. One of the owners is the CEO and the other is operating manager at GMK.

GMK is not cyclically sensitive since the business they operate in needs this kind of service even in times of crisis (Interview GMK). This can also be confirmed by looking at their annual reports. The financial crisis started in late 2008 which means that the numbers from 2008 and 2009 can be almost unaffected by the crisis, hence the numbers from 2010 and forward are the most interesting.

	2008	2009	2010	2011	2012
Net Sales	15 744	23 266	18 507	30 373	43 814
Income of the period	829	1 704	1 265	3 242	2 423

All figures in thousand

Figure 5: Svenska GMKs net sales and income 2008-2012. Source: *Retriever Business database.*

GMK managed to increase the income and net sales between 2008 and 2009. This decreased in 2010 to later increase again in 2011. (Retriever database)

4.1.3.1 Decision making

GMK prefers to wait as long as possible to make important decisions to see how the situation unfolds, unless the ship is sinking, then you have to make a decision fast, says Håkan

Schramm, CEO. GMK told us that formal ways to make decisions only occurs in really big companies and therefore they use this way to make significant decision.

GMK has easy access to their cost accounting and focus a lot on them too, therefore they have good control over it. This makes it easy for the companies to take decision. The CEO told us that it is the owner who takes the final decision but often take some financial advice because of the lack of knowledge the CEO have.

4.1.3.2 Accounting choices

GMK did not do any great changes in their accounting choices since it went well for them, they felt that they did not need to be concerned about it. As already mentioned it is the tax authority that becomes the most interesting stakeholders. Since it went well for GMK during the crisis they wanted to avoid paying high tax expenses. To do so they made accounting choices such as investing in better office environment but also arrange international conferences. GMK do not feel that they have pressure from their stakeholders to produce an informative financial report. Even though they have not suffered from the financial crisis they were afraid that the situation would change and they were careful when making accounting choices.

4.1.3.3 Cost accounting

For GMK this post was not current because it was not necessary for them to reduce employees since they fared well during the crisis, they got adversely affected by an excess of job seekers because many construction workers became unemployed from other industries. This post is the most important post for them. GMKs CEO said if it went bad for them they would consider if they were going to terminate employees, but also here it is hard to fire colleagues because of the relationship they have to each other. They also said that another factor that makes it harder to terminate employees is the expertise that the staff possesses. This can sometimes make it costly to terminate people and not have time to re-employ them in time compared with the expenses of having too many employees.

GMKs CEO, Håkan Schramm told us that through the crisis they were extra careful with the costs, for example working clothes that are a big expense for them. They chose to buy working clothes only when needed while in good times they are used to buy big quantity to have in stock.

4.1.3.4 Inventories

GMK does not have any inventory.

4.1.3.5 Accounts receivable

GMK's CEO had a very positive view of their customers and their ability to pay. For ten years at his work he had never experienced that a company does not pay, unless it goes bankrupt. They think it was important to have shorter credit terms, send reminders and call those who didn't pay in time. In the end GMK did no impairment of the value of accounts receivable, since doubtful accounts receivable was no problem for them.

4.1.3.6 Debts

GMK have no loans or leasing contracts. The reason to this is that they always want to be able to quickly reduce costs in economic recessions, and not having to be tied to long loan contracts. GMK do also have continuous contact with their bank, especially during peak season when liquidity tends to be strained (interview GMK).

5. Analysis

In this chapter we are going to analyze our empirical evidence as presented in chapter four connected to the frame of references from chapter two. The discussion will consist of four factors that affect the accounting choices in SME. These four factors are a development of our model that in its turn is colored by the subsequent methodology and empirical evidence.

5.1 Regulations

According to Blomqvist (2008) and our interviewed CEO at Bellis the Swedish law in accounting is restrictive. Every post in the financial statement and balance sheet is regulated in the Swedish annual accountant's act and the restrictiveness differs from post to post. The matching principle and precautionary principle are examples of accounting that give very little space for SME to make accounting debauchery.

5.2 Stakeholders

Large companies have many stakeholders such as customers, lender, supplier and shareholders and the financial statements are influenced by these stakeholders' interests (Thomasson; Arvidsson; Carrington; Johed, 2010). Different stakeholders become important in different financial situations. They differ regarding demand of economic information and knowledge to interpret it (Beaver, 1998). Page (1984) mentions that the primary stakeholders in SME are the manager, the bank and tax agency. SME do not have public shareholders which are a group of stakeholders with great importance for form of the report, while big companies design their financial reports mainly for current and potential shareholders (Thomasson; Arvidsson; Carrington; Johed, 2010). This causes no pressure from the external stakeholder to force SME to produce an informative report. The CEO at Bellis said that during the financial crisis they had a little pressure from the external shareholders. He mentioned that in bad times the relationship with the bank becomes important for SME. Bellis do not have any bank loan to run the business so this pressure was not something they worried about. GMK on the other hand fared well during the crisis and said that in good times the tax agency is a stakeholder that put pressure. GMK wants to avoid paying high taxes so they invest in new coffee machines or make expensive conferences. The CEO told us since this good period were under the financial crisis they were very careful in making new investment because the market was uncertain

5.3 Focus on the business

The Swedish law is restrictive (Blomqvist, 2008; CEO at Bellis) which causes companies to focus more on management control than accounting. This can be seen in Bellis way of handling personal cost. They chose to have poor financial statement rather than terminate employees. They focus on developing their core business and being a good employer to its employees. To keep a good reputation is an important incentive to make good decisions (Dechow, 1994). Our respondents said that they have a good control over their bossiness, cost, competitors, and their financial statement. According to them this information is to see how the bossiness is going and how they can ameliorate their business. Blomqvist (2008) says in her thesis that in non-growing companies the CEOs are not as active in accounting and the financial statement compared with the CEOs in growing companies that are twice as active in the process. Since our research companies are non-growing firms the CEOs are not interested in accounting. In SME the manager prioritize to have a familiar atmosphere with high trust and open communication (Wilkinson, 1999).

We presented a model in the theoretical framework called the normative model that shows us formal and informal ways of taking decision. The CEOs at Bellis and GMK and Wilkinson

(1999) says that SME often use informal ways to make important decision. SME also use informal management and control (Daily; Dollinger, 1992; Brunåker, 1996; Goffee, 1996). Both our respondents from the companies confirmed that they use informal ways for decision making but at the same time they take advices from someone who possesses knowledge in the regarded area. This is because the CEO does not have the full knowledge about accounting (Blomqvist 2008 and the CEOs at Bellis and GMK) which makes it harder to make accounting choices that would benefit them. The fact that the CEO is the one making the final decision (CEOs at Bellis and GMK) makes the situation harder and impact on their financial statement. This is not only because of the CEO's lack of knowledge but also because of that the decision making depends a lot on personality of the decision maker (Edlund; Högberg; Leonardz, 1999). Here follows some examples of how personality affects our interviewed CEOs decision making. One of the examples is the way GMK sees their accounts receivable compared to Bellis. Bellis have a more cautious view of their accounts receivable than GMK that are optimistic and always expect their customer to pay in the future. Another example is the different view Bellis and GMK have on the consequence model.

We presented the consequence model in chapter two which describes the benefits of making decision fast under uncertainty (Krogerus; Tschäppeler, 2013). Bellis make their decision fast and GMK waits until it is really necessary. Important decision on accounting choices in SME can implement at different time which affect the financial statement.

In summary these analyzed areas can be divided into two factors; internal factors and external factors, which will be discussed in the next chapter.

6. Conclusion

This chapter aims to summarize the main conclusions from the earlier analysis. Here we will give our answer to the research question. The conclusion contains a brief discussion of the interesting areas identified in the analysis, which can provide ideas for further research. The areas that are presented in the analysis can be sorted into two groups; external and internal factors. Remember that this conclusion only can be applied on this two specific companies and not SME in general.

6.1 External factors

Accounting is traditionally linked to external factors since the financial reports are made to give information to external stakeholders, but when it comes to the choices internal factors also have a great impact.

6.1.1 Regulations

What was discussed in the analysis was how hard it can be for SME to make different accounting choices because of the regulations (Blomkvist, 2008, CEO at Bellis). This gives little space for small and medium size companies to make different accounting choices.

6.1.2 Stakeholders

Large companies design their financial report to their shareholders and potential shareholders (Thomasson; Arvidsson; Carrington; Johed, 2010). SME do not have shareholders (Page, 1984) and have not much pressure from external stakeholders and therefore SME are not motivated to develop satisfying financial report (CEOs at Bellis and GMK).

6.2 Internal factors

In the initial phase of this paper we thought that external factors would be the main impact factors for accounting choices in SME. Through the process with this paper we discovered that internal factors had a more decisive role than we first thought.

6.2.1 Focus on the business

The other factor that can be defined as an internal factor is the fact that managers in SME prefer to focus on the core business and the relations to the employees rather than spending time on accounting (Wilkinson, 1999). The CEOs gave us the impression that what was superordinate was to keep a going concern, and maintain a good working environment. According to our respondents they have a good control over the business, their costs and financial information but they rather use this information for management control. Since our research companies are not growing and are not interesting in growing they do neither have CEOs active in the year-end procedure according to Blomkvist (2008), and this is also what we have seen through this study. SME manager prioritize a familiar atmosphere (Wilkinson 1999), and a continued good reputation is an incitement to make good choices (Dechow, 1994).

Accounting choices depends partly on decision-making. Different person solve same problems in different ways which according to Edlund, Högberg and Leonardz (1999) depends on experience, knowledge and personality of the decision maker, but also in which way the decision is made. The decision maker in SME is often the CEO (CEOs of Bellis and GMK). Blomqvist (2008) mention in her thesis that SME do not have the knowledge that is needed to make smart accounting choices which makes accounting a burden for them and they lose interest, this was also confirmed by our respondents. Lastly SME use informal ways for management and control and in decision making (CEOs at GMK and Bellis Wilkinson, 1999). These factors prevents for SME to make benefiting accounting choices.

Our conclusions are summarized in the figure below. In the beginning of this essay we presented a model in the theoretical framework, that model had four factors that affected accounting choices. Now when we have come so far we have changed that model to this model. We saw that SME get affected by three factors which are the internal factors, external factors and the financial crisis. Some of these factors did not put pressure for SME to make accounting choices and some of them influenced SME to focus on other stuff then the financial statement.



Figure 6: Model over our conclusion

Did SME make accounting choices during the financial crisis?

Considering these three categories of results, our conclusion is that CEOs in non growing SME are not interested in accounting choices neither in good or bad times. SME who fared well during were not more or less interested in accounting choices then SME who got affected bad from the crisis. Therefore few accounting choices were made during the financial crisis.

6.3 Further research

During our work with this paper we have discovered a few research areas that could be in need of further investigation since this is the first study that been made in Sweden. The same research we have done can be made in SME in several companies in Sweden. The same study we have done but in growing firms. Something that is not yet explored is how SME design their reports considering which stakeholder it is addressed to. One of these stakeholders is the tax agency that we have mentioned very briefly in this paper, but that would need a further research.

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<http://www.gmkservice.com>

APPENDIX 1

Intervju med revisor på KPMG
KPMGs kontor Norra Hamngatan 22, Göteborg
2015-04-09

Intervjufrågor

Information om respondenten

Får vi använda ditt namn i uppsatser eller vill du vara anonym?

Om företaget:

Verksamhet

Antal anställda i Göteborg

Är revisionsbranschen Konjunkturkänslig?

Hur hårt påverkades NI av finanskrisen?

Hur påverkades er bransch av krisen?

Om kunderna:

- Har ni mest små eller stora företag som kunder?
- Vilka olika val kan/brukar små företag göra i sin redovisning? (Så som val kring kostnad/intäkt, avsättningar, amorteringar, varulager + goodwill och företagsförvärv)
- Såg ni några förändringar i redovisningsval i samband med finanskrisen (under 2008 eller därefter)?
- På vilka grunder gjorde de sina val/ändringar av sina redovisningsval?
- Hur fattar företaget/redovisaren sådana beslut?
- Hur ser den beslutsprocessen ut?
- Hur fattar ni sådana beslut?
- VEM fattar beslutet?
- Påverkades företagen av några nya regleringar som följd av finanskrisen?
- Vad har ni lärt er av finanskrisen?
- Ser ni någon bransch som har förändrats mer än andra av krisen?
- Såg ni något mönster bland små företag under och efter finanskrisen?
- Vilka nyckeltal/redovisningsposter är relevanta för att ge en indikation om hur ett företag har klarat sig konjunkturmässigt?
- De som klarade sig bra under krisen: gjorde de något annorlunda i sin redovisning jämfört med de som klarade sig sämre (påverkades negativt av krisen)?
- Hur ser du på svensk redovisnings framtid? (trender, förändringar o.s.v.)

APPENDIX 2

Intervju 1

Gösta Sundström, VD Bellis Växtmiljö AB
Gamla Kronvägen 8, Partille
2015-04-03

Intervju 2

Håkan Schramm, VD Svenska GMK
Åskvädersgatan 13, Göteborg
2015-04-14

Intervjufrågor

Information om respondenten

- Formalia
- Verksamhet
- Omsättning
- Ägandeformen
- Antal anställda i Göteborg

Om företaget

- Är branschen Konjunkturkänslig?
- Hur hårt påverkades NI av finanskrisen?
- Hur påverkades er bransch av krisen?
- Vilka olika val kan ni göra i er redovisning? (Så som val kring kostnad/intäkt, lån, varulager, kundfordringar, övriga poster ni tycker är viktiga)
- Vilka poster tycker ni är viktiga?
- Ändrade ni era redovisningsval i samband med finanskrisen (under 2008 eller därefter)?
- Hur fattar ni sådana beslut?
- VEM fattar beslutet hos er?
- Påverkades företagen av några nya regleringar som följd av finanskrisen?
- Vad har ni lärt er av finanskrisen?
- Skulle ni med facit i hand kunnat göra något annorlunda?
- Vilka nyckeltal/redovisningsposter är relevanta för att ge en indikation om hur ert företag har klarat sig konjunkturmässigt?