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An Examination of Accounting Practices and Challenges of Microbusinesses: Empirical Evidence from Scotland

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Abstract

In Scotland, there are more than 94% of enterprises which are defined as microbusinesses. Previous studies have thoroughly investigated accounting practices in SME sector internationally in addition to the UK. However, despite the prevalence of microbusinesses in Scotland, there is a lack of literature on the accounting practices and the particular challenges microbusiness face. To fill this gap, this study examines the accounting practices of microbusinesses and their challenges. An in-depth interview technique is used as a method of data collection, where we wanted to understand ‘what’, ‘why’ and ‘how’ in relation to this phenomenon.

Results suggest that the majority of microbusinesses used single entry bookkeeping and cash basis accounting. Furthermore, cost, knowledge of owners, time constraints emerged as key challenges of proper record keeping. In some cases, the calculation of profit and loss does not reflect the actual profit and loss for the business.

Overall, this study provides a number of policy implications. Thus, the Government and non-government agencies can use the information from this research to provide training in relation to accounting practices to microbusiness owners and managers. Training would help microbusinesses more accurately record transactions and hence allow for better decision making.

Keywords - Microbusiness, accounting practices, challenges, record keeping.

Introduction

Microbusinesses are a very important segment of the economy. In 2017, there were 1.11m microbusinesses that accounted for £552bn in sales, which is 14.7% of sales by all the UK firms (Enterprise Research Centre, 2018). It is an important segment of the business as it provides job opportunities especially those with low- income (Ramli et al., 2017). To explore the area of microbusinesses, it deems necessary to understand the definition of microbusiness in Scotland.

Microbusinesses, according to the European Commission (2015, p.11) are:

“enterprises that employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed EUR 2 million.”

According to the Federation of Small Businesses (2012), in the Scottish economy, more than 94% of enterprises are microbusinesses and they account for 27% of the private sector jobs. Thus, it can be seen that microbusinesses play a very important role in the Scottish economy. However, starting up and running microbusinesses in general presents many problems and difficulties. Perren (1999) addressed that microbusinesses need more tailored and timely support rather than set of policies, which may be wasteful and not addressing the real needs of the business. In Scotland, The Office of the Chief Economic Adviser (2016) reported a number of issues (taxation, VAT, PAYE, national insurance, late payment and, obtaining finance). These are seen as obstacles to the success of SMEs (of which microbusinesses are a category). However, this report does not provide evidence on the specific accounting practices and challenges that microbusiness face. Moreover, to date, we did not come across any specific studies that focus on microbusinesses accounting practices in Scotland.

We acknowledge the existence of a number of studies that focus on microbusinesses accounting practices in other countries and some useful insights can be gained from this body of research. During the pilot interview stage, we uncovered that most of the microbusinesses are very reluctant to their accounting practices.

The paper is structured as follows. In the next section, the literature review of accounting practices and challenges from across the world, But this area is not widely explored and there are few articles which specifically focus on microbusinesses. Nevertheless, we gain insights from articles relating to small and medium enterprises. Thereafter, we discuss the research methodology. The paper concludes with research findings and recommendations.

Defining Microbusinesses

While identifying microbusinesses different authors used different matrices such as number of employees, turnover, asset base and types of business (Ankrah, Mensah and Ofori-Atta., 2015; Blackburn and Jarvis, 2010; Kirby, Najak and Greene, 1998). Moreover, microbusinesses are related to a diversified area of business, which creates a further difficulty in exactly defining the term.

The Commission Recommendation (2003), to determine if a business qualifies as micro, small or medium-sized, stipulates that factors such as staff headcount and turnover or balance sheet total, need to be specified. The table below provides a clear classification of Small and Medium Enterprises (SMEs), as defined by the EU Commission.

Table 1: Classification of SMEs in the European Union				
Category	No. of Employees	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: Commission Recommendation (2003)

Whilst many studies have adopted this classification, it is recognised in the U.K., that the profit or turnover element can be challenging especially given that many microbusinesses have relatively low turnovers or balance sheet total. The Office for National Statistics (2017) and the Department for Business, Energy and Industrial Strategy (2019) both officially classify businesses of 1–9 employees as being microbusinesses. All participants in our study have less than 10 employees. Thus, for us any business with less than 10 employees is recognised as a microbusiness.

Issues and Problems of Microbusinesses Accounting Practices

A number of studies have investigated accounting practices in SMEs in different countries and regions (e.g. Abeygunasekera and Fonseka, 2013; Abrahman et al., 2015; Agbemava et al, 2016; Amoako, 2013; Aniefor, 2013; Boame, Solace and Issaka, 2014; Esmeray, 2016; Fagbemi and Olaoye, 2016; Grande, Estebanez and Colomina, 2011; Ibarra and Velasco, 2015; Ismail and King, 2007; Ismail and Zin, 2009; Lucas, Prowle and Lowth, 2013; Madurapperuma, Thilakerathne, Manawadu, 2016; Marriott and Marriott, 2000; Maseko and Manyani, 2011; Musah and Ibrahim, 2014; Mutua, 2015; Mwakujonga and Bwana, 2013; Padachi, 2012; Perera and Chand, 2015; Solanke, Fashagba and Okpanachi, 2016; Smirat, 2013) and, only a limited number of studies focused on small businesses (e.g. Abdul-

Rahamon and Adejare, 2014; Ademola, Olukotun, James and Olore, 2012; Ankrah, Mensah and Ofori-Atta, 2015; Akesinro and Adetoso, 2016; Argiles and Slof, 2003; Dawuda and Azeko, 2015; Dyt and Halabi, 2007; Ezejiofor, Emmanuel and Olise, 2014; Fagbemi and Olaoye, 2016; Halabi, Barrett and Dyt, 2010; Mitchell and Reid, 2000; Muhindo, Mzuza and Zhou, 2014). Ramli et al. (2017) carried out a study, which is focused on microbusinesses in Malaysia, but we did not come across any studies focused on microbusinesses accounting practices in Scotland. Gherhes et al. (2016) stated that the SMEs term is too homogeneous and does not address the challenges the microbusinesses face. Most of the studies focus on SMEs and less is known about fewer than 10 employees (Gherhes, 2016).

Ramli et al. (2017) found that most of microbusinesses do not keep complete accounting records and some of microbusinesses do not keep accounting records at all. Meanwhile, According to Mwakujonga and Bwana (2013), most SMEs used an external financial expert to prepare financial information. Therefore, we became interested to explore this phenomenon.

We accept the fact that most of the studies are related to SMEs accounting practices in other countries. Based on this gap, the current study strives to answer the following question: what are the accounting practices and challenges of microbusinesses in Scotland? To answer this research question, we set out the following objectives:

1. Explore the accounting practices used by microbusinesses.
2. Critically evaluate the challenges and the factors that hinder the utilisation of accounting practices by microbusinesses.

Microbusinesses Accounting Practices

As noted, the majority of the previous studies have focused on SMEs with the majority of work undertaken in an emerging markets context. Relatively few studies been found that focus on developed countries (e.g. Argiles and Slof, 2003; Halabi et al., 2010; Grande, Estebanez and Colomina, 2011; Marriott and Marriott, 2000) with no study concentrating on a Scottish environment.

Halabi et al. (2010) found that most of the small businesses in their study only had a very basic understanding of accounting information. In some cases, business owners did not know how to use the record keeping (Ademola et al., 2012). In Ghana, it was observed by (Ankrah, Mensah and Ofori-Atta, (2015) that most of the small businesses do not buy goods on credit.

Most of the microbusinesses prefer cash basis accounting (Ibarra and Velasco, 2015; Maseko and Manyani, 2011).

The European Commission (2008) recommends that small businesses' bookkeeping should be prepared on an accrual basis, because it provides a more complete picture of the financial position compared to cash basis bookkeeping. However, they acknowledge that, for most of the micro and very small businesses, it might be more suitable to practice cash basis accounting (European Commission, 2008). In terms of bookkeeping, most of the businesses use single entry bookkeeping as it is convenient to use and they mostly record income and expenses (Ademola et al., 2012; Agbemava et al., 2016; Chelimo and Sophia, 2014). Single entry bookkeeping is considered justifiable when there are not many transactions in a microbusiness (European Commission, 2008). Mwakujonga and Bwana (2013) found that SMEs in their study did not even analyse whether their businesses broke even. Most of small businesses applied informal assessments to measure the business performance, such as cash in the bank (Halabi et al., 2010). A study by Ademola et al. (2012) discovered that the majority of respondents did not know how to carry out the record keeping. Most of the small owner-managed businesses and SMEs rely on their accountant to produce financial information (Mwakujonga and Bwana, 2013; Sian and Roberts, 2009). Therefore, they are often left puzzled about the information generated (Sian and Roberts, 2009).

Importance of Record Keeping

In general, when it comes to the importance of record keeping, Maseko and Manyani (2011, p.180) recommended that in Ghana:

“Record keeping in SMEs must be made mandatory to improve their accounting practices and increase chances of them formalizing their business operation”

Using record-keeping is important for many reasons such as to evaluate the performance of the business (Abdul-Rahamon and Adejare, 2014; Aniefor, 2013; Ankrah, Mensah and Ofori-Atta, 2015; Boame, Solace and Issaka, 2014; Chelimo and Sophia, 2014; Musah and Ibrahim, 2014; Mutua, 2015; Solanke, Fashagba and Okpanachi, 2016) and to protect from theft (Abdul-Rahamon and Adejare, 2014; Abraham et al., 2015; Ankrah, Mensah and Ofori-Atta, 2015). Proper accounting records can facilitate appropriate, timely decision making, which helps to boost the performance of the small business (Abdul-Rahamon and Adejare, 2014; Ezejiofor, Emmanuel and Olise, 2014; Mutua, 2015).

Several studies found that many small businesses accepted that there are many benefits of keeping proper accounts, and it helps to determine the financial position of the businesses for decision making and planning (Dawuda and Azeko, 2015; Ezejiofor, Emmanuel and Olise, 2014; Mutua, 2015). Agbemava et al. (2016) discovered that the preparation of financial statements may contribute greatly to the growth of small and medium businesses. Chelimo and Sophia (2012) found bookkeeping helps SMEs to understand the financial position and profitability of the businesses. In addition, it can assist in generating increases in productivity and efficiency and also increases the chances of the business operating and achieving success.

Challenges Faced by Microbusinesses to Comply with Accounting Practices

Factors leading to success or failure of the small businesses are categorised as internal or external factors. The external factors are (government regulations, technology, financing facilities, economic conditions, competition and environmental factors). Internal factors include managerial skills, the accounting system, the workforce and financial management practices (Padachi, 2012).

The accounting department is a very important unit for any business to provide information on cost and performance indicators to support the business operation (Padachi, 2012). Many studies found that medium, small and microbusinesses are not complying with proper accounting record keeping (Ademola et al., 2012; Ankrah, Mensah and Ofori-Atta, 2015; Ramli et al, 2017; Solanke, Fashagba and Okpanachi, 2016).

Moreover, Ankrah, Mensah and Ofori-Atta (2015) observed that most small businesses who had experienced a loss were not able to explain the reasons for their business failure, partially due to not having adequate accounting records. It has also been found that many SMEs' owners and managers are not aware that accounting information can be used for proper decision making, to measure performance, financial position and growth (Mwakujonga and Bwana, 2013).

Several studies have identified the cost as one of the challenges to following accounting standards and is the reason for non-compliance with standards and accounting practices (Abeygunasekera and Fonseka, 2013; Agbemava et al., 2016; Akesinro and Adetoso, 2016; Amoako, 2013; Ankrah, Mensah and Ofori-Atta, 2015; Dawuda and Azeko, 2015; Madurapperuma, Thilakerathne and Manawadu, 2016; Maseko and Manyani, 2011; Mitchell and Reid, 2000). Owners' literacy is another major challenge to proper accounting record keeping (Abeygunasekera and Fonseka, 2013; Ankrah, Mensah and Ofori-Atta 2015;

Dawuda and Azeko, 2015; Esmeray, 2016; Halabi et al., 2010; Padachi, 2012; Boame, Solace and Issaka, 2014; Dawuda and Azeko, 2015; Musah and Ibrahim, 2014; Mwakujonga and Bwana, 2013; Madurapperuma, Thilakerathne and Manawadu, 2016). Lack of guidelines or knowledge of accounting regulations has been identified as one of the challenges for proper record keeping (Madurapperuma, Thilakerathne and Manawadu, 2016; Maseko and Manyani, 2011). It has been found that experienced owners are more willing to use accounting information (Argiles and Slob, 2003).

Padachi (2012) and Argiles and Slob (2003) found bigger organisation are more willing to use accounting information compared to very small and small firms. However, Abeygunasekera and Fonseka (2013) did not find any relationship between the relevance of standards and guidelines and non-compliance with standard accounting practices in Sri Lanka. Most of the accounting textbooks focus on large firms, as they need to report to their stakeholders; this information may not be particularly relevant to small firms (Halabi, 2010).

Many studies have also found that financial record keeping is time-consuming and it is one of the constraints in keeping proper accounting records (Ademola et al., 2012; Agbemava et al., 2016; Amoako, 2013; Boame, Solace and Issaka, 2014; Dawuda and Azeko, 2015; Madurapperuma, Thilakerathne and Manawadu, 2016; Maseko and Manyani, 2011).

Dawuda and Azeko (2015) identified fear of exposing the business to tax as one of the major reasons which accounted for the failure to keep records for the business. Amoako (2013) and Solanke, Fashagba and Okpanachi (2016) found that some of the SMEs regarded maintaining privacy as one of the challenges in record keeping.

Lack of accounting knowledge has been identified as one of the major reasons for not keeping proper accounting records (Ademola et al., 2012; Agbemava et al., 2016; Akesinro and Adetoso, 2016; Amoako, 2013; Dawuda and Azeko, 2015; Ibarra and Velasco, 2015; Maseko and Manyani, 2011; Solanke, Fashagba and Okpanachi, 2016). Moreover, Ademola et al. (2012) and Musah and Ibrahim (2014) observed that the tendency of some business owners to hold transactions in their memory rather than keeping any books of account leads to poor record keeping. In addition, Solanke, Fashagba and Okpanachi (2016) found that one of the reasons for not maintaining record-keeping was that no need for accounting records was perceived.

Dawuda and Azeko (2015) also found some of the owner-managers who were keeping accounting records received support from accountants, sales officers and consultants. Thus,

Dawuda and Azeko (2015) recommend that to improve the appreciation of record keeping, education on this issue should be given to small business owners to improve their attitudes and behaviour towards financial record keeping. Moreover, it has also been observed that sometimes non-compliance with standard accounting practices is not only due to inability to comply but also to the fact that individuals do not want to comply with them, even where they are able to (Abeygunasekera and Fonseka, 2013). Lack of interest in financial reports lead to the businesses not complying with standard accounting practices (Abeygunasekera and Fonseka, 2013). Even among the educated business owners, it has been found that not much importance is given to record keeping in the business; many owners find preparing accounting records takes away time that could be utilised for attending to customers (Musah and Ibrahim, 2014). Small businesses may fail to keep proper financial records, due to ignorance of the value of such record keeping (Dawuda and Azeko, 2015). Moreover, it has been found that many SMEs do not see financial information as important for decision making (Mwakujonga and Bwana, 2013). Ademola et al. (2012) concluded that sole ownership of the business was associated with not keeping proper accounting records. Padachi (2012) and Boame, Solace and Issaka (2014) point out that separating business from personal matters is a hurdle for accounting practices. Unsurprisingly, it has been observed that businesses with more non-family involvement tend to keep formal accounts, and the opposite tends to be the case where there is more family involvement (Padachi, 2012). Akesinro and Adetoso (2016) and Boame, Solace and Issaka (2014) concluded that neglect of record keeping is one of the challenges to the accounting practices for SMEs. Boame, Solace and Issaka (2014) also identified wilful misconduct as one of the challenges of accounting practice. Similarly, Akesinro and Adetoso (2016) identified corruption as one of the main reasons for poor accounting record keeping.

Table 2 summarises the main challenges to complying with accounting practices identified in this section

Table 2: Challenges to Comply with Accounting Practices	
Challenges	Sources
Cost	Abeygunasekera and Fonseka (2013); Agbemava et al. (2016); Akesinro and Adetoso (2016); Amoako (2013); Ankrah, Mensah and Ofori-Atta (2015); Dawuda and Azeko (2015); Madurapperuma, Thilakerathne and Manawadu (2016); Maseko and Manyani (2011); Mitchell and Reid, (2000).
Owners literacy	Ankrah, Mensah and Ofori-Atta (2015); Boame, Solace and Issaka (2014); Dawuda and Azeko (2015); Esmeray (2016); Dawuda and Azeko (2015); Halabiet al. (2010); Musah and Ibrahim (2014); Mwakujonga and Bwana (2013); Madurapperuma, Thilakerathne and Manawadu (2016); Padachi (2012).
Lack of time	Ademola et al. (2012); Agbemava et al. (2016); Amoako (2013); Boame, Solace and Issaka (2014); Dawuda and Azeko (2015); Madurapperuma, Thilakerathne and Manawadu (2016); Maseko and Manyani (2011).
Lack of accounting knowledge	Ademola et al. (2012); Agbemava et al. (2016); Akesinro and Adetoso (2016); Amoako (2013); Dawuda and Azeko, (2015); Ibarra and Velasco (2015); Maseko and Manyani (2011); Solanke, Fashagba and Okpanachi (2016).
Maintaining privacy	Amoako (2013) and Solanke, Fashagba and Okpanachi (2016).
Lack of guidelines	Madurapperuma, Thilakerathne and Manawadu (2016); Maseko and Manyani (2011).
Remembering transactions rather than recording	Musah and Ibrahim (2014) and Ademola et al. (2012).
Business exposed to taxation	Dawuda and Azeko (2015).

In Table 2, researchers noted that the cost, time, owner's literacy and lack of accounting knowledge are the main challenges to accounting practices. Thus, microbusinesses equally face those challenges.

Methodology of the Study

Due to the nature of the study, a qualitative method has been applied in this research. The data is collected in the form of words, not numbers (Brikci and Green, 2007). Its contribution is seen in the rich data that it produces (Mack et al., 2005). We identified interview as a method of data collection used in several other studies in the field (see Boame, Solace and Issaka, 2014; Parkinson, Riro and Waweru, 2015). The present study used semi-structured with 20 participants. A saturation was reached at the 17th interview, as confirmed by qualitative advocates on (Guest, Bunce and Johnson, 2006). Also, Creswell (1998) finds that, most common sample size is between 5 and 25 interviews. In this particular research, we found that 20 interviews were adequate as a sample size. The details of 20 participants have been provided in Table 3.

Participant	Gender	Education	Business Type	Length of interview	Location
1	Male	Certificate Level	Wedding decoration and video editing shop	49 minutes	Glasgow
2	Male	School Level	DIY and hardware shop	1:10 minutes	Paisley
3	Male	Sports Science and Nutrition	Health and sports supplements	54 minutes	Edinburgh
4	Female	BA (Hons) Arts	Tattoos and painting	34 minutes	Dundee
5	Male	Not available	Personalised and gift products	48 minutes	Aberdeen
6	Male	MBA	Convenience store	39 minutes	Aberdeen
7	Male	High School+ Work Experience + German language	Exotic animals and pet food and equipment	48 minutes	Paisley
8	Male	CIMA and Finance degree	Laundry	31 minutes	Edinburgh
9	Female	College	Florist shop	41 minutes	Edinburgh
10	Male	HND	Photography shop	58 minutes	Dundee
11	Male	BA(Hons) Psychology	Convenience store	51 minutes	Dundee
12	Male	College	Music retail	59 minutes	Paisley
13	Male	High School + training from his dad.	Tattoo studio	33 minutes	Glasgow
14	Female	'A' Levels	Personalised and custom-made baby wear	44 minutes	Ralston
15	Female	College	Art gallery and framing	55 minutes	Paisley
16	Male	College	Beauty-Ornaments	37 minutes	Paisley
17	Male	High School	Children's clothing shop	48 minutes	Paisley
18	Male	BSc (Hons)	Fast foods	53 minutes	Pollok
19	Male	Degree	Record shop	1:15 minutes	Paisley
20	Female	School	Clothing	1:05 minutes	Glasgow

The interview guide was developed from an interactive process combining the literature review and field work. A cyclical process has been adopted leading to a generation of study themes. These themes explore the types of accounting practice that microbusiness owners/managers consider as challenges they face in their accounting practices.

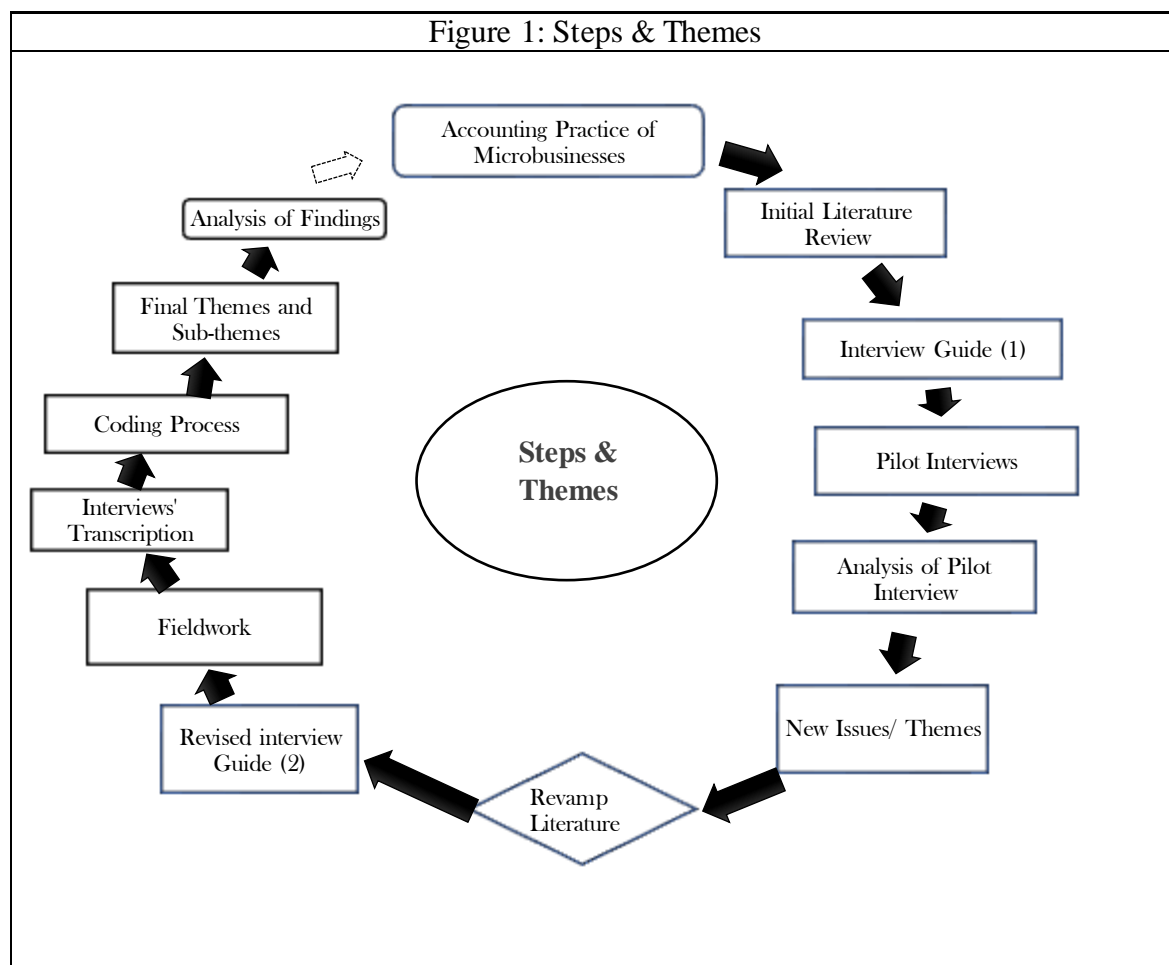
An initial analysis of the pilot study transcriptions were conducted to examine whether the interview guide included all the relevant themes. 4 interviews were carried out as a pilot study for a duration 25-55 minutes. With their permission obtained, the responses were recorded and transcribed into a word document file.

All participants in the research were informed, explained the purpose and its ethical considerations properly before carrying out any interviews as it is their right to know about the purpose and proposed outcome of the research (Walliman, 2011). Participants were also asked for their approval prior to the interview and informed about their right to withdraw at

any time during the process (Mack et al., 2005). A recording device was used to record interviews and ensure that records have been stored securely.

In the second step, we conducted a fieldwork and completed the rest of the procedures (recording, transcribing, coding and analysis). As advocated by Clark and Braun (2013), a thematic analysis was carried out. We tried to explore the phenomenon of microbusinesses accounting practices. Thematic analysis is the most appropriate method of data analysis for this research because the researchers looks across the data and patterns will emerge from the data after identifying issues (themes).

To ensure validity of the study, 2 authors got together and read transcriptions several times to verify the validity of the results and to ensure the research is achieving its objectives. Overarching themes, identified from literature review and fieldwork interviews, were grouped into the main themes and sub themes. We adopted a cyclic process to carry out this research which is outlined in figure 1.



In the third step, we analysed and summarised all the findings. We used three stages of coding and we started by sorting out data into categories (open coding). Establishing a relationship between those categories is (axial coding) and, developing the relationship between principal categories (selective coding). Coding started as soon as all interviews been transcribed. We used sequential numbering to identify each participant, so the privacy of the participants has been maintained.

Findings and Discussion

This study found a number of issues which are specifically related to microbusinesses. Most of microbusinesses do not engage in any credit transactions. They buy and sell on a cash basis because they have some negative experiences of selling on credit. Consequently, they stopped giving any credit to their customers. Because it's difficult for them to collect money. As expressed by participant 12:

“One time you trying to create goodwill..... there has been a couple of customers, not a lot of money but it has been a few customers who have taken advantage of it [credit sale] and just not come back.... that's a shame because the problem is you don't only lose the money, you don't only lose equipment, you lose customer because they don't come back and they feel embarrassed and they don't want to come.”

As one of findings, the following personal statements support the findings of existing studies (which were applied to SMEs, not microbusinesses) that most prefer cash transactions to run their business (Ankrah, Mensah and Ofori-Atta, 2015; Ibarra and Velasco, 2015 and Maseko and Manyani, 2011).

In relation to bookkeeping, the fieldwork investigation established that none of the microbusiness use double entry bookkeeping, because they record their transactions only once in their diary or spreadsheet or account book. Participant 1 pointed out the reason for this:

“Because see it's a small business, people who has big business they do it [double entry bookkeeping] you know. Because it's not worth for. It's not”

Ademola et al. (2012) and Chelimo and Sophia (2012) concluded that most small businesses use single entry bookkeeping. However, although the results in this study confirm the existing findings, it should be noted that these were focused on small businesses (Ademola et al., 2012) and small and medium businesses (Chelimo and Sophia, 2012), whereas this study investigates microbusinesses. It appears that most microbusinesses rely on their accountant to calculate profit and loss and they mostly use a simple record keeping such as noted above.

Microbusinesses use mostly their till records and supplier invoices to do their record keeping and provide those details to their accountant.

Participant- 20 explained that her business's system of record keeping thus:

"Record every payment goes through the till, till or a customer payby bank transfer. If it's like a customer who orders online or through email, so that's how it records and at the end of the month we have to put together at the end of the month"

In terms of calculating profit and loss, some microbusinesses justify their profit and loss according to their incoming and outgoing rather than considering details of income and expenses related to a specific period. Consequently, their calculation of profit and loss does not reflect the actual profit and loss for the business. Participant- 13 justified his calculation of profit and loss thus:

"You got a rough idea around your head like what's been paid out that week, what's came in that week and then end of the week in sort of tally up"

The fieldwork investigation showed that most microbusinesses were calculating their profit and loss statement using an inaccurate method. As a result, they were not obtaining an accurate statement of profit and loss for the business. The reason behind not preparing a profit and loss account was their failure to understand the necessity of monitoring the business regularly. Some of the microbusiness owners believed they could run their business based on their own ideas about profit and loss. For example, Participant- 5 said:

"You have a general idea [Profit and loss]. You don't need, to be quite frank, you don't need to, well only way you would be able to do that is if you have a software system that would start kicking in and print that out for you,"

Therefore, preparing a financial statement for only the statutory requirement rather than for monitoring the business is a newly emerged issue for microbusinesses.

Further, we identified a number of challenges related to accounting practices. Cost is one of the most mentioned challenges of accounting practices for microbusinesses. Other challenges mentioned by microbusiness owners included owner literacy, lack of time, lack of accounting knowledge, maintaining privacy, lack of guidelines. Participant- 13 mentioned that

"The time is a major factoring. So, obviously, we've only x amount of time in the day, where you. sometimes you've got quite a lot to get through... and obviously your day to day customer coming through the door as well so time can be a serious issue"

Time was also identified in the literature as one of the major constraints of record keeping (Table 2).

Concerns were raised in the literature about the different types of costs which prevented microbusiness from complying with standard accounting practices (Table 2). From the

existing studies, it has been found that many small and medium enterprises are not practising accounting practices correctly because of owner's literacy (Table 2).

Cost, time and owner's literacy have been raised in previous studies, but previous studies were not based on microbusinesses.

To deal with accounting challenges some of the microbusinesses seek external support such as bookkeepers and accountants to carry out their accounting practices. For instance, Participant- 19 mentioned that:

"I've got a personal friend who is bookkeeper...It just so happens that I have so much on and she said I will do all just give all to me that get rid of that aspect takes the hassle from me"

This is newly emerged factor because although some of the studies suggested different types of support were used to deal with accounting challenges, no papers were found which mentioned the type of support microbusinesses receive to deal with accounting challenges.

In terms of management accounting, most of the micro businesses use their own way of budgeting and determining price. Most of the microbusinesses work on a profit margin, which helps them to determine the price of product and services. According to Participant- 17

"Basically, what happen is we work on about an 80% profit margin. So, in theory what that basically means is if I pay £5 for an item, I sell it for £9, basically. So, what... we do is, based on our turnover for the day, we can work out approximately what our profit margin is on that obviously before cost, before you know heating and renting, all that."

Some microbusiness owners use other ways to determine their prices for products and services, such as considering competitors' prices, product cost and price determined by suppliers.

Overall, from the fieldwork investigation, it emerged that some of the microbusinesses used a profit margin to determine prices of products and services and some were not using any information to determine the price of products and services; they used their own judgement. Participant- 14 explained that:

"I'm trying double up on everything... Double up. I don't know, we just, as a family we just decided that's what we are doing"

As part of their stock management, some of the microbusinesses said that they carried out stock-taking annually. However, most of the microbusinesses did not mention any action they took to reduce variance, and some microbusinesses did not find any reason to carry out stock-taking, as their business size was minimal. The owners believe that they had a good idea about the stock level and value. According to Participant- 2:

"Maybe we miss something, we miss it fine, if not, we just say, that's fine. Then because it's my own, I don't need to worry about you know. But if it is less, up and down doesn't matter"

Participant- 6 stated:

“Well that's called kind of stock take...When you run a small shop, you don't really do it [stock taking]. It's good for you if you have an EPOS but I'm quite comfortable. But yes, if I do have three or four shops yes of course”

From the fieldwork investigation, it emerged that most microbusinesses did not regard stock-taking as an essential management tool. They only did it to provide details to their accountant to prepare a financial report, but they were not using this information in making any decisions related to identifying top-selling stock, stock variance, etc.

Conclusion and Contributions

The purpose of the current study was to identify the accounting practices used by microbusinesses and to explore challenges faced in the application of accounting practices in microbusinesses in Scotland.

The findings from the interviews were similar to the findings from the existing literature in terms of the accounting basis and bookkeeping for SMEs. These findings suggest that in general single-entry bookkeeping and cash basis accounting are the most common accounting method among Scottish microbusinesses. Eight challenges to record keeping were raised during the interview.

In relation to tax and VAT, it appeared from the fieldwork investigation that most of the microbusinesses used their accountant to calculate tax and VAT.

In terms of management accounting, we identified a newly emerged issue which was that, for pricing, most of the microbusinesses used profit margin, price determined by the suppliers and their personal judgement, such as doubling the cost of the products, to determine the price. Furthermore, microbusinesses do stock-taking for accountant purposes only rather than monitoring business efficiencies, which is a newly evolved issue.

This study identified a number of factors related to microbusinesses' accounting practices and their challenges in adopting more beneficial accountancy practices (even though many owners could perceive the benefits from doing so).

Local government agencies and trade associations could also use the findings of this study to formulate new schemes to support microbusinesses to improve their accounting practices. This could be the development of training in relation to improving accounting practices for microbusiness owners.

Greater use of suitable and beneficial accounting practices could in turn lead to greater efficiencies and business growth with all of the associated potential local economic benefits.

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