

Ifrs for smes in malaysia economics essay

[Economics](#)



**ASSIGN
BUSTER**

As there is a quote says that a picture can tell a thousand words, well it goes to the financial statements of a company too. By looking at the statement of financial position and comprehensive income statement for the year, performance and the position of that company for that year can be assessed. In order to ensure the financial statements are giving a true and fair view of the company, these statements are bounded to be prepared according to the accounting standards set up by the International Accounting Standards Board (IASB) previously known as International Accounting Standards Committee (IASC). With the increase in market globalisation, there is a demand for one common global reporting language especially for multinational companies. Since then, International Financial Reporting Standards (IFRS) was introduced. Now most public companies in most countries around the world are using IFRS as the basis in preparing their financial statement. By having common reporting standards, it will promote a high quality, uniformity and global financial statements, which can be used widely for many purposes. The responsibility of preparing the financial statements is not only meant for public companies, it also becomes the requirement for private limited company and other private entities such as sole proprietorship. For those organisation that is not publicly traded and do not fall under a financial institution sector such as bank they are been categorised as small medium enterprises (SMEs) (IFRS, 2013). Besides that, according to United Kingdom Companies Act 2006 section 382, small company is one that has turnover not more than £6. 5 million, balance sheet total less than £3. 26 million and having employee less than 50. As for medium company, the turnover should not be more than £25. 9 million, balance sheet total less than £12. 9 million and having not more than 250

<https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

employees as stated in section 465 of the act. SMEs are a very mixed group of business operation that been operating in service, trade, and manufacturing. The growth of their business might be different as some prefers to growth dynamically but some may want to remain as what they are. By looking at the nature or business operation for SMEs, it seems that their normal or daily business transactions are less complicated and the volume of transaction might be small as compared to large firm and public listed companies. Despite that matter, SMEs are required to use the same accounting standards that been use by the public listed companies for as a basis for their financial reports. In conjunction with the introduction of IFRS, it is such a burden for SMEs if they have to implement those standards in their reporting. As IFRS mainly focus on a complex transaction and detail disclosure, it may not fully suitable for SMEs. This is due to the less complicated transaction in SMEs' operation. An action was taken to meet the need of these SMEs by IASB initiating the project on accounting standards for SMEs. The effort started since 2003 until 2009 as when IFRS for SMEs had been published by IASB (IFRS, 2013). IFRS for SMEs was published on July 2009 (IFRS, 2012). It has been simplified from the full IFRS. The simplifications include omitting some topics in full IFRS that are not relevant to SMEs, less disclosure requirements and also simplified the reporting outline for SMEs. The adoption process has started in some countries and the others have announced the plan to do so. Since SMEs involve in a varied type of business output or product, therefore SMEs seem to be as one of the major contributor for countries economic. Therefore, it is essential for these SMEs to be able to embark in global market. One of the initial steps is by having a common financial reporting standard. The adoption of IFRS for SMEs <https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

may have its pros and cons to the SMEs and the users of their financial report. When IFRS was introduced, it promotes standardisation in preparing the financial statements for all companies in the world. This is when they use of one common global reporting language and accounting standards as the basis for the financial statements (Flynn, 2008). The same benefit can be applied for SMEs around the world as when they adopt the IFRS for SMEs. When the basis or the foundations of the report come from the same sources, the benefit is that it will ease the process of comparison on each other regardless the country of the company. Therefore, SMEs among itself can benchmark with each other on their performance per say. Besides that, the external users of the financial statements such as banks and regulators will do comparison, which will help them to make a decision. In order for SMEs to expand or growth bigger, they have to take the risk of expanding their operation and increase their market share. Therefore, SMEs need source of funding for that purpose. By having IFRS for SMEs, it does not only good for SMEs itself, but for the financial institution as well especially banks. As they are the main supplier of debt for SMEs to proceed with their expansion. By having a common reporting language and guideline, their financial statements are comparable and the information in the statements will help the banks in making lending decision. These statements will help the bank to analyse the performance of one SME with the rest of the SMEs in the market since the report was made using the same basis and guidelines. Through the comparability of the financial statements, it will attract more investors to invest in SMEs that suit their investment appetite. Since these investors are able to evaluate and assess the performance of one SME with another. The investment also may not only limit to local SMEs but may reach

<https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

the foreign SMEs too. As previously the information disclose in the financial report may be limited and may be varied from one SME with the other SMEs. However, for SMEs to convert into implementing IFRS for SMEs in their financial statements seems to be a burden. This is because they have to incur additional cost of reporting especially for small enterprises. This group will need to hire a person with at least having a basic accounting knowledge to incorporate the new standards in the financial report. Besides that, training needs to be provided for the current staff. For those who are running medium enterprises and already use accounting system in their daily operation, they need to ensure that their system can cater for the adoption. Changes need to be done if the current system cannot fully integrated with the adoption, which again it will incur another cost for the company. IFRS for SMEs been simplifies from the full IFRS as to cater for the need of SMEs. However, the IFRS for SMEs are mostly suit the medium enterprises. As for small and micro enterprises, they only have a few types of business operation, which is less complex. In order for the small enterprises to implement the IFRS for SMEs, additional time and effort need to be invested in order to meet the requirement of the standards. It is an opportunity cost for these enterprises, as they should have more time concentrating in their business operation instead of focusing on the disclosure requirements for their financial statements.

IFRS for SMEs in Malaysia.

IFRS for SMEs still in its transition period as it is not be fully implemented by all countries around the world. One of the countries that are yet to fully adopt IFRS for SMEs is Malaysia. Malaysia is one of the developing countries

in Asia. Malaysia main exports are electronic equipment, petroleum, palm oil, wood and wood products, rubber and textiles. Based on the Malaysia Economic Census Report 2011, which was released in 2012, SMEs represent 97.3% of total business establishment in Malaysia as the large companies made up the rest. The report also states that SMEs are the majority in services, manufacturing and construction fields. SMEs in Malaysia are divided into three groups which are (SMEcorp, 2013): Micro Enterprise, where the turnover is less than USD83,300 with less than 5 full time employees. Small Enterprise, where the turnover is between USD 83,300 to USD 3.3 million with less than 50 employees. Medium Enterprise, where the turnover is less than USD 8.3 million with less than 150 employees. As for SMEs in Malaysia, besides being the backbone of the export industry, they are also bound to implement the accounting standards in Malaysia that are governed by Malaysia Accounting Standards Board (MASB). MASB has issued two approved accounting standards; Financial Reporting Standards (FRS) for entities other than private entities and Private Entity Reporting Standards (PERS) which is for private entities. Currently Malaysia has fully converged with the IFRS and known as Malaysia Financial Reporting Standards (MFRS) since 1 January 2012. According to Malaysia Companies Act 1965, private entities are not required to submit their financial statements to Securities Commission or Central bank of Malaysia. Most SMEs in Malaysia are private entities. MASB has given the option for the private entities either using MFRS or PERS in preparing their accounts. As a step to promote a standardisation report for SMEs locally and internationally, MASB has announced the plan to migrate from PERS to FRS for SMEs, which is equivalent with the IFRS for SMEs. The first issuance of the standards will

<https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

start during the first half of 2013 and the effective periods will be on or after 1 January 2016 (IFRS, 2013).

The relevance and appropriateness of IFRS for SMEs in Malaysia.

When SMEs in Malaysia take the action in implementing IFRS for SMEs as their basis in preparing the financial statements, the statements produced become transparent and comparable with other SMEs' report around the world. Therefore, these two factors will eventually helping those SMEs in either growing locally or internationally. The relevance and the appropriateness of the adoption for the SMEs can be seen through economic and social perspective. As a developing country, it is the objective or the aim for the country to achieve a high-income nation. Since the majority of business in Malaysia has been dominated by SMEs, it becomes their role in providing the support for large firm and being the main driver of economic growth too (SME Master Plan 2012- 2020, 2012). This aim could be done through the business expansion or growth locally and internationally. Expansion could be in terms of being able to serve or deal directly without middle agent with large firms and multinational companies (MNC) (Saleh and Ndubisi, 2006). Through adopting one common global reporting language and accounting standards, which is IFRS for SMEs, large firms mainly multinational companies will use the financial statements as a way to assess and evaluate the prospect of having a long-term business relationship (IASB, Basis for Conclusions IFRS for SMEs, 2007). Since the global standards produce a comparable report, it also provides transparency in its disclosure, which will lead to decision-making process. Thus SMEs in Malaysia will have

more opportunities and chances to build a business relationship with overseas client. Despite having IFRS for SMEs will help SMEs in Malaysia building relationship with large firms and MNC; it also will help these companies in gaining finance. Gaining finance is one of the challenges for SMEs in Malaysia (Summary SME Master Plan 2012-2020, 2012). By adopting global accounting standards as a basis in preparing the financial statements has shown the effort of the enterprises that they are ready to be in global field. Bankers will rely on the financial statements in making lending decision. As in Malaysia there is one specific bank known as SME Bank that was establish by the government as sole financial institution that will nurture the growth of SMEs in Malaysia by providing financing services (SME Bank, 2013). However with the current economic condition, lending procedure could be rigid by the local bank. Therefore, it will give the SMEs the opportunity to bring their loan application to across borders banks since their financial statements are in global language. This will ensure the growth of their enterprises will not be on hold. As for social matter, SMEs in Malaysia has the challenge in retaining professional and high skilled employees due to non-competitive rewards and slow career progress (SME Master Plan 2012-2020, 2012). Professionals such as the accountants prefer to be employed by the large firms since it provides lucrative benefits and promising career development. As when SMEs in Malaysia use international recognise accounting standards in preparing the financial reports, it will attract these professionals to work with them. This is because it shown that these SMEs are well prepared to have a business relationship with not only large firms in Malaysia but with MNC around the world too. The effects form that matters are it will offer better career progress and compensation. It then will be the <https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

factors to retain the existing employees. Hence it will somehow help the companies to grow larger by having more employees. This indirectly will wider the job opportunities for those who have the qualification in accounting and finance too. Since IFRS for SMEs promotes the comparability in the financial statements, SMEs in Malaysia may use the statements as a way to benchmark its performance with each other. As SMEs are not been traded publicly, therefore performance can be monitored through looking at their financial statement that used one common global reporting language. As Malaysian are been considered as a masculine society, which they are, been driven to be highly success (Hofstede, 2013). Hence it will motivate the SMEs to consistently produce a quality product and services if they want to a leader in their industry. However, implementation of IFRS for SMEs for micro entities seems to be too extreme or too complex (Neag et al, 2009). As in Malaysia, micro entities represent 77% of total SMEs in the country (Malaysia Economic Census Report for SMEs, 2012). Micro entities in Malaysia normally involve in small-scaled business operation such as groceries operator. It is normally a family owned business and the source of funding for the business operation mainly come from internal generated fund and using their own saving. Therefore, to prepare the financial statements in accordance of the global standard seems to be irrelevant. The global standards might not be fully related to their business operations as they are limited to only few normal routine transactions. The users of the reports are also narrow such as the owner itself and the local bank. Besides that, with small number of employees, additional cost had to be incurred for preparing the financial statements for these enterprises since the owner need to hire an external to do the statements as they do not have the expertise in the field. This can be <https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

seen in the Malaysia Census Report 2011 that individual proprietorship represents 82% for micro entities. Therefore, again the adoptions of the IFRS for SMEs might not provide an additional value for micro entities. As a one-stop center for regulating and monitoring the development and implementation of accounting standards in Malaysia, MASB will provide the assistance and guidance SMEs during the transition period as a preparation for full convergence, which is 2016. Due to this reason, it is appropriate for SMEs in Malaysia to adopt with IFRS for SMEs since SMEs will not left hanging without any guidance for the adoption. For example during transitioning to IFRS, MASB enter into collaborations with other professional bodies such as ACCA and CPA to provide training and education for companies in Malaysia (MASB, 2013). Therefore the same action will likely to be done for IFRS for SMEs in Malaysia too. This is a social support that been provided by the government as to ensure the backbone of Malaysian economic is at par with others SMEs around the world. With the aim to be a high-income nation by year 2020, (SME Master Plan 2012-2020, 2012) SMEs contribution in the gross domestic product is the most essential in achieving the target. Therefore, SMEs in Malaysia will have to grab the opportunities that would drive them to meet the aim for the benefit of their enterprises and for the country as well. Therefore, the convergence of IFRS for SMEs is one of the proper steps taken by the SMEs as to prepare them to be in the global market. This will definitely come with a significant training cost as to ensure the companies and the employees meet the requirements of the standards (MASB, 2013). However the result from this action, it would not only make the SMEs produce a global report but also will nurture the confidence of the large firms and MNC to collaborate hence will increase the market share too.

<https://assignbuster.com/ifrs-for-smes-in-malaysia-economics-essay/>

As for micro entities in Malaysia, the implementation of IFRS for them seems to be inappropriate due to nature of the business transaction and the perspective of the owner itself. Due to few normal business transactions in micro entities, IFRS for them are not suitable since not many of micro entities prepare their own financial statements since it is mainly filled with sole proprietor. The information needed by the owner can be obtained as when they manage their business since there is no separation of ownership. Besides that, the embedded culture of Malaysian which is pros in accepting inequality in societies (Hofstede, 2012) has make those involves in micro entities feel comfortable at the stage they are now. They do not have the interest in expanding the business due to certain limitations such as financing. As long as the business can support their daily life, they are content as they believe that everybody has a place in this world (Hofstede, 2012). Hence, they do not see the importance of preparing the accounts in their business process.

Conclusion

Since IFRS for SMEs has been published by IASB in 2009, many countries have taken the step to implement the standards as basis for their local companies to prepare financial statements. This will collectively bring benefit not only to the company itself but to the bankers and investors as well as it promotes a comparable report globally. Malaysia has announced its plan to fully convergence with the standards effectively in 2016. Together with the SMEs ' Master Plan launched by the Malaysian government, this standards are relevance for the SMEs in achieving the aim set by the government as well as helping them to grow larger in the global market. It also such an

appropriate action for in preparing SMEs to go global since support and guidance are available for the implementation. However, IFRS for SMEs for micro entities in Malaysia might not providing any added value since it is too complex and require more effort to implement it into their business process. Perhaps accounting body in Malaysia has to come out with other guidelines, which will bring value for the entities to grow and survive.(3160 words)