

Differential Reporting

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ABSTRACT

This research was motivated by the developments of MASB SOP 1 and recommendations by ISAR of UNCTAD.

The view of universality held by accountants requires that rules within one jurisdiction should apply to all enterprises. But in an economy, there were many different-sized business and in fact polarised between large, multinationals and the small, owner-managed SMEs. Therefore, a single accounting framework would ignore economic reality. This is because most accounting standards today are designed to cater for the large entities and do not seem to meet the requirements of smaller entities.

As such, this has given rise to the following issues:

- Whether all entities should be required to use the same accounting and reporting standards
- Whether small companies should be exempted from the burdensome requirements of some accounting standards

Therefore accounting for SMEs has become an important topic needed to be addressed urgently and this has led us to the idea of Differential Reporting requirements for smaller entities.

The objective of Differential Reporting is to allow entities that meet the definition of 'exempt enterprise' (as defined in SOP 1) to follow a set of simplified accounting rules instead of complying with the full application of accounting standards.

Differential reporting is needed for SMEs due to the following benefits:

- i. Users of SMEs are few in number and their main users, apart from management, are tax authorities and lenders.

- ii. Alleviate excessive and complex standards as there are a number of accounting standards which do not provide useful information to users of SMEs' accounts.
- iii. Compliance costs could be reduced if application of some accounting standards were exempted.

The working group of International Standards of Accounting and Reporting (ISAR) also recognizes that SMEs were important elements in the economies of both developed and developing countries and has decided to adopt a three-tier system of differential reporting at its 18th session meeting.

The main objective of this study was to gather and analyse the views of practitioners in public practices of the three-tier accounting system and proposed guidelines for Level 2 and 3 SMEs, as suggested by ISAR. This was achieved through a structured questionnaire sent out to 980 practitioners.

The results of the survey revealed that a high majority (80%) were not aware of Differential Reporting and most of the respondents do not have many 'exempt enterprises' in their clients' portfolio. Even though the awareness of Differential Reporting was low but most of the respondents (94%) are in favour that a three-tier system of Differential Reporting to be implemented in Malaysia as a tool for accounting by SMEs or 'exempt enterprise'.

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