Agenda item 5 (b). Accounting and Reporting by MSMEs as a means towards financial inclusion

Presented by

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Accounting and reporting by small and medium-sized enterprises as means towards financial inclusion - Micro-Accounting Model (MAM)

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How MAM compares with full IFRS and IFRS for SMEs

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<th>Full IFRS</th>
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<th>IFRS for SMEs</th>
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<tbody>
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<td>About 1,500 pages</td>
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<td>About 250 pages</td>
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Accounting framework landscape

- **Full IFRS**
  - PIE
  - Listed companies
  - Non-PIE
  - SME

- **IFRS for SMEs**

- **MAM**

- **Cash accounting**

- **Basic accrual accounting**

**Definitions:**
- PIE – Public interest entities
- SME – Small medium enterprises
- Micro entities – sole proprietor businesses with no public accountability, exempted from audit, not required to comply with any stipulated accounting standard framework
What is MAM?

• A self-contained financial reporting framework
  ✓ Contains significant simplifications
  ✓ Includes a set of illustrative financial statements
  ✓ Includes reconciliations to IFRS and IFRS for SMEs

• Principles based, intuitive & understandable – encourages use of judgment
Objective of MAM

• To facilitate micro businesses operating in ASEAN to make a transition from cash accounting to the most basic form of accrual accounting

• To prepare consistent and reliable financial information about the financial position and performance of the business, appropriate to/for the size and complexity of micro-entities and users’ information needs
Overarching Principles

Acc’g Treatment
Benefits > Implementation cost

Recognition
Minimise complexities

Measurement
Minimise estimation & judgment

MAM Financial Statements

Qualitative Characteristics
Understandability
Relevance
Reliability
Comparability
Key simplifications in MAM

1. Reduced disclosures
   • Disclosure of accounting policies required only for policies subject to choice, those that had changed in the period or those which require application of judgment/assumptions
   • Other explanatory notes provided when their disclosure provide relevant information to users of financial statements

2. Financial assets & liabilities
   • Simplified definition of financial assets & liabilities
     Excludes contracts that will be settled in the micro-entity’s own equity instruments even if the micro-entity is obliged to receive/deliver a variable number of its own equity instruments.
   • Simplified definition of equity

2. Financial assets & liabilities (cont’d)
   • Simplified measurement (e.g. initial recognition at cost, time value of money not considered and any deferred payments/settlements beyond normal credit terms are not present valued)

3. Non-financial assets
   • No requirement for assessment of impairment

4. No requirement for revenue to be measured at fair value

5. All borrowing costs to be expensed

6. No requirement for recognition of deferred tax

7. Foreign currency translation – to determine reporting currency instead of functional currency
Benefits of MAM

Provide a simple accounting framework that enable businesses to transition from cash to accrual accounting

Facilitate businesses in preparing consistent, reliable financial information according to a set of recognised accounting standards

Provide jurisdictional tax collectors with more complete and accurate business accounting records to facilitate accurate & fair tax assessment

Framework for MAM provides the building blocks that enable businesses to progress towards more comprehensive accounting frameworks (such as IFRS for SME or IFRS) as businesses grow
Thank You

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