

SMALL MEDIUM ENTERPRISES' FINANCIAL REPORTING IN MALAYSIA

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Abstract

This study investigates the financial reporting practices of the Malaysian SMEs. Mailed questionnaires were sent to loan officers and SMEs' owners. The findings showed that size of SMEs, industry type, owner's awareness about financial reporting regulations and academic qualification of the SMEs' owners have positive associations with the nature of financial reporting of the Malaysian SMEs. In addition, the loan officers and SMEs' owners perceived most of the information presented in the SMEs' financial statements are useful and that they perceived all sections in the financial statements, except income statement, are important for their decision making process. Results may provide insight on the nature and adequacy of financial reporting of the Malaysian SMEs. Besides, the findings may contribute better understanding to the SMEs' managers on the informational needs of the users of their financial statements.

Keywords: SMEs, financial reporting, practices, usefulness, importance

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1. INTRODUCTION

Small and medium enterprises (SMEs) play an important role in the Malaysian economy and as such is seen as the backbone of the industrial development in the country (Saleh & Ndubisi, 2006). The Malaysian SMEs, however, face various challenges to growth, among others, lack of access to loans, limited adoption of technology, lack of human resources, competition from MNCs and globalisation (APEC, 1994; SMIDEC, 2002; Ting, 2004; UPS, 2005). It is essential for the SMEs to have a transparent financial reporting as what is expected in a large listed companies (Son, Marriot & Marriott, 2006). By doing so the SMEs will be able to compete to access financial sources and to find partners for their growth and development (UNCTAD, 2000). Nevertheless, do the Malaysian SMEs provide sufficient information to the users of their financial statements and what information does users view as useful or importance to them?. Little is known, however, about the financial reporting practices by the SMEs in Malaysia. According to Gary, Owen and Adams (1996), for the information to be regarded as useful, the information must be relevant to the relevant decision makers. Therefore, this study intends to investigate the financial reporting practices of the

Malaysian SMEs and the perception of the users' of the SMEs' financial statements regarding the utility of the information. This study goes further to examine the users' perceptions on importance of the different sections presented in the Malaysian SMEs' financial statements.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Overview of the Malaysian SMEs

Malaysian SMEs can be grouped into three categories: micro, small or medium. The categorisation is made based on either (i) the numbers of people a business employs, or (ii) on the total sales or revenue generated by a business in a year (<http://www.smeinfo.com.my/index.php?ch=2&pg=1&lang=>). The SMEs play an important role in the country's overall production network and are crucial to the economic growth process. As reported in the SME Annual Report 2006, the sector generated 32% of real gross domestic product (GDP) and 19% of total exports (<http://www.smibusinessdirectory.com.my/smisme-editorial/about-smisme/all-about-smisme>). The Ninth Malaysia Plan (2006-2010) had underlined the

principal SME policy which is the development of a competitive, innovative and technologically strong SME sector that is able to contribute to the domestic economy and compete globally.

2.2 Financial reporting by the Malaysian SMEs

In Malaysia, the SMEs are reporting using the Private Entity Reporting Standards (PERS) which is close to the old International Accounting Standards (IAS). It can be argued that accounting activities in the SMEs, are more concerned with legal compliance than economic relevance (Son et al., 2006). Hence the SMEs have become notorious for having poor or even no accounting records (UNCTAD, 2000). Should the SMEs have poor or even no accounting records, users of their financial information will not be able to assess risk and future returns and this can create funding problems (Lloyd-Reason et al, 2000), competitive disadvantages and higher failure rates (UNCTAD, 2002).

Studies have been taken to investigate factors affecting companies financial reporting practices. Son et al (2006) reported that socio-economic domestic factors, such as the level of economic development, the legal and regulatory system, educational and professional infrastructure, colonial heritage and history and culture (UNCTAD, 2000; Saudagaran and Diga, 2003; Kosmala-MacLulich et al., 2004; Sevic, 2004) are likely to have significant impacts on the utility of small company financial information.

2.3 Utility of the SMEs financial information

Despite the studies on user perspective of financial report undertaken in developed countries, little is known about the users' perspective on the financial reporting by the SMEs in Malaysia.

Staubus (1961, 1977) noted that the identification of users and uses of corporate financial information can be based on "decision-usefulness" theory. According to the theory of decision-usefulness, accounting is described as a process of providing relevant information to the relevant decision makers (Gary et al, 1996). The usefulness of financial information was estimated by how it aids the users in making rational decisions and a user perspective of the objective of financial reporting also make it easier to choose accounting treatments (Son et al., 2006).

Although research identifies owner-directors and taxation authorities as the main users of the financial statements of small companies, accounting standard setting bodies focus on general purpose financial statements and exclude the specific needs of these two users (Son et al., 2006).

Some researches (Carsberg et al., 1985; Deakins & Husain, 1994) indicate that financial reports of

SMEs is important in lending decisions of banks, in which banks are the main source of external finance to them. In Malaysia, since there is no statutory requirement for the SMEs' financial information to be publicly disclosed, the numbers of users of the SMEs' financial reports is perceived to be limited.

In terms of users informational needs, the literature had mainly focused on informational need by users of large companies than SMEs. Page (1984) reported that as users of externally reported information directors rated assessment of profitability and 'net profit' as the most important uses of information. Additionally, Page (1984) discovered that most of the respondents believed that turnover of the company should be disclosed. On the other hand, the directors rated disclosure of directors' emolument as the most unpopular disclosure requirement. Meanwhile Son et al. (2006) obtained contrary results from those of Abu-Nassar and Rutherford (1996). Son et al. (2006) found that accounting expertise was viewed as the biggest constraint to the use of financial information by the SME directors. They also reported that, the directors perceived little benefits from the current reporting practices as they do not understand the information and the quality of information produced is low. As a result, the directors have a low awareness of cost-benefit considerations of reporting task. Son et al. (2006) stated that there exist "less decision usefulness" perspective of the financial information provided in SMEs financial information in Vietnam.

In summary, analysis of the literature shows that the SMEs should be more proactive to meet the needs of the real users of their financial statements rather than merely complying with government regulations if they are to survive and grow in the economy. Therefore it is important to know the informational needs of these users. Hence the above discussion leads to the development of the following hypotheses to be tested by this study.

H1: Demographic characteristics of the Malaysian SMEs (in terms of size and type of industry) have significant effect on the nature of financial reporting of the Malaysian SMEs (in terms of existence of accounting unit, number of accounting staff, sending accounting staff to attend accounting related training and academic qualification of the accounting staff).

H2: Socio-economic domestic factors (such as SMEs' owners awareness about the financial reporting regulation and academic qualification of the SMEs' owners) have significant effect on the nature of financial reporting of the Malaysian SMEs (in terms of existence of accounting unit, number of accounting staff, sending accounting staff to attend accounting related training and academic qualification of the accounting staff).

H3: Informational needs of the loan officers and the SMEs' owners on the financial statements of the Malaysian SMEs are not significantly different.

H4: Loan officers and SMEs' owners opinion on the perceived importance of the different sections presented in the Malaysian SMEs' financial statements are not significantly different.

3. RESEARCH METHOD

3.1 Research design, sample and research material

A survey approach is adopted in this study. The samples of this study are owners of the SMEs and loan officers of agency that offer financial assistance to the SMEs. Databases of SMEs owners and loan officers were obtained from SMEinfo website. The first sample group, SMEs' owner, as at 24 February 2010, there are 16,567 SMEs recorded in SME Business Directory of the SMEinfo website. For the second sample group, loan officers, is based on the list of financial agencies, approximately 39, available in the SMEinfo website. The samples of this study are 175 owners of SMEs and 175 loan officers. Two sets of questionnaires were developed by modifying those of Stanga and Tiller (1983). These questionnaires were sent to these two major user groups of the SMEs' financial statements.

3.2 Administration of research material

The questionnaires were mailed directly to the respondents. The questionnaires were first sent for pilot testing to 30 SMEs' owners and 30 loan officers who were drawn from the sample groups of the study.

3.3 Variables of the study

3.3.1 Dependent variable

For hypotheses 1 and 2 the dependent variable is the nature of financial reporting in the Malaysian SMEs. The nature of financial reporting is defined by the present study as merely concerning on how the SMEs commit themselves to the various fundamental aspects related to accounting matters that may explain their awareness and alertness to the reporting of their financial or accounting information. Thus the nature of financial reporting was measured by this study by asking:

- i- whether the SMEs have an accounting function/unit/department in their firm,
- ii- if they have accounting unit how many accounting personnel they have (i.e. if the

SME is operated as a company they are required to submit audited financial statements to the CCM, thus if the size of the company is considered as large (within the context of SME) would having few (for instance only 1) accounting personnel is appropriate in managing the financial reporting where at the same time the report has to be prepared in a timely manner.

- iii- Whether those who have accounting unit sent their accounting personnel to attend accounting related training. This in view of the importance to measure the awareness of the SMEs to ensure that their accounting personnel are equipped with the accounting skill and knowledge (for example accounting standards) so that better financial reporting practices would be applied.
- iv- The academic qualification of the accounting personnel. This information may provide information as to whether the SMEs concern about having qualified personnel to handle the reporting of their financial/accounting information.

3.3.2 Independent variable

The independent variables for hypothesis 1 are size of SMEs and type of sector the SMEs is operating in. Size is measured by total assets of the SMEs. For hypothesis 2 the independent variables are awareness about legal and regulatory system regarding the financial reporting and academic qualification of the SMEs' owner.

4. RESULTS AND DISCUSSION

4.1 Response rate

The SMEs owners and loan officers used in pilot test are not included in the actual distribution of research instruments. However, the responses received in the pilot test are used in the main analysis because the responses from the pilot test shows that no amendment is required in the research instruments. Forty two useable questionnaires were received from SMEs' owners and 44 from loan officers which result in 24% and 25% response rates respectively. Although this rate is low, the sample size is considered adequate. Roscoe (1975) stated that a sample size larger than 30 and less than 500 is appropriate for most research. The final reporting sample is shown in Table 1.

Table 1. Response rate

	<i>N</i> SMEs' owners	%	<i>N</i> Loan officers	%
Research instruments distributed	175	100	175	100
Less: Non-replied research instruments	129	74	130	74
Research instruments received	46	26	45	26
Less: Research instruments rejected	4	2	1	0.6
Usable research instruments	42	24	44	25

4.2 Demographic analysis

Table 2 and 3 summarise the demographic characteristics of SMEs' owners and loan officers. Table 2 reports that majority of the respondents from SMEs' owners group are operating as company (57.1%) while 21.4% each operates as sole proprietorship or partnership. The respondents' businesses however come from various sectors. Meanwhile 66.6% of the respondents have total assets less than RM 1,000,000. Out of 42 SMEs' owners, majority (i.e. 61.9%) indicates that their firms have accounting function/unit/department while the remaining do not have. For those who have accounting function/unit/department, 26 firms, 28.6% have between 2 to 3 accounting staff, whereas 7.1% and 26.2% have more than 3 and one staff/s respectively. This study, further asked those who have accounting function/unit/department whether they send their accounting staff to accounting related training. The results show that 15 out of 26 SMEs' owners stated that their firms do send the accounting staff to accounting related training. From these 15 firms, 46.7% sent their accounting staffs to attend accounting related training 2 times in a year and 33.3% and 20% sent once in a year and more than 3 times in a year respectively. Those who have accounting function, unit or department were requested to state the highest academic qualification of head of accounting function/unit/department. The result reveals that majority, 77.1%, of the SMEs' head of accounting function/unit/departments have colleges' certificate, with at least a diploma. However, only 8 have accounting related academic background. In terms of the academic qualification of the SMEs' owners 76.2% of the 42 SMEs' owners have colleges' certificate, with at least a diploma. Finally, 32 (76.2%) out of 42 SMEs' owners claimed that they are aware about financial reporting regulation.

Table 3 reports that from 44 respondents from loan officers group, majority of them, that is 84.1%, have at least a bachelor for their education

background. Sixty eight percent has been in the current position at least for 6 years. Majority of the financial institutions, 72.7%, that the loan officers are attached to have total assets more than RM 1 billion. On the other hand 54.5% have net profits between RM100 millions to RM250 millions. Meanwhile, 38 (86.4%) out of 44 respondents indicated that their financial institutions require loan applicant to submit audited financial statements. Finally, 35 (79.5%) out of 44 respondents stated that they are aware about financial reporting regulation.

4.3 Hypotheses testing

4.3.1 Hypotheses 1 and 2

Hypotheses 1 and 2 were analysed using crosstabulation. Contingent coefficient for size of SMEs and existence of accounting function/unit/department in the SMEs indicate that there is a medium degree of association between size and existence of accounting function/unit/department (i.e. Contingency coefficient value of 0.399), at a significant level of 0.093. Meanwhile, spearman correlation for size of SMEs and number of accounting staff in the SMEs indicate that there is a medium degree of association between size and number of accounting staff (i.e. Spearman correlation value of 0.330), at a significant level of 0.10.

On the other hand, contingent coefficient for industry and accounting training indicate that there is a medium degree of association between industry and accounting training (i.e. Contingency coefficient value of 0.591), at a significant level of 0.016.

Hence, this study concludes that size of SMEs and its industry have significant association with the nature of the SMEs' financial reporting (in terms of the existence of accounting function/unit/department, number of accounting staff and sending accounting staff to attend accounting related training). In this perspective, hypothesis 1 is supported.

Table 2. Demographic profile for SMEs' owner

Items		Respondents	
		<i>n</i>	%
1. Type of firm	Sole proprietorship	9	21.4
	Partnership	9	21.4
	Company	24	57.1
	Total	42	100.0
2. Sector	Manufacturing (including agro-based)	5	11.9
	Manufacturing-related services	5	11.9
	Mining and quarrying	0	0
	Construction	7	16.7
	Services (including information and technology)	6	14.3
	Primary agriculture	4	9.5
	Others	15	35.7
Total	42	100.0	
3. Total assets	Less than RM200,000	14	33.3
	Between RM200,000 to RM1,000,000	14	33.3
	Between RM1,000,000 to RM5,000,000	4	9.5
	Between RM5,000,000 to RM10,000,000	5	11.9
	More than RM10,000,000	5	11.9
Total	42	100.0	
4. Accounting function/unit/department	Yes	26	61.9
	No	16	38.1
	Total	42	100.0
5. Number of accounting staff (those who have accounting function/unit/department)	One	11	26.2
	Between 2 to 3	12	28.6
	More than 3	3	7.1
	Total	26	100.0
6. Accounting related training (those who have accounting function/unit/department)	Yes	15	57.7
	No	11	42.3
	Total	26	100.0
7. Frequency of attending accounting related training (those who sent accounting staff to accounting related training)	Once in a year	5	33.3
	Two times in a year	7	46.7
	Three times and more	3	20.0
	Total	15	100.0
8. Highest academic qualification of head of accounting function/unit/department (those who have accounting function/unit/department)	SPM (Malaysian Certificate of Education)	5	19.2
	STPM (Malaysian Higher Education Certificate)	1	3.9
	Diploma in Accounting	1	3.9
	Diploma (other area)	2	7.7
	Bachelor in Accounting	1	3.9
	Bachelor (other area)	8	30.7
	ACCA	2	7.7
	Master in Accounting	4	15.4
	Master (other area)	1	3.9
	Others	1	3.9
	Total	26	100.0
9. Academic qualification of SMEs' owners	SRP/PMR (Lower Education Certificate/Lower Secondary Evaluation)	1	2.4
	SPM (Malaysian Certificate of Education)	4	15.4
	STPM (Malaysian Higher Education Certificate)	4	15.4
	Other certificate	1	2.4
	Diploma	10	23.8
	Bachelor	17	40.5
	Master	3	7.1
	PhD	2	4.8
Total	42	100.0	
10. Awareness about financial reporting regulation	Yes	32	76.2
	No	10	23.8
	Total	42	100.0

Table 3. Demographic profile for loan officers

Items		Respondents	
		<i>n</i>	%
1. Education background	Diploma in Accountancy	0	0
	Diploma in Banking	3	6.8
	Others diploma	4	9.1
	Bachelor in Accounting	17	38.6
	Bachelor of Business Administration (Banking/Finance)	9	20.5
	Other degree	10	22.7
	Professional qualification	1	2.3
	Total	44	100.0
2. Years in current position	Less than 1 year	8	18.2
	1 to 3 years	10	22.7
	4 to 6 years	12	27.3
	7 to 9 years	5	11.4
	10 to 12 years	4	9.1
	More than 12 years	5	11.4
	Total	44	100.0
3. Total assets	Less than RM250 millions	6	13.6
	Between RM250 millions to RM500 millions	2	4.5
	Between RM750 millions to RM1 billion	4	9.1
	Between RM1 billion to RM5 billions	11	25
	More than RM5 billions	21	47.7
Total	44	100.0	
4. Net profits	Less than RM25 millions	12	27.3
	Between RM25 millions to RM50 millions	5	11.4
	Between RM50 millions to RM75 millions	1	2.3
	Between RM75 millions to RM100 millions	2	4.5
	Between RM100 millions to RM250 millions	6	13.6
	More than RM250 millions	18	40.9
Total	44	100.0	
4. Requirement of bank for loan applicant to submit audited financial statements.	Yes	38	86.4
	No	6	13.6
	Total	44	100.0
5. Awareness about financial reporting regulation	Yes	35	79.5
	No	9	20.5
	Total	44	100.0

Contingent coefficient for owners' awareness about accounting regulation and existence of accounting function/unit/department in the SMEs shows that there is a medium degree of association between owners' awareness about accounting regulation and existence of accounting function/unit/department (i.e. Contingency coefficient value of 0.245), at a significant level of 0.10. Meanwhile, contingent coefficient for owners' awareness about accounting regulation and accounting training shows that there is a medium degree of association between owners' awareness about accounting regulation and accounting training

(i.e. Contingency coefficient value of 0.446), at a significant level of 0.01.

On the other hand, contingent coefficient for academic qualification of the SMEs' owners and existence of accounting function/unit/department in the SMEs indicate that there is a medium degree of association between academic qualification of the SMEs' owners and existence of accounting function/unit/department in the SMEs (i.e. Contingency coefficient value of 0.447), at a significant level of 0.089. In addition, spearman correlation for academic qualification of the SMEs' owners and academic qualification of the SMEs' accounting staff shows that there is a medium degree

of association between academic qualification of the SMEs' owners and academic qualification of the SMEs' accounting staff (i.e. Spearman correlation value of 0.607), at a significant level of 0.001.

Hence, this study concludes that owners' awareness about accounting regulation and academic qualification of the SMEs' owners have significant association with the nature of the SMEs' financial reporting (in terms of the existence of accounting unit/function/department, sending accounting staff to attend accounting related training and academic qualification of the SMEs' accounting staff). In this perspective, hypothesis 2 is supported.

4.3.2 Hypothesis 3

Independent sample t test was conducted to test hypothesis 3. The results shown in Table 4 indicate that informational need of SMEs' owners and loan officers are statistically significantly different only in terms of total current liabilities (Item number 11; $p=0.077$), dividends declared on common stock (Item number 13; $p=0.028$), amount of financing planned (Item number 28; $p=0.048$) and planned advertising expenditures (Item number 29; $p=0.100$). The mean for SMEs' owners perceived informational need in terms of total current liabilities is 3.8810 whereas for loan officers is 4.1818. This result reveals that loan officers rated information on total current liabilities more important than SMEs' owners. It may be due to the scope of the loan officers' job in dealing with loan application in which information on total current liabilities is considered as vital in assessing the liquidity of the applicants. Meanwhile, for dividends declared on common stock, the mean for SMEs' owners perceived informational need is 3.8333 whereas for loan officers is 3.3864. This result indicates that this information is viewed as only moderately important to both user groups. The perceived informational need in terms of amount of financing planned was rated as mean 4.0000 by the SMEs' owners while the loan officers rated it as mean 3.6818, indicating the SMEs' owners perceived information of amount of financing planned is very important to them compared to the loan officers. Such information may be important to the SMEs' owners since it may affect their plans for future activities or expansion of the business. Finally, for planned

advertising expenditures, the mean for SMEs' owners perceived informational need is 3.5952 while for loan officers is 3.2955. This result shows that this information is viewed as only moderately important to both user groups.

Given that 27 out of 31 statements are not statistically significantly different in the perceived informational need between the SMEs' owners and loan officers, thus, this study may conclude that the informational needs of the users of the SMEs' financial statements are equal. In other word, users viewed that the information presented in the financial statements is useful to them. Hence, hypothesis 3 is supported.

4.3.3 Hypothesis 4

Hypothesis 4 was tested using independent sample t test. Results as shown in Table 5 demonstrate that SMEs' owners and loan officers have only statistically significant different in opinion regarding the perceived importance of income statement for decision making, ($p=0.070$). The SMEs' owners viewed the income statement as moderately important to them in their decision. This finding is surprising given that income statement reports the results of the entity's operation for a particular period and thus it is presumed that SMEs' owner would heavily rely on this statement to know the performance of their business. Meanwhile the loan officers viewed the income statement as very important in their decision making. This may be due to the fact that the nature of the loan officers' job to assess loan application which highly focusing on the ability of the applicants (i.e. SMEs) to pay back the loan granted. Information in the income statement will give insight to the loan officers of the capability of the applicants to be sustainable in the business thus indicating the ability to pay back the loan when it comes due.

Since the users have statistically significant different in opinion regarding the perceived importance of income statement for decision making only on income statement thus this study may conclude that the other sections of the financial statements (i.e. owner's equity statement, statement of financial position, statement of cash flows and notes to accounts) are equally importance to owners of SMEs and loan officers. Thus, hypothesis 4 is supported.

Table 4. Informational needs on the Malaysian SMEs' financial statements: From loan officers and the SMEs' owners perspectives

	Item	SMEs' owner (n=42)			Loan officer (n=44)			T-test	
		Mean	Std. Dev	Range	Mean	Std. Dev	Range	t	p
1.	Accounting policies.	3.7857	.75015	2-5	3.5909	.75693	1-5	1.198	.234
2.	Sales revenue.	4.0952	.72615	2-5	4.2273	.67733	2-5	-0.872	.385
3.	Cost of goods sold.	4.0952	.72615	3-5	4.1591	.74532	2-5	-0.402	.689
4.	Depreciation expense.	3.9048	.84995	2-5	3.8864	.89484	1-5	.098	.922
5.	Operating income or loss.	4.1190	.70546	3-5	4.2500	.71933	3-5	-0.852	.397
6.	Net income.	4.3333	.68669	3-5	4.3182	.63878	3-5	.106	.916
7.	Earnings per share of common stock.	3.7619	.95788	1-5	3.4773	.87574	1-5	1.439	.154
8.	Inventory.	3.8571	.84309	2-5	4.0000	.74709	2-5	-0.833	.409
9.	Total current assets.	4.0238	.78050	2-5	4.0909	.80169	2-5	-0.393	.695
10.	Property, plant and equipment.	3.9762	.78050	2-5	4.1591	.68005	2-5	-1.160	.249
11.	Total current liabilities.	3.8810	.88902	1-5	4.1818	.65673	3-5	-1.791	.077**
12.	Deferred income taxes.	3.8810	.94230	1-5	3.7045	.73388	2-5	.971	.334
13.	Dividends declared on common stock.	3.8333	1.01011	1-5	3.3864	.84126	1-5	2.234	.028*
14.	Statement of changes in financial position.	3.9048	1.00752	2-5	4.0682	.58658	3-5	-0.914	.364
15.	Summary of accounting methods in use when alternative methods exist.	3.7381	.85709	1-5	3.6818	.80037	1-5	.315	.754
16.	Nature of changes in accounting principles (e.g. a change from LIFO to FIFO).	3.5714	.88739	1-5	3.4773	.87574	1-5	.495	.622
17.	Revenue associated with each industry segment of a business that operates in more than one industry.	3.5000	.83374	1-5	3.6364	.80956	2-5	-0.770	.444
18.	Operating income or loss associated with each industry segment of a business that operates in more than one industry.	3.6190	.69677	2-5	3.7045	.85125	2-5	-0.508	.613
19.	Amount of depreciation expense associated with each industry segment of a business that operates in more than one industry.	3.5714	.76963	2-5	3.5000	.76249	2-5	.432	.667
20.	Amount of capital expenditures associated with each industry segment of a business that operates in more than one industry.	3.6905	.71527	2-5	3.6591	.77589	2-5	.195	.846
21.	Sales revenue earned during each of the four quarters of the most recent fiscal year.	3.8095	.74041	3-5	3.7045	.66750	2-5	.691	.491
22.	Net income earned during each of the four quarters of the most recent fiscal year.	3.8571	.64662	3-5	3.8182	.69123	3-5	.270	.788

23.	Working capital provided by operations.	3.8333	.62143	3-5	4.0000	.52827	3-5	-1.337	.185
24.	Cash provided by operations.	4.0000	.66259	2-5	4.0682	.62497	3-5	-0.491	.625
25.	Capital leases reported by leases as assets and liabilities in the balance sheet.	3.7381	.82815	2-5	3.7045	.76492	2-5	.195	.846
26.	Forecasted sales revenue.	3.8095	.80359	2-5	3.5682	.92504	1-5	1.289	.201
27.	Forecasted net income.	3.8571	.78310	2-5	3.6364	.89159	1-5	1.218	.227
28.	Amount of financing planned.	4.0000	.73252	3-5	3.6818	.73998	2-5	2.003	.048*
29.	Planned advertising expenditures.	3.5952	.79815	2-5	3.2955	.87815	1-5	1.654	.100**
30.	Planned capital expenditures.	3.7143	.77415	2-5	3.7727	.71083	2-5	-0.365	.716
31.	Income from continuing operations.	3.8571	.75131	3-5	3.8636	.79507	2-5	-0.039	.969

* 5% significant level

** 10% significant level

Table 5. Importance of the Malaysian SMEs' financial statements: From loan officers and the SMEs' owners perspectives

	Item	SMEs' owner (n=42)			Loan officer (n=44)			T-test	Sig. level
		Mean	Std. Dev	Range	Mean	Std. Dev	Range	t	p
1.	Statement of comprehensive income (i.e. Income statement).	3.8571	.89909	1-5	4.1591	.60782	3-5	-1.832	.070*
2.	Owner's equity statement.	3.8810	.91605	2-5	3.9318	.66114	3-5	-0.296	.770
3.	Statement of financial position (i.e. Balance sheet).	4.1667	.69551	3-5	4.3182	.56126	3-5	-1.114	.268
4.	Statement of cash flows.	4.2619	.66478	3-5	4.3182	.70785	2-5	-0.380	.705
5.	Notes to accounts.	4.0238	.84068	2-5	4.0000	.74709	3-5	.139	.890

* 10% significant level

5. CONCLUSION

This study is viewed as vital and timely to explore the financial reporting practices by the Malaysian SMEs. Besides that knowledge about the informational needs of the users of the financial statements may serve as influential factor to encourage the SMEs to improve their financial reporting. Future research may be conducted to investigate the influence of firm characteristics on the motives of reporting the financial information by the SMEs.

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