

The Pertinence of Accounting Knowledge

1. What is the pertinence of accounting knowledge for an SME ?
2. How can poor accounting knowledge lead to financial indiscipline?
3. Can we have a few cases whereby such indiscipline has led to closure of highly potent SME?
4. How can we nurture entrepreneurs to adopt a more pragmatic culture, all while acknowledging the fact that they are caught between other business needs and operational challenges on a daily basis?
5. What are the services offered by Multiedge to remedy financial indiscipline?

Empirical research from many International Accounting Institutes have demonstrated that the Professional Accountant is the most important partner for an SME followed by its banker. As such it not important for an SME to have a knowledge of Accounting but it is important to have regular financial advice on the performance of the business. A knowledge of Accounting will certainly help to better manage the finance of the company.

At Multiedge Consultancy Services Ltd we ensure that our clients understand working capital cycle, working capital management, key ratios, capital structure and how to maximize shareholders value.

We ensure that they have the banking facilities to finance operation and that these facilities are not used for other purposes. It is also important that the SME has the right mix of capital. Very often we advise to re-structure the capital so that there is not much pressure on the cash flow. We prepare feasibility study for the SME.

Moreover, we came across many SMEs having VAT issues with the MRA mainly because filing of VAT returns were not done properly. Many entrepreneurs fail to understand that the VAT they have collected belong to the government. They are suddenly faced after an assessment with a high claim from the MRA.

It is highly recommended that an SME works with a Professional Accountant. We also work with banks and other financial institutions with which our clients have borrowed.

We have come across many successful SMEs which because of financial indiscipline/ mismanagement have put at risk the future of the business. Many of these Companies have been using working capital facilities to invest in Fixed Assets and other personal assets. An entrepreneur should understand the working capital cycle of his business and management of working capital is as important as managing operation. Many SMEs do not work on a yearly plan and breaking it down on a monthly budget to meet objectives set and to be able to explain any deviation.

Some Entrepreneurs have not hesitated to pledge their personal assets when the Business is in crisis to raise fund.

Tax planning is important for a profitable SME to minimize its tax liability.

Some years back a number of textile companies were doing very well and later many had to close down later because of financial indiscipline. Those who were doing well and managing their financials properly have been able to survive. There are number of SMEs who had orders but unable to secure adequate banking facilities to manufacture. This affected the goodwill of the companies towards their clients.

Banks and other providers of funds should insist that SMEs are assisted by a financial expert concerning accounting and financial management. The Entrepreneur can put more time on operation, management and marketing of his business. The Financial specialist should act as intermediary to the providers of funds.

In order to restore financial discipline within an SME, Multiedge Consultancy services Ltd came up with a number of proposals for its clients, some in collaboration with investors in the SMEs sector.

- Restructuring of the Capital of the Company, which include sale and leaseback.
- Equity capital injection from business angels and private equity firms.
- Close monitoring of operation/financial transaction by the professional accountant/firm.
- Educating the Entrepreneur on the benefits of financial discipline within an organisation. A business has value and the Entrepreneur should not destroy value by financial indiscipline.
- Entrepreneur to concentrate on business and to continuously innovate.
- Adopt the proper marketing tool to boost turnover.