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HOME PAGE

- NEWS
- OPINIONS
- EDITORIAL
- FEATURES
- ARCHIVE
- ADVERTISING
- CONTACTS
- ABOUT US



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[Email Article](#)

[Comment](#)

'Limited Liability' has a price tag

by **Josef Busuttill**

Exempting companies from having to file audited accounts will hamper the economic recovery rather than assist it.

A recent survey conducted by the Institute of Credit Management (ICM) of the UK together with Graydon UK, both represented in Malta by MACM, posed a simple question to 8000 businesses – "if accounts for a potential customer wanting to place a relatively small order on credit with you were not available at the Companies House or via a Credit Reference agency, what would you do?"

Nearly 37% of respondents replied they would not approve the order for immediate supply, reject the account and insist on cash in advance; 15% said they would accept the increased risk and trade anyway; and more than 48% insisted that they would ask the customer to provide financial data to support their application.

A similar research conducted by Graydon UK earlier on last year also revealed that 91% of credit and finance professionals believe that the proposals from the authorities to exempt small companies from filing audited accounts will make it harder for small businesses to access trade credit and 87% of them do not believe that exempting small companies from filing audited accounts will help drive business growth. This goes against the EU Small Business Act [Com (2008)394] that suggests and promotes proper and adequate funding for SMEs.

The view of MACM, the central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses, is similar to the results of these surveys. MACM strongly suggests that all companies should file full set of audited accounts every year and not abridged accounts, irrespective of the size of the company.

MACM contends that responsible credit decisions are made upon information being available to the credit grantor and this information should be accurate, complete and up-to-date. MACM also believes that it is the right of the creditor to have access to such information in order to protect cash flow and sustain long-term profit. Hence, MACM strives to provide the most intuitive credit information to its members efficiently and at a cost effective manner to safeguard the local credit environment.

The argument used in defence of ever increasing audit thresholds and abridged accounts is to reduce administrative burden on small companies. But this argument is not only erroneous but also grossly misleading because these companies still have to prepare full set of detailed accounts for the tax authorities and their bankers. Besides, abridged accounts can only be extracted from full set of accounts. So, are these thresholds really reducing or increasing the administrative burden of small companies?

MACM is also concerned about sending the wrong message to these firms by exempting them to file full set of audited accounts. MACM contends that the successful business owner should know at all times the financial state of the business, and that would entail the maintenance of detailed accounts. MACM also argues that "inadequate", "poor" or just plain "bad" management represent the major cause of business failure and firms require figures in order to measure their own business performance and that of their credit customers.

One should not forget that in the local commercial environment, unsecured trade credit is the order of the day. Therefore, if the trade suppliers are expected to continue supporting and financing their customers by granting them credit, hence sustaining the economy of our country, then they should have access to financial data of their customers. When governments across the world, and especially across Europe, make it increasingly more difficult for suppliers to make sensible credit decisions, they are in effect not helping the cash flow of the business community and in a bizarre way they are actually encouraging irresponsible lending.

Limited liability, as far as corporate bodies are concerned, has always been a privilege – the privilege being that the entrepreneur can operate without the fear of losing his home or his

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personal assets. But everything has a price tag and this privilege also has to come at a price, and the price happens to be full disclosure of audited accounts.

[Top](#)

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