

# Chapter 4

## Summary and Findings of the Research on ASEAN Countries

March 2016

**This chapter should be cited as**

ERIA (2017), 'Summary and Findings of the Research on ASEAN Countries', in Mizunoura, K. (ed.), *Accounting Standards for Small-and Medium-Sized Enterprises in ASEAN*. ERIA Research Project Report 2015-22, Jakarta: ERIA, pp.85-95.

## Chapter 4

### Summary and Findings of the Research on ASEAN Countries

The overall findings common to most target countries, from bibliographic and local surveys, are summarised in this section. The findings are classified in six categories: variance by entity scale; credibility of SME financial statements; how SMEs view and approach accounting; incentives to accommodate accounting; resource for accounting accommodation; and appreciation of IFRS for SMEs.

#### 1. Variance by entity scale

**[Key findings]**

- Medium-sized and small- and micro-sized entities should be discussed separately.
- Medium-sized entities are relatively well organised in accommodating accounting and bookkeeping. On the other hand, the small- and micro-sized entities tend to face various challenges in accommodating documentation of financial statements.

The medium-sized entities have a few dozen employees and their own dedicated accounting function (or accountant), which allows easier bookkeeping without outstanding problems.

On the other hand, the small- and micro-sized entities tend to either outsource all accounting jobs to outside bookkeepers, or do not have any record or financial statements at all. Some countries have developed simplistic templates that do not meet IFRS rules and other international accounting standards for small-sized entities.

The fact that different countries have different circumstances for definitions of entity size and scale of companies complying with the standard should be taken into account.

Cases identified through the field studies:

- Except for relatively large SMEs, not all SMEs are able to accommodate IFRS for SMEs. (Philippines)
- The population of SMEs in the country is rather small and only 7-8 percent of them are in the medium category. The rest are in small and micro category and are likely to share

the observation that 'accounting is just a cost center'. (Thailand)

- Micro-sized entities, in most cases, do not even keep books and financial statements. The medium-sized entities do keep them. (Indonesia)
- Many ultra-small entities (five or less employees) or sole proprietors outsource bookkeeping to third parties that are often very small accounting firms or freelance bookkeeping service providers (bookkeepers). In contrast, most of entities above private limited level are self-sufficient in keeping books. (Malaysia)

## 2. Credibility of SME financial statements

### [Key findings]

- Books and financial statements from SMEs, particularly those in the small and micro category, are less credible.
- Audit record of the financial statements is relatively more important.

Financial institutes do not give credit to the financial statements from SMEs. In most cases, they do not include financial statements as reference in the loan request examinations. Rather, they tend to put more weight on the security and guarantor's repayment capacity.

In some countries, issues were raised around dual bookkeeping. Our research identified suggestions that preventing impropriety in financial statements and enhancing the credibility are more important than introducing IFRS for SMEs as the accounting system.

Cases identified through the field studies:

- Exposing books or financial statements to outsiders is not favoured because, for example, the exposure might work as evidence that they have a secret account. (Philippines)
- Approximately 80 percent of SMEs are estimated not to be keeping diligent financial statements or any financial statements at all. (Thailand)
- It is important that financial statements have been audited. In case the submitted financial statements have no audit record, balance statements of SMEs' bank accounts may be additionally required, or the repayment records may be intensively checked.

(Singapore)

- Around 20 percent of SMEs seem to be keeping books, among which two to three percent have audit records. (Cambodia)
- Financial statements from SMEs are sometimes half-baked or have false entries. In addition, personal accounts of SME owners and corporate finances are not separated in SMEs. (Indonesia)
- Some SMEs would not submit accurate financial statements to the tax bureau for fear of getting higher tax charged. (Malaysia)

### 3. How SMEs view and approach accounting

#### [Key findings]

- Accounting jobs are only considered as an 'obligation' and, therefore, few SMEs are leveraging them for advantages in doing business.
- SMEs tend to outsource keeping books and documenting financial statements to bookkeepers.

SMEs are obliged to submit financial statements to relevant authorities and institutions in addition to the tax authority. Most SMEs only manage accounting because it is mandatory. Very few of them think of leveraging accounting for advantages in doing business.

As the scale of SMEs goes up, typically, the significance of accounting is better understood. Some were found planning to put it into practice for better business management. The small- and micro-sized entities are focused on day-to-day marketing and keeping an eye on cash flow but not on the rest.

Cases identified through the field studies:

- SMEs scarcely care about keeping books and financial statements. In most cases, they manage accounting only because they are obliged. (Philippines)
- SMEs are excessively concerned about revenues, or they have no capability to establish and maintain an (internal) accounting system. They also think the cost of keeping books and financial statements is too expensive, which is another reason for their insignificant

interest in accounting. (Philippines)

- SME owners have little knowledge of accounting. They even lack care for taxation and only focus on how to grow revenues. (Thailand)
- SME owners' main focus is marketing. They properly manage accounting simply because of the obligation and not out of their respect for accounting. (Singapore)
- Entities of a given scale and up care about basic financial records (such as revenues, profits, and cash flows). Reviewing them on a monthly basis, they make cash flow projections for the coming months and recognise financial status. (Singapore)
- SMEs seldom document financial statements unless required in connection with bank transactions. In contrast, banks do not pay much attention to financial statements because they grant loans as long as it is secured by collateral. (Cambodia)
- Young SME owners in their 30s care much about accounting but those in their 50s or higher do not. Also, those in larger cities as Jakarta are found to apply higher level of care while lower in local areas, often due to lack of knowledge. (Indonesia)
- Accounting is important in that it leads to outlook for new businesses and budgets. Having said that, some SMEs cannot so much as just keep books. (Malaysia)

#### 4. Incentives to accommodate accounting

**[Key findings]**

- SMEs see no incentive for keeping books and accurate financial statements.
- A representative answer to the question on whether the introduction of IFRS for SMEs was going to make it easier to get financed or enhance credibility of accounting was: 'I have no idea'.

The fact that SME owners are less concerned about accounting is also attributable to the less visible incentive for keeping books and documenting accurate financial statements. Other reasons include poor supervision by relevant government agencies and penalties that are not practically functioning even if they have been set forth.

Financial institutions also responded: 'Even if an accounting system in SMEs is established, with its credibility enhanced, it may not help us get financed with ease'; or 'It will not make any difference'.

Audit record of the financial statements is relatively more important. Whether or not financial statements accompany the audit records is also crucial for tender qualifications and business negotiations.

Cases identified through the field studies:

- No taxation advantages are available for keeping books and financial statements. (Thailand)
- There are cases when the estimated tax payment is more beneficial than self-assessed payment. (Cambodia)
- Incentives, such as availability of low-interest loans, are necessary for entities with better accounting compliance. (Thailand)
- Books and financial statements do not help much in loan examinations though they get reviewed. (Philippines)
- Just keeping diligent financial statements will not qualify for a preferential loan examination. Cash flow still plays a decisive role. (Indonesia)
- For loan examinations, daily cash flows as well as the bank account balance and security are given significantly higher weight. (Malaysia)

## 5. Resource for accounting accommodation

### [Key findings]

- The fair-value measurement set forth in IFRS for SMEs comes with higher level of difficulty and the shortage of accountants with matched skills is becoming an issue.
- Issues such as lack of internal accounting personnel as well as lack of knowledge and skills are also outstanding.

Issues in resources for accounting accommodation can be broken down into two aspects: the accountants; and the corporate functions (general manager and accounting personnel).

Responses on the issues concerning accountants include: the shortage of skilled accountants to be able to accommodate other criteria such as fair-value measurement; the level of skills in ultra-small accounting firms, freelance accountants, and accounting agencies (bookkeepers) are not regarded as high; and the population of accounting specialists in local areas versus city areas lacks both in quantity and quality.

Regarding the corporate functions aspect, the key issue was whether or not enterprises can at all afford to appoint an accounting specialist internally. The cost of hiring talents with accounting skills internally or by outsourcing is not negligible and this is a burden for SME owners. Furthermore, a common issue raised was how the knowledge and skills of the accounting personnel can be kept updated once they were hired.

Cases identified through the field studies:

- The population of accountants with knowledge of IFRS who are certified by the central bank is small, especially in local areas. If they do have the knowledge, it is sometimes outdated. (Philippines)
- There are too many accountants. However, quality cannot always be expected out of them. One idea is to facilitate getting ISO certification for accounting firms, or expanding DBD certification. (Thailand)
- The quality of freelance accountants and accounting agencies (bookkeepers) is not high. (Singapore)
- As Cambodia has not introduced an official accountant certification system, the population of accounting specialists is small. It has to be enlarged in some ways. The lack of accounting personnel stands as a serious problem, especially in local areas. (Cambodia)
- The best way to enhance the quality of accounting personnel is to encourage them to get CA certification. That said, while quality enhancement can be guaranteed by CA certification, the next challenge is how to grow the population, as getting certified itself is not so easy. (Indonesia)

- The shortage of skilled accountants for IFRS for SMEs is significant, particularly in ultra-small firms. MIA offers many opportunities for paid courses for accountants targeting ultra-small accounting firms. MIA aims to indirectly help SMEs accommodate the accounting system by offering support to ultra-small accounting firms. (Malaysia)
- For SMEs, the cost of outsourcing professional accountants is too expensive. (Thailand)
- Most SMEs have no internal accounting personnel. (Cambodia)
- Accounting personnel internally hired by companies (often called ‘preparers’) are less knowledgeable or skilled. Training opportunities or the like should be offered to address this issue. (Singapore)
- While some SMEs outsource to external specialist firms, many of them are assigning employees with less expertise to keep books. (Indonesia)
- Though the introduction of software accounting solutions may potentially enable self-sufficient bookkeeping in SMEs, high solution cost is inhibiting its introduction. (Malaysia)

## 6. Appreciation of IFRS for SMEs

### [Key findings]

- Negative feedbacks regarding the compulsory accommodation of IFRS for SMEs are prevalent among financial institutions and business entities.
- In contrast, most government agencies and accountants suggested the active promotion of the framework, expecting globalisation as the background.

Most responses from financial institutions and business entities were negative about the introduction of IFRS for SMEs. Even in countries where the system is already in place, responses included ‘IFRS for SMEs is too complicated’ or ‘Simpler and easier standard based on historical cost of accounting (HCA) should be more appropriate, particularly to the small- and micro-sized entities’. We also found that some rules were not respected in reality. For

example, assets are not measured according to the fair-value measurement rule (but processed on only HCA basis).

In countries that have not introduced the standard yet (including the ones that plan to), responses were: 'Too early to introduce as it is too complicated for SMEs' and 'Just conforming to international accounting standards will not eliminate accounting fraud.'

There were also comments to encourage the introduction of IFRS for SMEs from government agencies and professional accountants based on evolving globalisation as the background. Some were even more aggressive by commenting: 'Beefing up the enforcement (e.g., with penalties) may foster accounting awareness and daily practice of it'.

Cases identified through the field studies:

- Though the central banks in the ASEAN nation are promoting the introduction of IFRS for SMEs, the actual landscape of the introduction remains to be seen. (Philippines)
- A more simplified, easier-to-understand, HCA-based standard like the pre-IFRS or the traditional accounting standard is potentially more appropriate to SMEs, particularly small- and micro-sized entities. (Singapore)
- Assessments are sometimes entrusted to external bodies. (Philippines)
- SMEs often book assets only on HCA basis. (Singapore)
- The introduction of IFRS for SMEs is highly unlikely. SMEs in the country are not mature enough to be able to accommodate IFRS. (Thailand)
- Accounting is critical but the system has to be as reasonably austere as SMEs can actually accommodate. A more simplified accounting standard with reasonable implementation cost would be appropriate for SMEs. (Malaysia)
- Just introducing IFRS will not automatically eliminate accounting frauds. The accounting standard is not self-sufficient for fraud-free accounting. (Malaysia)
- The key aspects of IFRS for SMEs are already integrated into the existing accounting standard. Awareness of the need to introduce IFRS for SMEs is not too common. SMEs will have a hard time responding to the official introduction of IFRS. (Indonesia)

- As many global companies are present in the country as foreign-affiliated entities or subsidiaries, introducing the uniform standard full SFRS would be far more beneficial. (Singapore)
- As assets owned by SMEs are often limited to investment properties or equities, reviewing the fair value should be less troublesome. This may not be the case for some exceptional entities. (Singapore)
- Considering the potential future developments, getting ready for opportunities to come would make sense. Current global markets will not accept us as we are. We will not be listed in the list of investments from other countries until we accommodate IFRS. (Malaysia)

## 7. Overall Summary

### [Key findings]

- There is a considerable gap between the system and its operations (actual situation) in SME accounting in ASEAN countries.

All the countries have adopted an accounting system for SMEs, regardless of whether IFRS for SMEs is introduced or not. However, such systems are not necessarily operated in a proper manner. There is a gap between SME accounting systems and actual operations.

Problems are most prominent in the field of bookkeeping. Entities cannot properly keep daily accounts, especially small- and micro-sized entities. Due to such situations, financial statements of SMEs (especially small- and micro-sized entities) remain unreliable. In addition, the problem of dual bookkeeping for tax evasion is pointed out in many countries.

For countries where IFRS for SMEs have been introduced, we investigated whether fair-value assessments are properly conducted or not so as to confirm actual situations of operations. We found many cases of improper implementation of the fair-value assessment. We even heard some people incorrectly say that fair-value assessment is waived in IFRS for SMEs even when it is actually obligatory.

Though accounting systems for SMEs are introduced, such systems are not necessarily operated in a proper manner. Such gaps between the system and actual situations exist in many ASEAN countries. The resolution of such gaps is a major issue in connection with SME accounting in ASEAN countries.