

Chapter 1

Background and Purpose of the Research Project

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Chapter 1

Background and Purpose of the Research Project

1. Background of the Research

The International Accounting Standards Board (IASB) has issued the International Financial Reporting Standards (IFRS) as the international accounting standards, and countries throughout the world have begun to adopt the IFRS. In addition, the IFRS for Small- and Medium-Sized Entities (IFRS for SMEs) was introduced in 2009. The IFRS for SMEs is separate from the complete version of the IFRS. Even though each country (or region) decides to adopt the standards and their corporate applicability, the introduction of IFRS has an effect on the accounting practice of small- and medium-sized entities (SMEs).

To become an independent SME that can succeed despite harsh conditions, SMEs must be equipped with financial management ability; an ability to secure and obtain financing; vision and know-how to ensure growth; and technologies and human resources that can stand up to global competition. It is extremely important for the SME to strengthen and visualise the financial capacity that will enable it to obtain funding. It is also essential for every SME to accurately understand its own business conditions and, based on that knowledge, to draw up a business-enhancement plan or a new business plan so that it can clearly communicate its objectives to financial institutions. The Economic Research Institute for ASEAN and East Asia has conducted several researches to investigate the necessity of improving SMEs' access to finance, including 'Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies' (Harvie, Oum, and Narjoko, 2011). Such researches point out that proper, transparent accounting practices and preparation of transaction records are challenges for improvement of SMEs' access to finance in the ASEAN region.

Another very important challenge is how SMEs in the ASEAN region will collect investment from developed countries in the midst of global competition. As corporations and investment funds in developed countries rely on financial statements of target companies to make investment decisions, the lack of financial statements or low transparency or reliability of

financial statements may discourage investors from making investment decisions or increase investment costs.¹

SMEs in the ASEAN region face difficult economic conditions such as intensifying global competition and limited business resources in financing and human resources as a result of changes in the business environment, as symbolised by the ASEAN economic integration in 2015 or the signing of Free Trade Agreements (FTAs) with various nations and regions. To address such challenges, the improvement of financial access is considered one of the most important issues. In the current ASEAN SME Strategic Action Plan (2010-2015) and the next action plan for 2016-2025, the latter of which is under review, various approaches are listed and considered.

In spite of the current changes in environments surrounding accounting systems and accounting standards, and emerging international economic frameworks as mentioned above, it is estimated that the introduction of or response to IFRS and IFRS for SMEs in terms of accounting by SMEs in the ASEAN region is not proceeding perfectly well.

For example, in June 2014, a special session on SME accounting standards and their applicability was held at a meeting of a The 14th Joint Consultation between the ASEAN Small and Medium Enterprises Agencies Working Group and Japan of SME policymakers and accounting experts from ASEAN nations. At that session, it was established that the ASEAN region faces some challenges. For example, the accounting standards that were created in reference to the IFRS for SMEs in the ASEAN region were too advanced for actual use by SMEs; diffusing the IFRS for SMEs widely was challenging; and there was no legal obligation for companies under a certain size to adopt such standards. More significantly, the importance of building and spreading the accounting standards for SMEs in the ASEAN region was acknowledged at the session.

Even in Japan, which is regarded as an advanced country in Asia, accounting has also been recognised as an important issue for improving the SMEs' financing environment. Accordingly, the Guidelines for Accounting for Small- and Medium-Sized Enterprises (GASME) was issued in 2005. The guidelines presented a simplified version of the Corporate Accounting Standards, the accounting standards for large corporations. However, the standards were still too advanced for SMEs. In fact, since 2000, as a result of the convergence of IFRS and Corporate

¹ Pricewaterhouse Coopers, Transparency Project, 2001.

Accounting Standards, GASME has had to be revised almost annually in Japan. Consequently, the management of SMEs pointed out that the guidelines were too advanced and complicated; hard to understand; the choices for the accounting treatment were limited; and did not necessarily match the business practices or accounting practices of SMEs.

As a response to those challenges, in 2012, the Accounting Procedures for Small- and Medium-Sized Enterprises (APSME) was issued as the new 'guidelines to show how SMEs' accounting should be done,' as appropriate to their actual conditions.

Considering this history of Japan, the IFRS and IFRS for SMEs, which are international accounting standards, may not be easily complied with by SMEs in the ASEAN region, which are still in the process of developing.

In fact, in the ASEAN, the introduction or response to IFRS varies depending on the situation of the country. Singapore and the Philippines introduced IFRS at a very early stage and have implemented it for a certain period. Cambodia and Myanmar introduced IFRS and IFRS for SMEs recently, while in the process of rapid economic development. Thailand and Malaysia recently decided to introduce IFRS and they are just in the process of preparation. On the other hand, Viet Nam and Indonesia are still carefully considering the introduction of IFRS.

Although it has been pointed out that IFRS and IFRS for SMEs are difficult accounting standards to comply with, no surveys have been conducted to study the actual situations that impact the introduction and response by SMEs or the challenges relating to such situations across the ASEAN region. Thus, it is not clear what policies are required for SMEs to promote the improvement of accounting books and financial statements in accordance with accounting standards.

2. Purpose of the Research

Our research will investigate the accounting standards applied to SMEs in ASEAN and the manner in which those standards are spread to SMEs. After we investigate the challenges faced by SMEs in ASEAN nations when utilising the accounting standards, as well as the measures with which to conquer such challenges, we will develop and recommend public policies. Our research will also clarify the gap between ideals and the reality of the introduction of international accounting standards, including IFRS and IFRS for SMEs, and determine if it is progressing smoothly or not.

After we identify the reality and challenges of the accounting system for SMEs in the ASEAN region, we can clearly determine what type of public policy should be created throughout ASEAN or the individual nations. With a public policy in effect, we foresee improvement in the ability of SMEs in ASEAN to obtain financing.