

# Chapter 2

## Research Overview (Research Method)

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## Chapter 2

### The Research Overview (Research Method)

#### 1. Research Framework

The purpose of this research is to study how the accounting standards for SMEs are constituted and implemented in ASEAN nations in order to identify issues and problems as well as the ideal future state of accounting policies for SMEs.

Each ASEAN nation has a highly unique traditional attitude towards accounting standards and policies for SMEs. As IFRS is an international accounting standard, the way each nation tackles it is diverse, depending on the actual level of necessity and materiality, which results in each nation's distinct system and circumstances. This is why we have decided to summarise basic information concerning systems and SMEs through desktop research on existing surveys and research papers, as well as presentation materials submitted by the Working Group (WG) members.

The contents and progress of responses to IFRS differ for each ASEAN nation, and such difference may produce different situations, problems, and issues in connection with accounting for SMEs. This is why we have classified ASEAN nations by setting the 'adoption of IFRS' as an important benchmark. Specifically, we classified them into countries that have used IFRS for a certain period of time (Singapore, Philippines and Cambodia); countries that have decided to do so in future after much consideration (Thailand and Malaysia); and countries that are considering the responses but have not decided on what to do (Indonesia). This is shown in Figure 1, the Classification of ASEAN nations in terms of IFRS adoption).

The situation of IFRS adoption of each country reported on the website of the IFRS Foundation is used as a reference in creating this figure.<sup>2</sup>

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<sup>2</sup> IFRS Foundation home page. <http://www.ifrs.org/Pages/default.aspx>

We selected six countries from among the ASEAN nations (excluding those that had not disclosed their situation of IFRS adoption yet such as Viet Nam and Brunei) based on data on situations of IFRS adoption. We held on-site hearings to understand the details of the actual situations and issues in connection with accounting.

## 2. Field Research

### (1) Countries where field researches were conducted

Based on the information on ASEAN nations, which have been summarised according to situations of IFRS adoption in Figure 1, we held on-site hearings in six countries to collect detailed data.

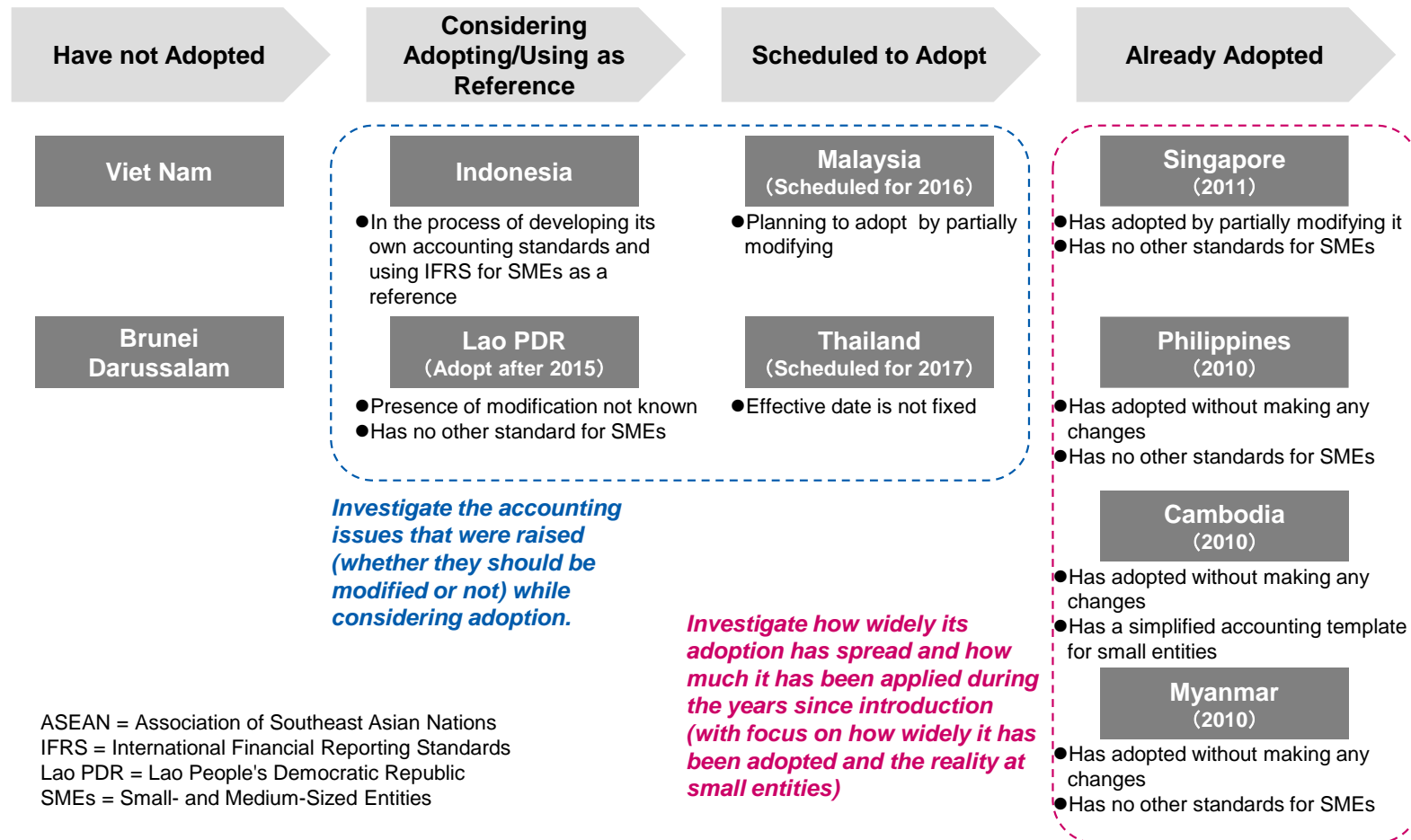
**Table 1: Countries where field researches were conducted**

Country	Date of Field Research
Philippines	15–17 June 2015
Thailand	18–19 June 2015
Singapore	13–14 July 2015
Cambodia	15–17 July 2015
Indonesia	3–5 August 2015
Malaysia	6–7 August 2015

### (2) Research target

The purpose of the field research is to understand the situations influencing decisions to adopt IFRS and IFRS for SMEs, the actual business situations, and the accounting issues of SMEs. We believe that it is desirable to hold discussions with organisations and experts that are familiar with the actual accounting situations in SMEs first hand and we selected five research targets.

Figure 1: Classification of ASEAN member nations in terms of IFRS adoption



ASEAN = Association of Southeast Asian Nations  
 IFRS = International Financial Reporting Standards  
 Lao PDR = Lao People's Democratic Republic  
 SMEs = Small- and Medium-Sized Entities

Source: The IFRS Foundations (2014), Minutes of the 14<sup>th</sup> AEM METI Economic and Industrial Cooperation Committee SME Working Group.

We held hearings with financial institutions, which are the most deeply concerned with the existence and reliability of financial statements and accounting books, as they are the ones evaluating and granting SMEs loans based on the financial statements and accounting books. It is, however, possible that major financial institutions put little emphasis on loans for SMEs, so we decided to survey local banks, which are expected to be relatively eager to give loans to local companies. We also surveyed policy-based financial institutions specialising in loans for SMEs in countries where such institutions exist.

In addition, we held hearings with certified public accountants (CPAs) to hear expert opinions on the actual situations and accounting problems as they are the ones actually deeply involved with accounting of SMEs. We tried to find out if they were asked by SMEs to audit financial statements and to give consultation services in the first place. If they were, we asked them what the actual situations, problems, and tasks concerning books and accounting of SMEs were like.

As individual CPAs may only understand the actual situations and tasks of the SMEs they are dealing with, we also held hearings with industry groups of CPAs to understand the tasks and problems generally faced by SMEs in their countries, how the government agencies and SMEs responded to the adoption of IFRS and IFRS for SMEs, and what they thought of such adoption.

We also held hearings with some government agencies because they understood the actual situations and tasks relating to accounting of SMEs, particularly in relation to statistical data, and deployed policies for solving the problems. We surveyed government agencies in charge of SME policies and other government agencies where information specialising in accounting of SMEs were obtained. For SMEs, the preparation of accounting books and financial statements is closely connected with tax purposes. In some cases, entries in the books and financial statements need to be adjusted or altered for tax payment purposes because standards in tax affairs are different from accounting standards. As accounting is closely connected with tax affairs, we also held hearings with tax authorities (including the National Tax Service and tax offices).

In order to understand SMEs' consciousness of accounting tasks, we surveyed the chambers of commerce in charge of SME policies as well. We got to know the roles and policies expected of accounting from the viewpoint of the present systems relating to books and accounting, the actual responses by SMEs, the implementation of business, and cost reduction.

In countries where our requests were accepted, we visited SMEs and confirmed the actual preparation of accounting books, the existence of financial statements, and the connection with tax affairs.

**Table 2: Major research targets and the reasons for selection**

	Research Subjects	Reasons
1	Local Financial Institutions	<ul style="list-style-type: none"> <li>● To understand the reality and challenges of SME accounting from the financial providers' perspective</li> </ul>
2	Certified Public Accountants	<ul style="list-style-type: none"> <li>● To understand the reality of accounting in SMEs and how they are adopting IFRS for SMEs</li> </ul>
3	CPA Associations	<ul style="list-style-type: none"> <li>● To understand the associations' awareness of issues</li> <li>● To see what is necessary to implement better accounting systems and what should be considered</li> </ul>
4	Government Agencies (those in charge of SME policy)	<ul style="list-style-type: none"> <li>● To understand the policy, goal, issues, and the reality in connection with the accounting of SMEs</li> </ul>
5	Chambers of Commerce (Organisations for SMEs)	<ul style="list-style-type: none"> <li>● To understand the awareness and requests of management at SMEs</li> </ul>

CPAs= Certified Public Accountants; IFRS= International Financial Reporting Standards; SMEs = small- and medium-sized entities.

### (3) Survey items

As we selected the research targets for the purposes mentioned above, we asked them questions mainly from the viewpoints listed in Table 3.

**Table 3: Major survey items for research targets**

	Research Subjects	Reasons
1	Local Financial Institutions	<ul style="list-style-type: none"> <li>● Existence and credibility of accounting ledgers, and earnings and expense documents of SMEs</li> <li>● What they check for the financing of SMEs (check items)</li> <li>● Accounting issues and expectations (what they want to know) in connection with financing SMEs</li> <li>● How accounting should be in order to vitalise SMEs</li> </ul>
2	Certified Public Accountants	<ul style="list-style-type: none"> <li>● Reality of accounting at SMEs (how they are adopting IFRS for SMEs and the need for adoption)</li> <li>● Issues surrounding accounting at SMEs (issues for debate at the time of auditing such as collateral method for inventories at fair value, depreciation, and evaluation method for lease contracts)</li> <li>● Auditing method</li> <li>● Correlation and problems between the accounting system and tax obligations</li> </ul>
3	CPA Associations	<ul style="list-style-type: none"> <li>● Reality and problems surrounding the SME accounting system</li> <li>● Reality of accounting at SMEs (including how IFRS for SMEs is adopted)</li> <li>● Auditing method</li> <li>● Directions taken for improvement and countermeasures being considered (if any)</li> </ul>
4	Government Agencies (those in charge of SME policy)	<ul style="list-style-type: none"> <li>● Current conditions, the history of the accounting system for SMEs</li> <li>● Issues regarding the accounting for SMEs</li> <li>● Directions taken for improvement and countermeasures being considered (if any)</li> </ul>
5	Chambers of Commerce (Organisations for SMEs)	<ul style="list-style-type: none"> <li>● Current conditions, the history of the accounting system for SMEs</li> <li>● Issues regarding the accounting for SMEs</li> <li>● Directions taken for improvement and countermeasures being considered (if any)</li> </ul>

CPAs= Certified Public Accountants; IFRS= International Financial Reporting Standards; SMEs = small- and medium-sized entities.

### **3. Desk Research**

Due to time and resource limitations, the field research was limited to six countries. However, literature investigation of accounting systems for SMEs and their operation situations was conducted for all ASEAN countries. Referred literature included: the 'IFRS Application Around the World', a report on situations relating to the introduction of IFRS in different countries, published by IFRS Foundation; information disclosed by government authorities; reports published by associations of CPAs and auditing corporations in various countries; and papers, books, and other documents created or edited by members of the WG mentioned below.

In addition, literature investigation was conducted for advanced countries to gain insight into the future direction and policy suggestions for accounting systems for SMEs in ASEAN countries. As targets of the investigation, five countries were selected: Japan, Korea, and China from East Asia, which is expected to relatively resemble ASEAN in terms of business climates; and the United States of America (USA) and Britain from Europe and America. Referred literature were almost the same as in the investigation for the ASEAN countries.

### **4. Discussion by the Working Group**

In this study, a WG was formed to discuss the policies and results of the investigation mentioned above. The members of the WG and a summary of WG meetings held are listed in Table 4 and Table 5.



**Table 4: Working Group members**

Role	Name	Affiliation
Leader	Mr Keisuke Mizunoura	Senior Consultant, Nomura Research Institute, Ltd., Japan
Coordinator	Mr Naoya Shimokoshi	Consultant, Nomura Research Institute, Ltd., Japan
Member	Dr Teruyuki Kawasaki	Professor, Graduate School of Accountancy, Konan University, Japan
	Dr Takashi Sakamoto	Professor, Faculty of Business Administration, Aichi Institute of Technology, Japan
	Dr Masataka Hiraga	Professor, Faculty of Management, Aichi Gakuin University, Japan
	Mr Naoya Sakamoto	CPA (Japan), iCube Inc., and Asahi Networks Phils. Inc., Philippines/Japan
	Mr Monileak Siem	Researcher and Head of Accounting Department, Faculty of Finance and Accounting, National University of Management, Phnom Penh, Cambodia
	Mr Fajar Putranto	Associate Partner, Arman Dhani & Rekan, Indonesia
	Ms Pasin Chanmolee	Trade Officer, Department of Business Development, Ministry of Commerce, Thailand

**Table 5: Outline of Working Group meetings**

No	Date	Location	Agenda
1	28 May 2015	Tokyo	<ol style="list-style-type: none"> <li>1. Opening</li> <li>2. Opening Address</li> <li>3. Explanation of the purposes of this research project and Working Group</li> <li>4. Working Group members' self-introductions/reality of SME accounting (current situations in members' countries)</li> <li>5. Points and subjects of research</li> <li>6. Countries subject to field investigation</li> <li>7. Progress on desk research</li> <li>8. Administrative business, including expense reimbursement procedures</li> <li>9. Closing</li> </ol>
2	4 August 2015	Jakarta	<ol style="list-style-type: none"> <li>1. Opening</li> <li>2. Opening Address</li> <li>3. Report on current status and accounting system of SMEs in ASEAN countries</li> <li>4. Interim report on field study results</li> <li>5. Discussions on direction of proposal</li> <li>6. Confirmation of report configuration</li> <li>7. Future schedule and others</li> <li>8. Closing</li> </ol>
3	9 October 2015	Singapore	<ol style="list-style-type: none"> <li>1. Opening</li> <li>2. Interim report on field study results in Indonesia and Malaysia</li> <li>3. Comments on the results of the survey of ASEAN countries</li> <li>4. Discussion of the structure and content of the final recommendations</li> <li>5. Future schedule and others</li> <li>6. Closing</li> </ol>

ASEAN = Association of Southeast Asian Nations; SMEs = small- and medium-sized entities.