Chapter 3

Actual Situations and Tasks Relating to Accounting of SMEs in ASEAN nations

March 2016

This chapter should be cited as

ERIA (2017), 'Actual Situations and Tasks Relating to Accounting of SMEs in ASEAN nations, in Mizunoura, K. (ed.), *Accounting Standards for Small-and Medium-Sized Enterprises in ASEAN*. ERIA Research Project Report 2015-22, Jakarta: ERIA, pp.13-84.

Chapter 3
Actual Situations and Tasks relating to Accounting of SMEs in ASEAN Nations

This section summarises the accounting systems of SMEs and the actual operations of those systems in ASEAN nations. For the Philippines, Singapore, Thailand, Cambodia, Indonesia, and Malaysia, where field researches were conducted, we summarised the results of the hearings that focused on actual operations; the problems and tasks relating to accounting systems and their operations; and measures for resolving such problems, et cetera.

1. Philippines

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

In the Philippines, the National Internal Revenue Code stipulates that 'All corporations, companies, partnerships or persons required by law to pay internal revenue taxes shall keep a journal and a ledger or their equivalents.' Therefore, all business operators and individuals obliged to pay the internal revenue tax must prepare accounting books.

Partnership or corporations must register with the Securities and Exchange Commission (SEC), regardless of the size. As of 2013, there were 935,000 SEC-registered companies in the Philippines. These SEC-registered companies are obliged to submit documents, including annual reports and financial statements, to SEC.

As a financial reporting standard, the Philippine Financial Reporting Standard (PFRS), equivalent to IFRS in content, was introduced in 2005. The IFRS and PFRS have practically the same standards.

The PFRS had been applied in the Philippines since 2005, until the Philippine Financial Reporting Standard for SMEs (PFRS for SMEs) was introduced in 2010. SMEs meeting any of the following standards are obliged to use PFRS for SMEs. Companies larger than the standard below or whose shares have been sold in the market are obliged to use full PFRS.

- Companies with total assets worth ₱3 to ₱350 million, or debts worth ₱3 to ₱250 million. The standard above shall be applied to consolidated results in the event of a parent company.
- Companies not required to submit financial statements under SEC Rule 68, Part II (have not sold their shares in the market).
- Not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market.
- Not holders of secondary licences issued by regulatory agencies.

SMEs meeting any of the following standards may use full PFRS:

- A subsidiary of a parent company that makes reports under full PFRS.
- A subsidiary of a foreign parent company using full IFRS.
- A subsidiary of a foreign parent company planning to transit to full IFRS.
- An SME falling under an important joint venture or affiliated company that makes group reports under full PFRS.
- A branch, office or regional operating headquarters reporting under full IFRS.
- An SME having a subsidiary obliged to report under full PFRS.
- An SME that has a short-term plan or forecast extremely exceeding the quantitative threshold of an SME.
- An SME having a concrete plan to conduct Initial Public Offering (IPO) within two years.
- An SME that has been preparing financial statements using PFRS and has decided to liquidate.
- An SME whose exemption from mandatory application of PFRS for SMEs is deemed beneficial by the SEC.

SEC stipulates that companies with a paid-in capital of ₱50,000 or more shall have an independent CPA conduct a statutory audit. In addition, under the provisions of the Tax Code, corporations, companies, partnerships or persons having quarterly sales of ₱150,000 or more are obliged to attach an audited financial statement to the tax return form.

2) Other major related laws and regulations

None in particular.

3) Definition and number of SMEs

The Department Trade Industry (DTI) defines SMEs in terms of 'the amount of total assets excluding land' and 'the number of employees'. An SME is defined as having total assets, excluding land, less than ₱100 million and less than 200 employees. The Philippines is characteristic in that corporate size is uniformly defined as mentioned above, regardless of the industry. SMEs are further classified into micro-enterprises, small enterprises, and medium enterprises.

According to DTI, the number of business operators in the Philippines in 2012 was 944,897. Some entities refuse to register with DTI, so the actual number is larger.

Definitions and percentages of corporate sizes are as follows:

Table 6: Definitions and percentages of SMEs in the Philippines

Classification of entities	Definition		Percentage to all business operators (2012)
	Amount of total assets excluding land	Number of employees	
Large	₱100 million or more	200 or more	0.42%
Medium	₱15 million or more, but no more than ₱100 million	100 or more, but no more than 200	0.44%
Small	₱3 million or more, but no more than ₱15 million	10 or more, but no more than 100	9.78%
Micro	Less than ₱3 million	Less than 10	89.78%

SMEs = small- and medium-sized entities.

Source: Naoya Sakamoto, Accounting for MSME in the Republic of the Philippines, WG.

4) Provisions concerning preparation of accounting books and financial statements by SMEs

Section 232 (A) of the National Internal Revenue Code 1997 stipulates that 'All corporations, companies, partnerships or persons required by law to pay internal revenue taxes shall keep a journal and a ledger or their equivalents'. Thus, even a single owner is obliged to prepare accounting books.

Revenue Regulation No. V-1, otherwise known as 'The Bookkeeping Regulations', promulgates regulations relative to the keeping of books of accounts, records, registers, and the issuance of invoices, receipts, tickets, and other supporting papers and documents by persons subject to internal revenue taxes, and the manner of recording business transactions.

Revenue Regulation No. 17-2013 requires the books of accounts and other accounting records to be kept for 10 years, counted from the date of the last entry in the books.

Penalties concerning preparation of accounting books are stipulated as follows:

Table 7: Bookkeeping violations and penalties

Violation	Penalty	
	1st	2nd
Failure to issue receipts/invoices	₱10,000	₱20,000
Refusal to issue receipts/invoices	₱25,000	₱50,000
Duplicate copy of receipt is blank and used original copy detached	₱10,000	₱20,000
Use of unregistered receipts/invoices	₱10,000	₱20,000
Incomplete information in the receipts/invoices	₱1,000	₱2,500
Failure to register books of accounts	Subject to graduated rates (₱200-₱50,000) based on gross sales	
Failure to keep books of accounts at the place of business	₱1,000 for each act or omission	
Failure to make entries in the registered books of accounts		
Others (refer to Section 275 of NIRC)		

NIRC = National Internal Revenue Code; ₱ = Philippine peso.

Source: N. Sakamoto, Accounting for MSME in Republic of the Philippines (WG material).

(2) Results of the hearings

In the Philippines, especially in the capital city Manila, we held hearings with government agencies, CPAs, industry groups of CPAs, financial institutions (banks) and the Chamber of Commerce from 15-17 June 15 2015. See below for details.

Table 8: Agencies subjected to research in the Philippines

【DTI】 Department of Trade and Industry, Bureau of Small and Medium Enterprise Development,
【BIR】Bureau of Internal Revenue
【DBP】Development Bank of Philippines
【LB】Land Bank
【PICAP】Philippine Institute of Certified Public Accountants
【PCCI】Philippine Chamber of Commerce and Industry
【CPA】CPA firms (2 firms)

1) Books

(i) Persons who do bookkeeping works

- SMEs hand over their receipts to their accountants for compilation in their accounting books.
- There are many subcontractors that accept entrustment of accountancy, including compilation of accounting books.

(ii) Interest in bookkeeping, financial statements and accounting

- SMEs are little interested in the compilation of accounting books and financial statements. They usually manage their accounting only because they are obliged to.
- They are too much interested in sales, or they have no ability to establish and maintain an (internal) accounting system, or it costs too much money to compile books and financial statements, which is also the reason they are not much interested in accounting.
- The authorities, who are supposed to check operations of companies, are not much interested in SMEs.
- They do not want to have their books or financial statements seen by outsiders because, for example, they have a secret account.
- Larger companies tend to be more interested in accounting, but family-owned companies are especially indifferent to accounting.

(iii) Use of books for financing (including checking items when requesting a loan)

- Accounting books and financial statements do not contribute much to the determination of loans, even though they are checked.
- By obtaining and evaluating information on sales results, accounts receivable, the status of inventory, and existing loans, the banks prepare financial statements based on the assessment. They also conduct interviews. Often, there is no collateral.
- The characteristics of business owners/companies, business environments, capital, repayment capacity, and collateral are considered more important than accounting books.

2) Financial statements

(i) Authorities that financial statements are submitted to

- Financial statements must be submitted to the SEC and the Bureau of Internal. Revenue (BIR).
- There are obligations for registration with DTI, but only the company name must be registered. The submission of financial statements is not required.

(ii) Companies that are obligated to submit financial statements (Companies that are obligated to register to authorities)

- 'Single-owner' companies (refer to micro-enterprises) need not register with SEC. Companies with a paid-in capital of ₱50,000 or less are also not required to register. Other companies are obliged to register.
- Joint-stock corporations, even if they are SMEs, are required to register with SEC. As of 2013, around 935,000 SMEs were registered with SEC, not including companies other than SMEs. However, many unofficial companies are not registered.

(iii) Handling of financial statements (not submitted or there are deficiencies)

- Financial statements of companies other than those registered with SEC are not reviewed.

(iv) Whether or not audit is required for financial statements

- The country's central bank requires audits, but many SMEs cannot respond to such requirement. In actual practice, the central bank accepts unaudited financial statements.

(v) Reliability of financial statements

- Financial statements prepared by SMEs themselves are not accurate. Inaccuracy of the submitted financial statements is one of the challenges concerning SMEs.

(vi) Advantages/disadvantages of audit

- Even if the financial statement is unaudited, SMEs may receive a loan of ₱3 million or lower.
- Companies with audited IFRS-compliant financial statements have higher credit ratings.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

- Except for relatively large SMEs, not all SMEs can comply with PFRS for SMEs.
- Though the central bank is promoting its application, it is doubtful whether PFRS for SMEs is actually applied.
- (The loan officer feels that) not more than 10 percent of small-sized companies with assets of ₱15 million or lower will submit audited PFRS for SMEs-compliant financial statements.
- The tax offices do not adopt PFRS.
- PFRS for SMEs is easier than full PFRS, but it is still quite a burden on SMEs.
- PFRS for SMEs is very troublesome. Particularly, it is too complex for small and micro enterprises. The actual number is unknown, but it is considered that a lot of small and micro enterprises have adopted the generally accepted accounting principles (GAAP).

(ii) Interest in accounting standards

- It is possible that SMEs are not aware of the kind of accounting standard they are using.
- Local SMEs are not conscious of PFRS, which is a problem.
- Some business operators failed in business because they could not utilise accountancy in their management.
- Only a very small number of owners of SMEs believe that accounting may contribute to business.

(iii) Actual operation

- SMEs often have difficulties concerning the methods for assessment of transactions, assessment of employee benefits and inventories, inventory valuation, assessment of the present values of financial products, investment in real estates, and accounts receivable. Sometimes, even the responsible personnel cannot quite understand such assessment.

(iv) Actual situation of fair-value valuation

- Sometimes, evaluation is entrusted to external organisations. On the other hand, despite evaluation is should be based on market value, historical costs may be approved.

(v) Advantages and disadvantages of introduction

- While valuation becomes easier and accuracy is improved, it is not easier to receive a loan.
- SMEs may receive loans from their relatives or informal organisations. Sometimes, they do not need any loan from banks.
- They are only complying with the new standard because they ought to. There is no advantage for them in complying with PFRS for SMEs.
- If financial institutions in charge of loans start to aggressively demand financial statements that are compliant with the accounting standard, the attitude towards accounting may change.
- To enhance global competitive power, PFRS for SMEs will be important for SMEs.

(vi) Compliance with tax

- Documents submitted to the tax office should be preferably compliant with PFRS, but they need not be in the PFRS format if they conform to the local tax laws.

(vii) Burden when filing tax return

- Introduction of PFRS is not a burden because there is no significant difference between the preparation of financial statements and the application for tax return.
- Even if there is a difference, the adjustment is not a burden.

4) Government agency

(i) Government efforts

- The government issues ‘Accounting Handbooks’ in an effort to improve awareness of accountancy.
- As the business sector does not participate in the Philippines Accounting Standards Council, opinions of the business sector are not reflected.

(ii) Cooperation with other organisations

- Collaborative activities with CPA organisations are conducted. In some cases, inter-agency collaboration does not proceed.

- It is good that the Small- and Medium-Enterprises Agency and the Financial Services Agency are cooperating with each other in connection with accounting of SMEs as Japanese Government Agencies do. (DTI).

5) Human resources - challenges of accountants

- There are insufficient accountants who understand PFRS and are certified by the central bank, et cetera, especially in rural areas.
- Fees of auditing firms capable of conducting PFRS-compliant audits are high.
- Some accountants have no updated knowledge of PFRS.

6) Proposals from interviewees

- Simplification is important in accountancy.
- It will be greatly appreciated if the government provides support to SMEs by, for example, expanding training centres.

(3) Tasks concerning accounting systems for SMEs in the Philippines and their operations

As indicated above, medium-sized companies in the Philippines are ready for the adoption of full PFRS or PFRS for SMEs with almost no problems. On the other hand, small and micro companies are far from ready for accounting and some interviewees have commented that PFRS for SMEs may be too complicated for small and micro companies. Though PFRS for SMEs requires fair-value evaluation, there are many cases that are evaluated only at acquisition cost.

Bookkeepers are often outsourced for the purpose of preparing accounting books. SME owners are very little interested in the preparation of accounting books and financial statements. They usually prepare books and financial statements only because they are obliged to. In response to this situation, DTI is trying to educate and enlighten SME owners on the accounting method and the importance of accounting through the 'Accounting Handbook' and giving seminars and trainings sessions. This type of education and knowledge dissemination is important. How such education/knowledge dissemination should be effectively and efficiently provided to many SME owners requires much consideration.

Financial institutions regard financial statements submitted by SMEs (especially small and micro enterprises) at the time of the screening for loans as low in correctness and reliability.

However, they say that they do not know whether or not loans will be easier to obtain or loan conditions will be better even if the financial statements comply with PFRS for SMEs and are audited. For loans to SMEs, the emphasis is put on their collaterals, repayment ability, and cash flow.

2. Singapore

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

Singapore introduced the Singapore Financial Reporting Standards (SFRS) on 1 January 2003. The contents of SFRS are equivalent to those of IFRS. Then, the Singapore Financial Reporting Standards for Small Entities (SFRS-SE) was introduced by the Accounting Standard Council on 1 January 2011. It has almost the same contents as IFRS for SMEs.

In Singapore, small entities refer to corporations falling under the following categories:

- The annual sales do not exceed S$10 million.
- The total amount of assets does not exceed S$10 million.
- The total number of employees does not exceed 50.

Entities meeting the conditions above may select SFRS-SE, in addition to full SFRS (the adoption of full SFRS is mandatory for corporations other than small entities). According to this standard, around 80 percent of the entities in Singapore will fall under the category of 'small entities'. However, as noted below, it is estimated that five percent of all the entities actually adopt the SFRS-SE.

The differences between SFRS-SE and IFRS for SMEs are as follows:

- Not all Singapore companies that meet the IASB's definition of SMEs are eligible to use the SFRS-SE.
- Additional guidance has been issued in the form of an Accompanying Note to the SFRS—equivalent to the International Financial Reporting Interpretations Committee (IFRIC) 15 Agreements for the Construction of Real Estate—to guide the accounting for a specific type of agreement in Singapore. This guidance is an integral part of the SFRS-SE and is

intended to be consistent with the requirements of IFRIC 15.

All corporations are required by the Company Act to submit financial statements (annual return) to the Accounting and Corporate Regulatory Authority (ACRA) within six months after completion of a General Shareholders' Meeting. The submitted financial data of public companies and private companies can be viewed through the search system, Bizfile. The data has been made into XBRL files since 2007.

In Singapore, corporations (including private companies) must be audited by an independent auditor in principle. However, companies falling under two or more of the following items are exempted from such audits. These conditions, which are the same as those for small entities, are as follows:

- The annual sales do not exceed S$10 million.
- The total amount of assets does not exceed S$10 million.
- The total number of employees does not exceed 50.

2) Other major related laws and regulations

None in particular.

3) Definition and number of SMEs

As mentioned above, the only classification of SMEs for accounting purposes is whether or not they are ‘small entities’. Around 80 percent of all corporations (approximately 250,000) are classified as small entities.

4) Provisions concerning preparation of accounting books and financial statements by SMEs

The Company Act stipulates that financial records, from which financial statements and supporting documents can be created, must be retained for five years. In addition, the Corporate Tax Law stipulates that accounting books and evidence must be retained for five years after expiration of the relevant taxation year.

(2) Results of the hearings

In Singapore, we held hearings with CPAs, industry groups of CPAs, financial institutions (banks), SMEs (with 10 employees), and experts on SME accounting from 13–14 July 2015. See below for details.

Table 9: Agencies subjected to research in Singapore

【CPA】Accounting firm, audit corporation 【SMEs】Small- and medium-sized enterprises (with 10 employees) 【ISCA】Institute of Singapore Chartered Accountants 【Bank】Private Bank 【SME professional accountants】 Experts on SME accounting (Name withheld on request)

1) Books

(i) Persons who do bookkeeping works

- It depends. In many cases, companies with only 10 employees introduce an accounting system and the administration manager manages booking.
- However, even such companies entrust accounting firms with month-end settlement and preparation of financial statements for settlement of accounts.
- In some cases, the monthly outsourcing fee is S$1,000, the fee for preparation of financial statements for settlement of accounts is S$2,000, and the audit fee is S$7,000.
- Micro-sized companies, which are so small that they are exempt from audits, often entrust bookkeepers with the complete accounting activities.

(ii) Interest in bookkeeping, financial statements, and accounting

- SME owners are mainly interested in marketing. They properly manage accounting because it is obligatory, not because they consider it to be important.
- There is a certain amount of company that is interested in basic financial situations (such as sales, profits, and cash flows). Understanding such situations on a monthly basis, they make a cash flow plan for several subsequent months and confirm the status of financing.

- Companies with proceeds exceeding a certain standard are required to pay consumption tax. Therefore, they are sensitive to the status of proceeds.

(iii) Use of books for financing (including checking items when requesting a loan)

- The most important thing is the financial situation and repayment ability of guarantors such as business owners, officers, and managers of SMEs.
- Though financial statements are checked, the emphasis is put on the guarantor's situation and the financial statements, with a ratio of 3:2. A loan may be granted when the guarantor's repayment ability is sufficient, even if the financial statements are in a poor condition.
- It is important that financial statements are already audited. In the event of unaudited financial statements, the bank's balance statement may be required, or the history of repayment may be extensively checked.
- Some people say that banks scarcely check financial statements because they have their own way of assessment.

2) Financial statements

(i) Authorities that financial statements are submitted to

- Financial statements should be submitted to the Accounting and Corporate Regulatory Authority (ACRA).
- Applications for corporate tax return should be submitted to the Inland Revenue Authority Singapore (IRAS).

(ii) Companies that are obligated to submit financial statements (companies that are obligated to register to authorities)

- All entities should submit financial statements to ACRA within six months after the end of each fiscal year.
- Only final financial statements should be submitted. No supporting documents are required.

(iii) Handling of financial statements (not submitted or there are deficiencies)

- If the error does not result in tax evasion, no serious penalty is imposed. Only correction is required.

(iv) Whether or not audit is required for financial statements

- ‘Small entities’ falling under two or more of the following items need not be audited:
  - The annual sales do not exceed S$10 million.
  - The total amount of assets does not exceed S$10 million.
  - The total number of employees does not exceed 50.
- The requirements for exemption from audits mentioned above were adopted in June 2015. Until then, companies with annual sales of S$5 million or less, which had no corporate shareholders, had been exempt from audits.

(v) Reliability of financial statements

- Micro-sized companies exempt from audits keep their accounting books themselves by introducing an accounting software or asking freelance accountants to check the accounting books and organise financial statements. In such cases, their financial statements are not so reliable.

(vi) Advantages/disadvantages of audit

- In some cases, the reliability of financial statements may influence the approval of loans or loan terms, including interest rates. However, this applies only when the company has a 50-50 chance of being granted a loan, depending on the guarantor's repayment ability and collateral. In such a case, the company may not be granted a loan if its financial statements are in a poor condition.
- Without audits, the submission of additional information, such as bank statements and the past history of repayment, is required at the time of application for a loan.
- In addition, without audits, a large quantity of additional documents may be required at the time of bidding for a project.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

- SFRS and full SFRS, which are almost equivalent to full IFRS, have been introduced.
- Small entities falling under two or more of the following items can select SFRS-SE. Such entities are also exempt from audits.
  - The annual sales do not exceed S$10 million.
  - The total amount of assets does not exceed S$10 million.
  - The total number of employees does not exceed 50.
- Only about five percent of the total entities have introduced SFRS-SE. In addition, SFRS-SE is not well known.
- As full SFRS had been obligatory, few companies bothered to switch to SFRS-SE when it was introduced. In addition, there are insufficient human resources trained for accounting that can support its introduction.

(ii) Interest in accounting standards

- Companies are scarcely interested in accounting standards themselves. Some accounting staff do not know the existence of SFRS-SE. Others call it Singapore Accounting Standards (SAS).
- Some accounting personnel even said that fair-value assessment was waived in SFRS-SE when it is actually obligatory.

(iii) Actual operation

- Questions are often raised about the difficulty of the following items:
  - Valuation of inventories and inventory assets
  - Disposal
  - Revenue recognition
  - Accounts payable, receivables
  - How to evaluate ongoing projects

(iv) Actual situation of fair-value valuation

- Under SFRS-SE, all entities must adopt fair-value valuation. However, some SMEs record assets only on the basis of historical costs.
- Auditors sometimes leave errors uncorrected, only writing a comment.
- In some cases, companies in the service industry have almost no assets, so there is no problem.

(v) Advantages and disadvantages of introduction

- As there are many international corporations, such as the ones owned by foreign corporations or those with subsidiaries overseas, the introduction of full SFRS, which is a uniform standard, is greatly beneficial.

(vi) Correspondence with tax

None in particular.

(vii) Burden when filing tax return

- There are a few problems with the link between accounting and tax matters. A few items need adjustment since the tax system in Singapore is simple.

4) Government agency

(i) Government efforts

- The government has not implemented any policies designed to promote the introduction of SFRS-SE.

(ii) Cooperation with other organisations

- ACRA promotes the 'Practice Monitoring Programme' designed to train and monitor auditors.
- In addition, ACRA conducts investigations and surveys on the actual situation of accounting and audits, in collaboration with the Association of Chartered Certified Accountants (ACCA), and issues a report every year.

5) Human resources - challenges of accountants

- There are insufficient auditors. People regard audit corporations and accounting firms as a place where they work for several years and then leave to advance to government agencies and financial institutions. As a result, such organisations have a high turnover rate.

- The quality of freelance accountants and accounting agencies is not high.
- The accounting personnel of companies (‘Preparers’) have a low level of knowledge or skills. Some measures, including training, should be taken.
- There are very few SFRS-SE experts and there are few training programs for SFRS-SE.
- If there were more accounting professionals, then business owners would have more opportunities to talk about accounting and, therefore, get more interested.

6) Proposals from interviewees

- A more simple, easier to understand standard based on historical costs, such as the traditional accounting standard before the introduction of IFRS, is more suitable for SMEs, in particular, small and micro enterprises.
- There should be more specific guidelines on the daily maintenance of accounting books.

- Many companies are unaudited, which is a problem. The scope of companies subject to audits should be expanded.
- Financial statements submitted to ACRA should be surveyed and monitored. Some penalties should be imposed on companies that remain non-compliant for a long time.
- Training should be given to freelance accountants, bookkeepers, and preparers of companies who are of low quality.
- Measures for further promoting the introduction of SFRS-SE and the development of professional human resources are necessary.

(3) Tasks concerning accounting systems for SMEs in Singapore and their operations

In Singapore, all the business operators (entities) are obliged to submit their financial statements to ACRA (according to either of the two accounting standards: the SFRS, which is almost equivalent to IFRS; and the SFRS-SE, which is almost equivalent to IFRS for SMEs). Small entities satisfying certain conditions can introduce SFRS-SE.

However, the estimated rate of introduction of SFRS-SE is extremely low at five percent in Singapore. One reason for such a low introduction rate is the extremely low profile of SFRS-

SE. Very few promotional activities to raise awareness have been conducted. Another reason is that many companies---even small entities---are connected with companies overseas in some ways. Few companies limit their business operations within Singapore. It is said that SMEs often have a parent company or a subsidiary in foreign countries. This is why they tend to determine that it is less confusing or troublesome to use full IFRS, which is internationally viable. SFRS-SE is likely to remain unpopular unless some measures are taken.

As mentioned above, the SFRS, which almost has the same contents as IFRS, is used in Singapore. However, there are problems to solve regarding its actual operations. For example, fair-value assessment of assets is required either for full SFRS or for SFRS-SE, but in most cases, SMEs process accounts based only on obtainable cost. Considering such situation, some suggest that ACRA should strengthen monitoring and apply penalty to malicious companies. Some further suggest that SFRS and SFRS-SE are too difficult for SMEs, especially for small and micro companies, and that standards—which are more simple and easier to understand, such as the traditional accounting standard before the introduction of the IFRS (current cost accounting)—may be more appropriate.

Another challenge is related to human resources. These include: freelance accountants in charge of SMEs and accounting firms (bookkeepers) have a low level of knowledge and skills; business managers are not very conscious of, or understand very little about, accounting; and accounting personnel (preparers) of companies have low levels of knowledge and skills. They should be familiarised, enlightened, and trained.

3. Cambodia

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

This subsection summarises the history of accounting legislation and consideration in Cambodia. In 1993, the Accounting and Auditing reform policy was announced in the Royal Government of Cambodia's Economic Reform as a part of various economic reforms. Then, the Research Committee for International Accounting Standard was established in 1999 and the discussions for adopting international accounting standards started.

As the result of the discussions, the Law on Corporate Accounts, Their Audit, and Accounting Professions was enacted in 2002. The enactment of the law resulted in the adoption of 15 International Accounting Standards (IASs) in 2003. The Financial Reporting Template for SMEs (FRT for SMEs) was also formulated in 2006 as the accounting standards (framework), especially for SMEs. In 2008, another five IASs were adopted. In 2009, the Cambodian version of IFRS, the Cambodia IFRS (CIFRS), and the Cambodian IFRS for SMEs, (CIFRS for SMEs), were introduced.

However, there were issues in the Accounting Law that was enacted in 2002. These included the lack of enforcement power in the selection of accounting standards and actual operational aspects, and the lack of clear criteria. Consequently, a draft Law on Accounting and Auditing was developed in 2015 and is now under consideration.

The accounting standards in Cambodia as of 2015 and the required entities are listed in Table 10.

Table 10: Current accounting standards in Cambodia

Accounting Standards	Required Entities
IFRS	● Public accountable entities ● Audit-obliged but non-public entities (volunteer)
IFRS for SMEs	● Audit-obliged entities but non-public accountable entities ● Non-audit obliged and non-public accountable entities
Simplified FRT	● SMEs under Prakas No. 431 ● Micro entities

IFRS = International Financial Reporting Standards; SMEs = small- and medium-sized entities; FRT = Financial Reporting Template.

The simplified FRT is a simplified accounting report template that is under evaluation, following the low adoption rate of FRT for SMEs that was introduced in 2006. It will allow SMEs to have a better understanding of the importance and framework of bookkeeping.

2) Other major related laws and regulations

The following laws and regulations are also in place, in addition to those identified in 1).

2003: Prakas on Promulgation of Cambodian Accounting Standards

2006: Prakas on Introduction of Financial Reporting Template for SMEs

2007: Prakas on Obligation of Submission of Financial Statements for Audit

2008: Prakas on Promulgation of Cambodian Accounting Standards and Cambodian Financial Reporting Standards

2009: Prakas on Promulgation of Cambodian Financial Reporting Standards

2009: Announcement on the Implementation of CIFRS and CIFRS for SMEs

3) Definition and number of SMEs

There are mainly two types of definitions for SMEs in Cambodia. The standards established by the Ministry of Industry and Handicraft (MIH) and the standards established by the Ministry of Economy and Finance (MEF). Details are listed as follows.

The MIH standards classify entities according to their employee number and assets, while the MEF standards classify entities according to the type of business and annual turnover.

Table 11: SME definition by SME committee (MIH)

Type of Entities	Employee number	Assets (land excluded)
Micro Entities	Less than 11	US$50,000
Small Entities	11–50	US$50,000–US$250,000
Medium Entities	51–100	US$250,000–US$500,000
Large Entities	More than 100	More than US$500,000

SMEs = small- and medium-sized enterprises; MIH = Ministry of Industry and Handicraft.
Source: Small and Medium Enterprise Development Framework 2005, Royal Government of Cambodia, Sub-committee on Small and Medium Enterprises.

Table 12: SME definition by General Department of Taxation (MEF)

Type of Entities	Type of Business	Annual Turnover
Small Entities	Internal rules defined by tax office	
Medium Entities	Trading	US$125,000 or more
	Services	US$62,500 or more
	Entities with government contract	
Large Entities	Local trading/service	US$250,000 or more
	Foreign companies/branches	
	Multinational companies	
	Qualified Investment Project	

SMEs = small- and medium-sized entities; MEF = Ministry of Economy and Finance.
Source: Article 3, Prakas No.391 (2008), General Department of Taxation, Ministry of Economy and Finance.

In addition to these criteria, the accounting rules prescribed by MEF also set the definition for SMEs. The definition sets three criteria: employees, assets and annual turnover. If the entities meet two of the three criteria, they are automatically SMEs.

Table 13: SME definition by accounting rule (MEF)

Types of Entities	Employees	Assets	Annual Turnover
Small and Medium Entities	11-100	US$25,000 - US$62,500	US$25,000 - US$62,500

SMEs = small- and medium-sized entities; MEF = Ministry of Economy and Finance.
Note: If the entities meet two of three criteria, they are automatically SMEs.
Source: Article2, Prakas No.431 (2006), National Accounting Council, MEF.

There were about 94,887 SMEs in Cambodia in 2014 under this definition, of which 49,747 were in the capital, Phnom Penh, and the other 45,140 were in other areas. This indicates that the majority of SMEs are concentrated in Phnom Penh. There are only 3,768 large entities in Cambodia, which signifies that SMEs occupy an important position in Cambodia due to their number.

4) Provisions concerning preparation of accounting books and financial statements by SMEs

(i) Basic rules relating to bookkeeping

The third article of the Law on Corporate Accounting, Audit and Accounting Profession stipulates that 'All entities, whether natural or legal entities, are required to keep books (accounting records) and accounts (financial statements); and have them audited'. This means that even SMEs are required to submit audited books and financial statements. However, the first article of Prakas No. 643 MEF/BK dated 26 July 2007, the 'Prakas on obligation of submission of financial statements for audit,' stipulates that all enterprises, natural persons or legal entities with Khmer or foreign nationality domiciled in the Kingdom of Cambodia that meet two of the following criteria have an obligation to submit for audit their financial statements by independent auditor(s) registered in the statutory auditor list of the Kampuchea Institute of Certified Public Accountants and Auditors. Those criteria are:

- Criteria 1: have an annual turnover of KR3,000,000,000 (about US$750,000) and more;
- Criteria 2: have total assets of KR2,000,0000,000 (about US$500,000) and more, based on the average values of the assets held during the year;
- Criteria 3: have over 100 employees, based on the average number of employees employed during the year.

Article 9 of the above law stipulates that accounting records include financial statements, general journals, ledgers, and inventory books. Article 8 stipulates that financial statements should include the balance sheet, the income statement, the statement of cash flows, and explanatory note.

The above law also stipulates penalties listed below:

- All natural persons and directors of legally incorporated entities contravening Articles 3, 4 or 5 shall be subjected to:
  - ✓ a fine between KR5 million (about US$1,250) to KR10 million (US$2,500); and/or
  - ✓ a prison term from one to two years.
- All natural persons and directors of legally incorporated entities who fail to prepare or file proper financial statements…shall be subjected to:

- ✓ a fine between KR5 million (about US$1,250) to KR10 million (US$2,500); and/or
- ✓ a prison term from three months to six months.

Frequently cited reasons why SMEs in Cambodia prepare their financial statements are: performance evaluation, investment decision, borrowing decision, determining business strategies, and budget preparation. Occasionally cited reasons include: new product/service decisions and pricing.

The possible destinations for SMEs to submit their financial statements include the tax office, banks and financial institutions, owners and partners, and potential business partners. There are also a few SMEs that prepare their financial statements for auditing.

(ii) Challenges on SME bookkeeping and accounting[3]

Cambodia is a rapidly developing country and, while it is undertaking various evaluations regarding its accounting legal system, the country is also facing some challenges such as the accounting legal system not being of practical use. The application of the accounting standards has issues such as: there is no comprehensive monitoring implemented to check whether the rules are followed, nor a system in place to enforce the rules if the laws are not complied with.

In addition, there are several different definitions for SMEs; there is lack of uniformity in legal systems regarding the preparation of financial statements; and this various definitions introduce the confusion on both the obligation for auditing. Namely, the SMEs confuse whether what kinds of obligations or auditing rules they should obey because the definition is different between laws.

Another challenge is that there is no robust organisation for developing and setting accounting standards. Although the National Accounting Council (NAC) exists, the organisational structure and system still needs to be improved due to the lack of due process for board member election and other procedures.

Furthermore, the quantitative and qualitative insufficiency of the technical capacity of regulatory authorities, businesses, and audit firms needs to be improved. Other challenges include: no comprehensive and independent supervisory function overseeing the audit, as

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[3] Siem Monileak (2015), *Understanding the Accounting for Small- and Medium-Sized Enterprises in Cambodia*.

well as lack of education and training for experts.

(2) Results of the hearings

We held hearings in Cambodia, especially in Phnom Penh, with government agencies, CPAs, industry groups of CPAs, financial institutions (banks) and the Chamber of Commerce from 15-16 July 2015. See below for details.

Table 14: Agencies subjected to research in Cambodia

【NAC】National Accounting Council
【GDT】General Department of Taxation
【KICPAA】Kampuchea Institute of Certified Public Accountants and Auditors
【FASMEC】Federation of Associations for SMEs of Cambodia
【PCC】Phnom Penh Chamber of Commerce
【CPA】Accounting firm, audit corporation
【Bank】Private Bank

1) Books

(i) Persons who do bookkeeping works

- Many SMEs do not keep accounting books.
- About 20 percent of SMEs keep accounting books, and two to three percent of SMEs are audited.
- Many SMEs have no accounting personnel.

(ii) Interest in bookkeeping, financial statements, and accounting

SMEs have little knowledge of accounting. Moreover, they are very hesitant about showing their financial statements to outsiders.

- SMEs have little knowledge of accounting.
- SMEs seldom prepare financial statements, except when required in connection with transactions with banks. On the other hand, banks do not pay attention to financial statements; they lend money if they are offered collateral. Other than the above, financial statements are only needed for tax declaration.
- In family businesses, parents often do not understand the importance of preparing

financial statements while the younger generation (children) do.

- They fear that the publication of financial statements may benefit their competitors or lead to an increase of the tax amount.
- Though the government is offering a very simple template to small companies, it is still extremely difficult to make sole proprietorships keep accounting books.

(iii) Use of books for financing (including checking items when requesting a loan)

- Financial statements are checked at the time of loans, but there is no incentive to prepare financial statements because on-the-spot investigations are indispensable to loans.
- Submission of financial statements is always required, and (if there is no financial statement) the interest rate may be higher.
- At the time of loan, the financial statement, the business owner's personality, and the collateral are considered important.
- As few SMEs prepare financial statements, site visits and on-the-spot investigations are always conducted in the screening of loan applications.
- Less than 10 percent of companies voluntarily prepare financial statements at the time of loans. In addition, site visits are always conducted even if financial statements are provided, and no preferential interest rate is granted even if financial statements are prepared by major accounting firms.

2) Financial statements

(i) Authorities that financial statements are submitted to

- Companies registered with the Ministry of Commerce are automatically registered with the tax office, but only less than half of SMEs are registered.
- Accounting books are not kept for the sake of tax because there is an estimated taxation system.
- Companies registered with the tax office are obliged to submit financial statements, etc., but it seems that they are making reports with the use of very simple templates if they have no accounting personnel.

(ii) Companies that are obligated to submit financial statements (companies that are obligated to register to authorities)

None in particular.

(iii) Handling of financial statements (not submitted or they are deficient)

- There is no particular penalty.
- Tax payment based on estimation is sometimes more advantageous than tax payment by self-assessment.

(iv) Whether or not audit is required for financial statements

None in particular.

(v) Reliability of financial statements

None in particular.

(vi) Advantages/disadvantages of audit

None in particular.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

Even large corporations cannot properly respond to the introduction of CIFRS for SMEs. It is difficult for SMEs to handle CIFRS for SMEs. They should try to keep accounting books properly first.

- The CIFRS for SMEs is available for use by all SMEs.
- SMEs and large corporations have difficulty responding to CIFRS or CIFRS for SMEs.
- Very few companies are using CIFRS and CIFRS for SMEs.
- Only some banks and foreign-owned companies can respond to full CIFRS.
- The cost of outsourcing accounting and audit firms is very high.
- This is because the accounting-related law established in 2002 does not stipulate monitoring or penalties for enforcing compliance with the accounting standards.
- As CIFRS for SMEs is difficult and complex, it will be impossible for SMEs, which do not

even keep accounting books, to respond to CIFRS for SMEs.

- Some SMEs keep accounting books but very few are using CIFRS for SMEs.
- At present, only one SME has submitted a financial statement complying with the IFRS standards.
- The KICPAA and other public agencies are considering templates on the assumption that small-sized private companies will use a simplified, basic accounting template. They expect small-sized private companies to comply with the standards of IFRS and IFRS for SMEs when they are accustomed to using the templates.

(ii) Interest in accounting standards

- SMEs are looking for more simple accounting standards.
- While an increasing number of business owners understand its importance, not a few business owners dismiss it because they are yielding a profit.

(iii) Actual operation

- There are no government agencies responsible for monitoring the compliance to accounting standards.
- When an audit is actually conducted, valuation is often based on costs and not on fair value. There is no other option but to accept cost-based valuation.

(iv) Actual situation of fair-value valuation

None in particular.

(v) Advantages and disadvantages of introduction

- There is no explicit merit at present.
- As the tax amount is lower for tax payment based on estimation than tax payment based on application, there is no incentive to introduce the tax payment based on application through keeping accounting books and preparing financial statements.
- Though this is not a merit in connection with accounting standards, the fines for errors in the paid tax amount will be reduced if the entity has financial statements.

(vi) Correspondence with tax

None in particular.

(vii) Burden when filing tax return

- There are some conflicts between IFRS and tax laws. In the tax laws, land and other assets are calculated on the basis of historical costs.
- An accounting firm is not always asked to prepare financial statements and to support an application for tax return at the same time.

4) Government agency

(i) Government efforts

- A WG composed of members from NAC, GDT, and SEC has been established to prepare a simple guideline for bookkeeping for small businesses.
- Starting 2016, the General Department of Taxation reclassified all enterprises into three categories as follows:
    - Small taxpayers – all enterprises who have annual turnover of over KR250,000,000 (about US$62,500) to KR700 million (about US$175,000);
    - Medium taxpayers – all enterprises who have annual turnover of over KR700 million to KR2 million (about US$500,000); and
    - Large taxpayers – enterprises who have annual turnover of over KR2 million; and qualified investment projects.
- Accounting measurements:
    - Small taxpayers shall apply the simplified accounting guidelines set out by the Prakas of the Ministry of Economy and Finance; and
    - Medium and large taxpayers shall apply CIFRS.
- The Royal Government of Cambodia has decided to eliminate the contractual tax regime and to implement the self-assessed tax system from 2016.

(ii) Cooperation with other organisations

None in particular.

5) Human resources - challenges of accountants

The lack of accounting-related human resources is a major challenge. There is also insufficient support for human resource development.

- KICPAA has only 52 corporate members and 179 individual members.
- As Cambodia does not have its own public accountant certification, there are few accounting human resources in the country. The number of such human resources must be increased. The lack of human resources is a serious problem, especially in rural areas.
- Only larger SMEs can outsource to large-scale international firms. Local accounting firms are sometimes of low quality.
- It is desirable that good lecturers give good lessons on accounting to train human resources. But since the trainees cannot pay a tuition enough to retain the good lecturers, some kind of support is needed.

6) Proposals from interviewees

- To develop the quality of human resources and the complexity of systems.
- An incentive to promote tax payment based on application is required.
- Tax reduction will lead to an increase in tax payment based on application, encouraging businesses to keep accounting books and comply with the accounting standard.
- The accounting standard should be more useful for the success of businesses. Policymakers should only evaluate when companies, which keep accounting books, achieve higher performance.
- Financial statements and accounting books should be organised for bank screening or as basic documents for tax payment.
- In order to make SMEs understand the importance of accounting, it is important to encourage them to use the simplified accounting template first.
- More detailed guidelines for accounting standards are required.
- SMEs should find it beneficial to prepare financial statements immediately after their establishment.
- A large-scale, reliable survey data is needed in terms of accounting books, accounting standards, and actual situations of SMEs.

(3) Tasks concerning accounting systems for SMEs in Cambodia and their operations

Cambodia adopted IFRS and IFRS for SMEs in 2009, but it does not have the sufficient capacity to supervise and guide the implementation of the accounting standards, as well as bookkeeping and the preparation of financial statements. There are not enough supervision functions and legal forces in the conventional accounting laws. Thus, a review of the accounting laws is deemed necessary.

Cambodia is also in a period of improving its accounting environment. The system of estimating the tax amount, which has been pointed out in the interviews as the main reason SMEs do not properly keep their books, is also likely to be revised, among other progressing reforms.

The number of CPAs is limited and the tuition fees for higher education institutions relating to accounting are expensive. Therefore, the environment for training accounting experts should be improved.

The researchers also found that because SMEs do not have a strong interest in accounting, at the time of the screening for loans, financial institutions usually go to the business to conduct site survey to cope with the situation.

The FRT for SMEs was adopted in 2006 but its use has not been adequately spread. The discussions on a simplified FRT for SMEs, which aim to make SMEs become more familiar with accounting, have made some progress but they are too simple. Therefore, in order to introduce CIFRS and CIFRS for SMEs, a simplified accounting standard, which can facilitate the bookkeeping and preparation of financial statements for small businesses, may be needed.

4. Thailand

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

Basic matters concerning accounting systems in Thailand are governed by the Accounting Act, which was revised in 2000. As a background, Thailand's economy was greatly affected by the Asian currency crisis in 1997 and its government has since been making efforts to recover from the effects of the crisis. Thailand sought a loan from the International Monetary Fund (IMF) but, as a condition of the loan, Thailand's accounting standards had to conform to international accounting standards. This was the reason for the enactment of the Accounting Act.

As a result of the revision of the Accounting Act in 2000, the Thai Accounting Standards, which is based on the International Accounting Standards (IAS) and which greatly renewed Thailand's traditional accounting standards, was introduced.

The said revision did not specially stipulate any accounting standard for SMEs, so SMEs have been required to follow the same accounting standards as large corporations, including listed companies and public companies, except for some exemptions. According to the Accounting Act, B.E. 2543 (2000), entities that assume accounting-related obligations are 'registered partnership, limited company, public limited company, juristic persons established under foreign law but operating business in Thailand, and joint venture under the Revenue Code'[4].

[4] Pasin Chanmolee, SME Accounting in Thailand(2014)

Table 15: Number of entities that assume accounting-related obligations in Thailand

Type	Number	%
Registered Partnership	164,409	30
Limited Company	372,689	69
Public Limited Company	1,041	0.2
Foreign Business	1,033	0.2
Joint Venture	3,128	0.6
Total	542,300	100

Note: Number of juristic persons obliged to submit the financial statement for fiscal year 2014.
Source: Pasin Chanmolee, SME Accounting in Thailand(2014) (Data as at 31 December 2014).

In 2011, however, the Thai Federation of Accounting Professionals (FAP) announced accounting standards for SMEs (Notifications No. 20/2554), which is officially called the Thai Financial Reporting Standards for Non-Publicly Accounting Entities (TERS for NPAEs). It is important to note that these standards are not applied to SMEs in terms of its corporate size, but to 'non-publicly accountable entities'.

On the other hand, publicly accountable entities are defined as those: 'whose debt or equity instruments are traded in public market'; 'are in the process of issuing such instruments for trading in public market'; 'hold assets for a broad group of outsiders as one of its primary businesses'; or 'public limited company'. NPAEs are entities that do not match the said definitions.[5]

2) Other major related laws and regulations

The Accounting Professions Act, B.E. 2547, enacted in 2004, mainly stipulates 'Auditing practices control, bookkeeping control, and professional ethics of accounting practitioners'. It also stipulates that accounting standards shall be developed in the Thai language.

3) Definition and number of SMEs

The Ministry of Industry defines SMEs as follows:

[5] Pasin Chanmolee, SME Accounting in Thailand(2014)

Table 16: Definition of SMEs in Thailand

Type	Number of employees		Fixed assets (M. baht)	
	Small	Medium	Small	Medium
Manufacture	=< 50	51-200	=< 50	50 < M. baht =<200
Wholesale	=< 25	26-50	=< 50	50 < M. baht =<100
Retail	=< 15	16-30	=< 30	30 < M. baht =<60
Services	=< 50	51-200	=< 50	50 < M. baht =<200

SMEs = small- and medium-sized entities; M. baht = million baht.

The number of SMEs falling under any of the definitions above is as follows:

Table 17: Number of SMEs in Thailand

Type	Small Entities		Medium Entities		SMEs (Total)	
	2012	2013	2012	2013	2012	2013
Manufacture	473,638	477,142	4,742	4,841	478,380	481,983
Wholesale	210,268	219,210	1,261	1,287	211,529	220,497
Retail	977,628	978,852	1,713	1,721	979,341	980,573
Services	1,050,530	1,075,546	5,209	5,398	1,055,739	1,080,944
Unidentified	5,585	-	17	-	5,602	-
Total	2,717,649	2,750,750	12,942	13,247	2,730,591	2,763,997

SMEs = small- and medium-sized enterprises.
Note: The 2.7 million SMEs might include individuals who are not obliged to file financial statements.
Source: Statistical data from The Office of SMEs Promotion, Thailand.

4) Provisions on preparation of accounting books and financial statements by SMEs

The Accounting Act, B.E.2543 (2000), stipulates that a person charged with accounting duty must prepare a financial statement and submit such financial statement to the Department of Business Development (DBD) Accounting Office.

The Act requires all SMEs to submit the three types of supporting documents: supporting documents prepared by third parties; supporting documents prepared by the person charged with accounting duty to be issued to third parties; and supporting documents prepared by persons charged with accounting duty for internal use.

(2) Results of the hearings

We held hearings with government agencies, CPAs, industry groups of CPAs, financial institutions (banks) and the Chamber of Commerce from 18-19 June 18 2015 in Thailand, especially in the capital city of Bangkok. See below for details.

Table 18: Agencies subjected to research in Thailand

【DBD】Department of Business Development
【RD】The Revenue Department
【FAP】Federation of Accounting Professions
【TCC】Thailand Chamber of Commerce
【TCG】Thai Credit Guarantee Corporation
【CB】Private Bank
【SMEB】Small and Medium Enterprise Development Bank of Thailand
【CAP】CPA firm

1) Books

(i) Persons who do bookkeeping works

- In many cases, companies hand over their receipts to accounting agencies to have their account book compiled.
- Some companies refrain from handing over all of their receipts for the purpose of practising fraud.
- Companies are obliged by law to engage CPAs or accountants. They can employ CPAs as regular staff, or entrust their accountancy to CPAs.
- For SMEs, it costs too much to hire or outsource professional accounting personnel. The monthly cost of employing accounting personnel, even a rookie, is ฿15,000 to ฿30,000, and it costs ฿12,000 to ฿15,000 per year to entrust accountancy.

(ii) Interest in bookkeeping, financial statements and accounting

- Approximately 80 percent of 2.7 million SMEs do not prepare correct financial statements, or any financial statements at all.
- Presidents of SMEs have little knowledge of accounting. They rest assured that their accountants will take care of everything.
- Small business owners are indifferent even to tax; they focus only on how to increase

sales.

- They maybe regard accounting only as something costly.
- Sole proprietors and family-owned companies are not concerned about accounting.
- Even companies with financial statements may have a dual bookkeeping system for tax evasion, so they tend to try to avoid anything that may serve as evidence.

(iii) Use of books for financing (including checking items when requesting a loan)

- Banks do not count on financial statements at the time of screening of loan applications because, in many cases, SMEs have no financial statements or their financial statements are not trustworthy.
- At the time of financing, the banks request SMEs to submit their financial statements, which are used only as reference materials. The financial statements are not taken seriously, and submission is not mandatory. The repayment capacity is examined on the basis of the business owner's personality and collateral.
- Financial statements of SMEs are not very correctly processed, or not prepared at all.
- For loans not exceeding ฿5 million, simplified screening is conducted, and financial statements are not used. (As for SMEs, financial statements are seldom prepared. Even if they are prepared, they cannot be relied upon.)

2) Financial statements

(i) Authorities that financial statements are submitted to

- Registered companies are obliged to submit their financial statements to DBD or, more precisely, the Ministry of Commerce (MOC).

Note:

Audit by CPAs are required for financial statements to be submitted by all kinds of persons charged with accounting duty, with the exception of a registered partnership with either one of the following conditions:

1. Capital is less than or equal to ฿5 million; or
2. Its total asset is less than or equal to ฿30 million; or
3. Its total revenue is less than or equal to ฿30 million.

The corporations, as defined by five types of persons charged with accounting duty, are required to submit their financial statements to DBD regardless of how much their registered capital is.

(ii) Companies that are obligated to submit financial statements (companies that are obligated to register to authorities)

- None in particular.

(iii) Handling of financial statements (not submitted or there are deficiencies)

- Financial statements submitted to DBD are checked by the Business Accounting Inspection Division, with a focus on high-risk companies. The check by DBD is focused on whether or not the statements conform with the accounting standards, and whether or not they are compliant with laws and regulations. Some of the members of this division are CPAs. About 20 inspectors belong to DBD Bangkok, and each province has one or more.

Note:

There is no regulation that states that they must be CPAs. Accounting inspectors can be CPAs if they satisfy CPA requirements. The only requirement for these members inspecting the financial statement is that they must be assigned by the director general of DBD to be titled as 'Accounting Inspector'. Also, each province is to have at least one accounting inspector (who might or might not be CPA).

- The penalty for failure to submit financial statements is a fine and notification to the national tax bureau.

(iv) Whether or not audit is required for financial statements

- Registered companies are obliged to submit their financial statements to DBD or, more precisely, the Ministry of Commerce (MOC).

> Note:
> Audit by CPAs are required for financial statements to be submitted by all kinds of persons charged with accounting duty, except for a registered partnership with either one of the following conditions:
> 1. Capital is less than or equal to ฿5 million; or
> 2. Its total assets is less than or equal to ฿30 million; or
> 3. Its total revenue is less than or equal to ฿30 million.
>
> The corporations, as defined by five types of persons charged with accounting duty, are required to submit their financial statements to DBD regardless of how much their registered capital is.

(v) Reliability of financial statements

- There are many errors in financial statements prepared by SMEs. We are now encouraging them to prepare accurate financial statements.

(vi) Advantage/disadvantages of audit

None in particular.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

- There is little discomfort with the accounting standard itself. Efforts are made for the phased transition corresponding to the international situation.
- Some companies feel concerned, and some companies/accountants feel that it is too late.
- For small-sized SMEs, transition should be made little by little while accepting the traditional accounting standard. Eventually, all SMEs will transit to IFRS for SMEs (with some exceptions).

- With the economic integration of ASEAN near at hand, Thailand should not be the only country that sticks to another accounting standard.
- Though IFRS is European, there is no conflict or discomfort because the existing standards integrate the concept of IFRS as well.
- Companies aware of IFRS and the introduction of IFRS for SMEs are concerned. They are wondering whether the burden on them may increase or not. We tell them that they do not have to worry so much.
- Some people at the site fear that three years may not be long enough for preparation because IFRS is such a difficult accounting standard. When IFRS for SMEs is introduced, the calculation of employee benefits will have to be entrusted to outside subcontractors[6].
- The introduction of IFRS for SMEs is important for SMEs aiming to go public in future, but not so significant for the other SMEs.
- IFRS (including IFRS for SMEs) is very difficult. SMEs in Thailand have not reached the level high enough to introduce IFRS.

(ii) Interest in accounting standards

- They have heard about IFRS in the news, but they are not interested.
- As business owners are indifferent to the accounting system, the advantages of IFRS for SMEs and the incentives for its introduction will mean little to them. Other advantages, such as low-interest loans and tax relief, are needed.

(iii) Actual operation

- SMEs in Thailand are classified into group companies and family-owned companies, and the former will be required to perform financial reporting under IFRS for SMEs while the latter will be granted some exemptions from such requirement[7]. It is planned that, for example, fair-value accounting will be treated as an exception, so there will be no influence.

[6] The matters regarding calculation of employee benefits for TFRS for SMEs have not yet been finalised in Thailand.

[7] The idea of classifying SMEs and their accounting treatments is still not final. They are still under consideration by the Thai Federation of Accounting Professions and might be subjected to future changes.

- If the scope of exceptions is enlarged, IFRS may end up as a standard which is not greatly different from the present accounting standard in Thailand. For the purpose of international explanation, it is more desirable to explain that IFRS is introduced and that some exceptions are permitted.

(iv) Actual situation of fair-value valuation

- We feel that there will be no problem because some accounting measures that are difficult may not be implemented.

(v) Advantages and disadvantages of introduction

- For now, the accounting standard is not individually evaluated.
- There are no advantages in terms of tax.
- The introduction of IFRS may only result in an increase in labour and costs since SMEs that are not engaged in international transactions are not required to show their financial statements to overseas financial institutions or investors.
- IFRS for SMEs will clarify the standard and enable business owners to prepare financial statements easily. For example, the obligations to prepare and disclose the statement of cash flows and the standard of calculation of buildings are made clear, which is an advantage.
- There are advantages if the parent company is a global corporation.
- Incentives, such as availability of low-interest loans, are needed for companies that do well in accountancy.

(vi) Correspondence with tax

- Not applicable to tax affairs. It is planned that the application of TFRS will be started in 2016, but it is unsure whether it will be applied soon. It is unclear what the other accounting professionals meant by 'TFRS will be started in 2016' since Thailand has applied TFRS for a long time, even before 2016. It must be noted that the TFRS for SMEs is scheduled to be released for public use by 2017 at the earliest. Thus, these matters, together with interviewee information, should be reviewed.

(vii) Burden when filing tax return

- With regard to the application for tax return, 80 percent of SMEs are outsourcing external accountants so they will have no difficulty.
- There will be no problems in terms of tax-paying capacities. Some SMEs are already applying for tax return using the fair-value method.
- Companies that do not keep accounting books do not pay taxes, or tend to calculate the tax amount based on the rough assumption if they pay taxes.

4) Government agency

(i) Government efforts

- The Ministry of Finance views the failure of most SMEs to prepare financial statements as a problem and offers a Thai-style model financial statement (formats and standards of financial statements for SMEs) to 80 percent of the SMEs that do not prepare correct financial statements.

(ii) Cooperation with other organisations

- They are also collaborating with associations for supporting SMEs, industrial associations, chambers of commerce, SEC(Securities and Exchange Commission), and the Department of the Treasury. As far as we know, no agencies are strongly criticising the IFRS for SMEs.

5) Human resources

- A shortage of accountants or CPAs is not felt.
- Information is posted on the FAP website and newsletters are issued so that even CPAs in rural areas can obtain information.
- There are sufficient human resources. Small-sized companies can outsource tax auditors, and audits cost only ฿5,000 to ฿6,000. There may be sufficient CPAs. No need to increase the number.
- There are too many accountants. However, their quality is not always high.

6) Proposals from interviewees

- We have been trying to encourage companies to use accountancy in management planning. But if we push too far, they may resist because they regard accountancy as a burden.
- Maybe an accountants' network in ASEAN is needed so that challenges and information concerning IFRS can be shared.
- A random check on financial statements of SMEs, and the rules for punishing business operators and auditors in the case of inaccurate financial statements should be improved.
- In the first place, it is important to correctly record 'comings and goings' of money (bookkeeping). Awareness building at that level is needed. Education and training will be very important.
- Government agencies and financial institutions engaged in the promotion of SMEs are separately promoting their own projects and programs without mutual collaboration. They should collaborate with one another in promoting such programs.
- How about promoting the acquisition of certification from the International Organization for Standardization (ISO) by accounting firms, or expanding DBD certification?

(3) Tasks concerning accounting systems for SMEs in Thailand and their operations

Currently, SMEs in Thailand are using TERS for NPAEs—a simple, easy and cost-based traditional Thai accounting standard—as their accounting standard. The country is making evaluation and developing policies, and aims to adopt IFRS for SMEs in 2017. Companies will be divided into two levels: companies in the upper level will need to comply with IFRS for SMEs. Other companies will be allowed to comply with IFRS for SMEs with certain exceptions. However, the criteria for dividing the levels are yet to be determined. There are concerns that if Thailand is the only country that does not comply with international accounting standards in response to the ASEAN economic integration, it may bring negative impacts on Thailand's competitiveness in the international community.

In response to such environmental changes, the Thai government and agencies that play a leading role in accounting standards like FAP are implementing measures for publicity, awareness, and human resources training. In addition, DBD's Business Accounting Inspection Division has made the submission of financial statements mandatory and established an audit department to find out if the sampled businesses comply with the accounting standards and properly prepare their books and financial statements. If these measures can lead to a medium- and long-term success, the improvement of SMEs' bookkeeping and financial statement preparation can be expected.

However, as in other ASEAN countries, the low reliability of SMEs' bookkeeping and financial statements, the business owners' low interest in accounting, and their view that accounting is a burden were pointed out as challenges during the interviews. We were also told that even financial institutions could not be trusted 100 percent. As if reflecting the situation, we observed that some companies were concerned about the introduction of IFRS for SMEs and some companies and accountants did not think the introduction would be in time. The other comment made was that not necessarily all SMEs were looking forward to international transactions and investments.

Regarding the introduction of IFRS for SMEs, it would be beneficial if government agencies and accounting professionals make further efforts and measures. It is also necessary to assure worried SMEs as well as small businesses that may not expect any international transactions and barely know how to do bookkeeping.

5. Malaysia

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

In Malaysia, an accounting standard called Malaysian Private Entities Reporting Standards (MPERS) has been applied to SMEs starting 1 January 2016. The contents of this standard are almost the same as those of the IFRS for SMEs. The differences between MPERS and IFRS for SMEs are as follows:

- Section 1:
    - SMEs have been modified to prescribe the applicability of the MPERS in the Malaysian context. In this regard, all references to 'SMEs' and 'public accountability' in Sections 1-35 have been replaced by the term 'private entities'.

- Section 9:
  - Consolidated and separate financial statements must be prepared by the ultimate Malaysian parent regardless of whether its ultimate parent that is not incorporated in Malaysia prepared consolidated financial statements.
- Section 29:
  - Income taxes have been revised to incorporate the principles in IAS 12 Income Taxes and the content therein is based on the income tax chapter in IASB ED/2013/9 IFRS for SMEs issued in October 2013.
- Section 34:
  - Specialised activities have been amended to provide guidance on the accounting for property development activities in Malaysia. Consequently, Example 12 on ‘Agreements for the Construction of Real Estate’ contained in the Appendix to Section 23 on ‘Revenue’ has been removed.

Private entities as set forth in the Company Act can introduce MPERS. Private entities are corporations whose articles of incorporation stipulate the following:

- Transfer of shares is restricted.
- The number of shareholders should be less than 50.
- No shares or corporate bonds should be offered for public subscription.
- Solicitation of time deposits or demand deposits to the company is prohibited, regardless of payment of interests.

For companies other than private entities (including public companies), the application of the Malaysian Financial Reporting Standards (MFRS) is mandatory. The contents of MFRS are almost equivalent to those of full IFRS. Private entities will be able to select between MPERS and MFRS starting 2016.

All companies other than sole proprietors and partnerships are obliged to submit their financial statements to the company registry, Suruhanjaya Syarikat Malaysia (SSM), within six months from the end of each fiscal year.

In addition, all companies other than sole proprietors and partnerships are obliged to be audited by an independent accounting auditor in principle.

The Private Entities Reporting Standards (PERS) had been used as an accounting standard for SMEs before the introduction of MPERFS in 2015. The contents of the standards were based on IAS, which had been published prior to the first half of the 1990s, and were much simpler than IFRS or IFRS for SMEs. For example, long-term investments could be evaluated in the cost accounting method, the revaluation method, and the lower-of-cost-or-market method; and short-term investment could be evaluated in the relative market values method or the lower-of-cost-or-market method. Therefore, PERS may be regarded as a standard established within a framework of traditional accounting on the basis of obtainable cost or realisation principle.

2) Other major related laws and regulations

Accounting standards, including MPERS, are established by the Malaysian Accounting Standards Board. 'Private entities' is as defined in the Company Act.

3) Definition and number of SMEs

As mentioned above, the only classification of SMEs in the field of accounting is whether they are private entities or not. Private entities are corporations whose articles of incorporation stipulate the following:

- Transfer of shares is restricted.
- The number of shareholders should be less than 50.
- No shares or corporate bonds should be offered for public subscription.
- Solicitation of time deposits or demand deposits to the company is prohibited, regardless of payment of interests.

Separately from the definition above, the National SME Development Council defines SMEs according to the figure below. However, note that this definition is not relevant to the accounting field.

Table 19: Definition and number of SMEs in Malaysia

Size	Sector	Definition		Number
		Annual Sales Turnover	Number of Employees	
Micro	Manufacturing	Less than RM250,000	Less than 5	21,619
	Services and Others	Less than RM200,000	Less than 5	474,839
Small	Manufacturing	From RM250,000 to less than RM10 million	From 5 to 50	13,949
	Services and Others	From RM200,000 to less than RM1 million	From 5 to 19	114,853
Medium	Manufacturing	RM10 million to not exceeding RM25 million	From 51 to 150	2,308
	Services and Others	From RM1 million to not exceeding RM500 million	From 20 to 50	17,583

RM = Malaysian Ringgit; SMEs = small- and medium-sized entities.
Source: Profile of Small and Medium Enterprises, Economic Census 2011, Department of Statistics, Malaysia.

4) Provisions concerning preparation of accounting books and financial statements by SMEs

The provision of the Company Act relating to bookkeeping and vouchers, etc. is as follows:

- Every company shall keep accounting and other records to explain its transactions and financial position and enable profit and loss accounts and balance sheets, and retain them for seven years (Section 167).

(2) Results of the hearings

We held hearings with CPAs, consulting firms, expert on accounting systems in Malaysia, SMEs (with 10 employees), and the Chamber of Commerce from 6-7 August 2015 in Malaysia, especially in the capital city Kuala Lumpur.

Table 20: Agencies subjected to research in Malaysia

【CPA】Large audit corporations, local medium-sized audit corporations
【KLMCC】Kuala Lumpur Malay Chamber of Commerce
【SME】Small- and medium-sized enterprises (with 10 employees)
【Consulting】Consulting firms specialised in company laws and tax affairs
【Expert】Expert on accounting systems in Malaysia (University professor)

1) Books

(i) Persons who do bookkeeping works

- SMEs that are larger than a private limited company keep their accounts by themselves in many cases. However, small businesses (with four or less employees) and sole proprietors often entrust their accounting to external firms. They outsource extremely small-sized accounting firms or freelance bookkeepers.
- The accounting software costs approximately RM6,000, which is too expensive for SMEs. In many cases, audit corporations sell such software. Industrial group suspect that, in spite of the high price, many companies are forced to purchase the software because they can avoid annoyingly detailed comments at the time of audits if they introduce the software.
- Many SMEs have become able to process accounts to some extent by themselves because many ex-employees of banks, after being laid off due to the consolidation of private banks, have joined accounting departments of the SMEs.

(ii) Interest in bookkeeping, financial statements, and accounting

- SMEs just keep accounts in accordance with the accounting software, and prepare financial statements in cooperation with auditors, so they do not know what standards are applicable.
- Some SME owners are closely monitoring cash flows. They are using the data for business operations and marketing activities by, for example, immediately depositing any surplus money into banks, or strengthening business activities if sales are insufficient.
- Accounting is important because it can be used to monitor the present situation or predict the future business or budget. In fact, there are some SMEs that cannot even keep accounts.

- The larger a company is, the more focused it is on accounting. Large companies are required to show accounting books to their bank and investors, or to prepare for their future listing if they are still unlisted. As tax audits are intensive in Malaysia, accounting books are needed for tax return.
- It is said that there is more awareness of utilisation of accounting in Malaysia than in other emerging countries due to the influences of Britain.

(iii) Use of books for financing (including checking items when requesting a loan)

- Financial statements are important as they are naturally checked when screening for loans. Conformance of the incoming and outgoing of money to the deposits detailed data possessed by the bank is also confirmed. However, day-to-day cash flows, account balances, and collaterals are far more important. Without these, SMEs can seldom obtain loans from banks. As a result, owners may be forced to borrow money from relatives or friends.
- Even with audited financial statements, it is difficult for SMEs to obtain loans. In most cases, collaterals are required. There are many loan systems designed for SMEs, but it is extremely difficult to obtain a loan.
- Importance is placed on the situation of the directors' credit card payment, or on whether or not all the directors guarantee the company.

2) Financial statements

(i) Authorities that financial statements are submitted to

- The financial statements have two destinations: the company registry office, the SSM, and the tax authority.

(ii) Companies that are obligated to submit financial statements (companies that are obligated to register to authorities)

- All companies that are larger than a private limited company are obliged to submit financial statements.
- Sole proprietors and partnerships are not obliged to submit financial statements.

(iii) Handling of financial statements (not submitted or there are deficiencies)

- If SMEs are delayed in submission, they will be subject to a fine. The deadline for submission is within six months from the end of fiscal year.
- Any mistake in the entry or typographical error needs to be corrected, but does not incur penalties.

(iv) Whether or not audit is required for financial statements

- All companies that are larger than a private limited company are obliged to be audited.
- Sole proprietors and partnerships need not be audited.

(v) Reliability of financial statements

- As all companies (larger than a private limited company) have their financial statements audited, the statements are considered to be reliable to some extent.
- It is the Chartered Accountant (CA) that audits and signs financial statements of SMEs. CAs sign the statements to certify that the final contents are based on the truth. Therefore, accuracy, quality, and reliability of audited financial statements are guaranteed to some extent.
- The problem of dual bookkeeping for tax evasion is quite common in Malaysia also. But this may be resolved in future because accurate accounting books need to be kept retroactively in order to receive tax refund as a result of the introduction of the goods and services tax (GST).

(vi) Advantages/disadvantages of audit

- In Singapore, SMEs meeting certain standards are exempt from audits and submission of financial statements. On the other hand, all companies are obliged to be audited in Malaysia. An accountant forecasts that Malaysia will go in the same direction as Singapore (that is, partial exemption) in future. New legislation would be needed, but the burdens on companies would be reduced and the problem of scarcity of auditors would be resolved if companies were audited only to obtain a loan, raise funds or be listed.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

- Instead of PERS, the adoption of MPERS (the Malaysian version of IFRS for SMEs which is almost identical to IFRS for SMEs in content) has become mandatory as of 1 January 2016. PERS is an old standard introduced in 2003, and will be completely replaced by MPERS.
- In spite of the objection of many SMEs, the adoption of a standard equivalent to the international accounting standard will become mandatory. The purpose of such decision is to improve the transparency of business environment.
- The objection of SMEs delayed the introduction of MPERS, which will take much labour and put immense burden on SMEs. It is expected that SMEs will set up many protests after the introduction of MPERS. Developers are especially reluctant to adopt MPERS because of revenue recognition. In Malaysia, construction is usually undertaken after a sales contract is executed. In MPERS, profits are recorded when a finished building is sold.
- There were many complications in connection with the introduction of MPERS. It took almost eight years.

(ii) Interest in accounting standards

- Though specialised in corporate laws and tax affairs rather than in accounting, some consulting firms did not know that MPERS would be applied to SMEs in 2016. Many SMEs do not understand the situation either because of the continuing confusion due to the introduction of the GST in April 2015.
- SMEs just keep accounts in accordance with the accounting software and prepare financial statements in cooperation with auditors so they do not know what standards are applicable.

(iii) Actual operation

None in particular.

(iv) Actual situation of fair-value valuation

- Evaluation procedures based on the fair-value standard are complicated. Small accounting firms and SMEs cannot respond to such procedures. Even major firms may have the same difficulty.
- However, some people say that there will be no big problems because SMEs do not have complicated assets.

(v) Advantages and disadvantages of introduction

- The introduction of MPERS is beneficial as SMEs, having no framework of management accounting, are forced to establish such a framework. If the obligations are enhanced (by imposition of fines, for example), SMEs may acquire a habit of proper accounting. Shortcomings of the MPERS include: the amount of tax may be increased as a result of the preparation of correct financial statements; and it will take much labour and direct costs to respond to MPERS.
- It is expected that the transition from PESR to MPERS will give a good impression at the time of screening for loans. But some companies may find that their financial situation (presentation) worsened as a result of such transition. For example, the mark-to-market valuation of assets tends to be conservative and may reveal damage to the assets.
- At present, small audit corporations are auditing SMEs but their present system may not be good enough for MPERS. Audit corporations need to be trained, and the cost of such training is necessary. As a result of the cost, there is concern over degradation of services and price increases on the side of SMEs, which are clients of the audit corporations.

(vi) Correspondence with tax

- Perhaps, audit corporations can handle the adjustment of financial statements designed for company register offices and tax offices.

(vii) Burden when filing tax return

- Some SMEs are reluctant to submit because they may have to pay a higher amount of tax if they submit correct financial statements to tax authorities.

4) Government agency

(i) Government efforts

- The government does not provide special support to SMEs in connection with this issue.
- Government agencies are not much involved with accounting. In Malaysia, where the United Kingdom (UK) system is introduced, people tend to believe that the accounting system should be established by accountants in the private sector. Accounting professionals have a higher social status.

(ii) Cooperation with other organisations

None in particular.

5) Human resources - challenges of accountants

- In Malaysia, accountants with three to five years of job experience after graduation from school apply for an interview at the Malaysian Institute of Accountants (MIA), which determines whether they may be certified as auditors or not. Accountants passing the interview can become CAs certified by the Department of Finance. Audits must be conducted by CAs, and only CAs can sign financial statements. CAs can be defined as 'a person who can sign financial statements as an auditor.' As every company is obliged to be audited, the CA is an auditor in most cases (they cannot engage in activities other than auditing because the number of CAs is not large).
- Adjustment is needed for SMEs to adapt to the transition to the fair-value standard but few accountants have the skills required for such adjustment. There are only about 3,000 accounting firms, many of which are very small firms composed of only one partner, and they lack skills. Very few firms could assist in the transition to MPERS.
- MIA offers a large number of paid seminars designed for accountants (especially for very small accounting firms). It is trying to support SMEs' adaptation to the new system through provision of support to small accounting firms.
- It is not appropriate that an accounting team and an audit team coexist within one accounting firm, even if they are separate divisions.

6) Proposals from interviewees

- How about providing the accounting software to small companies free of charge? The accounting software is too expensive for small companies to afford. It will not be adopted by many companies as long as it is supplied for a fee.

- While accounting is important, the system should not be too restrictive for small companies. Accounting standards for small businesses should be simpler and should require fewer costs for accounting processing.
- MPERS is a strict standard that complies with the international accounting standard. It has been 10 years since MPERS was introduced, but frauds have not been eliminated compared with 10 years ago. Accounting standards cannot eliminate frauds.
- First of all, the problem of dual bookkeeping should be resolved. The introduction of GST may be a good start towards such resolution in Malaysia. In other countries, an opportunity should be created too.
- Some promotional activities are needed so that SMEs may show a more positive attitude towards introduction of MPERS. Business environments should be improved so that SMEs can advance to global markets. A change into a global-oriented mindset is also necessary. However, such a change may take time.

(3) Tasks concerning accounting systems for SMEs in Malaysia and their operations

Comparatively speaking, SMEs in Malaysia tend to keep accounts by themselves instead of outsourcing daily bookkeeping. The accounting software is popular to some extent, regardless of the criticism about its high price. One of the reasons is the strictness of the tax audits. However, owners of SMEs do understand that they should properly work on accounting. In addition, (audited) financial statements are regarded as pretty reliable because all the companies are obliged to be audited in principle. This situation, however, does not necessarily lead to ease of SMEs in receiving loans. Financial statements are certainly important, but much more emphasis is put on collateral, cash flow, and the outstanding balance of accounts.

The MPERS was introduced in January 2016. Due to objections raised by the industrial world, it took eight years to decide on such introduction. At the time of our field survey in August 2015, even audit corporations insisted that accounting standards for small companies should be more simple and should require less efforts to handle accounting. There seems to be other problems in connection with the announcement of the new accounting standard, as even specialists, who are not specialised in accounting but in tax affairs and the Company Act, did not know about the introduction of MPERS in 2016.

Another issue that has been pointed out regarding the introduction of MPERS is the lack of accounting staff. There are approximately 3,000 audit corporations in Malaysia but many of them are composed of only one partner. It is said that such small-sized audit corporations cannot adequately catch up with MPERS. In addition, it is expected that support for business owners and accounting staff of SMEs is not sufficient. Smooth transition to the accounting standard, which is more complex than PERS, that had been used up to 2015, may be quite difficult.

6. Indonesia

(1) Situation overview

1) Outline of systems relating to the current major accounting standards

In Indonesia, Articles 66 to 69 of the Company Act stipulate the contents and procedures of financial statements that should be included in the annual report. Companies are required to prepare their financial statements in accordance with the accounting standards established by the Indonesian Accountants Association, Ikatan Akuntan Indonesia (IAI).

As for accounting standards for SMEs, Standar Akuntansi Keuangan untuk Entitas Akuntabilitas Publik (SAK-ETAP) established the accounting standards for Non Publicly Accountable Entities (ETAP) in 2009. The standards have been applied from the fiscal year starting 1 January 2011.

IFRS has been applied since 2012, but IFRS for SMEs is not completely adopted as the accounting standards in Indonesia. However, in the process of developing the Tier2 SAK ETAP standards, the Indonesian Financial Accounting Standards Board, an organisation inside the Institute of Certified Public Accountants (DSAK IAI), has referred to IFRS for SMEs and is incorporating important points in the country's accounting standards. Other related movements include IAI's announcement of the Exposure Draft of Accounting Standards for Small- and Medium Sized-Entities (ED SAK UKM) in December 2008, which incorporated some amended concepts of IFRS for SMEs into SAK ETAP.

2) Other major related laws and regulations

None in particular.

3) Definition and number of SMEs

Regulation Nos. 9/1995 and 20/2008 on micro, small, and medium enterprises stipulate the definition of SMEs in Indonesia. The definition is set by the 'net asset' and 'annual sales' as listed below, with the following conditions: owned by Indonesian citizens, stand alone, not subsidiaries or branches of companies, and individual businesses.

Table 21: Definition of SMEs in Indonesia

	Net Assets	Annual Sales
Medium Enterprise	Rp500,000,000 – Rp10,000,000,000 = US$41.666 - US$833.333	Rp2,500,000,000 – Rp50,000,000,000 = US$208,333 - $4.166,666
Small Enterprise	Rp50,000,000 - Rp500,000,000 = US$4,166 - US$41,666	Rp300,000,000 – Rp2,500,000,000 = US $25,000 - $208,333
Micro Enterprise	Less than Rp50.000.000 = US$41,666	Less than Rp300,000,000 = US $25,000

Rp = Indonesian Rupiah; SMEs = small- and medium-sized entities.
Notes: Entities are classified according to the scale of enterprises if their Net Assets or Annual Sales fall under such criteria.
The above criteria are subject to change by Presidential Decree, depending on the situation.
Calculated at US $1 = Rp 12.000.
Source: Fajar Putranto , Challenges of Accounting Standard For SMEs In Indonesia(2015)

Data from the Ministry of Cooperation and Usaha Mikro, Kecil, Menengah (UMKM) 2012 show the number of small enterprises (including micro enterprises) as 56,485,594, but this also includes the farmers that operate as sole proprietorship. Therefore, the actual number is considered less. The number of medium enterprises is 48,997, featuring an overwhelming majority of small enterprises and micro enterprises.

Definitions of SMEs differ between the tax office, banks, and other government agencies, and this has been pointed out as an issue.

4) Provisions concerning preparation of accounting books and financial statements by SMEs

The Limited Liability Law (UU No. 40 2007), Government Regulation PP 64-1999 (revision of PP24-1998), and PP 121/2012 (Trade Department) stipulate that even SMEs are obligated to prepare and submit their financial statements. The financial statements required by PP64-1999 include: balance sheet, profit and loss statement, statement of changes in equity, cash flow statement, and notes to financial statement.

However, not many SMEs are following these regulations because there is no particular penalty against the delay or non-submission of the financial statements.

The submission of financial statements is required in some cases when applying for loans with banks. There is no penalty against the delay of submission, but needless to say, it may have negative effects on the credit process.

The submission of financial statements is also required when filing tax returns. The penalty for delayed filing is a fine of Rp1,000,000 and the penalty for delayed tax payment is two per cent per month with a maximum of 24 months of late penalty. In this regard, we can say that the preparation of financial statements is legally required. If no financial statement is prepared, the tax office will use the norm tax calculation method to estimate the tax amount, which may be higher than when the business prepares its own financial statements.

(2) Results of the hearings

We held hearings with government agencies, CPAs, industry groups of CPAs, financial institutions (banks), SMEs (with 10 employees) and the Chamber of Commerce from 3–5 August 2015 in the Indonesia, especially in the capital city, Jakarta.

Table 22: Agencies subjected to research in Indonesia

【IAI】Institute of Indonesia Chartered Accountants (IKATAN AKUNTAN INDONESIA)
【DEOKOP】Kementerian Koperasi dan Usaha Kecil dan Menengah
【Consulting】Accounting and consulting firms
【CPA】Accounting firms, audit corporations
【Bank】Private Bank
【SME】Small- and medium-sized enterprises (with 10 employees)

1) Books

(i) Persons who do bookkeeping works

While some SMEs entrust accounting to external professional firms, the majority have their employees (with little expertise) keep accounts.

- They outsource external professional firms accustomed to accounting. Outsourcing costs less money than hiring a professional staff. External professional firms have expertise and can respond to frequent rule revisions.
- Many SMEs, however, do not outsource external firms, maybe because they are not severely monitored by the tax office.
- They are entrusted bookkeeping works, and keep accounts on the basis of invoices and receipts supplied by their customers. Most of the customers, however, start to keep accounts by themselves within three years after establishment.

(ii) Interest in bookkeeping, financial statements, and accounting

Micro firms have no accounting books or financial statements because they have no incentives for maintaining such documents. They are forced to maintain the documents only for tax reasons.

- Some mid-sized companies have accounting books and financial statements.
- Many small companies, being sole proprietors, have no independent accounting books or financial statements as corporations.
- Micro firms are not obliged to keep accounting books.
- It is not clear which accounting standard or what policy responses micro firms should adopt.
- The SMEs do not take finance or accounting seriously. Nor do they prepare financial statements.
- Owners of SMEs do not understand the importance of accounting.
- SMEs have little interest in accounting. At present, they are far more interested in tax. They are engaged in accounting only for tax or audit reasons.
- SMEs only list their sales and payment, summarise the data, and treat it as financial statements. They focus only on cash flows.
- SMEs have no incentives for keeping accounting books or preparing financial statements. In that sense, a 'punishment approach' is taken.
- Business owners in their 30s are highly interested in accounting, while business owners

in their 50s or older are little interested. In addition, while business owners in large cities such as Jakarta have a strong interest, people in rural areas are less interested, partly due to a lack of knowledge.

(iii) Use of books for financing (including checking items when requesting a loan)

Financial statements are checked as reference documents, but the existence of the financial statements does not benefit companies in terms of loans.

- Financial institutes hope to increase loans to SMEs, but a lack of financial statements will pose a problem.
- The mere existence of financial statements will not lead to preferential handling in terms of loans, and cash flow will be referred to after all.

2) Financial statements

(i) Authorities that financial statements are submitted to

- Financial statements are submitted to the tax office for annual return.

(ii) Companies that are obligated to submit financial statements (companies that are obligated to register to authorities)

None in particular.

(iii) Handling of financial statements (not submitted or there are deficiencies)

None in particular.

(iv) Whether or not audit is required for financial statements

- Around 30 percent of small and micro firms have their statements audited, but theirs are not complete as financial statements. They only make a simple list of sales and expenditures.
- Around 70 percent of mid-sized businesses prepare audited financial statements.

Note: The percentages above are just estimates of the interviewees and are not accurate.

(v) Reliability of financial statements

The problem is poor reliability of financial statements of SMEs. Business assets are not separated from the business owners' personal assets in many cases.

- Financial statements of SMEs are irresponsibly prepared, or contain false entries.
- In the case of SMEs, the companies' accounts are not separated from business owners' personal account, so it takes time and labour to prepare the financial statements of the companies only.

(vi) Advantages/disadvantages of audit

None in particular.

3) IFRS/IFRS for SMEs

(i) Thoughts towards the introduction (countries that have not introduced yet)

As the existing accounting standard has already adopted key points of IFRS, the introduction of IFRS is not perceived to be necessary. We have an impression that SMEs would have difficulty in responding to such introduction.

- Some personnel do not know much about IFRS. They have an impression that it is too difficult.
- ETAP, the accounting standard of Indonesia, adopts many ideas of the IFRS.
- Some accountants hope that SMEs will accept ETAP-level accounting standards in future, but they doubt they can adopt IFRS-level standards. The adoption of IFRS-level accounting standards is desirable if the companies have their own motivation. For example, if they plan to make deals with foreign businesses or hope to obtain a loan or investment from overseas.
- Some SMEs know that ETAP contains some elements of IFRS, and that it may be converted into IFRS for SMEs in future. However, as they are a small company, their tax returns and financial reporting are simple. For the moment, they think they do not have to move to IFRS.
- SMEs and large companies are quite different in their number of employees. Basically, simple standards are good enough for SMEs. IFRS is too complicated.
- Indonesia has accounting standards such as the SAK and ETAP. IAI believes those standards contain about 80 percent of the contents of IFRS. They have an impression that IFRS is too difficult.

- The Kementerian Koperasi dan Usaha Kecil dan Menengah or DEPKOP is positive about IFRS. If it is introduced, it will serve as a standard for SMEs; it will be easy to understand; and it may make accounting processing easier for SMEs.

(ii) Interest in accounting standards

SMEs are little interested in accounting standards, and they have no keen awareness of problems concerning the introduction of IFRS.

- SMEs do not understand accounting standards. They are not aware of IFRS. They believe that all they have to do is prepare financial standards according to rules. As long as they can clearly understand the standard for preparing financial statements, they pay little attention to what the standard is like.
- At present, no one in Indonesia insists that they will be left behind the other countries unless they use IFRS. No one regards issues concerning IFRS as important.

(iii) Actual operation

- Issues concerning 'fair value' required by IFRS are very important. It is not easy for a single company to measure fair values. Additional knowledge, methodologies or evaluation of the organisation will be needed for such measurement. At present, there is no such social support for measuring fair values in Indonesia.

(iv) Actual situation of fair-value valuation

- PSAK 68 on 'the Fair Market Measurement' was implemented in January 2015. It requires fair market valuation from independent valuation appraisal (KJPP- Kantor Jasa Penilai Publik).

(v) Advantages and disadvantages of introduction

- It would cost companies more to keep accounts according to IFRS. They are expected to pay outside actuaries for calculation of welfare program expenses.
- For CPAs, it is easier to stick to ETAP than to switch to IFRS. There will be more mistakes in responding to IFRS. On the other hand, ETAP is very simple.

(vi) Correspondence with tax

- The tax authorities do not care whether the accounting standard used for calculation is ETAP or IFRS.

(vii) Burden when filing tax return

- The standards and threshold of SMEs under tax laws are different from definitions of SMEs under other laws. This makes things more unintelligible and complicated.

4) Government agency

(i) Government efforts

- DEPKOP is offering account-related training programs for SMEs such as seminars on how to prepare financial statements. The programs are designed for SME owners. In terms of accounting, DEPKOP also teaches the method of writing invoices and receipts. Such seminars are offered not only in Jakarta but also in other provinces, but they are less frequent and poorly attended.
- Similar trainings for SMEs are offered by other ministries, including the Department of Trade, the Department of Industry, the Ministry of National Development Planning, and local municipalities.
- IAI is preparing an easy-to-follow manual on how to prepare simple financial statements, in cooperation with the Bank Indonesia.

(ii) Cooperation with other organisations

- Each government agency independently implements a variety of measures and does not collaborate with one another. That is why SMEs cannot select an optimal program.
- Each government agency is conducting accounting training programs for SMEs but do not know each other's program in detail. There is no collaboration among agencies. As a result, SMEs cannot easily see which program they should attend, or which program is appropriate for them.

- In Indonesia, no collaboration has been established among government agencies yet. It is especially troublesome that no data about accounting and finance is shared between regional agencies and the central government (or among central agencies). That is why tax offices are trying to introduce a system (E-Factur) which makes it possible to see data on accounting and finance.

5) Human resources - challenges of accountants

- The best way to improve the quality of human resources is to encourage business persons to qualify as CA. In order to promote such activities, a law stipulating that accounting personnel shall be certified as CA has been enacted. This rule has been successfully established through discussions with the Department of Finance. However, the requirement for CA qualification will improve the quality of accounting personnel but it will limit the number of such personnel for it is difficult to obtain a CA licence.

6) Proposals from interviewees

- Accounting and tax laws should get a little closer to each other. The IAI (which is equivalent to MIA in Indonesia, an organisation responsible for the establishment of accounting standards) and tax authorities, et cetera, should collaborate with each other.
- A law clearly stipulating the accounting standards to be used and the requirement that financial statements shall be signed by a CPA without fail is needed. In addition, a qualification system concerning human resources engaged in accounting should be established.
- The benefits and disadvantages brought about by the use of a specific accounting standard should be emphasised.
- Companies should not be told to prepare financial statements only because submission is mandatory. They should be made aware that accounting is important for business management.
- It is not clear what benefits will be brought about if SMEs introduce well-established accounting frameworks. Such introduction looks all the less appealing because no problem has been detected until now without an accounting system. We do not want to do what is not mandatory.

- It is effective to present case studies of SMEs that have succeeded in business through the use of accounting and books.【Consulting】
- Note that efforts should be made to increase employees' knowledge on accounting. The knowledge on accounting acquired at university, etc., is usually quite different from what is actually going on at actual workplaces.
- It is important to introduce courses on accounting and the method of preparing financial statements in the curriculum of Business Administration in universities, in collaboration with the ministry in charge of education.
- As for education, the government has taken some measures. However, groups and study sessions voluntarily formed by business owners, and trainings given by associations of business owners are more effective than any training directly provided by the government.
- Policies offering preferential treatments in financial affairs may be counted as an option, but they cannot be put into practice easily because benefits for banks and adjustment with other systems need to be considered.
- It is a good idea that a preferential interest rate will be offered to SMEs with complete financial statements. But SMEs may obtain a loan from non-bank unions or individuals regardless of financial statements, and it is not clear whether banks can gain benefits great enough to offer the preferential interest rate.
- It takes time and costs, and human resources are needed to adopt a decent accounting system. At present, SMEs in Indonesia can hardly cope with those requirements. It is hard to establish an accounting system unless the company has a well-established organisation and management system.
- Existence of statistics may be helpful in discussions with the World Bank concerning accounting standards. We are sometimes asked whether or not there is statistical data by the World Bank, et cetera. Information on the number of companies that have introduced ETAP and SAK ETAP would be desirable. Statistical information on SMEs are unavailable.

(3) Tasks concerning accounting systems for SMEs in Indonesia and their operations

Indonesia has not adopted IFRS for SMEs but uses SAK-ETAP, the country's own accounting standards that incorporate some ideas and contents of international accounting standards such as the IFRS for SMEs.

Some SMEs do bookkeeping by themselves and some outsource the task. Same as other ASEAN nations, Indonesian SMEs do not have interest in bookkeeping or financial statements other than for purposes of paying tax. Most micro enterprises do not even keep accounts. This is considered because there are penalty of approaches but people do not feel the benefits of bookkeeping or preparing financial statements. Banks check financial statements at the time of screening for loans but the reliability is not necessarily high and it is difficult to provide benefits according to the financial statements.

Because of the perception stated above relating to bookkeeping and financial statements, it is believed that IFRS for SMEs is too complicated for SMEs, except for companies that have many international transactions, and simplified accounting standards are desirable. It is suggested that the absence of agencies that calculate the fair value objectively is preventing the realisation of the fair-value accounting based on IFRS.

Government agencies and the Institute of Certified Public Accountants are implementing various initiatives relating to education and training to improve the situation. However, cooperation is insufficient and SMEs do not have adequate human and financial resources for accounting. It is believed that granting benefits, efficiency, and understandability of accounting and tax may help realise the appropriate accounting.

It is important for a number of organisations to cooperate to resolve the issues relating to bookkeeping and accounting, make it easy to understand for SMEs, and realise the benefits of accounting standards and practices.

7. Myanmar

(1) Current accounting standards

In Myanmar, the Myanmar Accounting Council (MAC) outlines the accounting standards and guidelines. MAC issued the Myanmar Financial Reporting Standards (MFRS) for major corporations in January 2011. This content is nearly identical to the IFRS. For SMEs, Myanmar applies the MFRS for SMEs. This content is nearly identical to the IFRS for SMEs.

Here, SMEs refer to business organisations with no public accountability that conduct the disclosure of general purpose financial information to external users. Examples of external users include business owners not involved in business management; existing or latent rights owners; and rating agencies. SMEs that do not apply the MFRS for SMEs must use the full MFRS.

(2) Accounting system overview

All companies and branches are required to undergo audits conducted by an independent Myanmar CPA. A condition for establishing a company is the designation of a CPA as an accounting auditor. There are believed to be approximately 550 CPAs in Myanmar who are licensed by MAC (World Bank, Current Status of the Accounting and Auditing Profession in ASEAN Countries, 2014).

The only recognised accounting year is from 1 April 1 to 31 March (companies are not free to choose). The language used on financial statements may be Burmese or English. There are no specific regulations regarding the currency of record so it is possible to select the local currency, Kyat, US$, et cetera.

(3) Management status and issues

In Myanmar, it is rare for an SME to install accounting software for the purpose of optimising bookkeeping work. Most companies outsource their documentation to an accountant to have daily statements created or they use Excel spreadsheets to create financial statements.

Looking at accounting practices among companies in Myanmar, overall, there are cases where companies are not creating profit and loss statements based on accrual accounting and cases where the recording methods for liabilities, inventory assets, and fixed assets on balance statements are not necessarily compliant with MFRS or MFRS for SMEs.

8. Lao People's Democratic Republic

(1) Current accounting standards

The entity in charge of setting accounting practices in Lao People's Democratic Republic (Lao PDR) is the Ministry of Finance (MOF). The MOF creates laws and regulations related to accounting, including the outlining of accounting standards. Lao PDR's accounting standards are outlined in the National System of Financial Accounting of the Lao PDR, established in 1998, and the Law on Enterprise Accounting, enacted in 1990. In principle, Lao PDR's accounting standards apply to all enterprises (excluding some foreign companies as noted below).

However, these accounting standards diverge significantly from IAS and IFRS. The first step towards convergence with IFRS was taken in 2007, with the enactment of the Law on Accounting. The accounting standards outlined in this law included points that are consistent with the IFRS. The MOF of Lao PDR is currently continuing its evaluation of the adoption of IFRS. However, as of 2011, Lao PDR was not considering adopting the IFRS for SMEs.

Foreign enterprises meeting certain conditions are allowed to use generally accepted international accounting standards.

(2) Accounting system overview

Companies are required to maintain and store accounting records indicating corporate activities. Accounting ledgers and documented evidences must be stored for at least 10 years.

The tax year, according to the income tax law, is the one-year period between 1 January and 31 December. Generally, companies align their accounting period with the tax year outlined in the tax law. However, it is possible to establish a different 12-month period based on the condition that this period is applied continuously.

Excluding government-owned companies, banks, and insurance companies, all companies must create financial statements within two months of the end of the accounting year. However, an application may be filed to extend this deadline by one month. Also, the general public may use financial statements by submitting a disclosure request to the registry office for the respective company.

In addition to banks and insurance companies, corporations fulfilling certain parameters are subject to audit requirements.

(3) Management status and issues

As indicated above, MOF is proactively considering the adoption of IFRS but there is a significant distance between the Lao PDR accounting standards and the most recent IFRS.

It also needs a legal system coordinating all related laws such as the Companies Law, Law on Accounting, Audit Law, Tax Law, et cetera. For example, the Companies Law outlines that public companies and certain non-public companies are subject to financial statement audits but no such provisions are outlined in this law. As such, it is believed that many of the financial statements submitted to the Taxation Department of MOF are not being audited. According to the World Bank's Current Status of the Accounting and Auditing Profession in ASEAN Countries published in 2014, there are estimated to be some 175 professional accountants in Lao PDR.

9. Viet Nam

(1) Current accounting standards

The accounting system in Viet Nam is overseen by the Ministry of Finance. Enterprises conducting business in Viet Nam must apply the Viet Nam Standards on Accounting and the Viet Nam Accounting System. The Viet Nam Accounting System requires all enterprises to use standardised accounting field codes and outlines, on a detailed level, rules concerning financial statement format, and accounting ledger and documentation types and methods. It is the equivalent of an accounting manual.

The Viet Nam Standards on Accounting are based primarily on the IAS and IFRS but the following types of differences exist as a reflection of Viet Nam's implementation. Also, in principle, the acquisition cost is the only asset valuation standard applied.

- Inventory asset valuation
  - Last In, First Out (LIFO) accounting is recognised.
- Land

- In Viet Nam, land belongs to the country and thus, even if land utilisation rights are obtained, this is recorded as a long-term prepayment expenditure and treated as an expense for up to 50 years.

- Founding expenses and start-up expenses
  - All expenses, up to the acquisition of the investment permit, are treated as founding expenses and these are recorded at value at the time incurred but the business may also choose five-year depreciation. Expenses incurred after receiving the investment permit up to the start of the business are treated as start-up expenses. In principle, these are recorded at value at the time incurred but the business may also choose three-year deferred depreciation.
- Loss accounting
  - No system in place. Only allowed when government approval is received.

The following business entities may apply simpler accounting standards. However, this does not apply to entities that are particularly large.

- Limited liability companies (LLCs)
- Joint stock companies (excluding listed companies)
- Partnerships
- Sole proprietorships
- Cooperatives (excludes agriculture businesses and financial sector).

If applicable to the above, of the 26 accounting standards that comprise the Viet Nam Standards on Accounting, the company must only apply seven standards fully, twelve standards partially, and seven do not require application.

Table 23: Accounting standards required for LLCs, etc.

No.	Accounting standard name	Full application	Partial application	Not required application
01	Framework	O		
02	Inventory		O	
03	Tangible assets		O	
04	Intangible assets		O	
05	Investment property	O		
06	Leases		O	
07	Accounting for investments in associates		O	
08	Financial reporting of interests in joint ventures		O	
10	The effects of changes in foreign exchange rates		O	
11	Business combination			O
14	Revenue and other income	O		
15	Construction contract		O	
16	Borrowing costs	O		
17	Income tax		O	
18	Provision. Contingent assets and contingent liabilities	O		
19	Insurance contract			O
21	Presentation of financial statements		O	
22	Disclosures in the financial statements of banks and similar financial institutions			O
23	Events after balance sheet date	O		
24	Cash flow statements		O	
25	Consolidated financial statements and accounting for investments in subsidiaries			O
26	Related parties disclosures	O		
27	Interim financial reporting			O
28	Segment reporting			O
29	Net profit or loss for the period, fundamental errors and changes in accounting policies		O	

No.	Accounting standard name	Full application	Partial application	Not required application
30	Earnings per share			○

LLCs = Limited Liability Companies.
Source: Vietnamese Accounting Standards (“VAS”), Russell Bedford KTC http://russellbedford.vn/index.php?option=com_content&view=article&id=63:vietnamese-accounting-standards-qvasq&catid=8:accounting&Itemid=19 (2015)

(2) Accounting system overview

The Law on Company Accounting requires companies in Viet Nam to create and store accounting ledgers. Accounting ledgers must be created in the Vietnamese language but English or other language, in combination with Vietnamese, is allowed. The currency for accounting statements is the Vietnamese Dong but exporters and companies conducting transactions with foreign countries can submit notice to their supervisory authority to create statements in a foreign currency. Accounting ledgers must be stored together with evidentiary documentation for 10 years from the end of the accounting period.

In principle, the accounting period is from 1 January to 31 December. But by submitting a request to the tax bureau, the accounting date may be set as the end of March, June or September. Many Vietnamese companies use the end of December and the reporting deadline for mandatory audits and corporate income taxes is the end of March.

Businesses meeting certain parameters must designate a chief accountant. A chief accountant is a person who, after completing a certain amount of practical experience, completes a certification course offered by a university, junior college, accounting association, etc., and passes a certification examination. A chief accountant does not have to be hired directly by the company and may be outsourced to an accounting firm. The chief accountant bears responsibility for corporate accounting and is in charge of approving payments, and creating and managing financial documents. The signature of the chief accountant is required on accounting ledgers and financial documents.

Entities subject to mandated audits are outlined in the Independent Audit Law and the Securities Law. Those subject to audits under the Independent Audit Law include foreign companies, financial institutions, insurance companies, investment trust companies conducting development assistance, government-owned companies, special investment projects, etc. . Those subject to audits under the Securities Law include listed companies and non-listed public companies in Viet Nam. A public company is defined as a company that has conducted a stock offering, is listed on a securities exchange, has more than 100 investors, and has capital in excess of ₫10 billion.

The disclosure of financial statements is required of both non-public and public companies, and companies must submit statements to the investment permit issuing authority—the Ministry of Finance, the Statistics Bureau, or another office (the office of submission varies depending on the type of company)—within 90 days of the closing of the accounting period.

(3) Management status and issues

As stated above, many Vietnamese companies set 31 December as the end of their accounting period. Therefore, corporate audits are concentrated towards the end of March. Viet Nam has a chronic lack of accounting firms and there are cases of audits not being completed by the deadline.

Even among large-scale companies, there are some cases of companies creating and disclosing financial statements containing inadequate information. This depends on the accounting firm. In some cases, the firm will conduct a strict internal standards inspection of the company prior to accepting an audit outsourcing agreement and they will only accept work from companies that pass this inspection.

According to the World Bank's Current Status of the Accounting and Auditing Profession in ASEAN Countries (2014), Viet Nam is estimated to have some 9,350 professional accountants.

10. Brunei Darussalam

(1) Current accounting standards

In Brunei Darussalam, the Brunei Darussalam Accounting Standards Committee (BDASC) outlines accounting standards and guidelines. The IFRS has been fully applied to financial institutions and other companies with public accountability since 1 January 2014.

IFRS for SMEs is not being applied to companies with no public accountability but it is possible to apply the full IFRS. The BDASC website indicates that 'companies with no public accountability can continue to apply the GAAP in Brunei until such time the BDASC decides otherwise'. However, there was no specific information available concerning Brunei GAAP.

According to the *Brunei Times* dated 30 May 2014, the BDASC is evaluating/researching IFRS for SMEs but there were comments that the scope was too massive and inappropriate for small-scale companies conducting business in Brunei.

(2) Accounting system overview

The following parameters are required of non-public companies (Sendirian Berhad or Sdn Bhd). Brunei does not have a stock market so public companies (Berhad or Bhd) do not exist.

- Designate an auditor registered in Brunei.
- Create an annual profit and loss statement and balance sheet, with attached report from directors.
- Submit annual financial data to the Bureau of Economic Development, Ministry of Finance.
- Submit annual reports that include directors and shareholders.
- Store the following records:
  - Shareholders' general meeting minutes
  - Board of directors' meeting minutes
  - Managers' council meeting minutes
  - Shareholders' ledger
  - Directors' and managers' ledger
  - Record of liabilities.

The accounting year may be set freely by the company executive at the time of founding but tax payments must be within the three-month period following 3 January each year.

(3) Management status and issues

According to the World Bank's Current Status of the Accounting and Auditing Profession in ASEAN Countries (2014), Brunei is estimated to have some 50 professional accountants. No other pertinent information concerning management status could be obtained.