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Accounting Standards for Small- and Medium-Sized Enterprises in ASEAN

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List of Abbreviations

ACRA	Accounting and Corporate Regulatory Authority [Singapore]
AICPA	American Institute of Certified Public Accountants [US]
ASBJ	Accounting Standards Board of Japan [Japan] 4 times
ASEAN	Association of Southeast Asian Nations
BDASC	Brunei Darussalam Accounting Standards Committee 4 times
CA	Chartered Accountant
CPA	Certified Public Accountant
DTI	Department of Trade Industry [Philippines]
EU	European Union
FRF for SMEs	Financial Reporting Framework for Small- and Medium-Sized Entities [US]
FRS	Financial Reporting Standard [UK]
FRSSE	Financial Reporting Standard for Small Entities [UK]
GAAP	Generally Accepted Accounting Principles
HCA	Historical Cost of Accounting 4 times
IAI	Ikatan Akuntan Indonesia/Indonesian Accountants Association
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS for SMEs	IFRS for Small- and Medium-Sized Entities
J-GAAP	Japanese Generally Accepted Accounting Principles [Japan]
K-GAAP	Korean Corporate Accounting Standard
KAI/KASB	Korean Accounting Institute/Korean Accounting Standards Board
K-IFRS	Korea-Adopted International Accounting Standard
LIFO	Last In, First Out
MEF	Ministry of Economy and Finance [Cambodia]
MFRS	Malaysian Financial Reporting Standards
MFRS	Myanmar Financial Reporting Standards
MPERS	Malaysian Private Entities Reporting Standards
PERS	Private Entities Reporting Standards [Malaysia]
PFRS	Philippine Financial Reporting Standard
SEC	Securities and Exchange Commission
SFRS	Singapore Financial Reporting Standards
SFRS-SE	SFRS for Small Entities
SMEA	Small- and Medium-Sized Enterprise Agency [Japan]
SMEs	Small- and medium-sized entities/enterprises
UK	United Kingdom
UK-GAAP	United Kingdom Generally Accepted Accounting Principles
US	United States of America

Chapter 1
Background and Purpose of the Research Project

1. Background of the Research

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

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

Another very important challenge is how SMEs in the ASEAN region will collect investment from developed countries in the midst of global competition. As corporations and investment funds in developed countries rely on financial statements of target companies to make investment decisions, the lack of financial statements or low transparency or reliability of financial statements may discourage investors from making investment decisions or increase investment costs.[1]

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

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

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

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

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[1] Pricewaterhouse Coopers, Transparency Project, 2001.

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

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

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

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

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

2. Purpose of the Research

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

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

Chapter 2
The Research Overview (Research Method)

1. Research Framework

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

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

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

The situation of IFRS adoption of each country reported on the website of the IFRS Foundation is used as a reference in creating this figure.[2]

[2] IFRS Foundation home page. http://www.ifrs.org/Pages/default.aspx

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

2. Field Research

(1) Countries where field researches were conducted

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

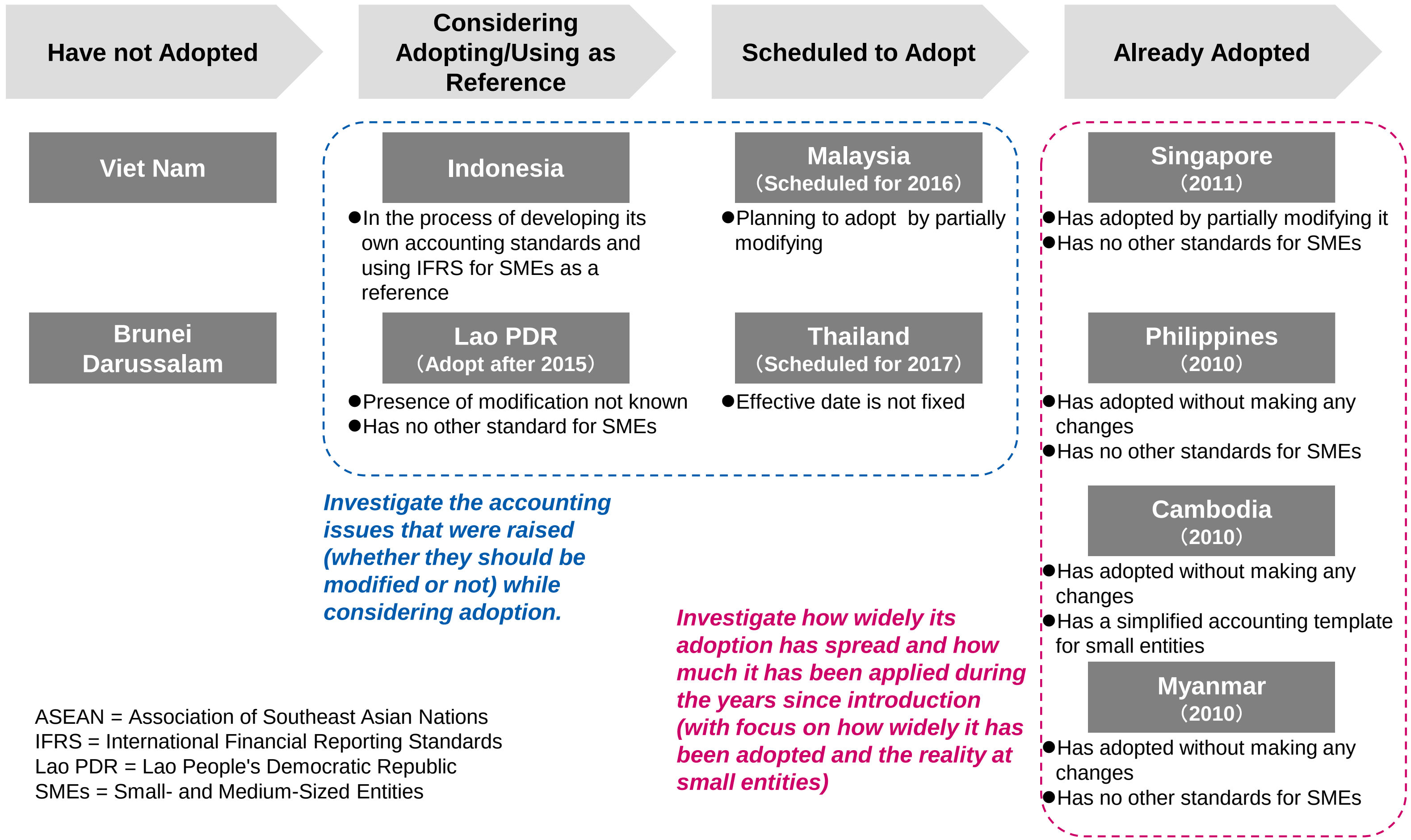
Table 1: Countries where field researches were conducted

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

(2) Research target

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

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



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

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

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

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

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

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

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

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

Table 2: Major research targets and the reasons for selection

	Research Subjects	Reasons
1	Local Financial Institutions	● To understand the reality and challenges of SME accounting from the financial providers' perspective
2	Certified Public Accountants	● To understand the reality of accounting in SMEs and how they are adopting IFRS for SMEs
3	CPA Associations	● To understand the associations' awareness of issues ● To see what is necessary to implement better accounting systems and what should be considered
4	Government Agencies (those in charge of SME policy)	● To understand the policy, goal, issues, and the reality in connection with the accounting of SMEs
5	Chambers of Commerce (Organisations for SMEs)	● To understand the awareness and requests of management at SMEs

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

(3) Survey items

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

Table 3: Major survey items for research targets

	Research Subjects	Reasons
1	Local Financial Institutions	● Existence and credibility of accounting ledgers, and earnings and expense documents of SMEs ● What they check for the financing of SMEs (check items) ● Accounting issues and expectations (what they want to know) in connection with financing SMEs ● How accounting should be in order to vitalise SMEs
2	Certified Public Accountants	● Reality of accounting at SMEs (how they are adopting IFRS for SMEs and the need for adoption) ● Issues surrounding accounting at SMEs (issues for debate at the time of auditing such as collateral method for inventories at fair value, depreciation, and evaluation method for lease contracts) ● Auditing method ● Correlation and problems between the accounting system and tax obligations
3	CPA Associations	● Reality and problems surrounding the SME accounting system ● Reality of accounting at SMEs (including how IFRS for SMEs is adopted) ● Auditing method ● Directions taken for improvement and countermeasures being considered (if any)
4	Government Agencies (those in charge of SME policy)	● Current conditions, the history of the accounting system for SMEs ● Issues regarding the accounting for SMEs ● Directions taken for improvement and countermeasures being considered (if any)
5	Chambers of Commerce (Organisations for SMEs)	● Current conditions, the history of the accounting system for SMEs ● Issues regarding the accounting for SMEs ● Directions taken for improvement and countermeasures being considered (if any)

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

3. Desk Research

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

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

4. Discussion by the Working Group

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

Table 4: Working Group members

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

Table 5: Outline of Working Group meetings

No.	Date	Location	Agenda
1	28 May 2015	Tokyo	1. Opening 2. Opening Address 3. Explanation of the purposes of this research project and Working Group 4. Working Group members' self-introductions/reality of SME accounting (current situations in members' countries) 5. Points and subjects of research 6. Countries subject to field investigation 7. Progress on desk research 8. Administrative business, including expense reimbursement procedures 9. Closing
2	4 August 2015	Jakarta	1. Opening 2. Opening Address 3. Report on current status and accounting system of SMEs in ASEAN countries 4. Interim report on field study results 5. Discussions on direction of proposal 6. Confirmation of report configuration 7. Future schedule and others 8. Closing
3	9 October 2015	Singapore	1. Opening 2. Interim report on field study results in Indonesia and Malaysia 3. Comments on the results of the survey of ASEAN countries 4. Discussion of the structure and content of the final recommendations 5. Future schedule and others 6. Closing

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

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.

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[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.

Chapter 4

Summary and Findings of the Research on ASEAN Countries

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

1. Variance by entity scale

[Key findings]

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

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

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

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

Cases identified through the field studies:

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

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

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

2. Credibility of SME financial statements

[Key findings]

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

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

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

Cases identified through the field studies:

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

(Singapore)

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

3. How SMEs view and approach accounting

[Key findings]

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

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

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

Cases identified through the field studies:

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

interest in accounting. (Philippines)

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

4. Incentives to accommodate accounting

[Key findings]

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

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

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

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

Cases identified through the field studies:

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

5. Resource for accounting accommodation

[Key findings]

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

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

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

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

Cases identified through the field studies:

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

- The shortage of skilled accountants for IFRS for SMEs is significant, particularly in ultra-small firms. MIA offers many opportunities for paid courses for accountants targeting ultra-small accounting firms. MIA aims to indirectly help SMEs accommodate the accounting system by offering support to ultra-small accounting firms. (Malaysia)

- For SMEs, the cost of outsourcing professional accountants is too expensive. (Thailand)
- Most SMEs have no internal accounting personnel. (Cambodia)
- Accounting personnel internally hired by companies (often called 'preparers') are less knowledgeable or skilled. Training opportunities or the like should be offered to address this issue. (Singapore)
- While some SMEs outsource to external specialist firms, many of them are assigning employees with less expertise to keep books. (Indonesia)
- Though the introduction of software accounting solutions may potentially enable self-sufficient bookkeeping in SMEs, high solution cost is inhibiting its introduction. (Malaysia)

6. Appreciation of IFRS for SMEs

[Key findings]

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

Most responses from financial institutions and business entities were negative about the introduction of IFRS for SMEs. Even in countries where the system is already in place, responses included 'IFRS for SMEs is too complicated' or 'Simpler and easier standard based on historical cost of accounting (HCA) should be more appropriate, particularly to the small- and micro-sized entities'. We also found that some rules were not respected in reality. For example, assets are not measured according to the fair-value measurement rule (but processed on only HCA basis).

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

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

Cases identified through the field studies:

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

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

7. Overall Summary

[Key findings]

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

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

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

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

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

Chapter 5

Actual Situations and Tasks relating to Accounting of SMEs in Non-ASEAN Nations

1. Japan

(1) Current state of accounting of SMEs

1) Overall image of accounting systems

With the international wave of IFRS adoption, Japan has also been holding various discussions and debates on accounting standards since 2000. The discussions gained momentum in 2002 when the Small and Medium Enterprise Agency (SMEA) released the Report of the Study Group on SME Accounting in 2002. In 2005, they released the Accounting Guidelines for Small- and Medium-Sized Entities, and then in 2012, they released the General Accounting Standards for SMEs. These two accounting standards coexist.

The accounting standards applied to listed companies and non-listed companies subject to disclosure, in accordance with the Financial Instruments and Exchange Act (FIEA), are outlined below.

We briefly summarise the correlation between IFRS and accounting standards related to listed companies, non-listed companies disclosing under the FIEA, and large companies subject to the Companies Act, and then we discuss the two types of SME accounting.

2) Current state of accounting systems related to listed companies and large companies

In Japan, the application of the following four accounting standards is recognised for listed companies and large companies as of December 2015: IFRS, J-GAAP (Corporate Accounting Standards), the US Generally Accepted Accounting Practices (US-GAAP), and Japan's Modified International Standards (J-MIS). Since March 2010, the voluntary application of IFRS has been approved for the creation of consolidated financial statements. On the other hand, the consolidated financial statements and non-consolidated financial statements for the majority of listed companies and large companies are created based on the J-GAAP, which is released by the Financial Accounting Standards Foundation (FASF).

What can be noted as a unique feature of accounting standards in Japan is the existence of these four systems of GAPs: IFRS, J-GAAP, US-GAAP, and J-MIS[8].

Figure 2: 'Division of Accounting Systems' and 'Segmenting of Accounting Standards'

Category	**Approximate number of companies**	**Financial statements**		**Audit by certified public accountant (or audit firm)**
		Consolidated	Non-consolidated	
A) Listed companies	3,600	Voluntary application of International Financial Reporting Standards (IFRS)	Generally accepted accounting principles in Japan (J-GAAP)	Audit required
B) Companies disclosing under FIEA other than the ones in category A	600	Generally accepted accounting principles in Japan (J-GAAP)		
C) Large companies under the Companies Act with stated capital ≥ ¥500 million or total liabilities ≥ ¥20 billion – excluding category A or B companies	8,000	Not required to prepare		
D) All others – Corporations that are not in category A, B, or C	2.6 million		ASBJ Guidelines (2005) General Accounting Standard for SMEs	Audit not required

SMEs = small- and medium-sized entities; ASBJ = Accounting Standards Board of Japan; IFRS = International Financial Reporting Standards; J-GAAP = Japanese Generally Accepted Accounting Principles; FIEA = Financial Instruments and Exchange Act
Source: Teruyuki Kawasaki, Division of Accounting Systems and Segmenting of Accounting Standards, Accounting, Vol. 186, No. 5, November 2014.

3) Current state of accounting systems for SMEs

As indicated above, there are two accounting standards for SMEs in Japan: the Accounting Guidelines for SMEs and the General Accounting Standards for SMEs. Below are the characteristics of each accounting standard.

(i) Accounting Guidelines for SMEs

[8] Teruyuki Kawasaki, Accounting for Small- and Medium-Sized Entities, *Accounting*, Vol. 182, No. 5, November 2012.

(a) Position of the Accounting Guidelines for SMEs

The Accounting Guidelines for SMEs (Guidelines) were the first accounting standards for SMEs in Japan. The Guidelines are recognised as generally accepted accounting principles under the Article 431 of the Companies Act and have the following two objectives:

- To indicate preferable accounting treatments and notations during the creation of financial statements by SMEs.
- To indicate appropriate accounting practices for accounting advisors creating accounting statements in collaboration with company directors.

As suggested in the syntax, the Guidelines outline accounting practices considered 'preferable' or 'appropriate' for SMEs and it is important to note that they are not legally binding[9].

(b) Overview of Guidelines

The structure of the Guidelines is outlined in Table 24.

As is evident from Table 24, the Guidelines are comprised of four general provisions and 20 specific provisions. The details of each provision are based on the J-GAAP and the FASF reports. Stated plainly, the Guidelines are a simplified version of the accounting standards for large companies (public companies).

As grounds for this statement, the Guidelines are revised annually to reflect the content of revisions made to the J-GAAP.

[9] Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

Table 24: Structure of the Accounting Guidelines for SMEs (2014 Version)

Section		Description	Section		Description
General Provisions		Objective	Specific Provisions	9	Provisions and allowances
		Scope		10	Retirement benefit obligations/provision for retirement benefits
		Policy upon preparation		11	Tax expenses/tax liabilities
		Scope of entries and considerations upon application		12	Deferred Taxes
Specific Provisions	1	Financial receivables		13	Net assets
	2	Loss from bad debt/ allowance for doubtful accounts		14	Recognition of revenues/ expenses
	3	Securities		15	Lease transactions
	4	Inventories		16	Foreign currency transactions, etc.
	5	Accruals and deferrals, etc.		17	Accounting of reorganization (Accounting for business combinations and business divestitures)
	6	Fixed assets		18	Notes to non-consolidated financial statements
	7	Deferred assets		19	Mandatory publication of financial results and examples of balance sheet, income statement and statements of changes in net assets
	8	Financial payables		20	Matters to be studied in the future (Asset retirement obligations)

SMEs = small- and medium-sized entities.

Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

(c) Status of permeation for the Guidelines

The goal for establishing these Guidelines was to specify accounting standards that would be easy for SMEs to implement. In reality, many SMEs are not creating accounting statements in compliance with the Guidelines. According to the Survey Related to SME Accounting [10] conducted by SMEA in March 2010, while 42.0 percent of companies targeted by the survey had somewhat an understanding of the content of the Guidelines, nearly the same amount or approximately 41.5 percent of companies were unaware of the Guidelines. This indicated that the content of the Guidelines was not sufficiently known. Regarding the level of compliance with the Guidelines, 45.1 percent of companies responded to being 'in compliance' (including partial compliance) but it became clear that only 15.9 percent of those companies were in 'full compliance'.

The survey also confirmed what companies desired in the Guidelines. Around 21.7 percent of companies responded that they want 'accounting standards that are consistent with tax practices' and 14.7 percent of companies indicated that 'tax accounting was sufficient,' which is a combined 36.4 percent of companies. The group of companies preferring 'accounting that follows tax practices' represented the largest group. The next largest group (34.4 percent of respondents) stated 'make accounting practices as simple as possible'. This indicates that SMEs desire a focus on tax accounting that simplifies accounting practices. On the other hand, only 4.4 percent of companies indicated a desire for 'a focus on accounting practices that closely resemble listed companies', indicating the lack of weight in this area.

(ii) General Accounting Standards for SMEs

(a) Position of the General Accounting Standards for SMEs (Standards)

In 2010, due to the lack of permeation of the Guidelines among SMEs, SMEA convened the Study Group on SME Accounting and organised an interim report. This interim report outlined four basic policies and five considerations related to the formulation of new accounting rules. The following table outlines those policies and considerations.

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[10] http://www.chusho.meti.go.jp/zaimu/kaikei/2011/download/0823kaikei_enquete-1.pdf

Table 25: Four basic policies and five considerations related to SME accounting

<table>
<tr><th>Basic Policy</th><th>Consideration</th></tr>
<tr><td>1) Organize accounting practices of SMEs: Accounting treatment applied as a practice in actual accounting work of SMEs that may be regarded as financial accounting practices generally accepted as fair and appropriate under the Companies Act must be organized. (Specifically, this mainly involves accounting treatment based on the Corporation Tax Act and the Business Accounting Principles.)</td><td rowspan="4">a) Lawfulness under the Companies Act: If the accounting treatment is properly compliant with new accounting rules, its lawfulness under the Companies Act must be clear.

b) Smooth transition to higher-level accounting standards: Consideration should be given to smooth transition to financial accounting standards and ASBJ Guidelines.

c) Consideration to accounting structure/accounting practices/ Corporation Tax Act: Accounting structure of SMEs, accounting practices in actual operations and harmony with treatment prescribed by the Corporation Tax Act should be given consideration, and recognized as appropriate accounting treatment.

d) Frequency of revision: Revision work should be performed as little as possible to ensure stability.

e) Relationship with financial accounting standards: Compilation and revision work should be performed separately from financial accounting standards.</td></tr>
<tr><td>2) Flexible Accounting standards in line with actual practice: The new accounting rules must be flexible so that accounting treatment can be chosen from several options in line with the actual practice of the entity. (Application of the business accounting standards and ASBJ Guidelines is permitted as a matter of course.)</td></tr>
<tr><td>3) Simple and plain language that facilitates understanding by company decision makers: Content must be written in simple and plain language with minimal use of technical terms and difficult expressions so that the top management of SMEs can understand it.</td></tr>
<tr><td>4) Importance placed on book entries: Book entry must be incorporated as a key component.</td></tr>
</table>

SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

The Standards represent the concrete embodiment of the above basic policies and considerations.

(b) Overview of General Accounting Standards for SMEs

The following table outlines the structure of the General Accounting Standards for SMEs.

The Standards are comprised of 9 general provisions and 14 specific provisions. In particular, the Standards focus on SME accounting practices (acquisition cost-based accounting, corporate accounting principles, and corporate tax law).

Table 26: General Accounting Standards for SMEs

Topic	Description	Features
1. General accounting treatment of revenues and expenses	a. Revenue: In principle, on a realization basis b. Expenses: In principle, on an accrual basis c. Application of matching principle d. Application of gross amount principle	i. Importance placed on revenue and expense approach
2. General accounting treatment of assets and liabilities	a. Assets: In principle, at acquisition cost b. Liabilities: In principle, at the amount of obligation	
3. Financial receivables and financial payables	a. Financial Receivables: In principle, at acquisition cost b. Financial obligations: In principle, at amount of obligation c. Notes on amount of discount on notes receivable and amount of transfer by endorsement	
4. Bad debt expenses and allowance for doubtful accounts	a. Legally extinguished receivables: Recorded as bad debt expenses b. Uncollectible receivables: Recorded as bad debt expenses c. Receivable at risk of becoming uncollectible: Recorded as allowance for doubtful accounts	i. Statutory deductible rate is presented as an example of the rate of provision of allowance for doubtful accounts
5. Securities	a. In principle, at acquisition cost b. Trading securities: Marked to market c. Valuation method: Periodic-average method, moving-average method, etc. d. If market value substantially falls: Booking of impairment loss, unless recovery is deemed likely	i. Trading securities assume trading securities under the Corporation Tax Act ii. Likelihood of recovery is determined by management.

Topic	Description	Features
6. Inventories	a. In principle, at acquisition cost b. Valuation standard: Cost method or lower-of-cost-or-market method c. Valuation method: Specific identification method, first-in, first-out method, periodic-average method, moving-average method, last cost method, retail method, etc. d. If market value substantially falls: Unless recovery is deemed likely, booking of impairment loss	i. Last cost method is presented as an example of equal rank as other methods ii. Likelihood of recovery is determined by management
7. Accruals and Deferrals	a. Prepaid expenses/unearned revenue: Excluded from profit/loss calculation b. Accrued expenses/accrued revenue: Reflected in profit/loss calculation	
8. Fixed assets	a. Classified into property, plant, and equipment, intangible assets, and investments and other assets b. In principle, at acquisition cost c. Property, plant and equipment: Reasonable depreciation performed according to declining-balance method, straight-line method, etc. d. Intangible assets: In principle, reasonable amortization according to straight-line method e. Useful life: Period prescribed in the Corporation Tax Act, etc. f. When asset value is found to have fallen substantially due to disaster, etc.: Booking of impairment loss	i. Reasonable depreciation may generally be deemed as depreciation performed systematically in each period throughout the useful life
9. Deferred assets	a. Deferred organization expenses, business commencement expenses, development expenses, stock issuance cost, bond issuance cost, share subscription right issuance cost: Treated as expenses or deferred assets b. Amortized over effective life	
10. Lease transactions	a. Accounting treatment by lessee according to method pertaining to operating lease transaction or sales transaction	i. Treatment as operating lease transactions is accepted

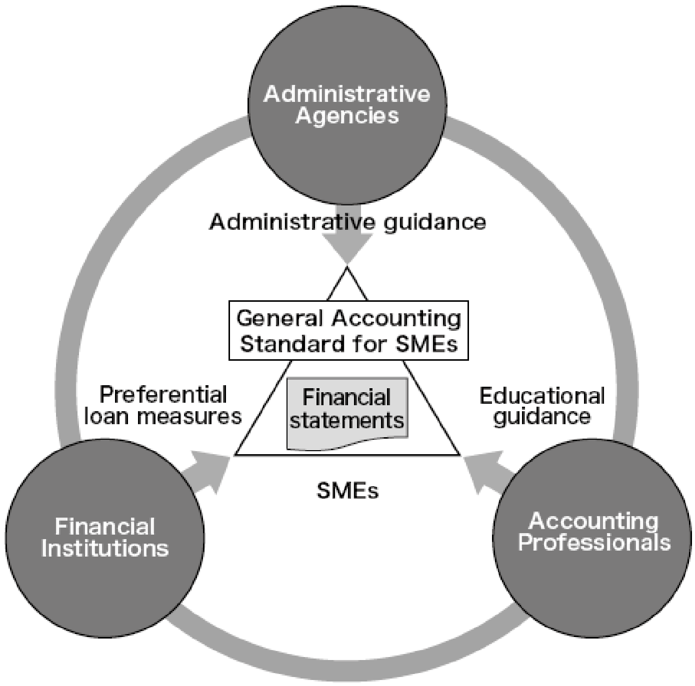
Topic	Description	Features
11. Provisions and allowances	a. Those meeting requirement of allowance: Presented in assets or liabilities section of balance sheet b. Provision for bonuses: Portion of the estimated amount of bonuses chargeable to the current period is recorded c. Provision for retirement benefits: Calculated based on the amount payable on retirement for personal reasons at the end of the period if a lump-sum retirement payment scheme is adopted d. If a scheme that does not generate additional burden after payment (Smaller Enterprise Retirement Allowance Mutual Aid System, etc.) is adopted: The installment in each period is treated as an expense.	i. For the provision for bonuses and provision for retirement benefits, the calculation method adopted under the Corporation Tax Act is presented as an example
12. Foreign currency transactions, etc.	a. Foreign currency transactions: In principle, at the yen-equivalent amount based on the exchange rate when the transaction occurred. b. Monetary claims and liabilities denominated in foreign currency: Yen-equivalent amount based on exchange rate at the time of acquisition or at the time of settlement of accounts.	i. Use of exchange rates prevailing when monetary claims and obligations are incurred is permitted
13. Net assets	a. Net assets: Amount equal to total amount of assets minus total amount of liabilities b. Shareholders' equity: Consists of capital stock, capital surplus, and retained earnings.	
14. Notes	a. Matters concerning significant accounting policies, matters concerning statements of changes in net assets b. If financial statements are prepared based on the General Standard: Write a statement to that effect in the notes.	i. Notes indicating that General Standard are observed have the effect of improving reliability

SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

(c) Initiatives towards dissemination of Standards

As discussed above, the Guidelines were the first accounting standards in Japan drafted and released for SMEs but the dissemination of these Guidelines was not sufficient. As a result, various initiatives were implemented to promote the dissemination of the Standards, which were drafted based on lessons learned from the Guidelines. While there is a limit to the dissemination efforts that can be implemented by any single organisation, tackling dissemination from a unified approach to systems, education, and implementation can result in efficient and effective dissemination.

Figure 3: Initiatives towards dissemination of Standards



SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting for Small- and Medium-Sized Entities, *Accounting*, Vol. 182, No. 5, November 2012 Edition.

Specific initiatives implemented by administrative agencies, financial institutions, and accounting organisations include the following types of initiatives.

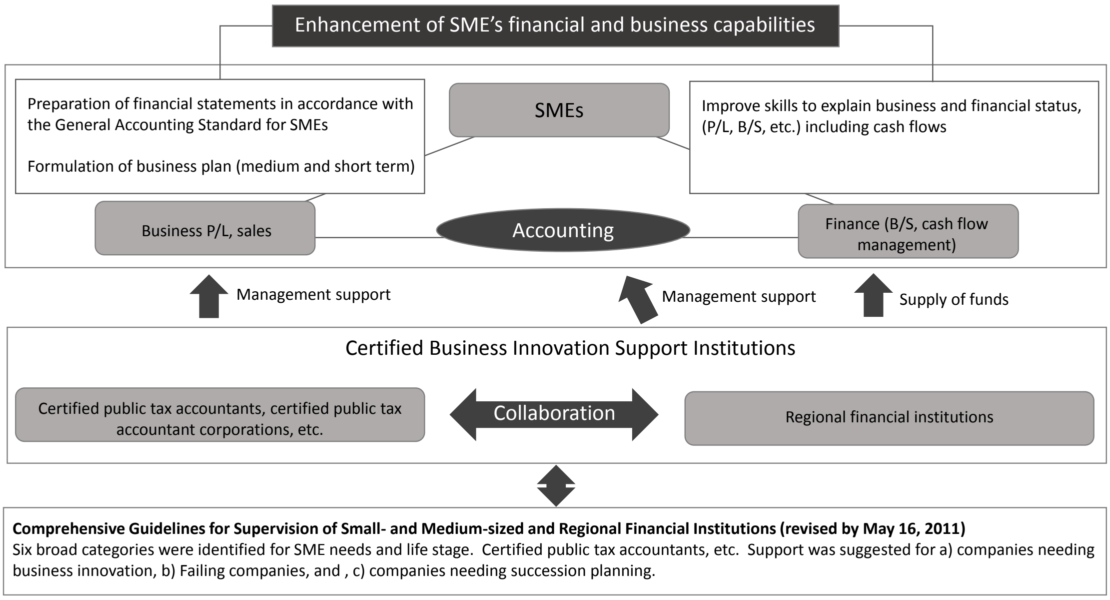
Table 27: Roles and initiatives by entity in relation to disseminating Standards

Entity	Major initiative
Administrative agency	Using administrative guidelines to promote dissemination of Standards. Specifically for Japan, this is the SMEA and the Financial Services Agency. ✓ Works with relevant government agencies and promotes dissemination of Standards by issuing administrative guidance. ✓ For example, expected measures include each local municipality making compliance with the Standards a condition for accounting statements submitted for SME financing applications. ✓ Also, an administrative agency-led initiative to create a collection of successful case studies related to the use of the Standards would be an effective method of promoting dissemination.
Financial institutions	Support through financing incentives and other substantive measures. ✓ For example, measures requiring that the creation of accounting statements are compliant with parameters is actually promoting the dissemination of the Standards. ✓ The Evaluation Workgroup Report on SME Accounting indicated the use of financial incentives by government financial institutions to support the dissemination of the Standards. This indicates that making government financial institutions take the lead in financing is another possible method.
Accounting organisations	Support dissemination of Standards through education and guidance. Accounting organisations refer mainly to tax attorneys and CPAs. ✓ The Standards must be used as a platform for educating and instructing SME owners on the concept that accounting organisations minimise accounting or intentionally remove records for the purpose of saving on taxes. ✓ Also serves the role of promoting awareness that bookkeeping and accounting are effective means of strengthening their business and promoting a deeper understanding among SME owners that this is vital to the survival of an SME.

CPA = Certified Public Accountants; SMEs = small- and medium-sized entities; SMEA = Small- and Medium-Sized Enterprise Agency.
Source: Teruyuki Kawasaki, Accounting for Small- and Medium-Sized Entities, *Accounting*, Vol. 182, No. 5, November 2012 Edition.

As a specific example of initiatives in this area, we discuss below the Small- and Medium-Sized Enterprise Management Enhancement Support Act, which was enacted in June 2012. This law was enacted with the goal of supporting the enhancement of financial management skills among SMEs. The core themes of this law are shown in the table below.

Figure 4: Structure of the Small- and Medium-Sized Enterprise Management Enhancement Support Act



P/L = Profit and Loss; B/S = Balance Sheet; SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting for Small-And Medium-Sized Entities, *Accounting*, Vol. 182, No. 5, November 2012 Edition. Extracts from the Interim Overview materials by the SME Business Policy Committee and Business Capability Workgroup.

As shown in Figure 4, the key points pertaining to Japanese SME Standards are as follows:

- Enhancing the financial management capabilities of SMEs is positioned at the core of achieving smooth management support and financing for SMEs.
- Enhancing the financial management capabilities of SMEs will require the organisation and application of new accounting rules and efforts on the part of SME owners to increase their accountability for business conditions and financial management.
- The new accounting rules required in line with the state of SMEs such as bookkeeping abilities are the Standards related to SME accounting.
- The objective is for SME owners to receive support from accounting organisations (tax

attorneys) and use the Standards to establish their own system of annual management (creation of management plans, capital plans, et cetera) to increase their accountability to financial institutions.

As we can see, it is characteristic of Japan to collaborate between administrative agencies, financial institutions, and accounting organisations to support the dissemination of the parameters as well as the actual laws established to aggressively promote the dissemination of the Standards.

(iii) Differences between and backgrounds of Guidelines and Standards

A comparison of the major differences between Japan's Guidelines and Standards are shown in Table 28.

Table 28: Major differences between Guidelines and Standards

Items	General Standard	ASBJ Guidelines
General Provisions		
(1) Entities that can use it	• SMEs that do not plan to go public and have simple accounting needs.	• All SMEs, but in particular those that have accounting advisors as defined by the Companies Act.
(2) Relationship with IFRS	• Independent of IFRS to assure stable and consistent use. • Will be revised only when judged necessary.	• Will be revised in consideration of revisions of the Business Accounting Standards in line with IFRS convergence. • Will be revised annually.

Items	General Standard	ASBJ Guidelines
(3) Book entry (the principle of orderly bookkeeping)	• Explicitly requires book entries to establish and maintain accounting records. • The principle of bookkeeping is positioned at a higher level than the principle of true and fair view.	• (No provision)
(4) The number of specific provisions and contents	• 14 basic topics (Topics such as accounting for deferred tax and accounting for business combinations and divestitures are excluded.) • Describes in simple and plain language matters that are necessary for SMEs to which the General Standard is expected to be applicable.	• 18 topics (Topics such as accounting for deferred tax and accounting for business combinations, and divestitures are included.) • Describes matters in more detail than the General Standard.
(5) Handling of accounting treatment for tax purposes	• Highly harmonized with accounting treatment for tax purposes so that it is consistent with accounting practices implemented by SMEs.	Tax accounting is applicable if and only if: • There are no applicable accounting standards and tax accounting can appropriately reflect the substance of transactions. • A treatment under tax accounting is not materially different from a treatment under financial accounting.
Specific Provisions		
(1) Securities	• Securities shall, in principle, be measured at cost. • Securities held for trading as defined for tax purposes shall be measured at fair value. • Securities available for sale shall be measured at cost.	• Marketable securities may be measured at cost under certain conditions—that is, in cases where the fair value of those securities is small. • Securities available for sale shall be measured at fair value.

Items	General Standard	ASBJ Guidelines
(2) Inventories	• The latest cost method may be used.	• The latest cost method may be used under certain conditions—that is, if there is no substantial detriment to the calculation of profit/loss for the period.
(3) Depreciation of fixed assets	• Fixed assets shall be depreciated in a reasonable manner.	• Fixed assets shall be depreciated in a systematic manner.
(4) Lease transactions	• Lease transactions shall be accounted for as rental transactions or finance/purchase transactions.	• Lease transactions shall be accounted for as finance/purchase transactions.
(5) Foreign currency transactions among others	• Foreign currency-denominated financial receivables and liabilities shall be recorded in their yen-equivalent value at the exchange rate on the transaction date or settlement date.	• Foreign currency-denominated financial receivables and liabilities shall be recorded in their yen-equivalent value at the exchange rate on the settlement date.

ASBJ = Accounting Standards Board of Japan; IFRS= International Financial Reporting Standards; SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting System for Small-and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

The following six items represent particularly significant differences.

(a) Use of bottom-up approach

As has been noted thus far, the Guidelines employ a top-down approach where the J-GAAP for listed companies and large companies are summarised and simplified for SMEs. Conversely, the Standards employ a bottom-up approach that develops accounting standards based on the differences in the attributes of companies (particularly the differences between listed and large companies and SMEs).

The differences between these two approaches can be organised into the following three points.

Table 29: Differences between the bottom-up approach and the top-down approach

	Top-down approach	Bottom-up approach
1. Method	Selects standards 'appropriate' for SMEs from among existing accounting standards for large companies	Generates 'optimal' standards specifically for SMEs by giving consideration to the needs, requirements, and benefits for SMEs
2. Point of focus	Focuses on 'consistency' with accounting standards for large companies	Focuses on the 'differences in the attributes' of large companies and SMEs
3. Irregular treatments	Views accounting treatments specific to SMEs (ex: simplified practices) as exceptions	Views accounting practices specific to large companies (ex: consolidated accounting and retirement benefit accounting) as exceptions

SMEs = small- and medium-sized entities.

Source: Teruyuki Kawasaki, Division of Accounting Systems and Segmenting of Accounting Standards, *Accounting*, Vol. 186, No. 5, November 2014.

As is clear from Table 29, the top-down approach is a method that selects and extracts content from existing accounting standards which SMEs comply with, while the bottom-up approach involves drafting standards that are both required and would be beneficial to SMEs. As such, generally speaking, the bottom-up approach can be considered the standards most appropriate for SME business management.

The parameters are characterised to establish the current state of SMEs (accounting practices) as rules and standards that are in line with the capabilities of SMEs. In that respect, the Standards enable SMEs to comply without undue burden because they do not mandate high-level accounting practices (tax effect accounting, organisation restructuring accounting, et cetera). Instead, the accounting standards are built by referring to the Guidelines and J-GAAP.

In terms of the correlation between IFRS and IFRS for SMEs, the IFRS for SMEs is built from 35 sections and each section is based on the existing source document (the IAS or IFRS). This means that the IFRS for SMEs can be characterised as a summary version of the IFRS, making it a prime example of standards created based on the top-down approach.

Similarly, Guidelines are based on the top-down approach and are founded on the thought process that regardless of company scale, if the economic principles of transactions are the same, then the accounting practices should be the same. As a result, the Guidelines outline the application of J-GAAP and only as exceptions do the Guidelines allow the application of simplified tax accounting or tax law standards from a cost-benefit perspective[11].

(b) Excluding the influence of IFRS

The Standards clearly outline that they are not influenced by the IFRS. As stated above, the Guidelines were created using a top-down approach based on the IFRS, so any modification to the IFRS requires modification of the Guidelines. This is unlike the Standards, which do not require modifications in such cases. The Standards are modified only when deemed necessary. This is another major difference compared to the Guidelines.

(c) Focus on bookkeeping

The Standards outline the principle of proper bookkeeping in its general provisions and position this ahead of the principle of truth under its usage considerations.

This is a characteristic of formulation based on the attributes of SMEs. SMEs are owner-operated businesses (owner = operator) and the inseparability of ownership and management creates a high risk of false statements. Also, due to having a small number of employees, SMEs do not have internal control organisations and there are no clear divisions of labour so they carry significant governance risks. There is a particular focus on this because accurate and timely bookkeeping is a means of avoiding these types of risks and ensuring the reliability of SME bookkeeping. The goal is to make SME owners aware of their self-management responsibilities and prevent infractions.

(d) Consistency with tax practices

The Standards focus on tax practices that are in line with actual accounting customs. Examples of this include: a) the indication of mandated provision rates as a calculation method for doubtful account reserves; b) recognising the recording of cost valuations (the same as in corporate tax law) as a valuation method for marketable securities; and c) indicating the final inventory cost method as a valuation method for inventory assets. By comparison, the Guidelines limit the use of tax practice treatments to cases where 'there is

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[11] Teruyuki Kawasaki, Division of Accounting Systems and Segmenting of Accounting Standards, *Accounting*, Vol. 186, No. 5, November 2014.

no established accounting practice and tax treatments appropriate to represent facts' or 'when there is no significant difference compared to appropriate accounting treatments'.

(e) Depreciation rules that reflect conditions at SMEs

Unlike the strict depreciation required in the Guidelines, the Standards require equivalent depreciation. Equivalent depreciation is defined as consistent depreciation conducted annually over the length of the service life and recognises methods that differ from strict depreciation if reasonable basis is provided.

(f) Limiting individual items

The current Guidelines have 20 individual items and each of those is defined in detail. Conversely, the Standards, with the aim of simplifying and minimising the items required for SMEs, eliminate rules for tax effect accounting and organisation restructuring accounting to limit the items required for SMEs to a minimum 14 items.

The above six items are the main differences between Guidelines and Standards.

In all cases, the differences represent the differences in the approach to formulation (top-down approach versus bottom-down approach) and the Standards give consideration to the unique conditions of SMEs and place the focus on ease-of-use for SMEs.

(2) Background of evaluations related to SME accounting and reasons

1) Background of evaluations related to SME accounting

As stated above, there are two accounting standards for SMEs in Japan: 'Accounting Guidelines for Small- and Medium-Sized Enterprises' and 'General Accounting Standards for Small- and Medium-Sized Enterprises'. The following table summarises the background behind the establishment of these two different accounting standards.

Table 30: History of SME accounting system in Japan

Month/Year	Event
Mar. 2002	• Study Group on SME Accounting established by the Small and Medium Enterprise Agency (SMEA)
Jun. 2002	• Report of the Study Group on SME Accounting published by the SMEA
Dec. 2002	• Establishment of SME Accounting Standards published by the Japan Federation of Certified Public Tax Accountants' Associations (JFCPTAA)
Jun. 2003	• Research Report on Ideal SME Accounting (Accounting System Committee Research Report No. 8) published by the JICPA
Aug. 2005	• Accounting Guidelines for Small- and Medium-sized Entities (ASBJ Guidelines) published by JICPA, JFCPTAA, the Japan Chamber of Commerce and Industry (JCCI), and the Accounting Standards Board of Japan (ASBJ)
Feb. 2010	• Study Group on SME Accounting re-launched by the SMEA
Mar. 2010	• Council on Accounting Standards of Unlisted Companies established by ASBJ
Aug. 2010	• Report of Council on Accounting Standards of Unlisted Companies published by ASBJ
Sep. 2010	• Interim Report of the Study Group on SME Accounting published by the SMEA
Feb. 2011	• Review Group on SME Accounting and its Working Group established, for which SMEA and FSA served as joint secretariat
Nov. 2011	• General Accounting Standard (Guidelines) for Small- and Medium-sized Entities (Draft) published by the Review Group on SME Accounting for public comments
Feb. 2012	• General Accounting Standard for Small- and Medium-sized Entities published by the Review Group on SME Accounting

FSA = Financial Service Agency; SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Cyu-ou Keizaisya, 2015.

As indicated in Table 30, the Study Group on Accounting held by SMEA in 2002 was the launching point for the state of accounting for SMEs. Initially, each foundation that heavily invested in SMEs presented their own approaches. This event was noted for having a certain level of disorder. Specifically, in June 2002, the study group published its Report of the Study Group on SME Accounting, which was followed up by the Establishment of SME Accounting Standards published by the Japan Federation of Certified Public Tax Accountants in December 2002. Then, the Japan Institute of Certified Public Accountants published the Research Report on Ideal SME Accounting in June 2003. All of these reports reflected the unique approaches of the respective organisations and the lack of a unified emphasis is believed to have resulted in a certain amount of confusion.

Aiming to eliminate this confusion and develop accounting standards that could be easily used by SMEs, JICPA, JFCPTAA, the Japan Chamber of Commerce and Industry, and the Accounting Standards Board of Japan (ASBJ) conducted a collaborative study that led to the publication of the Accounting Guidelines for SMEs (ASBJ Guidelines) in August 2005. However, as discussed above, the SME Guidelines were a simplified version of the accounting standards created for large companies and their dissemination among SMEs was insufficient.

In light of this situation, SMEA relaunched the Study Group on SME Accounting in February 2010 and the ASBJ established the Council on Accounting Standards of Unlisted Companies in March of that year. This resulted in the SMEA issuing its Interim Report of the Study Group on SME Accounting in September and, in August, the ASBJ published the Council Report on Accounting Standards of Unlisted Companies. These two reports both indicated the need to newly formulate something that reflects the state of accounting practices of SMEs.

In light of these results, SMEA and FSA established a joint office and, in February 2011, created the Review Group on SME Accounting. By examining appropriate procedures for the establishment of accounting standards in February 2012, the group published the General Accounting Standards for Small- and Medium-Sized Enterprises.

Although Japan was early among the Asian countries to achieve economic development, the discussion on accounting standards for SMEs only began as recently as 2002. Having various organisations voice opinions and then unifying to release uniform, independent accounting standards for SME accounting will serve as a point of reference for avoiding confusion among SMEs.

As the original SME accounting standards were based on the top-down approach, taking the initiative to formulate new SME accounting standards using a bottom-up approach once it became clear that the original standards failed to disseminate sufficiently is an example of success in implementing a flexible response.

2) Need for SME accounting

Why was there such a focus in Japan on the formulation of SME accounting standards and what was the catalyst behind this passionate movement? Below, I provide a simple explanation of this topic by dividing it to two issues: the ‘social and economic reasons’ and the ‘intrinsic reasons’.

(i) Social and economic reasons[12]

Studies and research by the SMEA indicated three key issues: the excessive burden of accounting standards; the growing trend towards electronic disclosure of accounting statements; and establishing limits on the burden of proof in disputes.

(a) Excessive burden of accounting standards

Triggered by the growing complexity of social and economic environments and the incorporation of IFRS, Japan introduced a flood of new accounting standards between 1997 and 1999. This greatly increased both the volume and complexity of accounting standards. This came to be referred to in Japan as the ‘accounting big bang’ that resulted in companies incurring great burden while working to comply with complex accounting requirements.

These new accounting standards were mainly accounting standards for large companies (public companies) and they resulted in an overburden of compliance and other problems for SMEs. From the perspective of an SME that had no plans of going public and had no accounting capacity to achieve compliance, there was a need for feasible accounting standards.

(b) Electronic disclosure of accounting statements

From around 2000, the sudden development of information technology (IT) and expansion of network infrastructure led to the dissemination of computers, and disclosure via electronic means was recognised by the Companies Act. This created the need to clarify document

[12] Ryuji Takeda, SME Accounting, Analysis of the Small and Medium Enterprise Agency "’Report of the Study Group on SME Accounting’, Chuo Keizai-sha, 2003.

creation standards for the SME information subject to disclosure.

(c) Establishing limits on the burden of proof

As in the Western world, it was predicted that Japan would also see an increase in disputes related to accounting information and this would create the need for means to identify limits on the accountability of accounting professionals in relation to disputes.

(ii) Intrinsic reasons[13]

The abovementioned three points outline social and economic reasons for the need to establish SME accounting standards, but other vital reasons for SME accounting standards are seen in the basic differences between large companies and SMEs. Three such points are outlined below.

(a) Separation of ownership and management

In large companies, there is a strong need for ownership to provide an explanation of the state of management in the form of accounting information. Conversely, with SMEs, as ownership and management are often the same, it is sufficient if management has an understanding of the company's accounting. As such, there is no strong need to organise accounting information in a detailed manner for the purpose of external accountability.

(b) Establishment of internal control entity

Large companies have established internal control entities whereas SMEs do not have the human or monetary resources, or are of a scale that does not require creating a system of internal controls in order to ascertain internal status. For these reasons, it is not uncommon for SMEs to have no system of internal control.

As SMEs have no system in place for accumulating accounting information for the purpose of internal control, enforcing the same information handling requirements as large companies would constitute an unreasonable burden.

(c) Scope of stakeholders

While large companies have a vast range of stakeholders and there is a focus on reflecting the will of investors, SME creditors and transaction partners are limited in both weight and

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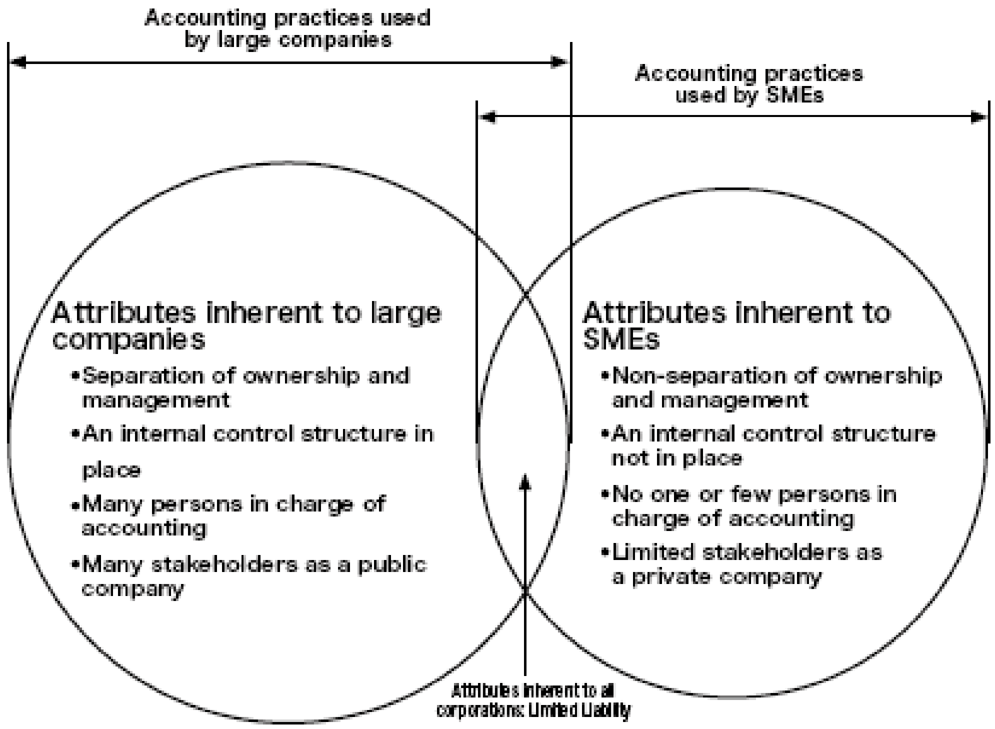
[13] Teruyuki Kawasaki, Characteristics of Accounting for Small-And Medium-Sized Entities, *Tax and Accounting Research* No. 16, 2005.

number. Thus, there is a greater focus on information provision related to consigned responsibilities. As such, there is limited need for detailed reporting or accountability in terms of the external disclosure of accounting information related to the company's status.

The above types of intrinsic reasons for differences between large companies and SMEs can be summarised in Figure 5.

Figure 5: Assumptions about SME accounting



SMEs = Small- and Medium-Sized Entities.
Source: Teruyuki Kawasaki, Implementation of IFRS (International Financial Reporting Standards) and the Japanese Response - Local Nature of Accounting Culture and the Perspective of the SME, Economic Studies No. 56, Chuo University Institute of Accounting Research, 10 March 2013.

The table on the 'assessment framework' below is the one indicated in the Report of the Study Group on SME Accounting published in June 2002. This represents the conceptual framework (basic concepts) for bookkeeping at SMEs.

The core portions of the assessment framework are presented in comparison to the attributes of SMEs, but it should be carefully noted that the details of this assessment framework are based on the corporate attributes of all SMEs (as it relates to bookkeeping methods, the question of what type of company is the SME, and what its unique characteristics are).

Table 31: Corporate attributes of SMEs and the ‘assessment framework’

Corporate attributes of SMEs		Assessment framework
1. Owner-operated company (owner = management) > risk of false statements		Bookkeeping (basic approach to bookkeeping) - Reliable bookkeeping is vital to ensuring the reliability of accounting ledgers - Bookkeeping must be organised, clear, accurate, comprehensive, and timely
2. Lack of internal control entity > possibility of control risks		
3. Limited accounting knowledge among management/employees > poor understanding of accounting	⇒ Inference	(2) Must be easy for management to understand and the accounting statements created based on this must accurately reflect company status (benefit understanding and operations management) (4) Must consider current workflows (consideration of workflows)
4. Unable to hire employees with accounting knowledge and management does not see such a need > limit to economic cost burden		(3) Must not be an excessive burden on applicable companies (must be feasible) (feasibility)
5. Business type and size diversity > various types of operations and business		(5) Accounting practices must have flexibility to reflect company environment and business type. Recognise alternative, simpler methods (flexibility of application)
6. Closed companies with no		(1) Indicate information that is

Corporate attributes of SMEs		Assessment framework
intention of going public or stock transfer restrictions > limited stakeholders		beneficial to accounting information users, particularly creditors and transaction partners (limited disclosure)

SMEs = small- and medium-sized entities.
Source: Teruyuki Kawasaki, Meaning and Role of Bookkeeping at Small- and Medium-Sized Entities, *Accounting*, Vol. 176, No. 3, 10 September 2009.

In Japan, based on the above types of fundamental inherent differences in the attributes and circumstances of companies, it was recognised that requiring SMEs to comply with accounting standards outlined for large companies would demand the organisation, submission, and handling of accounting information beyond the realistic requirements of SMEs. As such, there was a need to establish SME accounting standards that did not exert an excessive burden that could negatively impact actual company operations.

(iii) Summarising the need for SME accounting[14]

As indicated above, the accounting issues that apply particularly to SMEs are: ownership and management are inseparable; and companies do not have internal control systems, leading to significant internal control risks. As such, an effective method of resolving these issues is bookkeeping. Here, bookkeeping refers to the accurate and timely creation of accounting ledgers. To achieve the accurate and timely creation of accounting ledgers, it is vital that SME owners have an awareness of the importance of bookkeeping and that the role of bookkeeping is to make SME owners aware of their self-management responsibilities and prevent infractions.

The Report of the Study Group on SME Accounting in 2002 contained three major points in relation to the requirements for bookkeeping.

- Organised and clear (order and clarity): The requirement that the accounting records be documented in a way that provides creditors and other stakeholders with a clear understanding. Specifically, it requires the use of easily understood methods for

[14] Teruyuki Kawasaki, Meaning and Role of Bookkeeping at Small- and Medium-Sized Entities, *Accounting*, Vol. 176, No. 3, 10 September 2009.

indication of information, including accounting record format, information categories, item names, and order of arrangement.

- Accurately and comprehensively (accuracy and completeness): The requirement that records be factual and have no embellishments.
- Timely (timeliness): The requirement that information be recorded immediately after the discovery of a matter of record and the daily recording of transaction based on the fact that the possibility for recording errors increases as time passes.

(3) Approach to SME accounting and fundamental system

As referred to in (1) and (2), in Japan, the two types of SME accounting—Guidelines and Standards—are the results of historical developments and social and economic factors. At present, the Standards—which were created using the bottom-up approach and which enable accounting that is both required of and beneficial to SMEs—are being disseminated gradually.

In Japan, while it can be said that bookkeeping and the creation of accounting records by SMEs are relatively advanced, it is important to note that there is a framework and an approach to proper bookkeeping for SMEs. Numerous aspects may be of reference when promoting initiatives related to SME bookkeeping and accounting in ASEAN countries. A simple summary is provided below.

1) Main differences between Japanese and international accounting models[15]

First, there are fundamental differences in accounting between Japanese and international accounting models. Specifically, these are: (i) the positioning of consolidated financial statements; (ii) the need for tax effect accounting; and (iii) the approach to market value accounting. The aspects that characterise the Japanese accounting system are summarised below.

(i) Positioning of consolidated financial statements

In the past, the principal financial statement for Japanese companies was the parent company financial statement, and the consolidated financial statement related to the corporate group

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[15] Teruyuki Kawasaki, Implementation of IFRS and the Japanese Response - Local Nature of Accounting Culture and the Perspective of the SME, *Economic Studies* No. 56, Chuo University Institute of Accounting Research, 10 March 2013.

had merely a supplemental role. However, today, with the IFRS convergence, consolidated financial statements have become the principal format for financial statements.

(ii) Need for tax effect accounting (use of the principle of congruency)

In the past, Japan maintained the principle of congruency, which comprised of a structure of calculating taxable income based on confirmed accounting (financial statements). As a result, tax effect accounting (adjustment of calculated taxable income and the tax assessment) was not deemed necessary. A major difference compared to the UK and the USA, however, is the separation of the tax calculations used for accounting and the calculation of taxable income required tax effect accounting.

In Japan, the principle of congruency is addressed by Article 74 of the Corporation Tax Act, which stipulates that tax filings must be created and submitted based on finalised corporate accounting. This means that taxable income shall be calculated based on corporate income that is based on accounting, as defined under Articles 438 and 439 of the Companies Act, and this shall be known as the 'principle of congruency'.[16] As such, this framework is defined in the Corporation Tax Act and the Companies Act.

The merits of the principle of congruency are described below.

Table 32: Merits of the principle of congruency in Japan

Category	Merit	Explanation of merit
Formal	Simplification of taxable income calculations	Establishing a foundation for calculating taxable income on corporate income indicated in finalised accounting eliminates the need to calculate taxable income separately from corporate income calculations, which simplifies the process of calculating taxable income. Also reduces tax collection costs incurred by the tax bureau.
	Ensures legitimacy of tax filings	Using accounting statements approved by the general meeting of shareholders is expected to guarantee the legitimacy of tax filings
Intrinsic	Simplification of tax system	Calculating taxable income based on generally accepted accounting practices can eliminate the need to outline detailed rules for taxable income calculation methods in the tax code.

Source: Convergence of Accounting Standards and the Principle of Congruency, Report by the Study Group on Tax Adjustment No. 20, Japanese Institute of Certified Public Accountants, 15 June 2010.

[16] Kazuo Masuda, About the Principle of Congruence, *Commerce Studies Research* Vol. 48, No. 2-3, 2008.

The principle of congruency is a framework that does not exist in international accounting models and is seen as an obstacle to implementing IFRS. However, it is also argued that there is logical basis for the existence of this principle based on the regional cultural characteristics of Japan, and is said to originate in the character of 'law' as it related to Japanese accounting systems. The major difference is that while the Companies Act belongs to a system of laws that regulate the standing between equal individuals (private law), the tax code belongs to a system of laws that regulate the relationship between an entity with public power (country) and its subordinate (public law). However, the parties targeted for the application of these laws is the same, meaning that the Companies Act takes on the characteristic of a fundamental law in relation to the tax code. As a result, in principle, the calculation of taxable income in accordance with the tax code must be dependent on the calculation of income in accordance with the Companies Act.

In either case, the Japanese accounting system is operated based on the principle of congruence and, considering the fact that the main interest in SME accounting and finances relates to the calculation of taxes, this discussion cannot be held without considering an approach to the principle of congruence, which is an inexpensive and effective method of calculation.

(iii) Approach to market-value accounting

The IFRS approach uses market-value assessments of assets and liabilities to assess the overall corporate value (asset-liability approach) while the conventional Japanese accounting approach bases the calculation of income and assets on an assessment of procurement costs (income-expenditure approach).

In particular, the goal of market-value accounting is accounting that indicates usefulness of stock purchases, corporate mergers and acquisitions, et cetera during investment decisions, and the scope. While it depends on the scope and industry, given that stock transactions and mergers and acquisitions are relatively uncommon for SMEs, there are suggestions that accounting that indicates the execution of consigned responsibilities (cost-based accounting) is more appropriate for SMEs.

2) Methodological traits of SME accounting in Japan

Generally speaking, the formulation of accounting standards can be categorised into two approaches. One is the functional theory approach and the other is the mechanical theory approach.

(i) Functional theory approach

Accounting standards are viewed as having a specific purpose, with all standards functioning in unison. The target of such standards is identified from a functional perspective.

As shown in Figure 6, if accounting is viewed as the workflow of bookkeeping (input) > accounting system (awareness/measurement: process) > financial statements (output), the functional theory approach is the method that considers the state of the accounting system based on financial statements (output).

The IFRS represents accounting standards founded on this approach and lends to discussing the state of accounting standards based on the idea that the role of financial statements is to indicate effectiveness (of stock purchases, mergers and acquisitions, et cetera) during investment decisions.

(ii) Mechanical theory approach

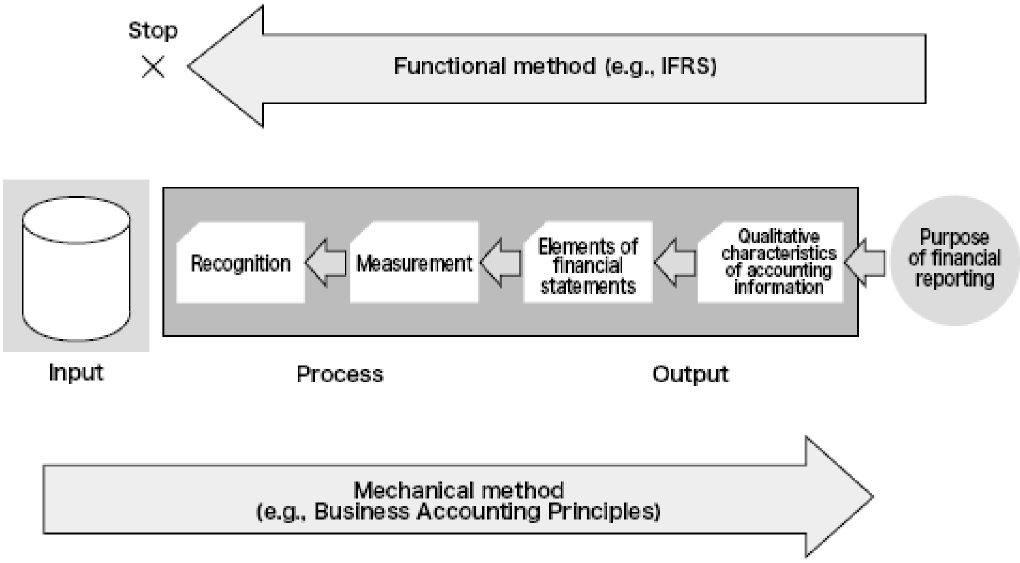
This approach refers to an analytical breakdown of accounting standards to identify the nature of specific parts, and then gathering those parts to restructure the target of those standards.

As shown in Figure 6, if accounting is viewed as the workflow of bookkeeping (input) > accounting system (awareness/measurement: process) > financial statements (output), the mechanical theory approach is the method that considers the state of the accounting system based on bookkeeping (input).

The General Accounting Standards for SMEs are rooted in this approach, and exist as a system of accounting standards that emphasises the ‘principles of authentic bookkeeping’.

Focusing on the importance of bookkeeping (competence of records) as the foundation of accounting is vital for SMEs, which lack internal control entities. As such, it can be said that the mechanical theory approach is more appropriate than the functional theory approach in terms of establishing accounting standards for SMEs.

Figure 6: Functional theory approach and mechanical theory approach



IFRS = International Financial Reporting Standards.
Source: Teruyuki Kawasaki, Implementation of IFRS and the Japanese Response, Local Nature of Accounting Culture and the Perspective of the SME, *Economic Studies* No. 56, Chuo University Institute of Accounting Research, 10 March 2013.

(iii) Blue Return System

In Japan, there is a tight correlation between accounting and bookkeeping. Particularly for SMEs, the creation of financial statements is extremely important for tax returns. Another unique element of Japanese accounting and taxation systems is the Blue Return System.

The Blue Return System is a system in which the business obtains approval from the tax bureau and then files a blue tax return form to which is attached specific required documents. Selecting the blue tax return comes with the requirement that appropriate bookkeeping is conducted according to specific regulations, but the merits include 1) various tax incentives (Blue Tax Return deduction, deferred deduction of losses, various special deductions, expense accounting for wages paid on workers of sole proprietorships, et cetera); and 2) the bookkeeping content is prioritised—meaning, the tax bureau cannot arbitrarily estimate tax assessments (bookkeeping competence). In exchange for appropriate bookkeeping, this system allocates the taxpayer certain incentives related to the calculation of income and taxes, as well as with tax assessment procedures. As such, diligent bookkeeping results in lower taxes and no unjustified additional assessments by the tax bureau.

This system can be evaluated as having served a certain role by promoting appropriate bookkeeping and stabilising the tax return system during the chaos following WWII when it was common for people to not file and under-report. On the enforcement side, this system improved what had become a vicious cycle of filing > correction > additional correction > objection, and contributed to streamlining tax administration.

The Blue Return System was established in 1950 in accordance with Shoup's recommendations. But initially, until the period when it became customary for businesses to conduct bookkeeping, the system was viewed as excessive and it was not viewed as a permanent solution. However, more than 60 years have passed since the adoption of this system. It is a well-known system and has solidified its role as a system for promoting appropriate bookkeeping and tax return filing. As such, today, the system is so ingrained in Japanese companies that it is basically viewed as a permanent fixture[17].

The use of the abovementioned principle of congruence in Japan (the system of calculating taxes based on accounting statements finalised in accordance with the commercial code and the Companies Act) also provides the benefit of filing tax returns and creating financial statements required by the commercial code and the Companies Act simultaneously. It is worth noting that this Blue Return System, which has specific economic merits and the ability to create tax filings and financial statements based on the principle of congruence with minimal burden, has been key to promoting appropriate bookkeeping in Japan.

As a result of the joint promotion of the Blue Return System by both public and private entities in Japan, nearly all sole proprietorships select to file using the Blue Return System (over 90 percent for corporate taxes) and are conducting bookkeeping. Thus, of all countries with value-added tax, Japan is the only country that calculates income taxes based on bookkeeping and not invoices. The Blue Return System has enabled the total permeation of bookkeeping-based accounting. This can be viewed as a policy that improves companies through accounting.

4) Meaning and role of bookkeeping in SMEs[18]

(i) Post WWII focus on rebuilding the economy

Looking back at the history of bookkeeping and accounting in Japan, its roots can be traced

[17] Japan Federation of Certified Public Tax Accountants' Association, State of the Blue Return System, March 2012.

[18] Teruyuki Kawasaki, Meaning and Role of Bookkeeping at Small- and Medium-Sized Entities, Accounting, Vol. 176, No. 3, September 2009.

to the Bookkeeping Standards for Small- and Medium-Sized Enterprises released in 1949 by the Economic Stability Committee Study Group on Corporate Accounting System Policies.

Originally, the need for accurate bookkeeping was being emphasised as a prerequisite to the adoption of the Blue Return System, which resulted in the drafting and publication of the Bookkeeping Standards for Small- and Medium-sized Enterprises. These bookkeeping standards were created with the following three objectives.

Table 33: Main purposes of the bookkeeping standards for small- and medium-sized enterprises

1. Enable accurate self-calculation of income and contribute to the optimisation of taxation.
2. Contribute to the streamlining of SME financing by clarifying business accounting details for financing decisions.
3. Promote awareness of the state of business finances and performance, and the use of actuarial benchmarks to enable the optimisation of business management.

Source: Economic Stability Committee Study Group on Corporate Accounting System Policies, Bookkeeping Standards for Small- and Medium-Sized Enterprises, in cooperation with the Ministry of Finance, 1950.

As these three objectives aligned with the objectives for establishing business accounting principles drafted and announced that same year, we can see that the optimisation of taxation, streamlining of financing, and optimisation of business management were vital issues for both large companies and SMEs as it related to rebuilding a Japanese economy that was in shambles after WWII.

As such, dissemination and awareness among SMEs of the double-entry bookkeeping that served as the foundation for creating accurate accounting ledgers was positioned as an urgent issue.

(ii) General principles of guidelines for SMEs

The previously mentioned Bookkeeping Standards for Small- and Medium-Sized Enterprises outlined seven general principles[19].

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[19] Economic Stability Committee Study Group on Corporate Accounting System Policies, Bookkeeping

Table 34: Seven Principles of Bookkeeping Standards for Small- and Medium-Sized Enterprises

	Principle	Description
1	Principle of authentic bookkeeping	Bookkeeping must entail the creation of accurate accounting records based on the principle of authentic bookkeeping for all transactions related to changes in business assets, liabilities, and capital.
2	Principle of truth	Bookkeeping must provide a truthful report of the status of business finances and performance.
3	Principle of clarity	Bookkeeping must use financial statements to clearly indicate necessary accounting facts to stakeholders and must not promote false perceptions regarding the status of business.
4	Principle of the separation of business and household accounting	Bookkeeping must clearly record business transactions and must be separated from household finances.
5	Principle of continuity	Bookkeeping must continuously apply specified accounting practices and may not be changed randomly.
6	Principle of revenue assessments, principle of incurred costs	Major expenses and income such as purchases and sales must be recorded based on actual expenditures and revenues, and must be allocated accurately to the period during which they occurred.
7	Principle of bookkeeping efficiency and burden reduction	As long as bookkeeping fulfils the abovementioned parameters, accounting principles and record structures should be simplified to promote bookkeeping efficiency and the reduction of bookkeeping burden.

Source: Bookkeeping Standards for Small- and Medium-sized Enterprises, Economic Stability Committee Study Group on Corporate Accounting System Policies, in cooperation with the Ministry of Finance, 1950.

In the Bookkeeping Standards for Small- and Medium-Sized Enterprises, the number one principle is considered the principle of authentic bookkeeping. This is based on the fact that the standards represent bookkeeping parameters and thus, the principle of truth and other principles are positioned as general principles for the creation of accurate accounting records[20].

Standards for Small- and Medium-Sized Enterprises, in cooperation with the Ministry of Finance, 1950.

[20] Moriyama Shoten, Economic Stability Committee, Bookkeeping Standards for Small- and Medium-

The principle of the separation of business and household accounting and the principle of bookkeeping efficiency and burden reduction are principles that do not exist in accounting principles for large companies. The principle of the separation of business and household accounting is based on the fact that with SMEs, typically, ownership and management are inseparable (owner = management). Thus, there is a need to separate this relationship. As for the principle of bookkeeping efficiency and burden reduction, SME management and employees often lack accounting knowledge or there is a cost limit related to hiring employees with accounting knowledge. As such, there is a need to require the simplification of accounting practices and record structures. These points that are unique to SMEs are matters that should be a point of focus when developing and expanding accounting systems and customs in ASEAN where various countries are experiencing rapid economic growth.

Furthermore, the Bookkeeping Standards for Small- and Medium-Sized Enterprises states that, in relation to the difficulty of SME bookkeeping, 'SME bookkeeping should be a simple process with as few steps as possible and should consist of records that validate the accuracy of bookkeeping, even during a simple audit of bookkeeping records by a third party such as the Tax Bureau or the Finance Bureau, and as such, there is the issue of how these two points will be evaluated.' This indicates the emphasis on achieving a balance of simplicity and accuracy for SME bookkeeping and accounting systems in Japan.

(4) Conclusion

Compared to other Asian countries, Japan achieved economic development at a relatively early stage and today conducts global transactions with western countries. However, the application of IFRS is voluntary and there are two accounting standards for SMEs in Japan: the Accounting Guidelines for Small- and Medium-Sized Enterprises and the General Accounting Standards for Small- and Medium-Sized Enterprises. The internationally-influenced Guidelines lack sufficient dissemination while the dissemination of the General Accounting Standards for Small- and Medium-Sized Enterprises, which are not influenced by the IFRS, is gaining traction.

The General Accounting Standards for Small- and Medium-Sized Enterprises are accounting standards that were drafted based on a bottom-up approach. They give consideration to the business characteristics of SMEs and the purpose of bookkeeping. They were created in the

Sized Enterprises with Bookkeeping Examples,1950.

format that is most optimal for SMEs. In this sense, they differ from accounting standards created using a top-down approach that are modifications of accounting standards for large companies. As such, they are incredibly easy to adopt from the perspective of the SME.

The background of these General Accounting Standards for Small- and Medium-Sized Enterprises is rooted on the following: that SME ownership and management are inseparable; SMEs do not have established internal controls; and the scope of SME stakeholders is limited. This approach is founded on the need for accounting that recognises the differing attributes of companies.

The importance of accounting for SMEs lies in the input, the initial actions related to accounting. In other words, it is important to note that these standards focus on the keeping of records and enable the timely and accurate recording of business activities as well as the use of that information towards improvements to management. In this sense, this differs from accounting that emphasises the results of business activities (output).

Also, these standards place significant emphasis on reducing the burden related to SME tax returns and financial statement creation, as well as consistency with tax procedures, and upholding the principle of congruence. This directly ties tax return creation to the creation of financial statements, which leads to reduced time and monetary burden. Also, the use of the Blue Return System to create timely and accurate bookkeeping records in accordance with bookkeeping rules enables businesses to receive incentives. It cannot be ignored that the adoption of this system has provided economic benefits to Japanese SMEs while promoting bookkeeping and accounting activities.

Lastly, it should be noted that the history of SME-specific accounting standards in Japan is not very old, and it is still in the period of dissemination. It is likely that the ASEAN countries working on initiatives to establish bookkeeping and financial statement creation systems that comply with SME accounting standards can reference the efforts of the SMEA, FSA, and accounting professionals in Japan who have partnered on promotional initiatives.

2. China

(1) Recent Movements regarding Accounting for SMEs

At the first tier of the Chinese accounting system is the Accounting Act (1985). Below that is the Business Entities Financial Reporting Regulation (2001), which governs the Accounting Guidelines for Business Entities – Basic Guidelines (2007). In addition, in 2007, the Accounting Guidelines for Business Entities – Detailed Guidelines became applicable to listed companies and financial entities. The Guidelines are based on IFRS, with some deletions and additions, and has been assessed as comparable by the European Union (EU) since 2012.

On the other hand, China had the Accounting System for Small Entities, the accounting standard for SMEs, which was developed by the Chinese Ministry of Finance in 2005. However, in 2011, the Accounting Guidelines for Small Entities was promulgated and then put into force on 1 January 2013. Accordingly, the Accounting System for Small Entities was abolished and now, only the Accounting Guidelines for Small Entities is in force. The movements towards the introduction of the Accounting Guidelines for Small Entities started after the IFRS for SMEs was published by IASB in July 2009, and it can be inferred that the Chinese accounting authority is somewhat following in the footsteps of IASB.

(2) Characteristics and Contents of the Accounting Guidelines for Small Entities

In accordance with the Interpretation of the Accounting Guidelines for Small Entities, the Accounting Guidelines for Small Entities shall be, in accordance with the Accounting Act, applied to small entities in China. Considering that the operations of small entities are on a small scale, their business activities are of a simple nature, there are few specialists dealing with accounting for small entities, and the needs from the users of their accounting information are relatively similar, the Accounting Guidelines for Small Entities should be of a more simple structure. Thus, the main body of the Accounting Guidelines for Small Entities is comprised of 10 chapters, 90 articles and 1 appendix as seen below:

- Chapter 1: General Rules (Articles 1 to 4)
- Chapter 2: Assets (Articles 5 to 44)
- Chapter 3: Liabilities (Articles 45 to 52)
- Chapter 4: Equity Interest (Articles 53 to 57)

- Chapter 5: Revenues (Articles 58 to 64)
- Chapter 6: Expenses (Articles 65 to 66)
- Chapter 7: Profits and Appropriation of Profits (Articles 67 to 72)
- Chapter 8: Foreign Currency Handling (Articles 73 to 78)
- Chapter 9: Financial Reporting (Articles 79 to 88)
- Chapter 10: Supplementary Provisions (Articles 89 to 90)
- Appendix: Accounting Calculation, Major Book Processing and Financial Reporting.

Another reason for the introduction of the Accounting Guidelines for Small Entities is to ensure coordination with the Corporate Income Tax Act. Therefore, in areas such as criteria for measuring assets, service life, residual value, depreciation and amortisation; methods and periods for allocation of long-period costs; recognition of loss on assets; method for foreign currency translation; and method for calculating corporate income tax, there is consistency between the Accounting Guidelines for Small Entities and the Corporate Income Tax Act.

As for the definitions of small enterprise, the Ministry of Industry and Information Technology, the National Bureau of Statistics, the National Development and Reform Commission, and the Ministry of Finance have developed the Regulations Concerning Criteria for Distinguishing Small- and Medium-Sized Entities, which provides the following definitions per industry:

The small entities mentioned above are entitled to use the Accounting Guidelines for Small Entities. However, small entities that fall under any one of the following three types are excluded from the application:

- Entities whose stock or bonds are listed and traded on the securities market;
- Financial institutions and other entities engaging in activities similar to those of financial institutions; or
- Parent company or subsidiary belonging to the same group.

According to the Development Conditions of Small Entities, a report published at the China International Convention on SMEs held in 2009, at the end of 2008, there existed 4,770 thousand small entities all over China. This represents 97 percent of all business entities in China. In terms of the number of employees, small entities account for 53 percent; in terms of major operating revenues, 39 percent; and in terms of total assets, 42 percent.

Table 35: Definitions of Small Entities in China

Industry Category	No. of employees	Operating Revenues	Total Assets
Agriculture, forestry and fishing	—	less than ¥ 5 million	—
Manufacturing	less than 300	less than ¥ 20 million	—
Construction	—	less than ¥ 60 million	less than ¥ 50 million
Wholesale	less than 20	less than ¥ 50 million	—
Retail	less than 50	less than ¥ 5 million	—
Transportation	less than 300	less than ¥30 million	—
Warehousing	less than 100	less than ¥10 million	—
Postal Service	less than 300	less than ¥20 million	—
Hotel	less than 100	less than ¥20 million	—
Restaurant	less than 100	less than ¥20 million	—
IT	less than 100	less than ¥10 million	—
Software/Information Technology Service	less than 100	less than ¥10 million	—
Real Estate Development	—	less than ¥10 million	less than ¥50 million
Real Estate Management	less than 300	less than ¥10 million	—
Lease/Commercial Service	less than 100	—	less than ¥80 million
Others	less than 100	—	—

IT = Information Technology; ¥ = Chinese Yuan Renminbi.
Source: Tao Jing, A study of small business accounting standards in China, Doshisha Shogaku (The Doshisha Business Review), 2014.

(3) Differences between the Accounting Guidelines for Small Entities and the IFRS for SMEs

It is said that the Accounting Guidelines for Small Entities intends to ensure convergence to the IFRS for SMEs. However, the volume is much lighter than that of the IFRS for SMEs. As mentioned earlier, while the Accounting Guidelines for Small Entities comprise 10 chapters, 90 articles and 1 appendix, the body alone of the IFRS for SMEs consists of 35 sections and contains as much as 232 pages. In addition, the Guidelines have provisions setting forth simplifications of accounting procedures. For example, the assets of small entities are to be accounted for at historical cost and no impairment adjustments are required (Article 6). Further, account processing on the side of the lessee of a finance lease is in accordance with the Simplified Valuation Method. More specifically, the acquisition cost of a lease asset is the total of the aggregate amount of a lease contract and relevant ancillary expenses, and no calculation for discounting the future cash flows to the present value is required (Article 28). Tax effect accounting is not used either (Article 71). However, there is no essential difference with respect to major concepts such as assets, liabilities, equity interest, revenues, and expenses.

(4) Conclusion

In China, while listed companies are subject to an accounting standard almost comparable to the full IFRS, a separate accounting standard specifically designed for small entities has been introduced. The definitions of small entities are as mentioned earlier, and it can be said they are SMEs in a general sense. In designing the accounting standard for small entities, emphasis was placed on the following two points: (i) procedures should be considerably simplified in light of actual situations around small entities; and (ii) coordination with the tax system should be ensured as much as possible. These ideas are similar to those underlying the Japanese guidelines for SME accounting, and would also serve as an important reference for other countries in considering their SME accounting standards.

3. Korea

(1) Recent Movements regarding Accounting for SMEs

From the historical point of view, the Korean accounting system has been developed by inheriting the Japanese accounting system. However, in 2007, the Korea-Adopted International Accounting Standard (K-IFRS) was announced officially by the Korean Accounting Institute/the Korean Accounting Standards Board (KAI/KASB). Then, by 2013, all the listed companies have been compulsorily covered by the Standards. The K-IFRS is basically the translated version of the full IFRS and its comparability to the full IFRS has been recognised by the EU. As a background, Korea received emergency support from the IMF and the International Bank for Reconstruction and Development (IBRD) during the financial crisis in 1997. At that time in Korea, accounting frauds and corporate bankruptcies occurred one after another and this situation led to increased public distrust of the accounting system. In this context, the Korean government promised the IMF and IBRD that they would reform their accounting system.

On the other hand, the adoption of the K-IFRS for unlisted companies was left to the discretion of the respective companies. In Korea, discussions were held on whether to adopt the IFRS for SMEs as the accounting standard for unlisted companies or to introduce a more simplified version of their conventional accounting standard, the Korean Corporate Accounting Standard (K-GAAP). In 2008, the KAI/KASB published a report, Developing Accounting Standards for Non-Public Entities in Korea, where they compared the then current exposure draft of the IFRS for SMEs and the K-GAAP. The report argued that the IFRS for SMEs was preferable from the point of view of convergence with international standards, but when it comes to cutting the accounting burden for SMEs, the ease of dealing with emerging requirements and reflecting Korea-specific businesses in the case of any unexpected turn of events, the K-GAAP was more suitable. Further, the report contended that since there was also the option for unlisted companies to adopt the K-IFRS, there would be no problem if unlisted companies wishing to attract investments on a global scale chose to use the K-IFRS. Therefore, it would not be justifiable that even unlisted companies with no need for international credibility or comparability were also covered by the IFRS for SMEs since ensuring compliance with the standard would not be an easy job. The report concluded that it would be preferable to maintain the K-GAAP after making some necessary adjustments. Based on the above arguments, in 2009, the General Corporate Accounting Standard, which is the simplified version of the K-GAAP, was published and then adopted. However, it should be noted that the KAI/KASB is expressing its intention to adapt the General Corporate Accounting Standard to the IFRS for SMEs in the long run.

Although the General Corporate Accounting Standard was announced officially, SMEs in Korea found it difficult and a serious burden on them to adopt even the standard. It is said that the accounting for SMEs is in fact merely tax accounting for the purpose of facilitating tax payments. In this context, in 2013, in order to alleviate the burden on SMEs facing difficulties in adopting even the General Corporate Accounting Standard, the Accounting Standard for SMEs was announced officially by the Korean Ministry of Justice and then enforced in 2014. The Accounting Standard for SMEs is actually the simplified version of the General Corporate Accounting Standard.

As seen above, the Korean accounting system has a three-level structure that, while listed companies are compulsorily covered by the full IFRS, on the other hand, there are two types of accounting standards applicable to unlisted companies. Another characteristic of the Korean system is that they have not merely introduced a copy of the IFRS for SMEs as accounting standards for unlisted companies.

(2) Characteristics and Contents of the Standards for Unlisted Companies

As mentioned earlier, there are two types of accounting standards for unlisted companies: the General Corporate Accounting Standard; and the Accounting Standard for SMEs. Their respective scopes are illustrated below. For example, a small-scale unlisted company may adopt the K-IFRS, but once it chooses to use the K-IFRS, it will never be allowed to shift its accounting standard to the General Corporate Accounting Standard or the Accounting Standard for SMEs.

Table 36: Accounting Standard Options for Korean Companies

<table>
<tr><th>Listed/Unlisted</th><th>Assets Size/Audit Requirements</th><th colspan="3">Accounting Standard Options</th></tr>
<tr><td>Listed Companies</td><td>—</td><td colspan="2"></td><td rowspan="3">K-IFRS</td></tr>
<tr><td rowspan="2">Unlisted Companies</td><td>₩10 billion or more (subject to external audit)</td><td></td><td rowspan="2">General Corporate Accounting Standard</td></tr>
<tr><td>less than ₩10 billion (not subject to external audit)</td><td>Accounting Standard for SMEs</td></tr>
</table>

K-IFRS = Korea-Adopted International Accounting Standard; SMEs = small- and medium-sized entities; ₩ = South Korean Won.
Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Chuo Keizai sya, 2012.

The General Corporate Accounting Standard is based on the following policies:

- The current accounting standards (K-GAAP) should be maintained;
- The contents of the standard should be simplified for the purpose of alleviating the burden of preparing financial statements; and
- Appropriate consideration should be paid to conformity with international rules.

The General Corporate Accounting Standard was designed so that the K-GAAP, the conventional accounting standard, would be maintained but in a more simplified version. The standard was also developed using a top-down approach. However, it should be noted that it has been publicly announced that the standards will be adapted to the IFRS for SMEs in the long run. To what extent the General Corporate Accounting Standard should be converged to the IFRS for SMEs seems to be left to future discussions.

The Accounting Standard for SMEs is the further simplified version of the General Corporate Accounting Standard, and is also developed using a top-down approach. The Standard has a very compact structure, comprising 10 chapters, 50 articles and 2 articles of supplementary provisions. The KAI/KASB, which is responsible for the formulation of the standards, has commented, 'With emphasis on transactions most commonly observed among SMEs, the Standard has been structured by simplifying the General Corporate Accounting Standard'. As a method for asset valuation, the historical cost basis has been adopted in principle. In this respect, the Standard is clearly different from the IFRS for SMEs and rather comparable to the Japanese Accounting Guidelines for SMEs.

(3) Conclusion

In Korea, while listed companies are compulsorily covered by the K-IFRS (comparable to the full IFRS), there are two types of accounting standards for unlisted companies: the General Corporate Accounting Standard and the Accounting Standards for SMEs. Neither of these two standards has been developed based on the IFRS for SMEs but they have both been designed (using a top-down approach) to be the simplified versions of the conventional accounting standard, the K-GAAP. The Korean accounting standards are characterised by the following three points: (i) the accounting standards system is of a three-level structure; (ii) the standards for unlisted companies have not been developed based on the IFRS for SMEs; and (iii) the standards for unlisted companies have been developed using a top-down approach by simplifying the conventional accounting standard, the K-GAAP.

Especially in connection with point (ii), it is interesting to note KAI/KASB's comment as follows: 'Since there was also the option for unlisted companies to adopt the K-IFRS, there would be no problem if unlisted companies wishing to attract investments on a global scale choose to use the K-IFRS and, therefore, it would not be justifiable that even unlisted companies with no need for international credibility or comparability were also covered by the IFRS for SMEs since ensuring compliance with the standard would not be an easy job'. This stance could serve as an important reference for other countries when they consider their accounting standards for SMEs.

4. United States of America

(1) Recent trends concerning SME accounting in the United States

No specific accounting standard for SMEs exist in the United States of America (US). However, in spite of such a situation, efforts to establish accounting standards for SMEs were made in the US as well in response to the introduction of IFRS in various countries. Following the establishment of the Private Company Financial Reporting Committee (PCFRC) by the Financial Accounting Standard Board (FASB) in 2006, consideration continued.

As for recent developments, in 2012, the Financial Accounting Foundation (FAF) established the Private Company Council (PCC) and published the Private Company Decision-making Framework as materials for discussions. On the other hand, the American Institute of Certified Public Accountants (AICPA) totally and independently published a draft of the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) in 2012. This draft was officially published in 2013.

One of the characteristics of efforts in the US is that several ideas of accounting standards for SMEs were suggested. They were not necessarily integrated into one. As of 2015, there were three accounting standards for SMEs in the US: IFRS for SMEs; FRF for SMEs; and GAAP for SMEs. Differences among these are as follows:

Table 37 : Accounting standards for SMEs in the US

	IFRS for SMEs	GAAP for SMEs	FRF for SMEs
(1) Establishing organisation	IASB	PCC of FAF	AICPA
(2) Status	Released in 2009	Pending (Guidance presented in 2013)	Released in 2013
(3) Target	✓ Corporations intending to expand business overseas ✓ Corporations intending to procure funding from international investors	✓ Corporations with a large amount of loans from financial institutions ✓ Corporations intending to go public	Privately held companies not obliged to disclose their financial statements
(4) Overview	✓ Simplification of full IFRS to suit SMEs	✓ Simplification of US GAAP to suit privately held companies	✓ Integration of the current taxable income calculation into the traditional accounting principle ✓ Officialisation of other accounting standards (OCBOA21)
(5) Characteristics	✓ Focus on cash flow and liquidity ✓ Adoption of the approach to assets and liabilities focused on balance sheets	✓ Elimination of the complexity of US GAAP ✓ Difficulty of becoming an international standard	✓ Reduction of reporting ✓ Easy to understand ✓ Reduction of costs for preparation
(6) Approach	✓ Top-down approach	✓ Top-down approach	✓ Bottom-up approach

AICPA = American Institute of Certified Public Accountants; FAF = Financial Accounting Foundation; FRF = Financial Reporting Framework; GAAP = Generally Accepted Accounting Principles; IASB = International Accounting Standards Board; IFRS = International Financial Reporting Standards; OCBOA = Other Comprehensive Basis of Accounting; PCC = Private Company Council; SMEs = small- and medium-sized entities; US = United States of America.
Source: Hoffelder, Kathleen, Mind the GAAP Alternative, CFO Magazine, September 2012, as supplemented and revised.

We will carefully analyse FRF for SMEs, which has been already released as a standard and is based on different ideas from those of IFRS for SMEs, to explain how SME accounting is recognised in the US and what is the goal of the establishment of FRF for SMEs.

[21] OCBOA includes tax law basis, cash basis and modified cash basis, whose adoption is determined according to the needs and costs of users of financial statements of SMEs.

(2) Characteristics and contents of FRF for SMEs

1) Positioning of FRF for SMEs

FRF for SMEs was released by AICPA in 2012. As AICPA itself is not authorised to enforce the adoption of accounting standards, FRF for SMEs is a standard which can be used voluntarily. However, business owners who prepared financial statements in accordance with FRF for SMEs can state that their financial statements are in accordance with FRF for SMEs, which is a framework for special purposes.[22].

2) Target of FRF for SMEs

One characteristic of FRF for SMEs is the establishment of criteria of target companies. Based on the assumption that companies that will use FRF for SMEs cannot be defined by the number of employees, sales amount and capital amount, et cetera, the target companies are defined as follows:

- A company under no obligations to report financial statements in accordance with the US GAAP.
- A privately held company whose owners and managers have no intention of going public.
- Its owners and managers evaluate performance, cash flow, possession of own shares, and borrowings on the basis of financial statements.
- Its business is not complex to a reasonable extent, and it is not actively operating business overseas.
- Users of financial statements are greatly interested in cash flow, liquidity, financial conditions, and interest coverage.

3) Characteristics of FRF for SMEs in terms of accounting

(i) Characteristics seen from the conceptual framework

Chapter I of the FRF for SMEs on Concepts of Financial Statements is composed of the purpose of financial reporting, qualitative characteristics of accounting information, components of financial statements, and recognition standards and measurement. This chapter provides a conceptual framework for FRF for SMEs. To clarify the characteristics of

[22] AICPA, Financial Reporting Framework for Small- and Medium-Sized Entities, 2013.

FRF for SMEs in terms of accounting, major points of the said chapter are summarised as follows:

Table 38 : Conceptual Framework of FRF for SMEs

Items	Main contents
1. Purpose of financial reporting	(1) Purpose of financial statements: To transmit information useful for users when users (that is, managers, creditors and other users) make decisions on allocation of resources, and/or when the managers' fiduciary duties are evaluated (2) Information presented by financial statements: (i) Economic resources, debts, and equity interests of the company; (ii) Changes in economic resources, debts, and equity interests of the company; and (iii) Economic performance of the company
2. Importance and qualitative characteristics	(1) Qualitative characteristics: (i) Understandability; (ii) Suitability for purposes (predictive value, feedback value, and timeliness); (iii) Reliability (integrity, verifiability, and neutrality conservatism of expressions); and (iv) comparability (2) Trade-off between the qualitative characteristics: especially between suitability for purposes and reliability (3) Expert judgment: importance
3. Components of the financial statements	(1) Two types of components: (i) Statements concerning the economic resources, debts, and equity interests of the company at a specific time (statement of financial position); (ii) Statements concerning changes in the economic resources, debts, and equity interests of the company during a specific period (statement of activities) (2) Components of financial statements: (i) Assets; (ii) Liabilities; (iii) Equity; (iv) Revenue; (v) Expense; (vi) Profit; and (vii) Loss
4. Recognition and measurement of financial statements	(1) Recognition: A process for presenting items in financial statements of the company Note: Recognition criteria: (a) Basis of measurement; and (b) Probability of acquisition or renunciation of economic benefits (2) Measurement: a process for determining the money amount of items recognised in financial statements Note: Basis of measurement: (a) Principal basis (historical value); and (b) Other bases (replacement cost, feasibility amount, current value, and market value)

FRF = Financial Reporting Framework; SMEs = small- and medium-sized entities.
Source: American Institute of CPAs, Financial Reporting Framework for SMEs

Managers and creditors are considered to be the major users of financial statements and emphasis is put on its usefulness for decision-making by managers and usefulness for evaluation of the fiduciary duties by creditors. Such spirits may be different from the conceptual framework of FASB, which focuses on usefulness for investment decision-making by investors, and is more similar to the spirit of the Japanese Accounting Standards for Small- and Medium-Sized Enterprises. This is where FRF for SMEs is special as an accounting standard for SMEs.

The ‘qualitative characteristics of financial information’ resembles the conceptual framework of FASB, and includes understandability, suitability for purposes, reliability, and comparability. On the other hand, it is characteristic that conservatism is included as a component of reliability.

In ‘components of financial statements’, the components are divided into two categories: ‘statement of financial position’ and ‘statement of activities’. Comprehensive income is not included as a component of financial statements.

In ‘recognition and measurement of financial statements’, the measurement basis is historical cost (acquisition cost) in principle, and actual cost other than market value is treated as an exception. Therefore, it is characteristic that write-downs, which require time evaluation, are seldom required.

(ii) Characteristics in terms of approach

An important point to note is that the bottom-up approach is adopted for FRF for SMEs as well. This is not an approach where, just as IFRS for SMEs and the US GAAP, only parts that can be adopted by SMEs are extracted from the existing accounting standard for large corporations or the existing accounting standard is simplified to apply to SMEs. In this approach, a new accounting standard is established, taking into consideration what kind of accounting standard is necessary and desirable for SMEs.

(iii) Other characteristics

According to AICPA, major users of financial statements prepared under FRF for SMEs are owners of SMEs, professionals such as lawyers and doctors, banks and other fund suppliers, insurance companies, guarantors, and individual investors. This is also one of the characteristics of an accounting standard for SMEs.

Another characteristic is the compatibility of the accounting standard with tax systems. The most remarkable example is the permitted application of LIFO in connection with methods of inventory valuation. According to the Frequently Asked Questions on FRF for SMEs prepared by AICPA, as LIFO is adopted in tax affairs in the US, standards based on tax laws are integrated into FRF for SMEs so that the difference between the standards based on tax laws and FRF for SMEs can be made smaller in accounting practices of SMEs. Though selection of FRF for SMEs by managers is optional, as explained earlier, LIFO is permitted so as to promote adoption of FRF for SMEs, taking into consideration accounting practices of SMEs[23].

In addition to the above, it is also characteristic that write-off is not required. While the current price is generally used to measure the recoverable amount of an asset, sometimes, the current price cannot be estimated or the reliability of the estimated current price is not assured due to lack of exchange markets. In such cases, the reliability of write-off accounting, which is based on the current price, may be also decreased. In addition, it is not permitted to evaluate derivatives at the current price, so tasks which may put too much burden on managers of SMEs, such as prediction of future events and estimate calculation, may have been reduced.

4) Efforts to promote the spread of FRF for SMEs, and the status of spread

To what extent then is FRF for SMEs actually accepted by SMEs in the US? We will explain efforts to promote the spread of FRF for SMEs and the status of the spread.

(i) Efforts to promote the spread

Since the release of FRF for SMEs in 2013, AICPA has been providing various information including models to facilitate actual usage[24]. A model of consolidated financial statement, filled in with actual numbers assuming a fictitious company, has been published. A comparison table with other accounting standards and introduction movies with animation have been uploaded.

Various reference materials have been supplied with the name 'Toolkit'. It is very unique in that different reference materials are provided to users with different positions or attributes. There are reference materials for CPAs of small companies, for CPAs of SMEs, for CPAs of large corporations, and for users of financial statements (assumed to be financial institutions), thereby promoting utilisation.

(ii) Status of spread

Is this new accounting standard for SMEs really spread?

We will introduce the results of the questionnaire conducted by Thomson Reuters in

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[23] Gaibun Shu, America, Real Situation and Issues in Western Countries, edited by Teruyuki Kawasaki, 2015.

[24] AICPA website: Financial Reporting Framework. http://www.aicpa.org/INTERESTAREAS/FRC/ACCOUNTINGFINANCIALREPORTING/PCFR/Pages/Financial-Reporting-Framework.aspx

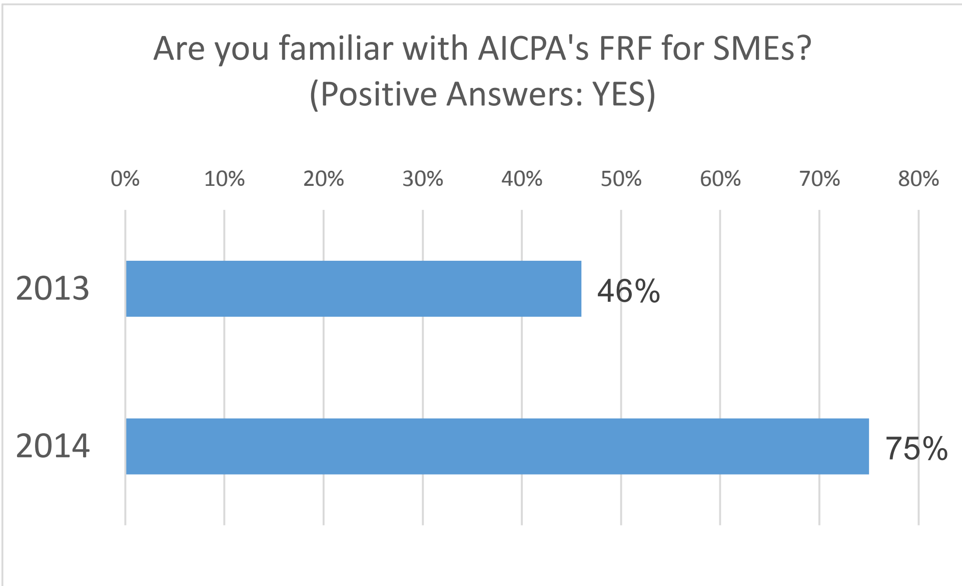
connection with the status of spread of FRF for SMEs in 2013 and 2014.[25]

This questionnaire was conducted as part of The Tax and Accounting Business of Thomson Reuters by Thomson Reuters, and was answered by accounting experts such as CPAs. There were 213 respondents in 2013 and 318 respondents in 2014.

(a) Recognition of FRF for SMEs

Responses to the question 'Are you familiar with FRF for SMEs?' by accounting experts are as follows: About half (46 percent) of the respondents gave a positive answer in 2013. The percentage of respondents answering positively increased to 75 percent in 2014. Recognition seems to have considerably improved.

Figure 7: Percentage of professionals familiar with FRF for SMEs



AICPA = American Institute of Certified Public Accountants; FRF = Financial Reporting Framework; SMEs = small- and medium-sized entities.

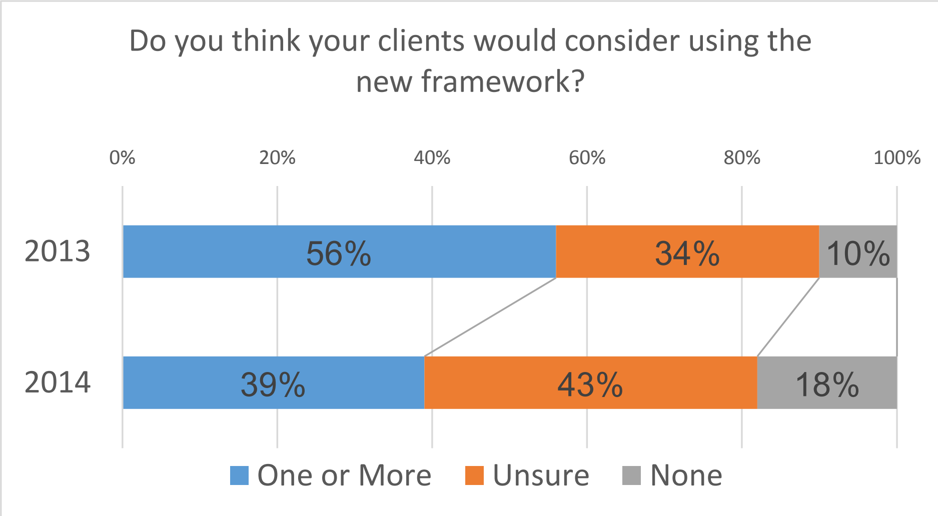
(b) Clients' willingness to adopt FRF for SMEs

However, in response to the question 'Do you think your clients would consider using FRF for SMEs?', the percentage of respondents who answered 'I think one or more clients would' decreased from 56 percent in 2013 to 39 percent in 2014. On the other hand, the percentage of respondents answering 'Unsure' increased from 34 percent in 2013 to 43 percent in 2014,

[25] Thomson Reuters, The AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities - An Update, July 2014.

which means there is uncertainty as to actual introduction of FRF for SMEs on practical levels.

Figure 8: Interest in the introduction of FRF for SMEs



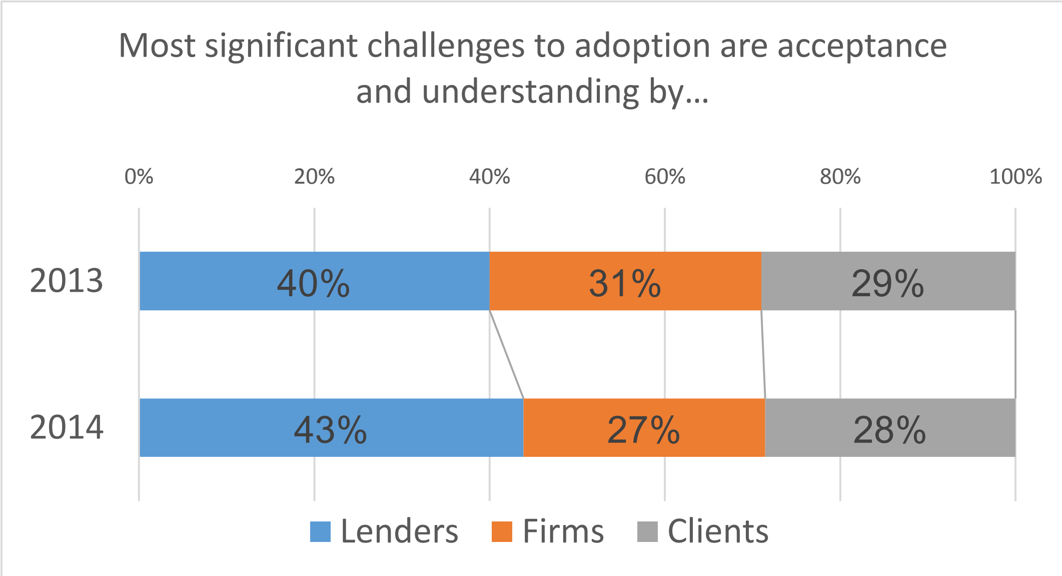
FRF = Financial Reporting Framework; SMEs = small- and medium-sized entities.

(c) Key players concerning introduction of FRF for SMEs

Though enthusiasm for actual introduction has decreased a little from 2013, 39 percent of the accounting experts still answered that their clients are willing to introduce FRF for SMEs. Among the stakeholders then, whose understanding is most important for actual introduction?

In response to this question, almost the same percentage of accounting experts answered that the most important stakeholder was the lenders, both in 2013 and in 2014.

Figure 9: Significant Stakeholder in the introduction of FRF for SMEs



FRF = Financial Reporting Framework; SMEs = small- and medium-sized entities.

The discussion on the introduction of FRF for SMEs below refers to actual cases.

Mr. Rodney E. Rice (CPA) commented that explanation to banks would be a top priority for the introduction of FRF for SMEs. He pointed out that a small or medium company can adopt FRF for SMEs only after the company holds a meeting with its bank to explain the advantages of FRF for SMEs and the bank agrees to modify the agreement executed between the company and the bank to include the provision 'Preparation and submission of financial reports under any accounting standard other than GAAP shall be permitted.'

His comment is suggestive, indicating that the kind of accounting standard that SMEs will establish will depend on the lenders. It is important to obtain the approval of financial institutions when trying to introduce and spread a new accounting standard.

Due to the aforementioned reasons, it can be concluded that FRF for SMEs is spreading slowly, gradually obtaining the understanding of SMEs and accounting experts, and further obtaining the understanding of lenders who are the key stakeholders in the US.

(3) Differences between FRF for SMEs and IFRS for SMEs

We investigated the actual situation surrounding SME accounting in the ASEAN region and considered what policies should be like in order to achieve desirable conditions in future. As a reference for such consideration, we examined differences between FRF for SMEs and IFRS for SMEs, which are the original accounting standards for SMEs in the US.

Table 39: Differences between FRF for SMEs and IFRS for SMEs

Topic	FRF for SMEs	IFRS for SMES
(1) Comparative Financial Statements	Comparative financial statements are not required.	Requires comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to the understanding of the current period's financial statements.
(2) Comprehensive Income	No concept of comprehensive income or items of other comprehensive income.	Provides an accounting policy choice between presenting total comprehensive income in a single statement or in two separate statements. Certain items are classified as other comprehensive income and displayed as such.
(3) Fair Value	Uses the term 'market value', defined as 'the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act'. Market value measurement used only in very limited circumstances, such as business combinations, certain non-monetary transactions, and marketable equity and debt securities held-for-sale.	Use the term 'fair value'. This is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Wider use of fair-value measurements compared to the FRF for SMEs accounting framework.
(4) Inventories	Last in, first out (LIFO) is permitted.	LIFO is not permitted. Inventory is assessed at the end of each reporting

Topic	FRF for SMEs	IFRS for SMES
		period for impairment or for recovery of previously recognised impairment.
(5) Subsidiaries	A subsidiary is defined as an entity in which another entity owns more than 50 percent of the outstanding residual equity interests. Policy choice to either consolidate subsidiaries or account for subsidiaries using the equity method. No concept of special purpose entities (SPEs) or variable interest entities.	A subsidiary is defined as an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. If an entity has created a special purpose entity (SPE) to accomplish a narrow and well-defined objective, the entity shall consolidate the SPE when the substance of the relationship indicates that the SPE is controlled by that entity.
(6) Investments/ Financial Assets and Liabilities	Historical cost approach for investments and financial assets and liabilities. Market value measurement required only for investments being held for sale, with changes in market value included in net income. Investees, over which the investor has significant influence, are accounted for under the equity method.	There are two classifications/ categories for financial instruments: amortised cost and fair value through earnings. Basic financial instruments are measured at amortised cost, except for investments in nonconvertible and non-puttable preference shares and non-puttable ordinary shares that are publicly traded or whose fair value can be measured reliably. All instruments other than basic debt instruments (including instruments with embedded derivatives) are measured at fair value through earnings. Investments in associates (entities in which the investor has the ability to exercise significant influence) are accounted for using one of the following methods: the cost method (if there is

Topic	FRF for SMEs	IFRS for SMES
		no published price quotation); equity method; or fair-value-through-earnings method.
(7) Derivatives	Disclosure approach. Recognition at settlement (cash basis). No hedge accounting.	Derivatives are recognised and measured at fair value through earnings. Hedge accounting is prescribed.
(8)Stock-Based Compensation	Disclosure only.	Compensation expense is recognised. Specific accounting depends on terms and type of instrument.
(9) Leases	The criteria for determining whether a lease is a capital lease to a lessee generally are similar to IFRS for SMEs. Unlike IFRS for SMEs, however, the FRF for SMEs accounting framework provides specific quantitative thresholds for determining certain criteria. Under the FRF for SMEs accounting framework, if land is the sole item of property leased, the lessee accounts for the lease as a capital lease only if the lease transfers ownership of the property at the end of the lease term. From the point of view of a lessor, some additional criteria must be met to classify the lease as a capital lease. Under the FRF for SMEs accounting framework, lessors' capital leases are categorised as direct financing leases or sales-types leases (both similar to the finance lease category in IFRS for SMEs).	See the FRF for SMEs column.
(10) Goodwill	Amortised over the same period as that used for federal income tax purposes or 15 years. No impairment testing.	Goodwill is amortised over its useful life. If an entity cannot reliably estimate its useful life, the life is presumed to be 10 years. Impairment testing is required only when there is an indicator of impairment.
(11) Intangible Assets	All intangible assets are considered to have a finite useful life and are amortised over their estimated useful lives. In accounting for expenditures on internally generated intangible assets during the development phase, management should make an accounting policy choice to either expense such expenditures as incurred or capitalise such expenditures as an intangible asset, provided the criteria are met.	All intangible assets (including goodwill) are finite—lived and are amortised over their useful lives. If an entity cannot reliably estimate the useful life of an intangible asset, the life is presumed to be 10 years. Expenditures on

Topic	FRF for SMEs	IFRS for SMES
		internally developed intangibles, including research and development costs, are expensed as incurred, unless they are part of the cost of another asset that meets the recognition criteria in IFRS for SMEs.
(12) Statement of Cash Flows	Cash inflows from interest and dividends received are classified as cash flows from operating activities. Cash outflows related to interest paid are classified as an operating activity, unless capitalised. Cash outflows related to dividends paid are classified as cash flows used in financing activities. Cash outflows from dividends paid by subsidiaries to non-controlling interests are presented separately as cash flows used in financing activities.	An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss. Alternatively, the entity may classify interest paid and interest and dividends received as financing cash flows and investing cash flows, respectively, because they are costs of obtaining financial resources or returns on investments. An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, the entity may classify dividends paid as a component of cash flows from operating activities because they are paid out of operating cash flows.
(13) Debt Covenant Violation	Debt covenant violations may be cured after the balance sheet date, eliminating the need to reclassify the debt.	Curing a debt covenant violation after the balance sheet date may not eliminate the need to reclassify the debt.
(14) Investment Property	No specific definition of investment property. Investments in land and buildings are accounted for as property, plant, and equipment.	Separate accounting guidance for investment property. Investment property is property (land or building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or

Topic	FRF for SMEs	IFRS for SMES
		for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of business.
(15) Component Depreciation	No requirement for separate components of an asset (nor is there a prohibition against doing so). Composite depreciation method may be used.	If the major components of an item of property, plant, and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life.
(16) Joint Ventures	A venturer should make an accounting policy choice to account for its interests in joint ventures using one of the following methods: - Equity; or - Proportionate consolidation. Only applicable to unincorporated entities where it is an established industry practice.	Investments in jointly controlled entities may be accounted for using one of the following methods: - Cost (if there is no published price quotation); - Equity; or - Fair-value-through-earnings.
(17) Impairment of Long-Lived Assets	No assessment of impairments for long-lived assets. A depreciated or amortised cost approach is followed. Assets no longer used are written off.	Impairment testing is required only when there is an indicator of impairment.
(18) Contingencies	A contingency is recognised when: - It is probable that a future event will confirm that the value of an asset has diminished or a liability has been incurred at the date of the financial statements; and - The amount of the loss can be reasonably estimable. 'Probable' is defined as likely to occur, a threshold higher than the 'more likely than not' threshold used in IFRS for SMEs.	A contingency is recognised when it is more likely than not that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably.
(19) Income Taxes	Policy choice to account for income taxes using either the taxes payable method or the deferred income taxes method. No evaluation or accrual of uncertain tax positions.	Income taxes accounted for using a deferred income tax method. Uncertain income tax positions must be evaluated and accrual made if certain conditions are met.
(20) Borrowing	An entity can choose to capitalise interest costs	Borrowing costs are

Topic	FRF for SMEs	IFRS for SMES
Costs	related to an item of property, plant, and equipment that is acquired, constructed, or developed over time. When a financial liability is issued or assumed in an arm's length transaction, an entity should measure it at its exchange amount adjusted by financing fees and transaction costs that are directly attributable to its origination, acquisition, issuance, or assumption. An entity can choose to capitalise interest costs related to inventories that require a substantial period of time to get them ready for their intended use or sale.	interest and other costs that an entity incurs in connection with the borrowing of funds. An entity should recognise all borrowing costs as an expense in net income in the period in which they are incurred.
(21) Long-Lived Assets Held for Sale	A long-lived asset to be sold should be classified as held for sale and presented separately in the entity's statement of financial position. The assets and liabilities of a disposal group classified as held for sale should be presented separately in the asset and liability sections, respectively, of the statement of financial position. A long-lived asset should not be amortised while it is classified as held for sale.	There is no 'held for sale' classification for non-financial assets or groups of assets and liabilities and related measurement provisions.

FRF = Financial Reporting Framework; IFRS = International Financial Reporting Standards; SMEs = small- and medium-sized entities.
Source: AICPA, Comparisons of the FRF for SMES reporting framework to other bases of accounting, AICPA, 2014.

As described above, FRF for SMEs differs with IFRS for SMEs in major issues. This includes differences in the establishment processes (bottom-up approach versus top-down approach). In addition, care seems to have been taken to reduce the burden on SMEs, which have no human resources dedicated to accounting functions, with attention being paid to the purposes managers of SMEs will use accounting for.

(4) Conclusion

No specific accounting standard for SMEs exists in the US. The IFRS for SMEs, FRF for SMEs, and the revised US GAAP for SMEs are being considered.

FRF for SMEs, which has been developed using the bottom-up approach and considers the usability for SMEs and the purposes of accounting, is characteristic in that it defines target companies qualitatively and not quantitatively. It is compatible with tax laws, can be actually adopted by SMEs, and is useful for the management of SMEs.

In particular, SMEs that are not planning to go public or aggressively expand business overseas will find FRF for SMEs instructive because it is useful for continuously and objectively understanding the situation of operations while reporting to a few stakeholders such as financial institutions.

In addition, thanks to the provision of various information and tools by AICPA for the purpose of spreading FRF for SMEs, about 75 percent of accounting experts recognise FRF for SMEs as an accounting standard, and about 40 percent of accounting experts feel that their clients may adopt it, though it has been released only for three days. In order to achieve further popularisation, it is necessary to persuade or invite lenders (such as banks) giving loans to SMEs to recognise the usability of this accounting standard and to admit financial reporting under this accounting standard in the provisions of their agreement with the SMEs.

5. United Kingdom

(1) Recent Movements regarding Accounting for SMEs

Since the UK is a member of the EU, the consolidated statements of listed companies in the country became compulsorily covered by the IFRS (the EU version of IFRS) in January 2005. Individual financial statements were using the conventional UK accounting standards (UK-GAAP) and the IFRS without any common framework. Therefore, the convergence between the UK-GAAP and the IFRS has become an issue to be addressed by the accounting authority.

Then, in 2010, the UK Accounting Standards Board (ASB) presented a draft proposal for reforming their accounting system titled, Policy Proposal: The Future of UK-GAAP, which is characterised by the following four points:

- Companies with public accountability (Tier 1) should be subject to the IFRS (EU-IFRS);
- Companies without public accountability (mainly medium-sized entities) (Tier 2) should be subject to the IFRS for SMEs;
- Small-sized entities (Tier 3) should be subject to the Financial Reporting Standard for Small Entities (FRSSE). The FRSSE is the simplified version of the Financial Reporting Standard (FRS), the UK's accounting standard for publicly owned companies. The FRSSE was issued in 1997 and is the first ever accounting standard specifically designed for small-sized entities in the world.

- It is possible for companies of the second and third tiers to adopt an accounting standard of a higher level.

However, this reform proposal was amended and the full introduction (adoption) of the IFRS for SMEs for Tier 2 companies was postponed. Instead, it was decided that the IFRS for SMEs would be incorporated into the FRS. Then, in 2013, the FRS 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland which would serve as the new UK-GAAP, was published. This FRS 102 (new UK-GAAP) is based on the IFRS for SMEs, but some revisions have been made, including ensuring conformity with the UK Company Act. As a result, the UK accounting standards became a three-tier structure consisting of the IFRS (EU-IFRS), the FRS 102 (new UK-GAAP), and the FRSSE.

Table 40: Accounting system in the UK

Tier	Entities Covered	Accounting Standard
Tier 1	Listed companies or companies voluntarily adopting the IFRS	IFRS (EU-IFRS)
Tier 2	companies other than those classified as Tiers 1 and 3	FRS 102 (new UK-GAAP)
Tier 3	Small-sized entities	FRSSE

EU = European Union; IFRS = IFRS = International Financial Reporting Standards; GAAP = Generally Accepted Accounting Principles UK = United Kingdom.
Note: For example, any subsidiary of a listed company that is included in the consolidated financial statements of the listed company is subject to the IFRS, but the mitigation of disclosure requirements is applicable (FRS 101).
Source: Teruyuki Kawasaki, Accounting System for Small- and Medium-Sized Entities, Chuo Keizai Sya YEAR?.

(2) Characteristics and Details of FRSSE

FRSSE is the simplified version of FRS, which is applicable to publicly owned companies in the UK. It is the first ever accounting standard for small-sized entities in the world, being issued in 1997. The volume of the contents of the FRSSE is about 10 percent of the FRS, and its coverage is small company (and small group), which is defined in the Company Act as follows:

Table 41: Definitions of small company and small group under the UK Company Act

Small Company (individual)	Small Group
At least two of the following criteria are satisfied within the period of one year: ● Turnover of £6,500,000 ● Balance sheet total of £3,260,000 ● Average number of employees is 50	At least two of the following criteria are satisfied within the period of one year: ● Aggregate turnover of £6,500,000 net (or £7,800,000 gross) ● Aggregate balance sheet total of £3,260,000 net (or £3,900,000 gross) ● Aggregate number of employees is 50

£ = British Pound; UK = United Kingdom.
Source: Financial Reporting Council, 'Financial Reporting Standard for Smaller Entities (effective January 2015)'.

The mitigating measures under the FRSSE are characterised by the following points:

- Significant reduction of the volume of accounting standards. While the FRS consists of 1,600 pages, the FRSSE contains about 100 pages and, without appendices, less than 70 pages);
- Significantly simplified requirements concerning indications and notes;
- Its accounting procedures are almost similar to those of the FRS except for some exceptions; and
- Whether or not to introduce the standard is left to the discretion of individual companies and accountants who are to conduct the audit.

As a specific example, small-sized entities are not required to prepare statements of cash flow, and requirements concerning balance sheets have been simplified so that small-sized entities need not prepare their balance sheets in such detail as required of large-scale companies, if they are to be filed with the Registrar. In addition to these, small-sized entities are exempted from statutory audit.

(3) Differences between the FRS 102 (new UK-GAAP) and the IFRS for SMEs

Though the FRS 102 (new UK-GAAP) has been developed based on the IFRS for SMEs, certain revisions have been introduced, including ensuring consistency with the UK Company Act. For example, in the UK, financial statements prepared in accordance with the provisions of the Company Act are called Companies Act accounts, and they are distinguished from those prepared in accordance with the EU-version IFRS (IAS accounts). Financial statements prepared in accordance with the FRS 102 fall under the category of Companies Act accounts. Therefore, in Section 4, Statement of Financial Position, and in Section 5, Statement of Comprehensive Income and Income Statement of FRS 102, most of the provisions of the IFRS for SMEs have been removed and replaced by those of the Company Act.

In addition, in Section 9, Consolidated and Separate Financial Statements, provisions concerning consolidated financial statements of the IFRS for SMEs are amended in line with the Company Act. Further, Section 19, Business Combinations and Goodwill, requires that the amortisation of goodwill should be made over a period within five years in principle (whereas, the IFRS for SMEs provides for the amortisation period of within 10 years).

(4) Conclusion

The UK accounting standards are of a three-tier structure: the IFRS (EU-IFRS) for listed companies; FRS 102 (new UK-GAAP) mainly for medium-sized entities; and FRSSE for small-sized entities. Among them, FRS 102 (new UK-GAAP) has been designed based on the IFRS for SMEs. However, FRS 102 is not the full introduction (adoption) of the IFRS for SMEs. Certain adjustments in line with the country's actual situation, including the UK Company Act, have been added. It should be noted that the FRSSE is the first ever accounting standard specifically developed for small-sized entities in the world and it is a significantly simplified version of the FRS, which used to serve as the UK-GAAP, comprising 100 pages or so including the appendices.

These characteristics, namely the three-tier structure and partial adoption of the IFRS for SMEs to create accounting standards for SMEs and unlisted companies, can also be found in the Korean system described earlier. In addition, even in those countries where listed companies are compulsorily covered by the IFRS (China, Korea, and the UK), when it comes to SMEs and unlisted companies, the IFRS for SMEs has not been introduced or adopted as it is. Country-specific accounting systems have been designed to suit the actual situations of the respective countries. In considering an accounting system for SMEs, the IFRS for SMEs is a very important accounting standard and serves as a very important reference. However, it is also very important to put into consideration the actual situations facing SMEs in their respective countries. Such conclusions seem to be suggested from the case studies on these countries.

Chapter 6
Policy Options Proposal

Needless to say, bookkeeping and accounting play critical roles in ensuring healthier operations and consistent growth of SMEs. In particular, for the coming ASEAN integration and increasing globalisation, economies should justify keeping books and accurate financial statements, even by SMEs, as not only absolutely imperative for their expanded business transactions and global evolutions but also critical for maximising access to finance, which a growing issue in these nations.

In contrast, our research has revealed that there are some variances in entity size among nations; that not a few of them do not even document financial statements; and that if they do, the statement records are given less credibility by banks or accountants. Some even referred to the limited number of SMEs with diligent bookkeeping, even for daily transactions. There is a wide gap between the ideals and the reality of the system, and this gap must be resolved.

As symbolised by the economic integration of ASEAN countries in 2015, the globalisation of the economy and business is unavoidable. Unless this trend is understood without fail, the ASEAN countries will not be able to achieve further economic development.

From the viewpoint of accounting, the adoption of IFRS and IFRS for SMEs would be ideal, leading to conformity with the trend of globalisation. However, various challenges exist such as: companies are not conscious of the adoption of IFRS for SMEs; and it is difficult to implement IFRS due to lack of resources, et cetera.

In this section, we will explain in detail what our research has revealed, as well as the desirable policies we have heard from SMEs, economy-related authorities, tax authorities, financial institutions, and accounting professionals, and we will summarise recommendations on policies to be implemented in ASEAN.

Potential Inhibitors for Bookkeeping and Financial Statements Documenting in SMEs

Our research has determined that potential inhibitors keeping SMEs from accommodating bookkeeping and financial statements can be classified into three major aspects.

The first inhibitor is the mindset of SME owners in that they are not motivated to keep books and financial statements at all. These owners do not understand the advantages of bookkeeping and documenting financial statements of their businesses, and some even go as far as dual bookkeeping. Some of them also think the disadvantages outweigh the advantages because bookkeeping can lead to higher chargeable taxes. Changing their mindset towards bookkeeping and financial statements should be the first task.

The unavailability of resources to SMEs is the second inhibitor. Even with better mindset towards bookkeeping and documenting financial statements, SMEs have no other choice but to hire internal specialists or outsource the service, which is an additional cost factor. Also, even personnel with higher expertise such as accounting majors from universities wind up less qualified because they often have a hard time understanding the rapidly changing accounting standards or accounting rules. To make it worse, the cost of hiring these 'less qualified' talents is increasingly high, thanks to their limited population. It is therefore essential to provide a certain level of support to address these challenges as a government initiative to assist SMEs.

Associated with lack of resources, the third inhibitor is the excessively advanced and complex structure of the accounting standard and the rules that SMEs have to accommodate, versus resource and business objectives. Though it sounds reasonable to say that even SMEs should adopt the advanced and complex standard, provided they foresee larger scale and increased international transactions in the future, it will not make a solid sense to suddenly make them accommodate such rules that the big boys in advanced nations implement because SMEs have no experience in bookkeeping or documenting financial statements. So that SMEs can initiate the effort of diligently managing accounting, it will be critical to lower the barriers by putting in place an accounting standard that will allow easier adoption or development and information delivery of guidelines.

The section below summarises the possible government initiatives that will overcome these inhibitors.

1. Initiative to better motivate SME owners

For more active involvement by SMEs in accounting, owners of SMEs have to start by executing lead-by-example type of leadership to accommodate the accounting standard. However, responses to our research have revealed that SMEs are keeping books out of necessity for tax payment, or are submitting books and financial statements out of necessity because it is compulsory. Furthermore, there were respondents who emphasised the disadvantages. Some comments were: 'I would rather refrain from submitting them out of fear of getting higher tax charged' or 'out of potential of undesired leak of our financial status to competitors'. All these taken into account, the utmost challenge seems to be how to better motivate SME owners to implement diligent accounting practices.

Three key measures to better motivate them are recommended below:

The first set of measures is to recognise the significance of putting diligent accounting into practice to help them understand how this can be leveraged for their business management.

The second set is to make the incentives for putting diligent accounting into practice clearly visible. Once the logic that conducting diligent accounting can lead to direct/indirect monetary benefit is understood, chances are that SME owners may be more motivated and gain a better weapon to allow improved accountability and directions over shareholders and employees.

The last one is clear visualisation of the disadvantages of non-conformance to the accounting standard. Though motivating someone to be involved through providing disincentives is not always ideal, usually, such disincentive initiative for a limited period may effectively work. Our research found comments such as: 'No one would be motivated until they clearly understand that the conformance is a duty' or 'I see no penalties for not keeping (books)'.

The sections that follow give detailed views of directions and specific conceptual pictures of these three sets of measures.

(1) Recognising the significance of diligent accounting

～'If you understand accounting, you can look over the business.'～

One of the reasons that bookkeeping and documenting financial statements are not gathering much attention from SME owners seems to be that not a few of them accept the resulting cost as it is forced, or it is just a boat anchor. In this regard, they need to properly recognise that diligent accounting is something that will enable the growth of an enterprise through solid management of accounting. It is important to make them deepen their understanding that if they understand accounting, they can look over the business.

1) Promoting the of understanding of the fundamental significance of accounting

It is necessary to proactively communicate to SME owners that diligent accounting enables effective and efficient business management, and that it can be an effective leverage for savings against future investments, allocation of revenues into right records, prevention of bankruptcy by secured loan repayments, as well as development of effective strategies based on accurate understanding of operating results.

Specific options for this initiative may include accommodating accounting into government-held training programs on business management for SME owners, rolling out an educational campaign collaborated by government bodies and CPAs, or even informative activities for communities or workshops organised by SME owners at their will.

2) Presenting specific success cases of better operating results, thanks to proper utilisation of accounting

There is nothing wrong about SME owners focusing on growing revenues and profits in a tough market environment. Accordingly, the sharing of successful business scenarios attributable to fully utilised diligent accounting would be a powerful incentive for SME owners to take accounting efforts seriously.

Letting them know that making full use of diligent accounting has enabled business size expansion and better profit and loss statements will make them more involved. Moreover, providing detailed case analysis, including which components of accounting were used at what time, would allow them to replace the success case with their own and consider what to do.

Specific options for this initiative may include efforts by leadership of government bodies or the like to collect and publish domestic and overseas successful scenarios of proper accounting. Serious effort has to be made at detailed and specific analysis of those scenarios and rearranging them into something that would motivate the SMEs to use accounting.

Below are extracts of successful cases from a success case compilation in Japan, which may be used to create an image of concrete measures.

Table 42: Cases of companies that obtained results from the adoption of accounting standards (Cases in Japan)

Result obtained	Description of the case
Cost reduction	Numerical data obtained through accounting processing started to be disclosed at meetings attended by employees. As a result, all the employees became able to examine sales strategies, et cetera from the same viewpoint. At first, many employees were ignorant of accounting. But they began to understand accounting gradually and became more cost conscious, which led to cost reduction. (Toho Auto Mobile Co., Ltd./automobile/ 78 employees)
Revenue growth	The management became better at financial analysis, thanks to the introduction of the accounting standard, the accounting software, and the guidance of tax accountants. As a result, they started to analyse the information and succeeded in shifting from low value-added processing to high value-added processing. They could obtain more than 20 clients during two terms. (Imahashi Co., Ltd./ metal machining/13 employees)
Increased confidence from financial institutions	As a result of the introduction of the accounting standard, monthly inventory clearance, which had been a constant problem, was put into practice. When the company asked for a loan, the financial institution demanded provision of the monthly trial balance, which could be immediately produced. The company gained the confidence of the financial institution, so not only did they obtain a loan, but they also obtained a low interest rate. (Yoshio Co., Ltd./ manufacture and sale of machinery/7 employees)

Note: The cases above are presented in more detail in the original case book, but they are summarised here to be used as examples.

Source: 65 Selected Cases of Companies Tackling the Standard for Small and Medium Enterprise, SMEA, March 2014.

3) Extending recognition for enhanced 'Access to Finance'

Enhancing SME access to finance is one of the challenges within ASEAN. This initiative may include a bridging finance until a promising SME start-up realises stable income; financing a successful SME for extended investments; or helping an SME in tentative working capital shortage under various circumstances with cash financing. Enhancing access of SMEs without scalable start-up capital to finance goes beyond just helping that particular SME and can lead to mid- to long-term expansion of their business accounts base as well as the country's economic development. Thus, it is crucial to ensure that SMEs conducting excellent businesses are appropriately appreciated for right finance.

Multiple measures have to be taken to resolve these situations. The biggest reason for poor access to finance by SMEs is the inability of financial institutions to conduct a thorough examination of the SME's earnings and repayment capacities, making them hesitant to lend a financial helping hand. For financial institutions to properly examine these SME capacities, streamlined books and financial statement credibility play a key role.

While some SMEs are properly preparing accounting books and improving financial statements, financial institutions, including banks, do not rely on their books and financial statements because internal control is not operating properly. They insist on checking receipts and invoices of SMEs one by one. SMEs are required not only to improve their accounting books and financial statements but also to improve the quality of their internal control so as to prepare reliable books and financial statements. To prepare reliable books and financial statements, it is desirable for SMEs to adopt simple accounting standards that are not too complex but are focused on correct bookkeeping.

While this is not included in the scope of this paper, governments and central banks should take measures in partnership with public financial institutions. They should, for example, positively offer loans by giving full weight to the evaluation of books and financial institutions of SMEs, or support various efforts by private banks.

In addition to streamlining books and financial statements, the business itself has to be successful and promising. More importantly, SME owners have to be made clearly aware that better managed books and financial statements would allow better financing under more favourable terms and conditions.

As revealed by our field research, some SME owners can avail of financing by using their personal or family asset or from non-banks (including illegal ones) without having their books and financial statements examined. It is therefore obvious that resolving this issue relies on the government's efforts for streamlining the finance market.

Specific measures for this initiative include communicating the necessity of having credible financial statements ready for better access to finance as well as other measures that will facilitate financial support for SMEs from financial institutions by absorbing the risked money by the government, provided that the corresponding SMEs have securely streamlined the statements.

(2) Providing SMEs with incentives

Regular SME owners living in an intensive competitive environment give their first priority to day-to-day revenues and profits even though they understand the importance of accounting. In this context, providing positive incentives for business management to use appropriate accounting and have bookkeeping streamlined is necessary. A few options for this initiative are discussed below.

1) Incentive granting

Though a variety of options for granting incentives for enterprises with organised management and books and financial statements in place are available, the most comprehensive option with solid acceptance in non-ASEAN nations involves the granting of preferential interest rates and taxation.

With the **preferential interest rates policy**, debtors are entitled to favourable interest rates for finance by banks on the condition that their financial statements conform to a given accounting standard. This is a powerful incentive for SMEs and has been established as a regular policy in Japan and some other countries. The creditor banks determine the interest rate by not only checking the availability of diligent and standard financial statements but also by examining the profitability and stability of the debtor's business. **Specifically**, the government and the banks will have to generate the fund for this policy by sharing the opportunity loss by the interest rate difference.

With **preferential taxation**, enterprises with diligently kept books and financial statements are entitled to a lower corporate income tax amount. Measures with established acceptance (such as the Blue Return System which is also available in Japan and other countries) can be used as a reference. Though the short-term tax revenue declines due to the lowered tax rate, the government can expect increased mid- to long-term tax revenues as long as the SMEs realise higher income and profits out of the expanded business attributable to better business management with proper use of accounting. **More specifically**, this option requires collaborated efforts by the government agencies in charge of SMEs and those in charge of internal revenue.

As explained in the case of the Blue Return System in Japan, it would be helpful to introduce a system where SMEs can receive tax benefits or their accounting books are granted credibility against inquiries by the tax authorities if they properly keep accounts and prepare financial statements in accordance with an appropriate bookkeeping principle. In addition, it should be noted that documents for tax return and closing financial statements under the commercial/corporation law can be simultaneously completed, thanks to the adoption of the 'definite settlement of accounts' principle in Japan. This gives SMEs great incentive in that even small companies with little resource, knowledge or experience concerning accounting and tax affairs can complete the procedures with a relatively small effort.

It is important to note that such incentive measures are achieved through the coexistence of a system for encouraging appropriate bookkeeping (such as the Blue Return System) and the 'definite settlement of accounts' principle. Care should be taken to ensure such coexistence if adoption of incentive measures as mentioned above is to be considered.

Though direct opportunities for SMEs' increased income or profit cannot be expected, unlike the preferential interest rates and taxation options, another option is to qualify bidders and contractors for government procurement tenders if their financial statements conform to a given accounting standard

2) Eliminating disincentive factors

This research has also identified that legacy systems or practices, which potentially work as disincentives against proactive keeping and usage of books and financial statements by SMEs, still exist in some countries. For example, Cambodia adopts an estimated taxation system (Estimated Regimes) in which tax rates are determined according to the government-defined business lines and categories, mostly because sole proprietors in the country do not properly keep books, making it difficult to calculate accurate taxable income. Our hearings have also revealed that a calculated tax amount is generally less with Estimated Regimes than with taxation based on actual business revenues, which often result in cash losses by properly keeping books.

The Cambodia example is illustrative only but other cases where bookkeeping and documenting financial statements work unfavourably for businesses exist. Initiatives that eliminate these disincentive factors and enhance the motivation of SME owners for accounting should be implemented.

(3) Enforcing policies (with visible and effective penalties)

1) Definitive enforcement of documentation and submission of financial statements

Bookkeeping and documenting financial statements are supposed to be pursued proactively by enterprises at their will. However, as responses to our field research has revealed, 'the most important for SMEs is to do what is compulsory' and 'it is not clearly defined if documenting financial statements conforming to accounting standards is mandatory'. It is true that clearly defined enforcement or outstanding penalties in place will allow easier focus on accounting.

One specific option to address these challenges is to clearly communicate the enforcement of bookkeeping and documentation, and the submission of financial statements. As suggested in a response to our field research, it could be a feasible option to draft a law such as the ‘Financial Statements Act’, which provides clear-cut definition of the duties of business entities.

2) Screening of financial statements by government bodies or the like

Unless submitted financial statements are examined for its appropriateness versus the given accounting standard or, for credibility, just making bookkeeping and documentation and submission of the statements a mandatory duty of an enterprise will not lead to a diligent attitude towards documentation. The examination has to go beyond just checking and submission. It has to be a detailed examination of the records.

One specific option to address this challenge is to implement due diligence by the government body receiving the books and financial statements from SMEs. As this is already in place to a given extent in Thailand, their framework and practices should be a reference model. Though examining all submitted statements is a distant idea, even a sample investigation shall effectively work as check and balance against SMEs. Additional effects can also be expected by calling for repetitive corrections or by imposing penalties when some defects are identified after actual screening.

Moreover, obligating a simplified audit by accounting specialists can be an alternative if the examination of financial statements by government bodies is not realistic, though the level of audit may hardly match that of large corporations or publicly-traded firms. However, it should be kept in mind that some allowance might be necessary to compensate for the cost of audit as documenting financial statements already has a negative impact on the overall cost burden on SMEs.

3) Tightening control over dual bookkeeping

Though clearly different from the other issues, some respondents (financial institutions and CPAs) pointed out that the books and financial statements are not credible because not a few SMEs use dual bookkeeping. Unless the government body in charge undertakes a serious action to control this, it will take forever to realise accurate, highly objective, and credible books and financial statements, which also keep these SMEs which using double bookkeeping from being accountable for examinations, including for financing.

A **specific option** to resolve this issue is to tighten control over these ill behaviours, including dual bookkeeping. As the representative purpose of dual bookkeeping is either tax breaking or reduction, collaboration with the government agency in charge of taxation will be critical.

2. Initiative to compensate for lack of resource for accounting in SMEs

In the implementation of the aforementioned policies and options, a potential inhibitor for SME owners' efforts on diligent accounting—after recognising the materiality and advantages of keeping books and financial statements in place (or the disadvantages of not doing so)—is the lack of resource. The resources mentioned here are specifically monetary and personnel resources.

SMEs conducting businesses under intensively competitive environments are often not blessed with excess funds and not a few of them lack monetary resource to implement diligent accounting. Even if some of them are blessed with that resource, the other challenge they face is the internal or external availability of appropriate personnel who will implement the expected diligent accounting. A comment from our field research also pointed out that while hiring a specialist who studied accounting in a university costs more than a regular staff, his/her skill level may end up being lower quality because the specialist cannot respond to the rapidly changing accounting environment. Another comment pointed out that the population of highly skilled experts—such as CPAs who have updated knowledge of new international accounting standards and the talent to instruct other staff— is limited in local areas.

SMEs owners need to have a positive mindset for implementing diligent accounting and supporting talented personnel to make it as an operational practice without substantial additional cost.

(1) Addressing lack of monetary resource (including financial assistance for employment)

Achieving growth in revenues and profits is the utmost goal of SMEs and, with limited capacity to respond to requirements, including legal ones, accounting is not necessarily a high priority among SME owners (in the context of priority-based and leveraged use of available funds), even if the owners solidly recognise the importance of accounting. Thus, gaining monetary resource, which can be allocated solely for accounting, will lead to a resolution of this challenge.

A specific and most comprehensive option to resolve this issue is to make subsidies available to SMEs with advanced accounting by a government body or other public institutions. In case the government body alone does not have sufficient budget, collaborative interaction to build the funds with entities such as CPAs and banks should not be impossible.

Moreover, if the government is projecting deeper involvement in SME support, combining the 'successful scenarios propagation' strategy with the provision of subsidies for accounting enhancement and improvement of qualified SMEs (after publicly calling for applications for those with promising businesses) can be another option. By making successful applicants committed to publishing the post-subsidies results in the 'successful scenarios', the government can also benefit.

(2) Addressing lack of personnel

After SME owners decide to initiate diligent accounting efforts, they will face the next challenge: the person who will carry out diligent accounting cannot be found internally and externally. As not a few countries go through dramatic and frequent accounting system changes, personnel with solid knowledge of diligent accounting and ability to implement are not always available and require higher compensation than regular employees to hire. The other issues are: there are often no external candidates or experts with high quality to outsource the accounting operations; or the cost of hiring the service is extremely high. The following measures can be implemented to resolve these issues.

For example, the establishment of a qualification called 'Corporate Accounting Coordinator' is being considered in Japan right now. Only those who have passed the accounting examination (such as the Official Business Skill Test in Bookkeeping 2nd Grade), can apply, and the test subjects are expected to include SME accounting, management finance, tax laws, and internal control. This qualification is characteristic in that the qualifying test is designed for human resources who are familiar with or have knowledge of tax laws, internal control, financial management, and accounting so that they can give appropriate advice to management from a finance and accounting viewpoint.

1) Resolving lack of accounting experts

Growing to a given scale, SMEs will hire clerical and sales staff, which will result in increased employee headcount with a variety of responsibilities. Some SMEs even hire staff that will be responsible for accounting. And because of the demand for a certain level of accounting expertise, hiring graduates from universities who majored in accounting is not a rare case. However, it was pointed out during the survey that SMEs still face issues such as inability to respond to the latest rules because the knowledge of accounting of these graduates is limited to what they have learnt in university or they have no experience in actual business operations. Also, concerns that hiring accounting personnel substantially increases the cost and that not a few accounting employees quit after acquiring accounting skills were also raised. Even so, SMEs are having a tough time finding right candidates as the availability of such accounting experts in the market remains low.

Two specific measures to resolve this issue have to be implemented. These are: to 'enlarge the population of human resources who study accounting at higher education, including universities' and to 'increase the number of educational institutes and programs to provide education in accounting'.

In terms of expanding the population of human resources who study accounting at higher education, including universities, more students can be expected to enrol by implementing policies that suggest that studying accounting secures better jobs or achieves higher social status. However, as secured jobs depend on active employment of accounting personnel by SMES, facilitating such employment has to be conducted in parallel with awaking the interest in studying accounting.

In terms of increasing the number of educational institutes and programs that provide accounting education, supportive measures by government bodies to increase these institutes and programs or, as a part of the SME development policy, provision by the government bodies themselves of opportunities, including accounting training programs as well as information services, can be considered. During our survey in Indonesia, some respondents pointed out that these programs are mostly standalone programs provided by different government agencies though they are already in place nationwide. To resolve this issue, it would be ideal to provide highly sequential curricula that allow step-by-step learning through, for example, inter-agency collaboration.

Another relevant challenge is keeping the tuition low to invite more students to study, even if educational institutes and programs for accounting are already available. As our field research in Cambodia revealed, because the tuition was kept low to widen opportunities for admission and enable students to learn in universities offering accounting courses, it became hard to hire quality teachers. Therefore, in addition to increasing educational institutes and programs, there must be some financial aids to allow tuitions for these institutes and programs to be kept at a reasonable range.

As observed so far, enabling an increase in the quantity and quality of students learning accounting and employees responsible for accounting by providing increased opportunities and institutes for reasonable accounting as well as promoting awareness of students on accounting will contribute to building a foundation to support SMEs tackling the accounting issues.

2) Resolving lack of accounting support personnel

Another challenge that SME owners will face once they initiate diligent accounting is the lack of external accounting and accounting support personnel. Our field research in ASEAN nations confirmed that some SMEs are not blessed with the capacity to hire employees only for accounting tasks and that these specialists are made responsible not only for documenting and auditing financial statements but also for bookkeeping. Though there should be a growing number of outsourced firms for accounting services as the economy develops, it is necessary to find more consulting firms with high quality providing services at reasonable fee schedules that SMEs can afford in order to support those that are motivated to implement diligent accounting.

The other responses pointed out that the population of CPAs providing consultations and audits or the professionals involved in accounting should not be necessarily small, both quality wise and quantity wise, except in local areas. A certain number of experts need to be secured as the economy develops. Since CPA is a tough certificate to obtain, another effective option to enlarge the pool of accounting support personnel would be to adopt a qualification system to certify possession of adequate level of accounting knowledge and skills if not compatible with CPAs.

Moreover, it is desirable to have assessment institutes with specific expertise ready for the fair asset measurement, as an example, after introduction of IFRS or IFRS for SMEs. The institutes that provide advanced support around accounting are also part of the ‘accounting support personnel’ in a broader sense and the development of these institutes or their enticement from other countries should be also required in the future.

3. Enabling easier implementation of diligent accounting

In the mid to long term, as long as SME owners are highly motivated to tackle accounting issues; adequate incentives to support this motivation are provided; and supply of accounting support personnel is ensured, SMEs will be able to work diligently on accounting.

However, if the accounting standard is beyond what is appropriate for SMEs or requires greater care and cost than reasonable, SMEs might have to respond to the accounting need well beyond the original purpose of ‘leveraging accounting for business management’, which will cast a shadow of concern over the propagation of accounting as a good tool for use at its full value.

There are SMEs aspiring for IPO, overseas trading, global expansion, and mergers and acquisitions with overseas corporations. There are also SMEs aiming for local expansion by multi-store operation, ready to become the local number one, or even working on the development of the world's first technology. Therefore, different accounting standards should help SMEs with different corporate goals.

Meanwhile, IFRS or IFRS for SMEs is getting adopted in ASEAN nations in accord with the global trend around accounting. However, the status of responding to and positioning of the IFRS introduction is different for different countries. During our research, the following observations were made: ‘The accounting standard of SMEs is not adequately respected when it comes to its actual usage.’ or ‘The standard is extremely a big burden on SMEs’, even in a country that already completed its introduction a few years ago. Even in countries that have decided to introduce it and are getting ready for implementation in a few years, some voiced the following opinions: ‘There is concern about the capacity to respond to the implementation as increased accounting-related work is anticipated' or 'After all, compliance with the new standard might not be achieved.'

For SMEs lacking monetary/personnel resources and with inadequate interest in or understanding of accounting standards, the difficulty in responding to the standard or the workload in itself has become a barrier for diligent use of accounting. In fact, in Cambodia, which has already introduced IFRS, our research has identified a scenario to review the feasibility of first implementing a simplified accounting format for SMEs to realise mid- to long-term propagation and conformance.

Rather than calling for conformance by immediately setting high hurdles, an outstandingly critical option is to put in line a simplified accounting standard and a documenting guideline for small- and micro-sized entities so they can execute and get a sense of diligent accounting approach and significance.

(1) Introducing a simplified accounting standard appropriate for SMEs

1) Simple accounting standard as a step towards compliance with international accounting standards

In the Philippines, where IFRS has long been in place and IFRS for SMEs has just recently been introduced, one response to our research pointed out that the standard is too cumbersome for SMEs to respond to and imposes substantial burden on them. There are concerns about the overriding expectations before actual introduction in Thailand and Malaysia, which have made a decision to implement IFRS in the future. Another response pointed out that the standard has no value to SMEs unless they are aspiring for IPO. There were also significant objections from SMEs who are concerned that the workload would be extremely heavy.

On the other hand, there was a comment pointing out that it is not appropriate to be an only country that will not respond to international accounting standards based on global competitiveness perspective as ASEAN economic integration towards 2015 is just around the corner. SMEs should not turn their eyes away from these international accounting standards simply because they are SMEs.

Combining these environmental circumstances, it may make more sense to start by implementing a simplified accounting standard as a remedy at hand so that SMEs with no experience in keeping books and financial statements or with no accounting knowledge and skills can move forward to leveraged use of accounting with future use of IFRS or IFRS for SMEs considered. However, an excessively ‘simplified’ standard like a bookkeeping format with only brief receipt and payment entries will diminish the concept of "leveraged use of accounting for business management’. Thus, care must be taken to avoid SMEs' misperception that no advantage is found in diligent accounting.

Figure 43: Staged development of accounting requirements for SMEs (conceptual)

Standards	Scope of Disclosure Audience	Resource for Accounting
(future goals) **International Accounting Standards: IFRS, IFRS for SMEs**	Large (foreign investors, business accounts, banks, regular shareholders, analysts, tax authorities)	Sufficient accounting headcount with outsourcees or consultants externally available
↑		
(Accounting required today) **A simplified standard with SME focus**	Limited (business accounts, banks, family shareholders, tax authorities)	Family businesses or small/micro companies. Cannot afford external consultations.
↑		
(Basic accounting) **Formats for assisted bookkeeping**	None (Disclosure is not the purpose for documenting.)	Private businesses, et cetera. No affordable personnel/monetary resource.

IFRS = International Financial Reporting Standards; SMEs= Small- and Medium-Sized Entities.

2) Accounting standard which is beneficial and easy-to-use for SMEs

What kind of accounting standard then is convenient for SMEs?

Which is the most important reason for the preparation of accounting books and financial statements for SMEs? According to the field survey, the most frequently cited reasons are: 'because we have to attend tax affairs' and 'because it is obligatory under the law'. However, as explained in connection with the case of Japan, internal control does not work properly in most SMEs. We believe that emphasis should be put on accounting books (input), which are a starting point of accounting activities. It is very important for the development of companies to keep accounts on a daily basis according to rules and in a manner that ensures credibility, and to recognise and measure business on the basis of the accounting books. Emphasis should be also put on financial statements (output). They are especially important for medium to large enterprises that have many outside stakeholders or whose financial statements are evaluated in connection with mergers and acquisitions. Therefore, if the development of individual companies, in addition to the economic development, is considered, accounting standards focused on accounting books (input) are more appropriate for SMEs in the ASEAN region, whose future development is desired.

Next, it is important to ask whether the cost accounting system or the fair-value accounting (market-value accounting) system should be adopted. The framework mentioned in the discussion above will apply to this question too. For SMEs in the ASEAN region, which are expected to grow in future, the cost accounting system (which demands performance of fiduciary duties) is more appropriate than the fair-value accounting (which offers information beneficial for decision making on investment, et cetera, outside the company). The countries subjected to this research responded that the fair-value (market-value) accounting system is not enough. They pointed out that small accounting firms and local (small) audit corporations do not have the skills to respond to the fair-value evaluation, or that no business supporting evaluation of fair value (such as services for supporting market-value evaluation of assets including real estate) is sufficiently matured.

Lastly, accounting and tax affairs should be integrated rather than separated from the viewpoint of advantages to SMEs. As revealed by our field research in some ASEAN countries, the interest of SMEs in books and financial statements is mainly related to tax affairs. For example, as a result of the adoption of the 'definite settlement of accounts' principle in Japan, SMEs, with little expertise or resource concerning accounting, can obtain benefits of increased efficiency and cost reduction because they can prepare closing financial statements under the commercial/corporation law by preparing tax declaration forms. On the other hand, SMEs can receive benefits in connection with the tax amount or prevent inappropriate taxation by the tax authorities if they properly keep accounts in accordance with a certain rule, including the Blue Return System. This may also lead to improvements in the government's ability to collect tax in countries where not only SMEs but also public functions related to tax affairs are underdeveloped.

One reference model of such accounting standards appropriate for SMEs is Japan's General Accounting Standard for SMEs. One committee member participating in our research Working Group has commented that this General Accounting Standard for SMEs, for example, should be used to establish a simplified accounting standard for SMEs in the ASEAN region, especially for small and micro enterprises that have never properly kept accounts.

If an original corporate accounting standard for small and micro enterprises is established by the whole ASEAN region, and companies that obtain an insight or experience in bookkeeping and accounting systems while they are still micro or small enterprises become matured enough to adopt an international accounting standard such as IFRS and IFRS for SMEs, this accounting system will serve as their foundation on when to seek to list stocks or expand their business across boundaries.

(2) Communication of other information to help establish diligent accounting

It is crucial to design the accounting standard as a simplistic yet helpful tool for SME business management. Equally crucial is an initiative to deliver useful information to make the efforts of SMEs easier while eliminating the negative impression that the accounting standard is hard to understand. As specific options, providing information on accounting standards, accounting guidelines as well as software accounting applications would be effective.

For instance, not a few SME owners do not even know that different accounting standards exist, and they cannot identify the most advantageous one for achieving their future business objectives and goals. Thus, it is crucial to communicate information on accounting in a comprehensive manner.

Also, the reality is that many SME owners intend to implement accounting by themselves or with an internal resource alone, giving up external support including help from consultants due to financial reasons. Though they might be able to afford help from these experts or external services as their scale grows, it is necessary to offer some support even for their self-sufficient efforts when the scale remains small. An effective option would be to develop and provide a guideline for keeping books and financial statements based on a given accounting standard to allow identification of what to do on what and how far by reading the guideline. Actually, responses from the subject countries for this research included: 'If only we have a comprehensive guideline...' The Philippines has already put the development/delivery of the easy-to-follow booklet on accounting for SMEs in place through the initiative of the government agency responsible for SME development. This would encourage the promotion of such a framework in other ASEAN countries.

The last option could be to develop a software accounting application that enables the utilisation of a simulated guideline feature using information and communication technology (ICT) and making it available for a reasonable cost for active use by SMEs. It would be ideal if the application creates books and financial statements for the user just by following a simple guiding wizard once installed in a PC. In Singapore, a respondent described a case where an application like this is also helping SMEs to work on accounting with relatively a small resource investment.

Thus, delivering relevant accounting information or applications may potentially wipe off the 'complicated and hard-to-understand' impression of accounting among SME owners, which will lead to the diligent use of accounting.

4. Initiatives to be implemented by government bodies for execution of the Policy Options Proposal

Government bodies will have to implement the following to execute the proposed policy options 1 to 3:

(1) Collection of reality data in SME accounting

Our research is more or less working as the pioneering figure for data collection since some nations lack data such as how SMEs in particular are tackling or perceiving accounting. There were opinions recommending collecting as many data from a wide range as possible in the reality survey to allow productive discussions with institutes such as international organisations. It would work better if the surveys were pushed forward country by country, with dedicated focus on SME accounting for successful development and implementation of effective policies tailored to individual countries.

(2) Reflection of SME voices onto government policies

It would be ideal if opportunities are created to directly absorb thoughts, concerns and expectations on SMEs on accounting, on top of collection of reality data of SMEs. Voices heard from the subject countries for this research included ‘No opportunities are available for SMEs to get heard on formulation of accounting rules including accounting standards’ or, if available, ‘The panel does not include a member who can represent SME claims’.

Since the growth of SMEs is indispensable to each ASEAN nation's national development, it is essential to get ready to proactively listen to SME voices on accounting as well.

(3) Propelling collaboration between government agencies and relevant organisations

Though different countries have different policies for SME accounting, it is highly necessary for multiple government bodies to work interactively. For example, interactive collaboration involving agencies responsible for SMEs or industry development, agencies (or organisations) controlling the accounting systems, internal revenue service agency as well as the ministry of education for the education of accounting personnel, will lead to effective policies implemented by the country.

Actually, during our research, some respondents pointed out that because of similar education initiatives implemented by many different agencies, it is hard to see which agency is doing what on what. For example, policies that offer preferential loan interest rate based on diligent keeping of books and financial statements conforming to the accounting standard can be enabled by collaborating beyond agency borders.

5. Conclusion

Our survey succeeded in qualitatively understanding, analysing, and summarising the accounting systems and status of compliance of SMEs mainly through desk research and field research on business operators, government agencies, and financial institutions in ASEAN countries.

We hope that this survey will offer an opportunity for the whole ASEAN region, governments of ASEAN countries, financial institutions, financial professionals, educational institutions, and business owners of SMEs in the ASEAN countries to collaborate with one another and deepen discussion. We further hope that the quality of management of SMEs and their access to finances will be improved.

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