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PERCEPTION OF ACCOUNTANTS TOWARDS THE ACCOUNTING AND TAX PROFITS FROM APPLYING THAI FINANCIAL REPORTING STANDARDS FOR SMES

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Abstract:
International financial reporting standards for small-medium enterprises (IFRS for SMEs) are applied in 63 countries including 3 countries in ASEAN. It is designed to be suitable for SMEs and more compact when compared with full IFRS. Thailand is applying this standard in 2016. It is, of course, quality of financial report will be better improved and have more reliability in international accounting standard if Thai companies apply Thailand financial reporting standards for small-medium enterprises (TFRS for SMEs) as other countries applied. On the other hand, it cause of compliance costs for financial statement reporting and increase the burden towards tax accountants and tax auditors. Furthermore, SMEs in Thailand tend to non-foster voluntary compliance. They focus more on tax administration. This paper will examine the difference of accounting profit and tax profits of SMES after TFRS for SMEs applied. Moreover, perception and knowledge of accountants and tax auditors will be investigated about effect of TFRS for SMEs and the Revenue Codes. Finally, recommendation for developing the knowledge of accountants and stakeholders for TFRS for SMEs will be proposed towards the Revenue Department, Department of Business Development and Federation of Accounting Professions. Secondary data analysis, questionnaire survey from tax accountants, focus group from certified accounting office that is guaranteed from the Ministry of Commerce and semi-structure interview from the Revenue Department, tax accountants and tax auditors are used for data collection. It suggests that coordination between the Revenue Department, the Ministry of Commerce and Federation of Accounting Professions and training course about TFRS for SMEs towards tax accountants, tax auditors may be alternatives to increase achievement of launching IFRS for SMEs and decrease the difference of accounting profit and tax profit.

Keywords: IFRS for SMEs, TFRS for SMEs, tax complexity, accounting and tax profits

1. BACKGROUND

During the period in which the factors relevant to the full implementation of the ASEAN need to be made clear in practice and the preparation for the expansion of businesses, encouraging and promoting businesses is another way to strengthen the potentials of entrepreneurs and investors. One group of businesses that plays an important role in many countries around the world is small and medium entities (SMEs). It is a group that has the potential to generate income and promote employment. In Thailand, many organisations have given different definitions of small and medium enterprises. OSMEP (2015) mentions that the Offices of Small and Medium Enterprises Promotion (OSMEP) and SME Banks categorises SMEs on number of employees and size of fixed assets. However, the Revenue Department characterises SMEs by registered capital, fixed assets (not including land).

It was found that in the European Union there are 23 million small and medium entities, accounting for 99% of all the entities (Thai Representatives of EU, 2006). Also, in the ASEAN countries, it was found that there are 2.7 million entities in Thailand, accounting for 98.50% of all the entities. They can generate a GDP growth rate of 37.4% (Office of Small and Medium Enterprises Promotion (OSMEP), 2013). According to the statistics explaining about the growth of SMEs, it seems to suggest that in the future development of the country there should be some encouragement and promotion of the activities of these SMEs. In doing so, there should be measures strengthening the competitive capabilities of the country, such as promotion of international investment and trading, or even boosting the financial accounting management capabilities, in order to be on par with its counterparts in ASEAN and other countries. In the meantime, the Federation of Accounting Professions under the Royal Patronage of His Majesty the King has realised the factors contributing to the growth of businesses by building up the credibility of financial accounting information. Therefore, there has been a plan for making the accounting quality and financial reporting to be internationally standardised. Such a plan can also increase the quality of the information on financial statements to be generally accepted, which leads to the preparation for the implementation of the International Financial Reporting Standard for Small and Medium Enterprises (TFRS for SMEs). It is hoped that the information on financial statements will be useful for economic decisions, for boosting the confidence of people using financial statements, and also for investors. Apart from that, in doing business it is necessary to rely upon the accountants' and business owners' knowledge and understanding. It was also found that there are some differences between the practices according to the accounting standard and the revenue code, which indicates the principles and methods for considering items whether they are the company's income or expenses. In terms of Thai corporate tax, it is calculated from net profit on the accrual basis in the income statement and is adjusted with the 14 conditions by the Revenue Code Section 65(2) and 20 expensed that are not allowed as expenses in net profit calculations. When corporate income taxes are paid, the accounting items which are complex need to be simplified or made in line with according to the law, so that they become desirable to business owners. As a result, accountants or business owners generally try to find a loophole or loopholes in earnings management and tax planning. In addition, these people attempt to apply their knowledge in distorting some accounting items, so that they can avoid paying high taxes. This behaviour will greatly affect the quality of financial accounting. Also, those who use this wrong information will make wrong decisions as a result. From all the points stated above, this paper will examine the difference of accounting profit and tax profits of SMES after TFRS for SMEs applied. In addition, the differences of perception and knowledge of accountants and tax auditors will be investigated about effect of TFRS for SMEs and the Revenue Codes.

2. LITERATURE REVIEW

Literatures are investigated about SMEs, problems of perceiving incomes subjected to tax according to the Revenue Code, opinions for the accounting practices for small and medium enterprises and IFRS for SMEs applied in countries.

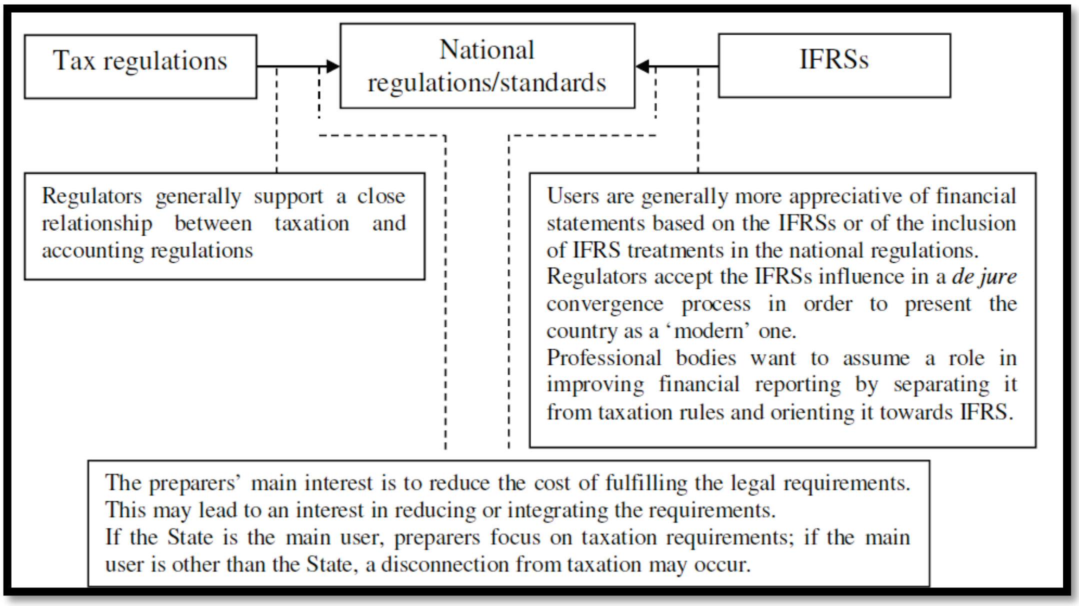
Srijunptech (2009) conducted a study on opinions for the accounting practices for small and medium enterprises. It was found that the samples of the study agreed with the fact that the Federation of Accounting Professions under the Royal Patronage of His Majesty the King would announce the accounting standards for SMEs. They also agreed that the accounting principles to be based on should be not complicated. Furthermore, the samples also thought that the financial statements would be used to show their financial status and will be useful for business management, tax calculations, and tax payments. Regarding those who used financial statements in the study, it was found that financial statements of SMEs would be most utilised by the Revenue Department, followed by entrepreneurs, executives, and creditors. According to the survey and analysis of the problem and potential obstacles, the samples had an opinion that when introducing new accounting standards, the Federation of Accounting Professions under the Royal Patronage of His Majesty the King should make sure that the standards are in line with taxation practices and that they should be simple.

Tiasiripetch (2001) studied the present conditions and needs for developing accounting information for business management in Chiang Mai, Thailand. Most of their accounting was prepared by some accounting offices. Moreover, they had no accounting information, profit and loss statements, and balance sheets for managing their businesses. Instead, they prepared those documents once a year for the purpose of paying taxes. Seubpradit (2004) investigated the problems of perceiving incomes subjected to tax according to the Revenue Code whereas accrual basis is applied with accepted accounting practice. As a result, there can be trouble with the recording of income and tax payments according to the law. This is due to the fact that the officers at the Revenue Department use the interpretation by the Revenue Department following the consultation response letter and the verdict of the Supreme Court on generation of income. They simply refer to the claim for considering something as income or expenses without considering real payment. This results in a lack of transparency and uncertainty. In addition, it is against the good practices of taxation.

In terms of applying IFRS for SMEs, Herman (2009) found out that IFRS for SMEs have led to more accounting costs, such as training costs, and more costs of making financial statements based on the IFRS. Helen and Susela (2015) said that the International Accounting Standards Board issued the draft of IFRS for SMEs and question the suitability for adoption, particularly by the developing economies within ASEAN. They found the one-size-fits-all-standard for SMEs, with a capital markets orientation, does not accommodate well the differing cultures, ways of doing business, regulatory frameworks, underlying philosophies, or needs of users of financial reports from SMEs. Adoption without modifications or exemptions would provide few benefits for SMEs in emerging economies and would be a burden more than a benefit for entrepreneurs within the ASEAN group. Nadai and Nicolae (2014) mentions the accounting profit is the starting point for the calculation of the taxable profit; the objective of many SMEs is the optimisation of the taxable profit. A straight connection could create incentives for preparers that may hamper the quality of financial reporting. On the other hand, IFRSs have also influenced to various extents the national regulations, for global convergence purposes or due to the need to gain legitimacy in order to attract foreign investors. This dual relationship leads however to a difference between the de jure and the de facto convergence between the national regulations/standards and IFRSs. In this sense, R5 (professional body) notices that even though a good level of convergence of national regulations with IFRSs is achieved in Romania, there is a weaker de facto convergence because practices are influenced to a high extent by the fiscal rules.

The representatives of the Ministry of Public Finances (accounting regulators or important actors in this process) generally support the tight relationship between the national accounting regulations and the taxation rules, thus not being too much in favor of the IFRS for SMEs application. Consequently, the relationship with taxation would be preserved. On the other hand, the users of the accounting information (for example, bankers) tend to support the application of the IFRS for SMEs, considering that IFRSs bring more flexibility and more relevance to financial statements (R2, user). For preparers, the most important issues are the cost of fulfilling the reporting obligations and their complexity. This may lead to reluctance in applying accounting policies different than the fiscal ones (R5, preparer). However, some entities are aware of the benefits of separating the accounting system from taxation (R4, preparer; R5, preparer). Eventually, for entities it is a matter of costs and the pressure they perceive as being more important – that of the fiscal controllers or that of their users. We would thus synthesize the complex relationship between financial reporting, taxation and IFRSs in Romania as an emerging country, incorporating also the general characteristics of the environment of emerging countries:

Picture: 1: Stakeholders' positions vis-à-vis the relationship between financial reporting, taxation and IFRSs



The result shows problems in concept of economic rules that influenced by tax. From accounting related interview, it reveals concept about the nature of the SMEs business and SMEs accounting that focus in costs and possibility of benefits in the way to apply for international standard. Furthermore it was found that the way to determine the nature of the account in the country should consider the need for education. The best effective way is normative isomorphism, accounting education and business environment requires continuous action, in contest of this environment should focus on basic of teaching progress in IFRS of SMEs to prepare the country in the future.

3. RESEARCH METHODOLOGY

This research is divided into 2 parts: Firstly, secondary data analysis is collected from academic publications and websites of academic institutes and authorities. Secondly, primary data are collected via 100 questionnaire surveys (70% from "Continuous Development of Professional" training session[1] and 30 % from certified accounting office that is guaranteed from the Ministry of Commerce), 5 interviews from representatives of the Ministry of Commerce and the Ministry of Finance and senior accountants from certified accounting office. These interviewees work directly with financial standards for SMEs about the measurement of values, the differences in revenue recognition for SMEs and the criteria on determining each items in order to plan for accounting plan and tax management. Finally, focus group from certified accounting office is done to obtain a variety of viewpoints of applying TFRS for SMEs.

4. RESULTS

4.1. Secondary Data Analysis

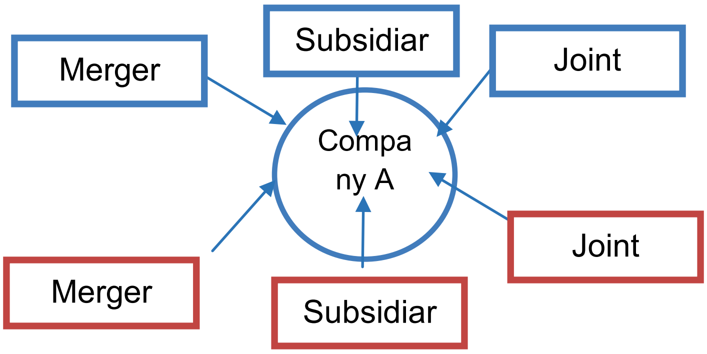
From investigating in secondary data about TFRS for SMEs, the Chairman of the Thailand Accounting Standards-Setting Committee (2015) said that in 2017 the newly improved standards of the IFRS for SMEs will be used with group companies in order to cope with more complicated financial transactions. That is because the current standards of the TFRS for NPAEs do not cover complex financial instruments, mergers, and shared-based payment. In addition, the new standards will be used to cope with the transactions covered by the current TFRS for NPAEs, which are still unable to reflect the complicated business nature of those transactions.

Currently, enterprises are following the financial reporting standards for Non-Publicly Accountable Entities (NPAEs). These standards do not cover those enterprises having less complicated business

[1] Continuous Development of Professional training session is arranged for entrepreneurs, accountants that registered with Department of Business Development (DBD) and accountants that did not register with DBD, certified accountants and accounting staffs.

nature, and they do not cover mergers, subsidiaries, and joint ventures. However, a study by Federation of Accounting Professions under the Royal Patronage of His Majesty the King shows that nowadays the structure of non-publicly accountable entities (NPAEs) is now changing, as shown in Picture 2.

Picture 2: Structure of non-publicly accountable entities (NPAEs) to be considered medium and small enterprises



The illustration shows that Company A is a group company that has more complicated business nature or transactions. Therefore, it has to follow the financial reporting standards for SMEs in 35 chapters of accounting standards.

From a comparison of TFRS for Non- Publicly Accountable Entities (Non-PAEs), TFRS for SMEs and the Revenue Code, researcher concludes in terms of inventory, property, plant, and equipment, selling goods for reward points and intangible assets in the following tables:

Table 1: A comparison of some important principles among TFRS for NPAEs, TFRS for SMEs and The Revenue Code

TFRS for NPAEs	TFRS for SMEs	Revenue Code
1. Inventory - At the end of a period, the inventories need to be evaluated based on cost prices or net realisable value. This will be deducted by the estimate of the cost of production or the necessary cost that have to be paid, depending on which cost is lower. - The difference goes to the costs of goods sold - must not be re-estimated.	- The remaining value of inventories must be estimated, in comparison with cost price and estimated price expected to be sold. This will be deducted by the cost of finished goods or necessary costs that have to be paid, depending on which cost is lower. - The difference goes to profit and loss statement.	- Estimation of losses from depreciation/ revaluation/ impairment losses are prohibited according to Section 65 ter (1). - The price of inventories on the last day must be calculated based on the cost price or market price, depending on which price is lower. It needs to be regarded as the price of inventories for the new accounting period after having been calculated based on the principles of Section 65 bis (6). - Clearance done in accordance with Revenue.79/2541 is regarded as expenses according to the Revenue Department, except for the clearance done not following what is prohibited in Section 65 (ter) 1.
2. Property, Plant, and Equipment:		

- Can not be re-estimated - Interests during construction need to be combined with assets costs. - Use component when having different lifetimes - Write-off the previous one and replace with a new one. - Having indicators for permanent impairment --- impairment losses	- Can be re-estimated - Interests during construction are considered expenses. - Component accounting when it is useful for enterprises of different types---look at lifetimes---- production capability/damage/outdated/end of contract - Whether component accounting or not, the previous one must be replaced with a new one. - Have a temporary or permanent indicator---impairment losses	- Can not be re-estimated - Interests during construction are regarded as expenses. Loan interests for additional construction and procurement of assets are prohibited by Section 65 ter (5). - Loan interests for construction of assets are to be regarded as the value of assets for deducting breakage and depreciation, in accordance with Section 65 bis (2). The interest to be paid after the construction is to be regarded as an expense in calculation. - Reserves, such as the reserve from the impairment of assets, investment in another company, provision for severance payments, pension funds, share of loss on the equity method, accounting estimates, are all prohibited by Section 65 ter (1).
3. Intangible assets - Intangible assets with uncertain lifetimes will have an amortisation schedule for a maximum of 10 years. - Expenses for development can be perceived as intangible assets.	- Intangible assets with uncertain lifetimes will have an amortisation schedule for a maximum of 10 years. - Expenses for development are regarded as expenses.	- Considered as other assets and eligible for depreciation deduction at the rate of 20%, according to Section 4 (5) of Royal Decree No.145.

4.2. Questionnaire Survey

From 100 questionnaire survey towards 70 respondents from “Continuous Development of Professional” training session and 30 respondents from certified accounting office that is guaranteed from the Ministry of Commerce, demographic data shows 87% is female, 85 % graduates the first degree. 38% has year experience over 15 years. 82% works in private company whereas 48% works in service provider. Finally, 38 % of respondents work in enterprises that have 51-200 employees. In terms of knowledge in TFRS for SMEs, it was found that respondents have knowledge in TFRS for SMEs in the moderate level at 54.7%. 96% realises that Federation of Accounting Professions is the department that develops Thailand Financial Reporting Standard whereas 88 % perceives TFRS for SMEs will be applied in 2017. Interestingly, 84 % of respondents perceives about Investments in associated companies and joint ventures that TFRS for SMEs has 3 alternatives to record investments: cost method (if market value is non-applicable), equity method and fair value method. However, respondents has low level of knowledge about recording interest revenues and interest expenses with effective interest rate method- EAR) at 14%.

In terms of the Revenue Code, Section 65 (2) that relates with revenues, 76.2% understands about tax bases and taxed revenue. Surprisingly, 46% does not know that output tax excludes in revenues. In terms of the Revenue Code, Section 65 (3) that relates with expenses, respondent knowledge is perceived in the moderate level at 59%. 84% perceives about recording of insurance expenses while

81% perceives bribery costs can not be recorded as tax expenses. However, 33% of respondents does not understand about investment in trading securities and investment in securities available for sale.

In terms of knowledge of respondents about TFRS for SMEs and the Tax Code, it was found that they perceive both of them in the moderate level. For knowledge about inventory, 60% of respondents perceives recording from re-estimate value of inventory in the principle of TFRS for SMEs whereas 56% of respondents perceives recording from re-estimate value of inventory in the principle of the Revenue Code[2]. This identifies some respondents that work in service provider may not know about inventory recording. In terms of knowledge in intangible assets, 60% of respondents perceives software developing costs must be recorded as expenses in TFRS for SMEs. In addition, 65% of respondents perceives software developing costs must be write-off as depreciation at the rate 20% per year. Finally, in terms of knowledge about property, plant and equipment, it was found that 82% of respondents perceives that TFRS for SMEs can re-estimate value of fixed assets whereas 79% of respondents perceives that the Revenue Code does not allow re-estimate value of fixed assets. This can imply that TFRS for SMEs will generate benefits for enterprises that will lend the money from the bank. Re-estimation of assets will increase asset creditability.

4.3. Results from Interview

Director General of the Department of Business Development comments that financial accounting is for showing details of list and financial statement while tax accounting is for paying income tax legally. In the future, Federation of Accounting Professions will settle law enforcement standard for mid-sized business and small business. This will be useful for financial statement and investment such as statement of cash flow or entrepreneur can apply for financial report and business plan.

Tax accounting is quite complex and very difficult. It may affect to income/expense accounting are not equal to Revenue Code. For example, intangible asset for financial accounting is for expense while the Revenue Code is for asset and depreciation.

In the viewpoint of business owner, she thinks accounting report is important for her business and she would like to make it correct include tax payment. However, financial accounting and tax accounting in TFRS for SMEs is very different way to do that's why she thinks it is so complex. The main reason is many business owners usually to make tax avoidance to save their money for tax payment.

Another business owner realises "Accounting is not simple for explicitly understand whereas tax accounting is very difficult to enforce in real life for all businesses. Finally, when we were checked by tax officials, we can't explain any details because they force us to accept in it". In addition, in the near future, if financial accounting and tax accounting is more different. The compliance cost will be higher because business owner will hire both accounting and tax advisory.

Audit assistance who works in Big4 Advisory Company, has the opinion about TFRS for SMEs. She said that TFRS for SMEs can make higher audit fees because entrepreneurs will face more complexity between tax accounting and financial accounting. Furthermore, auditor will confront hard working.

Finally, accountant from certified accounting office comments on TFRS for SMEs that it is useful but it has the obviously different details between TFRS for NPAEs and TFRS for SMEs. For example, interest expense is not allowed to combine with asset for financial accounting while it is allowed for the Revenue code. On the other hand, financial accounting can be re-estimated but cannot apply directly for tax accounting. Moreover, some stakeholders know practically nothing about the statement of cash flow. They might have knowledge only about profit and loss statement.

5. CONCLUSION

This paper examines perception of accountants towards accounting profits and tax profit from applying TFRS for SMEs. Secondary Data Analysis, questionnaire survey and semi-structure interviews are

[2] In the principle of the Revenue Code, the difference of historical value and market value of inventory will be perceived as loss in the profit and loss statement. However, in the principle of TFRS for SMEs, the difference of historical value and net realisable value of inventory will be perceived as loss in the profit and loss statement.

used for data collection. From survey, it was found that respondents have knowledge in TFRS for SMEs in the moderate level at 54.7% whereas they know about the Revenue Code, Section 65(3) relating with tax expenses around 59%. Interestingly, respondents hardly know about recording interest revenues, interest expenses, investment in trading securities and investment in securities available for sale. Data from interviews identify that compliance cost of entrepreneurs will be increase if TFRS for SMEs applies.

It suggests that coordination between the Revenue Department, the Ministry of Commerce and Federation of Accounting Professions should be implemented and training course about TFRS for SMEs towards tax accountants, tax auditors may be one of the alternatives to increase achievement of launching IFRS for SMEs and decrease the difference of accounting profit and tax profit.

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