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LEADING THE WAY

Simple is good in accounting, but what is simplicity's enemy?

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Modern business is not limited to one country or region, so it requires a set of tools to communicate internationally successfully. English, Spanish and Chinese are widely used as languages for business, helping to convey information among management, employees, investors and users of financial information. To maintain consistency and avoid ambiguity, the language of accounting also needs to apply the same principles as standards for communication.

Among the current global accounting standards, the International Financial Reporting Standards (IFRS) is the most common. To promote the ability of businesses to work on this global business stage, the Federation of Accounting Professions of Thailand (FAP) was set up to oversee and set accounting standards to reflect those in other countries and territories such as Hong Kong, Malaysia, Singapore and around the world. The accounting standards developed by the FAP align with or even mirror the IFRS — these are known as the Thai Financial Reporting Standards (TFRS).

While Thai standards are generally intended to lean in the direction of the IFRS, there is also a simplified version of the TFRS that is quite distinct from the IFRS for small and medium-sized enterprises (SMEs) and used only in Thailand: the Thai Financial Reporting Standards for Non-Publicly Accountable Entities (TFRS for NPAEs). The simplified set of accounting standards is applicable for all entities that do not have public accountability or do not issue any financial instruments in a public market — i.e., listed and public companies, banks, insurance firms and pension funds. TFRS for NPAEs helps to relieve businesses of the necessity to comply with full TFRS rules by significantly reducing cost and resources of private businesses in preparing financial statements. For example:

Some standards are omitted — i.e., segment reporting, related-party disclosures, financial instruments and business combinations.

Some accounting treatments are not allowed — i.e., asset revaluation and the fair-value model.

There are substantially fewer disclosure requirements with the full TFRS — i.e., employee benefits and income tax.

That said, the intention of TFRS for NPAEs is not totally detached from global practices. We can see this simplified concept in the IFRS for Small and Medium Size Entities (IFRS for SMEs), which has been adopted in more than 60 jurisdictions including Hong Kong, Malaysia, the Philippines, Singapore and many European countries. However, the definition of SMEs under IFRS for SME varies from country to country.

Besides being different from full IFRS, IFRS for SMEs is also not identical to TFRS for NPAEs. There are various differences in accounting treatment between the two, including cash flow statements, related-party disclosures, business combinations, financial instruments, share-based payments, deferred tax accounting and functional currencies. In general, users of private entity financial statements have a different focus from those interested in publicly listed companies. In Thailand, the number of listed and public companies is less than 1% of the total number of business entities. Therefore, it's a big relief to Thai private businesses to have an alternative set of accounting standards. However, there are two sides to the coin. With fewer areas of treatment and guidance, TFRS for NPAEs could give rise to practical issues or insufficient information for some users. As mentioned before, some topics and disclosure requirements are omitted even though they are relevant. For example:

What if a company has substantial transactions and balances with related parties and/or has significant investments in subsidiaries?

Is it really meaningful to present stand-alone financial statements without consolidation or disclosures about related-party transactions?

Are the financial statements compatible if one company adopts treatments of financial instruments in a different way?

In other words, when you use a financial statement from a private business in Thailand to analyse its profitability, financial status or financial ratios, you must be fully aware and understand these gaps between TFRS for NPAEs and the full TFRS. A big loophole when applying TFRS for NPAEs is the definition of an NPAE. The definition is based on the nature of an entity rather than the size of its sales, assets or even number of employees. There are many private companies in Thailand whose assets and revenue are greater than those of some listed companies. Apart from shareholders, users of those large private companies could be bankers, suppliers, customers and regulators either in Thailand or abroad. Should these companies omit some accounting treatments and disclosures that seem to be relevant to them?

If a subsidiary of a foreign company needs to supply financial information for consolidation at the group level abroad, it must reconcile many differences between the TFRS for NPAEs and the group accounting policies, following the IFRS. This means two sets of accounting records must be prepared — those for statutory purposes and those for group reporting purposes with several reconciling differences. This increases the workload and is not necessarily any simpler. The FAP is aware of this and has considered the adoption of TFRS for SMEs that will be identical to IFRS for SMEs.

Change is expected to take a few years. During the transition, companies adopting TFRS for NPAEs should consider which topics under IFRS for SMEs apply to them, what areas and amounts will affect their financial statements and whether the financial information and accounting personnel are ready for the change once TFRS for SMEs takes effect.

This article was prepared by Nopanuch Apichatsatien, a partner in the assurance practice at PwC Thailand. We welcome your comments at leadingtheway@th.pwc.com