

INTRODUCTION

1. Reasons for choosing topic

SMEs play an important role in the economic growth process of many countries including Vietnam. SMEs account for about 98% of the total number of businesses in the country, attracting about 45% of the labor force nationwide. Therefore, the demand for information of financial position of SMEs which reflected in financial statements is increasing, especially in the context of a market economy opening to global integration. However, many argue that the legal provisions on current financial statements are built primarily for multinational companies and large corporations, therefore they are not often suitable for SMEs due to the scale difference, the level of complexity in the operation and more importantly the needs of the users of published business information. As a result, many SMEs, especially enterprises that lack resources and experience, face difficulties when preparing financial statements according to the current legal framework, which in turn leads to low quality of financial reports, failing to meet the demand of user. Therefore, improving the financial statements system for SMEs based on the ability to provide information of enterprises, meeting user demand becomes an inevitable requirement.

In recent years, there have been many researches aimed at accounting process of SMEs, but there has not been any research thoroughly considers the needs and level of impact of the financial statements on the decision of users in order to be compared with the current situation of preparing and presenting SMEs' financial statements. From this reality, the author selected the research topic "Improving the financial statements system for small and medium enterprises in Vietnam" to cope with that practical demand.

2. Literature review

2.1. Studies within the country and around the world

2.1.1. International Financial reporting Standard for Small and medium Enterprises (IFRS for SME)

Since IFRS for SMEs has been issued, there have been an increasing number of studies investigating the views of the parties involved in the application of this standard to prepare SMEs' financial statements in countries such as those of Sian and Roberts (2008), Schutte and Buys (2011), Quagli (2012)

2.1.2. Demand to use information on financial statements of small and medium enterprises

2.1.2.1. Objects using financial statements of small and medium enterprises

Financial statements users are often referred to as investors, creditors, suppliers, employees, unions, customers, governments, competitors and the public. However, the objects using SMEs' accounting information are often different from large enterprises. There have been many studies of scholars around the world interested in this issue as research by Barker and Noonan (1996), Page (1981), Page (1984), Collis and Jarvis (2000), Sian and Roberts (2009), Dang Duc Son et al (2006), Srijunpetch (2009), Tran Dinh Khoi Nguyen (2013), Tran Thi Thanh Hai (2015).

2.1.2.2. Purposes of using small and medium enterprise financial statements

- Managers: Many studies have shown that the financial statements of SMEs are used by the management team but its most important effect is to re-authenticate the results that have taken place and serve little to the target. Daily management as research by Carsberg et al (1985), Sian and Roberts (2009)

- Shareholders: owners / shareholders who are not involved in management are important subjects to use SME's financial statements because their economic benefits from this single investment are huge and they do not have many advantages to diversify types of investment as other investors in the stock market (Sian and Roberts, 2006, AcSB, 2007)

- Tax authorities: A lot of studies in developed and developing countries have shown that tax authorities are one of the main users of financial statements of small companies (Barker and Noonan, 1996).

- Bank: bank is the most important user of SME's financial statements because bank loans are one of the main loans of SMEs (McMahon, 1999; Zuelch and Burghardt, 2010; Burns, 2007; Dang Duc Son et.al, 2008)

2.1.3. The importance of financial statements and specific indicators on financial statements

2.1.3.1. The importance of the financial statements

The importance of each report in the financial statements is different. Most of the researches in the world have shown that the Statement of financial position and the Income statement are more noticeable reports (Md. Asaduzzaman, 2016; Howard Van Auken and Yang, 2015; Dang Thi Thuy Hang, 2016)

2.1.3.2. The importance of specific indicators on financial statements

Many researchers have focused on what specific published information is important for users' decision making. Typically, the study of Mirshekary and Saudagaran (2005), Benjamin and Stanga (1977), Baker and Haslem (1973), Dang Duc Son et.al (2006), Dang Thi Thuy Hang (2016).

2.1.4. Quality of accounting information on financial statements of small and medium enterprises

Jill Collis & Robin Jarvis (2000) stated, while the aim of large enterprises' financial statements is the basis for assessing management's leadership, for small businesses this is not entirely true. Instead, the report only serves as a bridge between business owners and managers and banks. In these small businesses, the scope of information usage narrowed significantly compared to large enterprises, this information mainly served the bank (Dieu Thien, 2018) and management work. So it is necessary to have different financial statements depending on the size of the business (LJ Stainbank, 2010).

2.1.5. Financial statements of enterprises in Vietnam

Recognizing the role of financial statements as a "barometer" measuring the financial situation in all aspects of the business process of enterprises, a lot of recent studies have focused on this issue as research by Nguyen Phuc Sinh (2008), Vo Van Nhi and Nguyen Thi Kim Cuc (2009), Le Hoang Phuc (2014), Nguyen Thi Thanh Hoa (2017), Hoang Vu Hai (2019)

2.2. General assessment of research situation

Through an overview of the research presented above, the author draws some conclusions and "gaps" of the previous studies as follows: Firstly, the researches on users of information on SME financial statements mainly concentrated in developed countries. Secondly, some studies in Vietnam on financial statements only focus on the impact of financial statements on decisions of investors in listed companies. Thirdly, there are not many comparative studies comparing the actual situation of preparing and presenting the financial statements of SMEs with the demand of users. Fourthly, the research on SMEs' financial statements is almost limited in timing scope. Therefore, there should be studies using data close to the present to provide up-to-date information on this issue.

3. Research objectives and research questions

General research objectives: The thesis aims to research and complete the financial statements of SMEs on both theoretical and practical aspects.

Specific research objectives:

- Clarifying general theoretical issues about SMEs and SMEs' financial statements;
- Understand the needs and levels of interest in SMEs' financial reporting system of information users outside the enterprise to clearly understand the important financial statements and groups of accounting information affecting the decision of users;
- Clarifying legal regulations on SMEs' financial statements in Vietnam;
- Understand the situation of preparing and presenting information on SMEs' financial statements, assessing the results, limitations and causes of limitations;
- Proposing solutions to improve the financial statements system of Vietnamese SMEs.

In order to achieve the above research objectives, the thesis raises some research questions as follows:

Firstly, what are the general theoretical issues about SMEs and SMEs' financial statements?

Secondly, how does information on SMEs' financial statements affect user work compared to other sources of information? In addition, what financial statements and specific information groups on SMEs' financial statements affect users, and how do they affect?

Third, how is the quality of information on SMEs' financial statements used by audiences?

Fourthly, what role does the current Vietnamese accounting standard play in the preparation of SMEs' financial statements? Is it necessary to issue a separate Accounting Standard for SMEs in Vietnam?

Fifthly, has the preparation and presentation of information on SMEs' financial statements met the legal requirements and require the use of information of users?

Sixthly, how to improve Vietnam's SMEs financial reporting system to meet SME development strategy in Vietnam?

4. Subjects and scope of research

Object of research: The thesis focuses on researching financial statements system and specific information presented on Vietnamese SMEs' financial statements.

Scope of the study: The thesis explores the information needs on SMEs' financial statements of out-of-enterprise objects, namely banks, investors and tax authorities. The thesis also explores the application of legal regulations to establish financial statements of Vietnamese SMEs to provide useful information for financial users.

Research data were collected in the period from 2015 to the present.

5. Research methodology and research framework

5.1. Research Methods

To achieve the research objectives of the thesis, the author has used the combination of the following specific research methods:

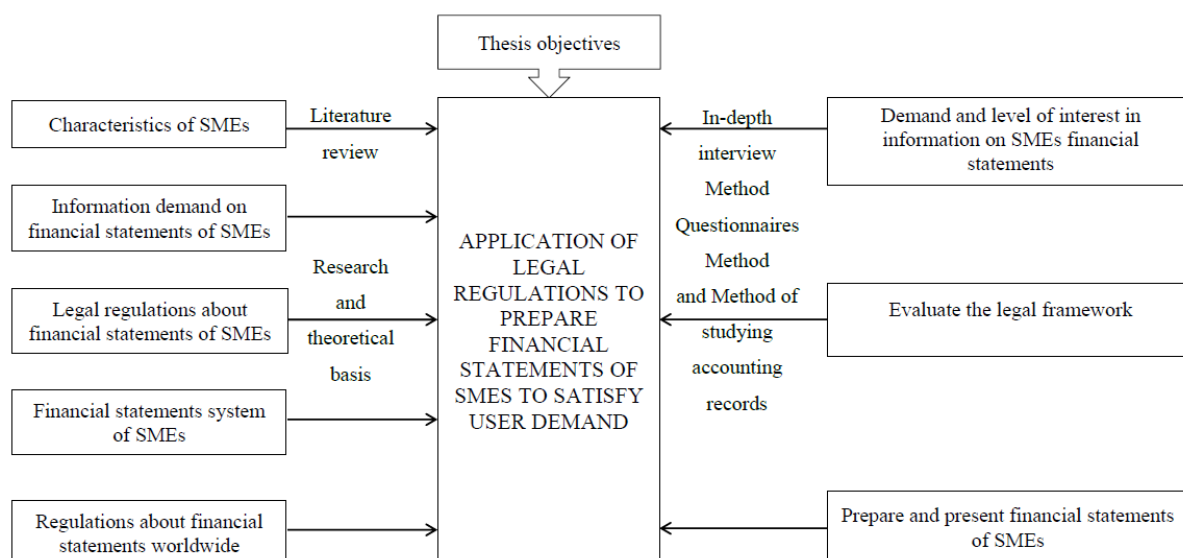
- Semi-structured interview methods, including: one-on-one interviews, telephone interviews. Subjects interviewed included 16 people representing the users outside of the enterprise and 13 representatives for the group directly applying legal regulations and understanding about the preparation and presentation of SMEs financial statements.

- Methods of investigation through the use of questionnaires on financial statements system and specific information on each financial statement of SMEs. After consulting with researchers, the questionnaire was sent to users and accountants in Vietnamese SMEs. Survey results are entered and processed on software SPSS 22.

- Method of case study: The author studies the accounting documents of SMEs in order to study the problem in some typical cases, thereby illustrating and clarifying the collected opinions. .

5.2. Research framework

The research framework of the thesis is presented in the form of target diagram and approach as follows:



6. Some foundation theory for the study of the thesis

6.1. Decision-usefulness theory

The basis for identifying users and the need to use corporate financial information is based on the theory of useful information. This theory considers accounting as the process of providing appropriate information to users of information. Therefore, enterprises should only present on the financial statements useful information for users' decision making.

6.2. Agency theory

Agency theory explains why providing financial information is one of the solutions to shorten the gap between the owner group and the corporate governance group. Financial statements provided by businesses to users will benefit both parties. On the one hand, providing information helps increase the accountability of the management team and avoids opportunism. On the other hand, it helps corporate shareholders and investors reduce agency costs in controlling this relationship.

6.3. Signaling theory

From the basic content of signal theory, it can be seen that SMEs need to comply with the legal regulations on making and presenting financial statements in a strict and accurate way to provide central accounting information (signal). real and transparent for the market for external audiences to properly assess the financial and business situation of enterprises.

6.4. Stakeholder theory

For the content of the thesis, the theory of stakeholders is the foundation for the State management agency in issuing legal regulations related to the preparation and presentation of information on SMEs' financial statements, as well as measures to handle violations. These legal provisions need to ensure the harmonization of the interests of the parties, between the information disclosure enterprise and the information users as well as between users of information.

7. Contribution of the thesis in theory and practice

The results of the thesis have theoretical and practical significance, specifically expressed in the following contributions:

In terms of theory:

- Firstly, the thesis systematizes and clarifies some issues about SMEs, SMEs financial reporting system and information needs on SMEs' financial statements. The thesis points out the factors affecting the provision of information on SMEs' financial statements.

- Secondly, the thesis generalizes the development process, the role of SMEs in Vietnam and the characteristics of Vietnamese SMEs affecting SMEs' financial statements.

In terms of practice:

- Firstly, the dissertation clarifies users' needs for information on SMEs' financial statements in two aspects: the role of financial statements compared to other information

sources in decision making of SDTT and the level Concerns of users on information on SMEs' Vietnamese financial statements.

- Secondly, the dissertation evaluates the legal regulations and the application of legal regulations to prepare and present the SMEs' financial statements.

- Thirdly, the thesis proposes 2 solutions to improve the financial statements system of Vietnamese SMEs, including: Solutions to legal regulations on SMEs' financial statements and solutions to the application of legal regulations on SMEs' financial statements and conditions to implement solutions from users, state, SMEs and other stakeholders.

8. Structure of the thesis

In addition to the Introduction, conclusions, the table of contents and Appendixes, the thesis includes three chapters:

Chapter 1: Theoretical foundations for the financial statements system of small and medium enterprises

Chapter 2: Current situation of financial statements system of small and medium enterprises in Vietnam

Chapter 3: Solutions to improve the financial statements system for small and medium enterprises in Vietnam

CHAPTER 1

THEORETICAL FOUNDATIONS FOR THE FINANCIAL STATEMENTS OF SMALL AND MEDIUM ENTERPRISES

1.1. Overview of small and medium enterprises and the demand for information on the financial statements of small and medium enterprises

1.1.1. The concept, role, characteristics of small and medium enterprises and the impacts on accounting of small and medium enterprises

In this section, the thesis presents and generalizes the approaches in the world to define SMEs, including SME classification standards of European Union, some countries in the world and Vietnam. After that, the thesis generalizes the role of SMEs in the process of economic growth of countries. Characteristics of SMEs are also analyzed so that the thesis raises the impact on SMEs' accounting.

1.1.2. Demand for information on financial statements of small and medium enterprises

1.1.2.1. Demand for information on financial statements of small and medium enterprises

Financial statements prepared by enterprises, including SMEs are basically aimed at providing useful information to users. However, the objects using SMEs' accounting information are often different from large enterprises. Therefore, the determination of users and the purpose of using financial statements becomes very

important, especially when developing or simplifying financial statements standards for SMEs.

- Managers: SMEs' financial statements are used by the management team to re-authenticate the results that have taken place and serve less for daily management objectives.

- Shareholders: Owners / shareholders who do not participate in management are important subjects to use SME reports because their economic benefits from this single investment are huge and they do not have many advantages to diversify investment types like other investors in the stock market

- The tax agency uses financial statements to assess gross profit, check director's salary, those reports are audited except not. Many small business users find reporting to be a legal obligation for tax purposes.

- Bank: is the most important use of SMEs financial statements because bank loans are one of the main loans of SMEs.

1.1.2.2. Requirements on quality of information on financial statements of small and medium enterprises

In this section, the thesis presents the characteristics of an information on financial statements that are considered as good as easy to understand, appropriate, honest presentation, comparable, validated and timely. When SMEs provide information on financial statements, it is necessary to pay attention to these characteristics to ensure that the information provided is useful and meets user demands.

1.2. Overview of financial statements in enterprises and factors affecting the financial statements of small and medium enterprises

1.2.1. Overview of financial statements in enterprises

The content of this section refers to the basic issues of financial statements in enterprises such as the purpose and effects of financial statements; elements and recording elements of financial statements; principles of preparing and presenting financial statements of enterprises

1.2.2. Legal provisions on financial reporting of small and medium enterprises

Legal provisions on financial statements are basically under the legal regulations on accounting. And whether large or small and medium-sized enterprises, their accounting is also subject to the general regulation of the legal system. In general, the national accounting framework usually includes the following elements:

Accounting Law: is the document with the highest legal value, studied and promulgated by the National Assembly (or equivalent legislature).

Guiding documents: In many countries, law enforcement agencies (governments and authorities) issue documents to guide and concretize the provisions of the Law.

System of accounting standards: is a system of accounting principles and methods. Accounting standards are established with the main functions of guiding accounting operations more than accounting management regulations. The research and

promulgating agency also has differences between countries with different legal systems.

Securities market regulations: Securities market management agencies also issued a number of regulations related to accounting, mainly on reporting and financial disclosure for companies listed securities on the exchanges.

1.2.3. Factors affecting the financial statements of small and medium enterprises

In addition to satisfying the minimum requirements legal provisions on the preparation and disclosure of information on financial statements, the provision of this information is affected by many other factors such as:

- Accounting qualifications of SMEs' financial reporters
- Costs and benefits of providing information on financial statements
- Enterprise size
- Needs of users of information on financial statements
- Accounting infrastructure

1.3. Financial statements system of small and medium enterprises

1.3.1. Statement of financial position

The Statement of financial position (SOFP) reflects generally the situation of assets, liabilities and equity of enterprises at a point of time.

a. Presentation of SOFP

SOFP must be presented separately into two main sections of information: assets, liabilities and owners' equity. These two sections can be presented vertically or horizontally on both sides.

b. Content of SOFP

Assets: includes indicators reflecting the entire value of existing assets of the enterprise at the time of preparing the statement and is divided into 2 categories including long-term assets and short-term assets.

The source of capital: includes indicators reflecting capital sources forming the types of assets of the enterprise at the time of preparing the statement and divided into 2 categories including liabilities and owners' equity.

1.3.2. Income statement

Income statement reflects a general situation of business performance in a business operation period. Therefore, the main factors in this statement are revenues, income and expenses, profit or loss

a. Presentation of Income statement

Based on the nature and functions of the various elements that constitute the revenues, income and costs as well as their materiality, the information on revenue, income, cost and profit is presented as separate indicators or aggregated indicators on the business income statement. But for other activities (activities that do not generate

revenue of the business), it is necessary to present a separate indicator from normal business activities to provide information for users

b. Content of Income statement

Income statement should include the following minimum items:

- Revenue
- Financial expenses
- Ownership in profit or loss of an associate or joint venture is accounted for by equity method
- Tax costs
- Profit before tax related to inactivation includes: pre-tax profit from liquidation of stopped assets and parts; Profit and loss due to recording at fair value after deducting the cost of selling or paying the debt related to the operation is no longer continuing.
- Profit or loss
- Ownership in other incomes of associates and joint ventures is accounted for by equity method.
- Each item of other consolidated income (OCI) is classified by nature.
- Total earnings

1.3.3. Cash flow statement

Statement of cash flow is a general financial report, reflecting the formation and use of money arising in the reporting period of enterprises.

a. Presentation of Cash flow statement

Cash flow statement is presented in 3 parts corresponding to 3 activities, in each part detailed into lines to reflect the criteria related to the formation and use of funds according to each type of activity. However, derived from the method of reporting, the section on "Cash flow from business activities" is structured with different criteria (by direct method or indirect method).

b. Content of cash flow statement

The content of Cash flow statement consists of the following 3 parts:

- Cash flow from business activities: including indicators reflecting the flow formation related to the main revenue generating activities of the enterprise.
- Cash flow from investment activities: is a cash flow related to the procurement, construction, sale, liquidation of long-term assets and other investments other than cash equivalents.
- Cash flow from financial activities: is a cash flow related to changes in the size and structure of equity and loans of enterprises.

1.3.4. Notes to the financial statements

a. Presentation of Notes

The Notes is presented in a systematic way. Each item in SOFP, Income statement, Cash flow statement should be referred with the relevant information in the Notes.

b. Content of the Notes

Notes to the financial statements include the following main contents:

- Operational characteristics of the enterprise
- Accounting details applied at the enterprise
- Details of some indicators in the financial statements
- Explain and explain some situation and results of production and business activities.
- Some general evaluation criteria of financial status and some business performance of enterprises.
- Overall assessment of indicators
- Recommendations

1.4. Financial reporting standards for small and medium enterprises in the world and lessons for Vietnam

1.4.1. Financial reporting standards for small and medium enterprises in the world

In this section, the dissertation raises some regulations on financial reporting of SMEs in the world such as IFRS for SMEs, Financial Reporting Standards for SMEs in the US, and Financial reporting standards for SMEs in some other countries like Singapore and China.

1.4.2. Lessons for Vietnam

From the experience of developing the Financial Statements of SMEs in the world, the application of IFRS for SME to Vietnamese SMEs is not appropriate as large Vietnamese enterprises are still applying Vietnamese accounting standards. not IASs / IFRSs. The requirement of full application of Vietnamese accounting standards is also unreasonable because the characteristics and qualifications of SMEs differ from large enterprises. Inadequate application of national accounting standards such as Vietnam is only temporary because cutting and truncating the contents of existing standards can lead to a reduction in systematic and consistency of accounting standards. and accounting policies applied in enterprises. Therefore, the choice trend in Vietnam is to issue a separate accounting standard for SMEs, based on IFRS for SMEs, to ensure the preparation of financial statements is simple but reliable.

Conclusion chapter 1

Thus, chapter 1 has clarified the theoretical issues of SMEs such as classification criteria, roles in the economy, SME characteristics and the impact on SMEs' accounting. The main contents of financial statements in enterprises such as the purpose of financial statements, the principles of preparing and presenting financial statements are also

summarized in this section. In addition, chapter 1 also considers the need to use information and information quality requirements on SMEs' financial statements. After that, the author studies and clarifies the financial statements system of SMEs, sheds light on the basic issues of SMEs' financial statements in some countries around the world and draws lessons for Vietnam.

CHAPTER 2

CURRENT SITUATION OF THE FINANCIAL STATEMENT SYSTEM OF SMALL AND MEDIUM ENTERPRISES IN VIETNAM

2.1. Overview of small and medium enterprises in Vietnam

2.1.1. Classification standard and development process of small and medium enterprises in Vietnam

2.1.1.1. Classification standard of small and medium enterprises in Vietnam

2.1.1.2. Development process of small and medium enterprises in Vietnam

After more than 10 years of development, SMEs have changed rapidly both in quality and quantity. According to the "Economic Census of 2017" results of the General Statistics Office (2018), in 2017, the number of SMEs was 507,860, accounting for 98% of the total number of enterprises in the whole country, increased by 52.1% compared to January 1, 2012. By the end of 2018, there were nearly 250 SMEs listed on all 3 Vietnamese stock exchanges, accounting for about 15% of the total listed companies (nearly 1,600 enterprises) and accounting for 0.04% of SMEs.

In the context of developing a socialist-oriented market economy, the industrialization and modernization of the country is in the first stage, the maintenance and development of many economic sectors, encouraging and Strong development of small and medium enterprises is the right and extremely important strategic direction. It is not only in accordance with objective laws and international integration trends but also brings long-term benefits to the country.

2.1.2. The role of small and medium enterprises in Vietnam

SMEs contribute about 45% of GDP, 31% of the total budget revenue and about 35% of the business community's investment in general and contribute nearly 50% to the annual national economic growth rate.

SMEs create a large number of jobs for the economy. The number of employees working for SMEs accounted for 29.4% in 2000 but this number has rapidly increased to more than 44% in 2017, attracting more than 11 million jobs (General Statistics Office, 2018).

SMEs promote competition in the economy.

SMEs contribute to improving income for workers. If the average annual income of employees is about 20 million for small businesses and nearly 30 million for medium enterprises, by 2014 this figure has increased to nearly 70 million for small businesses and nearly 80 million for medium businesses (VCCI, 2015)

SMEs play an important role in economic restructuring.

2.1.3. Characteristics of small and medium enterprises in Vietnam affect the financial statements of small and medium enterprises

SMEs in the world in general and SMEs in Vietnam in particular have many unique characteristics, which are different from large-scale enterprises and are completely not scaled-down versions of large enterprises. These characteristics have a certain influence on SMEs' financial statements system as follows:

Firstly, SMEs in Vietnam are not usually public enterprises. This explains why Vietnam's SMEs' financial system is simpler than that of large enterprises. However, in recent times, Vietnam's stock market has made certain developments, investors are also becoming one of the important objects using SMEs' financial statements. Therefore, many SMEs have voluntarily selected legal regulations applicable to large enterprises

Secondly, the business sector of SMEs often focuses on the main business lines. Complex economic and financial relations rarely occur. Therefore, SMEs in Vietnam only fully apply 7 common accounting standards, apply incomplete 12 accounting standards and do not apply 7 standards because they do not arise or are too complicated for SMEs. Therefore, the targets on SMEs' financial statements are much simpler than the financial statements of large enterprises.

Thirdly, due to limited resources and requirements for accounting work, investment in equipment and human resources for accounting work in SMEs has many limitations, leading to quality. The amount of information on financial statements provided to users is not high.

2.2. The demand of information users on the financial statements of small and medium enterprises and the level of satisfying demand

2.2.1. The survey of information demand in financial statements of small and medium enterprises in Vietnam

2.2.1.1. The demand to use information in the financial statements of commercial banks

a. The role of financial reporting compared to other information sources

6/7 interviewed credit officers said that factors such as "prestige of enterprises and owners of enterprises", "financial situation", "value of collateral" are the main factors affecting the Bank's lending decision. 5 out of 7 respondents said that the financial statement is a required procedure for the bank to make a loan decision but is not the most important source of information because of the transparency of the information in the report.

Therefore, when requesting the ranking of information that the Bank is interested in, the information on the Financial Statements is ranked 3rd with information on capital use plans, following information on collateral assets and information on prestige of the business as well as the reputation of the owner.

b. The trends of using financial statements for making bank lending decisions

The trend of using financial statements in the future when the bank make lending decisions is inevitable by the following reasons:

Firstly, handling collateral is the last method of banks in order to deal with bad debts because of court-related troubles and asset valuation.

Secondly, according to the current development trend of the stock market, enterprises that want to be listed on the stock market to raise capital from investors will have to complete their financial statements in a more transparent and reliable way.

2.2.1.2. The demands of investors on using financial statements' information

Depending on the selection of investment methods, investors affirmed that they are interested in different issues of the business. If the investment is based on the basic factor analysis, the health of the listed company is reflected in the financial statements, the business plan of the enterprise, the analysis report of the securities companies are important factors. 2/5 interviewees found that the financial statements of listed companies are very important sources of information in making decisions relating to buy, sell and hold stocks in Vietnam stock market. However, not many people (3/5) believe that the financial statements of enterprises are often announced slowly so it is more suitable for long-term decisions. On the other hand, the transparency of the information on the reports also needs to be reviewed.

2.2.1.3. The demand for using information in the financial statements of tax authorities

Tax authorities are aware of the motivations of SMEs' tax but they believe that financial statements are part of the information that will be used to check corporate income tax returns. They often use the SOFP and the income statement. This is useful information that acts as an initial source of information for the tax authorities

In the set of risk assessment criteria for tax inspection, the General Department of Taxation presents 5 criteria groups. In which, the group of criteria for assessing the financial situation of enterprises based on the SOFP and income statement are 1 of 5 factors contributing to the risk assessment for enterprise tax inspection.

2.2.2. Survey on the users' interest level of the information in financial statements of the small and medium enterprises in Vietnam

2.2.2.1. The level of interest in each financial report

a. Results from semi-structured interviews

➤ Target users are commercial banks

Most credit officers pointed out that the two types of reports are financial statements and income statements are relatively important. Ordinary statement of cash flow is not often focused by banks. With the notes to financial statement, most credit officers do not use and often check the detailed a number of important accounts which submitted by enterprises to them.

➤ Target users are investors

Investors assess the SOFP and the financial statement are the most important. The notes to the financial statements are also evaluated relatively high. The impact of cash flow statement to investors' decisions depends on the perception of investors, individual investors or institutional investors.

➤ *Users are tax authorities*

With the question “which report are the most important one and why”, all the tax authorities agree that financial statement and SOFP are important . The comparison and analysis of the initial index are also based on the data on these two reports.

b. Results from the survey by questionnaire

In addition to semi-structure interviewing users, the dissertation also carried out a large-scale survey to draw conclusions about the demand of users for information on SMEs' financial statements.

Table 2.2: User's interest level in each SMEs financial statement

	C3.1	C3.2	C3.3	C3.4
N Valid	341	341	341	341
Missing	0	0	0	0
Mean	3.55	3.78	3.32	3.49
Std. Deviation	1.489	1.330	1.417	1.372

(Source: author processed data from SPSS 22 software)

From the survey results, the users highly appreciate the role of the financial statements and income statement results with mean score = 3.55 with the standardized financial statements and mean = 3.78 with the income statement (close to the scale of 4 in the scale of Likert 1-5) . The financial statement are assessed by the user as relatively important with mean score of 3.32. The notes to financial statements are also assessed by users at a high level (mean = 3.49), which is approximately equal to the financial statements and higher than the statement of cash flow.

2.2.2.2. The level of interest in specific indicators on financial statements

a. Results from semi-structured interviews

➤ *Target users are commercial banks*

In the income statement, banks mainly pay attention to the revenue target. For the financial statements, credit officers said that they only care about key indicators in the table, which accounting for 10% of total assets / capital or more. When asked about Financial Statements, credit officers are interested in information explaining receivables and payables.

➤ *Target users are investors*

The level of interest of investors to different information in the financial statements is different. With income statement, investors pay special attention to revenue and profit to determine gross profit margin. With the financial statement, depending on the business line, investors are interested in different information. In the cash flow statement, the cash flow from business activities is the main and regular cash flow of the business. With the notes to the Financial Statements, investors appreciate businesses with clear and complete notes to financial statements. Financial statements with many "blind items" will be a minus point unless investment decisions are considered.

➤ Users are tax authorities

For business income statement and the notes to income statements, revenue and expense figures will help tax officials make initial judgments and compare them with the corporate income tax return. For the financial statement, tax officials are interested in the first item of deductible VAT, Taxes and other amounts receivable from the State and Taxes and other payable amounts to the State. Tax officials do not use a lot of CCs.

b. Results from the survey by questionnaire

Analysis results from SPSS 22 software on the survey sample show that the level of interest of users to each information on SMEs financial statements is different.

Group of information with great interest ($3.5 < \text{mean} \leq 4$)

Group of information with a relatively high level of interest ($3 < \text{mean} \leq 3.5$)

Group of information with average interest ($2.8 < \text{mean} \leq 3.0$)

2.2.3. The level of demand for information in the financial statements of small and medium enterprises

Most of them confirmed that financial statements have not met or only met part of users demands. They believe that the financial statements do not provide sufficient information, and especially do not reflect honestly and reasonably the business situation of the enterprise.

Besides, the current law do not require SMEs to make the cashflow statement. For those enterprises that voluntarily to make the report, the two methods can be selected directly and indirectly. However, the results of surveying the actual demands of users of the information indicate that the cash flow statement of the establishment of the direct method will be more useful.

Table 2.3: Which of the following measures will be more useful for users?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Direct method	218	63.9	63.9	63.9
	Ind – direct method	123	36.1	36.1	100.0
	Total	341	100.0	100.0	

(Source: author processed data from SPSS 22 software)

In addition, according to IFRS for SME, SMEs are required to set up an equity changing report, but according to Vietnam's accounting regime, a set of financial statements does not include this report. In the scope of this thesis research, to assess the level of meeting the information demand in SMEs financial statements, the author also understands the demand of this reports type. Nearly 80% of respondents agree that the change of equity is necessary for users.

Table 2.4: Demand for information on changing equity of SMEs

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Co	271	79.4	79.4	79.4
Khong	70	20.6	20.6	100.0
Total	341	100.0	100.0	

(Source: author processed data from SPSS 22 software)

Thus, from the above research results, it can be seen that the level of satisfying the information demands of users is not high partly due to issues of legal regulations. In addition, users also pay special attention to the quality of information affected by the business itself.

Financial statements have been "processed" and "cooked" by enterprises, so they may not reflect the actual situation of enterprises. In particular, the information on the Financial Statements does not meet the demand of users. "Most businesses set up financial statements with no interest in the effective information."

2.3. Current status of financial reporting system of small and medium enterprises in Vietnam

2.3.1. Legal provisions on financial statements of small and medium-sized enterprises in Vietnam

2.3.1.1. Current legal regulations on financial reporting of small and medium enterprises in Vietnam

The Accounting Law is the document on accounting with the highest legal value, promulgated by the National Assembly. The latest accounting law issued by the National Assembly is the 2015 Accounting Law on November 20, 2015 and takes effect from January 1, 2017 to replace the Accounting Law 2003.

Following the Accounting Law, Vietnamese Accounting Standards are the regulations and guidelines for the most basic and general principles, contents, methods and accounting procedures, as a basis for accounting and financial statements to achieve an honest, reasonable and objective assessment of the financial status and business results of the enterprise.

On August 26, 2016, the Ministry of Finance issued Circular 133/2016 / TT-BTC guiding SMEs accounting regime to replace Decision 48/2006 / QD-BTC dated September 30, 2006 and take effect from 1/1/2017.

2.3.1.2. Legal regulations applicable to SMEs to prepare and present financial statements

The survey with a large questionnaire shows the proportion of SMEs following the guidance of Circular 133 / Decision 48 and Circular 200 is equivalent. The rate of SMEs making financial statements with reference to Vietnamese accounting standards is quite low, only 11.5%.

Table 2.6: Legal regulations applicable at the unit

	Quy dinh	
	Quality	Rate
Circular 133 / Decision 48	204	42.6
Circular 200/2014/TT-BTC	220	45.9
Reference to Vietnamese accounting standards	55	11.5
Others	0	0
Total	479	100.0

(Source: author processed data from SPSS 22 software)

Since then, it has been shown that accounting standards are still not popular and not really useful for SMEs, so the compliance and application of accounting standards in practice is still limited.

2.3.2. Current status of financial reporting system of small and medium enterprises in Vietnam

2.3.2.1. Survey on the importance of each financial report from small and medium enterprises and compare with the level of interest from users

When being asked about the "importance of each financial statement in SMEs' financial statements system, 5/7 chief accountants all confirmed the role of financial statements and income statement. The statement of cash flow and Notes to the financial statements have not been highly evaluated and the accountant has not focused on making.

Survey results with a large questionnaire also showed similar results.

Table 2.8: Evaluation of the importance of each financial statement from SMEs

		C4.1	C4.2	C4.3	C4.4
N	Valid	323	323	323	323
	Missing	0	0	0	0
Mean		3.65	3.82	2.92	3.04
Std. Deviation		1.091	1.154	1.236	1.045

(Source: author processed data from SPSS 22 software)

Compared to the level of interest of users for information in each financial statement, some similarities and differences can be seen.

Table 2.9: Comparison of the importance of each financial statement between users and information providers

	Financial Sta.	Income Sta.	Sta. of cash flow	Notes
Users	3.55	3.78	3.32	3.49
Providers	3.65	3.82	2.92	3.04

Source: author summarized)

2.3.2.2. Current situation of applying legal regulations on the preparation and presentation of Vietnamese SMEs financial statements

a. In terms of the number of financial statements

According to a typical sample survey of 10 medium enterprises and 10 small businesses, the results show that 20/20 businesses set up financial statements and business registration results in accordance with current regulations.

Out of a total of 20 Vietnamese SMEs financial statements surveyed by the author, in addition to the 6 listed enterprises on the stock market, which are required to set up the required BCC, there are 6/14 SMEs voluntarily setting up the FCs (above rates). 40%). 15 out of 20 enterprises set up financial statements, 5 out of 20 enterprises did not set up and the level of detail of this type of report in different enterprises was very different.

b. Presentation of financial statements

c. In terms of the method of preparing financial statements

20/20 SMEs in the survey sample follow the method of setting up specific targets guided in the accounting regime to set up the annual financial statements and business performance statements. Particularly for the quality control measures, among the 6 SMEs setting up the BCLC, up to 4 enterprises use the direct method.

d. In terms of financial statements

i. Issues related to accounting estimation

15 out of 20 enterprises did not make provision for devaluation of inventories, in which there were enterprises operating in the field where inventories were more likely to be reduced due to fad, overdue and damaged. such as interior decoration, seafood. Some enterprises set up provision for devaluation of inventories, then determine the level of provision is not correct, leading to the excess or lack of provision. Some businesses change the depreciation method of fixed assets used in enterprises.

ii. Issues related to item classification

Some businesses are still confused and flawed in setting the target of "Money and cash equivalents" on the Financial Statements. Some items on the income statement recorded incorrectly. There are enterprises still confused in recording revenue, instead of recording revenue under VAS 14- "Revenue and other income", they recorded according to VAS 15- "Construction contract". Even, interest expense is not accounted properly; Enterprise management costs are not fully transferred into the business results report, but "hanging" a part of the financial statements.

In the process of setting up the statement of cashflow, many businesses are still confused and make many mistakes such as the interest on non-term deposit received in the period, many businesses record it as cash flow from investment activities. (instead of recognizing as cash flow from business operations)

iii. Issues related to Notes to Financial Statements

In the process of examining the content and method of setting up SMEs' Notes to Financial Statements, the author found there are some issues related to:

- Inventory accounting method
- Fixed asset depreciation method
- Principle of recognizing borrowing costs
- Principles and methods of recognizing payable provisions
- Principles and methods of recording revenue and other incomes
- Additional information about Money
- Additional information on Inventories

Additional information on the situation of increasing and decreasing tangible fixed assets

- Additional information on the situation of increasing and decreasing intangible fixed assets

- Additional information about the situation of increasing and decreasing investments in other units

- Additional information on the situation of increasing and decreasing equity
- Additional information on Revenue and other income
- Additional information on business cost by factor

2.4. Evaluate the current status of the financial reporting system of small and medium enterprises in Vietnam

2.4.1. Achievements

2.4.1.1. Legal provisions on financial reporting of small and medium enterprises in Vietnam

2.4.1.2. Applying legal regulations on financial reporting of small and medium enterprises in Vietnam

- About the number of financial statements
- About the presentation of financial statements
- Regarding the method of preparing financial statements
- Regarding the content of financial statements

2.4.2. Current limitations and cause of limitations

2.4.2.1. Legal provisions on financial reporting of small and medium enterprises

a. About accounting standards for financial statements

- Binding accounting rules in some predetermined account systems and outlined accounting steps for each specific transaction

- The update of VAS compared to IAS / IFRS is not high

- There is only one system of accounting standards applicable to both large and SMEs. Although SMEs are exempted from certain standards, however, the scope of many standards is still quite wide, but the business and information needs of SMEs are still limited, so the application of standards is not feasible and carries High efficiency

b. Regarding accounting regime for small and medium enterprises

- For statement of cash flow: Vietnam only encourages enterprises to set up the statement of cash flow but not required. Businesses that establish the statement of cashflow can choose to set up directly or indirectly, which is not really suitable for user needs.

- For the Financial Statements: there is no general standard specifying the accuracy and clarity of information on the Financial Statements

- For the Report of Change of Equity: Vietnam does not stipulate that SMEs must present separate Statement of Change of Equity such as IFRS for SMEs, but only required in the Notes to Financial Statements

2.4.2.2. Applying legal regulations on financial reporting of small and medium enterprises in Vietnam

- In terms of quantity: 5 out of 20 enterprises did not set up financial statements, most SMEs did not set up the statement of cash flow

- Regarding the method of making up: 2/6 enterprises voluntarily set up the statement of cash flow still established by the indirect method

- About content

+ Issues related to accounting estimates

+ Issues related to item classification

+ Issues related to Notes to Financial Statements

2.4.2.3. The cause of the limitations

Accountants in SMEs are basically newly recruited, young in terms of job age. The qualifications and requirements of business managers are not high, not yet aware of the role of information on financial statements. In addition, the reality of business activities of enterprises in Vietnam is still quite simple, many complex activities mentioned in accounting standards have not yet arisen in the practice of enterprises or arise infrequently. Therefore, these issues are less concerned by businesses. In addition to objective reasons that lead to unintentional errors, the information on the financial statements is also affected quite a lot by the subjective intention of business managers, deliberately cheating to present financial statements for the purpose of each business career

Conclusion chapter 2

In chapter 2, three main groups of issues are legal provisions related to SMEs' financial statements, the demand to use information on SMEs' financial statements and the application of legal regulations to prepare and present SMEs' financial statements, consider and learn in close relationships with each other. Based on the actual information obtained, the author evaluated the advantages and limitations. This is a premise for the author to propose measures to perfect the financial statements system of Vietnamese SMEs in Chapter 3.

CHAPTER 3

SOLUTION TO IMPROVE THE SYSTEM OF THE FINANCIAL STATEMENT OF VIETNAMESE SMALL AND MEDIUM ENTERPRISES

3.1. Small and medium enterprise development strategy in Vietnam

3.2. Basic requirements and principles of completing financial statements of small and medium enterprises in Vietnam

3.2.1. Requirements to improve financial statements of small and medium enterprises in Vietnam

3.2.2. The basic principle of completing the financial reporting system of Vietnamese small and medium enterprises

3.3. Solution to improve the financial statements system of Vietnamese small and medium enterprises

3.3.1. Solutions for legal regulations on financial statements of small and medium enterprises

3.3.1.1. Accounting standards for small and medium enterprises

a. Short-term solution

In the short term, it is necessary to quickly carry out the work that the Ministry of Finance is implementing, which is to review the promulgated standards for enterprises of all sectors and sizes in the economy to make corrections. and supplement in accordance with business practice and update according to the content of international accounting standards, the current version is applied as well as the trend of change in the future.

b. Long-term solution

Regarding the content of the new set of accounting standards for SMEs, although basically based on IFRS for SMEs issued by the International Accounting Standards Board, it is necessary to study carefully because in 35 parts, the content Some parts (such as sections 9, 19, 24, 27, 31, 34, ...) are not really necessary to be promulgated to apply immediately in Vietnam.

With the content promulgated, the thesis said that should follow the strategy of the Ministry of Finance applied to the accounting standards for businesses today, which is close to international standards, almost transliterated from international standards, only edit and modify some contents that are inconsistent with the conditions and characteristics of Vietnamese SMEs.

3.3.1.2. Accounting regime for small and medium enterprises

a. About the structure of the system of financial statements

The thesis proposes compulsory financial statements for SMEs to include

- Accounting balance sheet
- Income statement
- Statement of cash flow (prepared by direct method)

- Notes to the financial statements
- Report the change of equity (separately or combined on the BOM)
- b. Regarding the specific provisions on each financial report*
- Report the financial situation
- + Regarding the issue of provision for asset price decrease
- + For inventory there is no transaction on the market
- + For financial investments lacking actual transactions at the date of financial statements
- Statement of cash flow
- + Clarify the concepts used in the preparation and understanding of statement of cashflow such as money, cash equivalents, deposits, classification of cash flow, cash flow from business activities
- + Clarify the process of setting up the statment of cash flow by direct method.
- Notes to the financial statements
- + Giving general regulations on accuracy and clarity in the notes to Financial Statements
- + Some important items do not have regulations to supplement information: such as customer receivables, short-term loans and debts, long-term loans and debts, trade payables, cost of goods sold, borrowing costs

3.3.2. Solutions to the application of legal regulations on the preparation and presentation of financial statements of small and medium enterprises

3.3.2.1. About the number of financial statements

3.3.2.2. About method of making financial statements

3.3.2.3. Regarding the content of financial statements

a. Issues related to accounting estimation

- Provision for devaluation of inventories

In order to ensure that the information in the financial statements is presented truthfully and reasonably, businesses need to determine exactly the object of provision and the level of provision

- *Determine the appropriate depreciation rate*

b. Issues related to item classification

- Cash equivalents
- The recognition and presentation of some expense items in the income statement
- Revenue recognition in construction contracts
- Items on the statment of cashfow

c. Issues related to the note to Financial Statements

When preparing the note to Financial Statements, the preparer must use a brief, clear, understandable text and agree with the figures on the financial statements. Accounting standards, regimes and accounting policies must be applied uniformly throughout the accounting year. The explanation should describe the reasons and effects if there is a change in these contents. The notes to financial statements must present the following information:

- New transactions, events or activities compared with the latest financial statements;
- Changes in accounting policies and the effects of such changes;
- The material information that has not been presented in the previous interim financial statements and the presentation of this information in the financial statement disclosures must be based on the cumulative beginning of the year until the reporting date. current interim finance

3.4. Conditions for implementing the solution

The thesis provides necessary conditions to complete the financial statements system of SMEs, following the 4-group approach

- On the State side
- About the User side of the information
- On the SME side
- About the stakeholders

Conclusion chapter 3

Chapter 3 summarizes the main contents of the requirements and basic principles of improving the financial statements system of SMEs, proposes a solution group to improve SMEs' financial statements system in both the legal framework, and applying the legal framework to meet user needs. In order for the proposed solutions to be well implemented in practice, there should be changes in the legal regulations of the State, user perceptions, support of stakeholders, and officials. The most important thing is the change from Vietnamese SMEs themselves.

CONCLUSION

The health or financial position of SMEs plays an important role in the overall health of the economy, leading to the increasing emphasis on SMEs' financial reporting requirements. In Vietnam, the state has separate regulations on accounting and financial statements for SMEs, but these regulations still do not fully meet the requirements of current economic development towards integration, thus the financial statements of the Vietnamese SMEs have not yet promoted its inherent role, which has an effect on investment efficiency and the trust of the subjects using accounting information. Therefore, perfecting the financial statements system of SMEs has become an indispensable requirement, contributing to promoting the development process of SMEs in particular and Vietnam's economy in general. From that urgent requirement, the author has studied and selected the thesis topic as "Perfecting the financial statements system of SMEs in Vietnam".

Through the research process, the thesis has achieved the following results:

The dissertation has systematized and clarified the theoretical issues of the type of SMEs in general, analyzed the nature, considered the demand and factors affecting the provision of information on the financial statements of SMEs. In particular, the dissertation has clarified the theory of usefulness of information, the theory of stakeholders, signal theory and representation theory to guide the survey and offer perfect solutions. SMEs financial reporting system. At the same time, study and clarify SMEs' financial statements in some countries around the world and draw lessons for Vietnam.

The thesis presents an overview of the characteristics of SMEs in Vietnam, clarifying the needs of users of information on SMEs' financial statements. In terms of providing information, the thesis clarifies the legal provisions on financial statements of this type of enterprise as well as the status of applying legal regulations to prepare and present the SMEs' financial statements. Thereby, the thesis assesses the advantages as well as limitations on the two groups of issues, including the legal framework, and the application of the legal framework to provide financial statements to users of SMEs.

The thesis has clarified the requirements, principles and contents to improve the financial statements system of Vietnamese SMEs, and raised the necessary conditions to implement the solution.

The content presented above has basically met the research objectives set out. The thesis contributes to improving the financial statements system of Vietnamese SMEs from a theoretical and practical perspective, to provide more useful information for users. However, due to limited time of research, the thesis content is difficult to avoid shortcomings. The author hopes to receive the guidance and valuable comments from scientists and researchers to make the thesis more complete.

Thank you very much!