

Compliance with IFRS or International Financial Reporting Standards (IFRSs) has come into force in Sri Lanka and in other developed and developing countries around the globe. Many large entities having public accountability are complying with the new Sri Lanka Accounting Standards (SLFRS), which are in line with IFRS. But are these general accounting standards which have been developed with listed entities keeping complex user groups in mind, suitable for SMEs?

Arjuna Herath, President, CA Sri Lanka, comments, *“That there is a specific standard applicable to SMEs. However, some of these companies considering compliance with the SME standard or those in the process of adopting the standard have cited few technical accounting difficulties. Many of these difficulties arise out of the fact some of the principles in the standards do not apply to specific peculiar context or circumstances. However, this need not deter compliance as the institute will be able to provide a guidelines to deal with these accounting technical difficulties and the benefits that will accrue on compliance far outweigh arguments against. A comprehensive set of internationally accepted financial accounts can prove to be a vital springboard for SMEs to access finance and attract local and foreign investment. It is not a question of when, but how Sri Lanka’s SMEs will leverage on SLFRS for SMEs to benefit from them.”*

Reduces Barriers to Access to Finance and Compliance Cost through Simplification

One of the biggest challenges SMEs face is in the access to finance. The main reason for this is financiers, whether banks or other financial institutions, have difficulties in relying on the information provided by the financial statements due to the lack of a clear and coherent accounting principle application. The IFRS for SME is a globally recognized standard, and when applied correctly will allow financiers to better assess the company’s performance and risk, as well as give better confidence regarding the company and in reducing barriers in access to finance. This accounting standard specifically created for SMEs creates a framework for a more clear and comprehensive comparison of entities that apply the standard.

Herath went on to state, *“The SME sector in Sri Lanka has been identified as the backbone of the nation’s economy, and in the final analysis, a common set of accounting standards would no doubt strengthen the sector’s profile in the long term. Given that the local standard is based on its IFRS equivalent, local SMEs would be able to establish a comparable set of financial statements with SMEs in the world, where over 80 countries have already adopted this international standard.”* In Asia, the SME sectors in Bangladesh,

Bhutan, Cambodia, Fiji, Hong Kong, Myanmar, Singapore, Sri Lanka have adopted the IFRS for SMEs.

Altering the New Standard to Suit the Sri Lankan Context

In 2009, the International Accounting Standards Board (IASB) introduced stand-alone accounting standards for SMEs – International Financial Reporting Standards (IFRS) for SMEs. In Sri Lanka, CA Sri Lanka is the sole authority that formulates Accounting and Auditing Standards. The Institute of Chartered Accountants of Sri Lanka too, having identified that the general set of Accounting Standards were not applicable to all entities, especially SMEs, created SLFRS for SME, a standard that can be used by small and medium sized enterprises, in 2012. SLFRS for SMEs is simplified to fit the reporting needs of SMEs, keeping in mind the skills they have and the level of costs they can afford. Based purely on the IFRS for SMEs, it aims to bring globally accepted reporting standards, specifically suited for SMEs. From 2012, some SMEs in Sri Lanka adopted the SLFRS for SMEs. Since then, new amendments were recently announced by IASB to the IFRS for SMEs on which SLFRS for SMEs was developed. However these proposed amendments require analysis and debate amongst the SME sector to ensure that the sector articulates its financial reporting requirements and that these amendments will indeed simplify rather than further complicate the standard.

But whenever the IASB releases a standard, CA Sri Lanka exposes for public comment all IASB drafts and draft interpretations. There is no doubt that a groundswell of opinion on the proposed amendments is needed post haste. One of the major obstacles in adopting these proposed amendments as is will be the 'no revaluation' of property, plant and equipment clause. This will prove to be a deterrent for SMEs as many rely on this annual revaluation of assets to strengthen their balance sheet.

Aruna Alwis, Chief Executive Officer, CA Sri Lanka, adds, *"Gearing up for compliance with the new accounting standards can prove to be a complex task, unless the requirements of the standard have been understood and eligibility determined, in addition to a clear blueprint for tackling the transition phase. CA Sri Lanka is offering a vital opportunity for the financial and accounting fraternity to speak their minds and ensure that eventually Sri Lanka has in place an accounting standard that makes reporting simple."*

Getting Your Voice Heard

SME Friendly Accounting Standard Contemplated

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Towards this end, CA Sri Lanka conducts CFO round table discussions to identify the impact of the proposed standard in Sri Lanka. Accordingly, a “Round Table Discussion on Proposed Amendments & Emerging Issues for SMEs” will be held at CA Sri Lanka on 3rd March 2014 commencing at 4.00 pm These review sessions are invaluable for CFOs, auditors, accountants and finance divisions of SMEs as here they are being provided with an opportunity to voice any reservations they may have on specific amendments. More importantly, their observations and concerns will be conveyed to the IASB, which could very well alter the amendments to suit the SME sector requirements. This is a golden opportunity for thought leaders in the financial and accounting professions in the country and should be optimized to benefit the SME sector so that it can continue its strong growth trajectory.

You may contact Ms. Dale (011-2352081, events@casrilanka.com) for further information of the above Round Table Discussion.