

Preliminary Views on Accounting Standards for Small and Medium – Sized Entities

Issue 1

Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

Question 1a) Do you agree that full IFRSs should be considered suitable for all entities?
If not, why not?

Response

No. Full IFRSs should not be considered suitable for all entities. Entities can be classified into small, medium, specified business entities and publicly accountable entities. The user needs of the financial statements of these entities also differ. Therefore, it is not appropriate to adopt the same set of standards for all types of entities. If adopted the statements may not give the relevant information to the users of those financial information.

Question 1b) Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?

Response

Yes.

Question 1c) Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this??

Response

Yes.

Do you also agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

Response

Yes, as those entities cannot come under the criteria of IFRSs standard for SMEs.

Issue 2

What should be the objectives of a set of financial reporting standards for SMEs?

Question 2

Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?

Response

The objectives stated in the preliminary view 2 could be considered as appropriate.

However, when compared to the objectives stated in the Sri Lanka Accounting Standards for Smaller Enterprises, the objectives stated by the IASB are much wider.

The objective of Sri Lanka Accounting Standards for Smaller Enterprises is to ensure that reporting entities falling within its scope provide in their financial statements information about the financial position, performance and cash flow of the entity that is useful to users in assessing the stewardship of management and for making economic decisions, recognizing that the balance between users' needs in respect of stewardship and economic decision-making for smaller enterprises is different from that for other reporting entities.

Issue 3

For which entities would IASB Standards for SMEs be intended?

Question 3a) Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative 'size tests'? If not, why not, and how would an appropriate size test be developed?

Response

No. It could be more appropriate to have 'size test' region wise. A range could be set for each region in order to ascertain the applicability of the standard. For example, the South East Asian region can have a range to decide on the application of the standard

Question 3b) Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

Response

No. The Board should develop standards separately for small, medium, specified business enterprises and publicly accountable entities irrespective of the size as the requirement varies among the users of the financial statement of these entities.

Question 3c) Do the two principles in preliminary view 3.2 public accountability principle combined with the presumptive indicators of ‘public accountability’ in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

Response

Yes.

Question 3d) Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity’s preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

Response

No. The individual shareholders cannot change the standards followed by the company, but can request the management for the additional information which are for better economic decision making coming within the framework of this standard to be disclosed. However, in reference to Sri Lanka Standards for Smaller Enterprises, reporting entities that are entitled to adopt the SLASSE, but choose not to do so should apply other than Sri Lankan Accounting Standards when preparing financial statements intended to give a true and fair view of the financial position and profit or loss of the entity.

Issue 4

If IASB Standards for SMEs do not address particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

Question 4) Do you agree that if IASB Standard for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve the particular issue? If not, why not, and what alternative would you propose?

Response

No. It cannot look for the appropriate IFRS to resolve the issue. If so the consistency in following these accounting standards will be questionable. The alternative is to take the issue to the Urgent Issue Task Force or International Accounting Standards Committee or back to IASB for reconsideration