

# How Will New SME Accounting Standards Help Management Improve Performance?

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**David Raggay B.Sc., M.Sc., C.A**  
**david.raggay@ifrs-consultants.com**

# Financial Statements

.. are expected to provide information that is:

- Understandable
- Relevant
- Reliable
  - Faithful representation
  - Neutrality
  - Completeness
  - Substance over form
  - Prudence
- Comparable



# Accounting information

Trend towards international convergence  
around International Financial Reporting  
Standards (IFRS)



# Some Benefits of Convergence

- Efficient use of resources globally
- Foreign subsidiaries
- Stock exchanges listing requirements
- Easier for accountants, auditors etc
- Developing countries
- Taxing MNCs
- Encourage MNCs to apply common policies

# International Convergence

Major problems (Wong Report, Sept. 2004):

- Understanding the meaning of International Convergence
- Translation of International Standards
- Complexity and structure of International Standards



# International Convergence

Major problems (Wong Report, Sept. 2004)  
*continued:*

- Frequency, volume and complexity of Changes to International standards
- Challenges for SMEs and SMPs
- Potential Knowledge Shortfall and
- Implications of Endorsement of IFRS

# Financial Reporting In The Caribbean

- IFRSs are the required Reporting Standards for those Caribbean countries whose institutes are members of the Institute of Chartered Accountants of the Caribbean



# Financial Reporting In The Caribbean

- IFRS have been created largely for transnational enterprises operating from developed-country bases
- It is difficult to apply them to emerging/developing countries and even more difficult to do so to SMEs there



# Financial Reporting In The Caribbean

- Illiquid capital markets
  - Equities
  - Bonds
- Difficulty in estimating fair values



# Financial Reporting In The Caribbean

- Complex, time-consuming, excessive disclosure
- Compliance Issues
  - Inappropriate application of standards (IAS 16, 39)
  - Inadequate or inappropriate disclosure (IAS 12, 16, 19, 39)



# Why Address the Financial Reporting Needs of SMEs

Number of listed companies in formal stock exchanges

	Issuers Crosslisted	
– Bahamas	19	1
– Barbados	26	5
– Jamaica	46	4
– Trinidad and Tobago	33	8



# Financial Reporting Needs of SMEs

- Cost of capital
  - Listing requirements are not equivalent to Accounting requirements
  - SMEs typically have significant difficulties in accessing bank and trade credit
  - (FASB 1983 report)- costs of preparation sometimes exceed the benefits to be derived



# Financial Reporting Needs of SMEs

- Users and Uses
  - In the case of the SMEs, the public will rarely be a user
  - General-purpose financial statements will still be necessary



# Financial Reporting Needs of SMEs

- No major developed country uses full GAAP for SMEs

# The Great Divide

● Developing vs Developed

● Large Companies vs SMEs



# IASB SME Accounting Standards

- Simplify Recognition & Measurement
- Reduce Presentation & Disclosure requirements to manageable levels





# IASB SME Accounting Standards

- High quality reports
- Increased comparability
- More relevant information
- More timely information
- Less costly to produce



# IASB SME Accounting Standards

Should result in:

- Lower risk ( readily available, quality financials)
  - Lower cost of capital
- Facilitation of investment decisions
  
- More time to focus on the real issues – improving performance



# Thank You