

## **4. THE PROPOSED GUIDELINES BY ISAR: SOME COMMENTS**

Table 2 and 3 at the end of this report show the differences between the various differential frameworks in existence. As highlighted in the above discussion, the perspectives adopted are varied and there is no approach that is consistent. The comments on the ISAR guidelines collectively referred to as SMEGA are as follows:

### **4.1. LACK OF A CONCEPTUAL FRAMEWORK: GUIDELINE 1**

It is presumed that the guidance has been compiled after having regard to the various practices in other jurisdictions. However, the guidelines fail to articulate clearly the purpose of the financial statements prepared by a small business.

If one looks at the IASB framework, it is clear it is intended to provide information that is relevant and reliable for economic decision making by the investor. In the case of the small business who are the financial statements for? Clearly the content of the financial statements will need to reflect the user needs.

The guideline mentions stewardship and accountability. The paragraph 11 on page 3 is quite vague as to the users, is it owners and creditors and management? Paragraph 12 on objectives again is not very committed as to the objective. Is the objective inclusive of providing useful information for economic decision making as well as show results of management's stewardship of and accountability for resources entrusted to it? This is an area that requires much debate and consideration. The differential reporting framework hinges on this objective.

### **4.2 NOT COMPREHENSIVE ENOUGH**

In attempting to put together the guidelines, the coverage of the standards has been comprehensive. However, it would be useful to note the rationale as to why some items in the IASs are removed and what new information that is not required in IASs are included for each Guideline. Why were items like construction contracts not included? In some jurisdictions we note in Table 3 of this report, exemption is given in terms of construction contracts. It is not the intention in raising this point to request that exemptions be given in respect of construction contracts but only to demonstrate that the rationale is not clear.

In the case of Guideline 2, Cash Flow Statements, it is not clear why smaller enterprises are given an option to use either the direct method or indirect method. If the rationale of developing the guidelines is to ensure smaller businesses are not unnecessarily burdened with reporting obligations but at the same time to instil a sense of discipline in maintaining proper accounts in order to be able to fulfil reporting obligations imposed by the differential reporting regime, it would be expected that such smaller businesses be required to use the direct method as experience shows that this method provides more useful information.

Appendix 3 to SMEGA can be further strengthened by incorporating above comments.

### **4.3 A SUMMARY OF KEY ISSUES FOR EACH GUIDELINE IS VITAL**

A preface is recommended for each guideline which highlights how the standard differs from the extant IAS and the rationale for dropping some of the requirements prescribed in the extant IAS. This is actually provided in Appendix 3 of SMEGA, however, it leaves a number of questions unanswered.

The Guidelines play a pertinent role in the education of the preparers who are in most cases not professionally qualified accountants serving in the smaller businesses.

This will also go a long way in dispelling notions of second-class standards and educate the public to understand differential reporting. It will also be useful for trainers and educators in disseminating the application of differential rules. This will facilitate easier adoption by member states especially in jurisdictions where the technical expertise and exposure is lacking.

It is important that the Guidelines be able to speak for themselves. Clear and concise financial statements are ultimately what the user of a small enterprise requires but in order to be able to prepare one the small practitioner/ owner/ preparer need to be clear about the Guidelines.

### **4.4. CHOICE OF THE APPROACH: INTEGRAL OR DISTINCT?**

The guidelines did not dwell on why the choice was limited to the distinct approach. Perhaps considering the ad hoc nature of the guidance, it may have suited the purposes of the UNCTAD Guidelines to suggest the distinct approach but going forward it may be necessary to guide the nation states that the integral approach may be a better option as most other countries which debated this issue have discovered (for example, New Zealand, Canada, Hong Kong).

The above comments are based on the above discussion of the various countries' experiences.