

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) in its capacity as the sole accounting standards setting authority in the country has introduced a simplified financial reporting standard for the benefit of the Small and Medium-Sized entities in the country.

Small and Medium-Sized entities (SMEs) plays a critical role in a country's economy be it job creation, entrepreneurship or income generation. The reporting framework so far has been a general set of Accounting Standards to be used by all organizations. In the year 2011 CA Sri Lanka published the Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SLFRS for SMEs) with effect from 1 January 2012.

The *SLFRS for SMEs* is a self-contained Standard, incorporating accounting principles that are based on full SLFRSs but that have been simplified to suit the entities within its scope (known as SMEs). By removing some accounting treatments permitted under full SLFRSs, eliminating topics and disclosure requirements that are not generally relevant to SMEs, and simplifying requirements for recognition and measurement, the *SLFRS for SMEs* reduces the volume of accounting requirements applicable to SMEs by more than 90 per cent when compared with the full set of SLFRSs.

SLFRS for SMEs would be applicable for the entities that **do not have public accountability**; and

publish general purpose financial statements for external users

. Essentially, an entity is considered to have public accountability if its debt or equity instruments are publicly traded, or if it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients. Thus listed companies and regulated entities such as banks, insurance companies, leasing or factoring companies cannot apply this Standard.

The SLFRS for SMEs is a significantly reduced and simplified version of full SLFRS. Its objective and target is to meet the financial reporting users' needs and to ease the financial reporting burden for SMEs through a cost-benefit approach.

