

# Accounting information of cooperative rural banks in Sri Lanka

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## ABSTRACT

Many small financial institutions (SFIs) in developing countries make great effort to provide efficient services to the poorhouse holders. In Sri Lanka, Cooperative rural banks (CRBs), one of the formal SFIs in Sri Lanka, serve a large number of customers, deal with a large amount of funds and have substantial contributions to the rural financial sector during the last four decades. In recent literature, accounting information, integral part of the corporate governance mechanism has been highlighted in regulatory and supervisory framework of SFIs (Bushman and Smith 2001; Mullineux 2006; Cayan 2007). However, there is a doubt of providing relevant and sufficient information to the stakeholders in SFIs in developing countries due to not maintaining appropriate accounting practices. In Sri Lanka, recent collapses of many financial institutions also signal that they do not provide relevant and sufficient information to their stakeholders.

This paper seeks to assess the accounting practices of CRBs in Sri Lanka. In the absence of accepted standards for the preparation and presentation of financial statements of SFIs in Sri Lanka, the accounting practices of CRBs were assessed, by using generally accepted accounting principles for financial institutions and international guidelines for Microfinance institutions. Those are considered as the most appropriate benchmark for CRBs in Sri Lanka. The empirical analysis reveals that there is considerable variation in the accounting practices for the provision for loan losses and write-off of loan losses across CRBs. Some CRBs use accounting practices that are on par with those accepted by global financial institutions even though no specific guidelines exist for Sri Lankan CRBs.

Key words- Small financial institutions; corporate governance; accounting information; generally accepted accounting practices