

Certified Public Accountants

# accounting alert

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## 2005 ILLUSTRATIVE SEPARATE PFRS FINANCIAL STATEMENTS

This Accounting Alert is issued to provide an illustrative set of financial statements (Illustrative FS), prepared in accordance with generally accepted accounting principles in the Philippines as set forth in Philippine Financial Reporting Standards (PFRSs), for a fictional manufacturing and distribution company of semiconductor products (ABC Manufacturing Company, “ABC” or the “Company”).

ABC is a first-time adopter of PFRS and issues its first PFRS financial statements for the year ended December 31, 2005, with transition date on January 1, 2004. Therefore, the financial statements reflect the transitional provisions for the first-time adopters and highlight the Company’s transition to PFRS in accordance with the requirements of PFRS 1, *First-time Adoption of PFRS*. The financial statements of ABC are presented in accordance with applicable standards and interpretations effective January 1, 2005 issued by Accounting Standard Council (ASC).

### Objectives of the Illustrative FS

The purpose of these Illustrative FS is to provide a practical working model for the presentation of annual FS prepared in accordance with generally accepted accounting principles in the Philippines set forth in PFRS.

### Coverage of the Illustrative FS

The Illustrative FS include different areas of financial reporting, which are typical not only for entities active in manufacturing and retailing but also in many other industry sectors. **The Illustrative FS do not cover all potential accounting transactions that can be observed in practice.** In addition, certain standards have not been addressed as they are not applicable to ABC’s financial statements. The sample FS and disclosures, therefore, should neither be used as a substitute for studying PFRSs, nor considered as the sole tool for preparing individual financial statements in accordance with PFRS. For further guidance, the specific PFRS sources are indicated in the Illustrative FS on the left hand side of the document. Additional notes and explanations are shown as footnotes.

In case of doubt regarding specific requirements, it is essential to make reference to the relevant standard and, where necessary, to seek appropriate technical advice. Reference should be made as well to relevant statutory requirements (i.e., SEC, PSE, BSP, OIC, etc.).

These Illustrative FS are based on applicable PFRSs issued by the ASC which are effective for the annual periods beginning on or after January 1, 2005. The following are the standards not considered in the preparation of the sample FS of ABC as they do not apply to the activities of this fictional entity:

PAS 11	:	Construction Contracts
PAS 20	:	Accounting for Government Grants and Disclosure of Government Assistance
PAS 26	:	Accounting and Reporting by Retirement Benefit Plans
PAS 27	:	Consolidated and Separate Financial Statements
PAS 29	:	Financial Reporting in Hyperinflationary Economies
PAS 30	:	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
PAS 31	:	Interests in Joint Ventures
PAS 33	:	Earnings per Share
PAS 34	:	Interim Financial Reporting
PAS 41	:	Agriculture
PFRS 2	:	Share-based Payment
PFRS 3	:	Business Combinations
PFRS 4	:	Insurance Contracts Operations

The manner of accounting, presentation and disclosure illustrated in the sample financial statements should not be considered as the only acceptable result of the application of PFRSs. The suggested presentation of the transition to PFRSs is based on the illustrative examples set out in PFRS 1. Ultimately, management is responsible for the form and content of financial statements as required by PFRSs and, therefore, may find other approaches to compliance preferable over those presented. For example, allocating line items of profit and loss to operating activities depends on what activities would normally be considered to be “operating”. Therefore, this illustrative FS should be considered as an example of one of the possible acceptable ways to achieve compliance with PFRSs.

## FS Presentations and Disclosures for NPAEs

As discussed in Accounting Alert 2006-01, *Recent Releases on Financial Reporting*, issued by P&A on January 12, 2006, non-publicly accountable entities (NPAEs), under PAS 101, *Financial Reporting Standards for NPAEs*, have an option **not to apply any, or to apply all or some** of the new PASs and PFRSs that became effective in 2005. Relative to this, the following are the guidelines for FS presentations and disclosures for NPAEs:

- I. If NPAEs opted to **adopt some** of the relevant PASs and PFRSs:
  1. Use the usual wording of the opinion paragraph of the auditors' report (no revision is required, except when other than an unqualified opinion will be issued - see Appendix 3.1);
  2. Modify the "Basis of Preparation" under the note on Summary of Significant Accounting Policies to indicate the basis of preparation of the financial statements of NPAEs (see Appendix 3.2); and,
  3. Apply the financial reporting standards as of December 31, 2004, plus the new PFRSs and PASs adopted. The change in accounting policies related to the new PASs and PFRSs adopted and their effects on the FS should be disclosed (see Appendix 3.2).
  
- II. If NPAEs opted **not to adopt** all of the relevant new PASs and PFRSs:
  1. Use the usual wording of the opinion paragraph of the auditors' report (no revision is required, except when other than an unqualified opinion will be issued - see Appendix 3.1);
  2. Modify the "Basis of Preparation" under the note on Summary of Significant Accounting Policies to indicate the basis of preparation of the financial statements of NPAEs (see Appendix 3.3); and,
  3. Apply the financial reporting standards effective as of December 31, 2004 (for guidance, refer to the 2004 Illustrative FS of ABC Company for the sample FS disclosures).
  
- III. If NPAEs opted to **adopt all** relevant new PASs and PFRSs

These NPAEs will be considered as first-time adopters of PFRSs, hence, should refer to the 2005 Illustrative FS for guidance.

## Appendices to the Illustrative FS

Certain types of transactions have not been included in the Illustrative FS as they are not relevant to ABC's operations. The sample disclosures for some of these items have been included in the attached appendices. Listed below are the appendices:

	<u>Appendices</u>
<b>I. Alternative presentation formats</b>	
1. Statements of income – by nature	1.1
2. Statements of changes in equity – (showing columns for equity accounts)	1.2
<b>II. Policies and disclosures for areas not relevant to ABC Manufacturing Company</b>	
1. Construction contracts	2.1
2. Agriculture	2.2
3. Property, plant and equipment – at cost	2.3
4. Investments in associates – at equity	2.4
<b>III. Disclosures relevant to NPAEs</b>	
1. Auditors' report	3.1
2. Disclosures for NPAEs opted to adopt some PFRSs	3.2
3. Disclosures for NPAEs opted not to adopt all PFRSs	3.3

## Additional Guidance

As mentioned earlier, the Illustrative FS are intended as mere guide in the preparation of a client's financial statements. Hence, all accounts or disclosures that are not applicable to the company should be deleted or reworded and accounts and disclosures not presented in the Illustrative FS that may be required considering the particular circumstances of the company should be added.

## Disclaimer

**The P&A Illustrative Financial Statements are only intended to serve as a practical guide in the preparation of financial statements, and shall not be used for any other purpose. P&A assumes no responsibility or liability for any consequence arising from the use, in any manner, and for whatever purpose, of the aforesaid illustrative financial statements by any individual, company or entity.**

This Accounting Alert is not a comprehensive analysis of the subject matters covered and is not intended to provide accounting, auditing or tax advice to specific entity. All relevant facts and circumstances, including the full text of the pertinent final or proposed standards, rules and regulations and other literature, need to be considered to arrive at accounting, auditing and tax decisions that relate to matters addressed in this Accounting Alert.

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Should you have any questions on the new accounting standards or should you need assistance on matters covered in this Accounting Alert, please contact the P&A engagement partner assigned to your company, or send an email to any of the following partners of the Firm:

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