

# accounting alert

2007-01: February 16, 2007

## 2006 ILLUSTRATIVE SEPARATE AND CONSOLIDATED PFRS FINANCIAL STATEMENTS

This Accounting Alert is issued to provide an illustrative set of separate financial statements (FS), including notes to FS, and a set of consolidated basic FS with selected note disclosures that are applicable only to consolidated FS (hereinafter referred to as the Illustrative FS), prepared in accordance with Philippine Financial Reporting Standards (PFRSs), for fictional manufacturing and distribution companies of semiconductor products [i.e., PNA Manufacturing Corporation, “PNA” or the “Company” (for separate FS), and Granthor Holdings Philippines, Inc. and subsidiaries, “Granthor and subsidiaries” or the “Group” (for the consolidated FS with selected notes to FS)].

The Illustrative FS also include illustrative presentation and disclosures for Non-publicly Accountable Entities (NPAEs) as set out in the appendices of the Illustrative FS.

For purposes of the illustration, PNA and Granthor and subsidiaries are existing preparers of PFRS FS, which adopted PFRS for the first time in their separate and consolidated FS, respectively, for the year ended December 31, 2005, with January 1, 2004 as their transition date. The FS of PNA and Granthor and subsidiaries are presented in accordance with all appropriate standards, amendments and interpretations to existing standards that are effective on or after January 1, 2005 issued by Financial Reporting Standards Council (FRSC), formerly the Accounting Standard Council.

### 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 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 the FS of PNA or Granthor and subsidiaries. The Illustrative FS and disclosures, therefore, should neither be used as a substitute for studying PFRSs, nor considered as the sole tool for preparing individual FS in accordance with PFRS. Notes to FS, particularly the significant accounting policies, presented in the Illustrative FS ***should be customized to suit an entity's specific circumstances*** as there may be certain disclosures included in the standard disclosures that are not applicable to the entity, thus, should not be copied verbatim.

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 requirement, it is essential to make reference to the relevant standard and, where necessary, seek appropriate technical advice. Reference should be made as well to relevant statutory requirements (i.e., SEC, PSE, BSP).

These Illustrative FS are based on PFRSs, which include PFRSs, PASs and interpretations issued by the International Financial Reporting Interpretations Committee, formerly the Standing Interpretations Committee, of the International Accounting Standards Board, which are adopted by the FRSC and 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 Illustrative FS of PNA (except PAS 27 and PFRS 3 which are applicable to Granthor and subsidiaries) or Granthor and subsidiaries as they do not apply to the activities of these entities:

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
PFRS 1 (Amendment)	:	First-time Adoption of Philippine Financial Reporting Standards
PFRS 6	:	Exploration for and Evaluation of Mineral Resources
PFRIC 5	:	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
PFRIC 6	:	Liabilities Arising from Participating in a Specific Market
PFRIC 7	:	Applying the Restatement Approach Under PAS 29
PFRIC 8	:	Scope of PFRS 2
PFRIC 9	:	Reassessment of Embedded Derivatives

The manner of accounting, presentation and disclosure illustrated in the Illustrative FS should not be considered the only acceptable result of the application of PFRSs. The management is responsible for the form and content of FS 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 as “operating.” Therefore, this Illustrative FS should only 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 AA 2006-01, *Recent Releases on Financial Reporting*, dated 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 and onwards up to 2007 (provided that the Company remains to be an NPAE). 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 auditors’ report with the following revision: in the sections on Management’s Responsibility for the Financial Statements and Opinion, change the reference to the financial reporting framework used as the basis of preparation of the FS from “Philippine Financial Reporting Standards” to “generally accepted accounting principles in the Philippines” because the entity has not adopted PFRS in full (refer to Appendix 3.1);

2. Modify the “Basis of Preparation” under the note on Summary of Significant Accounting Policies to indicate “generally accepted accounting principles in the Philippines” as the basis of preparation of the FS of NPAEs (see Appendix 3.2); and,
  3. Apply the financial reporting standards as of December 31, 2004, plus the new standards, amendments and interpretations to existing standards adopted. The change in accounting policies related to the new standards, amendments and interpretations to existing standards adopted and their effects on the FS should also be disclosed (see Appendix 3.2).
- II. If NPAEs opted **not to adopt** all of the relevant new PASs and PFRSs:
1. Apply the guidance in items 1 and 2 above.
  2. Apply the financial reporting standards effective as of December 31, 2004 (for guidance, refer to the 2004 Illustrative FS of ABC Company for the FS disclosures).
- III. If NPAEs opted to **adopt all** relevant new PASs and PFRSs
1. Refer to the 2006 Illustrative FS and apply the guidance presented therein.

### Appendices to the Illustrative FS

Additional illustrative presentation and disclosures have been included in the attached appendices as listed below.

	<u>Appendices</u>
<b>I. Alternative presentation formats</b>	
1. Income statements – 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 PNA Manufacturing Corporation</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

**III. Presentation and disclosures relevant to Consolidated FS**

1. Auditors' report	3.1
2. Consolidated balance sheets	3.2
3. Consolidated statements on income	3.3
4. Consolidated statements of changes in equity	3.4
5. Consolidated statements of cash flows	3.5
6. Relevant notes to the consolidated FS that are different from those presented in the separate FS	3.6

**IV. Disclosures relevant to NPAEs**

1. Auditors' report	4.1
2. Disclosures for NPAEs opted to adopt some PFRSs	4.2
3. Disclosures for NPAEs opted not to adopt all PFRSs	4.3

**Additional Guidance**

As mentioned earlier, the Illustrative FS are intended as mere guide in the preparation of an entity's financial statements. Hence, all accounts or disclosures that are not applicable to the entity 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 entity 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.

Should you have any questions 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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