

**PHILIPPINE INTERPRETATIONS COMMITTEE (PIC)
QUESTIONS AND ANSWERS (Q&As)**

Q&A No. 2007-01

PAS 1.103(a) – Basis of preparation of financial statements if an entity has not applied PFRSs in full

Background

An entity is required by paragraph 1.103(a) of PAS 1, *Presentation of Financial Statements*, to present in the notes to financial statements information about the basis of preparation of the financial statements.

Entities that have complied in full with Philippine Financial Reporting Standards (PFRSs) refer to PFRSs as the basis of preparation of their financial statements.

Certain entities, however, have been permitted to defer the application of PFRSs in part or in full, such as the following:

- (a) Qualifying non-publicly accountable entities (NPAEs) are permitted under PAS 101, *Financial Reporting Standards for Non-publicly Accountable Entities*, not to apply in their general purpose financial statements the new PFRSs, that became effective in 2005, up to 2007¹.
- (b) Entities which are required to comply with PFRSs but were allowed by their primary regulator not to apply a specified PFRS(s) or certain provisions of a PFRS. These include banks², pre-need companies³, and mining companies⁴ which were allowed by the Securities and Exchange Commission (SEC) not to apply certain provisions of specified PFRSs. These also include insurance companies which were allowed by the Insurance Commission (IC) to defer application of certain PFRSs.

Issue:

What is the basis of presentation of financial statements of an entity which has been permitted to defer the application of PFRSs, in part or in full?

Consensus

Paragraph 14 of PAS 1 states: “an entity whose financial statements comply with PFRSs shall make an explicit and unreserved statement of compliance in the notes.”

¹ PAS 101 would still be effective after 2007 since standards for NPAEs have not yet been adopted.

² The SEC exempted certain exchange offers of the Bureau of Treasury of eligible government securities to new government bonds from the tainting provision of PAS 39 subject to conditions specified in SEC Notice dated January 19, 2006.

³ In its notice dated March 5, 2007, the SEC allowed pre-need companies to submit their 2006 financial statements based on the existing Pre-need Uniform Chart of Accounts (PNUCA) and the effective PFRS, except for the accounting treatment on revenues and financial liabilities arising from education and pension plans which shall be recognized and measured in accordance with the existing acceptable practices of the industry.

⁴ The SEC approved transitional relief for hedging contracts of mining companies entered into and effective prior to January 1, 2005 and the exemption of these contracts from the fair value requirements of PAS 39 subject to conditions specified in SEC Notice dated November 30, 2006.

Accordingly, an entity that has not applied PFRSs in full may not refer to PFRSs as the basis of presentation of its financial statements. Such an entity refers to generally accepted accounting principles in the Philippines with disclosure of the standards followed and any exemption availed of in describing the basis of presentation of its financial statements.

The entity shall disclose the basis of preparation of its financial statements in the notes to financial statements. Following are illustrative disclosures:

(a) *Non-publicly accountable entity (NPAE) (see footnote 1)*

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Philippines. The Company qualifies as a non-publicly accountable entity (NPAE) under PAS 101, *Financial Reporting Standards for Non-publicly Accountable Entities* and, as permitted under that Standard, prepared its financial statements on the basis of Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS) effective as of December 31, 2004.

(b) *Entity allowed by primary regulator not to apply a specified PFRS(s) or certain provisions of a PFRS*

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Philippines. The Company prepared its financial statements in accordance with PFRSs, except for (describe exemption – see footnote 2 or 4), which was permitted by the Securities and Exchange Commission (SEC).

(or)

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the Philippines. As permitted by the Securities and Exchange Commission (SEC), the Company prepared its financial statements in accordance with the Pre-need Uniform Chart of Accounts (PNUCA) and PFRSs, except for (describe exemption) (see footnote 3).

When the basis of presentation of financial statements is referred to in other documents (e.g. Statement of Management's Responsibility filed with the SEC), the entity shall describe the basis of financial statements presentation by reference to the relevant note to the financial statements or by full description of the basis (i.e. generally accepted accounting principles in the Philippines with disclosure of the standards followed and exemption availed of) in the document itself. For example, the basis of financial statements presentation may be referred to in the Statement of Management's Responsibility as follows:

The management of (name of reporting company) is responsible for all information and representations contained in the financial statements for the year (s) ended (date). The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines, *as described in Note X to the financial statements*, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration on materiality.

Effective Date

The consensus in this Q&A is effective from April 19, 2007, the date of approval by the FRSC. Earlier application is encouraged.

Date approved by PIC: January 24, 2007

PIC Members

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Date approved by FRSC: April 19, 2007