

## Summary of Findings on the 2005 AFS of Selected Listed Companies<sup>1</sup>

1. The company is not clear as to which PFRS and PAS are adopted in 2005. The following disclosures are made are mere introduction to the accounting standards that should have been adopted in 2005;
2. There is no reconciliation of accounts from the balance sheet and statement of cash flows as a result of the adoption of PFRS;
3. Land held for future use which accounted more than 50% of the consolidated total assets is not properly classified in the balance sheet;
4. The accounting policy on "land held for future use, " which is based on the lower of cost or market is not in accordance with PAS 40;
5. There is no accounting policy on notes receivable;
6. There is no adequate disclosures on "other receivables," considering the materiality of the amount;
7. "Minority interest" is classified as part of the "other liabilities" and is not presented on the face of the balance sheet;
8. The share of the minority interest in the net income or net loss of subsidiaries are not disclosed both on the face of the income statement and in the notes to financial statements;
9. There is no discussion on the management's judgment and estimates;
10. There is no discussion on risk management policies;
11. The companies with ownership of more than 50% are accounted for as associates and joint ventures of the company and are not included in the consolidation. No explanation is provided for the non-consolidation (PAS 27);
12. There is no disclosure on the fair value of shares of some of the publicly listed associates;
13. There is no accounting policy on Deposits and Retentions Payable included in the financial liabilities with a material amount. The disclosures provided in the notes are insufficient to give any idea as to how these Deposits and Retentions Payable are measured;
14. There is no breakdown of the net income from different segment businesses;
15. The company's accounting policy for available-for-sale financial assets not actively traded is incorrect (Note 2, page 10). AFS financial assets may only be carried at cost if fair value cannot be reliably determined (PAS 39);

<sup>1</sup> Based on largest in market capitalization.

16. The company did not disclose the value of inventories and amount of write-down recognized as expense during the period (PAS 2, par. 36);
17. There was no disclosure on the breakdown of interest expense recognized from short-term and long-term debt as required by Rule 68.1;
18. There is no disclosure on the specific accounting policy on revenue recognition;
19. There is no reconciliation on the movement of property, plant and equipment (PAS 16);
20. It is disclosed in their notes that the company is covered by contributory defined benefit retirement plan, but there were no plan assets reported. There are also no contributions made to the fund in two (2) consecutive years;
21. There is no disclosure on the potential financial impact of the suspension of the production activities of an owned oil field. This may have an effect on the valuation of the deferred exploration cost;
22. The company decreased the net assets attributable to shareholders for "Reserves for dividend declaration". Per the company's note, the reserve represents "income received by the Fund, net of ... Fund expenses... (which are held) pending distribution as dividends." and no dividend declarations were made. Also, there is uncertainty as to when these amounts will be distributed to shareholders, as the note states that "Dividend distribution dates shall be determined and announced by the Fund, as and when applicable, in accordance with the Corporate Code and related laws." The deduction from net assets for a future dividend declaration is not appropriate from an accounting point of view (dividends are not deducted from retained earnings until these are declared.) Further, the reserve prejudices shareholders whose funds were used to earn the income but who exit from the fund before the dividends are distributed;
23. There is no disclosure on the financial statement accounts and carrying values of accounts affected by management estimates and exercise of judgment;
24. Some loans were misclassified as long-term. These loans were disclosed to be payable on demand. These loans were classified as long-term because management did not expect the lender (a related party) to collect within one year. In the absence of a written agreement for collection after one year, the loans should have been classified as current; and
25. The convertible note payable was not properly valued. It was disclosed that the amount of the note approximates the market value of a note without the convertibility option. This is difficult to justify. All other factors remaining equal, an option to convert to equity is more desirable than having no option. The value of the option should have been recognized.