

First Time Adoption of Philippine Financial Reporting Standards

By: Mr. Wilfredo A. Baltazar

The development of international accounting standards can be traced back to the early 70s, but never have they reached greater importance than today, as the world moves closer towards international convergence.

Pertinent statements issued by the Board of the International Accounting Standards Committee (IASC) between 1973 and 2001 are designated "International Accounting Standards" (IAS).

The International Accounting Standards Board (IASB), formerly IASC, announced in April 2001 that its accounting standards would be designated "International Financial Reporting Standards" (IFRS). Also in April 2001, the IASB announced that it would adopt all of the International Accounting Standards issued by the IASC.

On June 6, 2002, the European Council of Ministers made an important move when it approved and issued a requirement that all European Union companies listed on a regulated market should prepare their financial statements in accordance with International Financial Reporting Standards for accounting periods beginning on or after 1 January 1, 2005.

According to Sir David Tweedie, Chairman of the International Accounting Standards Board,

"The effective functioning of capital markets is essential to economic well-being. A sound financial reporting infrastructure must be built on four pillars: (1) accounting standards that are consistent, comprehensive, and based on clear principles to enable financial reports to reflect underlying economic reality; (2) effective corporate governance practices, including a requirement for strong internal controls, that implement the accounting standards; (3) auditing practices that give confidence to the outside world that an entity is faithfully reflecting its economic performance and financial position; and (4) an enforcement or oversight mechanism that ensures that the principles as laid out by the accounting and auditing standards are followed."

"As the world's capital markets integrate, the logic of a single set of accounting standards is evident. A single set of international standards will enhance comparability of financial information and should make the allocation of capital across borders more efficient. The development and acceptance of international standards should also reduce compliance costs for corporations and improve consistency in audit quality."

In 1997, the Accounting Standards Council (ASC), the accounting standards-setting body in the Philippines, formally decided to harmonize Philippine accounting standards with international accounting standards. In November 2004, the ASC approved the issuance of new and revised accounting standards which are based on revised IASs and new IFRSs issued by the IASB. The new and revised accounting standards were subsequently approved by the Securities and Exchange Commission (SEC), the Board of Accountancy (BOA), Professional Regulation Commission (PRC) and Bangko Sentral ng Pilipinas (BSP). The new standards are effective for annual periods beginning on or after January 1, 2005.

The ASC has renamed the new standards that it issues to correspond better with the issuances of the IASB. Philippine Accounting Standards (PASs) correspond to adopted IASs while Philippine Financial Reporting Standards (PFRSs) correspond to adopted IFRSs. Previously, standards issued by the ASC were designated as Statements of Financial Accounting Standards (SFASs).

The newly issued accounting standards will be called the Philippine Financial Reporting Standards consisting of 31 PASs and 5 PFRSs, subsequently divided into: (1) 12 unrevised PASs; (2) 13 revised PASs; (3) 6 new PASs and (4) 5 PFRSs.

The Philippine Financial Reporting Standards set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. They may also set out requirements for transactions and events that arise mainly in specific industries.

One of the new standards is PFRS 1, "First-Time Adoption of Philippine Financial Reporting Standards" which establishes the transition requirements for preparation of financial statements in accordance with the Philippine Financial Reporting Standards. PFRS 1 applies when an entity adopts PFRSs for the first time by an explicit and unreserved statement of compliance with PFRSs.

In general, PFRS 1 requires an entity to comply with each PFRS effective at the reporting date for its first PFRS financial statements. In particular, in its opening PFRS balance sheet an entity must:

- recognize all assets and liabilities whose recognition is required by PFRSs;
- not recognize items as assets or liabilities if PFRSs do not permit such recognition;
- reclassify items that it recognized under previous GAAP as one type of asset, liability or component of equity, that are a different type of asset, liability or component of equity under PFRSs; and
- apply PFRSs in measuring all recognized assets and liabilities.

PFRS 1 grants limited exemptions from these requirements in specified areas where the costs of complying are likely to exceed the benefits to users of financial statements and also prohibits

retrospective application of PFRSs in some cases, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. PFRS 1 requires disclosures that explain how the transition from previous GAAP to PFRSs affected the entity's reported financial position, financial performance and cash flows.

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