

Income Statement Disclosures: An International Financial Reporting Standard Compliance Report of Ten Selected Publicly Listed Corporations in the Manufacturing Industry

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This study focuses on compliance audit of ten selected publicly listed corporations in the manufacturing industry. It seeks to ensure that the submitted financial statements of a business entity are in accordance with applicable laws and regulations set forth in the Philippine Accounting Standards. The review's aim is to establish a recommendatory measure that may support the SEC and other bodies interested in promoting a more unified, synchronized financial report that may be easily understood; to facilitate evaluation; and to provide a uniform basis of financial reporting. As a supplement, it may be used as a tool to identify loopholes, differences, common pitfalls or omissions inadvertently exercised or encountered by business entities that submit reports peculiar to the manufacturing industry in general, and its area in particular.

Keywords: Income statement disclosures, Philippine Accounting Standards, Philippine Financial Reporting Standards

INTRODUCTION

The business world is involved in a myriad of transactions, and accounting is the tool that seeks to simplify every aspect of this complex environment. Through the years, business has evolved and diversified into various forms and methodologies. This has prompted the need for a specialized system of monitoring and evaluation of its objective, to earn profit, without jeopardizing ethics and the welfare of various sectors.

One of these systems is the audit. Audits are performed to determine the validity and reliability of information, and to provide an assessment of a system's internal controls. Classifications of audit

include: operational audit, financial audit, compliance audit, information systems audit, and investigative or forensic audit.

A majority of people in the business sector may only be familiar with the financial audit since it is routinely done in big companies. However, operational audit, if the entity has various departments, may be of benefit as well. Information systems audit, meanwhile, is very useful, especially in electronic data processing systems. Investigative or forensic audit is a more in-depth approach of discovering the spurious transactions the management seeks to uncover; while compliance audit ascertains that the company conforms to disclosure requirements based on the International Accounting Standards.

International Accounting Standard 1 *Presentation of Financial Statements* (IAS 1) replaced IAS *Presentation of Financial Statements* (revised in 1997) and should be applied for annual periods beginning 1 January 2005. The International Accounting Standards Board (IASB) developed IAS 1 as part of its project on Improvements to International Accounting Standards. The project was undertaken in light of queries and criticism in relation to the standards raised by securities regulators, professional accountants, and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies, and conflicts within the standards; to deal with some convergence issues; and to make other improvements (Financial Reporting Standards Council, 2005).

Research Problem and Objectives

The study attempts to answer the question: “What is the extent of compliance of ten selected publicly listed corporations with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) in terms of preparation and presentation of financial statements?”

The objectives of this study are: (1) to examine the income statements and related disclosures of the ten selected publicly listed corporations so as to check whether the presentation follows IAS 1; (2) to verify if the companies completely show all items specified in IAS 1 on the face of the income statement; and (3) to corroborate the figures shown on the income statements with the notes to the financial statement.

Scope and Limitation

This study is limited to the 2006 annual reports of ten publicly listed corporations that belong to manufacturing industry. It is descriptive in nature and undertakes content analysis of the 2006 financial statements, particularly the income statements of the ten corporations.

The ten publicly listed corporations are not identified by name so that their interests will be

protected. Instead, codes M1 to M10 are used to conceal the identity of each corporation.

Significance of the study

The study seeks to recommend a uniform basis of financial reporting and a means to avoid the common mistakes or omissions committed by business entities in the manufacturing industry in submitting their financial reports. The different sectors that may benefit from this study are: investors, the International Accounting Standards Board (IASB), the Philippine Institute of Certified Public Accountants (PICPA), the Securities and Exchange Commission (SEC), the academe, and auditing firms.

Future researchers will likewise benefit from this study. They can make use of data gathered as baseline information for further research. They can consider other financial statements not used in this study, and delve into industries other than manufacturing industry.

THE CONCEPT OF APPROPRIATE PRESENTATION AND PREPARATION OF FINANCIAL STATEMENTS

This study focuses on the objectives of IAS 1 *Presentation of Financial Statements*, which are: to prescribe the basis for the presentation of general purpose financial statements; and to ensure the comparability of an entity's financial statements with those of previous periods and with those of other entities. To achieve these objectives, this standard sets overall requirements for the presentation of financial statements, guidelines for their structure, and minimum requirements for their content. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other standards and in interpretations.

This standard requires particular disclosures on the face of the balance sheet, income statement, and statement of changes in equity, and requires disclosure of other line items, either on the face of those statements or in the notes. IAS 7 sets

requirements for the presentation of a cash flow statement.

IAS 1 sometimes uses the term “disclosure” in a broad sense, encompassing items presented on the face of the balance sheet, income statement, statement of changes in equity, and cash flow statement, as well as in the notes. Disclosures are also required by other standards and interpretations. Unless specified to the contrary elsewhere in this standard, or in another standard or interpretation, such disclosures are made either on the face of the balance sheet, income statement, statement of changes in equity, or cash flow statement (whichever is relevant), or in the notes.

As stated by Skousen, Stice, and Stice (2007), the key financial reporting objectives are as follows:

1. *Usefulness* – The overall objective of financial reporting is to provide information that is useful for decision making. The Financial Accounting Standards Board (FASB) states that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment credit and similar decisions.
2. *Understandability* – Financial reports cannot and should not be so simple as to be understood by everyone. Instead, the objective of understandability recognizes a fairly sophisticated user of financial report, that is, one has a reasonable understanding of accounting and business and is willing to study and analyze the information presented.
3. *Target Audience: Investors and Creditors* – Although there are many potential users of financial reports, the objectives are directed primarily toward investors and creditors. Other external users, such as the Bureau of Internal Revenue and the Securities and Exchange Commission, can require selected information from individuals and companies. Investors and creditors, however, must rely, to a

significant extent, on the information contained in the periodic financial reports supplied by management.

4. *Primary Focus on Earnings* – Information about company earnings, measured by accrual accounting, generally provides a better basis for forecasting future performance than does information about current cash receipts and disbursement. Thus the FASB states that the primary focus of financial reporting is information about a company’s performance provided by measures of earnings and its components.

The Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council (ASC), has adopted the Philippine Financial Reporting Standards (PFRS) issued by the International Accounting Standard Board (IASB). It also approved the issuance of interpretations set by the International Financial Reporting Interpretations Committee (IFRIC). It has renamed the standards it issues as PFRS, previously referred to as Statement of Financial Accounting Standards (SFAS) to correspond better with the issuances of the IASB. PFRS (corresponding to IFRS) also includes Philippine Accounting Standards (PAS; corresponding to IAS), and Interpretations (corresponding to those issued by IFRIC).

The transition from generally accepted accounting principles (GAAP) in the Philippines to PFRS was made in accordance with PFRS 1 *First-time Adoption of Philippine Reporting Standards*.

PFRS 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 requirements for transactions and events that arise mainly in specific industries. PFRS are designed to apply to general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial, and similar activities, whether organized in

corporate or in other form (Financial Reporting Standards Council, 2005).

It is envisioned that, with the adoption of IAS, there will be uniformity in the accounting principles which are used by businesses and other organizations for financial reporting around the world. The International Accounting Standard Committee's objective is to formulate and publish, in the public interest, accounting standards to be observed in the presentation of financial statements; and to promote their worldwide acceptance and observance. It is also expected that the use of IAS will work generally for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements (Valix, 2007).

There are similar researches conducted by different countries regarding PAS compliance. Manaligod (2006) examined the IAS compliance of ten selected domestic companies in the Philippines. Six of the ten companies used the natural presentation of financial statements while the remaining four used the functional presentation. It can be observed that, in general, service companies use the natural presentation, while manufacturing companies use the functional

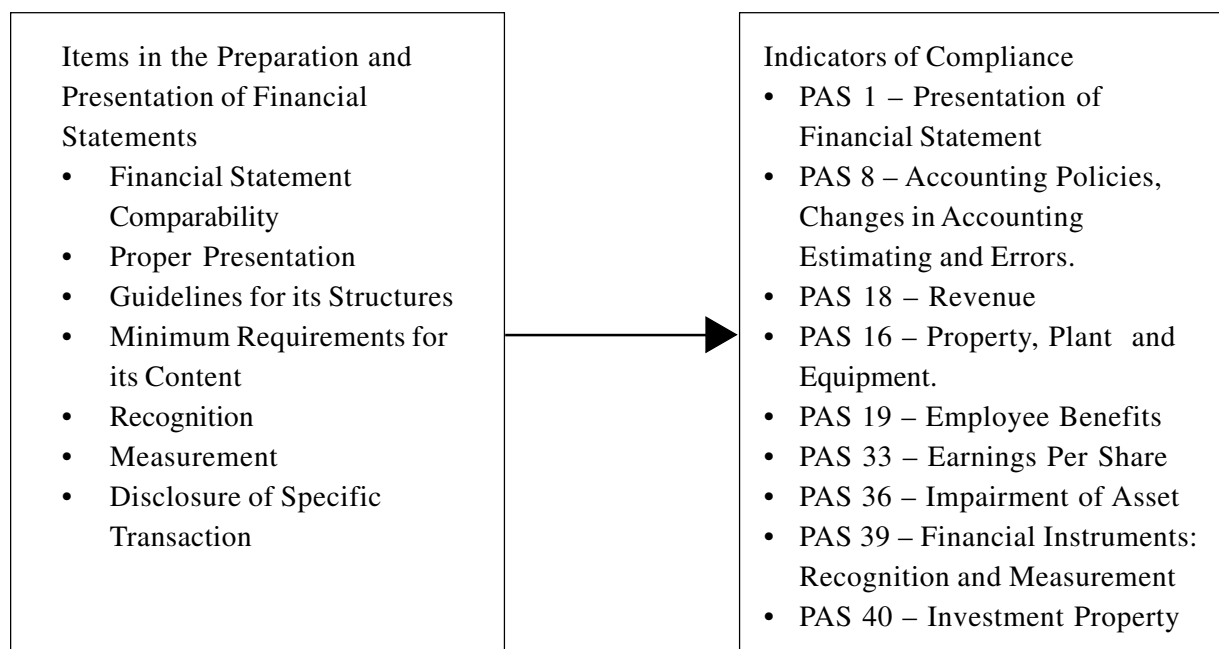
presentation. Furthermore, Manaligod noted that all of the ten companies, with the exception of one, have all the supporting notes to financial statements to show the breakdown of aggregated amounts.

In the survey and report issued by PricewaterhouseCoopers, 92 percent of respondents, a quarter of which were European, approved of the idea of IFRS. Although 45 percent of those polled would be required to adopt the standards in 2005, only 34 percent planned to do so, and 42 percent have yet to begin implementing the standards. Some of the hesitation and delay can be explained by the lack of standards. The survey found that 47 percent of the respondents agreed that financial institutions adopting IFRS would have a competitive advantage and 66 percent said it would be easier to raise capital globally. Only 26 percent, however, said they would definitely adopt IFRS even if not required to do so (Cheney, 2003)

FRAMEWORK OF ANALYSIS

The following framework was used in conducting this study:

Figure 1. Framework of analysis



IAS 1 Presentation of Financial Statements requires particular disclosures on income statements and requires disclosure of other line items, either on the face of those statements or in the notes. The following are the required disclosures of the standards with paragraph number of IAS 1.

78. All items of income and expense recognized in a period shall be included in profit or loss unless a Standard or an Interpretation requires otherwise.
79. Normally, all items of income and expense recognized in a period are included in profit or loss. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from profit or loss for the current period. IAS 8 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.
80. Other Standards deal with items that may meet the Framework definitions of income or expense but are usually excluded from profit or loss. Examples include revaluation surpluses (see IAS 16), particular gains and losses arising on translating the financial statements of a foreign operation (see IAS 21) and gains or losses on remeasuring available-for-sale financial assets (see IAS 39).

Information to be presented on the Face of the Income Statement

81. As a minimum, the face of the income statement shall include line items that present the following amounts for the period:
 - (a) revenue;
 - (b) finance costs;
 - (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
 - (d) tax expense;

- (e) a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
 - (f) profit or loss.
82. The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:
 - (a) profit or loss attributable to minority interest; and
 - (b) profit or loss attributable to equity holders of the parent.
83. Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.
84. Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the income statement; and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. Factors to be considered include materiality and the nature and function of the components of income and expenses. For example, a bank amends the descriptions to apply the more specific requirements in IAS 30. Income and expense items are not offset unless the criteria in paragraph 32 are met.
85. An entity shall not present any items of income and expense as extraordinary

items, either on the face of the income statement or in the notes.

Information to be Presented either on the Face of the Income Statement or in the Notes

86. When items of income and expense are material, their nature and amount shall be disclosed separately.
87. Circumstances that would give rise to the separate disclosure of items of income and expense include:
 - (a) write-downs of inventories to net realizable value; or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
 - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
 - (c) disposals of items of property, plant and equipment;
 - (d) disposals of investments;
 - (e) discontinued operations;
 - (f) litigation settlements; and
 - (g) other reversals of provisions.
88. An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.
89. Entities are encouraged to present the analysis in paragraph 88 on the face of the income statement.
90. Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.
91. The first form of analysis is the nature of expense method. Expenses are aggregated in the income statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs); and are not reallocated

among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue	X
Other income	X
Changes in inventories of finished goods and work in progress	X
Employee benefits costs	X
Depreciation and amortization expense	X
Other expenses	X
Total expenses	(X)
Profit	X

92. The second form of analysis is the function of expense or 'cost of sales' method; **it** classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature; but allocating costs to functions may require arbitrary allocations and involve considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	(X)
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	(X)
Profit	X

93. Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.
94. The choice between the function of expense method and the nature of expense method depends on historical and industry factors, and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 93, 'employee benefits' has the same meaning as 'Employee Benefits' in IAS 19.
95. An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes: the amount of dividends recognized as distributions to equity holders during the period, and the related amount per share.

PROFILES OF THE TEN PUBLICLY LISTED MANUFACTURING COMPANIES

The ten publicly listed corporations are not identified by name so that their interests will be protected. Instead, codes M1 to M10 are used to conceal the identity of each corporation.

M1 Company was founded as a single-proprietorship in January 1951. Inspired by the conclusion of economists then that the industrialization of a country was best measured by the amount of sulfuric acid consumed, M1 soon

became the very first chemical manufacturing company in the Philippines. Under the founder's able management, M1 furthered the development of the sulfuric acid industry in the country. Today, M1 is the holding company of major corporations primarily engaged in the manufacture and sale of industrial chemicals. Its subsidiaries and affiliates are also involved in general insurance, chemical bulk storage, and personal care products. M1 itself, as an investing company, is into real estate investments and agribusiness. It also provides management support services to its subsidiaries and affiliates.

M2 Company is one of the significant Philippine industrial chemical companies. It has three operating divisions: Pasig Operations, Batangas Operations, and the Bulk Chemical Terminal. Their main products are sulfuric acid (technical grade and chemically pure), oleum, and sulfur flakes. M2 now operates a state-of-the-art double contact/double absorption sulfuric acid plant. Additionally, the manufacturing process is more environment-friendly, with an SO₂ gas emission of only 250 parts per million (ppm), well below the government's maximum limit of 1,250 ppm. M2's new acid plant reinforces the company's dominance in the sulfuric acid industry, with the four-fold increase of its production capacity from 24,000 metric tons per year to 90,000 metric tons per year.

M3 Company is the first and largest chlor-alkali producer in the Philippines. It is the country's leading manufacturer of caustic soda and hydrochloric acid and the only company that produces chlorine in commercial quantities. In addition, it supplies more than 50% of the country's requirement for sodium hypochlorite. The products end up in the manufacture of many useful consumer products that are important in our daily lives. The company is backed by a team of technically skilled managers with long and extensive experience in the field of PVC and chlor-alkali production. Through the years, M3 has continued to affirm its commitment to quality. After successfully passing stringent tests and inspection, its operations in

Luzon, Visayas, and Mindanao were all issued ISO 9002 certification, the internationally recognized standard of world-class quality.

M4 Company was incorporated in 1988 and started commercial production in 1991 after receiving product registration approvals from the Bureau of Food and Drugs (BFAD). The company manufactures large volume parenterals, specialty solutions, and irrigating solutions in plastic containers of 500 mL and 1000 mL pack sizes. M4's plant was designed and built to conform to the highest standards of Good Manufacturing Practice. M4 has an extensive nationwide marketing and distribution network, with several provincial depots strategically located in key cities all over the Philippines. Today, M4 has become the leading manufacturer of high quality intravenous fluids in the Philippines. Providing high quality products at affordable prices is M4's corporate philosophy. M4 is continuously developing new pharmaceutical products for ophthalmic, inhalation, irrigation, and other healthcare purposes. M4 is committed to serve the Filipino people and the medical community in its pursuit of high quality healthcare products and services.

M5 Company's products were first manufactured in the Philippines in 1972. For over thirty years, M5 has emerged as one of only two major players in the Philippine milk industry, consistently maintaining brand leadership in the liquid canned milk category and holding a strong and growing position in powdered milk. It has also expanded into higher value-added milk products, particularly in the UHT/Ready-to-Drink milk category. Apart from growing its core businesses, M5 endeavors to diversify and explore opportunities in related consumer products with global food companies that will complement their existing revenue base.

M6 Company is mainly engaged in the acquisition, purchase, lease, hold, and sale of land and real estate, as well as real or personal property

of every kind and description including, but not limited to shares of stock in industrial, commercial, manufacturing, and other similar corporations. On July 1997, M6 was registered with the Board of Investment under the Omnibus Investment Code of 1987 as a new operator of distribution facilities of LPG in various regions of the Philippines with a non-pioneer status.

M7 Company produces paper and timber products in the Philippines. Its paper products include newsprint, which is used by publishing companies for newspaper production, book paper, office supplies, telephone directory paper; and kraft, a material used for the manufacture of boxes by corrugators and box plants for packaging products. The company's timber products include logs and lumber, which are used for the construction of office and residential buildings and the manufacture of office and house furniture. M7 also engages in the manufacture, purchase, and sale of various kinds of pulp, paper, and paper boards. It primarily serves newsprint, telephone directory paper, and kraft linerboards markets. M7 is based in Makati City.

M8 Company was incorporated and registered with the SEC on September 1963. The company and its subsidiaries are engaged in the manufacturing, processing, and selling of all kinds of paper products, paper board and corrugated carton containers and all other allied products and processes. M8 is listed in the Philippine Stock Exchange. Following a decision made in 1996 to reorganize the group of companies, M8 ceased manufacturing operations in June 1997. As a result, substantially all of the company's employees were made redundant, certain equipment were transferred to other subsidiary companies, and other assets were sold. Following the completion of the reorganization of the group, M8's principal activity has been limited to the holding of investments.

M9 Company was registered with the SEC on November 1982. On December 1982, it acquired

the license to operate a chain of convenience stores. Operations commenced with the opening of its first store on February 1984 in Quezon City. Considering the country's economic condition at that time, the company grew slowly in its first year of existence. In 1993, the company, encouraged by the resurgent national economy, stepped up its rate of expansion. M9 today is focused on redefining and enhancing convenience through strategic initiatives designed to take advantage of new technologies and merchandising processes; but which remain based on the fundamental principle of the simple business concept it pioneered over 70 years ago – to provide customers with an ever changing selection of quality products and services at fair everyday prices, through speedy transactions, in a clean, safe and friendly environment.

M10 Company, incorporated in 1984, now serves a wide variety of industries and markets. These include paint and coatings, inks, fiber-reinforced plastics and adhesives industries. M10 distinguishes itself by investing in research and product development, new technology and human resources. Services offered by M10 include tool manufacturing of specialty resins, colorants, oleochemicals, blending and compounding services, extensive chemical services, extensive chemical analysis, evaluation of product performance and application properties, customized formulations, color matching services, and repacking services.

PRESENTATION AND ANALYSIS OF DATA

Since the data is descriptive in nature, data regarding compliance audit exceptions and findings on related income statement disclosures are presented and analyzed per company.

M1 and M2 have the same compliance audit exceptions and findings:

1. The caption Interest Expense was used instead of Finance Cost.

2. There was no disclosure on the computation of net sales.
3. On investment property, there was failure to disclose all direct operating expenses, including repair and maintenance. There should also be a disclosure of whether such expenses generated rental income or not. These accounts, if included in other income and expense, should have been discussed in the notes to financial statement. Proper breakdown should have been made.
4. The equity in net earnings of an associate was included in the notes of other income. It should be shown on the face of the income statement separately.
5. There was no disclosure on research and development costs incurred by the company during the year.

M3 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. The caption Interest Expense was used instead of Finance Cost.
2. There was no disclosure on the computation of net sales.
3. Interest income was presented separately. It should have been included as part of other income.
4. Foreign exchange gain or loss was shown as one line item on the face of income statement. It should have been included as part of other income or other expense whenever appropriate.
5. There was no disclosure on research and development costs incurred by the company during the year.

M4 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. Net sales computation was not provided in the notes.
2. There was no separation of distribution costs from administrative expenses.

These expenses should not have been grouped together as one item in the financial statement particularly on the face of the income statement.

3. Finance cost was offset against other income. PAS 1 includes a sample income statement that presents other income separately from finance cost. Hence, separate line items for other income and finance cost should have been made.
4. According to PAS 33, public enterprises are required to make two presentations of earnings per share, namely basic earnings per share (BEPS) and diluted earnings per share (DEPS) on the face of the income statement. The company only presented earnings per share. DEPS should have also been shown on the face of the income statement whether it shows the same amount as BEPS (if securities are antidilutive) or it shows a lower figure than BEPS.
5. There was no share of the profit or loss of associates shown on the face of the income statement.

M5 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. There was no computation of net sales in the notes.
2. There were other expense items such as foreign exchange loss that could have been grouped under one line item instead of enumerating them on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
3. There were other income items such as interest income and gain on disposal of property and equipment that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.

4. There was no breakdown or discussion on other operating expenses.
5. There was no disclosure relating to research and development costs incurred during the year.

M6 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. Interest income was shown as a separate line item on the face of the income statement. It should have been presented as part of other income.
2. Finance cost was presented as part of other charges. It should have been shown on the face of the income statement as a separate line item.
3. There were other expense items that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
4. There were other income items such as fair value adjustments and gain on *dacion en pago* that could have been grouped under one line item instead of enumerating them on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
5. The company failed to provide the breakdown of or any discussions on other cost of sales, other operating expenses, and other charges.
6. According to PAS 33, public enterprises are required to make two presentations of earnings per share, namely basic earnings per share (BEPS) and diluted earnings per share (DEPS) on the face of the income statement. The company only presented BEPS. If securities are considered antidilutive, the company should have still disclosed DEPS even if it is the same as BEPS.

7. There was no disclosure on research and development costs incurred by the company during the year.
8. There was no disclosure on the share of the profit or loss of associates on the face of the income statement.

M7 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. The caption interest expense was used instead of finance cost.
2. There were other expense items such as other charges and accretion expense that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
3. There are other income items such as interest income, gain from debt restructuring, and foreign exchange gain that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
4. According to PAS 33, public enterprises are required to make two presentations of earnings per share, namely basic earnings per share (BEPS) and diluted earnings per share (DEPS) on the face of the income statement. The company only presented BEPS. If securities are considered antidilutive, the company should still disclose DEPS even if it is the same as BEPS.
5. There was no disclosure on research and development costs incurred by the company during the year.
6. There was no disclosure as to share of the profit or loss of associates on the face of the income statement.

M8 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. The company failed to provide the computation of net sales.
2. The company failed to separate the cost of sales and cost of services on the face of the income statement.
3. The company used an incorrect caption other operating income. It should have been replaced with other income.
4. The company used an incorrect caption other operating expense. It should have been replaced with other expense.
5. Other expense was offset against other income. PAS 1 includes a sample income statement that presents other expense separately from other income. Hence, separate line items for other expense and other income should have been made.
6. There was no disclosure on research and development costs incurred by the company during the year.
7. The company stated in the notes that diluted earnings per share (DEPS) is equal to basic earnings per share (BEPS). However, the standard suggests that DEPS should still be shown even it has the same figure with BEPS.
8. There was no breakdown of other operating expenses in Note 19 of the company's financial statement.

M9 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. There are other income items that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
2. There are other expense items that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated

amount should be supported by a note to financial statements.

3. There is no disclosure relating to share of the profit or loss of associates.
4. The caption Interest Expense is used instead of Finance Cost.
5. There is no disclosure on research and development costs incurred by the company during the year.

M10 failed to completely comply with the standards with the following compliance audit exceptions and findings:

1. There were other income items such as rental income and interest income that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
2. There were other expense items such as interest expense and foreign exchange loss that could have been grouped under one line item instead of being enumerated on the face of the income statement. This aggregated amount should be supported by a note to financial statements.
3. The company failed to give a breakdown of other income (expense), net.
4. Other expense as offset against other income. PAS 1 includes a sample income statement that presents other expense separately from other income. Hence, separate line items for other expense and other income should have been made.
5. There was no disclosure on research and development costs incurred by the company during the year.
6. There was no breakdown of other administrative expenses.
7. There was no disclosure on research and development costs incurred by the company during the year.

Implications

At the outset of any transition, sticking to the old processes is tolerable and understandable because many are still unfamiliar with the changes that have taken place. However, the SFAS No. 1 took effect in 2000, while IFRS and PAS have been implemented since 2005. The information disseminated should have sufficed for companies to meet the demands of the new standards. Using the old titles, especially for external auditors, may be construed more as obstinacy rather than naiveté. It will also sow confusion among external users, and may lead to misinterpretation of business performance. SFAS has been superseded by PFRS, and therefore the revised PFRS titles should be used.

If other expense, administrative expense, selling expense, and other income items are not grouped as one line item, the process of evaluating the company's performance may take time. If all of the expenses are presented on the face of the income statement instead of placed in notes, the analysis becomes a tedious process. Therefore, simplicity and a clearer presentation of the financial statement are most vital.

If amounts are small in value or immaterial, they can be grouped together. This is supported by PAS 1 paragraph 29, which discusses materiality and aggregation. Each material class of similar items should be presented separately in the financial statements. Items of a dissimilar nature or function should be presented separately unless they are immaterial.

If research and development costs are not shown on the face of the income statement, the other expenses may be perceived as overstated, which would lead to misinterpretation of the whole statement.

A breakdown of the revenue or net sales provides a better picture of the major earners of the company. The entity may have more than one source of revenue. A breakdown also lays down the amount of returns and allowances which would prove to be of significance as to the percentage of items being unfit for consumption. If only NET sales are presented on the face of the financial

statement, then the notes should disclose items which have been deducted to come up with the net. Furthermore, the accounting policy on revenue recognition should be applied in the notes to financial statements.

PAS 1 paragraph 32 and 33 discusses offsetting. Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a standard or an interpretation. Also, it is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events, and conditions that have occurred, and to assess the entity's future cash flows. There are some instances when a particular corporation offsets other expense against other income. This results in bewilderment on the part of the readers of the financial statements due to the fact that the figure of other income shown on the face of the income statement is already netted of other expense.

In terms of investment property, a failure to disclose all direct operating expenses including repairs and maintenance, whether such expenses have generated rental income or not, could be interpreted to mean that this account has been included elsewhere. However, the standard mandates that there should be a proper discussion as to where this account has been included whether in other income or other expense whenever appropriate.

PAS 1 paragraph 81 clearly states that the face of the income statement should include line items that present: revenue, finance cost, share of the profit or loss of associates, joint ventures accounted for using equity method, a single amount comprising the total of the post-tax profit or loss of discontinued operations, the post tax gain or loss recognized on the measurement of fair value less costs to sell or on the disposal of the asset or disposal group constituting the discontinued operations, tax expenses, and profit or loss. These items are to be shown on the face of the income

statement supported with notes to financial statements.

PAS 33 paragraph 69 talks about earnings per share. Public enterprises are required to make two presentations of earnings per share: namely basic earnings per share (BEPS) and diluted earnings per share (DEPS) on the face of the income statement. If securities are considered antidilutive, the company should still disclose DEPS even if it is the same as BEPS. This is only required if company is listed. Again, non-disclosure would constitute a SEC violation.

A misrepresented income statement has ramifications, negative and positive. Since it pertains to the performance of the company, a great number of external users, especially internal revenue people, are interested to learn about the income statement. If the income statement is not properly presented, some may view this as intent to evade taxes, because certain facts may be unclear and the income may be understated.

Finally, results of operations would be misrepresented. While management relies upon financial statements for planning and decision-making, investors rely upon them to learn about the company's profitability. If the company is a listed corporation, then non-compliance with required disclosures would mean SEC violations.

CONCLUSION AND RECOMMENDATIONS

The ten selected publicly listed corporations failed to completely conform to the new standards.

An income statement that is not well presented is tantamount to concealment of important details. The shareholders of the firm may perceive this as a deliberate offense. Potential and actual investors may vacillate due to the instability of the entity in question. Government regulators may penalize the entity for presenting financial statements that have not been prepared correctly. The management may be seen as unreliable and the company's transactions, spurious.

Audit is as dynamic as the changing landscape of business. With ever-growing

diversification, audit has continued to adapt itself to stay attuned to the needs of each sector. Therefore, the continued exchange of knowledge and checks and balance in compliance audits will be beneficial to the entities mentioned and the end users as well.

The results of this study should provide investors with a more efficient way to analyze the figures presented in the financial statements. The ASC may recommend revisions or even provide a new standard with respect to reporting standards that would cater to the needs of business entities.

The PICPA, through its circular and regular seminars, can update its members and thus, serve to upgrade the profession. The SEC may impose stricter guidelines and reject statements haphazardly made or submitted not in accordance with the standards.

The academe should continue to prepare students and make them more aware of the standards; while auditing firms, through their annual audits, should prepare the business sector with the objective of using a unified system of preparing and presenting financial statements.

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