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Balance Sheet Disclosures: An IFRS/PFRS Compliance Report of Ten Publicly Listed Companies in the Food Industry

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From the beginning of January 2005, publicly traded companies in the Philippines have had to comply with the Philippine Accounting Standards (PAS) and the Philippine Financial Reporting Standards (PFRS) for their consolidated financial statements. It has been suggested that the new accounting standards will facilitate the process of international harmonization of financial statements. This study shows the outcome of the examination of ten publicly listed companies in the food industry's financial reporting practices as regards their compliance with the financial reporting requirement embodied in PAS/PFRS and Securities Regulation code Rule 68 and 68.1.

Keywords: Balance sheet disclosures, Philippine Accounting Standards, Philippine Financial Reporting Standards

INTRODUCTION

To guarantee that business stakeholders have access to high quality financial information is not simply a matter of designing a body of accounting standards. What is most significant is real practice. A country may have the world's best accounting standards, but these are of no use if those tasked with the preparation of financial statements do not comply with these standards. However, as may happen in actual practice, the financial statements prepared by the business enterprises in the country often do not conform fully to the accounting standards they were based upon. Hence, it is normally the compliance mechanism, rather than the standards themselves, that is the weak link. The lack of an efficient and effective enforcement mechanism allows widespread non-compliance with local or international accounting standards.

In the Philippines, the national accounting standards are based on the International Accounting Standards (IAS). The IAS was fully adopted in the Philippines in 2005. In light of this new requirement, this study was conceived to check the compliance of ten publicly listed food companies in the Philippines with regard to balance sheet disclosures.

OBJECTIVES OF THE STUDY

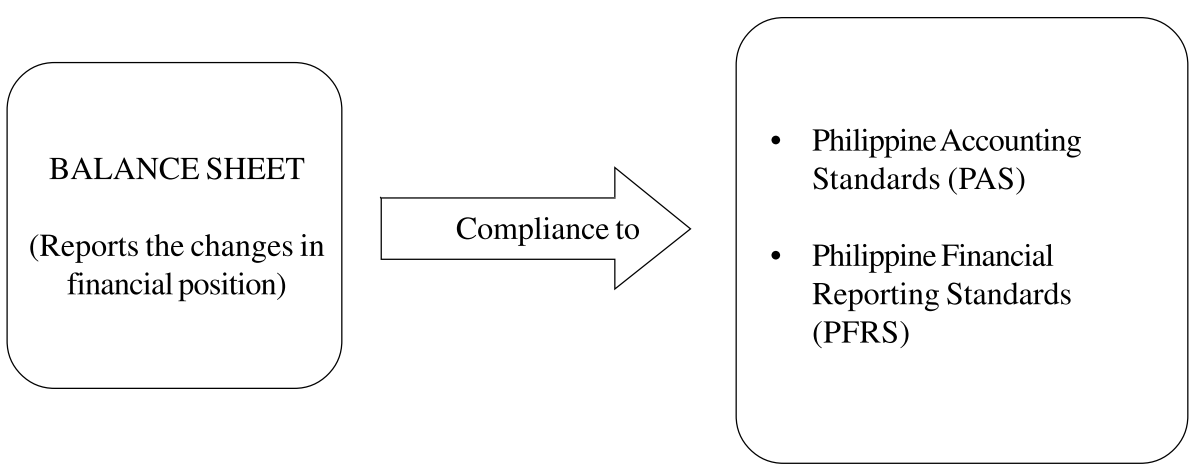
This study examined the balance sheets and the related notes disclosures of ten selected publicly listed food companies in the Philippines and referred to the use of PAS 1 as revised in 2005 in the presentation and preparation of financial statements. Also, this study referred to the use of the following standards:

1. PAS 2 *Inventories*
2. PAS 10 *Events After Balance Sheet Date*
3. PAS 12 *Income Taxes*
4. PAS 16 *Property, Plant and Equipment*
5. PAS 17 *Leases*
6. PAS 19 *Employee Benefits*
7. PAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
8. PAS 23 *Borrowing Costs*
9. PAS 24 *Related Party Disclosures*
10. PAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*
11. PAS 28 *Accounting for Investment in Associates*
12. PAS 31 *Interest in Joint Ventures*
13. PAS 32 *Financial Instruments: Disclosures and Presentation*
14. PAS 36 *Impairment of Assets*
15. PAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
16. PAS 38 *Intangible Assets*
17. PAS 40 *Investment Property*
18. PFRS 2 *Share Based Payment*
19. PFRS 3 *Business Combinations*

FRAMEWORK

The following framework was used in conducting this study.

Figure 1. **Framework of the study.**



Security and Exchange Commission – A Regulatory Body

The Corporation Code of the Philippines granted the Securities and Exchange Commission (SEC) the responsibility to regulate and supervise all activities of private stock and non-stock corporations. All corporations that have paid up capital of Php50,000 and above are required to file annually with the SEC their most recent financial statements certified by an independent certified public accountant (CPA).

The Securities Regulation Code (SRC) prescribes the powers and functions of the SEC and provides regulations for companies which have issued securities. Section 68 of the SRC on special accounting rules gives the SEC the authority to make, amend, and rescind accounting rules and regulations as may be required to carry out the provisions of the SRC. To implement the law, the SEC issued SRC Rules 68 and 68.1 setting forth the accounting and auditing requirements for financial statements to be submitted to the SEC.

SRC Rule 68, Rules and Regulations Covering Form and Content of Financial Statements, is generally applicable to all corporations registered with the SEC. It requires that financial statements filed with the SEC be prepared in accordance with generally accepted accounting principles (GAAP) in the Philippines. Starting 2005, all companies must comply with the International Financial Reporting Standards (IFRS).

SRC Rule 68.1 is applicable to publicly held companies, public companies having 200 or more shareholders (each holding at least 100 equity shares). This rule requires covered companies to include in their financial statements certain disclosures in addition to those required under the Philippine GAAP. It also requires a three-year comparative period and mandatory unqualified opinion by the external auditor as well as compliance with the interim financial reporting rules.

The Philippine Financial Reporting Standards

The Accounting Standards Council (ASC) issued the accounting requirements on the preparation and presentation of general-purpose financial statements. The Council started to adopt International Accounting Standards (IAS) as early as 1996. Prior to this, Philippine GAAPs were based mainly on US-based accounting standards. In 1997, ASC replaced US-based standards, adopted IAS, and updated previously issued IAS-based standards.

In 2005, the Accounting Standards Council completed the adoption of the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and the revised versions of previously adopted IASs. The ASC changed IAS to Philippine Accounting Standard (PAS) and IFRS to Philippine Financial Reporting Standard (PFRS). Also, by virtue of Republic Act No. 9298, the Philippine Accountancy Act of 2004, the ASC has been folded into the Financial Reporting Standard Council (FRSC).

As required by SEC, all registered corporations must submit annual financial statements. The complete set of financial statements comprises: (1) a balance sheet; (2) an income statement; (3) a statement of changes in equity showing either all changes in equity, or changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders; (4) a cash flow statement; and (5) notes, comprising a summary of significant accounting policies and other explanatory notes. According to PAS 1 paragraph 13, “financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.”

The Balance Sheet

The balance sheet reports the financial position of an entity as of a particular date. It presents three elements, namely: assets (resources owned), liabilities (present obligations), and equity (net assets). PAS 1 paragraph 51, states, "an entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 56-57 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity."

Current asset is an asset expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle; held primarily for the purpose of being traded expected to be realized within twelve months after the balance sheet date; or cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date. All other assets shall be classified as non-current.

Current liability is a liability expected to be settled in the entity's normal operating cycle; held primarily for the purpose of being traded; due to be settled within twelve months after the balance sheet date; or the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All other liabilities shall be classified as noncurrent.

PAS 1 Presentation of Financial Statements

PAS 1 paragraph 68 prescribes a list of items that are considered to be sufficiently different in nature or function to warrant presentation on the face of the balance sheet as separate line items. These items are (a) property, plant and equipment; (b) investment property; (c) intangible assets; (d) financial assets (excluding amounts under (e), (h) and (i)); (e) investments accounted for using the equity method; (f) biological assets; (g) inventories; (h) trade and other receivables; (i) cash and cash equivalents; (j) trade and other payables; (k) provisions; (l) financial liabilities (excluding amounts shown under (j) and (k)); (m) liabilities and assets for current tax, as defined in PAS 12; (n) deferred tax liabilities and deferred tax assets, as defined in PAS 12; (o) minority interest, presented within equity; and (p) issued capital and reserves attributable to equity holders of the parent.

The face of the balance sheet shall also include line items that present the following amounts: the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with PFRS 5; and liabilities included in disposal groups classified as held for sale in accordance with PFRS 5.

Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position. When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

PAS 2 Inventories

The financial statements shall disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used; (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity; (c) the carrying amount of inventories carried at fair value less costs to sell; (d) the amount of inventories recognized as an expense during the period; (e) the amount of any write-down of inventories recognized as an expense in the period; (f) the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period; (g) the circumstances or events that led to the reversal of a write-down of inventories; and (h) the carrying amount of inventories pledged as security for liabilities.

PAS 10 Events after Balance Sheet Date

An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact. If an entity receives information after the balance sheet date about conditions that existed at the balance sheet date, it shall update disclosures that relate to those conditions, in the light of the new information. And regarding any material non-adjusting events, the entity shall disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

PAS 12 Income Taxes

The major components of tax expense (income) shall be disclosed separately. The following shall also be disclosed separately: (a) the aggregate current and deferred tax relating to items that are charged or credited to equity; (b) an explanation of the relationship between tax expenses (income) and accounting profit; (c) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period; (d) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the balance sheet; (e) the aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, for which deferred tax liabilities have not been recognized; (f) the unused tax losses and unused tax credits in respect of each type of temporary differences; (g) the tax expense in respect of discontinued operations; (h) the amounts of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorized for issue, but are not recognized as a liability in the financial statements; (i) the amount of a deferred tax asset and the nature of the evidence supporting its recognition; and (j) the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.

PAS 16 Property, Plant and Equipment (PPE)

The disclosure requirements of IAS 16 apply to owned assets and to the amounts of leased assets held under finance leases in the lessee's accounts. The entity shall disclose the following: (a) the gross carrying amount and the accumulated depreciation (including accumulated impairment losses) for each class of PPE, at the beginning and end of each period presented; (b) a reconciliation of the carrying amount for each class of PPE at the beginning and end of each period; (c) PPE stated at revalued amounts; (d) the existence and amounts of PPE whose title is restricted; (e) the amounts of PPE pledged as security for liabilities; (f) the amount of expenditures on account of PPE in the course of construction; and (g) if it is not disclosed separately on the face of the income statement, the amount of compensation from third parties for items of PPE that were impaired, lost or given up and that is included in profit or loss.

PAS 17 Leases

Leases are financial instruments. The following disclosure requirements shall apply to lessees.

Finance leases. The entity shall disclose: (a) the net carrying amount for each class of assets at the balance sheet date; (b) a reconciliation between the total minimum lease payments at the balance sheet date, and their present value; c) the total of minimum lease payments at the balance sheet date, and their present value, for periods of no later than one year, later than one year but no later than five years, and later than five years; (d) the amount of contingent rents recognized in the income statement for the period; (e) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date; and (f) a general description of the lessee's significant leasing arrangements. It should be noted also that the disclosure requirements of PAS 16, PAS 36, PAS 38, PAS 40 and PAS 41 apply to lessees for assets leased under finance leases.

Operating leases. The following disclosures are required: (a) the total of future minimum lease payments under noncancellable operating leases for periods of no later than one year and no later than five years; and later than five years; (b) the total of future minimum sublease payments to be received under non-cancellable subleases at the balance sheet date; (c) lease and sublease payments recognized in the income statement for the period, with separate amounts for minimum lease payments, contingent rents and sublease payments; and (d) a general description of the lessee's significant leasing arrangements.

Arrangements that do not involve a lease in substance. For arrangements that do not involve a lease in substance, disclose the following, individually for each arrangement or in aggregate for each class of arrangement, in each period in which an arrangement exists: (a) a description of the arrangement including the underlying asset and restrictions on its use, the life and other significant terms of the arrangement, the transactions that are linked together, including any options; and (b) the accounting treatment applied to any fee received, the amount recognized in income in the period, and the line item of the income statement in which it is included.

The disclosure requirements about finance and operating leases also apply to sale and leaseback transactions. Any unique or unusual provisions in the agreements or terms of the sale and leaseback transactions should be separately disclosed. If a purchaser/lessee concludes that it is impractical to separate the lease payments in an finance lease/ operating lease reliably from other payments, it should treat all payments under the agreement as lease payments for the purpose of complying with the disclosures of PAS 17; but (a) disclose those payments separately from minimum lease payments that do not include payments for non-lease elements; and (b) state that the disclosed payments also include payments for non-lease elements in the arrangement.

PAS 19 Employee Benefits

Entities that have decided not to apply the option in recognition of actuarial gains and losses. The following are the required disclosures for post-employment benefits – defined benefit plans: (1) provide a general description of the type of defined benefit plan; (2) provide a reconciliation of the assets and liabilities recognized in the balance sheet; (3) where the amounts recognized in the balance sheet combine current and non-current amounts, disclose the amount of the non-current portion (where this can be determined, refer to IAS 19 paragraph 118) that is expected to be recovered or settled after more than12 months; (4) disclose the amounts included in the fair value of plan assets; (5) provide a reconciliation showing the movements during the period in the net liability (or asset) recognized in the balance sheet; (6) disclose the principal actuarial assumptions used as of the balance sheet date; (7) for multi-employer plans that are treated as defined benefit plans, disclose all of the above information; (8) for multi-employer plans that are treated as a defined contribution plan, disclose the fact that the plan is a defined benefit plan; the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and to the extent that a surplus or deficit in the plan may affect the amount of future contributions; and (9) On first-time adoption of PAS 19, an entity should determine its transitional liability in accordance with PAS 19 paragraph 154. If the transitional liability is more than the amount that would have been recognized at the same date under the entity's previous accounting policy, and if the entity chooses to recognize this difference on a straight-line basis over up to five years (it could alternatively be recognized immediately), the entity should disclose at each balance sheet date.

Entities that have decided to apply the option in recognition of actuarial gains and losses for a period beginning before 1 January 2006. The following are the required disclosures for post-employment benefits – defined benefit plans: (1) provide a general description of the type of defined benefit plan; (2) provide a reconciliation of opening and closing balances of the present value of the defined benefit obligation; (3) provide an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded; (4) provide a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset; (5) provide a reconciliation of the present value of the defined benefit obligation and the fair value of the plan assets to the assets and liabilities recognized in the balance sheet; (6) provide the total expense recognized in profit or loss; (7) provide the total amount recognized in the statement of recognized income and expense; (8) the cumulative amount of actuarial gains and losses recognized in the statement of recognized income and expense; (9) provide for each major category of plan assets – which should include, but not limited to, equity instruments, debt instruments, property, and all other assets – the percentage or amount that each major category constitutes of the fair value of the total plan assets; (10) provide the amounts included in the fair value of plan assets; (11) provide a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets; (12) provide the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset; (13) provide the principal actuarial assumptions used as of the balance sheet date; (14) provide the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates; (15) provide the amounts for the current annual period and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and the experience adjustments arising on the plan liabilities expressed either as an amount or percentage of the plan liabilities at the balance sheet date; and the plan assets expressed either as an amount, or a percentage of the plan assets at the balance sheet date; (16) provide the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date; (17) for multi-employer plans that are treated as defined benefit plans, disclose the information required by PAS 19R paragraph 120A; (18) for multi-employer plans that are treated as a defined contribution plan, disclose the fact that the plan is a defined benefit plan, the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan, and the extent that a surplus or deficit in the plan may affect the amount of future contribution; and (19) the risks between entities under common control.

PAS 20 Accounting for Government Grants and Disclosure of Government Assistance

The entity shall disclose the nature and extent of government grants recognized, an indication of other forms of government assistance from which the entity has directly benefited, and unfulfilled conditions and other contingencies related to government assistance that has been recognized.

PAS 23 Borrowing Costs

The standard requires disclosure of the amount of borrowing costs capitalized during the period, and the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

PAS 24 Related-party Disclosures

Relationships between parents and subsidiaries should be disclosed irrespective of whether there have been transactions between those related parties. Disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so should also be disclosed. Key management personnel compensation should be disclosed in total and for each of the following categories: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payments. Where there have been transactions between related parties, disclose the nature of related-party relationships; types of transactions; the amount of transactions; the amount of outstanding balances provisions for doubtful debts related to the amount of outstanding balances; and the expense recognized during the period in respect of bad or doubtful debts due from related parties.

The disclosures required above should be made separately for each of the following categories: the parent; entities with joint control or significant influence over the entity; subsidiaries; associates; joint ventures in which the entity is a venturer; entity's or parent's key management personnel; and other related parties. Where necessary for an understanding of the effects of related-party transactions on the financial statements, disclose items of similar nature separately, rather than in aggregate.

Only provide disclosures that related-party transactions were made on an arm's length basis if such terms can be substantiated. Separately provide disclosures where the entity re-acquires its own equity instruments from related parties.

PAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

In consolidated financial statements, the entity shall disclose: (a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power; (b) the reasons why the ownership, held directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control; (c) the reporting date of a subsidiary's financial statements when it is different from that of the parent; and the reason for using a different reporting date or period; and (d) the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.

When a parent (other than a parent covered by PAS 27 paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate, prepares separate financial statements, disclose: (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law; (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence proportion of ownership interest, and if different, proportion of voting power held; and (c) a description of the method used to account for the investments listed under (b). The entity should identify the consolidated financial statements prepared in accordance with PAS 27 paragraph 9, PAS 28, and PAS 31 to which the separate financial statements relate.

PAS 28 Investment in Associates

Associates accounted for using the equity method shall disclose associates as a separate item under non-current assets, the investor's share of the profit or loss of associates, and separately, the investor's share of any discontinued operations of associates.

The following disclosures should be made: (a) the fair value of investments in associates (individually) for which there are published price quotations; (b) summarized financial information of associates (individually for each significant associate), including the aggregated amounts of assets, liabilities, revenues and profit or loss; (c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting or potential voting power of the investee but concludes that it has significant influence; (d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20% or more of the voting or potential voting power of the investee but concludes that it does not have significant influence; (e) the reporting date of an associate's financial statements, when it is different from that of the investor, and the reason for using a different reporting date; (f) the nature and extent of any significant restrictions (for example, resulting from borrowing arrangements or regulatory requirements) on associates' ability to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances; (g) the unrecognized share of an associate's losses, both for the period and cumulatively, if an investor has discontinued recognition of its share of an associate's losses; (h) the fact that an associate is not accounted for using the equity method, in accordance with PAS 28 paragraph 13; and (i) summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

The investor's share of changes recognized directly in the associate's equity should be recognized directly in equity by the investor and should be disclosed in the statement of changes in equity, as required by PAS 1. In accordance with PAS 37, disclose the investor's share of an associate's contingent liabilities incurred jointly with other investors and those contingent liabilities that arise because the investor is liable for all or part of the liabilities of the associate.

PAS 31 Interest in Joint Ventures

A venturer should disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities; and the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.

The venturer should also disclose separately from other contingent liabilities any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers; its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and the contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

Likewise, disclose separately from other commitments the aggregate of any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and its share of the capital commitments of the joint ventures themselves.

PAS 32 Financial Instruments: Disclosures and Presentation

For available-for-sale financial assets, disclosure should be made on the amount of any gain or loss that was recognized in equity during the current period; and the amount that was removed from equity and reported in net profit or loss for the period. If the entity has reclassified a financial asset as one required to be measured at cost or amortized cost rather than at fair value, disclose the reason for the reclassification. Any impairment losses recognized during the period on receivables should be disclosed also.

The issuer of a non-derivative financial instrument should evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components should be classified separately as financial liabilities, financial assets or equity instruments, in accordance with PAS 32 paragraph 15.

PAS 36 Impairment of Assets

The disclosure requirements of PAS 36 apply to owned assets and to the amounts of leased assets held under finance leases in the lessee's accounts.

If an individual impairment loss (reversal) is material, disclose the events and circumstances resulting in the impairment loss; amount of the loss; individual asset: nature and segment to which it relates; cash generating unit: description, amount of impairment loss (reversal) by class of assets and segment; if recoverable amount is fair value less costs to sell, disclose the basis for determining fair value; if recoverable amount is value in use, disclose the discount rate.

If impairment losses recognized (reversed) are material in aggregate to the financial statements as a whole, disclose main classes of assets affected and main events and circumstances. Also, disclose detailed information about the estimates used to measure recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives.

PAS 37 Provisions, Contingent Liabilities and Contingent Assets

The entity shall disclose the reconciliation for each class of provision opening balance, additions, the amounts charged against provision, released or reversed, unwinding of the discount, and closing balance. Prior year reconciliation is not required. Likewise, for each class of provision, a brief description of the nature, timing, uncertainties, assumptions and reimbursement should be disclosed.

PAS 38 Intangible Assets

For each class of intangible asset, disclose useful life or amortization rate, amortization method, gross carrying amount, accumulated amortization and impairment losses, line items in the income statement in which amortization is included, reconciliation of the carrying amount at the beginning and the end of the period, basis for determining that an intangible has an indefinite life, description and carrying amount of individually material intangible assets, certain special disclosures about intangible assets acquired by way of government grants, information about intangible assets whose title is restricted, and commitments to acquire intangible assets. Additional disclosures are required about intangible assets carried at revalued amounts and the amount of research and development expenditure recognized as an expense in the current period.

PAS 39 Financial Instruments: Recognition and Measurement

Under PAS 39 financial assets are classified into (a) held at fair value through profit or loss (including trading); (b) held-to-maturity; (c) loans and receivables; and (d) available-for-sale. Although not required by PAS 39, it is useful to disclose a reconciliation of the carrying amount of financial assets at the beginning and end of the period showing movements, impairment losses and exchange differences arising on translation of the financial statements of a foreign entity when investments are significant.

PAS 40 Investment Property

For both Fair Value Model and Cost Model, disclosure should be made for the following: whether the fair value or the cost model is used; if the fair value model is used; whether property interests held under operating leases are classified and accounted for as investment property; if classification is difficult, the criteria to distinguish investment property from owner-occupied property and from property held for sale; the methods and significant assumptions applied in determining the fair value of investment property; the extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed; the amounts recognized in profit or loss; restrictions on the realizability of investment property or the remittance of income and proceeds of disposal; and contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance or enhancement.

A reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing additions, disposals, fair value adjustments, net foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes; significant adjustments to an outside valuation (if any); and if an entity that otherwise uses the fair value model measures an item of investment property using the cost model, certain additional disclosures are required.

If the entity uses the Cost Model, additional disclosures should be made for the depreciation methods used; the useful lives or the depreciation rates used; the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing additions, disposals, depreciation, impairment recognized or reversed, foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes; and the fair value of investment property. If the fair value of an item of investment property cannot be measured reliably, additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie.

PFRS 2 Share-Based Payments

The required disclosures for PFRS 2 include the nature and extent of share-based payment arrangements that existed during the period; how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

PFRS 3 Business Combinations

For each business combination (or in the aggregate for immaterial combinations), required disclosures by the acquirer include the names and descriptions of the combining entities or businesses; acquisition date; percentage of voting equity instruments acquired; cost of the combination; amounts recognized at the acquisition date for each class of the acquiree's assets, liabilities, and contingent liabilities, and, unless impracticable, the carrying amounts of each of those classes, determined in accordance with PFRSs, immediately before the combination; amount of any negative goodwill recognized in profit or loss; details about the factors that contributed to recognition of goodwill; and amount of the acquiree's profit or loss since the acquisition date included in the acquirer's profit or loss for the period, unless impracticable.

The following must also be disclosed unless impracticable: revenue of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of that period; and profit or loss of the combined entity for the period as though the acquisition date for all business combinations effected during the period had been the beginning of the period.

RESEARCH METHODOLOGY

This study substantially draws on secondary data. The 2006 annual reports of ten publicly listed food companies are assessed in terms of their compliance with the Philippine Generally Accepted Accounting Principles (GAAP). Assessment of the financial reports are focused on balance sheet disclosures such as the general disclosures, measurement uncertainty, property, plant and equipment, investment property, intangible assets (excluding goodwill), goodwill and "negative goodwill," impairment of assets, associates, joint ventures, subsidiaries, investments – financial assets, inventory, trade and other receivables, income taxes, trade and other payables, provisions, post-employment benefits – defined benefit plans, lease liabilities, borrowings and other liabilities, government grants, related-party transactions, commitments, contingencies and events after sheet date.

To date, there were 20 listed Philippine food and beverages companies. Of the 10 annual reports of food companies reviewed, six were audited by Sycip Gorres Velayo & Co., three by Manabat Sanagustin & Co., and one by Manabat Delgado Amper & Co. Nine were given unqualified opinion by their respective external auditors (this means that the financial position and results of operations of the companies audited were fairly presented in accordance with the generally accepted accounting principles) while one was given unqualified with explanatory paragraph opinion (see Table 1). The total assets of the ten food companies included in the study as of 31 December 2006 are presented in Table 1. The total assets of nine food companies were presented in Philippine Peso (Php) except for one company which was presented in US dollars (USD).

Table 1
List of Food Companies Reviewed Showing Their Total Assets and Respective External Auditors

Food Company*	Total Assets as of 31 December 2006	External Auditor	Auditor's Opinion
1. AB Food Co.	Php28,211,699,000	SGV & Co.	Unqualified
2. CD Food Corp.	Php1,806,175,124	Manabat Sanagustin & Co.	Unqualified
3. EF Food Inc.	USD13,943,906	Manabat Delgado Amper & Co.	Unqualified
4. GH Food Co.	Php19,058,594,054	SGV & Co.	Unqualified
5. IJ Food Inc.	Php1,868,399,000	SGV & Co.	Unqualified**
6. KL Food Corp.	Php1,169,728,023	SGV & Co.	Unqualified
7. MN Food Co.	Php349,584,000,000	Manabat Sanagustin & Co.	Unqualified
8. OP Food Corp.	Php59,689,944,915	SGV & Co.	Unqualified
9. QR Food Inc.	Phph14,275,803,000	Manabat Sanagustin & Co.	Unqualified
10. ST Food Corp.	Phph9,444,114,000	SGV & Co.	Unqualified

* Anonymous company names are used in the presentation of findings.
** Unqualified with explanatory paragraph

PRESENTATION AND ANALYSIS OF DATA

Summarized below are the findings of the study.

1. *General Disclosures*

Eight of the ten food companies examined were not able to comply with the prescribed line items on the face of the balance sheet. Out of the eight, five failed to present Financial Assets – Investment in Available for Sale Securities as a separate line item. It was reported either under the caption "Other non-current assets" or "Other assets." Two companies failed to present in the balance sheet Investment in Joint Venture. It was mentioned in their notes to financial statements that there was a joint venture with other company. The remaining company included goodwill and trademarks as part of the caption "Other non-current assets" instead of a separate line item as intangible assets. This is a violation of PAS 1 paragraph 68. Also, CD Food Corporation used the old account title "Marketable Securities." It should be replaced with the account title "Financial Assets at Fair Value through Profit and Loss" if it meets the criteria of this financial asset. Likewise, GH Food Company has no disclosure regarding the details of the account title "Short-term investments" under Current Assets. In their notes to financial statements, they stated that these short-term investments are classified under loans and receivables. If it is an investment, the account title should be made more specific like Financial Assets at FVPL (PAS 39).

Four companies had inadequate disclosures on "Other current assets/liabilities" and "Other non-current assets/liabilities." They should show the breakdown of these accounts because such presentation is relevant to an understanding of the entity's financial position. Some companies also committed wrong cross-referencing.

2. *Measurement Uncertainty*

All the ten companies whose 2006 annual reports were examined did not disclose relevant information on impairment of assets (e.g. key assumptions for cash flow projections, periods covered by projections, growth rates for extrapolations and discount rates in determining value in use). The methods and assumptions applied in determining fair values for the following were not disclosed: investment property, property, plant and equipment, intangible assets, and share based payments. The companies that were not compliant of this disclosure rule were: AB, CD, EF, GH, MN, OP, QR, and ST.

The nature, timing, and certainty of cash flows relating to contingencies and financial instruments were not disclosed by four companies as well as the terms and conditions that may affect the amount, timing and certainty of cash flows.

3. *Investment Property*

CD and GH did not explain why the fair value of investment property was not available. Likewise, there was no disclosure on the range of estimates within which the fair value of the investment property is highly likely to lie. Meanwhile, the useful life of Buildings and Improvements under Investment Properties was not disclosed by ST.

4. *Intangible Assets (Excluding Goodwill)*

AB and OP reported trademark, formulas, and recipes. These are considered intangible assets with indefinite useful lives. There was no disclosure, however, regarding the reasons supporting the assessment of an indefinite useful life for these intangible assets. AB did not present a statement indicating that trademark, formulae, and recipes were not impaired for years 2005 and 2006. Hence, there was no movement for these intangible assets.

Surprisingly, GH, IJ, QR, and ST have registered trademarks for the company brands but intangible assets were not recognized. KL showed trademarks and goodwill as the breakdown of Intangible Assets. Supporting schedule, on the other hand, includes recipes among its intangible assets. Nothing was mentioned regarding recipes in the notes to financial statements.

5. *Goodwill and "Negative Goodwill"*

AB did not provide a reconciliation of the carrying amount of goodwill. PAS 1 paragraph 36 also requires the comparative information for these items.

6. *Impairment of Assets*

There were no specific procedures disclosed regarding testing of impairment of financial and non-financial assets by AB and CD. AB did not indicate that goodwill was not impaired for years 2005 and 2006. Hence, there is no movement for goodwill. There was no specific procedure disclosed regarding the estimation of asset impairment to conclude that there was no impairment loss to be recognized in 2006 as shown in the notes by IJ. While KL made no disclosure on specific procedure regarding the estimation of asset impairment to conclude that there is no impairment loss to be recognized in 2006 as shown in the notes. In addition, there were no methods and assumptions disclosed regarding the projections made by management on cash flows (arising from the investee where the goodwill relates) that will support their indication that goodwill was not impaired.

7. *Associates*

There was no disclosure on the fair value of investment in associates by MN, OP, and ST. Meanwhile, MN did not disclose the summary of financial information of associates (individually for each significant associate), including the aggregated amounts of assets, liabilities, revenues, and profit or loss. This is a violation of PAS 28 paragraph 37.

8. *Joint Venture*

There was no disclosure on the aggregate amounts of each current assets, long-term assets, current liabilities, long-term liabilities, income, and expenses related to its interest in joint ventures by KL.

9. *Inventory*

PAS 2 requires preparers of financial statements to value inventories at lower of cost or net realizable at balance sheet date. Three companies failed to disclose whether its carrying value is at cost or at its net realizable value. Disclosure regarding the amount of inventory write-down recognized as expense during the period was not complied with by GH, KL, and MN. Only ST made no disclosure on the circumstances and events leading to the reversal of allowance for inventory obsolescence.

10. Income Taxes

Current income tax liabilities should be presented separately on the face of the balance sheet as per PAS 1 paragraph 68. The companies which were not compliant of this disclosure requirement were CD, GH, IJ, and ST.

11. Provisions

Provisions (a liability of uncertain timing or amount) reported by ST do not provide a brief description of the expected timing of any resulting outflows of economic benefits, an indication of the uncertainties about the amount or timing of those outflows, and the amount of any expected reimbursement, and stating the amount of any asset that has been recognized for that expected reimbursement.

12. Post-employment Benefits – Defined Benefit Plan

Based on the examination of CD's 2006 financial reports, the following were noted: (1) there was no provision for reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset in accordance with IAS 19R paragraph 104A; (2) there was no provision for reconciliation of the opening and closing balances of the present value of obligations at balance sheet date; and (c) there was no disclosure for each major category of plan assets – which should include, but not limited to, equity instruments, debts instruments, property, and all other assets – the percentage or amount that each major category constitutes of the fair value of the total plan assets; and the amounts included in the fair value of plan assets for each category of the entity's own financial assets and any property occupied by, or other assets used by the entity.

IJ did not provide a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset in accordance with IAS 19R paragraph 104A. Meanwhile, KL did not report the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with IAS 19R paragraph 104A.

13. Borrowings and Other Liabilities

Borrowings are financial instruments; therefore, all the PAS 32 disclosure requirements also apply to borrowings. KL mentioned in the notes to financial statements that the long-term debt is collateralized by a chattel mortgage of owned assets. This note failed to mention the specific asset accounts pledged as collateral as well as its carrying value. The company failed to disclose the nature and amount or extent of assets pledged against the mortgage payable, interest rates, amounts or number of periodic installments and maturity dates, any restrictive covenants, and any other requirements of the mortgage agreements. Also, the asset pledged against secured loans payable was not disclosed.

14. Related-Party Transactions

Paragraph 16 of PAS 24 requires the disclosure of key management personnel compensation showing the amount for each of the following categories: (1) short-term employee benefits, (2) post-employment benefits, (3) other long-term benefits, (4) termination benefits, and (5) share-based payments. Of the ten companies whose 2006 annual reports were examined, two did not disclose the amount of key management personnel compensation.

Where there have been transactions between related parties, the nature of related-party relationships should be disclosed. QR and ST did not comply with this disclosure rule. As regards to relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties, there is a need to disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so should also be disclosed. Only QR did not comply with these disclosure requirements. Again, ST was guilty of non-disclosure of the related provisions for bad debts and the expense recognized during the period in respect of bad debts due from related parties. Lastly, OP did not mention whether outstanding balances on trade receivable from related parties are secured or not. The terms, conditions, and the nature of consideration to be provided and any guarantees received for these transactions were also not disclosed.

15. Share-based Payments

The cost of the Employee Stock Purchase Plan (ESPP) is measured by reference to the market price at the time of grant less subscription price. This cost is computed using the intrinsic value method. PFRS 2 states that the fair value method should be used for stock options. The intrinsic value method can be used only if the fair value of the option cannot be determined. AB and QR did not specify that the fair value of the stock option under ESPP couldn't be determined.

Summary

Table 2 summarizes the non-compliance of the ten selected publicly listed food companies with regards to PAS and PFRS related to balance sheet disclosures.

Table 2
Analysis of Non-Compliance to PAS/PFRS of Ten Food Companies

	Food Companies									
	AB	CD	EF	GH	IJ	KL	MN	OP	QR	ST
PAS 1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
PAS 2		✓		✓		✓	✓	✓		✓
PAS 10										
PAS 12		✓		✓	✓					✓
PAS 16										
PAS 17										
PAS 19		✓			✓	✓				
PAS 20										
PAS 23										
PAS 24				✓				✓	✓	✓
PAS 27										
PAS 28							✓	✓		✓
PAS 31						✓				
PAS 32										
PAS 36	✓	✓			✓	✓				
PAS37										✓
PAS 38	✓			✓	✓	✓		✓	✓	✓
PAS 40		✓		✓						
PFRS 2	✓								✓	
PFRS 3	✓									

Based on Table 2, the top five accounting standards not fully-complied with by ten-selected food companies are the following:

1. PAS 1 *Presentation of Financial Statements* has a 100% non-compliance rate.
2. PAS 38 *Intangible Asset* has a 70% non-compliance rate.
3. PAS 2 *Inventories* has a 60% non-compliance rate.
4. PAS 12 *Income Taxes,* PAS 24 *Related-Party Disclosures*, and PAS 36 *Impairment of Assets* have 40% non-compliance rates.
5. PAS 19 *Employee Benefits*, PAS 28 *Investment in Associates* have 30% non-compliance rates.

Reason for Non-compliance with PAS/PFRS among Food Companies

PAS/PFRS have become increasingly more complex and subjective in recent years, requiring procedural proficiency to understand and apply the pertinent provisions. There have also been rapid changes to various standards arising from improvements and union projects. In addition, there have been various changes to standards on the presentation of financial statements, on accounting policies; and in accounting estimates and errors.

The move towards the fair value model has also posed difficulties. It is a subjective concept and is complicated to implement. Fair value has been defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. However, while the theory is easy to understand, determination of fair value has been very difficult and, at times, impossible. There is a need for further discussion on the use of fair values. The lack of accurate and reliable data on discount rate volatility, industry or company data to support cash-flow trends, crop yields, loan yields, loan default rate, and the lack of markets or underdevelopment of the existing ones has made the situation worse. There is a need to establish which items can be measured at fair values and which items cannot. The establishment of sector benchmarks will also help in determining fair values for some items.

CONCLUSION AND RECOMMENDATIONS

A financial reporting system supported by high quality IFRS is vital to trade and industry development. Improved levels of globalization are emphasizing the significant role of a common financial reporting framework supported by strong internationally accepted financial reporting standards. However, the implementation of the standards will continue to pose a challenge. The fact that, even after nine years since the adoption of IFRS in the Philippines, compliance levels remain quite low among companies in the Philippines attests to this fact.

A multi-faceted approach is necessary to improve implementation of international reporting and auditing standards. The focal point should be to simplify the standards themselves and create a firm policy or period during which no new standards are issued until the existing ones have been and thoroughly understood. The diverse reporting needs of different categories of companies, including those of small and medium enterprises must be taken into consideration. These require a highly simplified set of standards to encourage compliance at these levels.

The education process also needs to be addressed, as this equips preparers and auditors with the tools they need to understand and participate in the financial reporting process using IFRS and ISAs. In this case, the education process should comprise both the pre- and post-accountancy qualification phases. Accountants need to continuously evaluate and improve their skills set so as to remain relevant. In this regard, the Philippine Institute of CPAs and other professional bodies must be continuously strengthened so as to ensure that their members remain relevant and committed to the adoption of and compliance with international reporting standards.

Finally, those pursuing the implementation of IFRS need to be persistent and unrelenting, however overwhelming the challenge may appear.

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