An Excerpt from the SEC Commissioned Report: A Balance Sheet Disclosure Compliance Check of Ten Publicly-Listed Companies

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This study is an excerpt of a SEC-commissioned report. It investigated the extent of compliance of 10 publicly-listed finance companies with regard to the provisions of relevant PFRS/PAS on balance sheet disclosure requirements. This was accomplished by examining the balance sheet and the related note disclosures of the 10 companies. It was found the all 10 companies had deficiencies in their balance sheet disclosures. It can be implied from this study that deficiencies in disclosure requirements stem from the standards themselves. Recommendations for the improvement of disclosure compliance were provided.

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

Under the Securities Regulation Code (Republic Act No. 8799), the Philippine Securities and Exchange Commission (SEC) was expanded to include a department that will focus on supervising and monitoring the operations of registered companies. To assist this department in carrying out its function, the SEC issued SRC Rules 68 and 68.1.

SRC 68 (entitled Rules and Regulations Covering Form and Content of Financial Statements) is 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. Companies are mandated to adopt the new accounting standards called Philippine Financial Reporting Standard (PFRS) and Philippine Accounting Standard (PAS) starting with 2005 financial statements. These local standards are based on international accounting standards (IAS). SRC 68.1, on the other hand is a rule that requires public companies with 200 or more shareholders to include in their financial statements certain disclosures in addition to those required in the Philippine GAAP. It requires a three-year comparative period and mandatory unqualified opinion by the external auditor as well as compliance with interim financial reporting rules (www.sec.gov.ph).

The second year of adoption of the new PFRS/PAS was 2006. The period of transition is over and companies are expected to have complied with the provisions of the new accounting standards.

In October 2007, De La Salle University (Manila, Philippines), through its Accountancy

Department, was commissioned by the Philippine Securities and Exchange Commission to review the 100 sets of 2006 financial statements of selected publicly-listed companies and other secondary licensees of the SEC. The reviews were conducted pursuant to Securities Regulation Code (SRC) Rules 68 and 68.1 (as amended), generally accepted accounting principles (GAAP), Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS), and SEC pronouncements.

The review included a determination of the extent of compliance of disclosure requirements, which will guide the SEC in monitoring the reliability of the financial statements issued by the corporations. It also aided the SEC in resolving whether or not to conduct an on-site examination of the books of accounts and records of a particular subject company.

This study is an excerpt of the SEC-commissioned report. It aims to investigate the extent of compliance of 10 publicly-listed finance companies with regard to the provisions of relevant PFRS/PAS on balance sheet disclosure requirements. This will be accomplished by examining the balance sheet and the related note disclosures of the 10 selected companies with reference to the adoption of the following relevant PFRS/PAS (see the Appendix for full descriptions):

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

It will also determine common audit findings among the 10 selected companies and make recommendations for the improvement in the compliance to balance sheet disclosures of companies.

REVIEW OF RELATED LITERATURE

Literatures on accounting regulation in different parts of the world (Nolan, 2006; Ali, 2005; Street & Linthicum, 2007; Parsa, Chong, & Isimoya, 2007) have emphasized the role of regulatory agencies in monitoring the financial reporting activities of corporations. The literatures also show that problems arise between regulation and compliance to the new standards. Corporations in countries like the U.S., Ireland, and England have encountered technical problems in the implementation of accounting standards to the satisfaction of their government regulatory agencies. The U.S. SEC have cited complicated accounting standards such as the standard on financial instruments as a “tough” standard to understand and implement, giving rise to compliance problems. On the other hand, Australia’s good progress towards implementing IFRS can be attributed to effective information dissemination among directors, managers, and other users of the financial reports regarding the impact of the new accounting standards. This study attempts to look at the Philippine experience.

FRAMEWORK AND METHODOLOGY

The framework used in this study is illustrated in Figure 1.

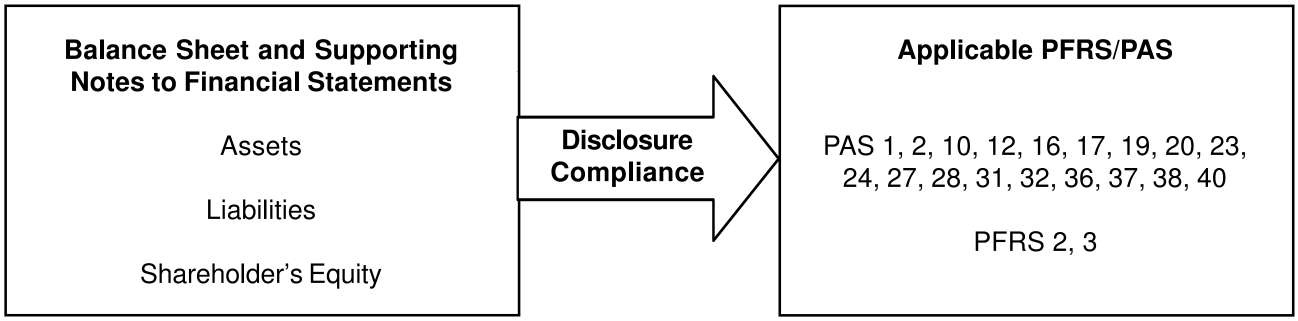

Figure 1. *Framework of the Study*

This study made use of the 2006 annual reports of 10 publicly-listed finance companies. The balance sheets, together with the corresponding notes to financial statements, were audited using the IFRS Disclosure Checklist 2006 provided by SEC.

As of March 2007, there are about 600 finance companies in the Philippines registered with SEC. This study focused on the top 10 companies based on total assets. Because the real names of these companies cannot be divulged, codenames will be provided.

PROFILE OF THE TEN PUBLICLY-LISTED FINANCE COMPANIES

Table 1 describes the 10 publicly-listed companies chosen for this study in terms of total assets, name of external auditor, and auditor's opinion:

The total assets of the 10 companies range from a high of PHP9.8 billion to a low of PHP285 million. Six of the 10 finance companies are audited by SGV & Co., two by Punongbayan & Araullo, one by Isla Lipana & Co., and one by Manabat

Table 1
List of Companies Used in the Study

Finance Company	Total Assets as of December 31, 2006	External Auditor	Auditor's Opinion
1. Green Company	PHP 9,777,097,669	SGV & Co,	Unqualified
2. Blue Company	5,941,746,818	SGV & Co,	Unqualified
3. Red Company	4,652,360,771*	SGV & Co,	Unqualified
4. White Company	4,393,686,000	Isla Lipana & Co.	Unqualified
5. Black Company	3,071,291,857	SGV & Co,	Unqualified
6. Brown Company	1,249,746,470**	Punongbayan & Araullo	Unqualified
7. Orange Company	742,097,938	Punongbayan & Araullo	Unqualified
8. Yellow Company	588,627,391	SGV & Co,	Unqualified
9. Violet Company	522,695,538	Manabat Sanagustin & Co.	Unqualified
10. Beige Company	285,417,779	SGV & Co,	Unqualified

* – as of September 30, 2006; ** – as of March 31, 2006

Sanagustin & Co. All the external auditors of the 10 companies issued an unqualified opinion. This means that the financial position and results of operation of the companies audited were fairly presented in accordance with generally accepted accounting principles.

1. **Green Company** is a domestic corporation. It is a leasing and financing entity, which provides direct leases, sale-and-leaseback arrangement, and real estate leases. Its financing products include amortized commercial and consumer loans, installment paper purchases, employee personal loans, receivables discounting, and factoring.
2. **Blue Company** is engaged primarily in the acquisition, holding and restructuring of loans, evidences of indebtedness, mortgages, deeds and other security documents, all pertaining to low-cost housing. The company also extends credit facilities to residential consumers and commercial enterprises by direct lending; by discounting or factoring commercial paper or accounts receivable; by sales finance; by buying and selling contracts, leases, chattel mortgages or other evidences of indebtedness; by financial and operating leases of property; or by taking the grant of real estate mortgages.
3. **Red Company's** primary purpose is to engage in financing by leasing all kinds of real and personal property, extending credit facilities to consumers and enterprises by discounting commercial papers or accounts receivable, or by buying and selling evidences of indebtedness, and underwriting of securities.
4. **White Company** is engaged in the business of leasing, including extending credit facilities, and acquiring and leasing of all kinds of personal and real properties. It also has a quasi-banking license granted by the Bangko Sentral ng Pilipinas.
5. **Black Company** is engaged in extending credit facilities to consumers by direct lending both secured and unsecured.
6. **Brown Company** is a financial services company. Its primary purpose is to extend credit facilities to customers and to industrial, commercial, or agricultural enterprises by discounting, rediscounting, or factoring commercial papers or receivables, and by buying or selling contracts, leases, chattel mortgages, or other evidences of indebtedness.
7. **Orange Company** was incorporated in the Philippines and registered with the SEC primarily to engage in general financing and investment business.
8. **Yellow Company** is a non-quasi bank finance company. It was established to augment the financial services offered by its parent company. It offers a wide range of financial products such as financing of receivables, which includes purchasing of installment papers and domestic bills, and discounting of lease contracts. It also offers financing for the acquisition or lease of vehicles and equipment. The company also provides amortized commercial loans for corporations and other commercial companies to help finance their operations.
9. **Violet Company** was incorporated in the Philippines and registered with SEC in the late 1960s. It is currently engaged in the business of a lending investor and lending money to persons and entities.
10. **Beige Company** was registered with the Philippine SEC primarily to engage in financing activities.

PRESENTATION OF DATA

Each of the 10 finance companies is treated as a case analysis. Since this study is descriptive in nature, data will be presented and analyzed per company and will focus on the deficiencies uncovered during the audit.

Based on the compliance check on **Green Company**, the following deficiencies were uncovered:

1. The methods and assumptions applied in determining fair values of property, plant, and equipment were not disclosed.
2. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
3. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations, and discount rates in determining value in use.
4. There should be disclosures on whether the related party transactions are secured or not, the nature of consideration to be provided as settlement; and any guarantees given or received.
5. There should be disclosures on whether the company has significant net foreign currency exposures.

The audit of the balance sheet disclosure requirements of **Blue Company** revealed the following:

1. There was no separate line item for income tax payable.
2. There was no breakdown of prepayments and other current assets.
3. There was no separate line item for real Property Inventories. It is grouped together under the caption "Prepayments and Other Current Assets". As such, the carrying amount of this inventory account cannot be determined.
4. The amount of inventory write-down recognized as expense during the period was not disclosed.
5. Note 19 had no disclosure on contingencies.
6. There was no analysis of assets and liabilities in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
7. There should be a separate line item for receivables from related parties.
8. There was no disclosure of key management personnel compensation.
9. There was no clear information or breakdown of accrued expenses under "Accounts Payable and Accrued Expenses".
10. There should be disclosures on whether loans and receivables has non-current portion. The corresponding collection period or terms must be disclosed also.
11. There was no disclosure regarding the type of asset/s given as mortgage on long-term debts.
12. A rental expense account was reported on the income statement but the company failed to disclose the following:
    a. The general description of the lessee's leasing arrangements which would include but is not limited to: (1) the basis on which contingent rent payments are determined; (2) the existence and terms of renewal or purchase options and escalation clauses; and (3) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing; and
    b. The total of future minimum payments for the periods of no later than one year, later than one year and no later than five years, and later than five years.

The compliance check showed the following deficiencies for **Red Company**:

1. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
2. The methods and assumptions applied in determining fair values of property, plant and equipment, and investment property were not disclosed.
3. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates

for extrapolations, and discount rates in determining value in use.

4. There was no separate line item for intangible assets. Local vehicle franchises, non-competition agreements and software costs were made part of other assets.
5. There was no disclosure regarding the estimated useful life of software costs.
6. Local vehicle franchise has an indefinite life. There was no disclosure on the reasons supporting the assessment of an indefinite useful life.
7. There was no analysis of assets and liabilities in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
8. There was no clear information or breakdown of "Accounts Payable and Other Liabilities – Accrued Expenses" and "Accounts Payable and Other Liabilities – Others".
9. There should be disclosure regarding the portion of allowance for bad debts pertaining to related parties and the expense recognized during the period with respect to bad debts from related parties.
10. On employee benefits, there were no disclosures on the following:
    a. Provision for each major category of plan assets – which should include, but is 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;
    b. 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; and
    c. A narrative description of the basis used to determine the overall expected return on assets including the effect of the major categories of plan assets.

The audit of the balance sheet disclosure requirements on **White Company** revealed the following findings:

1. The caption "Equity Investments" should be replaced with "Investments in Subsidiaries".
2. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
3. There was no disclosure regarding the fair values of each class of financial assets and financial liabilities.
4. Note 11 on "Assets Held for Sale" had no disclosure regarding the basis of its carrying amount. There was no disclosure regarding its fair value less cost to sell.
5. There should be disclosure on the term of deposit of the account due from Bangko Sentral ng Pilipinas.
6. There was no disclosure of the accounting policy that describes the basis on which uncollectible loans and advances are recognized as an expense and when it is written off.

The audit of the balance sheet disclosures on **Black Company** revealed the following deficiencies:

1. There was no separate line item for intangible assets. Goodwill and software costs were grouped together under the caption "Other Assets".
2. The nature, timing, and certainty of cash flows relating to contingencies are not disclosed.
3. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and periods covered by these projections, growth rates for extrapolations, and discount rates in determining value in use.
4. There was no disclosure regarding the nature of the relationship with Jardine Pacific Finance, which was mentioned in Note 2 on "Accounting Policies on Goodwill".

5. There was no disclosure regarding the main events and circumstances that led to the full impairment of goodwill.
6. There was no disclosure of the accounting policy that describes the basis on which uncollectible loans and receivables are recognized as an expense and when it is written off.
7. There was no clear information or breakdown of the following:
   a. "Other Assets – Prepaid Expenses";
   b. "Other Assets – Others";
   c. "Accrued Taxes, Interest" and "Other Expenses – Accrued Other Expenses"; and
   d. other liabilities
8. There should be a separate line item for income tax payable.
9. There was no disclosure on key management personnel compensation.
10. On related party transactions, there should be disclosure of the following:
    a. The nature of the related party relationship;
    b. Types of transactions;
    c. The amount of transactions;
    d. The amount of outstanding balances (including the terms and conditions, secured or not, the nature of consideration to be provided in settlement and any guarantees given or received);
    e. Provisions for doubtful debts related to the amount of outstanding balances; and
    f. The expense recognized during the period with respect to bad debts from related parties.
11. There should be disclosure of significant net foreign currency exposures.
12. There should be disclosure of significant geographical, customer or industry group, or other risk concentrations of assets, liabilities and off-balance sheet items.

A compliance check of **Brown Company's** balance sheet together with the notes to financial statements showed the following findings:

1. The caption "Investment Securities" should be replaced with "Investment in Available for Sale Securities and Held-to-Maturity Investments".
2. There was no separate line item for investment property. It was grouped together under the caption "Other Assets".
3. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
4. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and periods covered by these projections, growth rates for extrapolations and discount rates in determining value in use.
5. For land at revalued amount, there was no disclosure regarding its carrying amount that would have been recognized had this asset been carried under the cost model.
6. There was no reconciliation of the carrying amount of investment property.
7. Note 10 on "Non-Current Assets Held for Sale" had no disclosure regarding the basis of its carrying amount. There was no disclosure regarding its fair value less cost to sell.
8. There was no analysis of assets and liabilities in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
9. There was no clear information or breakdown of "Bills Payable – Others".
10. There should be a separate line item for income tax payable.
11. There should be a separate line item for deferred tax assets.
12. There should be disclosure regarding the portion of allowance for bad debts pertaining to related parties and the expense recognized during the period with respect to bad debts from related parties.
13. On the retirement benefit plan, there should be disclosure of the following:

a. 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 PAS 19R;
b. A reconciliation of the present value of the defined benefit obligation: (i) for each major category of plan assets – which should include, but is 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; (ii) 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; and (iii) a narrative description of the basis used to determine the overall expected return on assets, including the effect of the major categories of plan assets; and
c. The actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with PAS 19R.

Based on the compliance check performed on **Orange Company**, the following deficiencies are uncovered:

1. There was no separate line item for held-to-maturity investments. It is grouped together under the caption "Other Assets".
2. The nature, timing, and, certainty of cash flows relating to contingencies were not disclosed.
3. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations, and discount rates in determining value in use.
4. There was no analysis of assets and liabilities in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
5. There was no disclosure regarding the net carrying amount for each class of property, plant, and equipment held under finance lease.
6. There was no clear information or breakdown on "Other Assets – Miscellaneous".
7. There should be a separate line item for receivable from related parties.
8. There should be disclosure of the expense recognized during the period with respect to bad debts on receivable from related parties.
9. There should be a separate line item for bills payable to related parties.
10. There were no disclosures about the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with PAS 19R.
11. There should be disclosure of significant net foreign currency exposures.

The audit findings for **Yellow Company** are as follows:

1. There was no disclosure regarding contingencies.
2. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations and discount rates in determining value in use.
3. There should be disclosure of the following:
   a. The accounting policy that describes the basis on which uncollectible loans and receivables are recognized as an expense and when it is written off;
   b. Details of the movements in any allowance account for impairment losses on loans and receivables during the period; disclose separately the amount recognized as an expense in the

period of impairment losses on uncollectible loans and advances, the amount charged in the period for loans and advances written off and the amount credited in the period for loans and advances previously written off that have been recovered; and

c. The aggregate amount of any allowance account for impairment losses on loans and advances at the balance sheet date.

4. There was no clear information or breakdown of the "Trust Fund" and "Refundable Deposits" accounts.
5. Since "Bills Payables" are purely related party payables, this can be reclassified as "Payable to Related Parties."
6. There were no disclosures about the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with PAS 19R.
7. A rental expense account was reported on the income statement but the company failed to disclose the following:
   a. The general description of the lessee's leasing arrangements that would include but is not limited to: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.
   b. The total of future minimum payments for the periods of no later than one year, later than one year and no later than five years, and later than five years.

The findings for **Violet Company** are as follows:

1. There was no disclosure regarding the breakdown of cash and cash equivalents.
2. The caption "Investment Securities" should be replaced with "Investment in Available for Sale Securities".
3. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
4. The methods and assumptions applied in determining fair values of property, plant, and equipment and investment property were not disclosed.
5. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations, and discount rates in determining value in use.
6. There is no disclosure regarding the fair market value of investment property.
7. Note 13 on "Other Assets" showed no breakdown of "Others".
8. Note 10 on "Non-Current Assets Held for Sale" had no disclosure regarding its fair market value less cost to sell.
9. There should be disclosure if bills payable has current or non-current portions.
10. There were no disclosures about the actual return on plan assets, as well as the actual return on any reimbursement right recognized as an asset in accordance with PAS 19R.
11. There should be separate line items for "Due from Related Parties" and "Bills Payable to Related Parties".
12. There should be disclosure whether the related party transactions are secured or not, the nature of consideration to be provided as settlement, and any guarantees given or received.
13. A rental expense account is reported on the income statement but the company failed to disclose the following:
    a. The general description of the lessee's leasing arrangements that would include but is not limited to: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such

as those concerning dividends, additional debt and further leasing; and

b. The total of future minimum payments for the periods of no later than one year, later than one year and no later than five years, and later than five years.

Based on the audit of the balance sheet disclosures, the following are the findings for **Beige Company**:

1. The nature, timing, and certainty of cash flows relating to contingencies were not disclosed.
2. The methods and assumptions applied in determining fair values of property, plant, and equipment and investment property were not disclosed.
3. There were no relevant disclosures on impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations, and discount rates in determining value in use.
4. There was no breakdown of prepaid expenses and other current assets.
5. There was no disclosure on the fair market value of investment properties.
6. There was no note on "Condominium Units for Sale". Its net realizable value was not disclosed.
7. There should be disclosure whether the "Advances to Parent Co." was secured or not, the nature of consideration to be provided as settlement, and any guarantees given or received.
8. There was no clear information or breakdown of "Receivables – Others" and "Deferred Credits".
9. There was no adequate disclosure on defined benefit cost.
10. There should be disclosure of the accounting policy that describes the basis on which uncollectible loans and advances are recognized as an expense and when it is written off.
11. A rental expense account was reported on the income statement but the company failed to disclose the following:
    a. The general description of the lessee's leasing arrangements that would include but is not limited to: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing; and
    b. The total of future minimum payments for the periods of no later than one year, later than one year and no later than five years, and later than five years.

ANALYSIS OF FINDINGS

Based on the results of the compliance check of the balance sheet disclosure requirements of the 10 publicly-listed companies, the following insights are derived:

Analysis of Non-Compliance

Table 2 summarizes the analysis of the research findings. A ranking of the 10 companies based on number of deficiencies is presented in Table 3.

None of the companies had a 100% compliance rate. Green Company topped the list with only five deficiency items while Brown Company and Violet Company ranked the lowest with 13 deficiency items. The rest of the companies had deficiencies ranging from 6 to 12 items.

A ranking of the 10 companies based on the number of PFRS/PAS affected is presented in Table 4.

All the companies failed to comply fully with the disclosure requirements of the relevant PFRS/PAS. Among the 10 companies, White Company ranked first with only PFRS/PAS affected. Red Company and Violet Companies ranked last with eight PFRS/PAS affected.

White Company had the highest compliance rate among the 10 companies in terms of both number of deficiencies and PFRS/PAS affected. On the other hand, Violet Company has the lowest compliance rate based on number of deficiencies and PFRS/PAS affected.

Implications of Deficiencies

Among the 10 publicly-listed finance companies, there are common audit findings. For instance, there are nine companies that failed to disclose the nature, timing, and certainty of cash flows relating to contingencies. This disclosure requirement is in accordance with PAS 37 (Provisions, Contingent Liabilities and Contingent Assets). Eight companies failed to provide information regarding impairment of assets like key assumptions for cash flow projections and the periods covered by these projections, growth rates for extrapolations and discount rates in determining value in use. This disclosure requirement is in accordance with PAS 36 (Impairment of Assets).

Eight companies failed to make disclosures regarding PAS 32 (Financial Instruments). For instance, these companies have no disclosures on significant net foreign currency exposures, the accounting policy that describes the basis on which uncollectible loans and advances are recognized as an expense and when it is written off, and the

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

Company Name	Number of Deficiencies	PFRS/PAS Affected	Number of PFRS/PAS Affected
1. Green Company	5	PAS 16, PAS 24, PAS 32, PAS 36, PAS 37,	5
2. Blue Company	12	PAS 1, PAS 2, PAS 17, PAS 24, PAS 37	5
3. Red Company	10	PAS 1, PAS 16, PAS 19, PAS 32, PAS 36, PAS 37, PAS 38, PAS 40,	8
4. White Company	6	PAS 32, PAS 37	2
5. Black Company	12	PAS 1, PAS 24, PAS 32, PAS 36, PAS 37, PAS 38, PFRS 3	7
6. Brown Company	13	PAS 16, PAS 19, PAS 32, PAS 36, PAS 37, PAS 40,	6
7. Orange Company	11	PAS 1, PAS 16, PAS 19, PAS 32, PAS 36, PAS 37	6
8. Yellow Company	7	PAS 17, PAS 19, PAS 32, PAS 36, PAS 37,	5
9. Violet Company	13	PAS 16, PAS 17, PAS 19, PAS 24, PAS 32, PAS 36, PAS 37, PAS 40	8
10. Beige Company	11	PAS 16, PAS 17, PAS 19, PAS 36, PAS 37, PAS 40	6

Table 3
Ranking of the Ten Companies Based on Number of Deficiencies

Company Name	Rank	Level of Compliance
Green Company	1	High
White Company	2	High
Yellow Company	3	High
Red Company	4	Average
Orange Company Beige Company	5	Average
Blue Company Black Company	6	Low
Brown Company Violet Company	7	Low

Table 4
Ranking of the Ten Companies Based on Number of PFRS/PAS Affected

Company Name	Rank	Level of Compliance
White Company	1	High
Green Company Blue Company Yellow Company	2	Average
Brown Company Orange Company Beige Company	3	Average
Black Company	4	Low
Red Company Violet Company	5	Low

fair values for each class of financial assets and financial liabilities.

Seven companies failed to provide a breakdown of aggregated amounts such as "Other Assets", "Receivables – Others", "Prepayments", "Other Liabilities", "Accrued Expenses" and other miscellaneous accounts. The breakdown of aggregated amounts is in accordance with PAS 1 (Presentation of Financial Statements).

Four companies failed to provide the methods and assumptions applied in determining fair values for certain assets such as property, plant and equipment, intangible assets, and investment property. PAS 16 (Property, Plant & Equipment), PAS 38 (Intangible Assets), and PAS 40 (Investment Property) all require disclosure on these.

Three companies failed to provide disclosures about plan assets in accordance with PAS 17 (Leases). For example, there are no disclosures about actual return, return on any reimbursement right, and lessee's leasing arrangements.

Two companies failed to disclose whether related party transactions are secured or not, the nature of consideration to be provided as settlement, and any guarantees given or received. PAS 24 (Related Party Transactions) requires these disclosures.

Although these are just disclosures and do not pertain to the information contained on the face of the balance sheet, complete understanding of the financial reports will not be attained when there is significant disclosure deficiencies. The concept of adequate disclosure is impaired, thus, affecting the understandability of the balance sheet.

PAS 36 and PAS 32 are the two standards most affected by the disclosure deficiencies. These standards are highly technical in nature and require detailed interpretation from the FRSC. These two standards are "tough" standards to implement. Hence, deficiencies in disclosure requirements are expected.

PAS 37, on the other hand, is relatively easy to understand, the recognition of its provisions becomes highly subjective. One of the recognition criteria for its provisions is that the event must be probable, which means it must be more likely to happen. Otherwise, the event will not be recognized as a liability. Judgment is supposed to be given by a specialist or an expert with the concurrence of management. However, objective or verifiable evidence of the judgment is not required. Hence, the recognition of provisions can be easily avoided. Moreover, the disclosures on contingencies require detailed information such as the nature, timing, and certainty of cash flow. This information is not readily available and is difficult to gather.

CONCLUSIONS AND RECOMMENDATIONS

It can be implied from this study that deficiencies in disclosure requirements stem from the standards themselves. Highly technical and difficult to understand standards and a poor information system are some of the factors that lead to low compliance on disclosure requirements.

The results of this study showed that all of the 10 companies failed to comply fully with the disclosure requirements of the applicable PFRS/ PAS in preparing and presenting the balance sheet. The following recommendations are offered:

1. The Financial Reporting Standards Council (FRSC) should come up with interpretation statements of "tough" and highly technical standards such as PAS 36 on Impairment of Assets and PAS 32 on Financial Instruments. Moreover, FRSC should review the reasonableness of disclosure requirements of some of the standards like PAS 37. There is no use requiring several disclosure information if it is impossible for the companies to comply with these.
2. There should be continuous dialogue among SEC, FRSC, and corporations regarding compliance with PFRS/PAS. Corporations should give feedback to SEC and FRSC regarding the problems that they

encounter in complying with the requirements of the accounting standards. Such feedback can be used by the FRSC is reviewing and enhancing the standards that they issue.

3. Professional organizations like the Philippine Institute of Certified Public Accountants (PICPA) and the Association of CPAs in Education (ACPAE) should be encouraged to continually offer seminars and workshops to accounting professionals that will update them and orient them on the proper interpretation of the new standards that are applied in preparing and presenting financial statements.
4. The academe should continue to pursue excellence in training future accountants. The quality of the accounting graduates will affect the quality of financial reports to be produced by them.
5. Auditing firms should exercise perseverance in making sure their clients are able to comply with all the disclosure requirements of PFRS/PAS.
6. SEC should continue to be vigilant in monitoring the financial activities of corporations because it is an effective way to make sure that corporations will exert effort in applying the appropriate standards to the fullest.

Regulation is an integral part of SEC's functions, but reliance on SEC should not be seen as a substitute for fully complying with the provisions of the PFRS/PAS. Professional accountants must accept the responsibility to perform their mission conscientiously and to engage in dialogues with SEC, FRSC, PICPA, and the academe so that a consensus on reasonable expectations can be established.

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Appendix
Relevant PFRS and PAS used in the Study

PFRS/PAS	Title	Description
PAS 1	Presentation of Financial Statements	Prescribes the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.
PAS 2	Inventories	Prescribes the accounting treatment for inventories. It provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.
PAS 10	Events After Balance	Sheet Date Prescribes when an entity should adjust its financial statements for events after the balance sheet date; and the disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the balance sheet date. It requires that an entity should not prepare its financial statements on a going concern basis if events after the balance sheet indicate that the going concern assumption is not appropriate.
PAS 12	Income Taxes	Provides the accounting treatment for income taxes especially on how to account for current and future tax consequences of the future recovery (settlements) of the carrying amount of assets that are recognized in an entity's balance sheet; and transactions and other events of the current period that are recognized in an entity's financial statements.
PAS 16	Property, Plant &Equipment	Prescribes the accounting treatment for property, plant and equipment so that users of the financial statement can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. It addresses the issues on recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.
PAS 17	Leases	Prescribes, for lessors and lessees, the appropriate accounting policies and disclosure to apply in relation to leases. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payment the right to use an asset for an agreed period of time. It applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets.
PAS 19	Employee Benefits	Prescribes the accounting and disclosure by employers for employee benefits such as short-term employee benefits like wages, salaries and social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses and non-monetary benefits for current employees; post-employment benefits such as pensions, other retirement

		benefits, post-employment life insurance and post-employment medical care; other long-term employee benefits including long service leave or sabbatical leave; and termination benefits.
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Provides the accounting treatment and disclosure requirements of government grants and other forms of government assistance.
PAS 23	Borrowing Costs	Prescribes the accounting treatment for borrowing costs which is generally the expensing of borrowing costs. However, the standard permits the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
PAS 24	Related Party Disclosures	Ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
PAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	Applies to accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of a parent, a venturer or investor. It is applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent. Its objective is to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.
PAS 28	Accounting for Investment in Associates	Prescribes the accounting treatment for investment in associates. An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.
PAS 31	Interest in Joint Ventures	Prescribes the accounting treatment for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers' and investors, regardless of structures or forms under which the joint venture activities take place.
PAS 32	Financial Instruments: Disclosures and Presentation	Enhances financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. It contains requirements for the presentation of financial instruments and identifies the information that should be disclosed about them. The presentation requirements apply to the classification of financial assets, financial instruments from the perspective of the issuer. It also requires the disclosure of information about factors that affect the amount, timing and certainty of an entity's cash flow. It also requires disclosure of information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them, and management's policies for controlling those risks.
PAS 36	Impairment of Assets	Prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the

		amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognize an impairment loss. It also specifies when an entity should reverse an impairment loss and prescribes disclosures.
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Ensures the appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount.
PAS 38	Intangible Assets	Prescribes the accounting treatment for intangible assets that are not dealt with specifically in another Standard. It requires an entity to recognize an intangible asset if, and only if, specified criteria are met. It also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.
PAS 40	Investment Property	Prescribes the accounting treatment for investment property and related disclosure requirements. This standard is applied to the measurement in a lessee's financial statements of investment property interests held under lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease.
PFRS 2	Share Based Payment	Specifies the financial reporting by an entity when it undertakes a share-based payment transaction. In particular, it requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.
PFRS 3	Business Combinations	Specifies the financial reporting by an entity when it undertakes a business combination. In particular, it specifies that all business combinations should be accounted for by applying the purchase method. Therefore, the acquirer recognizes the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date, and also recognizes goodwill, which is subsequently tested for impairment rather than amortized.