SUPPLEMENTARY GUIDELINES ON THE PREPARATION OF FINANCIAL STATEMENTS AND OTHER FINANCIAL REPORTS, THE TRANSITIONAL PROVISIONS ON THE IMPLEMENTATION OF THE PHILIPPINE PUBLIC SECTO...

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Adopted: 09 March 2015
Date Filed: 18 March 2015

1.0 RATIONALE/PURPOSE
The Unified Accounts Code Structure (UACS), a government-wide coding framework that provides a harmonized budgetary and accounting code classification, took effect on January 1, 2014. This was jointly developed by the Department of Budget and Management (DBM), Commission on Audit (COA), Department of Finance (DOE) and Bureau of the Treasury (BTr) and was prescribed under COA-DBM-DOF Joint Circular No. 2013-1 dated August 6, 2013.

The account codes in the Revised Chart of Accounts for National Government Agencies prescribed under COA Circular No. 2013-002 dated January 30, 2013, as amended by COA Circular No. 2014-003 dated April 15, 2014, were adopted as an integral part of the UACS or the object codes.

COA Resolution No. 2014-003 dated January 24, 2014 prescribed the adoption of 25 Philippine Public Sector Accounting Standards (PPSASs) effective January 1, 2014. These PPSASs were based on International Public Sector Accounting Standards (IPSASs) which were published in the 2012 Handbook of International Public Sector Accounting Pronouncements of the International Public Sector Accounting Standards Board. Each IPSAS provides transitional guidelines on the proper implementation of the IPSASs.

In view of these developments, there is a need to issue this Circular to prescribe the guidelines on the:

1.1

preparation of the financial statements and other related financial reports required for submission to COA and other oversight agencies for the reporting period ending December 31, 2014 and onwards;

1.2

coding structure to be used for CY 2014 financial statements in accordance with the UACS; and

1.3

implementation of the PPSASs in accordance with the IPSASs transitional provisions.

2.0 COVERAGE
This Circular covers public sector entities, such as, the National Government Agencies (NGAs) and Government-Owned and/or Controlled Corporations (GOCCs) maintaining Special Accounts in the General Fund (SAGF). GOCCs not maintaining SAGF and Local Government Units (LGUs) shall be covered by separate guidelines.

3.0 DEFINITIONS

For the purpose of this Circular, the following terms shall be construed to mean as follows:

3.1

Entities - refer to NGAs and GOCCs maintaining SAGF. These may be a group of NGAs and GOCCs combined as a single entity (e.g. central and regional offices including their operating units)

3.2

NGAs - refers to the various units of the Government, including a department, bureau, office and instrumentality.

3.3

GOCCs - refers to any agency organized as a stock or nonstock corporation, vested with functions relating to public needs whether governmental or proprietary in nature, and owned by the Government of the Republic of the Philippines directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least a majority of its outstanding capital stock.

3.4

Fund cluster - refers to an accounting entity (similar to a bank account) for recording expenditures and revenues associated with a specific activity for which accounting records are maintained and periodic financial reports are prepared.

4.0 GENERAL GUIDELINES

4.1

The components of the financial statements, pursuant to PPSAS 1, are as follows:

- Statement of Financial Position (Annexes A and A1)

- Statement of Financial Performance (Annexes B and B1)

- Statement of Cash Flows (Annexes C and C1)

- Statement of Changes in Net Assets/Equity (Annex D)

- Statement of Comparison of Budget and Actual Amounts (Annex E)

- Notes to Financial Statements comprising a summary of significant accounting policies and other explanatory notes

4.2

For the purpose of preparing the Annual Financial Report (AFR) and the annual audit reports (AARs) for CY 2014, all NGAs shall submit to the COA Auditors and the Government Accountancy Sector (GAS), COA, the detailed financial statements and trial balances consolidated by fund cluster as follows:

- Regular Agency Fund

- Foreign Assisted Projects Fund

- Special Accounts - Locally Funded/Domestic Grants Fund d. Special Accounts - Foreign Assisted/Foreign Grants Fund e. Internally Generated Funds

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- Business Related Funds

- Trust Receipts/Inter-Agency Transferred Funds (IATF)

4.3

NGAs are required to upload the soft copies of the above required financial statements at the COA website (www.coa.gov.ph)

4.4

GOCCs, such as NTA and PCA, shall submit to the COA Auditors and the Government Accountancy Sector (GAS), COA, the trial balances and financial statements stated in 4.2 of the SAGF as required by law, and upload the soft copies of the same at the COA website.

4.5

The Budget and Financial Accountability Reports (BFARs) prescribed under COA DBM Joint Circular No. 2014-1 dated July 2, 2014 shall also be submitted to the GAS, COA and Agency's COA Auditor, in addition to the financial statements and reports stated in 4.1 and 4.2.

4.6

The NGAs, including the NTA and PCA, are likewise required to upload the BFARs at the COA website following the deadlines prescribed in the COA- DBM Joint Circular No. 2014-1 dated July 2, 2014.

4.7

The fund clusters and fund codes as prescribed in the UACS Manual per DBM-COA-DOF Joint Circular No. 2013-1, as amended by DBM-COA-DOF Joint Circular No. 2014-1 dated November 7, 2014, shall be used.

4.8

Upon the effectivity of this Circular, the following revised forms and registries shall be used/maintained by the NGAs, including the NTA and PCA for their SAGF, to facilitate the monitoring of budget information and the preparation of the budget and accounting reports:

- Obligation Request and Status (ORS)

- Budget Utilization Request and Status (BURS)

- Registry of Revenue and Other Receipts (RROR)

- Registry of Appropriations and Allotments (RAPAL)

- Registry of Allotments, Obligations and Disbursements (RAOD)

- Registry of Budget, Utilization and Disbursements (RBUD)

4.9

The guidelines on the implementation of PPSAS transitional provisions under paragraphs 6.1a to 6.1m shall be implemented.

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5.0 SPECIFIC GUIDELINES

5.1 All NGAs shall prepare and submit for the CY 2014 one set of financial statements for all funds (combined all funds) as enumerated in paragraph 4.1 as their general purpose financial statements.

5.2 The NTA and PCA shall submit the financial statements of the SAGF as stated paragraph 4.4.

5.3 The Statement of Management Responsibility (Appendix A) shall be attached to the financial statements.

5.4 To serve as guide to preparers of financial statements, a basic model or pro- forma Notes to Financial Statements shall be included in the Government Accounting Manual (GAM).

5.5 The guidelines in the submission of the financial statements and trial balances for the preparation of the CY 2014 AFR and annual audit reports are as follows:

- All the financial statements, except the Notes to Financial Statements, and the trial balances shall be consolidated at the cluster level as follows:

- Regular Agency Fund consisting of:

- General Fund - New General Appropriations

- General Fund - Continuing Appropriations

- General Fund - Supplemental Appropriations

- General Fund - Automatic Appropriations

- General Fund - Unprogrammed Funds

- Foreign Assisted Projects Fund consisting of:

- General Fund - New General Appropriations

- General Fund - Continuing Appropriations

- General Fund - Unprogrammed Funds

- Special Accounts - Locally Funded/Domestic Grants Fund

- Special Accounts - Foreign Assisted/Foreign Grants Fund

- Internally Generated Funds (Off-Budgetary Funds - Retained Income Funds)

- Business Related Funds

- Trust Receipts/Inter-Agency Transferred Fund (IATF)

- Receipts Deposited with the National Treasury other than IATF

- Receipts Deposited with Authorized Government Depository Banks (AGDB)

- Pursuant to Executive Order No. 292 series of 1987, instituting the 1987 Administrative Code, the financial statements and trial balances enumerated in paragraph 4.1 shall be submitted to GAS, COA and the Agency's COA Auditor on or before February 14, 2015. In addition, the printed copies of the detailed financial statements (Annexes Al, B1 and C1) shall be submitted to GAS, COA and electronic copies uploaded to the COA website.

5.6 The following are the revised budget forms and registries to be used/maintained by NGAs:

- Obligation Request and Status (Annex F)

- This form shall be used for:

- Regular Agency Fund,

- Foreign Assisted Projects Fund,

- Special Accounts - Locally Funded/Domestic Grants Fund, and

- Special Accounts - Foreign Assisted/Foreign Grants Fund.

- The ORS shall be prepared by the Requesting/Originating Office based on their approved budget allocation per General Appropriations Act (GAA) and other budget laws/authority.

- The Funding Source Code segmented by Fund Cluster, Fund Authorization, Major Final Output, Program/Activity/Project, and Major Programs/Projects shall be indicated on the face of the ORS using the UACS Object Code.

- Section C of the ORS shall serve as a subsidiary record for obligation to be maintained by the Budget Unit. It shall contain the amounts of obligation, actual disbursements/payments, and balances of due and demandable obligations and not yet due and demandable obligations.

- Budget Utilization Request and Status (Annex G)

- This form shall be used for:

- Special Accounts – Locally Funded/Domestic Grants Fund, specifically for income collections of agencies constituted as special accounts

- Internally Generated Funds

- Business Related Funds, and

- Trust Receipts/IATF.

- This shall be prepared by the Requesting/Originating Offices based on their approved budget allocations for off budgetary and custodial funds.

- Section C of the BURS shall serve as a subsidiary record for budget utilization to be maintained by the Budget Unit. It shall contain the amounts of budget utilizations, actual disbursements/payments, and balances of due and demandable utilizations and not yet due and demandable utilizations.

- Registry of Revenue and Other Receipts (Annex H, H1-H4) - This shall be kept by the Budget Unit of the entity and shall be maintained by fund cluster as provided in paragraph 5.5.a.

- Registry of Appropriations and Allotments (Annex I) - This shall be maintained to monitor the balance of unreleased appropriations for the following funds:

- Regular Agency Fund,

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- Foreign Assisted Projects Fund,

- Special Accounts - Locally Funded/Domestic Grants Fund, and

- Special Accounts - Foreign Assisted/Foreign Grants Fund.

- Registry of Allotments, Obligations and Disbursements (Annex J) - This shall be used to monitor the unobligated allotments and unpaid obligations (due and demandable obligations and not yet due and demandable obligations) for the following funds:

- Regular Agency Fund,

- Foreign Assisted Projects Fund,

- Special Accounts - Locally Funded/Domestic Grants Fund, and

- Special Accounts - Foreign Assisted/Foreign Grants Fund.

- Registry of Budget, Utilization and Disbursements (Annex K) - This shall be maintained to monitor the unutilized budget and unpaid utilizations (due and demandable utilizations and not yet due and demandable utilizations) for the following funds:

- Special Accounts - Locally Funded/Domestic Grants Fund, specifically for income collections of agencies constituted as special accounts

- Internally Generated Funds

- Business Related Funds, and

- Trust Receipts/IATF.

6.0 GUIDELINES ON THE IMPLEMENTATION OF PPSASs TRANSITIONAL PROVISIONS

6.1

The guidelines for the implementation of the PPSAS transitional provisions are as follows:

- Presentation of Financial Statements (PPSAS 1)

- Considering the significant changes in the accounting policies as a result of the first time adoption of the PPSAS in CY 2014, comparative information for CY 2013 and CY 2014 is not required. Thus, the CY 2014 financial statements shall reflect CY 2014 balances only. After CY 2014, comparative information for the current and immediately preceding year shall be reflected in the FS.

- The effects of the changes in the accounting policies/estimates for all accounts as result of the first time adoption of the PPSAS shall be disclosed.

- However, agencies may prepare comparative FS with proper disclosure, if required for other purposes.

- Borrowing Costs (PPSAS 5). The entity shall capitalize only those borrowing costs incurred after January 1, 2014 that meets the criteria for capitalization.

- Consolidated Financial Statements (PPSAS 6) and Interests in Joint Venture (PPSAS 8). Entities with controlled entities or interest in joint ventures which are required to prepare consolidated financial statements are allowed up to three years from January 1, 2014 to fully eliminate the balances and transactions between entities within the

economic entity.

- Leases (PPSAS 13)

- Entities which have pre-existing leases shall determine whether these are finance or operating leases.

- The entity shall recognize a lease classified as a finance lease retrospectively in accordance with PPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. Appropriate financial statement presentation, disclosures and/or adjusting entries shall be prepared/effected.

- However, if an entity does not have the information necessary to apply the amendments retrospectively, it shall:

- Apply the amendments to those leases on the basis of the facts and circumstances existing as of January 1, 2014; and

- Recognize the asset and liability related to the lease classified as finance lease at their fair values (FVs) on that date; any difference between those FVs is recognized in accumulated surplus/(deficit).

- Investment Property (PPSAS 16)

- The entity shall recognize the effect of the initial recognition of investment property acquired before CY 2014 as an adjustment to the opening balance of “Accumulated Surplus/(Deficit)” for CY 2014.

- The entity shall also recognize the accumulated depreciation and accumulated impairment losses that relate to the depreciable investment property, as if it had always applied those accounting policies.

- If the investment property is an existing asset or was previously recognized as asset of an entity other than investment property, recomputation of the accumulated depreciation and carrying amount shall be made before effecting the reclassification.

- The estimated useful life and the estimated residual value used for Property, Plant and Equipment (PPE) shall be applied to depreciable investment property.

- Property, Plant and Equipment (PPSAS 17)

- Public Infrastructures

- An entity shall recognize the cost and the related accumulated depreciation and impairment losses of existing public infrastructure assets based on the data in the Registry of Public Infrastructures (RPIs) previously maintained under the NGAS and the estimated useful life as may be determined by competent authority, if practicable. The RPIs shall no longer be maintained.

- If not practicable, the alternative approach of depreciated replacement cost approach may be used to determine the cost and the accumulated depreciation. The Depreciated Replacement Cost Approach is an approach used to determine the value in use of a non-cash generating asset. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition.

- The estimated life of the public infrastructure assets shall be 20-40 years. Based on this life span, the entity shall prepare the specific estimated useful life for each specific assets based on their experience, copy furnished the Agency COA Auditor and the Government Accountancy Sector, COA.

- The effect on the recognition of the public infrastructure assets shall be applied retrospectively or directly to

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“Accumulated Surplus/(Deficit)”.

- Starting January 1, 2014 an entity is allowed up to five years to fully comply with the provisions of PPSAS 17.

- PPE controlled but not owned by the entity

- An entity shall, in accordance with PPSAS 17, recognize the cost and the related accumulated depreciation and impairment losses of existing PPE which were not previously recognized due to absence of ownership/title based on contract, memorandum of agreements and other reasons.

- If no documents are available, an entity shall recognize the cost of the PPE based on fair value as of: (a) the date of the acquisition, it available, or (b) January 1, 2014, or (c) at the date the FV was determined.

- For PPE acquired in an exchange of asset, initial measurement shall be applied prospectively or only to future transactions, as follows:

- The cost of such an item of PPE is measured at FV unless (a) the exchange transaction lacks commercial substance, or (b) the FV of neither the asset received nor the asset given up is reliably measurable.

- The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up.

- If the acquired item is not measured at FV, its cost is measured at the carrying amount of the asset given up.

- The effect on the recognition of depreciation as a result of the change in the estimated residual value to 5 per cent of the cost shall be applied prospectively.

- The estimated useful lives of PPE prescribed under COA Circular No. 2003-007 dated December 11, 2003, as amended, shall continue to be used until revoked/amended.

- The accounting policy on tangible assets with serviceable life of more than one year but small enough to be considered as PPE as provided under COA Circular No. 2005-002 dated April 14, 2005, which revoked the threshold of P10,000 for semi-expendable items, shall continue to be applied until revoked/amended.

- Provisions, Contingent Liabilities and Contingent Assets (PPSAS 19).

- Entities shall adjust the opening balance of “Accumulated Surplus/(Deficit)” for the Cy 2014 to recognize the provisions, if applicable and practicable. If not practicable, this fact shall be disclosed in the notes to financial statements.

- Impairment of Cash and Non-Cash-Generating Assets (PPSAS 21 and PPSAS 26).

- The recognition of impairment and reversal of impairment shall he applied prospectively.

- Revenue from Non-Exchange Transactions (Taxes and Transfers) (PPSAS 23)

- Revenue generating entities are not required to change their accounting policies with respect to the recognition and measurement of taxation revenue for reporting periods beginning on January 1, 2014 and five years thereafter.

- Entities are not required to change their accounting policies with respect to the recognition and measurement of revenue from non exchange transactions other than taxation revenue, for reporting periods beginning on January 1, 2014 and three years thereafter.

- Changes in accounting policies with respect to the recognition and measurement of revenue from non-exchange transactions made before the expiration of the five-year period permitted for taxation revenue, or the three-year

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period permitted for revenue from non- exchange transactions, other than taxation revenue, shall only be made to better conform to the accounting policies prescribed in PPSAS 23. Entities may change their accounting policies with respect to revenue from non-exchange transactions on a class-by- class basis subject to the review and approval of the Commission on Audit.

- When an entity takes advantage of the above transitional provisions for revenue from non-exchange transactions, that fact shall be disclosed. The entity shall also disclose (a) which classes of revenue from non-exchange transactions are recognized in accordance with PPSAS 23, (b) those that have been recognized under an accounting policy that is not consistent with the requirements of PPSAS 23, and (c) the entity's progress towards implementation of accounting policies that are consistent with PPSAS 23. The entity shall disclose its plan for implementing accounting policies that are consistent with PPSAS 23 in the Notes to Financial Statements.

- When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the classes of revenue from non-exchange transactions previously recognized on another basis but which are now recognized in accordance with PPSAS 23 shall be disclosed.

- Agriculture (PPSAS 27).

- An entity shall recognize the effect of initial recognition of the biological assets and the produce as an adjustment to the opening balance of “Accumulated Surplus/(Deficit)” for the period ending December 31, 2014.

- Financial Instruments (PPSAS 28, 29 and 30).

- An entity shall apply the transitional provisions in PPSAS 28, 29 and 30, unless impracticable.

- Intangible Assets (PPSAS 31)

- An entity shall apply PPSAS 31 prospectively.

- Where prior to January 1, 2014, existing computer software were recognized as part of PPE and the carrying amount of which can be determined separately from those of the PPE, these shall be recognized as intangible assets. The carrying amount as of January 1, 2014 shall he used in initial recognition. Those that cannot be determined separately shall continue to be recognized as PPE.

- Service Concession Arrangements: Grantor (PPSAS 32). A grantor (government entity) with existing service concession arrangements as of December 31, 2014 shall recognize and measure service concession assets and the related liabilities in accordance PPSAS 32 from the effectivity of the agreement.

7.0 Saving Clause
Procedural issues and other matters not covered in this Circular shall be covered by supplemental issuances and/or shall be referred to the Government Accountancy Sector of the Commission on Audit for resolution.

8.0 REPEALING CLAUSE
All circulars, memoranda and other issuances or parts thereof which are inconsistent with the provisions of this Circular are hereby rescinded/ repealed/modified accordingly.

9.0 EFFECTIVE DATE
This Circular shall take effect immediately.

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(SGD) HEIDI L. MENDOZA

Commissioner

(SGD) JOSE A. FABIA

Commissioner

Officer-in-Charge

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