Chapter 1

INTRODUCTION

Recent developments brought about by the Philippine Public Financial Management Reforms and significant changes in the field of accounting prompted the harmonization of the existing accounting standards with the international accounting standards. This Commission revised the New Government Accounting System (NGAS) Manual prescribed under Commission on Audit (COA) Circular No. 2002-002 dated June 18, 2002 to make it responsive to dynamic changes and modern technology.

Sec. 1. Legal Basis. The Government Accounting Manual (GAM) is prescribed by COA pursuant to Article IX-D, Section 2 par. (2) of the 1987 Constitution of the Republic of the Philippines which provides that*:*

> *"The Commission on Audit shall have exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, <u>and promulgate accounting and auditing rules and regulations,</u> including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties". (Underscoring supplied)*

Sec. 2. Coverage. This Manual presents the basic accounting policies and principles in accordance with the Philippine Public Sector Accounting Standards (PPSAS) adopted thru COA Resolution No. 2014-003 dated January 24, 2014 and other pertinent laws, rules and regulations. It includes the Revised Chart of Accounts (RCA) prescribed under COA Circular No. 2013-002 dated January 30, 2013, as amended; the accounting procedures, books, registries, records, forms, reports, and financial statements; and illustrative accounting entries. It shall be used by all National Government Agencies (NGAs) in the:

a. preparation of the general purpose financial statements in accordance with the PPSAS and other financial reports as may be required by laws, rules and regulations; and

b. reporting of budget, revenue and expenditure in accordance with laws, rules and regulations.

Sec. 3. Objective of the Manual. The Manual aims to update the following:

a. standards, policies, guidelines and procedures in accounting for government funds and property;

b. coding structure and accounts; and

c. accounting books, registries, records, forms, reports and financial statements.

Chapter 2

GENERAL PROVISIONS, BASIC STANDARDS AND POLICIES

Sec. 1. Scope. This chapter covers the general provisions from existing laws, rules and regulations; and the basic standards/fundamental accounting principles for financial reporting by national government agencies.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

a. *Accrual basis* – means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recognized in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.

b. *Assets* – are resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

c. *Contributions from owners* – means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

    1. conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives; and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or

    2. can be sold, exchanged, transferred, or redeemed.

d. *Distributions to owners* – means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

e. *Entity* – refers to a government agency, department or operating/field unit. It may be referred to in this GAM as an agency.

f. *Expenses* – are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

g. *Government Accounting* – encompasses the processes of analyzing, recording, classifying, summarizing and communicating all transactions involving the receipt and disposition of government funds and property, and interpreting the results thereof. (*Sec. 109, Presidential Decree (P.D.) No. 1445*)

h. *Government Budget* – is the financial plan of a government for a given period, usually for a fiscal year, which shows what its resources are, and how they will be generated and used over the fiscal period. The budget is the government's key instrument for promoting its socio-economic objectives. The government budget also refers to the income, expenditures and sources of borrowings of the National Government (NG) that are used to achieve national objectives, strategies and programs.

i. *Liabilities* – are firm obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

j. *Net assets/equity* – is the residual interest in the assets of the entity after deducting all its liabilities.

k. *Revenue* – is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

l. *Revenue funds* **–** comprise all funds derived from the income of any agency of the government and available for appropriation or expenditure in accordance with law. (*Section 3, P.D. No. 1445*)

Sec. 3. Responsibility, Accountability and Liability over Government Funds and Property

a. Responsibility over Government Funds and Property

   1. It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with laws and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned. (*Sec. 2, P.D. No. 1445*)

   2. Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency. (*Sec. 4(4), P.D. No. 1445*)

   3. The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency. Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government. (*Sec. 102, P.D. No. 1445*)

b. Accountability over Government Funds and Property

   1. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law. Every AO shall be properly bonded in accordance with law. (*Sec. 101, P.D. No. 1445; Section 50, Chapter 9, Subtitle B, Book V, Executive Order (E.O.) No. 292*)

   2. Transfer of government funds from one officer to another shall, except as allowed by law or regulation, be made only upon prior direction or authorization of the Commission or its representative. (*Sec. 75, P.D. No. 1445*)

3. When government funds or property are transferred from one AO to another, or from an outgoing officer to his successor, it shall be done upon properly itemized invoice and receipt which shall invariably support the clearance to be issued to the relieved or outgoing officer, subject to regulations of the Commission. (*Sec. 77, P.D. No. 1445*)

c. Liability over Government Funds and Property

1. Expenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor. (*Sec. 103, P.D. No. 1445*)

2. Every officer accountable for government funds shall be liable for all losses resulting from the unlawful deposit, use, or application thereof and for all losses attributable to negligence in the keeping of the funds. (*Sec. 105(2), P.D. No. 1445*)

3. No AO shall be relieved from liability by reason of his having acted under the direction of a superior officer in paying out, applying, or disposing of the funds or property with which he is chargeable, unless prior to that act, he notified the superior officer in writing of the illegality of the payment, application, or disposition. The officer directing any illegal payment or disposition of the funds or property shall be primarily liable for the loss, while the AO who fails to serve the required notice shall be secondarily liable. (*Sec. 106, P.D. No. 1445*)

4. When a loss of government funds or property occurs while they are in transit or the loss is caused by fire, theft, or other casualty or force majeure, the officer accountable therefor or having custody thereof shall immediately notify the Commission or the auditor concerned and, within 30 days or such longer period as the Commission or auditor may in the particular case allow, shall present his application for relief, with the available supporting evidence. Whenever warranted by the evidence, credit for the loss shall be allowed. An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts. (*Sec. 73, P.D. No. 1445*)

Sec. 4. Fundamental Principles for Revenue. All revenues accruing to the NGAs shall be governed by the following fundamental principles:

a. Unless otherwise specifically provided by law, all revenues accruing to an entity by virtue of the provisions of existing law, orders and regulations shall be deposited/remitted in the National Treasury (NT) or in any duly authorized government depository, and shall accrue to the General Fund (GF) of the NG. (*Sec. 65(1), P.D. No. 1445*)

b. Except as may otherwise be specifically provided by law or competent authority, all moneys and property officially received by a public officer in any capacity or upon any occasion must be accounted for as government funds and government property. (*Sec. 42, Chapter 7, Title I(B), Book V, E.O. No. 292*)

c. Amounts received in trust and from business-type activities of government may be separately recorded and disbursed in accordance with such rules and regulations as may be determined by a Permanent Committee composed of the Secretary of Finance as Chairman, and the Secretary of Budget and Management and the Chairman, COA, as members. (*Sec. 65(2), P.D. No. 1445*)

d. Receipts shall be recorded as revenue of Special, Fiduciary or Trust Funds or Funds other than the GF, only when authorized by law as implemented by rules and regulations issued by the Permanent Committee. (*Sec. 66, P.D. No. 1445*)

e. No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgement thereof. The receipt may be in the form of postage, internal revenue or documentary stamps and the like, officially numbered receipts, subject to proper custody, accountability, and audit. (*Sec. 68(1), P.D. No. 1445*)

f. Where mechanical devices (e.g. electronic official receipt) are used to acknowledge cash receipts, the COA may approve, upon request, exemption from the use of accountable forms. (*Sec. 68 (2), P.D. No. 1445*)

g. At no instance shall temporary receipts be issued to acknowledge the receipt of public funds. (*Sec. 72, GAAM Volume I*)

h. Pre-numbered ORs shall be issued in strict numerical sequence. All copies of each receipt shall be exact copies or carbon reproduction in all respects of the original. (*Sec. 73, GAAM Volume I*)

i. An officer charged with the collection of revenue or the receiving of moneys payable to the government shall accept payment for taxes, dues or other indebtedness to the government in the form of checks issued in payment of government obligations, upon proper endorsement and identification of the payee or endorsee. Checks drawn in favor of the government in payment of any such indebtedness shall likewise be accepted by the officer concerned.

   At no instance should money in the hands of the CO be utilized for the purpose of cashing private checks. (*Sec. 67(1) and (3), P.D. No. 1445*)

j. Under such rules and regulations as the COA and the Department of Finance (DOF) may prescribe, the Treasurer of the Philippines and all AGDB shall acknowledge receipt of all funds received by them, the acknowledgement bearing the date of actual remittance or deposit and indicating from whom and on what account it was received. (*Sec. 70, P.D. No. 1445*)

Sec. 5. Fundamental Principles for Disbursement of Public Funds. Section 4 of P.D. No. 1445, the Government Auditing Code of the Philippines, provides that all financial transactions and operations of any government entity shall be governed by the following fundamental principles:

a. No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.

b. Government funds or property shall be spent or used solely for public purposes.

c. Trust funds shall be available and may be spent only for the specific purpose for which the trust was created or the funds received.

d. Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency.

e. Disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials.

f. Claims against government funds shall be supported with complete documentation.

g. All laws and regulations applicable to financial transactions shall be faithfully adhered to.

h. Generally accepted principles and practices of accounting as well as of sound management and fiscal administration shall be observed, provided that they do not contravene existing laws and regulations.

Sec. 6. Basic Government Accounting and Budget Reporting Principles. Each entity shall recognize and present its financial transactions and operations conformably to the following:

a. generally accepted government accounting principles in accordance with the PPSAS and pertinent laws, rules and regulations;

b. accrual basis of accounting in accordance with the PPSAS;

c. budget basis for presentation of budget information in the financial statements (FSs) in accordance with PPSAS 24;

d. RCA prescribed by COA;

e. double entry bookkeeping;

f. financial statements based on accounting and budgetary records; and

g. fund cluster accounting.

Sec. 7. Keeping of the General Accounts. The COA shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto, pursuant to Section 2, par. (1), Article IX-D of the 1987 Philippine Constitution.

Sec. 8. Financial Reporting System for the National Government. The financial reporting system of the Philippine government consists of accounting system on accrual basis and budget reporting system on budget basis under the statutory responsibility of the NGAs, Bureau of the Treasury (BTr), Department of Budget and Management (DBM), and the COA, as follows:

a. Each entity of the National Government (NG) maintains complete set of accounting books by fund cluster which is reconciled with the records of cash transactions maintained by the BTr.

b. The BTr accounts for the cash, public debt and related transactions of the NG.

c. Each entity maintains budget registries which are reconciled with the budget records maintained by the DBM and the Government Accountancy Sector (GAS), COA.

d. The COA, through the GAS:

   1. maintains budget records showing the overall approved budget of the NG and its execution/implementation;

2. consolidates the FSs and budget accountability reports of all NGAs and the BTr with COA's records to come up with an Annual Financial Report (AFR) for the NG as required in Section 4, Article IX-D of the 1987 Philippine Constitution; and

3. prepares other financial reports required by law for submission to oversight agencies.

Sec. 9. Objectives of General Purpose Financial Statements. The objectives of general purpose financial statements (GPFSs) are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

Sec. 10. Responsibility for Financial Statements. The responsibility for the preparation of the FSs rests with the following:

a. for individual entity/department FSs – the head of the entity/department central office (COf) or regional office (RO) or operating unit (OU) or his/her authorized representative jointly with the head of the finance/accounting division/unit; and

b. for department/entity FSs as a single entity – the head of the entity/department COf jointly with the head of the finance unit.

Sec. 11. Components of General Purpose Financial Statements. The complete set of GPFSs consists of:

a. Statement of Financial Position *(Annex A)*;
b. Statement of Financial Performance *(Annex B)*;
c. Statement of Changes in Net Assets/Equity *(Annex C)*;
d. Statement of Cash Flows *(Annex D)*;
e. Statement of Comparison of Budget and Actual Amounts *(Annex E)*; and
f. Notes to the Financial Statements, comprising a summary of significant accounting policies and other explanatory notes. *(Annex F)*

Sec. 12. Books of Accounts and Registries. The books of accounts and registries of the NG entities consist of:

a. Journals

   1. General Journal *(Appendix 1)*
   2. Cash Receipts Journal *(Appendix 2)*
   3. Cash Disbursements Journal *(Appendix 3)*
   4. Check Disbursements Journal *(Appendix 4)*

b. Ledgers

   1. General Ledgers *(Appendix 5)*
   2. Subsidiary Ledgers *(Appendix 6)*

c. Registries

1. Registries of Revenue and Other Receipts *(Appendices 7, 7A, 7B, 7C and 7D)*
2. Registry of Appropriations and Allotments (*Appendix 8*)
3. Registries of Allotments, Obligations and Disbursements (*Appendices 9A, 9B, 9C and 9D*)
4. Registries of Budget, Utilization and Disbursements (*Appendices 10A, 10B, 10C and 10D*)

Sec. 13. Fund Accounting. The books of accounts shall be maintained by fund cluster as follows:

Code	Description
01	Regular Agency Fund
02	Foreign Assisted Projects Fund
03	Special Account-Locally Funded/Domestic Grants Fund
04	Special Account-Foreign Assisted/Foreign Grants Fund
05	Internally Generated Funds
06	Business Related Funds
07	Trust Receipts

The composition of fund clusters is enumerated in *Annex P*.

Sec. 14. Components of Budget and Financial Accountability Reports. The budget reports consist of the following Budget and Financial Accountability Reports (COA-DBM-DOF Joint Circular No. 2013-1, as amended by COA and DBM Joint Circular No. 2014-1 dated July 2, 2014):

a. Quarterly Physical Report of Operation (QPRO) – BAR No. 1

b. Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) – FAR No. 1

c. Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (SAAODBOE) – FAR No. 1-A

d. List of Allotments and Sub-Allotments (LASA) – FAR No. 1-B

e. Statement of Approved Budget, Utilizations, Disbursements and Balances (SABUDB) – FAR No. 2 (for Off-Budget Fund)

f. Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures (SABUDBOE) – FAR No. 2-A (for Off-Budget Fund)

g. Aging of Due and Demandable Obligations (ADDO) – FAR No. 3

h. Monthly Report of Disbursements (MRD) – FAR No. 4

i. Quarterly Report of Revenue and Other Receipts (QRROR) – FAR No. 5

Sec. 15. Fair Presentation. The FSs 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, revenue, and expenses set out in PPSAS. The application of PPSAS, with appropriate disclosures, if necessary, would result in fair presentation of the FS.

Sec. 16. Compliance with PPSASs. An entity whose financial statements comply with PPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with PPSASs unless they comply with all the requirements of PPSASs. Inappropriate accounting policies that do not comply with PPSAS are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

Sec. 17. Departure from PPSAS. In the event that Management strongly believes that compliance with the requirement of PPSAS would result in misleading presentation that it would contradict the objective of the FSs set forth in PPSAS, the entity may depart from that requirement if the relevant regulatory framework allows, or otherwise does not prohibit, such a departure.

Sec. 18. Going Concern. The FSs shall be prepared on a going concern basis unless there is an intention to discontinue the entity operation, or if there is no realistic alternative but to do so.

Sec. 19. Consistency of Presentation. The presentation and classification of items in the FSs shall be retained from one period to the next unless laws, rules and regulations, and PPSAS require a change in presentation.

Sec. 20. Materiality and Aggregation. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial. If a line item is not material, it is aggregated with other items either on the face of FSs or in the Notes to the FSs. A specific disclosure requirement in a PPSAS need not be satisfied if the information is not material.

Sec. 21. Offsetting. Assets and liabilities, and revenue and expenses shall not be allowed to offset unless required or permitted by a PPSAS except when offsetting reflects the substance of the transaction or other event.

Sec. 22. Comparative Information. Comparative information shall be disclosed with respect to the previous period for all amounts reported in the FSs. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's FSs.

Sec. 23. Structure and Content. The FSs and each component shall be identified clearly and distinguished from other information in the same published document.

Sec. 24. Statement of Financial Position. An entity shall present current and non-current assets, as well as current and non-current liabilities, as separate classifications on the face of the Statement of Financial Position (SFP).

Sec. 25. Statement of Financial Performance. The Statement of Financial Performance (SFPer) shall include line items that present the revenue, expenses and net surplus or deficit for the period.

Sec. 26. Statement of Changes in Net Assets/Equity. An entity shall present in the Statement of Changes in Net Assets/Equity (SCNA/E) the following:

a. Net Income or Deficit for the period;

b. Each item of revenue and expenses for the period that, as required by Standards, is recognized directly in net assets/equity, and the total of these items;

c. Total revenue and expenses for the period; and

d. For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with PPSAS 3-Accounting Policies, Changes in Accounting Estimates and Errors.

Sec. 27. Statement of Cash Flows. The Statement of Cash Flows (SCF) provides information to users of FSs a basis to assess the ability of the entity to generate cash and cash equivalents and to determine the entity's utilization of funds. This also provides information on how the entity generates income authorized to be used in their operation and its utilization.

Sec. 28. Statement of Comparison of Budget and Actual Amounts. A comparison of budget and actual amounts will enhance the transparency of financial reporting in government. This shall be presented by government agencies as a separate additional financial statement referred in this Manual as the Statement of Comparison of Budget and Actual Amounts (SCBAA).

Sec. 29. Notes to Financial Statements. The Notes to FSs contain information in addition to that presented in the SFP, SFPer, SCNA/E, SCF and SCBAA. Notes provide narrative descriptions or disaggregation of items disclosed in those FSs and information about items that do not qualify for recognition in those statements.

Sec. 30. Qualitative Characteristics of Financial Reporting. An entity shall present information including accounting policies in a manner that meets a number of qualitative characteristics such as understandability, relevance, materiality, reliability and comparability. These qualitative characteristics are the attributes that make the information provided in the FSs useful to users.

Sec. 31. Key Features of Assets. The key features of an asset are:

a. the benefits must be controlled by the entity;

b. the benefits must have arisen from a past event; and

c. future economic benefits or service potential must be expected to flow to the entity.

The following are indicators of control of the benefits by the entity:

   a. the ability of an entity to benefit from the asset and to deny or regulate the access of others to that benefit.

   b. an entity can, depending on the nature of the asset, exchange it, use it to provide goods or services, exact a price for others' use of it, use it to settle liabilities, hold it, or perhaps even distribute it to owners.

c. possession or ownership of an object or right would normally be synonymous with control over the future economic benefits embodied in the right or object.

However, there are instances when an entity may possess an object or right but not expect to enjoy the benefits embodied in it, e.g. under a finance lease agreement, control over the leased property owned by the lessor is transferred to the lessee.

The following are indicators of past event:

a. the specification of a past event differentiates assets from intentions to acquire assets, which are not to be recognized.

b. a transaction or event giving rise to control of the future economic benefits must have occurred.

The following are indicators of future economic benefits:

a. distinguishable from the source of the benefit i.e. the particular physical resource or legal right;

b. does not imply that assets necessarily generate cash flows, the benefits can also be in the form of 'service potential';

c. in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration;

d. capacity to contribute to activities/objectives/programs; and

e. the fact that an asset cannot be sold does not preclude it from providing future economic benefits.

Sec. 32. Recognition of an Asset. An asset shall be recognized in the financial position when and only when (a) it is probable that the future economic benefits will flow to the entity; and (b) the asset has a cost or value that can be measured reliably.

The following are indicators of probable inflow of future economic benefits:

a. the chance of benefits arising is more likely rather than less likely (e.g. greater than 50%).

b. benefits can be expected on the basis of available evidence or logic.

The following are indicators of reliable measurement:

a. valuation method is free from material error or bias.

b. faithful representation of the asset's benefits.

c. reliable information will, without bias or undue error, faithfully represent those transactions and events.

Sec. 33. Accounting Standards for Revenue. The following accounting standards shall apply for revenue and receipts of government entities:

a. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity in its own account. (PPSAS 9)

b. Receipts/Collections shall refer to all cash actually received from all sources during a given accounting period.

c. Fines shall include economic benefits or service potential received or receivable by a public sector agency, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. Fines and penalties, either on tax revenue or other specific income account, shall be recognized as income of the year these were collected.

d. Gifts and donations shall consist of voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one agency makes to another, normally free from stipulations. (PPSAS 23)

e. Goods in-kind are tangible assets transferred to an agency in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind. (PPSAS 23)

f. Taxes are economic benefits or service potentials compulsory paid or payable to public sector agencies, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law. (PPSAS 23)

g. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. (PPSAS 23)

Sec. 34. Use of Appropriated Funds. All moneys appropriated for functions, activities, projects and programs shall be available solely for the specific purposes for which these are appropriated.

Sec. 35. Appropriation for Loan Proceeds. Expenditures funded by foreign and domestic borrowings shall be included within the expenditure program of the entity concerned. Loan proceeds, whether in cash or in kind, shall not be used without the corresponding release of funds through a Special Budget.

Sec. 36. Basic Requirements for Disbursements and the Required Certifications. Disbursements of government funds shall comply with the following basic requirements and certifications:

a. Availability of allotment/budget for obligation/utilization certified by the Budget Officer/Head of Budget Unit;

b. Obligations/Utilizations properly charged against available allotment/budget by the Chief Accountant/Head of Accounting Unit;

c. Availability of funds certified by the Chief Accountant. The Head of the Accounting Unit shall certify the availability of funds before an Agency Head or his duly authorized representative enter into any contract that involves the expenditure of public funds based on the copy of budget release documents;

d. Availability of cash certified by the Chief Accountant. The Head of the Accounting Unit shall certify the availability of cash and completeness of the supporting documents in the disbursement voucher and payroll based on the Registry of Allotments and Notice of Cash Allocation/Registry of Allotment and Notice of Transfer of Allocation;

e. Legality of the transactions and conformity with existing rules and regulations. The requesting and approving officials shall ensure that the disbursements of government funds are legal and in conformity with applicable rules and regulations;

f. Submission of proper evidence to establish validity of the claim. The Head of the Requesting Unit shall certify on the necessity and legality of charges to allotments under his/her supervision as well as the validity, propriety and legality of supporting documents**.** All payments of government obligations and payables shall be covered by Disbursement Vouchers (DV)/Payrolls together with the original copy of the supporting documents which will serve as basis in the evaluation of authenticity and authority of the claim. It should be cleared, however, that the submission of the supporting documents does not preclude reasonable questions on the funding, legality, regularity, necessity and/or economy of the expenditures or transactions; and

g. Approval of the disbursement by the Head of Agency or by his duly authorized representative. Disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials. The DVs/Payrolls shall be signed and approved by the head of the agencies or his duly authorized representatives.

Sec. 37. Certification of Availability of Funds. No funds shall be disbursed, and no expenditures or obligations chargeable against any authorized allotment shall be incurred or authorized in any department, office or agency without first securing the certification of its Chief Accountant or head of accounting unit as to the availability of funds and the allotment to which the expenditure or obligation may be properly charged.

No obligation shall be certified to accounts payable unless the obligation is founded on a valid claim that is properly supported by sufficient evidence and unless there is proper authority for its incurrence. Any certification for a non-existent or fictitious obligation and/or creditor shall be considered void. The certifying official shall be dismissed from the service, without prejudice to criminal prosecution under the provisions of the Revised Penal Code. Any payment made under such certification shall be illegal and every official authorizing or making such payment, or taking part therein or receiving such payment, shall be jointly and severally liable to the government for the full amount so paid or received. (*Book VI, Section 41 of EO No. 292*)

Sec. 38. Prohibition against the Incurrence of Overdraft. Heads of departments, bureaus, offices and agencies shall not incur nor authorize the incurrence of expenditures or obligations in excess of allotments released by the DBM Secretary for their respective departments, offices and agencies. Parties responsible for the incurrence of overdrafts shall be held personally liable therefor. (*Book VI, Chapter 5, Section 41 of EO No. 292*)

Sec. 39. Mode of Disbursements. Payments/Disbursements by NGAs may be effected through the Treasury Single Account (TSA), by issuing Modified Disbursements System (MDS) check or commercial check, cash through cash advance, Advice to Debit Account (ADA), or Non-Cash Availment Authority (NCAA).

Sec. 40. Authority to Disburse/Pay. NGAs are authorized to disburse/pay based on the Notice of Cash Allocation (NCA), Notice of Transfer of Allocation (NTA), Cash Disbursement Ceiling (CDC) or other authority that may be provided by law.

Sec. 41. Disbursement Voucher/Payroll. Checks/ADA shall be drawn based on duly approved disbursement voucher or payroll.

Sec. 42. Maintenance of Records. All checks/ADA drawn during the day, whether released or unreleased including cancelled checks shall be recognized chronologically in the Checks/ADA Disbursement Record maintained by the Cash/Treasury Unit.

Sec. 43. Reporting of Disbursements. All payments/disbursements shall be reported using the prescribed forms for recording in the books of accounts.

Chapter 3

BUDGET EXECUTION, MONITORING AND REPORTING

Sec. 1. Scope. This Chapter prescribes the guidelines in monitoring, accounting and reporting of the budget in the financial statements. This also prescribes the records to be maintained by the national government agencies, forms to be used and reports to be prepared to effectively monitor the budget as well as the required information disclosure and presentation of budget information in the financial statements in accordance with PPSAS 24.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms stated below shall be construed to mean as follows:

a. *Allotment* – is an authorization issued by the DBM to NGAs to incur obligations for specified amounts contained in a legislative appropriation in the form of budget release documents. It is also referred to as Obligational Authority.

b. *Appropriations* – is the authorization made by a legislative body to allocate funds for purposes specified by the legislative or similar authority.

c. *Approved Budget* – is the expenditure authority derived from appropriation laws, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period. The approved budget consists of the following:

	UACS Code
New General Appropriations	01
Continuing Appropriations	02
Supplemental Appropriations	03
Automatic Appropriations	04
Unprogrammed Funds	05
Retained Income/Funds	06
Revolving Funds	07
Trust Receipts	08

d. *Automatic Appropriations* – are the authorizations programmed annually or for some other period prescribed by law, by virtue of outstanding legislation which does not require periodic action by Congress.

e. *Budget Information* – the budgetary information consists of, among others, data on appropriations or the approved budget, allotments, obligations, revenues and other receipts, and disbursements.

f. *Continuing Appropriations* – are the authorizations to support obligations for a specific purpose or project, such as multi-year construction projects which require the incurrence of obligations even beyond the budget year.

g. *Disbursements* – are the actual amounts spent or paid out of the budgeted amounts.

h. *Final Budget* – is the original budget adjusted for all reserves, carry-over amounts, transfers, allocations and other authorized legislative or similar authority changes applicable to the budget period.

i. *New General Appropriations* – are annual authorizations for incurring obligations during a specified budget year, as listed in the GAA.

j. *Obligation* – is an act of a duly authorized official which binds the government to the immediate or eventual payment of a sum of money. Obligation maybe referred to as a commitment that encompasses possible future liabilities based on current contractual agreement.

k. *Original Budget* – is the initial approved budget for the budget period usually the General Appropriations Act (GAA). The original budget may include residual appropriated amounts automatically carried over from prior years by law such as prior year commitments or possible future liabilities based on a current contractual agreement.

l. *Revenues* – are increases in economic benefits or service potential during the accounting period in the form of inflows or increases of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.

m. *Supplemental Appropriations* – are additional appropriations authorized by law to augment the original appropriations which proved to be insufficient for their intended purpose due to economic, political or social conditions supported by a Certification of Availability of Funds (CAF) from the BTr.

Sec. 3. Fund Release Documents. With the adoption of the UACS and the Performance-Informed Budgeting (PIB), the following are the fund release documents:

a. Obligational Authority or Allotment – the following are the documents which authorize the entity to incur obligations:

1. *General Appropriations Act Release Document (GAARD)* – serves as the obligational authority for the comprehensive release of budgetary items appropriated in the GAA, categorized as For Comprehensive Release (FCR).

2. *Special Allotment Release Order (SARO)* – covers budgetary items under For Later Release (FLR) (negative list) in the entity submitted Budget Execution Documents (BEDs), subject to compliance of required documents/clearances. Releases of allotments for Special Purpose Funds (SPFs) (e.g., Calamity Fund, Contingent Fund, E-Government Fund, Feasibility Studies Fund, International Commitments Fund, Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund) are also covered by SAROs.

3. *General Allotment Release Order (GARO)* – is a comprehensive authority issued to all national government agencies, in general, to incur obligations not exceeding an authorized amount during a specified period for the purpose indicated therein. It covers automatically appropriated expenditures common to most, if not all, agencies without need of special clearance or approval from competent authority, i.e. Retirement and Life Insurance Premium.

b. Disbursement Authority – the following documents authorize the entity to pay obligations and payables:

1. *Notice of Cash Allocation (NCA)* – authority issued by the DBM to central, regional and provincial offices and operating units to cover the cash requirements of the agencies;

2. *Non-Cash Availment Authority (NCAA)* – authority issued by the DBM to agencies to cover the liquidation of their actual obligations incurred against available allotments for availment of proceeds from loans/grants through supplier's credit/constructive cash;

3. *Cash Disbursement Ceiling (CDC)* – authority issued by DBM to the Department of Foreign Affairs (DFA) and Department of Labor and Employment (DOLE) to utilize their income collected/retained by their Foreign Service Posts (FSPs) to cover their operating requirements, but not to exceed the released allotment to the said post; and

4. *Notice of Transfer of Allocation* – authority issued by the Central Office to its regional and operating units to cover the latter's cash requirements.

Sec. 4. Classification of Expenditures. Expenditures of NGAs shall be classified into categories as may be determined by the DBM including, but not limited to the following:

a. Entity incurring the obligation;

b. Program, Activity and Project (PAP);

c. Object of expenditures, including personnel services (PS), maintenance and other operating expenditures (MOOE), financial expenses (FE), and capital outlays (CO);

d. Region or locality of use;

e. Economic or functional classification of the expenditures;

f. Obligational authority and cash transactions arising from fund releases; and

g. Such other classifications as may be necessary for the budget process.

Sec. 5. Monitoring of the Budget. The budget shall be monitored by the Budget Division/Units of NGAs through the maintenance of registries for that purpose.

Sec. 6. Registries of Revenue and Other Receipts. The Registries of Revenue and Other Receipts *(Appendices 7, 7A, 7B, 7C and 7D)* shall be maintained by the Budget Division/Unit of NGAs to monitor the revenue and other receipts estimated/budgeted, collected and remitted/deposited.

Sec. 7. Procedures in Monitoring and Recognizing Revenue and Other Receipts

a. Recognizing Estimated Revenue/Other Receipts

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives copy of the Estimated Revenue per Approved Budget of the Agency (ERABA). Records the same in the logbook and forwards the ERABA and the supporting documents (SDs) to the Budget Staff.

Area of Responsibility	Seq. No.	Activity
Budget Staff	2	Records the estimated revenue/other receipts in the appropriate column of the RROR. Files the RROR and the copy of ERABA for reference.

b. Recognizing Revenue/Other Receipts Collected and Deposited

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives from the Cash/Treasury Unit or other unit concerned of the entity the copy of the Report of Collections and Deposits (RCD), TRA (*Note 1*), Cash Receipts Register (CRReg) (*Note 2*) and Credit Memo/Abstract of Deposits (*Note 3*). Records the same in the logbook and forwards the documents to the Budget Staff. *Note 1* – The TRA is used by the Bureau of Internal Revenue (BIR) to recognize the income from taxes withheld by various NGAs. *Note 2* – The CRReg is used by operating units of NGAs without complete set of books of accounts such as foreign-based government agencies, etc. *Note 3* – The Credit Memo/Abstract of Deposits from the bank is used to recognize revenue deposited with the National Treasury through the AGDBs or Authorized Agent Banks (AABs).
Budget Staff	2	Records the collections of revenue/other receipts/constructive receipts of revenue under the appropriate column of the RROR. Files the RROR and the copy of RCD and supporting documents for reference.

Sec. 8. Registry of Appropriations and Allotments. The Registry of Appropriations and Allotments (RAPAL) *(Appendix 8)* shall be maintained by NGAs to monitor appropriations and allotments charged thereto. It shall show the original, supplemental and final budget for the year and all allotments received charged against the corresponding appropriation. The balance is extracted every time an entry is made to prevent incurrence of overdraft in appropriations. Separate RAPAL shall be maintained by fund cluster and by Major Final Output (MFO)/PAP/Appropriation Acts.

Sec. 9. Procedures in Recording Appropriations and Allotments. The procedures for recording appropriations and allotments are as follows:

Area of Responsibility	Seq. No.	Activity
Staff Concerned	1	Receives the GAA and the allotment release documents from the DBM. Records the same in the logbook and forwards these documents to the Budget Staff for recording in the RAPAL and RAOD.
Budget Staff	2	Records the appropriations and allotments in the appropriate columns of the RAPAL and the RAOD. Forwards a copy of the allotment release documents to the Accounting Division/Unit for reference. *Note* – The amount of allotment should not exceed the authorized appropriations in the GAA. If the allotment exceeds the appropriation, appropriate actions should be taken.

Sec. 10. Registries of Allotments, Obligations and Disbursements. The Registries of Allotments, Obligations and Disbursements (RAOD) shall be maintained by the Budget Division/Unit of agencies to record allotments, obligations and disbursements. It shall show the allotments received for the year, obligations incurred against the corresponding allotment and the actual disbursements made. The balance is extracted every time an entry is made to prevent incurrence of obligations in excess of allotment and overdraft in disbursements against obligations incurred. The RAODs shall be maintained by appropriation act, fund cluster, MFO/PAP, and allotment class.

a. Registry of Allotments, Obligations and Disbursements-Personnel Services (RAOD-PS) *(Appendix 9A*) shall be used to record the allotments received, obligations incurred and disbursements classified under PS.

b. Registry of Allotments, Obligations and Disbursements-Maintenance and Other Operating Expenses (RAOD-MOOE) *(Appendix 9B*) shall be used to record the allotments received, obligations incurred and disbursements classified under MOOE.

c. Registry of Allotments, Obligations and Disbursements-Financial Expenses (RAOD-FE) *(Appendix 9C)* shall be used to record the allotments received, obligations incurred and disbursements classified under FE.

d. Registry of Allotments, Obligations and Disbursements-Capital Outlays (RAOD-CO) *(Appendix 9D*) shall be used to record the allotments received, obligations incurred and disbursements classified under CO.

Sec. 11. Obligation Request and Status. The incurrence of obligations shall be made through the issuance of Obligation Request and Status (ORS) (*Appendix 11*). The ORS shall be prepared by the Requesting/Originating Office supported by valid claim documents like DVs, payrolls, purchase/job orders, itinerary of travel, etc. The Head of the Requesting/Originating Office or his/her authorized representative shall certify in the Section A of the ORS as to the necessity and legality of charges to the budget under his/her supervision, and validity, propriety and legality of SDs. The Head of the Budget Division/Unit shall certify to the availability of allotment and such is duly obligated by signing in Section B of the ORS.

Sec. 12. Subsidiary Record for Obligation. A subsidiary record to monitor a particular obligation shall be maintained by the Budget Division/Unit in Section C of the ORS. It shall contain the original amount of obligation, payable (goods delivered and services rendered) and the actual amount paid.

Sec. 13. Adjustment of Obligation. Adjustment of obligation incurred after the processing of the claim by the Accounting Division/Unit shall be made through the use of Notice of Obligation Request and Status Adjustment (NORSA) (*Appendix 12*). The adjustment shall be effected through a positive entry (if additional obligation is necessary) or a negative entry (if reduction is necessary) in the 'Obligation' column of the ORS and RAOD.

Sec. 14. Notice of Obligation Request and Status Adjustment. The NORSA shall be prepared by the Accounting Division/Unit after the processing of the claim which shall be used in adjusting the original amount obligated to the actual obligations incurred in the RAOD. It shall be forwarded by the Accounting Division/Unit to the Budget Division/Unit to take up the adjustments of obligation in the RAOD. The following transactions shall also need adjustments of obligations:

Transactions	Supporting Documents
a. Refund of cash advance granted during the year	Certified copies of official receipts and other SDs
b. Over/Underpayment of expenditures during the year	Certified copies of official receipts and bills and other SDs
c. Disallowances pertaining to expenses incurred during the validity period of the budget that became final and executory during the same period	Certified copies of official receipts and bills, notice that the disallowances are final and executory, and other SDs

Sec. 15. Procedures in Recording Obligation. Obligation shall be recorded in the appropriate RAOD through ORS with the following procedures:

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives the ORS, duly signed by the Head of the Requesting Office, including copies of DV/Payroll, Contract/Purchase Order (PO) and other SDs from office/personnel concerned. Verifies completeness of the documents. If complete, records the same in the logbook maintained for the purpose and forwards the documents to the Budget Staff for processing. If incomplete, returns the documents to the Requesting Office for completion.
Budget Staff	2	Receives the ORS and its SDs from the Staff concerned. Verifies availability of allotment based on the appropriate RAOD. If allotment is not available, returns the documents to the office/personnel concerned.
	3	If allotment is available, assigns number on the ORS based on the Control Logbook maintained for the purpose. Records the amount obligated based on the ORS in the 'Obligation' column of the RAOD. Initials

Area of Responsibility	Seq. No.	Activity
		in Section B of the ORS and forward all copies of the documents to the Head of the Budget Division/Unit for signature.
Head of Budget Division/Unit	4	Reviews the ORS and SDs. If in order, signs the certification in Section B of the ORS. Forwards the ORS and SDs to the Budget Staff.
Budget Staff	5	Forwards the ORS and SDs to the Accounting Division/Unit for processing of the claim. Retains original copy of the ORS for maintenance/monitoring of obligation status. *Note* – For the succeeding activities, refer to Chapter 6-Disbursements.

Sec. 16. Recording of Disbursement in the RAOD. The disbursements shall be posted under the 'Payment' column of Section C of the ORS based on the Reports of Checks Issued (RCI)/Report of ADA Issued (RADAI) (*Appendix 13*)/TRA and JEV and recorded in the appropriate RAOD by the Budget Division/Unit.

Sec. 17. Procedures for the Recording of Disbursements and Adjustment of Obligation. The procedures for the recording of disbursements and adjustment of obligation are as follows:

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives copies of RCI, RADAI, TRA, JEV and NORSA from the Accounting Division/Unit as basis for posting in Section C of the ORS and recording to RAOD. Records in the Logbook and forwards the RCI, RADAI, TRA, JEV and NORSA to Budget Staff concerned for recording in the RAOD and updating Section C of the ORS.
		Recording of Disbursements
Budget Staff	2	Posts the RCI/RADAI/TRA/JEV and pertinent Check/ADA/TRA numbers in Section C, 'Payment' column of the ORS and 'Disbursements' column of the RAOD.
	3	In Section C of the ORS, determines the balance of unpaid obligations by subtracting the amount of disbursements from obligations. Files the RCI, RADAI, TRA, JEV and other documents for reference.
		Adjustment of Obligation
	4	Posts the NORSA in the 'Obligation' column of Section C of the ORS. If the original amount is lesser than the actual obligation after the processing of the claim, a

Area of Responsibility	Seq. No.	Activity
		positive entry corresponding to additional obligation shall be recorded in the RAOD based on the NORSA. If the original obligation is greater, a negative entry representing the excess shall be recorded in the RAOD.

Sec. 18. Registries of Budget, Utilization and Disbursements. The Registries of Budget, Utilization and Disbursements (RBUD) shall be used to record the approved special budget and the corresponding utilizations and disbursements charged to retained income authorized under R.A. 8292 for SUCs and other retained income collection of a national government agency with similar authority, Revolving Funds and Trust Receipts/Custodial Funds. It shall be maintained by legal/authority, fund cluster, MFO/PAP and budget classification.

a. Registry of Budget, Utilization and Disbursements-Personnel Services (RBUD-PS) *(Appendix 10A)* shall be used to record the budget utilizations and disbursements classified under PS.

b. Registry of Budget, Utilization and Disbursements-Maintenance and Other Operating Expenses (RBUD-MOOE) *(Appendix 10B)* shall be used to record the budget utilizations and disbursements classified under MOOE.

c. Registry of Budget, Utilization and Disbursements-Financial Expenses (RBUD-FE) *(Appendix 10C)* shall be used to record the budget utilizations and disbursements classified under FE.

d. Registry of Budget, Utilization and Disbursements-Capital Outlays (RBUD-CO) *(Appendix 10D)* shall be used to record the budget utilizations and disbursements classified under CO.

Sec. 19. Budget Utilization Request and Status. The incurrence of budget utilization shall be made through the issuance of Budget Utilization Request and Status (BURS) (*Appendix 14*). The BURS shall be prepared by the Requesting/Originating Office supported by valid claim documents like DV, payroll, purchase/job order, itinerary of travel, etc. The Head of Requesting/Originating Office or his/her authorized representative shall certify in Section A of the BURS as to the necessity and legality of charges to the budget under his/her supervision, and validity and propriety of SDs. The Head of Budget Division/Unit shall certify to the availability of budget and its utilization in accordance with its purpose by signing in Section B of the BURS.

Sec. 20. Subsidiary Record for Budget Utilization. The Section C of the BURS shall serve as the subsidiary record to monitor budget utilization to be maintained by the Budget Division/Unit. It shall contain the original amount of utilization, payable (goods delivered and services rendered) and the actual amount paid after the processing of the claim.

Sec. 21. Adjustment of Budget Utilization. Adjustment of budget utilization after the processing of the claim by the Accounting Division/Unit shall be made through the use of Notice of Budget Utilization Request and Status Adjustment (NBURSA) *(Appendix 15)*. The adjustment shall be effected thru a positive entry (if additional utilization is necessary) or a negative entry (if reduction is necessary) in the 'Utilization' column of the BURS and RBUD.

Sec. 22. Notice of Budget Utilization Request and Status Adjustment. The NBURSA shall be prepared by the Accounting Division/Unit after the processing of the claim which shall be used in adjusting the original amount utilized to the actual utilizations in the RBUD. It shall be forwarded by the Accounting Division/Unit to Budget Division/Unit to take up the adjustments of utilization in the RBUD. The following transactions shall also need adjustments of budget utilizations:

Transactions	Supporting Documents
a. Refund of cash advance granted during the year	Certified copies of official receipts and other SDs
b. Over/Underpayment of expenditures during the year	Certified copies of official receipts and bills and other SDs
c. Disallowances pertaining to expenses incurred during the validity period of the budget that became final and executory during the same period	Certified copies of official receipts and bills, notice that the disallowances are final and executory, and other SDs

Sec. 23. Recording of Disbursement in the RBUD. The disbursement shall be posted in Section C of the BURS and recorded in the appropriate RBUD based on the RCI, RADAI, TRA and JEV furnished by the Cashier/Accounting Units to Budget Division/Unit.

Sec. 24. Procedures in Monitoring Budget, Utilizations and Disbursements charged to Retained Income, Revolving Funds and Trust Receipts/Custodial Funds. The procedures are as follows:

Area of Responsibility	Seq. No.	Activity
		Posting of Approved Budget
Budget Division/Unit Receiving/Releasing Staff	1	Receives the approved budget (AB) from the concerned entity official. Records the same in the logbook and forwards the AB to the Staff Concerned for recording in the appropriate RBUD.
Staff Concerned	2	Records the AB in the 'Budgeted Amount' column of the RBUD and forwards copies of the budget documents to the Accounting Division/Unit for reference.
		Posting of Utilization
Receiving/Releasing Staff	3	Receives the BURS, duly signed by the head of the Requesting Office including copies of DV/Payroll, Contract/PO and other SDs from concerned office/personnel. Verifies completeness of the documents. If complete, records the same in the logbook maintained for the purpose and forwards the documents to Staff Concerned for recording of utilizations in the appropriate RBUD. If incomplete, returns the documents to Requesting Office for completion.
Staff Concerned	4	Receives the BURS and its SDs from Receiving/Releasing Staff. Verifies availability of budget based on the appropriate RBUD.
	5	If budget is available, assigns number on the BURS based on the Control Logbook maintained for the purpose. Records the amount utilized based on the BURS in the 'Utilization' column of the RBUD. Initials in Section B of the BURS and forward all copies of the documents to the Head of the Budget Division/Unit for signature. If budget

Area of Responsibility	Seq. No.	Activity
		is not available, returns the documents to the office/personnel concerned.
Head of Budget Division/Unit	6	Reviews the BURS and SDs. Signs the certification in Section B of the BURS. Forwards to the Staff Concerned the BURS and SDs.
Staff Concerned	7	Records in the logbook the release of the BURS and SDs to the Accounting Division/Unit for processing of the claim. Retains original copy of the BURS for maintenance/monitoring of utilization status. *Note* – For the succeeding activities, refer to Chapter 6-Disbursements.
		Posting of Disbursement
Receiving/Releasing Staff	8	Records in the logbook the receipt of the RCI and RADAI from the Cash Unit, and TRA, JEV and NBURSA from the Accounting Division/Unit. Forwards the same to Staff Concerned.
Staff Concerned	9	Posts the RCI/RADAI/TRA/JEV in Section C, Payment column of the BURS and to the Disbursement column of the RBUD.
	10	In Section C of the BURS, determines the balance of unpaid utilizations. Files the RCI, RADAI, TRA, JEV and other documents for reference.
		Adjustment of Utilization
Staff Concerned	11	Posts the NBURSA in the 'Utilization' column of Section C of the BURS. For any excess of the actual budget utilization over the original amount, a positive entry corresponding to additional utilization shall be recorded in the RBUD based on the NBURSA. If the original utilization is greater, a negative entry representing the excess shall be recorded in the RBUD.

Sec. 25. Presentation of Budget Information in the Financial Statements on a Comparable Basis. An entity shall prepare a comparison of the budget and actual amounts spent as a separate statement since the budget and the financial statements are not prepared on a comparable basis in accordance with PPSAS (*Par. 23, PPSAS 24*).

Sec. 26. Statement of Comparison of Budget and Actual Amounts. This shall be prepared based on the various registries maintained by the Budget Division/Unit such as the RRORs, RAPAL, RAOD/RBUD and other SDs. The data on Actual Amounts shall be verified by the Accounting Division/Unit in the Statement of Cash Flows (SCF). The statement shall present the following:

a. The original (approved appropriations, prior year's not yet due and demandable obligations) and final budget (continuing appropriations, transfers, realignments and withdrawals) amounts;
b. The actual amounts on a comparable basis; and

c. By way of note disclosure, an explanation of the material differences between the budget and actual amounts, which are not included in the financial statements.

(NAME OF THE ENTITY)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
(ALL FUNDS OR NAME OF FUND)
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousand pesos)

Particulars		Budgeted Amounts		Actual Amounts on Comparable Basis	Difference Final Budget and Actual
		Original	Final		
	Notes				
RECEIPTS					
Tax Revenue	3.13 & 3.15	xxx	xxx	xxx	xxx
Services and Business Income	3.14 & 3.15	xxx	xxx	xxx	xxx
Assistance and Subsidy	3.13 & 3.15	xxx	xxx	xxx	xxx
Shares, Grants and Donations	3.13 & 3.15	xxx	xxx	xxx	xxx
Gains	3.14 & 3.15	xxx	xxx	xxx	xxx
Others	3.15	xxx	xxx	xxx	xxx
Total Receipts		**xxx**	**xxx**	**xxx**	**xxx**
PAYMENTS					
Personnel Services	3.15	xxx	xxx	xxx	xxx
Maintenance and Other Operating Expenses	3.15	xxx	xxx	xxx	xxx
Capital Outlay	3.15	xxx	xxx	xxx	xxx
Financial Expenses	3.15	xxx	xxx	xxx	xxx
Others	3.15	xxx	xxx	xxx	xxx
Total Payments		**xxx**	**xxx**	**xxx**	**xxx**
NET RECEIPTS/PAYMENTS		**xxx**	**xxx**	**xxx**	**xxx**

The above statement should be read in conjunction with the accompanying notes.

Sec. 27. Changes from Original to Final Budget. An entity shall present an explanation of whether the changes between the original and final budget are a consequence of reallocations within the budget by way of note disclosure in the FSs.

Sec. 28. Reconciliation of Actual Amounts on a Comparable Basis (Budget) and Actual Amounts in the Financial Statements. The actual amounts presented on a comparable basis to the budget shall be reconciled with the actual amounts presented in the FSs identifying separately the differences classified as follows:

a. Basis Differences, which occur when the approved budget is prepared on a basis other than the accounting basis;

b. Timing Differences, which occur when the budget period differs from the reporting period reflected in the FSs; and

c. Entity Differences, which occur when the budget omits program or entities that are part of the entity for which the FSs are prepared.

The reconciliation shall be disclosed as part of the Notes to the FSs.

Sec. 29. Disclosures of Budgetary Basis, Period and Scope. An entity shall explain in the notes to the FSs the budgetary basis (cash or accrual, or some modification thereof) used in the preparation and presentation of the budget and the accounting basis used in the financial statements. The period and the entities included in the approved budget shall also be identified in the notes to financial statements.

Sec. 30. Procedures for the Preparation of the Statement of Comparison of Budget and Actual Amounts

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Based on the RRORs, RAPAL, RAODs/RBUDs and SDs, obtain the data on budgeted and actual revenue, appropriations, allotments, obligations/utilizations and disbursements and post these in the appropriate column of the SCBAA. *Note 1 –* The number in the 'Notes' column shall correspond to those shown in the Notes to FS prepared by the agency. *Note 2 –* The Receipts portion of the statement shall contain the various revenue and other receipts of the agency showing the following: a. Budgeted Amount: *Original* – the approved estimated revenue of the entity per major account based on the RROR maintained by the agency *Final* – the approved estimated revenue of the entity after effecting the adjustments as reflected in the RROR. In cases where the estimated revenue was not reflected on the approved budget, the actual collections shall be considered as the estimated revenue (final). The same shall be disclosed in the notes to the FSs. b. Actual Amounts on Comparable Basis – refer to collections received from revenue transaction based on the RCD, CRReg (for OU without complete set of books) and CM/Abstract of Deposit as posted in the RROR The NCA received for funding requirements of the agency shall not be considered as receipts for the purpose of this statement. *Note 3 –* The Payments portion of the SCBAA shall contain the expenditures of the agency classified into PS, MOOE, CO, FE and Other Disbursements showing the following: a. Budgeted Amount:

Area of Responsibility	Seq. No.	Activity
		Original – the approved appropriations of the agency as reflected in the GAA and other appropriations law. *Final* – the approved appropriations of the agency after effecting the adjustments (transfers, realignments and withdrawals) as reflected in the RAPAL. b. Actual Amounts on Comparable Basis – refer to actual payments/disbursements posted in the RAOD based on the RCI, RADAI, TRA and JEV for disbursements not recorded in the RCI and RADAI. For Operating Units without complete set of books, the source documents are the CBReg, CDReg and the JEV. *Note 4* **–** This statement shall be prepared by fund cluster based on the UACS. *Note 5* **–** In addition to Note 4, a consolidated/combined statement of all fund clusters shall be prepared.
Budget Staff	2	Prepares the SCBAA in two (2) copies and forwards to the Accounting Division/Unit for verification of the actual amounts with the accounting records and the SCF. *Note 6* – The difference between the Final Budget and the Actual Amounts in the SCBAA shall be reconciled with the balances of unreleased appropriations/budget, unobligated allotments/ unutilized budget, and unpaid obligations/ utilizations reflected in the SAAODB/SABUDB.
Head of Budget Division/Unit/ Budget Officer	3	Signs the “Certified Correct” portion of the SCBAA.
Accounting Division/Unit		
Accounting Staff Concerned	4	Receives the 2 copies of the SCBAA from the Budget Division/Unit and retrieves the copy of the SCF. Verifies the receipts and payments on the Actual Amount columns of the SCBAA with the inflows and outflows in the SCF. Coordinate with the Budget Division/Unit discrepancy discovered, if any. Once verified, forwards the 2 copies of the SCBBA and SCF to the Head of Accounting Unit/Chief Accountant.

Area of Responsibility	Seq. No.	Activity
Head of Accounting Division/Unit/Chief Accountant	5	Signs the Certified Correct portion of the SCBAA.
Concerned Accounting Staff	6	Submits the signed SCBAA to the Audit Team Leader, together with other FSs. Furnish one signed copy of the SCBAA to Budget Division/Unit for file.

Sec. 31. Preparation of the Budget Reports. The following budget reports/documents as required by DBM and COA shall be submitted**:**

a. Quarterly Physical Report of Operation (QPRO) – Budget Accountability Report (BAR) No. 1 (*Appendix 16*). This report shall reflect the Department's/Agency's actual physical accomplishments as at a given quarter, in terms of the performance measures indicated in its Physical Plan.

b. Statement of Appropriations, Allotments, Obligations, Disbursements and Balances – Financial Accountability Report (FAR) No. 1 (SAAODB) (*Appendix 17*). This report shall reflect the authorized appropriations and adjustments, total allotments received including transfers, total obligations, total disbursements and the balances of unreleased appropriations, unobligated allotments, and unpaid obligations of a department/office/entity by source and by allotment class. It shall be presented by:

    1. Fund Authorization;
    2. Major Final Output;
    3. Program/Activity/Project; and
    4. Major Programs/Projects - identified by Key Result area (KRA)

c. Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures – FAR No. 1.A (SAAODBOE) (*Appendix 18*). This report shall be prepared by Funding Source Code (FSC) as clustered and shall reflect the summary of appropriations, allotments, obligations, disbursements and balances detailed by object of expenditures consistent with the COA Revised Chart of Accounts per COA Circular No. 2013-002 dated January 30, 2013 and the Adoption of the PPSAS per COA Resolution No. 2014-003 dated January 24, 2014.

d. List of Allotments and Sub-Allotments – FAR No. 1.B (*Appendix 19*). This report shall reflect the allotments released by the DBM and the sub-allotments issued by the Entity Central Office/RO, their corresponding numbers, date of issuance, and amounts by allotment class and FSC. The total allotments per this report should be equal to the total allotments appearing in the SAAODB (FAR No. 1).

e. Statement of Approved Budget, Utilizations, Disbursements and Balances – FAR No. 2 (*Appendix 20*). This report shall reflect the approved budget, the utilizations, disbursements and balance of the entity's income authorized by law to use, such as OWWA/SUCs, duly approved by their Board of Trustee/Regents and shall be prepared by FSC as clustered.

f. Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures – FAR No. 2.A (*Appendix 21*). This report shall reflect the details of the approved budget, utilizations, disbursements and balance of the entity's income authorized by law to use presented by object of expenditures consistent with the COA

Revised Chart of Accounts and shall be prepared by Funding Source Code as clustered.

g. Aging of Due and Demandable Obligations – FAR No. 3 *(Appendix 22)*. This report shall be prepared by FSC as clustered and shall reflect the balance of unpaid obligations as indicated in the Obligation Request (ObR) and the ADDOs as at year-end.

h. Monthly Report of Disbursements – FAR No. 4 *(Appendix 23)*. The report shall reflect the total disbursements made by department, office or entity and operating unit from the following disbursement authorities:

1. Notice of Cash Allocation;
2. NCA for Working Fund issued to BTr as an advance funding from loan/grant proceeds in favor of an entity;
3. Tax Remittance Advice issued;
4. CDC issued by departments with foreign-based agencies or units;
5. Non-Cash Availment Authority; and
6. Others, e.g. Customs, Duties and Taxes (CDT), BTr Documentary Stamps.

The report shall track the actual disbursement of the departments/agencies against their Disbursement Program. The reasons for over or under spending shall be indicated.

i. Quarterly Report of Revenue and Other Receipts – FAR No. 5 *(Appendix 24)*. This report shall reflect the actual revenue and other receipts/collections from all sources remitted with the BTr and deposited in other AGDB for the current year presented by quarter, and by specific sources consistent with the COA Revised Chart of Accounts.

Sec. 32. Submission of Budget and Financial Accountability Reports. All departments/agencies shall observe the following timelines in submitting the required FARs to COA-GAS and DBM:

a. Within thirty (30) days after the end of each quarter –

1. SAAODB – FAR No. 1
2. SAAODBOE – FAR No. 1.A
3. List of Allotments/Sub-Allotments - FAR No. 1.B
4. SABUDB – FAR No. 2
5. SABUDBOE – FAR No. 2.A
6. QRROR – FAR No. 5

b. On or before 30th day following the end of the year – ADDO – FAR No. 3

c. On or before 30th day of the following month covered – MRD – FAR No. 4

d. On or before February 14 of the following calendar year – Consolidated Statement of Allotments, Obligations, and Balances per Summary of Appropriations under FCR under GAA, GARO, and SARO.

Chapter 4

RESPONSIBILITY ACCOUNTING

Sec. 1. Scope. This Chapter covers the definition of terms, objectives, concepts, presentation of costs and revenue in the financial statements, and the responsibility center code structure.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used in this chapter shall be construed to mean as follows:

a. *Responsibility Accounting* – provides access to cost and revenue information under the supervision of a manager having a direct responsibility for its performance. It is a system that measures the plans (by budgets) and actions (by actual results) of each responsibility center.

b. *Responsibility Center* – is a part, segment, unit or function of a government agency, headed by a manager, who is accountable for a specified set of activities. Except for some, which derive most of their income from collection of taxes and fees, NGAs are basically cost centers which primary purpose is to render service to the public at the lowest possible cost. Cost centers are established to provide each government agency's accessibility to cost information and to facilitate cost monitoring at any given period.

Sec. 3. Objectives of Responsibility Accounting. Responsibility accounting aims to: a) ensure that all costs and revenues are properly charged/credited to the correct responsibility center so that deviations from the budget can be readily attributed to managers accountable therefor; b) provide a basis for making decisions for future operations; and c) facilitate review activities, monitoring the performance of each responsibility center and evaluation of the effectiveness of agency's operations.

Sec. 4. Concepts of Responsibility Accounting. The following are the concepts of responsibility accounting:

a. Responsibility accounting involves accumulating and reporting data on revenues and costs on the basis of the manager's action who has authority to make the day-to-day decisions about the items;

b. Evaluation of a manager's performance is based on the matters directly under his control;

c. Responsibility accounting can be used at every level of management in which the following conditions exist:

   1. Cost and revenues can be directly associated with the specific level of management responsibility;

   2. Costs and revenues are controllable at the level of responsibility with which they are associated; and

   3. Budget data can be developed for evaluating the manager's effectiveness in controlling the costs and revenues.

d. The reporting of costs and revenues under responsibility accounting differs from budgeting in two respects:

   1. A distinction is made between controllable and non-controllable costs.

      i. A cost is considered controllable at a given level of managerial responsibility if the manager has the power to incur it within a given period of time. It follows that (1) all costs are controllable by top management because of the broad range of its activity; and (2) fewer costs are controllable as one move down to lower level of managerial responsibility because of the manager's decreasing authority.

      ii. Non-controllable costs are costs incurred indirectly and allocated to a responsibility level.

   2. Performance reports either emphasize or include only items controllable by individual manager.

e. A responsibility reporting system involves the preparation of a report for each level of responsibility. Responsibility reports usually compare actual costs with flexible budget data. The reports show only controllable costs and no distinction is made between variable and fixed costs.

f. Evaluation of a manager's performance for cost centers is based on his ability to meet budgeted goals for controllable costs.

Sec. 5. Presentation of Revenue in the Financial Statements. An agency shall present, in the notes of the SFPer the total revenue, classified by MFO/PAP and by major classification of the nature of revenue attributed to the major offices/organizational unit of the agency.

Sec. 6. Presentation of Costs in the Financial Statements. An agency shall present, in the notes of the SFPer, an analysis of expenses using a classification based on the MFO/PAP and by major classification of the nature of revenue attributed to the major offices/organizational unit of the agency. The analysis of expense by MFO/PAP classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users although allocating costs to functions may require arbitrary allocations and involves considerable judgment.

Sec. 7. Responsibility Center Code Structure. Each NGA shall be assigned a responsibility center code defined as organization code in the UACS Manual. For monitoring revenue and expenses, additional three digit codes for the agency's major offices/departments shall be appended to the organization code. The organization code and the agency's major offices/departments' code shall consist of 15 digits as follows:

00 000 0000000 000

Organization

Department

Agency

Lower Level
Operating Unit

Additional code for major office/department

Major Office/
Department

Example: National Government of the Commission on Audit

31 000 0100000 000

Commission on Audit

Agency (none)

Central Office

Additional code for major office/department

National Government
Sector

Chapter 5

REVENUE AND OTHER RECEIPTS

Sec. 1. Scope. This Chapter provides the standards, policies, guidelines and procedures in accounting for revenue and other receipts including those collections through authorized agent banks, remittance of collections to the NT through AGDB and deposits with the AGDB in accordance with PPSAS 9-Revenue from Exchange Transactions and PPSAS 23-Revenue from Non-exchange Transactions.

Sec. 2. Definition of Terms. For the purpose of this Manual, the following terms shall be construed to mean as follows:

a. *Bequest* – is a transfer made according to the provisions of a deceased person's will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction. (*Par. 90, PPSAS 23*)

b. *Concessionary loans* – are loans received by an entity at below market terms.

c. *Exchange transactions* – are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. (*Par. 11, PPSAS 9*)

d. *Fair value* – is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

e. *Fines* – are economic benefits or service potential received or receivable by NGAs, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. (*Par. 88, PPSAS 23*)

f. *Gifts, Donations and Goods In-kind* – are voluntary transfers of assets, including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. (*Par. 93, PPSAS 23*)

g. *Non-exchange transactions* – are transactions in which an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. (*Par. 11, PPSAS 9*)

h. *Pledges* – are unenforceable undertakings to transfer assets to the recipient entity.

i. *Revenue* – is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

j. *Services in-kind* – are services provided by individuals to public sector agencies in a non-exchange transaction.

Sec. 3. Accrual of Revenue to the General Fund. Unless otherwise specifically provided by law, all revenue (income) accruing to the departments, offices and agencies by virtue of the provisions of existing laws, orders and regulations shall be deposited in the NT or in the duly authorized depository of the Government and shall accrue to the xxx General Fund of the Government: Provided, that amounts received in trust and from business-type activities of government may be separately recorded and disbursed in accordance with such rules and regulations as may be determined by the Permanent Committee. (*Sec. 44, Chapter V, Book VI, E.O. No. 292*)

Sec. 4. Special, Fiduciary and Trust Funds. Receipts shall be recorded as revenue of Special, Fiduciary or Trust Funds (TF) or Funds other than the GF, only when authorized by law and following such rules and regulations as may be issued by the Permanent Committee consisting of the Secretary of Finance as Chairman, and the Secretary of the Budget and the Chairman, Commission on Audit, as members. The same Committee shall likewise monitor and evaluate the activities and balances of all Funds of the NG other than the GF and may recommend for the consideration and approval of the President, the reversion to the GF of such amounts as are: (1) no longer necessary for the attainment of the purposes for which said Funds were established, (2) needed by the GF in times of emergency, or (3) violative of the rules and regulations adopted by the Committee: provided, that the conditions originally agreed upon at the time the funds were received shall be observed in case of gifts or donations or other payments made by private parties for specific purposes. (*Sec. 45, Chapter V, Book VI, EO 292*).

Sec. 5. Sources of Revenue and Other Receipts. Revenues received by NGAs may arise from exchange and non-exchange transactions.

In a transaction where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received, the entity determines whether there is a combination of exchange and non-exchange transactions. Each component of which is recognized separately. (*Par. 10, PPSAS 23*)

There are transactions where it is not immediately clear whether they are an exchange or a non-exchange transaction. In these cases, an examination of the substance of the transaction will determine if they are on exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction.

Agencies may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction. (*Par. 11, PPSAS 23*)

Sec. 6. Revenue from Exchange Transactions. Revenues received by the NGAs from exchange transactions are derived from the following:

a. Sale of goods or provisions of services to third parties or to other NGAs. Examples are:

   1. *Service Income* – Permit Fees, Registration Fees, Registration Plates, Tags and Stickers Fee, Clearance and Certification Fees, Franchising Fees, Licensing Fees, Supervision and Regulation Enforcement Fees, Spectrum Usage Fees, Legal

Fees, Inspection Fees, Verification and Authentication Fees, Passport and Visa Fees, Processing Fees and Other Service Income; and

2. *Business Income* – School Fees, Affiliation Fees, Examination Fees, Seminar/Training Fees, Rent/Lease Income, Communication Network Fees, Transportation System Fees, Road Network Fees, Waterworks System Fees, Power Supply System Fees, Seaport System Fees, Landing and Parking Fees, Income from Hostels/Dormitories and Other Like Facilities, Slaughterhouse Operation, Income from Printing and Publication, Sales Revenue, Hospital Fees, Share in the Profit of Joint Venture and Other Business Income.

b. Use by other entity of assets yielding interest, royalties and dividends or similar distributions. Examples are:

1. *Interest income* – charges for the use of cash or cash equivalents, or amounts due to the entity;

2. *Royalties* – fees paid for the use of entity's assets such as trademarks, patents, software, and copyrights; and

3. *Dividends* – share of the National Government from the earnings of its capital/equity investments in Government-Owned or Controlled Corporations (GOCCs) and other entities.

Sec. 7. Recognition and Measurement of Revenue from Exchange Transactions. Revenue from exchange transaction shall be measured at fair value of the consideration received or receivable.

a. Revenue shall be recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

1. Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:

i. The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods; (*Par. 28, PPSAS 9*)

ii. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

iii. The amount of revenue can be measured reliably;

iv. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and

v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. Revenue from the supply of services shall be recognized on a straight line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

i. The amount of revenue can be measured reliably;

ii. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;

iii. The stage of completion of the transaction at the reporting date can be measured reliably; and

iv. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. (*Par. 19, PPSAS 9*)

For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. (*Par. 24, PPSAS 9*)

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable. (*Par. 25, PPSAS 9*).

3. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions shall be recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and the amount of the revenue can be measured reliably. (*Pars. 33 and 34, PPSAS 9*)

   i. Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;

   ii. Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; and

   iii. Dividends or similar distributions shall be recognized when the shareholder's or the entity's right to receive payment is established.

   Examples:

Revenue	**Revenue Recognition Point**
Service Income	
Permit Fees, Registration Fees, Registration Plates, Tags and Stickers Fee, Clearance and Certification Fees, Franchising Fees and Licensing Fees,	When services are rendered or if not practicable, when fees are collected upon issuance of the respective permits, certificates of registration, plates, stickers, clearance, certification, franchises and

Revenue	Revenue Recognition Point
	licenses
Supervision and Regulation Enforcement Fees	When services are rendered or when tickets or relevant document representing violation are issued or if not practicable, when fees are collected
Spectrum Usage Fees	When bills are rendered for the use, allocation and assignment of radio frequency wave lengths or if not practicable, when fees are collected
Inspection Fees	When bills are rendered for the conduct of inspection by authorized government official or if not practicable, when fees are collected
Legal Fees, Verification and Authentication Fees,	When filing fees are billed or if not practicable, when fees are collected
Passport and Visa Fees,	When fees are billed upon issuance of the passport and visa or if not practicable, when fees are collected
Processing Fees	When fees are billed or collected for the processing of documents for securing permits/applications.
Other Service Income	When fees are billed or if not practicable, when fees are collected
Business Income	
School Fees, Affiliation Fees, Examination Fees, Seminar/ Training Fees	When fees are billed or if not practicable, when fees are collected
Rent/Lease Income, Communication Network Fees, Transportation System Fees, Road Network Fees, Waterworks System Fees, Power Supply System Fees, Seaport System Fees, Landing and Parking Fees, Income from Hostels/ Dormitories and Other Like Facilities, Slaughterhouse, and Other Service Income	When fees are billed for earned revenue from use of government property/facilities or if not practicable, when fees are collected
Sales Revenue	When the significant risks and rewards of ownership have been transferred to the buyer as indicated in the sales invoice
Hospital Fees	When fees are billed for hospital and related services rendered, or if not practicable, when fees are collected

Revenue	**Revenue Recognition Point**
Share in the Profit of Joint Venture	When share in the profit is earned
Other Business Income	When earned or if not practicable, when fees are collected

b. Revenue shall be measured at the fair value of the consideration received or receivable. Any amount of trade discounts and volume rebates allowed by the entity shall be taken into account. (*Par. 14-15, IPSAS 9*)

Example: Entity A is authorized to print accounting manuals for sale to other NGAs. Assume that on July 16, 2014, Entity A sold accounting manuals on account with a list price of ₱100,000 less trade discounts of 10%, 10% and 5%. The invoice price of the merchandise is computed as follows:

List price	₱100,000
Less: 10% x 100,000	10,000
	90,000
Less: 10% x 90,000	9,000
	81,000
Less: 5% x 81,000	4,050
Total	₱ 76,950

The journal entry shall be as follows:

Account Title	Account Code	Debit	Credit
Accounts Receivable	10301010	₱ 76,950	
Sales Revenue	40202160		₱ 76,950
To recognize the sale of the accounting manuals			

When the inflow of cash or cash equivalents received or receivable is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue. (*Par. 16, IPSAS 9*)

Example: Assume that on August 5, 2015, Entity A received a 60-day, 9%, ₱12,000 promissory note from X entity for accounting manuals sold. On October 4, 2015, Entity X paid cash in settlement of its note.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
August 5			
Notes Receivable	10301020	₱12,000	
Sales Revenue	40202160		₱12,000
To recognize the sale			
October 4			
Cash-Collecting Officers	10101010	₱12,180	
Notes Receivable	10301020		₱12,000
Interest Income	40202210		180
To recognize the collection of notes receivable			

Interest = ₱12,000 x 9% x 60/360 = ₱180

Sec. 8. Exchanges of Goods or Services for Similar/Dissimilar Good or Services. When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. However, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred. (*Par. 17, PPSAS 9*)

Sec. 9. Impairment Losses and Allowance for Impairment Losses. When an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense (impairment losses), rather than as an adjustment of the amount of revenue originally recognized.

Entities shall evaluate the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer/recipient credit-worthiness, current economic trends and changes in payment activity. An allowance is provided for known and estimated bad debts.

Sec. 10. Disclosure. An entity shall disclose:

a. The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

b. The amount of each significant category of revenue recognized during the period, including revenue arising from:

    1. Rendering of services;
    2. Sale of goods;
    3. Interest;
    4. Royalties;
    5. Dividends or similar distributions; and
    6. Amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Sec. 11. Revenue from Non-Exchange Transactions. Revenue of the NGAs from non-exchange transactions are derived mostly from taxes, gifts and donations, goods in kind and fines and penalties. Most NGAs derive revenues from transactions where they receive resources and provide no or nominal consideration directly in return. These are as follows:

a. Tax Revenue

   1. Tax Revenue-Individual and Corporation
   2. Tax Revenue-Property
   3. Tax Revenue-Goods and Services
   4. Tax Revenue-Others

b. Fines and Penalties

   1. Tax Revenue
   2. Service Income
   3. Business Income

c. Shares, Grants and Donations

   1. Share from National Wealth
   2. Share from Philippine Amusement and Gaming Corporation (PAGCOR)/ Philippine Charity Sweepstakes Office (PCSO)
   3. Share from Earnings of GOCCs
   4. Income from Grants and Donations in Cash
   5. Income from Grants and Donations in Kind

d. Revenue from non-exchange transactions may also arise when, in respect of an inflow of resources from a non-exchange transaction, the entity satisfies a present obligation recognized as a liability which may be as follows:

   1. Trust Liabilities – Customers' Deposits Payable and Guaranty/Security Deposits Payable
   2. Deferred Credits – Deferred Finance Lease Revenue and Other Deferred Credits
   3. Unearned Revenue – Investment Property and Other Unearned Revenue

Sec. 12. Recognition of Revenue from Non-Exchange Transactions. The cash basis of accounting shall be applied by all government agencies in the recognition of revenue from non-exchange transaction until a reliable model of measurement of this revenue is developed. Therefore, asset and the corresponding revenue or liability that arises from non-exchange transaction shall be recognized when collected or when these are measurable and legally collectible.

a. Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.
b. Gifts and donations, other than services in kind shall be recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and shall be measured at fair value.
c. Goods in-kind received without conditions shall be recognized as revenue immediately.
d. Donation in cash or in kind shall be recognized as revenue.

Sec. 13. Measurement of Revenue from Non-Exchange Transactions. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity, unless it is also required to recognize a liability. Where a liability is recognized and subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue. (*Pars. 48 and 49, PPSAS 23*)

Sec. 14. Measurement of Assets on Initial Recognition from Non-Exchange Transactions. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. (*Par. 42, PPSAS 33*)

Sec. 15. Measurement of Liabilities on Initial Recognition. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. (*Par. 58, PPSAS 23*)

Sec. 16. Tax Revenue. Taxes are economic benefits or service potential compulsory paid or payable to public sector agencies, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law. Unless otherwise specified in laws and regulations, the taxable event for:

a. Income tax is the earning of assessable income during the taxation period by the taxpayer;

b. Value added tax is the undertaking of taxable activity during the taxation period by the taxpayer;

c. Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;

d. Customs duty is the movement of dutiable goods or services across the customs boundary;

e. Death duty is the death of a person owning taxable property; and

f. Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Sec. 17. Illustrative Accounting Entries. Refer to Annexes H to N for illustrative accounting entries.

Sec. 18. Transfer of Internal Revenue Allotment. Where an NG imposes a tax, the entire proceeds of which is collected by NGAs and transferred to LGUs through an appropriation, the NGAs recognize assets and revenue for the tax, and a decrease in assets and an expense for the transfer to LGUs. The LGUs will recognize the assets and revenue for the transfer. The following is the accounting entry at the books of accounts of the DBM:

Account Title	Account Code	Debit	Credit
Financial Assistance to LGUs	50214030	₱10,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱10,000
To recognize transfer of IRA to LGUs			

Sec. 19. Expenses Paid Through the Tax System and Tax Expenditures. Taxation revenue shall be determined at gross amount. It shall not be reduced for expenses paid through the tax system. Expenses of the government paid through the tax system or as reduction from tax revenue received should not be offset or deducted from that tax revenue. Therefore, taxation revenue shall be recognized at the gross amount and the expenses deducted shall be recognized and shall form part of the statement of financial performance. Expenses paid through the tax system are those expenses which should be paid irrespective of whether the taxpayer pay taxes, or use a particular mechanism to pay taxes. (*Par. 71, PPSAS 23*)

Sec. 20. Taxation Revenue Shall Not Be Grossed Up For the Amount of Tax Expenditures. Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources that is, they do not give rise to assets, liabilities, revenue, or expenses of the government. (*Pars. 73 and 74, IPSAS 23*)

Examples are the tax expenditure fund, which is a subsidy released by the DBM to government-owned or controlled corporations and government financial institutions to settle customs duties and other taxes arising from the importation of goods; and benefits granted to taxpayers like the tax credits.

Sec. 21. Recognition of Asset through Transfers. An entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. (*Par. 76, PPSAS 23*)

a. Transfers meet the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability. (*Par. 78, PPSAS 23*)

b. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All of these transactions transfer resources without approximate equal value in exchange and are not taxes but some are with conditions.

c. Transfers are established by a binding arrangement that includes conditions, such as inter-entity and intra-entity fund transfers:

    1. From an NGA to another NGA;
    2. From the NGA's Central Office to its Regional/Bureau Offices and Operating/Field Units;
    3. From an NGA to an LGU and vice-versa;
    4. From an NGA to a GOCC and vice-versa;

5. From an entity that is created by law or regulation to perform specific functions with operational autonomy; and
6. From donor entity to NGAs.

d. An entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

e. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. (*Par. 79, PPSAS 23*)

f. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements that specify that the entity providing resources (a) is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) acquires a financial interest in the recipient entity that can be sold, exchanged, transferred or redeemed, are, in substance, agreements to make a contribution from owners. (*Par. 80, PPSAS 23*)

Sec. 22. Measurement of Transferred Assets. Transferred assets are measured at their fair value as at the date of acquisition. (*Par. 83, PPSAS 23*)

Sec. 23. Debt Forgiveness and Assumption of Liabilities

a. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively cancelling the debt. For example, an NGA may cancel a loan owed by an LGU. In such circumstance, the LGU concerned recognizes an increase in net assets because a liability it previously recognized is extinguished. (*Par. 84, PPSAS 23*)

b. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners. (*Par. 85, PPSAS 23*)

c. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners. (*Par. 86, PPSAS 23*)

d. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven. (*Par. 87, PPSAS 23*)

Sec. 24. Recognition and Measurement of Fines

a. Fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. (*Par. 89, PPSAS 23*)

b. Where an entity collects fines in the capacity of an agent, the fine will not be recognized as revenue of the collecting entity. (*Par. 89, PPSAS 23*)

c. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity. (*Par. 89, PPSAS 23*)

Sec. 25. Recognition and Measurement of Bequests

a. Bequests which satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any asset. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity. (*Par. 91, PPSAS 23*)

b. The fair value of bequeathed assets is determined in the same manner as for gifts and donations. Where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable. (*Par. 92, PPSAS 23*)

Sec. 26. Recognition and Measurement of Gifts, Donations and Goods In-kind

a. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity. (*Par. 95, PPSAS 23*)

b. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind. (*Par. 94, PPSAS 23*)

c. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. (*Par. 96, PPSAS 23*)

d. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment. (*Par. 97, PPSAS 23*)

Sec. 27. Grant with Condition. If conditions are attached to a grant, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purposes, it does not recognize revenue until the condition is satisfied and the liability is reduced. As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Example: The NG received a foreign grant amounting to ₱10 million for the construction of a railroad system. Under the terms of the grant, the construction project shall be completed within a period of two years from the receipt of the grant, otherwise, the money shall be returned to the grantor. The money can only be used as stipulated and the NG is required to include a note in the financial statement detailing how the money was spent. The Department of Public Works and Highways (DPWH) will be the implementing entity. The transactions shall be recognized as follows:

a. Receipt of the Grant

Account Title	Account Code	Debit	Credit
Books of the NG - BTr			
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010	₱10,000,000	
Other Deferred Credits	20501990		₱10,000,000
To recognize receipt of grant directly credited to the account of the NG maintained by the BSP			
Books of the Implementing NGA – DPWH			
Cash-Modified Disbursement System (MDS), Special Account	10104050	₱10,000,000	
Subsidy from National Government	40301010		₱10,000,000
To recognize receipt of the NCA for the construction of a railroad system			

b. Purchase of construction materials and payment for labor for the construction of a railroad system amounting to ₱10,000,000.

Account Title	Account Code	Debit	Credit
Books of the Implementing NGA-DPWH			
Construction in Progress-Infrastructure Assets	10699020	₱10,000,000	
Cash-Modified Disbursement System (MDS), Special Account	10104050		₱10,000,000
To recognize payment for the materials and labor for the construction of a railroad system			
Books of the NG-BTr			
Subsidy from National Government	40301010	₱10,000,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱10,000,000
To recognize replenishment of MDS checks issued for payment of the materials and labor for the construction of a railroad system			

c. Receipt of the report from DPWH for the completion of the construction of a railroad system amounting to ₱10,000,000.

Account Title	Account Code	Debit	Credit
Books of the NG - BTr			
Other Deferred Credits	20501990	₱10,000,000	
Income from Grants and	40402010		₱10,000,000

Donations in Cash

To recognize the income from grants and donations representing payment for expenses in connection with the grant agreement.

d. Turnover and Acceptance of Completed Infrastructure Asset

Account Title	Account Code	Debit	Credit
Books of the Implementing NGA - DPWH			
Railway Systems	10603100	₱10,000,000	
Construction in Progress- Infrastructure Assets	10699020		₱10,000,000
To recognize the turnover and acceptance of completed railway system			

Sec. 28. Recognition and Measurement of Services In-kind. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. (*Par. 98, PPSAS 23*)

a. Public sector entities may be recipients of services in-kind under voluntary or involuntary schemes operated in the public interest. For example:

    1. Technical assistance from other governments or international organizations;
    2. Persons convicted of offenses may be required to perform community service for public sector entity;
    3. Public hospitals may receive the services of volunteers; and
    4. Public schools may receive voluntary services from parents as teachers' aides or as board members. (*Par.100, PPSAS 23*)

b. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, the entity is not required to recognize services in-kind as revenue and as an asset but is encouraged to disclose the nature and type of services in-kind received during the reporting period. (*Par.102, PPSAS 23*)

Sec. 29. Recognition and Disclosure of Pledges. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Agencies do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation. Pledges may warrant disclosure as contingent assets. (*Par. 104, PPSAS 23*)

Sec. 30. Advance Receipts of Revenue. When an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition and satisfy the criteria for recognition as an asset and recognized as a liability until the event that makes the transfer arrangement binding occurs, and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized. (*Par.105, PPSAS 23*)

Sec. 31. Recognition and Measurement of Concessionary Loans

a. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with PPSAS 29, Financial Instruments: Recognition and Measurement, Chapter 7 of this Manual.

b. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange transaction. When an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized. (*Par. 105A and B, PPSAS 23*)

Sec. 32. Dishonored Checks. A check is dishonored either by non-payment or non-acceptance. Dishonor by non-payment occurs when (a) the check is duly presented for payment and payment is refused or cannot be obtained; or (b) presentment is excused and the check is overdue and unpaid (*Sec. 83, RA No. 2031, Negotiable Instruments Law*). Dishonor by non-acceptance happens when (a) the check is duly presented for acceptance, and such an acceptance as is prescribed by law is refused or cannot be obtained; or (b) presentment for acceptance is excused and the check is not accepted (*Sec. 149, RA No. 2031, Negotiable Instruments Law*). A dishonored check may also be defined as a check paid to the agency that was dishonored by the AGDB due to “Drawn Against Insufficient Fund (DAIF)” or “Drawn Against Uncleared Deposits (DAUD).”

When a check drawn in favor of the government is not accepted by the drawee for any reason, the drawer shall continue to be liable for the sum due and all penalties resulting from delayed payments. Where the reason for non-acceptance by the drawee bank is insufficiency of funds, the drawer shall be criminally liable therefor.

Responsibility over dishonored checks:

a. When a check is dishonored by non-payment or non-acceptance, the Collecting Officer should issue a Notice of Dishonored Checks (NDC) (*Appendix 25*) to the drawer and to each endorser, and any drawer or endorser to whom such notice is not given is discharged from liability. The NDC shall be furnished to the Agency Head, Accountant, Auditor and a copy thereof retained by the Collecting Officer. The Collecting Officer shall cancel the OR covering the dishonored check. If necessary, the head of the agency shall promptly institute the corresponding action for the collection of the amount involved.

b. The Collecting Officer neglecting or failing to give the required NDC to the drawer (or to the endorser-payor of the government check), who, as a result thereof, is discharged from liability, shall be personally answerable for the resulting loss suffered by the government.

c. The making, drawing and issuance of a check payment of which is refused by the drawee because of insufficient funds in or credit with such bank, when presented within ninety (90) days from the date of the check, shall be *prima facie* evidence of knowledge of such insufficiency of funds or credit unless such maker or drawer pays the holder thereof the amount due thereon, or makes arrangements for payment in full by the drawee of such check within five (5) banking days after receiving notice that such check has not been paid by the drawee.

d. A dishonored check shall be settled by tendering payment in cash or by certified check to the Collecting Officer concerned. No other mode of payment shall be accepted.

e. Upon settlement of the dishonored check in the manner herein prescribed, the Collecting Officer shall not return the check to the payor concerned unless the latter first surrenders the previous OR therefor. If the previous receipt is no longer available, sworn statement to the effect that it has been lost or misplaced should be submitted by the payor.

f. Dishonored checks shall remain in the custody of the Collecting Officer, pending their redemption, unless the agency head or the court shall direct otherwise, in which case appropriate receipts should be secured from the officer authorized to take custody of the checks. The Collecting Officer shall immediately advise the transfer of custody of the check.

Sec. 33. Procedures in Recording Dishonored Checks

Area of Responsibility	Seq. No.	Activity
Cash/Treasury Division/Unit		
Collecting Officer/ Designated Staff	1	Receives from AGDB the Debit Memo (DM) and copies of dishonored checks.
	2	Verifies the dishonored checks against previous months' RCD/CRRec maintained on file to ascertain that the checks were included in the previous months' collections. If not included, verifies from AGDB the details of the dishonored checks.
	3	If dishonored checks are included in the RCDs, prepares NDC to inform the drawers/endorsers/payors that the checks were dishonored by the AGDB. *Note 1* – The NDC shall be prepared in five copies and distributed as follows: *Original* – Drawer/Endorser (To be delivered personally or thru registered mail) *Copy 2* – Accounting Division/Unit file *Copy 3* – Agency Head's file *Copy 4* – COA Auditor's file *Copy 5* – Cash/Treasury Unit file
	4	Retrieves from file Copy 3 of the OR covering the dishonored check and cancels the OR indicating the following notation: *"Cancelled (date of Notice of Dishonored Checks) per Bank Debit Memo/Voucher No.______ dated __________"*
	5	Retrieves RCD/CRRec on file covering the dishonored checks and stamps the following notation on the face of the report/record: *"Cancelled OR No. ______ dated _______ amounting to ₱ ____________ due to dishonored Check No. ______ per Bank's Debit Memo No. ________ dated ___________."*

Area of Responsibility	Seq. No.	Activity
		Note 2 – In case of collections of OUs without complete set of books, CRReg will be used instead of RCD/CRRec.
	6	Prepares list of dishonored checks in two copies. Forwards Copy 2 of the list of dishonored checks together with originals of dishonored checks, AGDB's Debit Memo and Copy 2 of NDC to the Accounting Division/Unit for preparation of the JEV.
Accounting Division/Unit Accounting Staff	7	Receives Copy 2 of the list of dishonored checks, originals of dishonored checks, AGDB's Debit Memo and Copy 2 of NDC from the Cash/Treasury Unit and records the same in the logbook maintained for the purpose.
	8	Based on the list of dishonored checks, prepares the JEV in two copies. Signs the "Prepared by" portion of the JEV and forwards the same to the Head of Accounting Division/Unit for review and signature.
Head of Accounting Division/Unit	9	Reviews and signs the "Certified Correct by" portion of the JEV. Forwards the JEV supported by Copy 2 of the list of dishonored checks, originals of dishonored checks, AGDB's Debit Memo and Copy 2 of NDC to the Bookkeeper for recording in the CRJ. *Note 3* – For the succeeding activities, refer to Chapter 19 of this Manual for the Preparation and Submission of Trial Balances, Financial Statements and Other Reports.

Sec. 34. Illustrative Accounting Entries for Dishonored Checks

a. Collections remitted to BTr

Account Title	Account Code	Debit	Credit
1. Cancellation of OR due to Dishonored Checks			
Other Receivables	10305990	xxx	
Cash-Treasury/Agency Deposit, Regular	10104010		xxx
To recognize the cancellation of current year's deposited collections due to dishonored checks			
Other Receivables	10305990	xxx	
Accumulated Surplus/(Deficit)	30101010		xxx
To recognize the cancellation of prior year's deposited collections due to dishonored checks			

Account Title	Account Code	Debit	Credit
2. Redemption of Dishonored Check			
Cash-Collecting Officers	10101010	xxx	
Other Receivables	10305990		xxx
To recognize replacement of dishonored check			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of the replacement of dishonored check			

b. Collections deposited to AGDB

Account Title	Account Code	Debit	Credit
1. Cancellation of OR due to Dishonored Checks			
Other Receivables	10305990	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx
To recognize the cancellation of deposited collections due to dishonored checks			
2. Redemption of Dishonored Check			
Cash-Collecting Officers	10101010	xxx	
Other Receivables	10305990		xxx
To recognize replacement of dishonored check			
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of the replacement of dishonored check			

Sec. 35. Accounting for Cash Overage/Shortage of Collecting Officer. Cash overage discovered by the Auditor that cannot be satisfactorily explained by the Collecting Officer shall be forfeited in favor of the government and an official receipt shall be issued by the Collecting Officer/Cashier. The cash overage shall be taken up as Miscellaneous Income.

Cash shortage which is not restituted by the Collecting Officer despite demand in writing by the Auditor shall be taken up as receivable from the Collecting Officer.

Sec. 36. Illustrative Accounting Entries for Cash Overage/Shortage of Collecting Officer

a. Cash Overage

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	xxx	
Miscellaneous Income	40609990		xxx
To recognize forfeiture of cash overage of the Collecting Officer			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of forfeited cash overage to the BTr			

b. Cash Shortage

Account Title	Account Code	Debit	Credit
Due from Officers and Employees	10305020	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize cash shortage of Collecting Officer			
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize restitution of cash shortage			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of restituted cash shortage to the BTr			

Sec. 37. Disclosures. An entity shall disclose pertinent revenue transactions as follows: either on the face of, or in the notes to, the GPFS:

a. Disclosure on the face of, or in the notes to, the GPFS (Par. 106, IPSAS 26)

1. The amount of revenue from non-exchange transactions recognized during the period:

    i. Taxes, showing separately major classes of taxes; and
    ii. Transfers, showing separately major classes of transfer revenue.

2. The amount of receivables recognized in respect of non-exchange revenue;

3. The amount of liabilities recognized in respect of transferred assets subject to conditions;

4. The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;

5. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;

6. The existence and amounts of any advance receipts in respect of non-exchange transactions; and

7. The amount of any liabilities forgiven.

b. Disclosure in the notes to the GPFS (*Par. 107, IPSAS 26*)

1. The accounting policies adopted for the recognition of revenue from non-exchange transactions;

2. For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;

3. For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

4. The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.

c. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. Such disclosures may assist users to make informed judgment about:

1. the contribution made by such services to the achievement of the entity's objectives during the reporting period; and

2. the entity's dependence on such services for the achievement of its objectives in the future.

Sec. 38. Other Receipts. Other receipts of NGAs shall be composed of, but not limited to, the following:

a. Receipt of NCA. The NCA specifies the maximum amount of withdrawal that an entity can make from a government bank for the period indicated. The Collecting Officer shall not issue an OR for the receipt of NCA. The accounting entries to recognize receipt of NCA are as follows:

Account Title	Account Code	Debit	Credit
Regular			
Cash-Modified Disbursement System (MDS), Regular	10104040	₱100,000	
Subsidy from National Government	40301010		₱100,000
To recognize receipt of NCA for Regular Agency Fund			
Special Account			
Cash-Modified Disbursement System (MDS), Special Account	10104050	₱100,000	
Cash-Treasury/Agency Deposit, Special Account	10104020		₱100,000
To recognize receipt of NCA for Special Account in the General Fund			
Cash-Modified Disbursement System (MDS), Trust	10104060	₱100,000	
Cash-Treasury/Agency Deposit, Trust	10104030		₱100,000
To recognize the receipt of NCA for Trust Receipts Fund			

b. Non-Cash Availment Authority. The accounting entry to recognize the receipt of NCAA is as follows:

Account Title	Account Code	Debit	Credit
Accounts Payable	20101010	₱950,000	
Subsidy from National Government	40301010		₱950,000
To recognize the receipt of NCAA			

c. Cash Disbursement Ceiling. The accounting entries for the collection of revenue of, and the constructive receipt of disbursement authority to, Foreign Service Posts (FSPs) of DFA and DOLE are as follows:

1. DFA and DOLE's Books

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱100,000	
Passport and Visa Fees	40201120		₱100,000
To recognize collection of revenue of FSPs			
Cash in Bank-Foreign Currency, Current Account	10103020	₱100,000	
Cash-Collecting Officers	10101010		₱100,000
To recognize deposit of collections to authorized servicing bank of the FSPs			
Cash-Constructive Income Remittance	10104080	₱80,000	
Subsidy from National Government	40301010		₱80,000
To recognize receipt of CDC from DBM			
Quarters Allowance-Civilian	50102070	₱50,000	
Rents-Buildings and Structures	50299050	30,000	
Cash in Bank-Foreign Currency, Current Account	10103020		₱80,000
To recognize payment of expenses charged to CDC			

2. BTr Books:

Account Title	Account Code	Debit	Credit
Subsidy to NGAs	50214010	₱80,000	
Cash-Constructive Income Remittance	10104080		₱80,000
To recognize constructive receipt of remitted collections by FSPs and disbursements charged to the issued CDCs to FSPs			

d. Tax Remittance Advice. This shall be used to recognize: (1) in the books of national government agencies, the constructive remittance to BIR and BOC of taxes and customs' duties withheld, and the constructive receipt of NCA for those taxes and customs duties; (2) in the books of the BIR and BOC, the constructive receipt of tax revenue and customs duties; and (3) in the books of the BTr, the constructive receipt of the taxes and customs duties remitted.

1. Tax Withheld by NGAs

Account Title	Account Code	Debit	Credit
NGAs' (withholding agency) Books			
Cash-Tax Remittance Advice	10104070	₱100,000	
Subsidy from National Government	40301010		₱100,000
To recognize constructive receipt of NCA for TRA			

Account Title	Account Code	Debit	Credit
Due to BIR	20201010	₱100,000	
Cash-Tax Remittance Advice	10104070		₱100,000
To recognize constructive remittance to BIR of taxes withheld through TRA			
BIR Books			
Cash-Tax Remittance Advice	10104070	₱100,000	
Income Tax	40101010		₱100,000
To recognize constructive receipt of taxes remitted by NGAs through TRA			
BTr Books			
Subsidy to NGAs	50214010	₱100,000	
Cash-Tax Remittance Advice	10104070		₱100,000
To recognize constructive receipt of remittance of taxes by NGAs through TRA			

2. BOC Customs Duties charged to TEF

Account Title	Account Code	Debit	Credit
NGAs' (withholding agency) Books			
Military, Police and Security Equipment	10605100	₱1,000,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱990,000
Due to NGAs	20201050		10,000
To recognize the purchase of patrol boat by Philippine Navy (Cost=₱990,000; Customs Duties = ₱10,000)			
Cash-Tax Remittance Advice	10104070	₱10,000	
Subsidy from National Government	40301010		₱10,000
To recognize constructive receipt of NCA for customs duties charged against TEF			
Due to NGAs	20201050	₱10,000	
Cash-Tax Remittance Advice	10104070		₱10,000
To recognize constructive remittance to BOC of custom duties through TRA			
BOC Books			
Cash-Tax Remittance Advice	10104070	₱100,000	
Income Tax	40101010		₱100,000
To recognize constructive receipt of taxes remitted by NGAs through TRA			
BTr Books			
Subsidy to NGAs	50214010	₱100,000	
Cash-Tax Remittance Advice	10104070		₱100,000
To recognize constructive receipt of remittance of taxes by NGAs through TRA			

e. Receipt of Subsidy/Assistance from other NGAs, LGUs, GOCCs and Other Funds. The Collecting Officer shall issue OR upon receipt of cash subsidy/assistance.

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱100,000	
Subsidy from Other NGAs	40301020		₱50,000
Assistance from LGUs	40301030		25,000
Assistance from GOCCs	40301040		25,000
To recognize receipt of subsidy/assistance from other government agencies			
Cash-Treasury/Agency Deposit, Trust	10104030	₱100,000	
Cash-Collecting Officers	10101010		₱100,000
To recognize remittance of collections to BTr			

f. Refund of excess cash advances granted to officers and employees. Cash advances may be classified into:

1. Advances to Officers and Employees – for official travels;

2. Advances for Operating Expenses – granted to regular disbursing officer for operating expenses of operating/field units and foreign post not maintaining complete set of books;

3. Advances for Payroll – for payment of salaries, wages and other personnel benefits; and

4. Advances to Special Disbursing Officer (SDO) – for special purpose/time-bound undertakings.

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱100,000	
Advances for Operating Expenses	19901010		₱50,000
Advances for Payroll	19901020		25,000
Advances to Special Disbursing Officer	19901030		
or			25,000
Advances to Officers and Employees	19901040		
To recognize collection of refund of excess cash advances			
Cash-Treasury/Agency Deposit, Regular	10104010		
or			
Cash-Treasury/Agency Deposit, Special Account	10104020	₱100,000	
or			
Cash-Treasury/Agency Deposit, Trust	10104030		
Cash-Collecting Officers	10101010		₱100,000
To recognize remittance of collections to BTr			

g. Performance bond/security deposits. Receipts of performance bond posted by contractor or supplier to guaranty full and faithful performance of their contract. It may be in the form of cash or certified checks.

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱10,000	
Guaranty/Security Deposits Payable	19901010		₱10,000
To recognize collection of performance bond/security deposits			
Cash-Treasury/Agency Deposit, Trust	10104010	₱10,000	
Cash-Collecting Officers	10101010		₱10,000
To recognize remittance of collections to BTr			

h. Refund of overpayment of expenses. Receipts of refunds from officers, employees and suppliers/creditors resulting from overpayment of expenses.

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱10,000	
Specific Expense account			₱10,000
To recognize collection of refund of overpayment of expenses.			
Cash-Treasury/Agency Deposit, Regular	10104010		
or			
Cash-Treasury/Agency Deposit, Special Account	10104020	₱10,000	
or			
Cash-Treasury/Agency Deposit, Trust	10104030		
Cash-Collecting Officers	10101010		₱10,000
To recognize remittance of collections of refund of overpayment of expenses to BTr			

i. Collections made on behalf of another entity or non-government/private organizations. Receipts of income, receivables or trust funds for the account of other NGAs, LGUs, GOCCs or non-government/private organizations. These collections are later remitted to the government agencies or non-government/private organizations concerned.

1. NGAs (other than University of the Philippines-Legal Research Fund (UP-LRF)) Books

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱5,000	
Due to NGAs	20201050		₱5,000
To recognize collection of fees accruing to the UP-LRF			
Due to NGAs	20201050	₱5,000	
Cash-Collecting Officers	10101010		₱5,000
To recognize remittance of collections to BTr for the account of UP-LRF			

2. BTr Books

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Savings Account	10102030	₱5,000	
Cash-Treasury/Agency Deposit, Trust	10104030		₱5,000
To recognize receipt of remitted collections for UP-LRF			

3. UP-LRF Books

Account Title	Account Code	Debit	Credit
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Trust Liabilities	20401010		₱5,000
To recognize remitted collections for UP-LRF by other NGAs			

j. Intra-agency and inter-agency fund transfers. Cash received from central office/regional office/operating units of an entity and from another entity for the purpose of implementing specific projects.

1. Intra-entity Fund Transfer

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱5,000	
Due to Central Office	20301010		
or			
Due to Bureaus	20301020		
or			
Due to Regional Offices	20301030		₱5,000
or			
Due to Operating Units	20301040		
or			
Due to Other Funds	20301050		
To recognize receipt of intra-entity fund transfer			
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Cash-Collecting Officers	10101010		₱5,000
To recognize remittance of collections to BTr			

2. Inter-agency Fund Transfer

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱5,000	
Due to NGAs	20201050		
or			
Due to LGUs	20201070		₱5,000
or			
Due to GOCCs	20201060		
To recognize receipt of inter-entity fund transfer			

Account Title	Account Code	Debit	Credit
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Cash-Collecting Officers	10101010		₱5,000
To recognize remittance of collections to BTr			

Sec. 39. Reporting of Collections and Deposits. Receipts and deposits shall be reported as follows:

a. At the close of the business day, the Collecting Officers shall prepare the Report of Collections and Deposits (RCD) *(Appendix 26)* for submission to Accounting Office/Unit. The report lists all the ORs issued in numerical sequence including cancelled ones.

b. The RCD shall be supported by documentary evidence such as duplicate copies of ORs and validated deposit slips.

c. The Collecting government entity issuing electronic Official Receipt (eOR) should generate and submit daily to the Auditor a copy of the RCD. In case the collection system is not integrated with the accounting system, the Accounting Division/Unit shall recognize the collections and deposits based on the generated reports duly certified by the Collecting Officer/Cashier/Head of Cash/Treasury Unit.

d. Field Offices (FOs)/Operating Units (OUs) without complete set of books shall record their collections of income chronologically in the Cash Receipts Register (CRReg) (*Appendix 27).* The certified copy of the CRReg together with the required supporting documents, duplicate copies of ORs and Deposit Slip (DSs) shall be submitted within five (5) days after the end of each month to the concerned mother unit (central/regional/division office) by the FOs (a unit under the central/regional/ division office) for review and recording of the transactions in the CRJ by the Chief Accountant.

Sec. 40. Detailed Procedures for Collections and Deposits through the Collecting Officer

Area of Responsibility	Seq. No.	Activity
Cash/Treasury Unit Collecting Officer		Daily
	1	Receives cash/check from payor representing collection based on the Order of Payment (OP) (*Appendix 28*) prepared by the Accounting Division/Unit.
	2	Issues OR to acknowledge receipt of cash/check. *Note 1* – The OR shall be prepared in three copies and distributed as follows: *Original* – Payor *Copy 2* – To be attached to the RCD/CRReg *Copy 3* – Cash/Treasury Unit file
	3	Records collections in the Cash Receipts Record (CRRec) (*Appendix 29*).

Area of Responsibility	Seq. No.	Activity
	4	Prepares DSs in three copies. *Note 2* – The DSs shall be distributed as follows: *Original* – AGDB *Copy 2* – To be attached to RCD/CRRec *Copy 3* – Cash/Treasury Unit file
	5	Deposits collections through AGDB for the account of the National Treasurer. *Note 3* – As prescribed in Treasury Circular No. 03-2014 dated June 16, 2014, amended by Treasury Circular No. 05-2014 dated September 26, 2014, a List of Deposited Collections (LDC) shall accompany the validated deposit slips upon deposit. Refer to the aforesaid Treasury Circulars for the format of LDC.
	6	Based on the duplicate copies of ORs on file and validated DSs from the AGDB, prepares the RCD in four copies. Initials on the RCD and forwards the same together with Copy 2 of the ORs and validated DSs to the Head of the Cash/Treasury Unit for review and signature.
Head of Cash/Treasury Unit	7	Reviews and signs the RCD. Forwards original of RCD, Copy 2 of the ORs and validated DSs to the Collecting Officer/Designated Staff for submission to the Accounting Division/Unit.
Designated Staff	8	Records the RCD in the logbook maintained by the Cash/Treasury Unit and forwards the same with the copy 2 of the ORs and validated DSs to the Accounting Division/Unit for recording in the books of accounts.
Accounting Division/Unit		
Accounting Staff	9	Receives original of RCD with Copy 2 of the ORs and validated DSs from the Cash/Treasury Unit. Records receipt in the logbook maintained for the purpose and forwards the same to the Bookkeeper for review and preparation of the JEV.
Bookkeeper	10	Based on the RCD, prepares JEV in two copies and signs "Prepared by" portion of the JEV. Forwards the JEV and documents to the Head of the Accounting Unit for review and signature.

Area of Responsibility	Seq. No.	Activity
Head/Chief Accountant	11	Reviews and signs "Certified Correct by" portion of the JEV. Forwards the JEV and documents to the Bookkeeper for recording in the CRJ. *Note 4* – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 41. Procedures for Collections through AAB/AGDB

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit		
Receiving/ Releasing Staff	1	Receives the Consolidated Report of Daily Collections (CRDC) from the AAB/AGDB. Records receipt in the logbook maintained for the purpose. Forwards the same to the Bookkeeper for preparation of the JEV.
Bookkeeper	2	Based on the CRDC, prepares JEV in two copies to recognize the collections and deposits, and signs "Prepared by" portion of the JEV. Forwards the JEV and supporting documents to the Accounting Division/Unit Head/Chief Accountant for review and signature.
Head/Chief Accountant	3	Reviews and signs "Certified Correct by" portion of the JEV. Forwards the JEV and supporting documents to the Bookkeeper for recording in the GJ. *Note* – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 42. Submission of the Quarterly Report of Revenue and Other Receipts. The Chief Accountant shall prepare the Quarterly Report of Revenue and Other Receipts (QRROR) *(Appendix 24)* and submit the report to the GAS, COA, the DBM and the BTr within 30 days after the end of each quarter. A separate report shall be prepared and submitted for income of the GF and for income and receipts for Special Account and Trust Fund.

Chapter 6

DISBURSEMENTS

Sec. 1. Scope. This Chapter covers the rules and regulations to be followed in the disbursement of public funds, the monitoring of receipt and utilization of NCA/NTA, preparation and processing of DV/Payroll; preparation and issue of checks; payment by cash; granting, utilization and liquidation/replenishment of cash advances; payment through ADA; remittance of taxes withheld through TRA; availment of foreign loans through suppliers credit/constructive cash; and payment of operating requirements on FSPs through CDC.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used shall be construed to mean as follows:

a. *Accounts Payable* – refers to valid and legal obligations of NGAs/OUs, for which, goods/services/projects have been delivered/rendered/completed and accepted, regardless of the year when these obligations were incurred.

b. *Advice to Debit Account* – refers to an authorization issued by the NGA/OU appearing in the lower portion of the List of Due and Demandable Accounts Payable-Advice to Debit Account (LDDAP-ADA). It serves as instruction to the Modified Disbursement System, Government Servicing Banks (MDS-GSBs) to debit a specified amount from its available NCA balance under regular MDS sub-account for payment of creditors/payees through the Expanded Modified Disbursement Payment Scheme (ExMDPS).

c. *Agency* – refers to any department, bureau or office of the national government, or any of its branches and instrumentalities, or any political subdivision, as well as any GOCCs, including its subsidiaries, or other self-governing board or commission of the government.

d. *Authorized Card Holder* – refers to a responsible official to whom a Purchase Card is issued for purposes of making official purchases within specific categories enumerated in Annex A of Joint Memorandum No. 2014-01 dated May 15, 2014.

e. *Billing Entity* – refers to the accounting unit of the concerned participating agency responsible in the consolidation of the billing statement from the Credit Card Company (CCC) and payment of the said billing agency.

f. *Credit Card Company* – refers to Citibank as the authorized credit card service provider for the Cashless Purchase Card (CPC) System.

g. *Commercial Check* – refers to a check issued by government agencies chargeable against the agency's checking account with AGDBs. These are covered by income/receipts authorized to be deposited with AGDBs; and funding checks received by Operating Units from Central/Regional/Division Offices, respectively.

h. *Direct Payment System* – refers to the payment procedure whereby the MDS-GSB shall, upon receipt of NCA an LDDAP-ADA from DBM pay the CCC not earlier than 24 hours but not later than 48 hours, through direct credit to the CCC current account.

i. *Disbursements* – constitute all cash paid out during a given period in currency (cash) or by check/ADA. It may also mean the settlement of government payables/obligations by cash, check or ADA. It shall be covered by DV/Petty Cash Voucher (PCV)/Payroll.

j. *Expanded Modified Disbursement Payment Scheme* – refers to the payment procedures whereby the MDS-GSB shall pay the creditors/payees listed in the LDDAP-ADA not later than 48 hours but not earlier than 24 hours upon receipt of the said document from the NGA/OU:

   1. Direct credit to the creditor's current/savings/ATM account (CA/SA/ATM) maintained with MDS-GSB; or

   2. Bank transfer, if creditor's account is maintained outside the agency's MDS-GSB, where corresponding bank charges shall be borne/paid by the creditor/payee concerned.

k. *Implementing Agency* – refers to the agency to which the funds are transferred for the purpose of prosecuting/implementing the project.

l. *Inter-Agency Transferred Fund* – refers to cash or money transferred to an Implementing Agency (IA) for the undertaking of a project by a Source Agency (SA) in which the allotment was released.

m. *Letter of Introduction* – refers to a letter addressed to the MDS-GSB, issued by the NGA/OU to its creditors/payees for the purpose of opening an account or validation of an existing account.

n. *List of Due and Demandable Accounts Payable-Advice to Debit Account* – refers to accountable form integrating the Advice to Debit Account (ADA) with the LDDAP, which is a list reflecting the names of creditors/payees to be paid by the NGA/OU and the corresponding amounts of the unpaid claims.

o. *Merchants* – refers to those authorized by the CCC to be the sellers/suppliers under the CPC System.

p. *Modified Disbursement System (MDS) Check* – refers to a check issued by government agencies chargeable against the account of the Treasurer of the Philippines, which are maintained with different MDS AGDBs. MDS checks are covered by NCA.

q. *Modified Disbursement System, Government Servicing Banks* – refers to the authorized government servicing banks, such as Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and Philippine Veterans Bank (PVB), to which DBM issues the NCAs for crediting to the MDS sub-accounts of NGAs.

r. *Petty Cash Fund* – refers to the amount granted to duly designated Petty Cash Fund Custodian for payment of authorized petty or miscellaneous expenses which cannot be conveniently paid through checks/LDDAP-ADA.

s. *Program Administrator* – refers to the designated by the head of the agency who are tasked to implement and administer the Cashless Purchase Card System.

t. *Project* – refers to the undertaking, whether construction work, research or training program, computer engagement or other authorized activities which an agency shall prosecute or implement in favor or in behalf of another agency.

u. *Purchase Limit:*

1. *Cardholder Monthly Purchase Limit* – refers to the limit established by the Program Administrator and approved by the Steering Committee for the total value of purchases that a cardholder can make in one month.

2. *Cardholder Single Purchase Limit* – refers to the maximum amount allowed the cardholder for each transaction.

3. *Maximum Purchase Card Limit* – refers to the maximum amount that the unit/office is authorized to utilize as stated in the Purchase Card application

v. *Regular Cash Advance* – refers to the amount granted to cashiers, disbursing officers, paymasters, and/or other accountable officers for the payment of expenses such as salaries and wages, commutable allowances, honoraria and other similar payments to officials and employees.

w. *Steering Committee* – refers to the advisory committee composed of representatives from DND and the DBM which shall provide the guidance on key issues such as policy and objectives, control, procedures, individual card limits, individuals authorized to use the cards, amendments, and decisions involving large expenditures.

x. *Special Cash Advance* – refers to the amount granted on the explicit authority of the Head of the Agency only to duly designated disbursing officers or employees for other legally authorized purposes, such as payment of current operating expenditures, including salaries, wages and allowances, travel expenditures, and maintenance and other operating expenses, of the agency field office or for special purpose/time-bound undertaking of the agency when it is impractical to pay the same by check.

y. *Source Agency* – refers to the agency to which the allotment has been originally released and in whose behalf or benefit the project will be prosecuted/implemented.

z. *Tax Remittance Advice* – refers to a serially-numbered document prescribed by the DBM that should be used by the NGAs in the remittance of withheld taxes on funds coming from DBM. This form is being distributed by the BIR to be accomplished by the NGAs. The same shall be duly certified by the Chief Accountant and approved by the Head of the concerned NGA or his duly authorized representative, and attached to every withholding tax return filed as payment for taxes withheld. This shall be the basis for the BIR and the Bureau of the Treasury (BTr) to record the tax collection in their respective books of accounts. (BIR RR No. 1-2013).

aa. *Withdrawal Application* – is a written request from the borrower to the development partner to pay funds against to borrower's loan account.

Sec. 3. Notice of Cash Allocation. The NCA shall be the authority of an agency to pay operating expenses, purchases of supplies and materials, acquisition of PPE, accounts payable, and other authorized disbursements through the issue of MDS checks, ADA or other modes of disbursements.

a. No MDS check/ADA shall be issued without the covering NCA. Hence, the total MDS checks/ADA issued shall not exceed the total NCA received. To maximize the available NCAs of the agency, the Common Fund System policy shall be adopted whereby cash allocation balances of agencies under the Regular MDS Account may be used to cover payment of current year's accounts payable i.e., goods and services which have been delivered and accepted during the year charged against appropriations of prior year/s, after satisfying their regular operating requirements as reflected in their Monthly Cash Program.

b. NCA issued and credited to the Special MDS Accounts of agencie**s** for payment of retirement gratuity/terminal leave benefits as well as prior years' accounts payable shall be valid within the period prescribed under existing rules and regulations. The NCA shall be monitored through the maintenance of the Registry of Allotments and Notice of Cash Allocation (RANCA) (*Appendix 30*) by the Accounting Division/Unit.

c. NCA issued and credited to the Special MDS Accounts for Trust to cover payments of authorized claims shall be valid within the period prescribed under existing regulations.

d. For NCA issued for foreign assisted projects such as grants from foreign country with a separate MDS account maintained by the spending agency with Government Servicing Banks (GSBs), MDS check/ADA shall be issued only for specific purpose until full implementation of the project, subject to pertinent DBM issuances prescribing the validity of the NCA.

Sec. 4. Notice of Transfer of Allocation. The NTA shall be the authority of the regional and operating units to pay their operating expenses, purchases of supplies and materials, acquisition of PPE, accounts payable, and other authorized disbursements through the issue of MDS checks, ADA or other modes of disbursements.

a. No MDS check/ADA shall be issued by the ROs/OUs without the covering NTA. Hence, the total MDS checks issued shall not exceed the total NTA received. NTA issued and credited to the Regular MDS Accounts of ROs/OUs for their regular operations which are programmed for a specific month shall be valid within the period prescribed under existing rules and regulations. To maximize the available NTAs of the agency, the Common Fund System policy shall be adopted whereby cash allocation balances of agencies under the Regular MDS Account may be used to cover payment of current year's accounts payable i.e., goods and services which have been delivered and accepted during the year charged against appropriations of prior year/s, after satisfying their regular operating requirements as reflected in their Monthly Cash Program.

b. NTA issued by the Central Office and credited to the Special MDS Accounts of ROs/OUs for payment of retirement gratuity/terminal leave benefits as well as prior years' accounts payable shall be valid within the period prescribed under existing rules and regulations. The NTA shall be monitored through the maintenance of the Registry of Allotment and Notice of Transfer of Allocation (RANTA) (*Appendix 31*) by the ROs/OUs.

Sec. 5. Recording of the Receipt of NCA/NTA. The CO/ROs/OUs shall record in the RANCA/RANTA all NCAs/NTAs received and the amount disbursed to control and monitor unfunded allotments and the balance of disbursement authorities.

Sec. 6. Procedures for Recording of Receipt and Utilization of NCAs/NTAs

Area of Responsibility	Seq. No.	Activity
CO/RO/OU Accounting Division/Unit		
Designated Staff	1	Receives copy of the GAARD, SARO, and GARO, and posts the allotment in the 'Allotment Received' column of the RANCA/RANTA.
Receiving/ Releasing Staff	2	Receives copy of NCA/NTA from DBM/Agency's Central Office and records in the logbook. Forwards NCA/NTA to the Designated Staff for recording in the RANCA/RANTA.
Designated Personnel	3	Records the receipt of NCA/NTA in the RANCA/ RANTA.
	4	Records the amount disbursed/utilized in the RANCA/ RANTA based on processed DVs/Payroll.
	5	Indicates the balance of the Unutilized NCA/NTA and Unfunded Allotment.

Sec. 7. Modes of Disbursements. The different modes of disbursements are as follows: (a) checks (MDS or commercial checks), (b) cash (out of cash advance granted to authorized Disbursing Officer), (c) advice to debit the account, (d) tax remittance advice, (e) working Fund/CDC, and (f) direct payment method.

Sec. 8. Disbursements by Check. Checks shall be drawn only on duly approved Disbursement Voucher (DV) (*Appendix 32*) or Payroll (*Appendix 33*). These shall be used for payment of regular expenses which cannot be conveniently nor practically paid using the ADA or not authorized to be paid using the Petty Cash Fund or advances for operating expenses. Checks issued shall be reported and recorded in the books of accounts whether released or unreleased to the respective payees. There are two types of checks being issued by government agencies as follows:

a. ***Modified Disbursement System Checks* –** are checks issued by government agencies chargeable against the account of the Treasurer of the Philippines, which are maintained with different MDS-GSBs.

b. ***Commercial Checks*** – are checks issued by NGAs chargeable against the Agency Checking Account with GSBs. These shall be covered by income/receipts authorized to be deposited with AGDBs.

Sec. 9. Documentary Requirements. The documentary requirements for common government transactions depending on the nature of expenses to be paid by checks shall be complied with as prescribed in COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 10. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. All checks drawn during the day, whether released or unreleased including cancelled checks shall be recorded chronologically in the Checks and ADA Disbursements Record (CkADADRec) (*Appendix 34*) maintained by the Cash/Treasury Unit. The dates the checks were actually released shall be indicated in the appropriate column provided for in the CkADADRec. All checks/ADA drawn whether released or unreleased shall be included in the Report of Checks Issued (RCI) (*Appendix 35)* or Report of ADA Issued (RADAI) *(Appendix 13)*, which shall be prepared daily by the Cashier. The RCI/RADAI together with the original copies of the supporting documents (SDs) shall be submitted to the Accounting Division/Unit for the preparation of JEV (*Appendix 36*). At the end of the year, a Schedule of Unreleased Commercial Checks shall be prepared by the Cashier for submission to the Accounting Division/Unit. The adjusting accounting entries for unreleased commercial checks are presented in Sec. 56 of Chapter 19-Financial Reporting of this Manual.

Sec. 11. Recording of Check Disbursements by Field Offices without Complete Set of Books. Field Offices (FOs) without complete set of books shall record chronologically in the Cash in Bank Register (CBReg) (*Appendix 37)* all checks issued/charged to deposits with the AGDB. The certified copy of the CBReg together with the required SDs shall be submitted within five days after the end of each month to the concerned mother unit (central/regional/division office) by the FOs (a unit under the central/regional/ division office) for review and recording of the transactions in the books of accounts.

Sec. 12. Procedures for Disbursements by Checks

Area of Responsibility	Seq. No.	Activity
		Preparation of DV
Requesting Office/Unit Designated Staff	1	Prepares the DV in four copies in accordance with the instructions on the preparation of the DV (*Appendix 32)* to initiate the payment of claims. Forwards the DVs, SDs and ORS to the Budget Division/Unit for processing. *Note 1* – The procedures on processing/approval of ORS are discussed in Sec. 15, Chapter 3 of this Manual.
		Processing of DV
Accounting Division/Unit Receiving/ Releasing Staff	2	Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS from the Budget Division/Unit. Checks completeness of SDs based on the checklist. If incomplete, returns to the party concerned for compliance. If complete, stamps "Received" and indicates date of receipt and initials on the stamped "Received" portion of the DV. *Note 2* – Copy 1 of the ORS shall be retained by the Budget Unit which shall serve as the subsidiary ledger of obligations.
	3	Assigns DV number and records in the logbook the DV number and date, creditor/payee, particular and amount.

Area of Responsibility	Seq. No.	Activity
		Forwards Copies 1-4 of DV, SDs and Copies 2-3 of ORS to the designated Staff for processing. *Note 3* – The numbering structure for DV shall be as follows: 00 - 0000 - 00 - 000000 *Serial Number (One Series per Fund Cluster for each year)* *Month of Issue* *Year of Issue* *Fund Cluster Code* *Note 4* – DV number shall also be indicated on every sheet of the SDs.
Designated Staff/ Processing Staff	4	Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS from the Receiving/Releasing Staff. Reviews DV for completeness and propriety of SDs.
	5	Retrieves Index of Payments (IoP) (*Appendix 38*) from file and determines if claim is in order. If with prior payment on the same claim, returns the DV, SDs and ORS informing the requesting office/party of prior payment made. If in order, verifies ORS against DV. If the amounts in the ORS and DV are the same, records the following in the IP: DV date and number, particulars and amount and proceeds to Activity No. 9. For first-time claimant, prepares IP and records the name, address, employee number and/or TIN, DV date, particulars and amount. If the amounts in the ORS and DV differ, prepares NORSA in three copies and signs the "Prepared by" portion. Forwards Copies 1-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Head of Accounting Division/Unit for approval of the NORSA.
Head of Accounting Division/Unit/ Authorized Officer	6	Signs the "Approved by" portion of the NORSA.
Receiving/ Releasing Staff	7	Records in the logbook the return of Copies 1-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Budget Unit for correction of obligation.

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit		
Designated Staff	8	Posts the NORSA in the 'Obligation' column of Section C of the ORS. If the original amount is lesser than the actual obligation, a positive entry corresponding to additional obligation shall be recorded in the RAOD based on the NORSA. If the original obligation is greater, a negative entry representing the excess shall be recorded in the RAOD. Returns Copies 2-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Accounting Division/Unit for processing. Files Copy 2 of NORSA together with the original copy of the ORS.
Accounting Division/Unit		
Designated Staff	9	Initials in Box B of DV and forwards Copies 1-4 of DV and SDs, Copies 2-3 of ORS to the Head of Accounting Division/Unit/Authorized Officer for review. *Note 5* – In case there is NORSA attached to the DV, it shall be included among the SDs of the DV.
Head of the Accounting Division/Unit/ Authorized Officer	10	Retrieves the RANCA/RANTA from file and determines availability of NCA. If NCA is sufficient to cover the disbursement, records in the RANCA/RANTA the DV date and number, and amount under the 'Utilized' column and indicates NCA balance. Otherwise, notes that cash is not yet available and returns the DV and SDs to the Designated Staff for safekeeping.
	11	Checks the "Cash available" portion in Box B of the DV.
	12	Reviews DV and SDs. Signs Box B of DV. Forwards the documents to the Receiving/Releasing Staff.
Receiving/ Releasing Staff	13	Records in the logbook the release of Copies 1-4 of DV and SDs and Copies 2-3 of ORS to the Head of Agency or Authorized Representative for approval of the DV.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	14	Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS and records in the logbook the date of receipt. Forwards the set of documents to the Approving Officer for review and approval.
Approving Officer	15	Reviews DV and signs in Box C "Approved for Payment" portion. Forwards Copies 1-4 of DV, Copies 2-3 of the ORS and SDs.

Area of Responsibility	Seq. No.	Activity
		Note 6 – Depending on the set up/procedures of agencies, review of the claims may be done by authorized personnel/staff prior to the approval of the Head of the Agency or his/her Authorized Representative.
Receiving/ Releasing Staff	16	Records in logbook the approved DV and all SDs and forwards the documents to the Cash/Treasury Unit.
		Preparation and Approval of Checks
Cash/Treasury Unit		
Receiving/ Releasing Staff	17	Receives Copies 1-4 of approved DV, Copies 2-3 of ORS and SDs. Records in the logbook the date of receipt, DV number, payee, particulars and amount.
Designated Staff	18	Checks completeness of signatories on the DV. Prepares check in three copies.
	19	Retrieves from file the CkADADRec maintained per bank account and records the date, check number, name of payee, nature of payment and amount of the DV and indicates the new balance of the NCA/bank account. Forwards Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Cashier/Head of Cash/Treasury Unit for review and signature.
		Note 7 – For field offices without complete set of books, the CBReg shall be maintained.
Cashier or Head of Cash/ Treasury Unit	20	Verifies completeness of signature on the DV. Reviews the amount of the check against the DV and SDs. Signs the check.
Receiving/ Releasing Staff	21	Records in the logbook the date of submission to the approving authority of Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	22	Records in the logbook the date of receipt of Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs. Forwards the set of documents to the Authorized Countersigning Official.
Authorized Official	23	Countersigns the check. Forwards Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Receiving/Releasing Staff for return to the Cashier/Head of Cash/Treasury Unit.

Area of Responsibility	Seq. No.	Activity
Cash/Treasury Unit		
Cashier	25	Receives Copies 1-3 of check, Copies 1-4 of DV, Copy 2-3 of ORS and SDs and checks completeness of signatures in the check. Retrieves the CkADADRec and notes the return of the signed and countersigned check.
Cashier	26	Releases the original of check and Copy 4 of DV to the payee. Attaches OR/Invoice issued by payee/claimant, if any on Copy 1 of DV and requires payee/claimant to sign on Box D of the DV and the Check Registry/Logbook. Files temporarily Copies 2-3 of check, Copies 1-3 of DV, Copies 2-3 of ORS and SDs for preparation of reports. Posts in the 'Date Released' column of the CkADADRec the date of release of the check to the claimant.
		<u>Preparation of Reports</u>
		<u>Daily</u>
Cashier/ Designated Staff	27	Prepares Advice of Checks Issued and Cancelled (ACIC) (*Appendix 39*) in accordance with existing rules and regulations and forwards to the GSB.
	28	Retrieves Copies 2-3 of checks, Copies 1-3 of DV, Copies 2-3 of ORS and SDs and prepares the RCI in four copies.
		Note 8 – The RCI shall include all checks drawn during the day whether released or unreleased to the payees including cancelled ones.
		Note 9 – For field offices without complete set of books of accounts, the Disbursing Officer submits the certified true copies of the CBReg together with the SDs to the Accounting Division/Units of their respective CO/RO/Division Office (DO) for recording in the books of accounts.
	29	Initials in "Certification" portion of the RCI.
Cashier/Head of the Cash/ Treasury Unit	30	Reviews RCI and signs in "Certification" portion.
Designated Staff	31	Distributes the RCI as follows: *Original* – COA Auditor, through the Accounting Division/Unit, together with the original copy of the paid DVs/payroll, copy of the check and SDs *Copy 2* – Accounting Division/Unit

Area of Responsibility	Seq. No.	Activity
		Copy 3 – Budget Unit *Copy 4* – Cash/Treasury Unit
		<u>Preparation of JEV</u>
Accounting Division/Unit		<u>Daily</u>
Receiving/ Releasing Staff	32	Receives Copies 1-2 of RCI with Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs from Cash/Treasury Unit. Forwards the documents to the Designated Staff for JEV preparation.
Designated Staff	33	Examines DVs and checks against RCI. Verifies if the serial number of all checks drawn whether released or unreleased, including spoiled and cancelled ones, are all accounted for.
	34	Prepares JEV in two copies and signs in the "Prepared by" portion. Forwards Copies 1-2 of JEV supported with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs to the Chief Accountant/Head of Accounting Division/Unit. *Note 10* – For Regional Offices with field offices without complete set of books, the Designated Staff shall prepare the JEV based on the certified copy of CBReg submitted by the Disbursing Officer concerned. The said JEV shall be recorded in the CkDJ.
Head of the Accounting Division/Unit/ Authorized Signatory	35	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV. Forwards Copies 1-2 of JEV supported with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs to Designated Staff for recording in the CkDJ.
		<u>Recording in the CkDJ</u>
Designated Staff	36	Receives Copies 1-2 of JEV with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs. Records the JEV in the CkDJ. *Note 11* – For Central Office with field offices without complete set of books, the JEV shall be recorded in the GJ.
Receiving/ Releasing Staff	37	Records in the logbook submission of documents to COA and Budget Division/Unit. Retains Copy 2 of JEV and RCI and Copy 3 of ORS for file. *Note 12* To COA – Copy 1 of JEV, RCI, DV and NORSA (if there is any), Copy 2 of

Area of Responsibility	Seq. No.	Activity
		checks, Copy 2 of ORS and SDs to the Receiving/ Releasing Staff
		To Budget Division/ Unit – Copy 3 RCI with Copy 3 of DV for posting of payments in Box C of ORS

Note 13 – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 13. Illustrative Accounting Entries for Disbursements By Check

Account Title	Account Code	Debit	Credit
1. Payment of the following utility bills:			
Meralco Bill ₽ 1,200			
PLDT Bill 500			
Maynilad Bill 200			
Total ₽ 1,900			
Water Expenses	50204010	₽ 200	
Electricity Expenses	50204020	1,200	
Telephone Expenses	50205020	500	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 1,900
To recognize payment of bills from utility companies based on individual checks issued			
2. Grant of cash advance for travel			
Advances to Officers and Employees	19901040	₽ 1,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 1,000
To recognize granting of travel allowance to employees			
3. Advance payment to Procurement Service			
Due from NGAs	10303010	₽ 2,500	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 2,500
To recognize advance payment to Procurement Service for the purchase of Office Equipment			
4. Establishment of Petty Cash Fund (PCF) – ₽ 20,000			
Petty Cash Fund	10101020	₽ 20,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 20,000
To recognize establishment of PCF to cover petty expenses			

Account Title	Account Code	Debit	Credit
5. Replenishment of PCF			
Expenses charged to the PCF:			

Bond paper	₽ 14,000
Postage stamps	2,000
Total	₽ 16,000

Office Supplies Expenses	50203010	₽ 14,000	
Postage and Courier Expenses	50205010	2,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 16,000

To recognize replenishment of PCF based on the Report on Paid Petty Cash Vouchers (RPPCV) and SDs

6. Remittance of Government's share

Retirement and Life Insurance Premium	₽ 3,300
Pag-IBIG Contributions	500
PhilHealth Contributions	300
Total	₽ 4,100

Retirement and Life Insurance Premiums	50103010	₽ 3,300	
Pag-IBIG Contributions	50103020	500	
PhilHealth Contributions	50103030	300	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 4,100

To recognize remittance of government's share based on individual checks issued to GSIS, HDMF and PHIC

7. Remittance of salary deductions

Retirement and Life Insurance Premium	₽ 3,300
Pag-IBIG Contributions	500
PhilHealth Contributions	300
GSIS-Salary Loan	200
Employees' Association	100
Total	₽ 4,400

Due to GSIS	20201020	₽ 3,500	
Due to Pag-IBIG	20201030	500	
Due to PhilHealth	20201040	300	
Other Payables	29999990	100	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 4,400

To recognize remittance of salary deductions based on individual checks issued to Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PHIC), Home Development Mutual Fund (HDMF) and Employees' Association

Sec. 14. Disbursements by Cash. Cash disbursements constitute payments out of cash advances granted to the regular and special disbursing officers for personal services, petty expenses and MOOE for field operating requirements. All cash payments shall be covered by duly approved DVs/payrolls/petty cash vouchers (PCVs). The cash advances may be granted to the cashiers/disbursing officers/officials and employees to cover the following: salaries and wages, travels, special time-bound undertakings and petty operating expenses. The granting and liquidation of cash advances shall be governed by the following existing COA rules and regulations and other pertinent issuances:

a. No cash advance shall be given unless for a legally authorized specific purpose;

b. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served;

c. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him/her is first settled/liquidated or a proper accounting thereof is made;

d. Except for cash advance for official travel, no officer or employee shall be granted cash advance unless he/she is properly bonded in accordance with existing laws or regulations. The amount of cash advance which may be granted shall not exceed the maximum cash accountability covered by his/her bond;

e. Only permanently appointed officials shall be designated as disbursing officers;

f. Only duly appointed or designated disbursing officer may perform disbursing functions. Officers and employees who are given cash advances for official travel need not be designated as Disbursing Officers;

g. Transfer of cash advance from one accountable officer to another shall not be allowed; and

h. The cash advance shall be used solely for specific legal purpose for which it was granted. Under no circumstance shall it be used for encashment of checks or for liquidation of a previous cash advance.

The specific rules and regulations on the granting, utilization and liquidation of cash advances are provided for under COA Circular No. 97-002 dated February 10, 1997, as amended by COA Circular No. 2006-005 dated July 13, 2006.

Sec. 15. Cash Advance for Payroll. Advances for Payroll shall be granted to Regular Disbursing Officers for payment of salaries, wages, honoraria, allowances and other personnel benefits of officials and employees. The Advances for Payroll shall not be used for encashment of checks or for liquidation of previous or other types of cash advances. It shall be equal to the net amount of the processed payroll corresponding to the pay period. Liquidation of the advances shall be made within five (5) days after the end of the pay period. Any unclaimed salaries/allowances shall be refunded and issued official receipt to close the account.

Sec. 16. Documentary Requirements. The documentary requirements for Payroll Fund for salaries, wages, allowances, honoraria and other similar expenses are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 17. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The Disbursing Officer shall maintain the Cash Disbursements Record (CDRec) (*Appendix 40*) to monitor the cash advances/payroll, current operating expenses, and special purpose/time-bound undertakings and prepare the Report of Cash Disbursements (RCDisb) (*Appendix 41*) to report its utilization. Payments shall be based on duly approved Payroll and shall be posted by the Designated Staff to the IP. The JEV shall be prepared based on the RD and shall be recorded in the CDJ.

Sec. 18. Procedures for Disbursements out of Advances for Payroll

Area of Responsibility	Seq. No.	Activity
		Granting of Advances for Payroll through ADA
Cash/Treasury Unit Disbursing Officer/ Cashier	1	Receives the validated List of Due and Demandable Accounts Payable-Advice to Debit Account (LDDAP-ADA) (*Appendix 42)* from the authorized Accountable Officer. Records in the CDRec the date, reference, name of payee, particulars and the amount of ADA in the 'Cash Advance Received' column.
Disbursing Officer/ Cashier	2	Withdraws the amount of cash advance from the GSB and keeps cash in a safety vault. *Note 1* – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/misappropriations.
		Utilization of Advances for Payroll
	3	Pays officials and employees/other payees. *Note 2* – Employees/Payees shall sign on the 'Signature of Recipient' column of the Payroll to acknowledge receipt of payment. *Note 3* – If there are unclaimed salaries, the Disbursing Officer should refund the same within the time prescribed by law/regulations. OR representing the refund shall be issued by the Cashier/Designated Collecting Officer.
	4	Records the refund for unclaimed salary in the 'Cash Advance Received/(Refunded)' column of the CDRec in parenthesis.
		Liquidation of Advances for Payroll
	5	Based on the paid payroll and SDs, prepares RCDisb in three copies. Signs the "Certification" portion of the RCDisb and submits to the Accounting Division/Unit. *Note 4* – The RCDisb shall serve as the liquidation report of the Payroll Fund granted to the Disbursing Officer.

Area of Responsibility	Seq. No.	Activity
		Note 5 - The RCDisb shall be distributed as follows: *Original* – COA Auditor, through the Accounting Division/Unit together with the paid Payrolls and SDs for JEV preparation *Copy 2* – Accounting Division/Unit *Copy 3* – Disbursing Officer's file
		Recording of Liquidation
Accounting Division/Unit Releasing/ Receiving Clerk	6	Records the receipt of the RCDisb in the logbook, indicates "Received" and signs on all copies, forwards the RCDisb to the Designated Staff for JEV preparation, and returns Copy 2 to the Cash/Treasury Unit.
Designated Staff	7	Verifies completeness of data in the RCDisb as against the SDs received. Prepares JEV and signs in the "Prepared by" portion.
Head of the Accounting Division/Unit/ Authorized Signatory	8	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV.
Designated Staff	9	Records the JEV in the CDJ. *Note 6* – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports**.**
	10	Records in the individual IP of officials and employees the date of payment based on paid payroll. Reconciles and adjusts, if necessary, the amount of payment posted in the IP after the processing of claim with the actual amount paid based on paid payroll. Posts any refund of cash advances made by the Disbursing Officer for unclaimed salaries, wages, allowances, etc. based on the RCDisb.

Sec. 19. Illustrative Accounting Entries for Granting and Liquidation of Advances for Payroll and the Set-up of Salary Deductions and Due to Officers and Employees

Account Title	Account Code	Debit	Credit
1. Set-up of Due to Officers and Employees and Salary Deductions			
Assumptions:			
Salaries and Wages	₱35,000		
PERA	15,000		
Total	50,000		
Less: Salary Deductions			
Withholding Tax 5,000			
Life and Retirement Premiums 3,000			
Pag-IBIG premiums 500			
PhilHealth premiums 600			
GSIS Salary loan 200			
Employees' Association 100	9,400		
Net Amount	₱ 40,600		
Salaries and Wages-Regular	50101010	₱ 35,000	
PERA	50102010	15,000	
Due to BIR	20201010		₱ 5,000
Due to GSIS	20201020		3,200
01 Life and Retirement Premiums 3,000			
02 Salary Loan 200			
Due to Pag-IBIG	20201030		500
Due to PhilHealth	20201040		600
Other Payables	29999990		100
Due to Officers and Employees	20101020		40,600
To recognize payable to Officers and employees and to set up salary deductions			
2. Granting of Advances for Payroll			
Advances for Payroll	19901020	₱ 40,600	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 40,600
To record grant of advances to cover payment of salaries and wages of employees			
3. Liquidation of Payroll Fund			
Due to Officers and Employees	20101020	₱ 40,600	
Advances for Payroll	19901020		₱ 40,600
To recognize liquidation of Advances for Payroll based on the RCDisb and SDs			

Sec. 20. Cash Advances for Operating Expenses of Government Units without Complete Set of Books of Accounts. Field/Extension/Satellite Offices are some of the government units under the central/regional/district offices without complete set of books of accounts. Those offices may be granted cash advances covering two months requirements for

MOOE/authorized expenses to finance their operations. The cash advance shall be granted to the duly designated or appointed Disbursing Officers.

Sec. 21. Documentary Requirements. The documentary requirements for the granting and liquidation of Cash Advances for Operating Expenses of Government Units without Complete Set of Books of Accounts are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 22. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. A Cash Disbursements Register (CDReg) (*Appendix 43)* shall be maintained to record, monitor and report transactions involving the grant, utilization and liquidation of the cash advance. The Disbursing Officer shall submit within five days after month-end the certified copies of the CDReg with supporting paid DVs and other documents to the accounting units of their respective Central/Regional/Division Offices and Operating Units for JEV preparation or whenever a request for replenishment is made. The JEV shall be recorded in the CDJ.

Sec. 23. Procedures for Disbursements of Cash Advance for Operating Expenses of Government Units without Complete Set of Books of Accounts

Area of Responsibility	Seq. No.	Activity
		Granting of Cash Advance for Operating Expenses of Field/Extension/Satellite Offices/Operating Units
Cash/Treasury Unit Disbursing Officer/Cashier	1	Receives the approved check from the Cashier of the Central/Regional/Division Office or Operating Unit. Accomplishes the CDReg (*Appendix 43*) in accordance with the instructions at the back of the form.
Disbursing Officer/Cashier	2	Encashes check in GSB and keeps cash in a safety vault. *Note 1* – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/ misappropriations.
		Utilization of Cash Advances for Operating Expenses
	3	Pays the MOOE/authorized expenses requirements of the field/extension/ satellite offices/operating units based on duly approved DVs with the required SDs. *Note 2* – Refer to the instructions at the back of DV (*Appendix 32)* on how to prepare the DV and Seq. No. 1-16, Sec. 12 of this Chapter for the procedures in processing and approval of DV.
	4	Records in the CDReg the date, reference, name of payee, particulars and the amount disbursed under the ‘Payments’ column. Enters the nature of payments made under the appropriate columns under the ‘Breakdown of Payments’.

Area of Responsibility	Seq. No.	Activity
		Note 3 – The total of the 'Advances for Operating Expenses-Payments' column must always be equal to the sum of the totals of the 'Breakdown of Payments' columns.
	5	Indicates the running balance of the cash advance in the 'Balance' column after posting each transaction.
		Liquidation of Cash Advances for Operating Expenses
Disbursing Officer/Cashier	6	Submits to the Accounting Division/Unit of Central/Regional/Division Office or Operating Unit concerned a certified photocopy of the CDReg with complete SDs every time the cash advance is liquidated.
		Note 4 – Refer to Seq. No. 5-10, Section 18 of this Chapter for the procedures in recording the liquidation of cash advance. Instead of paid payroll, paid DVs shall be used as basis of liquidation. Instead of officials and employees, use creditors/payee in maintaining the IP.

Sec. 24. Illustrative Accounting Entries to be recorded in the Central/ Regional/Division Office or OU Books for Advances for MOOE/Authorized Expenses Granted to Government Units without Complete Set of Books of Account

Account Title	Account Code	Debit	Credit
Central/Regional/Division Office or OU Books			
Assumptions:			
Estimated Expenses for 2 months requirements:			

Office Supplies Expenses	₽ 10,000
Traveling Expenses	15,000
Water Expenses	8,000
Telephone Expenses	5,000
Electricity Expenses	12,000
Total	₽ 50,000

Account Title	Account Code	Debit	Credit
Advances for Operating Expenses	19901010	₽50,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽50,000
To recognize granting of cash advance to field units without books of accounts			
Office Supplies Expenses	50203010	₽ 10,000	
Traveling Expenses-Local	50201010	15,000	

Account Title	Account Code	Debit	Credit
Water Expenses	50204010	8,000	
Electricity Expenses	50204020	5,000	
Telephone Expenses	50205020	12,000	
Advances for Operating Expenses	19901010		₱ 50,000

To recognize liquidation of cash advance upon receipt of the certified copies of CDReg with paid DVs and other supporting documents from field/extension/satellite offices/operating units

Sec. 25. Cash Advances for Travel. Section 2 of Executive Order (EO) No**.** 248 dated May 29, 1995, as amended by EO No. 248A and EO No. 298 dated August 14, 1995 and March 23, 2004, respectively, provide that travels shall cover only those that are urgent and extremely necessary, will involve the minimum expenditure and are beneficial to the agency concerned and/or the country.

a. No government fund shall be utilized to defray foreign travel expenses of any government official or employee, except in the case of training, seminar or conference abroad when the officials or other personnel of the foreign mission cannot effectively represent the country therein, and travels necessitated by international commitments; provided that no official or employee, including uniformed personnel of the Department of the Interior and Local Government (DILG) and Department of National Defense (DND) will be sent to foreign training, conferences or attend international commitments when they are due to retire within one year after the said foreign travel [Section 16(c) of Fiscal Year (FY) 2012 GAA or pertinent provisions of the GAA for the Year]. Under Memorandum Circular No. 52 dated October 2, 2003 of the Office of the President, the grant of clothing allowance in all categories of trips is suspended indefinitely.

b. Officials and employees authorized to travel shall be granted cash advance to cover traveling expenses. The amount to be granted shall be accounted as “Advances to Officers and Employees”. No additional cash advance shall be granted to any official or employee unless the previous cash advance given to him/her for travel is first liquidated and accounted for in the books. For local travel, liquidation shall be done within a period of 30 days upon return to the personnel’s workstation. On the other hand, cash advance for foreign travel shall be liquidated within 60 days upon return to the Philippines. The Liquidation Report (LR) (*Appendix 44*) shall be prepared by the officers/employees concerned and submitted to the Accounting Division/Unit with appropriate SDs as basis for JEV preparation. The excess cash advance shall be refunded and an OR shall be issued to acknowledge receipt thereof. In case the amount of cash advance is less than the travel expenses incurred, the LR shall be submitted to liquidate the cash advance previously granted and a DV shall be prepared to claim reimbursement of the deficiency in amount.

Sec. 26. Documentary Requirements. The documentary requirements for cash advance for travel as provided under 1.1.4 of COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013, are as follows:

a. Granting of Cash Advance

   1. Local Travel

      i. Office Order/Travel Order approved in accordance with Section 3 of EO No. 298;

ii. Duly approved Itinerary of Travel (IoT) (*Appendix 45*) and
iii. Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.

2. Foreign Travel

i. Office Order/Travel Order approved in accordance with the provisions of Sections 1 and 2 of EO 459 dated September 1, 2005;

   - As approved by the Office of the President in the case of the following officials:

     - Members of the cabinet and officials of equivalent rank
     - Heads of agencies under or attached to the Office of the President

   The Chief Justice and Associate Justices of the Supreme Court were exempted under Memorandum Order No. 26 dated July 31, 1986. Under E.O. No. 477 dated August 21, 1991, the Chairmen and Commissioners of the Constitutional Commissions, Chairman and Members of the Commission on Human Rights, Ombudsman and Deputy Ombudsmen were also exempted from securing prior approval from the OP in connection with travels abroad.

   - As approved by the respective heads of agencies in the case of other government officials and employees regardless of the length of travel:

     - NGAs – Department Secretaries or their equivalent
     - State Universities and Colleges (SUCs) – Chairman of Commission on Higher Education (CHED) in the case of heads of the SUCs and respective heads in the case of all other officials and employees
     - Technical and Vocational Schools – Chairman of Technical Education and Skills Development Authority (TESDA) in the case of technical and vocational schools and respective heads in the case of all other officials and employees

ii. Duly approved IT;
iii. Letter of invitation of host/sponsoring country/agency/organization;
iv. For plane fare, quotations of three travel agencies or its equivalent;
v. Flight itinerary issued by the airline/ticketing office/travel agency;
vi. Copy of the United Nations Development Programme (UNDP) rate for the daily subsistence allowance (DSA) for the country of destination for the computation of DSA to be claimed;
vii. Document to show the dollar to peso exchange rate at the date of grant of cash advance;
viii. Where applicable, authority from the OP to claim representation expenses; and
ix. In case of seminars/trainings:

   - Invitation addressed to the agency inviting participants (issued by the foreign country)
   - Acceptance of the nominee as participants (issued by the foreign country)
   - Programme Agenda and Logistics Information

x. Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.

b. Liquidation of Cash Advance

1. For Local Travel

   i. Paper/Electronic plane, boat or bus tickets, boarding pass, terminal fee;
   ii. Certificate of Appearance/Attendance;
   iii. Copy of previously approved IT;
   iv. Revised or supplemental Office Order or any proof supporting the change of schedule;
   v. Revised IT, if the previous approved itinerary was not followed;
   vi. Certification by the Head of Agency as to the absolute necessity of the expenses together with the corresponding bills or receipts, if the expenses incurred for official travel exceeded the prescribed rate per day (certification or affidavit of loss shall not be considered as an appropriate replacement for the required hotel/lodging bills and receipts);
   vii. LR (*Appendix 44*);
   viii. Reimbursement Expense Receipt (RER) (*Appendix 46*);
   ix. OR in case of refund of excess cash advance;
   x. Certificate of Travel Completed (CTC) (*Appendix 47*); and
   xi. Hotel room/lodging bills with official receipts in the case of official travel to places within 50-kilometer radius from the last city or municipality covered by the Metro Manila Area, or the city or municipality where their permanent official station is located in the case of those outside the Metro Manila Area, if the travel allowances being claimed include the hotel room/lodging rate.

2. For Foreign Travel

   i. Paper/Electronic plane, boarding pass, boat or bus ticket, terminal fee;
   ii. Certificate of Appearance/Attendance for training/seminar participation;
   iii. Bill/Receipts for non-commutable representation expenses approved by the President under Section 13 of EO No. 248;

   iv. For reimbursement of actual travel expenses in excess of the prescribed rate (EO No. 298):

      - Approval of the President
      - Certification from the Head of Agency that it is absolutely necessary
      - Hotel room bills with official receipts (certification or affidavit of loss shall not be considered as an appropriate replacement for the required hotel/lodging bills and receipts)

   v. Revised IT, if applicable;
   vi. Narrative report on trip undertaken/Report on Participation;
   vii. OR in case of refund of excess cash advance;
   viii. CTC; and
   ix. LR.

Sec. 27. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The officers/employees who made the travel shall prepare the LR which shall be the basis for the preparation of the JEV. The Accounting Division/Unit shall record the JEV in the GJ and maintain SL/IP for officers and employees where the granting and liquidation of travel allowances shall be posted for monitoring purposes.

Sec. 28. Procedures for Disbursements of Advances to Officers and Employees

Area of Responsibility	Seq. No.	Activity
		<u>Receipt and Liquidation of Cash Advance for Travel</u>
Various Units		
Officers/Employees Concerned	1	Receives the approved check and Copy 4 of DV from Cash/Treasury Unit. *Note 1* – Officers/Employees shall sign on the received portion of the original copy of the DV to acknowledge receipt of traveling allowance.
	2	Upon return to the official station, prepares the LR in two copies and signs in Box A or "Certification" portion. Attaches appropriate SDs such as IT, CTC, Certificate of Appearance, Travel Report, Plane/Boat Ticket, and RER. *Note 2* – The LR together with the appropriate SDs shall be submitted to the Accounting Division/Unit upon return to the official station as follows: • Local travel – within 30 days • Foreign travel – within 60 days *Note 3* – If there is unused/excess traveling allowance, the amount shall be refunded to the Cashier/ Collecting Officer who shall in turn issue the OR to acknowledge receipt of amount refunded. *Note 4* – The DV and ORS shall be prepared by the official/ employee concerned for the reimbursement of allowable traveling expenses incurred in excess of the cash advance.
Supervisor of Official/Employee Concerned	3	Signs in Box B "Certified: Purpose of travel/cash advance duly accomplished" portion of the LR.
Official/Employee Concerned	4	Submits Copies 1-2 of the LR, SDs to Accounting Division/Unit for processing and certification of Box C "Certified: SDs complete and proper" and recording of the actual traveling expenses.
Accounting Division/Unit		
Releasing/Receiving Clerk	5	Checks completeness of SDs. If complete, acknowledges receipt of the LR, returns Copy 2 to the claimant and records the same in the logbook.

Area of Responsibility	Seq. No.	Activity
		Otherwise, returns the documents to the claimant for appropriate action.
Chief Accountant/Head of Accounting Division/Unit	6	Verifies completeness and propriety of the SDs. If complete and proper, signs in Box C, "Certified: SDs complete and proper" portion of the LR. Otherwise, prepares letter informing the claimant of the deficiencies. *Note 5* – Upon compliance of the deficiencies, refer to Sequence No. 4.
		<u>Recording of Liquidation of Advances to Officers and Employees</u>
Designated Staff	7	Prepares JEV based on the LR and SDs received. Signs in the "Prepared by" portion of the JEV.
Chief Accountant/Head of Accounting Division/Unit	8	Reviews the JEV and signs in the "Certified Correct" portion.
Designated Staff	9	Records the JEV in the GJ. Files the documents temporarily.
	10	Submits to the COA Auditor Copy 1 of JEVs, LRs and SDs at the end of the month. *Note 6* – For the succeeding activities, refer to the Chapter in Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 29. Illustrative Accounting Entries for the Granting and Liquidation of Advances to Officers and Employees covering Official Travel

Account Title	Account Code	Debit	Credit
Advances to Officers and Employees	19901040	₱2,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱2,000

To recognize granting of cash advance for local travel to officers and employees based on duly approved and paid DV, Authority to Travel and IT

Account Title	Account Code	Debit	Credit
Traveling Expenses-Local	50201010	₱ 2,000	
Advances to Officers and Employees	19901040		₱ 2,000

To recognize liquidation of cash advance for local travel upon receipt of LR and supporting documents

Account Title	Account Code	Debit	Credit
Advances to Officers and Employees	19901040	₱ 200,000	
Training Expenses	50202010	80,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 280,000
To recognize granting of cash advance for training abroad			
Traveling Expenses-Foreign	50201020	₱ 200,000	
Advances to Officers and Employees	19901040		₱ 200,000
To recognize liquidation of cash advance for training abroad upon receipt of LR and supporting documents.			

Sec. 30. Cash Advance for Specific Purpose/Time-Bound Undertaking. Cash advance for special purpose/time-bound undertaking shall be granted only to duly authorized accountable officer/special disbursing officer. It shall be accounted for in the books of accounts as "Advances to Special Disbursing Officer." It shall be liquidated by the accountable officer within a specified period. Any unutilized cash advance shall be refunded and an OR shall be issued to acknowledge collection thereof.

Sec. 31. Documentary Requirements. The documentary requirements for cash advance for specific purpose/time-bound undertaking are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 32. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The accountable officer/special disbursing officer shall prepare the RCDisb and maintain the CDRec to monitor and control the granting and utilization of cash advance. The RCDisb shall be the basis in the preparation of the JEV which shall be recorded by the designated staff in the CDJ. The SL and IP shall also be maintained by the Accounting Division/Unit.

Sec. 33. Procedures for Disbursements of Advances to Special Disbursing Officers

Area of Responsibility	Seq. No.	Activity
		<u>Granting of Cash Advance for Specific Purpose/Time-Bound Undertaking</u>
Cash/Treasury Unit Accountable Officer/Special Disbursing Officer	1	Receives the approved check and Copy 4 of DV from Cash/Treasury Unit. Records in the CDRec the date, reference, name of payee, particulars and the amount of check in the 'Cash Advance Received' column.
Designated Accountable Officer/Special Disbursing Officer	2	Encashes check in GSB and keeps cash in a safety vault.
		Note 1 – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/misappropriations.

Area of Responsibility	Seq. No.	Activity
		Utilization of Cash Advance for Specific Purpose/Time-Bound Undertaking
	3	Pays the authorized expenses based on duly approved DV and SDs.
	4	Records payments made in the 'Disbursements' column of the CDRec.
		Liquidation of Cash Advance for Special Purpose/Time-Bound Undertaking
	5	Prepares RCDisb in three copies based on the CDRec. Signs the "Certification" portion of the RCDisb. Forwards the RCDisb and SDs to the Accounting Division/Unit. *Note 2* – The RCDisb shall be distributed as follows: *Original* – COA Auditor, through the Accounting Division/Unit together with the paid Payrolls and SDs for JEV preparation *Copy 2* – Accounting Division/Unit *Copy 3* – Disbursing Officer's file *Note 3* – If there are unused cash advances, refund the amount to the Cashier who shall in turn issue the OR to acknowledge receipt of the refund. The OR shall be attached to the RCDisb.
		Recording of Liquidation of Cash Advance for Special Purpose/Time-Bound Undertaking
Accounting Division/Unit Receiving/ Releasing Clerk	6	Checks completeness of SDs. If complete, acknowledges receipt of the RCDisb, returns Copy 2 to the Accountable/ Special Disbursing Officer and records the same in the logbook. Otherwise, returns the documents to the Accountable/Special Disbursing Officer for appropriate action.
Designated Staff	7	Verifies completeness and propriety of the RCDisb and SDs. If complete and proper, prepares JEV in two copies and signs in the "Prepared by" portion. Otherwise, prepares letter informing the Accountable/Special Disbursing Officer of the deficiencies.
Chief Accountant/Head of Accounting Division/ Unit	8	Reviews the JEV and signs in the "Certified Correct" portion.
Designated Staff	9	Records the JEV in the CDJ.

Area of Responsibility	Seq. No.	Activity
		Note 4 – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 34. Illustrative Accounting Entries for Advances to Special Disbursing Officers

Account Title	Account Code	Debit	Credit
Assumptions:			
Estimated Expenses for the celebration of agency anniversary:			
Office Supplies Expenses ₽ 10,000			
Traveling Expenses 15,000			
Printing and Publication Expenses 5,000			
Total ₽ 30,000			
Advances to Special Disbursing Officer	19901030	₽ 30,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₽ 30,000
To recognize the granting of cash advance for the anniversary celebration			
Traveling Expenses-Local	50201010	₽ 15,000	
Office Supplies Expenses	50203010	10,000	
Printing and Publication Expenses	50299020	5,000	
Advances to Special Disbursing Officer	19901030		₽ 30,000
To recognize the liquidation of cash advance after the anniversary celebration based on the RCDisb and supporting documents submitted by the Special Disbursing Officer			

Sec. 35. Cash Advance for Petty Operating Expenses. The Petty Cash Fund (PCF) to be set up shall be sufficient for the recurring petty operating expenses of the agency for one month. It shall be maintained using the Imprest System. All replenishments shall be directly charged to the expense account and at all times, the PCF shall be equal to the total cash on hand and the unreplenished expenses. The PCF shall be replenished as soon as disbursements reach at least 75% or as needed. The following are the accounting policies regarding cash advance for PCF:

a. The fund shall be kept separately from the regular cash advances/collections and shall not be used for payment of regular expenses such as rentals, subscriptions, light and water bills, purchase of supplies and materials for stock purposes, and the like. Payments out of PCF, which shall be made through a Petty Cash Voucher (PCV) (*Appendix 48*), should be allowed only for amounts not exceeding ₽15,000 for each transaction, except when a higher amount is allowed by law and/or specific authority by the COA. Splitting of transactions to avoid exceeding the ceiling shall not be allowed. All disbursements out of PCF shall be covered by duly accomplished and approved PCV supported by cash invoices, ORs or other evidence of disbursements;

b. The unused balance of the PCF shall not be closed/refunded at the end of the year. The fund shall be closed only upon termination, separation, retirement or dismissal of the Petty Cash Fund Custodian (PCFC), who in turn shall refund any balance to close his/her cash accountability; and

c. At the end of the year, the PCFC shall submit to the Accounting Division/Unit all unreplenished Petty Cash Vouchers (PCVs) for recording in the books of accounts.

Sec. 36. Documentary Requirements. The documentary requirements for PCF as provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013, and under this Chapter, are as follows:

a. Granting of Petty Cash Advance

   1. Authority of an accountable officer issued by the Head of the Agency or his/her duly authorized representatives indicating the maximum accountability and purpose of cash advance (for initial cash advance);

   2. Certification from the Accountant that previous cash advances have been liquidated and accounted for in the books; and

   3. Approved application for bond and/or Fidelity Bond for the year for cash accountability of ₱5,001 or more as provided under Treasury Circular No. 02-2009 dated August 6, 2009.

b. Additional Documentary Requirements for initial cash advances

   1. Approved estimates of petty expenses for one month; and

   2. Copy of policy for maintaining PCF under the imprest system

c. Liquidation of PCF

   1. Report on Paid Petty Cash Vouchers (RPPCV) (*Appendix 49*);

   2. Approved purchase request with certificate of Emergency Purchase if necessary;

   3. Bill, receipts, sales invoices

   4. Inspection and Acceptance Report (IAR) (*Appendix 62*);

   5. Waste Materials Report (WMR) (*Appendix 65*) in case of replacement/repair;

   6. Approved Trip Ticket, for gasoline/fuel expenses;

   7. Canvass from at least three suppliers for purchases involving P1,000 and above, except for purchases made while on official travel;

   8. Summary/Abstract of Canvass;

   9. PCVs duly accomplished and signed;

   10. OR in case of refund;

11. For reimbursement of toll receipts; and

    i. Toll Receipts
    ii. Trip Tickets

12. Such other supporting document that may be required.

Sec. 37. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The PCFC shall prepare the RPPCV and maintain the Petty Cash Fund Record (PCFR) (*Appendix 50*) to monitor and control the granting and utilization of the fund. The RPPCVs shall be the basis in the preparation of the JEV which shall be recorded by the bookkeeper in the CDJ. The Accounting Division/Unit shall maintain SL to monitor and control accountability.

Sec. 38. Procedures for Disbursements through Petty Cash

Area of Responsibility	Seq. No.	Activity
		Establishment of PCF
Various Units Petty Cash Fund Custodian	1	Receives the approved check from the Cashier for the establishment of PCF. Records in the PCFR the date, particulars, reference and the amount of check in the 'Cash Advance' column.
	2	Encashes check in GSB and keeps cash in a safety vault. *Note 1* – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/ misappropriations.
		Utilization of Cash Advance from PCF
Requesting Personnel	3	Accomplishes Box I columns 'Particulars' and 'Amount' and Box A "Requested by" portion of the PCV.
Immediate Supervisor	4	Signs Box A "Approved by" portion of the PCV and returns to Requesting Personnel.
Requesting Personnel	5	Submits the required documents to the PCFC for the release of fund.
Petty Cash Custodian	6	Receives from the Requesting Personnel the PCV duly approved by the Immediate Supervisor of the Requestor.
	7	Upon release of the petty cash, signs in Box B "Paid by" portion of the PCV.
Requesting Personnel	8	Receives petty cash and signs in Box B "Cash Received by" portion of the PCV.
Petty Cash Custodian	9	Issues Copy 2 of the PCV to the Requesting Personnel.
	10	Files the original of PCV awaiting liquidation.

Area of Responsibility	Seq. No.	Activity
		Liquidation of Cash Advance from PCF
	11	Receives from Requesting Personnel Copy 2 of the PCV together with SDs. Checks and reviews completeness of documents such as the date, amount and nature of expenses paid as shown in the SDs. If incomplete, returns to Requesting Personnel for completion of needed SDs.
	12	If complete, retrieves the original of PCV from file and fills up Box II "Total Amount Granted", "Total Amount Paid per OR/Invoice No.", and "Amount Refunded/ Reimbursed" portion of the original and Copy 2 of PCVs.
	13	Checks the appropriate boxes for "Received Refund" or "Reimbursement Paid" portion and signs Box C of the PCV.
Requesting Personnel	14	Checks and fills up the appropriate boxes for "Liquidation Submitted by" and "Reimbursement Received by" upon submission of necessary SDs and receipt or reimbursement of cash, if any, and signs Box D of the PCV.
Petty Cash Fund Custodian	15	Returns Copy 2 of the PCV to the Requesting Personnel.
	16	Retrieves PCFR from file and records paid PCVs. Fills up the following columns: date, PCV No., name of payee, nature of payment and the amount in the 'Disbursements' and 'Cash Advance Balance' columns.
	17	Files the original PCV together with the SDs.
		Replenishment of PCF
	18	Retrieves from file the original of the PCV together with the SDs. Checks the completeness of all PCVs for replenishment.
	19	Based on the paid PCVs and SDs, prepares the RPPCVs in two copies. Signs the "Certification" portion of the RPPCV. *Note 1* – The RPPCVs shall serve as the basis in the preparation of the DV to replenish the PCF. *Note 2* – In case of retirement, separation, termination or dismissal of the PCFC, any unused balance shall be refunded to close the accountability. The incoming Custodian shall be granted a new PCF.
	21	Based on the RPPCVs, prepares DV in four copies and ORS in three copies. Forwards Copies 1-4 of the DV, original of the RPPCVs and PCV, and SDs to Authorized Official for review and signature.

Area of Responsibility	Seq. No.	Activity
Authorized Official	22	Signs in Box A portion of the ORS and DV.
Petty Cash Fund Custodian	23	Forwards Copies 1-4 of the DV, Copies 1-3 of ORS, originals of RPPCVs and PCVs and SDs to Budget Division for recording of obligation. *Note 3* – For the processing of ORS and check, refer to Sec. 15 of Chapter 3 and Sec. 12 of this Chapter, respectively. *Note 4* – For the recording of replenishment of PCF, refer to Seq. 16 to 40 of Sec. 46 of this Chapter. *Note 5* – The RPPCVs shall be distributed as follows: *Original* – COA Auditor, through the Accounting Division/Unit, together with the original copies of the paid PCVs and SDs *Copy 2* – Treasury/Cash Unit

Sec. 39. Illustrative Accounting Entries for Disbursements Out of Petty Cash

Account Title		Account Code	Debit	Credit
Assumptions:				
Estimated Expenses:				
Traveling Expenses	₽10,000			
Office Supplies Expenses	8,000			
Postage and Courier Expenses	5,000			
Fuel, Oil and Lubricants Expenses	2,000			
Other MOOE	5,000			
Total	₽ 30,000			
Petty Cash		10101020	₽ 30,000	
Cash-Modified Disbursement System (MDS), Regular		10104040		₽ 30,000
To record the establishment of PCF				
Traveling Expense-Local		50201010	₽ 10,000	
Office Supplies Expenses		50203010	8,000	
Fuel, Oil and Lubricants		50203090	2,000	
Postage and Courier Expenses		50205010	5,000	
Other Maintenance and Operating Expenses		50299990	4,800	
Cash-Modified Disbursement System (MDS), Regular		10104040		₽ 29,800
To record the replenishment of Petty Cash based on the DV, RPPCVs and SDs				
Cash-Collecting Officer		10101010	₽ 200	
Petty Cash		10101020		₽ 200
To record return of unused PCF upon retirement, resignation, separation and termination of the Petty Cash Custodian based on the OR				

Account Title	Account Code	Debit	Credit
Assume the following are the unreplenished PCVs as at December 31: Office Supplies ₱ 300 Traveling Expenses-Local 400 ₱ 700			
Traveling Expenses-Local	50201010	₱ 300	
Office Supplies Expenses	50203010	400	
Petty Cash	10101020		₱ 700
To record the unreplenished petty cash at the end of the year			

Sec. 40. Cash Advances for Petty Cash Fund of Government Units without Complete Set of Books of Accounts. Government Units without complete set of books of accounts may be granted cash advance covering two months operating requirements for authorized petty and other miscellaneous expenses to finance their operations. The cash advance shall be granted to the duly designated or appointed Disbursing Officer.

Sec. 41. Accounting Records, Forms and Reports to be Prepared and Maintained. The PCFC shall maintain the Petty Cash Fund Register (PCFReg) *(Appendix 51)* to monitor/summarize the PCF established/replenished and the disbursements charged thereto. A photocopy of this Register together with original PCV and its SDs shall be submitted to the Accounting Division/Unit of the agency's respective Central/Regional/Division Office to serve as basis in the preparation of the DV to replenish the payments made or the JEV, at year-end, if no replenishment is made.

Sec. 42. Accounting for Cash Shortage/Overage of Disbursing Officer. Cash overage discovered by the Auditor that cannot be satisfactorily explained by the Disbursing Officer shall be forfeited in favor of the government and an official receipt shall be issued by the Collecting Officer/Cashier. The cash overage shall be taken up as Miscellaneous Income. Cash shortage which is not restituted by the Disbursing Officer despite demand in writing by the Auditor shall be taken up as receivable from the Disbursing Officer.

Sec. 43. Illustrative Accounting Entries for Cash Overage/Shortage of Disbursing Officer

a. Cash Overage

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	xxx	
Miscellaneous Income	40609990		xxx
To recognize forfeiture of cash overage of the Disbursing Officer			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the remittance of forfeited cash overage to the BTr			

b. Cash Shortage

Account Title	Account Code	Debit	Credit
Due from Officers and Employees	10305020	xxx	
Advances for Operating Expenses/ Advances for Payroll/ Advances to Special Disbursing Officer	19901010/ 19901020/ 19901030		xxx
To recognize cash shortage of Disbursing Officer			

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize restitution of cash shortage.			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the remittance of restituted cash shortage to the BTr			

Sec. 44. Accounting for Cancelled Checks. Checks may be cancelled when they become stale, voided or spoiled. The depository bank considers a check stale, if it has been outstanding for over six months from date of issue or as prescribed.

A stale, voided or spoiled check shall be marked cancelled on its face and reported as follows:

a. Voided, spoiled or unclaimed stale checks with the Cashier shall be reported as cancelled in the List of Unreleased Checks that will be attached to the RCI.

b. New checks may be issued for the replacement of stale/spoiled checks in the hands of the payees or holders in due course, upon submission of the stale/spoiled checks to the Accounting Division/Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement. A JEV shall be prepared to take up the cancellation. The replacement check shall be reported in the RCI.

Sec. 45. Illustrative Accounting Entries for Cancelled Checks

a. Cancellation and Replacement of Stale/Voided/Spoiled MDS check issued in the current year

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks			
Accounts Payable	20101010	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
To recognize the replacement of stale/voided/spoiled MDS checks.			
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks without replacement			

b. Cancellation and Replacement of Stale/Voided/Spoiled MDS check issued in the prior year

Account Title	Account Code	Debit	Credit
Accumulated Surplus/(Deficit)	30101010	xxx	
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks			
Accounts Payable	20101010	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
To recognize the replacement of stale/voided/spoiled MDS checks			
Accumulated Surplus/(Deficit)	30101010	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks without replacement			

c. Cancellation and Replacement of Stale/Voided/Spoiled commercial check issued in the current and prior year

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voided/spoiled commercial checks			
Accounts Payable	20101010	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx
To recognize the replacement of stale/voided/spoiled commercial checks			
Accumulated Surplus/(Deficit)	30101010	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voided/spoiled commercial checks without replacement.			

Sec. 46. Accounting for Disallowances. Disallowances shall be taken up in the books of accounts only when they become final and executory. The Accountant shall prepare the JEV to take up the Receivable-Disallowances/Charges and credit the appropriate account for the current year or Accumulated Surplus/(Deficit) account if pertaining to expenses of previous years.

Cash settlement of disallowances shall be acknowledged through the issue of an official receipt and reported by the Cashier in the RCD.

Sec. 47. Illustrative Accounting Entries for Disallowances

a. Recording of disallowances for current year's transaction

Assume that the entity incurred overpayment of Office Supplies:

Amount paid	₽ 100,000
Should be	90,000
Difference	₽ 10,000

Account Title	Account Code	Debit	Credit
Receivables-Disallowances/Charges	10305010	₱10,000	
Office Supplies Expense	50203010		₱10,000
To recognize the overpayment of purchased office supplies directly issued to end-user			
Cash-Collecting Officers	10101010	₱10,000	
Receivables-Disallowances/Charges	10305010		₱10,000
To recognize the settlement of disallowance			
Cash-Treasury/Agency Deposit, Regular	10104010	₱10,000	
Cash-Collecting Officers	10101010		₱10,000
To recognize the deposit of collection			

b. Recording of disallowance for prior year's transaction

Account Title	Account Code	Debit	Credit
Receivables-Disallowances/Charges	10305010	₱ 10,000	
Accumulated Surplus/(Deficit)	30101010		₱ 10,000
To recognize the overpayment of office supplies purchased during the prior year			
Cash-Collecting Officers	10101010	₱ 10,000	
Receivables-Disallowances/Charges	10305010		₱ 10,000
To recognize the settlement of disallowance			
Cash-Treasury/Agency Deposit, Regular	10104010	₱ 10	
Cash-Collecting Officers	10101010		₱ 10
To recognize the deposit of collection			

Sec. 48. Accounting for Overpayments. Sometimes overpayments or even double payment of expenditures do happen in agencies. These could be avoided with the institution of proper controls but some could not be avoided because of built-in procedures. One example is the payment of payrolls. Payrolls are prepared in advance and some agencies pay their employees through the banking system. All these are done before reports of attendance are submitted, making it impossible to know the exact amount to be paid in case there are absences without pay during the pay periods. In case of overpayments, refunds shall be demanded of the employees concerned.

Sec. 49. Illustrative Accounting Entries for Overpayments

a. Overpayment taken up as receivable

Account Title	Account Code	Debit	Credit
Due from Officers and Employees	10305020	xxx	
Salaries and Wages-Regular	50101010		xxx
To recognize overpayment of salaries and wages (When overpayment is ascertained)			
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize receipt of refund			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of collection			

b. Refund of overpayment not taken up as receivable

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	xxx	
Salaries and Wages-Regular	50101010		xxx
To recognize receipt of refund of Salaries and Wages-Regular during the current year			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of collection			
Cash-Collecting Officers	10101010	xxx	
Accumulated Surplus/(Deficit)	30101010		xxx
To recognize receipt of refund of overpayment in the ensuing year			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the deposit of collection			

Sec. 50. Disbursements through List of Due and Demandable Accounts Payable-Advice to Debit Account. The use of LDDAP-ADA as a mode of settlement of accounts payable due the creditors/payees of all NGAs and their OUs was prescribed under DBM Circular Letter No. 2013-16 dated December 23, 2013 which implemented the ExMDPS, amended by DBM Circular Letter Nos. 2013-16A and 2013-16B dated February 6, 2014 and February 25, 2014, respectively. The following are excluded from the implementation of ExMDPS:

a. Payment of Terminal Leave and Retirement Gratuity (TL/RG) benefits which is governed by Republic Act No. 10154 as implemented by CSC Resolution No.1300237 and Budget Circular No. 2013-1;

b. Remittance of social insurance premium contributions to government corporations, such as GSIS, PHILHEALTH, and HDMF;

c. Payment of Accounts Payable to utility companies, such as: supplier of petroleum, oil and lubricants, water, illumination and power services, telephone, internet and other communication services; and

d. Other payables which cannot be conveniently nor practicably paid using the ADA.

Sec. 51. Signatories in the List of Due and Demandable Accounts Payable-Advice to Debit Account. The LDDAP (Box I) shall be certified correct by the Chief Accountant/Head of Accounting Division/Unit and approved by the Head of Agency/Authorized Official. The ADA (Box II) shall be signed by the Cash/Treasury Unit Authorized Signatory and countersigned by the Head of Agency/Authorized Signatory. The signatories in Box II shall be bonded.

Sec. 52. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. All LDDAP-ADA prepared/issued during the day shall be recorded chronologically in the CkADADRec (*Appendix 34)* maintained by the Cash/Treasury Unit. The dates the LDDAP-ADAs were actually delivered to the MDS-GSB shall be indicated in the appropriate column provided for in the CkADADRec. The RADAI shall be prepared by the Cash/Treasury Unit daily. All approved LDDAP-ADA including those not yet delivered to the MDS-GSB shall be included in the RADAI. The RADAI together with the original copies of the DVs and other SDs shall be submitted to the Accounting Division/Unit for the preparation of JEV.

Sec. 53. Monitoring of Receipt of Validated LDDAP-ADA and Official Receipt or other Acceptable Evidence of Receipt of Payment. The Cash/Treasury Unit shall monitor the receipt of the validated LDDAP-ADA from the MDS-GSB and the issue of Official Receipt (OR) or other acceptable evidence of receipt of payments by the creditors/payees.

Sec. 54. Recording of LDDAP-ADA Issued/Invalidated. The Head of the Accounting Division/Unit shall prepare a JEV and credit the "Cash-Modified Disbursement System (MDS), Regular" account upon receipt from the Cash/Treasury Unit of the RADAI supported with DV and SDs. The JEV shall be recorded in the ADA Disbursements Journal (ADADJ) (*Appendix 52*).

LLDAP-ADA may be invalidated due to any inconsistency of information (i.e., bank branch, account name/number) between the bank records and LDDAP-ADA or errors stated in item 8.0 of DBM Circular Letter 2013-16 dated December 23, 2014. An invalidated ADA shall be reported as follows:

a. New LDDAP-ADA may be issued for the replacement of invalidated LDDAP-ADA, upon submission of the validated LDDAP-ADA indicating non-payment to creditors/payees due to any inconsistency of information (i.e., bank branch, account name/number) to the Accounting Division/Unit by the Cash/Treasury Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement.

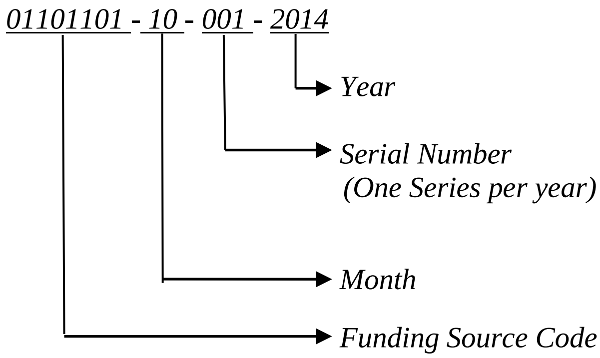
b. A JEV shall be prepared to take up the cancellation of the invalidated LDDAP-ADA. The replacement LDDAP-ADA shall be reported in the RADAI.

Sec. 55. Documentary Requirements. The documentary requirements for common government transactions depending on the nature of expenses shall be complied with as prescribed under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 56. Procedures for Disbursements through LDDAP-ADA

Area of Responsibility	Seq. No.	Activity
		Preparation of LDDAP-ADA
Accounting Division/Unit Bookkeeper	1	Prepares in 5 copies the LDDAP-ADA for approved DVs pertaining to the current and prior years' accounts payable. *Note 1* – Prepare separate LDDAP-ADA for creditors/ payees with Current/Savings/ATM Account maintained with other banks outside the MDS-GSB of the NGAs and OUs (receiving NCAs directly from DBM). Example: The MDS-GSB of the NGAs and OUs (receiving NCAs directly from DBM) is LBP, but some of the creditors are maintaining accounts with DBP, PVB and private banks. One LDDAP-ADA shall be prepared for creditors with LBP accounts, while separate LDDAP-ADA shall be prepared for those with accounts outside LBP.

Area of Responsibility	Seq. No.	Activity
		Note 2 – The numbering structure for LDDAP-ADA shall be as follows:



Chief Accountant/ Head of Accounting Division/Unit	2	Reviews and signs in Box I "Certified Correct" portion of LDDAP-ADA and forwards the documents to the Receiving/Releasing Staff.
Receiving/ Releasing Staff	3	Records in the logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs to the Head of Agency or Authorized Representative for approval of the LDDAP-ADA.
		Approval of the "LDDAP" Portion
Office of the Agency Head/ Authorized Representative		
Receiving/ Releasing Staff	4	Receives Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs and records in the logbook the date of receipt thereof.
Head of the Agency/ Authorized Representative/ Approving Officer	5	Reviews LDDAP-ADA and signs in Box I "Approved" portion of the LLDAP. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs, and SDs.
Receiving/ Releasing Staff	6	Records in logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and all SDs and forwards the documents to the Cash/Treasury Unit.
		Approval of "ADA" Portion
Cash/Treasury Unit		
Receiving/ Releasing Staff	7	Receives Copies 1-5 of approved LDDAP-ADA, Copies 1-4 of DVs, and SDs. Records in the logbook the date of receipt of LDDAP-ADA, covering DV numbers, payees, particulars and amounts.

Area of Responsibility	Seq. No.	Activity
Designated Staff	8	Checks completeness of signatories on the LDDAP-ADA and in the DVs and amount.
	9	Retrieves from file the CkADADRec maintained per bank account and records the date and number, name of payee, nature of payment and amount of the covering DVs, date and number of LDDAP-ADA, and indicates the new balance of the NCA/bank account. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs to Cashier for review and signature.
Cashier	10	Verifies completeness of signature on the LDDAP-ADA and DVs. Reviews the amount of the LDDAP-ADA against the total amount of the DVs and SDs. Signs the "ADA" portion.
Receiving/ Releasing Staff	11	Records in the logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	12	Records in the logbook the receipt of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DV and SDs.
Head of Agency/ Authorized Representative/ Approving Officer	13	Countersigns the "ADA" portion. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs, and SDs to the Receiving/Releasing Staff for return to the Cashier.
Receiving/ Releasing Staff	14	Records in the logbook the release of Copies 1-5 of approved LDDAP-ADA, Copies 1-4 of DVs and SDs.
Cash/Treasury Unit		
Designated Staff	15	Receives Copies 1-5 of LDDAP-ADA, Copies 1-4 of DV, and SDs. Retrieves the CkADADRec and checks completeness of documents. Files documents temporarily for the preparation of the Summary of LDDAP-ADAs Issued and Invalidated ADA Entries (SLIIAE) (*Appendix 53).*
	16	Stamps "PAID" on all LDDAP-ADA, DVs, and SDs.
		Preparation of Summary of LDDAP-ADAs Issued and Invalidated ADA Entries
Cash/Treasury Unit		
Designated Staff	17	Retrieves Copies 1-5 of all LDDAP-ADA for delivery to the MDS-GSB together with Copies 1-4 of DV and SDs and prepares the SLIIAE in four copies. Assigns control number in the SLIIAE. Records in the logbook the SLIIAE number and date, covering LDDAP-ADA number, date and amount and total amount of the SLIIAE and forwards the document to the Cashier/Head of Cash/ Treasury Unit.

Area of Responsibility	Seq. No.	Activity
Cahier/Head of Cash Treasury Unit	18	Verifies completeness of signature on the LDDAP-ADA. Checks the correctness of the amounts. Signs the "Certified Correct by" portion of the SLIIAE and endorses to the Head of Agency/Authorized Official. Files temporarily the covering DVs and SDs.
Receiving/ Releasing Staff	19	Records in the logbook the release of Copies 1-4 of SLIIAE and copies of the LDDAP-ADA issued to the Head of Agency/ Authorized Official.
Receiving/ Releasing Staff	20	Receives Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued and records in the logbook the date of receipt.
Head of Agency/ Authorized Official	21	Signs the "Approved by" portion of the SLIIAE. Forwards Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued to the Receiving/ Releasing Staff for return to the Cashier/Head of Cash/Treasury Unit.
Cash/Treasury Unit		
Receiving/ Releasing Clerk	22	Receives Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued. Records in the logbook the date of receipt and forwards to the Cashier/Head of Cash/Treasury Unit.
Cashier/Head of Cash/ Treasury Unit	23	Checks completeness of the SLIIAE and LDDAP-ADA and SDs. Forwards Copies 1-3 of the SLIIAE and Copies 1-4 of the LDDAP-ADA to the Designated Staff. Files Copy 4 of SLIIAE and Copy 5 of LDDAP-ADA temporarily. *Note 3* – The MDS-GSB shall retain the original SLIIAE together with the Copy 1 of LDDAP-ADA issued as well as the Copy 2 of the SLIIAE and LDDAP-ADA for submission to the BTr on the same day of receipt of said document from the agency. This will serve as the advisory to the BTr on the magnitude of expected disbursements through LDDAP-ADA and replenishment of the MDS Seed Fund. The remaining copies of the SLIIAE and LDDAP-ADA shall be distributed as follows: *Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA* – Receiving Copy *Copy 4 of SLIIAE* – COA (attached to the RADAI) *Copy 5 of LDDAP-ADA* – To the designated staff of Cash/Treasury Unit for the preparation of RADAI.
Designated Staff	24	Releases Copies 1-2 of SLIIAE and Copies 1-3 of LDDAP-ADA

Area of Responsibility	Seq. No.	Activity
		immediately to MDS-GSB which shall pay the creditors/payees listed in the LDDAP-ADA not later than 48 hours but not earlier than 24 hours upon receipt of the said document from the NGA and OUs (receiving NCAs directly from DBM).
		Note 4 – Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA which shall be the copy of the Cash/Treasury Unit shall be stamped "Received" by the MDS-GSB upon receipt of Copies 1-2 of SLIIAE and Copies 1-3 of the LDDAP-ADA. Copy 5 of LDDAP-ADA shall be given to the Designated Staff of the Cash/Treasury Unit for the preparation of the RADAI.
Designated Staff	25	Furnishes creditors/payees with copy of the LDDAP-ADA or informs them of the LDDAP-ADA number for the purpose of updating them on the status of their claims and for the issue of provisional receipt once they are included in the LDDAP-ADA, subject to replacement of provisional receipt with an OR other acceptable evidence of receipt of payment of disbursements consistent with COA Circular No. 2004-006 dated September 9, 2004, immediately after actual receipt of payment.
		Note 5 – Copy 4 of the DV shall be given to the payee upon issue of OR.
		Daily
Designated Staff	26	Obtains validated Copy 3 of the LDDAP-ADA and submits to the Cashier.
Cashier/ Designated Staff	27	Receives the validated Copy 3 of LDDAP-ADA and reproduces three copies thereof to be attached to Copies 2-4 of the DVs. Retrieves Copies 1-4 of DVs and SDs and attaches the validated Copy 3 of the LDDAP-ADA to the original DV and SDs and the photocopies of the validated Copy 3 of LDDAP-ADA to Copies 2-4 of the DVs. Files the documents temporarily.
	28	Monitors return and completeness of submission of the duly validated LDDAP-ADA from the MDS-GSB and receipt of OR other acceptable evidence of receipt of payment.
		Preparation of Report of Advice to Debit Account Issued
		Daily
Cash/Treasury Unit		
Designated Staff	29	Retrieves Copies 3-4 of SLIIAE, copies of LDDAP-ADA and Copies 1-4 of DVs and SDs and prepares the RADAI in four copies.
	30	Initials in "Certification" portion of the RADAI.

Area of Responsibility	Seq. No.	Activity
Disbursing Officer/Cashier/ Head of Cash/Treasury Unit	31	Reviews RADAI and signs in "Certification" portion.
Designated Staff	32	Distributes the RADAI as follows: *Copies 1-3* – Accounting Division/Unit for submission to the following: *Copy 1* – COA Auditor (with Copy 3 of LDDAP-ADA, originals of DVs and SDs and Copy 4 of SLIIAE) *Copy 2* – Accounting Division/Unit file *Copy 3* – Budget Division/Unit *Copy 4* – Cash/Treasury Unit file copy (with Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA, Copy 2 of DV and SDs)
Designated Personnel	33	Furnishes assigned Unit/Office with copy of RADAI for posting in the agency's website.
		<u>Preparation of JEV</u>
Accounting Division/Unit		<u>Daily</u>
Receiving/ Releasing Staff	34	Receives Copies 1-3 of RADAI supported with Copy 4 of SLIIAE, copies of the validated LDDAP-ADA and Copy 1 and 3 of DVs and SDs.
Designated Staff	35	Examines DVs and copies of validated LDDAP-ADA against RADAI. Verifies if the serial number of all the LDDAP-ADA issued are all accounted for.
	36	Prepares JEV in two copies and signs in the "Prepared" portion.
Head of the Accounting Division/Unit/ Authorized Signatory	37	Reviews and signs the JEV. Forwards Copies 1-2 of JEV and Copies 1-3 of RADAI supported with Copy 4 of SLIIAE, copies of LDDAP-ADA, Copy 1 and 3 of DVs and SDs to the bookkeeper for recording in the ADADJ.
		<u>Recording in ADADJ</u>
Designated Staff	38	Receives Copies 1-2 of JEV, Copies 1-3 of RADAI, Copy 4 of SLIIAE, copies of LDDAP-ADA, Copies 1 and 3 of DVs and SDs. Records the JEV in the ADADJ.
	39	Records in the logbook submission of documents to COA and Budget Unit. Retains Copy 2 of JEV and RADAI, copy of LDDAP-ADA, Copy 3 of DVs and SDSs for file. *Note 6* – The distribution shall be as follows: *To COA* – Copy 1 of JEV and RADAI, Copy 4 of SLIIAE, validated Copy 3 of LDDAP-

Area of Responsibility	Seq. No.	Activity
		ADA and Copy 1 of DV and SDs *To Budget Unit* – Copy 3 of RADAI for posting of payments in Box C of ORS

Sec. 57. Illustrative Accounting Entries for Disbursements through LDDAP-ADA

Particulars	Account Code	Debit	Credit
1. Upon set up of payables to Suppliers and Contractors			
Buildings	10604010	₱ 80,000	
Accounts Payable	20101010		₱ 80,000
To set up payables to contractors and suppliers based on approved DVs			
2. Payment through ADA			
Accounts Payable	20101010	₱ 80,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 80,000
To recognize payment of payables to suppliers or contractors through ADA			
3. Payment of salaries through ATM			
a. Salaries and Wages	50101010	₱ 35,000	
PERA	50102010	15,000	
Due to BIR	20201010		₱ 5,000
Due to GSIS	20201020		3,200
Due to Pag-IBIG	20201030		500
Due to PhilHealth	20201040		600
Other Payables	29999990		100
Due to Officers and Employees	20101020		40,600
To recognize expenses for salaries and wages to be paid through ATM			
b. Cash in Bank-Local Currency, Current Account	10102020	₱ 40,600	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 40,600
To recognize deposit for salaries and wages to be paid through ATM			
c. Due to Officers and Employees	20101020	P 40,600	
Cash in Bank-Local Currency, Current Account	10102020		P 40,600
To recognize payment of salaries and wages through ATM			

4. Granting of Payroll Fund

Assumptions:

Salaries and Wages		₱ 35,000
PERA		15,000
Total		₱ 50,000
Less:	Salary Deductions	
	Withholding Tax	5,000
	Life and Retirement Premiums	3,000
	Pag-IBIG premiums	500
	PhilHealth premiums	600
	GSIS Salary loan	200

Particulars		Account Code	Debit	Credit
Employees' Association	100			
Net Amount	₱ 40,600			
Advances for Payroll		19901020	₱ 40,600	
Cash-Modified Disbursement System (MDS), Regular		10104040		₱ 40,600

To recognize granting of cash advance for payroll based on duly approved payroll through ADA

5. Payment for delivery of supplies and materials for consumption

	Account Code	Debit	Credit
Office Supplies Inventory	10404010	P 2,500	
Cash-Modified Disbursement System (MDS), Regular	10104040		P 2,500

To recognize payment for the delivery of supplies and materials based on Delivery Receipt No. 12451

6. Payment of rent

	Account Code	Debit	Credit
Prepaid Rent	19902020	P 1,300	
Cash-Modified Disbursement System (MDS), Regular	10104040		P 1,300

To recognize payment of one year rent of photocopying machine (July, 2015–June, 2016)

7. Advances to Contractors

	Account Code	Debit	Credit
Advances to Contractors	19902010	₱ 8,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 8,000

To recognize 15% mobilization fees to contractors to be recouped from progress billings

8. Payment of Accounts Payable

Gross	₱ 40,000
Less: Withholding Tax (VAT)	3,600
Net	₱ 36,400

	Account Code	Debit	Credit
Accounts Payable	20101010	P40,000	
Due to BIR	20201010		P 3,600
Cash-Modified Disbursement System (MDS), Regular	10104040		36,400

To recognize payment of payables based on duly approved DV and SDs

Sec. 58. Disbursements Through electronic Modified Disbursement System as part of the Modified Disbursement Scheme. As part of the implementation of the Treasury Single Account (TSA) system for government disbursement, the electronic Modified Disbursement System (eMDS) has been adopted as one of the modes of disbursement under Joint Administrative Order (JAO) No. 2015-1 dated March 12, 2015 of the DBM and DOF. This is to facilitate an efficient and prompt reconciliation of spending agencies' disbursements vis-à-vis the accounts of the BTr maintained at the LBP as Authorized Government Servicing Bank (AGSB).

This JAO shall apply to all spending agencies, offices and instrumentalities under the Executive Branch, including SUCs, together with other Executive Offices using LBP as GSB. The Judicial Branch, the Legislative Branch, Constitutional Offices, and all other Agencies, Offices and Instrumentalities banking with LBP and therefore maintaining MDS sub-accounts with said bank are likewise covered by the JAO for NG to have a holistic view of the budgetary transactions of all spending agencies.

The policy guidelines are as follows:

a. Heads of Departments, Bureaus, Offices and other instrumentalities under the Executive Branch, maintaining MDS sub-accounts with LBP, including SUCs, together with other Executive Offices, are enjoined to enroll and subscribe to the eMDS to perform selected MDS transactions online; and to monitor disbursements and generate MDS reports under the Government's MDS;

b. Enrolment in the eMDS shall be free of charge; and

c. All other spending agencies, offices, and instrumentalities of government maintaining MDS sub-accounts with GSBs other than LBP shall continue to observe the current procedure of the MDS System, unless they voluntarily transfer their accounts with LBP to avail of the latter's eMDS facility or until after enrolment and subscription to the eMDS upon amendment or repeal of Memorandum Order Nos. 276 (s. 1990) and/or (s. 1994).

Sec. 59. Disbursements through Cashless Purchase Card System. The CPC System was prescribed as an alternative mode of payment for goods and services under Joint Memorandum Circular (JMC) No. 2014-1 dated May 15, 2014 of the Department of National Defense (DND), Armed Forces of the Philippines (AFP) and the DBM.

The general guidelines on the implementation of the CPC System are as follows:

a. The CPC System to be implemented by participating agencies is a mode to procure specific eligible items through the use of an electronic card. The CPC functions similarly to a credit card and shall only be used for pre-identified items within body limits mutually agreed upon by members of the Steering Committee. It shall also be used only with specific merchant groups already enumerated under agreement with the credit card company.

b. Only individuals recommended by the Program Administrator and authorized by the Steering Committee shall be allowed to use the CPC and pre-identified items within monthly limits set at levels mutually agreed upon by members of the Steering Committee. The CPC shall likewise be used only with specific merchant groups already enumerated under agreement with the credit card company.

c. Only individuals recommended by the Program Administrator and authorized by the Steering Committee shall be allowed to use the CPC at predetermined monthly purchase limits. Authorized individuals shall be permanent employees of the participating agencies and shall, as much as possible be involved in the procurement of goods and services of their unit/office.

    1. Individual credit limits which have been approved by the Steering Committee may only be increased and/or amended by the Steering Committee.

2. Approvals or increased individual credit limits as well as additional personnel of participating agencies to be entitled to the CPC shall only be granted after three (3) months pilot testing of implementation of the CPCS.

3. In the event the participating agencies determine that additional personnel should be entitled to the CPC or in case its existing cardholders need to be replaced, the Program Administrator shall inform the Steering Committee in the writing about the changes proposed. The Program Administrator must support these changes with a written explanation on why the changes are being sought.

d. Chief of Offices of the Participating Agencies who approved CPC are jointly accountable with their Special Disbursing Officers.

e. The CPC System shall not, in any way, supplant, replace or revise the procurement policies and procedures prescribed under RA No. 9184 otherwise known as the Procurement Law.

f. The total amount authorized to be covered by the CPC shall form part of the cash advance levels of the participating agencies. The CPC shall not be used nor intended to allow or justify the increase in cash advance levels for the participating agencies.

g. The CPC shall initially be used for purchase of small value non-common use items which are not available with the Procurement Service.

h. The cost of purchasing unauthorized items using the CPC shall be for the personal account of the individual who undertook the transaction. This is without prejudice to the suspension of the cardholder’s privilege to use the issued CPC and other penalties which the participating agencies may impose.

i. In case the participating agencies find specific items which it disputes as having been procured (based on the receipts the individual CPC holder has), they shall immediately inform CCC of this discrepancy.

j. The participating agencies shall ensure the timely payment of the CPC billing received from the CCC. In the event that delays in payment of the CPC billings occur, any additional charges such as late payment charges/penalties shall be charged against the personal account of the employee directly responsible for the cause of such delays. In no case shall the NCA issued be used to settle late payment charges.

k. The existing disbursement policies and procedures on the use of NCA and the Common Fund System shall continue to apply where the CPC System is concerned.

l. Payment to the CCC for legitimate purchases made out of the CPC shall be consistent with the existing MDS disbursement procedures pursuant to DMB Circular Letter No. 2013-16.

The specific guidelines on the implementation of the CPC System are provided under Item 5.0 of DND-AFP-DBM JMC No. 2014-1 dated May 15, 2014, are as follows:

a. Once the allotment is made available to the participating agencies, the latter shall obligate an amount under supplies, materials and other services corresponding to the amount allocated for the CPC system.

b. The CPC holder shall be entitled to purchase goods from accredited merchants once the obligation for the CPC has been made.

c. The CPC holder shall secure the charge slips/receipts issued by the accredited merchant and file the same for the purposes of submission to the agency accounting units. These documents shall also be used for inspection of actual goods purchased and payments to the CCC.

d. Inspection and acceptance of the procured items shall comply with the existing procedures adopted by the agency for the purpose.

e. The accounting offices/units shall ensure that procured items are within the items enumerated in Annex A of the above-mentioned JMC and consistent with the limitations under Annex B of the same JMC.

f. Upon receipt of the CCC billing statement, the agency accounting units shall compare the totals of the charge slips against the amounts reflected in the billing statement and confirm the correctness of the same.

g. The Finance Service Unit of the agency concerned shall ensure that payments are made on or before the dates specified in the CCC billing statement.

h. The cost of items being disputed shall likewise be included in the payment to be made. Adjustments in payments, if required, shall be made in the subsequent billing cycle.

i. In the event the CPC is lost or stolen the cardholder must immediately notify the Program Administrator. He must likewise be responsible in reporting to the CCC via phone or electronic modes, the loss of the card to prevent unauthorized utilization of the same.

   1. The privilege of the CPC holder to procure goods through a CPC shall temporarily be suspended in case his card is stolen or lost.

   2. The Program Administrator shall determine whether the CPC holder was negligent and/or culpable in the loss of his CPC. He shall recommend remedial steps in case of notes procedural gaps; permanent suspension of the privilege or restoration of the same. In all instances, the Program Administrator shall inform the Steering Committee on the measures taken.

   3. The CPC person shall be held accountable in terms of payment for the purchases made against the card during the period it was lost or stolen.

Sec. 60. Disbursements through Tax Remittance Advice. The Tax Remittance Advice (TRA) refers to a serially-numbered document prescribed by the DBM that should be used by the NGAs in the remittance of withheld taxes on funds coming from DBM. With the inclusion of all NGAs among the taxpayers who are mandated to use the Electronic Filing and Payment System (*e*FPS) under the Bureau of Internal Revenue Regulations No. 1-2013 dated January 23, 2013, the TRA is accomplished on-line which is called the Electronic TRA (*e*TRA). The *e*TRA is certified correct by the Chief Accountant/Head of Accounting Division/Unit and approved by the Head of Agency/Authorized Official, and used to record the remittance of taxes withheld to the BIR. The same document shall be the basis for the BIR and the BTr to draw a JEV to record the tax collection and deposit in their respective books of accounts. The JEV shall be recorded in the GJ.

The *e*TRA shall be supported with the Summary of Taxes Withheld (STW) certified by the Chief Accountant. The STW is the document which summarizes the type and amount of taxes withheld. The Accounting Division/Unit shall maintain SL to monitor remittances of taxes withheld from individual employees, suppliers and contractors.

Sec. 61. Procedures for Disbursements through TRA

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit		
Chief Accountant/ Head of Accounting Division/Unit/ Bookkeeper	1	Complies with the registration requirements of the BIR as withholding agent pursuant to Sec. 26 of the National Internal Revenue Code.
Cash/Treasury Unit		
Disbursing Officer/ Cashier	2	Pays employees/suppliers/contractor for services rendered/ goods delivered net of withholding taxes.
		Note 1 – Refer to Sec.13 for the procedures for disbursement by checks and Sec. 19 for the procedures on the disbursements through Payroll Fund.
Accounting Division/Unit		
Bookkeeper	3	Prepares STW which will serve as basis for the remittance to the BIR.
		Note 2 – STW is prescribed in Annex A of DOF-DBM-COA Joint Circular No. 1-2000 dated January 3, 2000.
	4	Forwards the STW to the Chief Accountant for signature.
Chief Accountant/Head of Accounting Division/Unit	5	Reviews the STW and prepares the TRA and forwards to the Agency Head for approval.
Office of the Head of Agency/Authorized Official		
Receiving/Releasing Clerk	6	Records in the logbook the receipt of the STW. Forwards the same to the Head of Agency/Authorized Official for approval.
Head of Agency/ Authorized Official	7	Reviews the STW and approves.
Receiving/Releasing Clerk	8	Upon receipt from the Head of Agency/Authorized Official of the approved STW, forwards the same to the designated personnel of Accounting Division/Unit.
Accounting Division/Unit		
Designated Personnel	9	Receives from the Receiving/Releasing Clerk the STW. Based on the STW, files tax returns and submits through the eFPS, then proceed to payment menu, selecting TRA as type of payment and fills out the amount intended for TRA.
	10	Prints the validated eTRA and the required tax returns for all taxes withheld for compensation, expanded, final and government money payments (BIR Form 1601-C, 1601-E,

Area of Responsibility	Seq. No.	Activity
		1601-F and 1600, respectively) and forwards the documents with the STW to the Chief Accountant/Head of Accounting Division/Unit.
Chief Accountant/ Head of Accounting Division/Unit	11	Reviews the eTRA and signs on the "Certified by" portion. Forwards the eTRA, STW and required tax returns to the Head of Agency/Authorized Official for approval.
Office of the Head of Agency/Authorized Official		
Receiving/Releasing Clerk	12	Records in the logbook the receipt of the eTRA, STW and required tax returns. Forwards the same to the Head of Agency/Authorized Official.
Head of Agency/ Authorized Official	13	Reviews and approves the eTRA.
Accounting Division/Unit		
Receiving/Releasing Clerk	14	Upon receipt from the Head of Agency /Authorized Official of the approved eTRA, STW and required tax returns, forwards the same to the designated personnel of Accounting Division/Unit for the preparation of the JEV.
Designated Personnel	15	Prepares the JEV and records in the GJ the constructive receipt of NCA for TRA and remittance of all taxes withheld thru TRA.
Designated Personnel	16	Reproduces four copies of eTRA, STW and required tax returns and submits three copies to the concerned BIR Office. Files the received copy. *Note 3* – Under DOF-DBM Joint Circular No. 1-2000A dated July 31, 2001 which prescribes the procedure for the remittance of all taxes withheld by NGAs to the BIR, an NGA shall file before the BIR a TRA supported by withholding tax returns on or before the 10th day of the following month after the said taxes had been withheld. *Note 4* – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 62. Illustrative Accounting Entries for Remittance of Taxes Withheld through TRA

Particulars	Account Code	Debit	Credit
a. Agency Books			
1. Constructive Receipt of NCA for TRA			
Cash-Tax Remittance Advice	10104070	₱ 5,000	
Subsidy from National Government	40301010		₱ 5,000
To recognize constructive receipt of NCA for TRA			
2. Remittance of taxes withheld through TRA			
Due to BIR	20201010	₱ 5,000	
Cash-Tax Remittance Advice	10104070		₱ 5,000
To recognize remittance of taxes withheld through TRA			
b. BIR Books			
1. Constructive Receipt of Tax Revenue through TRA from the NGAs			
Cash-Tax Remittance Advice	10104070	₱ 5,000	
Income Tax	40101010		₱ 5,000
To recognize constructive receipt of tax revenue based on the TRA received from the agency			
c. BTr Books			
1. Constructive Utilization of NCA for TRA by the remitting NGAs			
Subsidy to NGAs	50214010	₱ 5,000	
Cash-Tax Remittance Advice	10104070		₱ 5,000
To recognize remittance of taxes withheld by the agency based on the TRA received			

Sec. 63. Disbursement for Inter-Agency Transferred Funds (IATF). The following are the accounting policies for the transfer of funds:

a. A Memorandum of Agreement (MOA) shall be entered into by the SA and the IA for the undertaking by the latter of the project of the former. The MOA shall provide for the requirements for project implementation and reporting.

b. The fund to be transferred or sub-allotted to the IA shall be a) in an amount sufficient for three months operation subject to replenishment upon submission of the reports of disbursements by the IA, or b) the total project cost, as may be determined by the Heads of the two agencies in either case.

c. The check shall be issued in the name of the IA for deposit to its trust account in its authorized government depository bank. The IA shall issue its official receipt in acknowledgment.

d. Depending on the MOA, the fund transfers may be treated as a) If the MOA provides a condition that the fund shall be spent as specified and any excess shall be returned to the SA, the IA shall recognize the receipt of the fund as asset at its fair value with a corresponding liability, while the SA shall recognize a receivable corresponding to the fund transfer; or b) If the MOA provides stipulations or no condition, the IA shall recognize the receipt of the fund as asset at its fair value with a corresponding revenue, while the SA shall recognize an expense corresponding to the fund transfer.

e. A separate subsidiary record for each account shall be maintained by the IA whether or not a separate bank account is opened.

f. Within ten (10) days after the end of each month/end of the agreed period for the Project, the IA shall submit the RCI and the RCDisb to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the IA.

g. The IA shall return to the SA any unused balance upon completion of the project, if stipulated in the MOA.

h. The SA shall draw a JEV to take up the reports. The amount to take up the liquidation in the RCI shall be net of the cash advances granted by the IA to its accountable officers.

i. The IA Auditor shall audit the disbursements out of the trust accounts in accordance with existing COA Regulations

j. The Chief Accountant/Head of the Accounting Division/Unit of the IA shall, on the basis of the Notice of Finality of Decision (NFD), record in the books of accounts any audit disallowance as receivable.

k. When the IA is a Bureau/Regional Office of the SA, the procedures for centrally managed projects shall be followed in accordance with entries herein provided.

l. The illustrative accounting entries are presented in Annex E.

Sec. 64. Disbursements by Foreign-based Government Agencies. CDC is an authorization issued by the DBM to DFA and other agencies with foreign posts to utilize their collections retained by their Foreign Service Posts (FSPs) to cover operating requirements, but not to exceed the released allotment to the said post. (National Budget Circular No. 535 dated December 29, 2011). The following are the accounting policies regarding disbursements by Foreign-based Government Agencies (FBGAs):

a. Based on the proposed budget of FSP/Foreign Attaché, a Working Fund shall be established to cover payment of PS and MOOE. The Finance Officer shall be required to maintain CBReg and CDReg to monitor and control the Working Fund.

b. All disbursements from the Working Fund shall be covered by duly approved DV/Payroll with the required SDs. At the end of the month, the Finance Officer of FSPs/Foreign Attachés shall prepare and submit RCDisb together with the SDs to the Central Office concerned for preparation of JEV to record the liquidation made by the accountable officer. The JEV shall be recorded in the CkDJ and CDJ based on the CBReg and CDReg, respectively.

Sec. 65. Illustrative Accounting Entries for Disbursements of FBGAs. The illustrative accounting entries for disbursements of FGBAs charged to CDC are shown in Sec. 38 (c), Chapter 5 of this Manual.

Sec. 66. Disbursements through Direct Payment Method. This type of disbursement should be covered by an NCAA. This mode of disbursement is made through the JEV issued by the BTr to the availing/implementing agency to record payment of goods and services made directly by the lending institution to the supplier or contractor. The JEV shall be recorded in the GJ.

Sec. 67. Procedures for Disbursements through Direct Payment Scheme of Foreign Loans Availment

Area of Responsibility	Seq. No.	Activity
		Recording of Goods/Property/Services Procured abroad through Direct Payment Method by NGA Concerned
NGA Accounting Division/Unit Designated Personnel	1	Receives Inspection and Acceptance Report (IAR) from Property Officer/Supply Officer/Official Concerned, shipping documents and certified copy of the approved billing from supplier/contractor and prepares JEV to record goods/property in the books of accounts. The cost shall be based on the certified copy of the duly approved billing.
Head of Accounting Division/Unit/ Authorized Signatory	2	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV.
Designated Personnel	3	Records the JEV in the GJ.
	4	Prepares the Withdrawal Application (WA) from the loan account to pay for the goods and services and submits to the head of the agency for approval.
Head of Agency	5	Approves the WA and submits to the foreign lending institution (FLI)/development partner (DP).
		Recording of Foreign Loans Payable in the BTr's Books of Accounts
Bureau of the Treasury Accounting Division/Unit Designated Personnel	6	Receives the WA/advice of payment or any proof of disbursement from the FLI/DP and prepares the JEV in three copies to record the amount paid by the supplier/contractor/consultant as proceeds from borrowings.
Head of Accounting Division/Unit/ Authorized Signatory	7	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV. Forwards Copies 1 of JEV and WA/advice of payment or any proof of disbursement from the FLI/DP to Designated Staff for recording in the GJ and Copies 2-3 to the NGA concerned together with the WA/advice of payment or any proof of disbursement received from the FLI/DP.
Designated Personnel	8	Records the JEV in the GJ.
NGA Accounting Division/Unit Designated Personnel	9	Receives from the BTr Copy 2-3 of JEV together with copy of WA/advice of payment or any proof of

Area of Responsibility	Seq. No.	Activity
		disbursement from the FLI/DP and records in the logbook.
	10	Submits to the DBM Copy 2 of JEV together with copy of WA/advice of payment or any proof of disbursement, list of suppliers/contractors/consultants directly paid by the FLI/DP for the issuance of NCAA.
	11	Receives NCAA from the DBM, records in the logbook.
	12	Reconciles NCAA with the JEV to record receipt of goods/property paid by FLI/DP.
	13	Prepares JEV to record receipt of NCAA and settlement of accounts payable.
Head of Accounting Unit/Authorized Signatory	14	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV.
Designated Personnel	15	Records the JEV in the GJ.
		Note – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 68. Illustrative Accounting Entries for Disbursements through Direct Payment Scheme of Loan Availment

Particulars	Account Code	Debit	Credit
Agency Books			
Communication Equipment	10605070	₱500,000	
Accounts Payable	20101010		₱ 500,000
To recognize receipt of PPE procured through the direct payment scheme			
Accounts Payable	20101010	₱ 500,000	
Subsidy from National Government	40301010		₱ 500,000
To recognize receipt of NCAA and payment of payables based on the WA/advice of payment or any proof of disbursement received from the FLI/DP			
BTR Books			
Subsidy to NGAs	50214010	₱ 500,000	
Loans Payable-Foreign	20102050		₱ 500,000
To recognize the replenishments made to AGSB negotiated MDS- checks and payments on account of the NGA			

Sec. 69. Financial Statements Presentation. The Financial Statement presentation of the accounts related to disbursements shall be in accordance with Chapter 19-Financial Reporting of this Manual.

Chapter 7

FINANCIAL INSTRUMENTS

Sec. 1. Scope. This Chapter provides principles for: (a) presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities; (b) recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items; and (c) disclosure in the entity's financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risk.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms stated below shall be construed to mean as follows:

a. *Equity instrument* – is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

b. *Derivative* – is a financial instrument that derives its value from the movement in commodity price, foreign exchange rate and interest rate of an underlying asset or financial instrument.

c. *Financial instrument* – is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. (*Par. 9, PPSAS 28*)

d. *Financial asset* – is any asset that is:

   1. Cash;
   2. An equity instrument of another entity;
   3. A contractual right to receive cash or another financial asset from another entity;
   4. A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or
   5. A contract that will or may be settled in the entity's own equity instruments.

e. *Financial liability* – is any liability that is:

   1. A contractual obligation:

      i. To deliver cash or another financial asset to another entity; or
      ii. To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity.

   2. A contract that will or may be settled in the entity's own equity instruments.

Sec. 3. Financial Instruments. The following are the characteristics of a financial instrument:

a. There must be a contract;
b. There are at least two parties to the contract; and

c. The contract shall give rise to both a financial asset of one party and a financial liability or equity instrument of another party.

A specific example is NG holdings in the capital stock of Philippine Airlines (PAL) through the BTr. In the books of the BTr, this is a financial asset because it represents resources from which future economic benefits are expected to flow to the entity in the form of dividends or similar distributions. On the other hand, PAL considers the NG holdings as a financial liability because it gives rise to an obligation to return the amount on due date and to pay dividends in the future. Financial instruments could also be cash in the form of bills, coins, and checks; cash in bank; trade accounts; notes and loans; debt securities and equity securities.

Sec. 4. Cash and other Financial Assets. Cash is the most basic financial instrument because it is the medium of exchange and is the basis on which all transactions are measured and recognized in the financial statements. Cash deposited with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to withdraw money from the bank or to draw a check or similar instrument against the balance in favor of a creditor in payment of a financial liability. The bank, on the other hand, views this deposit as a financial liability because of its obligation to deliver the money upon demand from the depositor.

Common examples of financial assets representing a contractual right to receive cash in the future are: Accounts Receivable, Notes Receivable, Loans Receivable-GOCCs, Loans Receivable-LGUs, and Loans Receivable-Others.

Sec. 5. Initial Recognition of Financial Asset. An entity shall recognize a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. (*Par. 16, PPSAS 29*)

Sec. 6. Initial Measurement of Financial Assets. When a financial asset at fair value through surplus or deficit is recognized initially, an entity shall measure it at its fair value. In the case of a financial asset not at fair value through surplus or deficit, the financial asset is recognized at fair value plus transaction costs that are directly attributable to the acquisition, issue or disposal of the financial asset. (*Par. 45, PPSAS 29*)

If the financial asset is measured at fair value through surplus or deficit, transaction costs are expensed outright. In the example below, assume that there is ₱10,000 transaction cost.

Example for Financial Asset at Fair Value through surplus or deficit:

Account Title	Account Code	Debit	Credit
Financial Assets Held for Trading	10201010	₱ 500,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱ 500,000
To recognize the acquired financial asset held for trading			
Other Financial Charges	50301990	₱ 10,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱ 10,000
To recognize the transaction cost incurred			

Example for Financial Asset not at Fair Value through surplus or deficit:

Account Title	Account Code	Debit	Credit
Investments in Treasury Bonds-Foreign	10202040	₱ 510,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱ 510,000
To recognize investment in foreign treasury bonds			

Sec. 7. Categories of Financial Assets. For the purpose of measuring a financial asset after initial recognition, the financial assets are classified into four categories, namely: (*Par. 47, PPSAS 29*)

a. Financial asset at fair value through surplus or deficit. A financial asset at fair value through surplus or deficit is one that is either:

   1. A held-for-trading asset, or
   2. An asset designated as at fair value through surplus or deficit on initial recognition. Any financial asset can be classified in this category if its fair value can be reliably estimated.

b. Held-to-maturity investments. These are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

c. Loans and receivables. These are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Examples of financial assets to be recognized in this category are loans, investments in debt instruments, trade receivables and bank deposits.

d. Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through surplus or deficit.

The initial measurement for financial asset at fair value through surplus or deficit and financial asset classified as available for sale are the same, only that the changes in fair value of financial asset measured at fair value through surplus or deficit are reported in surplus or deficit while the changes in fair value of available for sale financial asset are reported in the net asset.

Sec. 8. Subsequent Measurement of Financial Assets. After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

a. Loans and receivables and Held-to-maturity investments, which shall be measured at amortized cost using the effective interest method; and

b. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost. (*Par. 48, PPSAS 29*)

Example:

On December 31, 2014, the fair value of the Financial Assets Held for Trading with a carrying amount of ₱500,000 is ₱600,000. The changes in fair value shall be reported in surplus/deficit. The following entry shall be made on December 31, 2014 to reflect the changes in fair value.

Account Title	Account Code	Debit	Credit
Financial Assets Held for Trading	10201010	₱ 100,000	
Gain from Changes in Fair Value of Financial Instruments	40501110		₱ 100,000
To recognize the changes in fair value of the Financial Assets Held for Trading			

On December 31, 2014, the fair value of the Financial Assets classified as Available-for-sale with a carrying amount of ₱500,000 is ₱600,000. If the financial asset is classified as Available-for-sale, the changes in fair value shall be reported in the Statement of Changes in Net Assets. Below is the entry to recognize the changes in fair value of the available for sale financial asset:

Account Title	Account Code	Debit	Credit
Investment in Bonds	10203020	₱ 100,000	
Unrealized Gain/(Loss) from Changes in the Fair Value of Financial Assets	30501010		₱ 100,000
To recognize the change in the fair value of the Available-for-sale			

Sec. 9. Measurement at Amortized Cost. Investments of NGAs in BTr issued bonds, loans and receivable accounts are measured at amortized cost. The following are illustrative accounting entries on measurement at amortized cost:

On January 1, 2014, an NGA granted loan amounting to ₱500,000 to an LGU with annual interest of 6%. On December 30, 2014, the LGU made a partial payment of ₱ 100,000.

The entries on the books of the NGA are:

Account Title	Account Code	Debit	Credit
January 1, 2014			
Loans Receivable-Local Government Units	10301040	₱ 500,000	
Cash in Bank-Local Currency, Current Account	10102020		₱ 500,000
To recognize the loan granted to LGU			
December 30, 2014			
Cash in Bank-Local Currency, Current Account	10102020	₱ 130,000	
Loans Receivable-Local Government Units	10301040		₱ 100,000
Interest Income	40202210		30,000
To recognize the receipt of partial payment of loan of the LGU directly credited to the NGA's bank account			

The amortized amount at year-end of the Loans Receivable account of ₱ 400,000 is its cost on initial measurement less the repayment.

Sec. 10. Impairment of Financial Assets. An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity shall measure the amount of loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in surplus or deficit.

In case of Accounts Receivable, the Allowance for Impairment shall be provided in an amount based on collectibility of receivable balances and evaluation of such factors as aging of accounts, collection experiences of the agency, expected loss experiences and identified doubtful accounts.

An adjusting journal entry to recognize the impairment loss is as follows:

Example 1: Impairment of Accounts Receivable – ₱ 1,000

Account Title	Account Code	Debit	Credit
Impairment Loss-Loans and Receivables	50503020	₱ 1,000	
Allowance for Impairment-Accounts Receivable	10301011		₱ 1,000
To recognize impairment loss on accounts receivable			

Example 2: Impairment of Loans Receivable from an LGU – ₱ 50,000

Account Title	Account Code	Debit	Credit
Impairment Loss-Loans and Receivables	50503020	₱ 50,000	
Allowance for Impairment-Loans Receivable, Local Government Units	10301041		₱ 50,000
To recognize impairment loss on loans receivable from LGU			

Sec. 11. Derecognition of Financial Assets. Derecognition is the process of removing a previously recognized financial asset, liability or equity from the statement of financial position. An entity shall derecognize a financial asset when, and only when:

a. The contractual rights to the cash flows from the financial asset expire or are waived; or

b. The entity transfers the financial assets provided the following conditions exist:

    1. The entity transfers substantially all the risks and rewards of ownership of the financial assets; and
    2. The entity has not retained control over the financial assets.

The derecognition of financial assets is subject to the provisions of P.D. No. 1445 on the writing off of receivables and other policies issued by the COA.

Example: An LGU paid its outstanding loan balance amounting to ₱1,000,000 to an NGA. The NGA, upon receipt of the payment from the LGU, will derecognize its receivable account from said entity because its contractual rights to the cash flows from the financial asset expire. The journal entry to recognize the derecognition follows:

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	₱ 1,000,000	
Loans Receivable-Local Government Units	10301040		₱ 1,000,000
To recognize receipt of collection of the loan receivable from LGU directly credited to the NGA's bank account			

When the contractual rights to the cash flows from the financial asset are waived as approved by the COA, assuming that impairment losses have been previously recognized, the entry will be:

Account Title	Account Code	Debit	Credit
Allowance for Impairment-Loans Receivable-Local Government Units	10301041	₱1,000,000	
Loans Receivable-Local Government Units	10301040		₱1,000,000
To recognize waiver of the loan receivable from the LGU			

Sec. 12. Transfer of Financial Assets. An entity transfers a financial asset if, and only if, it either:

a. Transfers the contractual rights to receive the cash flows of the financial asset; or

b. Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the following conditions:

   1. The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition; and

   2. The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.

   3. The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When an entity transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

a. If the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

b. If the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognize the financial asset.

c. If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset.

In this case:

1. If the entity has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

2. If the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

Sec. 13. Financial Liability. Examples of financial liabilities which are transacted by many national government agencies are Accounts Payable, Bail Bonds Payable, Notes Payable, Interest Payable, Bonds Payable-Domestic, Bonds Payable-Foreign, and Loans Payable-Domestic and Loans Payable-Foreign representing domestic and foreign debt accounted at the BTr.

Sec. 14. Recognition of a Financial Liability. An entity shall recognize a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. (*Par. 16, PPSAS 29*)

A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions.

a. A financial instrument may contain a non-financial obligation that must be settled if, and only if, the entity fails to make distributions or to redeem the instrument. If the entity can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

b. A financial instrument is a financial liability if it provides that on settlement the entity will deliver either:

    1. Cash or another financial asset; or

    2. Its own shares whose value is determined to exceed substantially the value of the cash or other financial asset. Although the entity does not have an explicit contractual obligation to deliver cash or another financial asset, the value of the share settlement alternative is such that the entity will settle in cash. In any event, the holder has in substance been guaranteed receipt of an amount that is at least equal to the cash settlement option. (*Par. 24, PPSAS 28*)

Sec. 15. Initial Measurement of Financial Liabilities. When a financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the issue of the financial liability. (*Par. 45, PPSAS 29*)

For financial liability designated initially as at fair value through surplus and deficit, the related transactions costs are expensed immediately. For financial liability measured at amortized cost, transaction costs are included in the initial measurement.

Transaction costs are incremental costs that are directly attributable to the issue or disposal of a financial liability. An incremental cost is one that would not have been incurred if the entity had not issued or disposed the financial liability. Transaction costs include: (a) fees and commissions paid to agents, advisers, brokers and dealers; (b) levies by regulatory agencies and securities exchanges; and (c) transfer taxes and duties.

Example: On January 1, 2014, the BTr issued a 5-year ₱100,000 face value bonds for ₱95,787.63. Interest is 5% payable annually. The prevailing interest rate is 6%. The bonds were issued through an underwriter and the agency paid bond issue cost of ₱34,000. The financial liability was measured at amortized cost. The following are the accounting journal entries to recognize the transaction:

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency,		₱95,787.63	
Bangko Sentral ng Pilipinas	10102010		
Discount on Bonds Payable-Domestic	20102021	4,212.37	
Bond Payable-Domestic	20102020		₱100,000.00
To recognize the issuance of bonds payable by the BTr			
Bond Issue Cost-Domestic	20102023	₱34,000	
Cash in Bank-Local Currency,			
Bangko Sentral ng Pilipinas	10102010		₱34,000
To recognize the incurrence of bond issue cost by the BTr			

Bond issue costs are not treated as outright expense but amortized over the life of the bond similar to that for discount on bonds payable. Bond issue costs are conceived as cost of borrowing and therefore will increase interest expense.

The amortization of bond issue costs is recognized by debiting interest expense and crediting bond issue cost. Under the effective interest method of amortization, the bond issue cost should be aggregated to the discount on bonds payable and netted against the premium on bonds payable.

Sec. 16. Subsequent Measurement of Financial Liabilities. After initial recognition, an entity shall measure a financial liability at amortized cost using the effective interest method. The "amortized cost" of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. (*Par. 10, PPSAS 29*)

The difference between the face amount and present value of the financial liability is amortized through the interest expense using the effective interest method. The difference between the face amount and present value is either discount or premium on the issue of financial liability.

Assume:

Face value of the bond	₱100,000
Term	5-years
Selling price	95,787.63
Issue Date	January 1, 2014
Nominal Rate	5% annually
Effective interest rate	6% annually

Face value of the bond	₱ 100,000.00
Selling price	95,787.63
Discount on Bonds Payable	₱ 4,212.37

Below is the schedule of amortization based on the information given:

Amortization Schedule						
Date A	Interest Expense (5% of FV) B	Interest Expense (6% of G_1) C	Amortization of Bond Discount (C-B) D	Debit Balance of Bond Discount (E_1-D) E	Credit Balance of Bonds Payable F	Carrying Amount of the Bonds (F-E) G
January 1, 2014				4,212.37	100,000.00	95,787.63
December 31, 2014	5,000.00	5,747.26	747.26	3,465.11	100,000.00	96,534.89
December 31, 2015	5,000.00	5.792.09	792.09	2,673.02	100,000.00	97,326.98
December 31, 2016	5,000.00	5,839.62	839.62	1,833.40	100,000.00	98,166.60
December 31, 2017	5,000.00	5,890.00	890.00	943.40	100,000.00	99,056.60
December 31, 2018	5,000.00	5,943.40	943.40	-	100,000.00	100,000.00

E_1 – previous balance of the Bond Discount
G_1 – previous Carrying Amount of the Bonds

The amortized cost of the bonds payable on December 31, 2014 will be:

Credit Balance of bonds payable	₱100,000.00
Debit balance of bond discount	(3,465.11)
Amortized cost (December 31, 2014)	₱ 96,534.89
Or	
Book value of the Bonds (January 1, 2014)	₱ 95,787.63
Amortization of Bond discount	747.26
Amortized cost (December 31, 2014)	₱ 96,534.89

Sec. 17. Derecognition of Financial Liability. An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged, waived, or cancelled, or expires.

Example: A government entity paid its ₱1,000,000 loan from a local creditor. Upon payment of the loan, the entity shall derecognize its liability from the local creditor. The journal entry in the agency's books follows:

Account Title	Account Code	Debit	Credit
Loans Payable-Domestic	20102040	₱1,000,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱1,000,000
To recognize the payment of the loan			
Loans Payable-Domestic	20102040	₱ 1,000,000	
Miscellaneous Income	40609990		₱ 1,000,000
To recognize the condoned/waived loan			

Sec. 18. Equity Instrument. The term "equity instrument" may be used to denote the following:

a. A form of unitized capital such as ordinary or preference shares;

b. Transfers of resources (either designated or agreed as such between the parties to the transaction) that evidence a residual interest in the net assets of another entity; and/or

c. Financial liabilities in the legal form of debt that, in substance, represent an interest in an entity's net assets. (*AG27, PPSAS 28*)

Equity security encompasses any instrument representing ownership shares and right, warrants or options to acquire or dispose of ownership shares at a fixed or determinable price. It represents an ownership interest in an entity. This includes ordinary share, preference share and other share capital.

The government securities issued by the BTr are debt securities in the form of treasury bills and treasury notes. They have maturity date and maturity value. Other examples include Bangko Sentral ng Pilipinas commercial papers and preference shares with mandatory redemption date or are redeemable at the option of the holder.

Sec. 19. Derivatives. Derivative is a financial instrument that derives its value from the movement in commodity price, foreign exchange rate and interest rate of an underlying asset or financial instrument.

PPSAS 29 provides the following characteristics of a derivative financial instrument:

a. Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying");

b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

c. It is settled at a future date.

The very purpose of derivatives is risk management. Risk management is the process of identifying the desired level of risk, identifying the actual level of risk and altering the latter to equal the former.

Sec. 20. Hedging. Hedging is a method of offsetting a potential financial loss or the structuring of a transaction to reduce risk involving financial instruments. Hedge accounting recognizes the offsetting effects on surplus or deficit of changes in the fair values of the hedging instrument and the hedged item.

Par. 96 of PPSAS 29 provides the 3 types of hedging relationships:

a. Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect surplus or deficit.

b. Cash flow hedge: a hedge of the exposure to variability in cash flows that (i) is attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and (ii) could affect surplus or deficit.

c. Hedge of a net investment in a foreign corporation.

A hedge or hedging relationship has two components, namely hedging instrument and hedged item.

Sec. 21. Hedging Instrument. A designated derivative or a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of designated hedged item.

Sec. 22. Hedged Item. Hedged item is an asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes that entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged.

Sec. 23. Presentation of Financial Instruments. The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. (*Par. 13, PPSAS 28*)

Sec. 24. Illustrative Accounting Entries on Financial Assets

a. Financial Assets classified as Held-to-Maturity

On January 1, 2014 the BTr purchased a 5-year 5% ₱100,000 face value bonds for ₱95,787.63. The issuer pays the interest annually. The prevailing interest rate is 6%. The table below shows the amortization of bond discount.

Amortization Schedule				
Date A	Interest Income (5% x FV) B	Interest Income (6% x E_1) C	Amortization of Bond Discount (C-B) D	Carrying Amount of the Bonds (E_1+D) E
January 1, 2014				95,787.63
December 31, 2014	5,000	5,747.26	747.26	96,534.89
December 31, 2015	5,000	5,792.09	792.09	97,326.98
December 31, 2016	5,000	5,839.62	839.62	98,166.60
December 31, 2017	5,000	5,890.00	890.00	99,056.60
December 31, 2018	5,000	5,943.40	943.40	100,000.00

E_1 – previous balance of the Carrying Amount of the Bonds

Note: On maturity date December 31, 2018, the carrying amount of the investment is ₱100,000 which is equal to the face value of the bond.

The accounting entries in the books of the BTr are as follows:

Account Title	Account Code	Debit	Credit
January 1, 2014			
Investment in Bonds	10203020	₱ 95,787.63	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱ 95,787.63
To recognize investment in bonds			

Note: Cash in Bank-Local Currency, Current Account and Cash in Bank-Local Currency, Savings Account may also be used.

Account Title	Account Code	Debit	Credit
December 31, 2014			
Cash in Bank-Local Currency,		₱ 5,000	
Bangko Sentral ng Pilipinas	10102010		
Interest income	40202210		₱ 5,000
To recognize receipt of annual interest			
Investment in Bonds	10203020	₱ 747.26	
Interest income	40202210		₱ 747.26
To recognize amortization of bond discount			
December 31, 2015			
Cash in Bank-Local Currency,		₱ 5,000	
Bangko Sentral ng Pilipinas	10102010		
Interest income	40202210		₱ 5,000
To recognize receipt of annual interest			
Investment in Bonds	10203020	₱ 792.09	
Interest income	40202210		₱ 792.09
To recognize amortization of bond discount			
December 31, 2016			
Cash in Bank-Local Currency,		₱ 5,000	
Bangko Sentral ng Pilipinas	10102010		
Interest income	40202210		₱ 5,000
To recognize receipt of annual interest			
Investment in Bonds	10203020	₱ 839.62	
Interest income	40202210		₱ 839.62
To recognize amortization of bond discount			
December 31, 2017			
Cash in Bank-Local Currency,		₱ 5,000	
Bangko Sentral ng Pilipinas	10102010		
Interest income	40202210		₱ 5,000
To recognize receipt of annual interest			
Investment in Bonds	10203020	₱ 890	
Interest income	40202210		₱ 890
To recognize amortization of bond discount			
December 31, 2018			
Cash in Bank-Local Currency,		₱ 5,000	
Bangko Sentral ng Pilipinas	10102010		
Interest income	40202210		₱ 5,000
To recognize receipt of annual interest			
Investment in Bonds	10203020	₱ 943.40	
Interest income	40202210		₱ 943.40
To recognize amortization of bond discount			
Cash in Bank-Local Currency,		₱ 100,000	
Bangko Sentral ng Pilipinas	10102010		
Investment in Bonds	10203020		₱ 100,000
To recognize maturity of investment in bonds			

b. Loans Receivable

On January 1, 2014, an NGA relent a loan to an LGU amounting to ₱1,000,000 payable in 5 years with 6% annual interest. The accounting entries to recognize the transactions are as follows:

Account Title	Account Code	Debit	Credit
January 1, 2014			
Loans Receivable-Local Government Units	10301040	₱ 1,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱ 1,000,000
To recognize the relent loan			
December 31, 2014			
Cash in Bank-Local Currency, Current Account	10102020	₱ 200,000	
Loans Receivable-Local Government Units	10301040		₱ 200,000
To recognize the collection of receivable			
Cash in Bank-Local Currency, Current Account	10102020	₱ 60,000	
Interest income	40202210		₱ 60,000
To recognize collection of interest			

c. Notes Receivable

On March 15, 2014, a government hospital received promissory notes from several patients amounting to ₱100,000 payable in 6 months with 6% annual interest. The accounting entries to recognize the transactions follow:

Account Title	Account Code	Debit	Credit
March 15, 2014			
Notes Receivable	10301020	₱ 100,000	
Hospital Fees	40202170		₱ 100,000
To recognize the receipt of the promissory note			
August 15, 2014			
Impairment Loss-Loans and Receivables	50503020	₱ 30,000	
Allowance for Impairment-Notes Receivable	10301021		₱ 30,000
To recognize impairment of Notes Receivable			
September 15, 2014			
Cash-Collecting Officers	10101010	₱ 70,000	
Allowance for Impairment-Notes Receivable	10301021	30,000	
Notes Receivable	10301020		₱ 100,000
To recognize collection of the balance of the Notes Receivable			
Cash-Collecting Officers	10101010	₱ 2,850	
Interest Income	40202210		₱ 2,850
To recognize collection of interest income			

Sec. 1. Illustrative Accounting Entries on Financial Liabilities

On January 1, 2014 the BTr issued a 5-year 9% ₱100,000 domestic bonds at 10% effective interest rate for ₱96,149. Interests are paid semi-annually. The amortization schedule based on the information given is presented below:

Amortization Schedule						
Date	Interest Expense (4.5% x FV)	Interest Expense (5% x G_1)	Amortization of Bond Discount (C-B)	Debit balance of Bond Discount (E_1-D)	Credit Balance of Bonds Payable	Carrying Amount of the Bonds (F-E)
A	B	C	D	E	F	G
January 1, 2014				3,851.00	100,000	96,149.00
June 30, 2014	4,500	4,807.45	307.45	3,543.55	100,000	96,456.45
December 31, 2014	4,500	4,822.82	322.82	3,220.73	100,000	96,779.27
June 30, 2015	4,500	4,838.96	338.96	2,881.76	100,000	97,118.24
December 31, 2015	4,500	4,855.91	355.91	2,525.85	100,000	97,474.15
June 30, 2016	4,500	4,873.71	373.71	2,152.14	100,000	97,847.86
December 31, 2016	4,500	4,892.39	392.39	1,759.75	100,000	98,240.25
June 30, 2017	4,500	4,912.01	412.01	1,347.74	100,000	98,652.26
December 31, 2017	4,500	4,932.61	432.61	915.13	100,000	99,084.87
June 30, 2018	4,500	4,954.24	454.24	460.88	100,000	99,539.12
December 31, 2018	4,500	4,960.88	460.88	-	100,000	100,000.00

E_1 – previous balance of the Bond Discount
G_1 – previous Carrying Amount of the Bonds

The accounting entries are as follows:

Account Title	Account Code	Debit	Credit
January 1, 2014			
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010	₱ 96,149	
Discount on Bonds Payable-Domestic	20102021	3,851	
Bonds Payable-Domestic	20102020		₱ 100,000
To recognize the issue of bonds			
June 30, 2014			
Interest Expenses	50301020	₱ 4,500	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas	10102010		₱ 3,600
Due to BIR	20201010		900
To recognize payment of semi-annual interest and taxes withheld from the investor			
Due to BIR	20201010	₱ 900	
Cash-Tax Remittance Advice	10104070		₱ 900
To recognize remittance to BIR of the withheld final tax			
June 30, 2014			
Interest Expenses	50301020	₱ 307.45	
Discount on Bonds Payable-Domestic	20102021		₱ 307.45
To recognize amortization of bond discount			

Account Title	Account Code	Debit	Credit
December 31, 2014			
Interest Expenses	50301020	4,500	
Cash in Bank-Local Currency,			
Bangko Sentral ng Pilipinas	10102010		3,600
Due to BIR	20201010		900
To recognize payment of semi-annual interest and taxes withheld			
Due to BIR	20201010	₽ 900	
Cash-Tax Remittance Advice	10104070		₽ 900
To recognize remittance to BIR of the final tax withheld			
Interest Expenses	50301020	₽ 322.82	
Discount on Bonds Payable-			
Domestic	20102021		₽ 322.82
To recognize amortization of bond discount			
December 31, 2018			
Bonds Payable-Domestic	20102020	₽ 100,000	
Cash in Bank-Local Currency,			
Bangko Sentral ng Pilipinas	10102010		₽ 100,000
To recognize redemption of the bonds			

Sec. 25. Presentation in the Financial Statements. Financial instruments accounts shall appear in the Statement of Financial Position as follows.

ABC Agency
Condensed Statement of Financial Position
As at December 31, 2014

Asssets	Note	2015	2014
Current Assets			
Cash and Cash Equivalents	6	xxx	xxx
Investments	7	xxx	xxx
Receivables	8	xxx	xxx
Non-Current Assets			
Investments	7	xxx	xxx
Receivables	8	xxx	xxx
Liabilities and Equity			
Current Liabilities			
Financial Liabilities	15	xxx	xxx
Non-Current Liabilities			
Financial Liabilities	15	xxx	xxx

Note: Refer to Annex F of Volume I of this Manual for the sample disclosure in the Notes to the Financial Statements.

Sec. 26. Forms and Reports to be Prepared and Maintained. The following schedules and forms shall be prepared and maintained by the agencies relative to their financial instruments accounts:

a. To be prepared by all National Government Agencies

   1. Schedule of Accounts Payable (*Appendix 54*)
   2. Schedule of Accounts Receivable (*Appendix 55*)
   3. Registry of Accounts Written-Off (*Appendix 56*)

b. The BTr shall maintain records on loan availments and repayments, grant availments and utilization, and guaranteed loans using its computerized application.

Chapter 8

INVENTORIES

Sec. 1. Scope. This Chapter covers the definition, recognition, measurement, cost formulas to be used and related disclosure requirement in accordance with PPSAS 12 on Inventories. It includes specific guidelines and procedures on acquisition, issue, disposal and impairment of inventory and defines the benchmark for those tangible items not enough to be considered as Property, Plant and Equipment (PPE).

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows: (*Par. 9, PPSAS 12)*

a. *Current Replacement Cost* – is the cost the entity would incur to acquire the asset on the reporting date.

b. *Fair Value* – is the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.

c. *Inventories* are assets:

   1. In the form of materials or supplies to be consumed in the production process (examples: materials and supplies awaiting use in the production process);

   2. In the form of materials or supplies to be consumed or distributed in the rendering of services (examples: office supplies, ammunitions, maintenance materials);

   3. Held for sale or distribution in the ordinary course of operations (examples: merchandise purchased by an entity and held for resale, or land and other property held for sale, agricultural produce); or

   4. In the process of production for sale or distribution (examples: goods purchased or produced for distribution to other parties for no charge or for a nominal charge like educational books produced by a health authority for donation to schools).

d. *Net Realizable Value* – is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. It is the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations**.** (*Pars. 9 & 10, PPSAS 12*)

e. *Perpetual Inventory System – is* a system that continually tracks all additions to and deletions from inventory

Sec. 3. Cost of Inventories. The cost of inventories shall comprise all costs of purchase, costs of conversion (materials, labor and overhead) and other costs incurred in bringing the inventories to their present location and condition, excluding abnormal amounts of wasted materials, labor, other production and selling costs, administrative overheads that do not contribute to bringing inventories to their present location and condition. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase. (*Pars. 18, 19 & 25, PPSAS 12*)

Sec. 4. Measurement. Inventories shall be measured as follows:

a. At the lower of cost and net realizable value. However, where inventories are acquired through a non-exchange transaction, their costs shall be measured at their fair value as at the date of acquisition; (*Pars. 15-16, PPSAS 12*)

b. At the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge; or (*Par. 17, PPSAS 12*)

c. In accordance with PPSAS 27, inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest. (*Par. 29, PPSAS 12*)

Sec. 5. Cost Formulas. The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, shall be assigned by using the specific identification of their individual costs. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the surplus or deficit for the period. (*Par. 32-33, PPSAS 12*)

For interchangeable items, cost is determined using the weighted average cost formula. (*PAG2 and Par. 35, PPSAS 12*)

Sec. 6. Weighted Average Method. The weighted average method shall be used for costing inventories. This method calls for the re-calculation of the average cost of all items in stock after every purchase. Therefore, the weighted average cost is the total cost of all units subsequent to the latest purchase, divided by their total number of units available. The Accounting Division/Unit shall be responsible in computing the cost of inventory on a regular basis as shown in the following sample Supplies Ledger Card (SLC) (*Appendix 57*).

SUPPLIES LEDGER CARD

____
Entity Name

Inventory Item No. : 10404010-003
Description : INK CARTRIDGE
Fund Cluster : (01) Regular Agency
Unit of Measurement : piece
Reorder Point : 3

Date	Reference	Receipt			Issue			Balance			No. of Days to Consume
		Qty.	Unit Cost	Total Cost	Qty.	Unit Cost	Total Cost	Qty.	Unit Cost	Total Cost	
01-01-2015	Beginning Balance							1	1,332.55	1,332.55	
01-10-2015	JEV-01-2015-01-0356	12	1,399.18	16,790.16				13	1,394.05	18,122.71	
01-15-2015	JEV-01-2015-01-0357				10	1,394.05	13,940.50	3	1,394.05	4,182.15	
01-20-2015	JEV-01-2015-01-0358	4	1,539.10	6,156.40				7	1,476.94	10,338.55	
01-23-2015	JEV-01-2015-01-3449				5	1,476.94	7,384.70	2	1,476.94	2,953.88	
02-10-2015	JEV-01-2015-02-5454	8	1,490.00	11,920.00				10	1,487.39	14,873.88	
02-15-2015	JEV-01-2015-02-5668				5	1,487.39	7,436.95	5	1,487.39	7,436.95	

Sec. 7. Recognition as an Expense. When inventories are sold, exchanged, or distributed, their carrying amount shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed or the related service is rendered.

The amount of any write-down to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. Reversal of any write-down of inventories arising from increase in net realizable value shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. (*Par. 44, PPSAS 12*)

Sec. 8. Impairment. An asset is said to be impaired if the cost of inventories held for sale is higher than the net realizable value or the cost of inventories held for distribution or consumption is higher than the current replacement cost. The difference between the cost and net realizable value/current replacement cost shall be recognized as an expense in the financial statement.

Sec. 9. Perpetual Inventory Method. Supplies and materials purchased for inventory purpose shall be recorded using the perpetual inventory system, resulting in a more accurate inventory records and a running total for the cost of goods sold in each period. The system requires accounting records to show the amount of inventory on hand at all times through the maintenance of the SLC *(Appendix 57)* by the Accounting Division/Unit and Stock Card (SC) (*Appendix 58*) by the Supply and/or Property Division/Unit for each item in stock. Regular purchases shall be coursed through the inventory account and issues thereof shall be recorded as they take place except for supplies and materials purchased out of PCF for immediate use or on emergency cases which shall be charged directly to the appropriate expense accounts.

Sec. 10. Semi-expendable Property. Tangible items below the capitalization threshold of ₱15,000 shall be accounted as semi-expendable property. The following policies apply as follows:

a. Semi-expendable property which were recognized as PPE shall be reclassified to the affected accounts.

b. These tangible items shall be recognized as expenses upon issue to the end-user.

Sec. 11. Accountability over Semi-expendable Property. Inventory Custodian Slip (ICS) *(Appendix 59)* shall be issued to end-user of Semi-expendable Property to establish accountability over them. Accountability shall be extinguished upon return of the item to the Property and Supply Division/Unit or in case of loss, upon approval of the relief from property accountability.

Sec. 12. Disclosure and Presentation. 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 in the statement of financial performance in the period;

g. The circumstances or events, such as changed economic circumstances, that led to the reversal of a write-down of inventories; and

h. The carrying amount of inventories pledged as security for liabilities. (*Par. 47, PPSAS 12*)

Sec. 13. Inventory Accounting System. The Inventory Accounting System consists of the system of monitoring, controlling and recording of acquisition and disposal of inventory. The system starts with the receipt of the purchased inventory items. The requesting office in need of the inventory items, after the Property and Supply Division/Unit has determined that the items are not available in stock, shall prepare and cause the approval of the Purchase Request (PR) *(Appendix 60*). Based on the approved PR and after accomplishing all the required procedures adopting a particular mode of procurement, the agency shall issue a duly approved Contract or Purchase Order (PO) *(Appendix 61)*.

Procedures relative to the obligation of allotment to cover the funding requirement of the Contract/PO and payment of the inspected and accepted deliveries are discussed under Chapter 3-Budget Execution, Monitoring and Reporting, and Chapter 6-Disbursements of this Manual.

Physical count/inventory, which is required semi-annually, is an indispensable procedure for checking the integrity of property custodianship.

Sec. 14. Inventory Accounting Sub-Systems. The sub-systems for inventory accounting are as follows:

a. Receipt, Inspection, Acceptance and Recording Deliveries of Inventory Items

b. Requisition and Issue of Inventory Items

c. Transfer and/or Disposal of Inventory Items

Sec. 15. Procedures in the Receipt, Inspection, Acceptance and Recording of Deliveries of Inventory Items

Area of Responsibility	Seq. No.	Activity
		<u>Delivery of Inventory Items</u>
Property and/or Supply Division/Unit		
Property and/or Supply Custodian	1	Signs “Received” portion of the original and Copy 2 of the Delivery Receipt (DR). Files the original and returns Copy 2 of the DR to the Supplier/Procurement Service.

Area of Responsibility	Seq. No.	Activity
	2	Prepares Inspection and Acceptance Report (IAR) *(Appendix 62)* in four (4) copies. Forwards Copies 1-4 of IAR, original of DR, and Copy 2 of approved PO to the Property Inspector for inspection of deliveries.
Inspection Committee Property Inspector	3	Inspects and verifies items as to quantity and conformity to specifications based on the DR and approved PO. If delivery is not in conformity to the specifications or delivery is incomplete, indicates notation on the IAR that the deliveries are not in conformity to specifications and/or terms agreed under the approved PO and returns the Copies 1-4 of IAR, original of DR, and Copy 2 of approved PO to the Property and/or Supply Division/Unit. If delivery is in order, indicates the date of inspection, places "√" in the box for *"Inspected, verified and found in order as to quantity and specifications"*, and signs the "Inspection" portion of the IAR. Retains Copy 2 of IAR and forwards Copies 1, 3 and 4 of IAR, original of DR and Copy 2 of PO to the Property and/or Supply Custodian for acceptance of goods delivered.
Property and/or Supply Division/Unit Property and/or Supply Custodian	4	For deliveries not conforming to specification and/or terms of the PO, receives Copies 1-4 of IAR, original of DR and Copy 2 of PO. Returns the items to the supplier and requires the latter to comply with the agreed specifications and/or terms of the PO. For deliveries in order, indicates the date of acceptance, places "√" in the box for *"Complete as to quantity and specifications"* or *"Partial (pls. specify quantity)"*, and signs the "Acceptance" portion of the IAR. Stores the items delivered for issue to the Requisitioning Office.
	5	Forwards Copy 3 of IAR and photocopy of PO and DR to the Accounting Division/Unit for recording the received/accepted goods and posting to the SLC, and Copy 4 of IAR and copy 2 of PO to the Stock Card Keeper for recording in the SCs. *Note 1* – Distribution of the IAR shall be as follows: *Original* – Property and/or Supply Division/Unit (to be attached to the DV, together with the original DR) *Copy 2* – Inspector/Inspection Committee *Copy 3* – Accounting Division/Unit (attached in setting up of payables) *Copy 4* – Property and/or Supply Division/Unit file

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit		
Receiving/Releasing Staff	6	Records in the logbook the receipt of Copy 3 of IAR and photocopy of PO and DR and forwards to the Accounting Staff concerned for the preparation of JEV.
Accounting Staff	7	Based on Copy 3 of the IAR and photocopy of PO and DR, prepares JEV to recognize the receipt of inventory items in the books of account (GL). Signs the "Prepared by" portion of the JEV and forwards the JEV and SDs to the Chief Accountant/Head of the Accounting Division/Unit for approval.
Chief Accountant/ Head of Accounting Division/Unit	8	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV. Forwards JEV and SDs to Designated Staff for recording in the GJ.
Property and/or Supply Division/Unit		
Property and/or Supply Custodian	9	Prepares DV. Attaches the original IAR, Copy 2 of DR, Original copy of PO and photocopy of PR. Forwards documents to the Accounting Division/Unit for the processing of DV. *Note 2* – For the preparation of DV, refer to Seq. 1, Sec. 12, Chapter 6-Disbursements of this Manual. *Note 3* – For succeeding activities on processing of payment for delivered inventory items and equipment, refer to Sec. 15, Procedures in Recording Obligations, Chapter 3-Budget Execution, Monitoring and Reporting, and Sections 12 and 48, Procedures in Disbursements by Checks/LDDAP-ADA, Chapter 6-Disbursements of this Manual. *Note 4* – For purchases made through the Procurement Service (PS), the DV shall be prepared on the basis of the approved Agency Procurement Request (APR). The payment shall be made directly to the PS.

Area of Responsibility	Seq. No.	Activity
		Maintenance of SLC
Accounting Division/Unit		
SLC Keeper	10	Records receipt of delivered/accepted goods and posts necessary information to the SLC based on the Copy 3 of IAR, copy of PO and DR.

Sec. 16. Procedures in the Requisition and Issue of Inventory Items

Area of Responsibility	Seq. No.	Activity
Requesting Office		
Requesting Personnel	1	Prepares Requisition and Issue Slip (RIS) *(Appendix 63)* in three (3) copies. *Note 1* – The RIS shall be distributed as follows: *Original* – Accounting Division/Unit *Copy 2* – Requesting Office *Copy 3* – Property and/or Supply Division/Unit
	2	Fills up all the necessary information except for the 'Issue' column. Initials in the "Requested by" portion and forwards the RIS to authorized official for review.
Head/Authorized Official	3	Determines the reasonableness of the quantity and nature of item/s being requested and ensures that the same does not exceed the planned usage for the period. Signs the "Approved by" portion of the RIS.
Requesting Personnel	4	Receives signed RIS and forwards to the Property and/or Supply Division/Unit for determination of availability of stocks and/or withdrawal of inventory items requested.
Property and/or Supply Division/Unit		
Property and/or Supply Custodian	5	Receives RIS from Requesting Personnel. Reviews and verifies the completeness of information. Indicates a "√" in the 'Stock Available? Yes' column, if item/s being requisitioned is/are available on stock, or "X" in the 'Stock Available? No' column if not available. If item/s requisitioned is/are available, issues the item/s requisitioned, indicates the quantity issued in the 'Issued-Quantity' column and any remarks in the 'Issued-Remarks' column, and signs the "Issued by" portion. If item/s requisitioned is/are not available, returns the RIS to the Requisitioning Office for the preparation of the PR.

Area of Responsibility	Seq. No.	Activity
Requesting Office		
Requesting Personnel	7	Receives supplies requested and signs in the "Received by" portion of the RIS. *Note 2* – For items not available on stock, prepares the PR (*Appendix 60*) in accordance with the instructions provided at the back of the form.
Property and/or Supply Division/Unit		
Property and/or Supply Custodian	8	Files permanently in numerical order Copy 3 of RIS and temporarily the originals of RIS for the preparation of Report of Supplies and Materials Issued (RSMI) *(Appendix 64)*.
	9	Retrieves the original copies of RIS from temporary file, ensures the completeness of the RIS and prepares the RSMI in two (2) copies at the end of the day.
	10	Signs the "Certified by" portion of the RSMI.
Stock Card Keeper	11	Receives signed RSMI and forwards to the Accounting Division/Unit the original copy of RSMI together with original RIS. Files Copy 2 of RSMI.
Accounting Division/Unit		
Accounting Staff	12	Receives the original copy of RSMI and original RIS. Checks and verifies the completeness of information. Retrieves SLC from file and fills up the "To be filled up in the Accounting Division/Unit" portion of RSMI. Records the RSMI in the SLC and signs in the "Posted by/date" portion.
	13	Prepares JEV in two (2) copies based on the RSMI to record the issue of stock.
	14	Signs the "Prepared by" portion of the JEV and forwards JEV and SDs to the Chief Accountant/Head of the Accounting Division/Unit for review and approval.
Chief Accountant/Head of Accounting Division/Unit	15	Reviews correctness of the accounting entry and completeness of SDs. If in order, signs the "Certified Correct by" portion of the JEV and forwards Copies 1 and 2 of JEV to the Bookkeeper. If not in order, returns the JEV and SDs to the Accounting Staff concerned for correction.
Accounting Staff	17	Receives JEV and SDs for the correction of accounting entry. Returns the JEV and SDs to the Chief Accountant/Head of the Accounting Division/Unit for approval.

Area of Responsibility	Seq. No.	Activity
Bookkeeper	16	Receives signed JEV supported with the RSMI and RIS and records JEV in the GJ. Files copy 2 of JEV. *Note 3* – For succeeding activities, refer to Section on the Preparation and Submission of Trial Balances, Financial Statements and Other Reports in Chapter 19-Financial Reporting of this Manual.

Sec. 17. Records, Forms and Reports to be prepared and/or maintained. The following records, forms and reports are prescribed for use:

b. Stock Card (SC) (*Appendix 58)* – shall be used to record all receipts and issues of supplies and the balance in quantity at any time. It shall be maintained by the Property and/or Supply Division/Unit for each item in stock. The IAR, RIS, PO and DR serve as the original sources of information for making entries on the card.

c. Supplies Ledger Card (SLC) (*Appendix 57)* – shall be used to record materials received, issued and the balance both in quantity and amount at any time. It shall be maintained by the Accounting Division/Unit for each kind of supplies and materials. The IAR, RIS, RSMI, PO and DR serve as the original sources of information for making entries on the card.

d. Requisition and Issue Slip (RIS) (*Appendix 63)* – shall be used by the end-user to request issue of supplies and materials that are carried on stock. It is also used by the Property and/or Supply Division/Unit to indicate availability or non-availability of items requisitioned and/or to record issues of item/s requisitioned.

e. Purchase Request (PR) (*Appendix 60)* – shall be used by the end-user to request for the purchase of inventory or item/s not available on stock. It shall be the basis of preparing the PO.

f. Purchase Order (PO) (*Appendix 61*) – shall be used by the Property and/or Supply Custodian to support the purchase of property, supplies and materials, etc. It shall be issued to the selected supplier indicating, among other information, the specifications, quantities, and agreed prices of property, supplies and materials to be purchased.

g. Report of Supplies and Materials Issued (RSMI) (*Appendix 64)* – shall be prepared by the Property and/or Supply Custodian based on the RIS and shall be used by the Accounting Division/Unit as basis in preparing the JEV to record the supplies and materials issued.

h. Waste Materials Report (WMR) (*Appendix 65)* – shall be used by the Property and/or Supply Custodian to report all waste materials such as destroyed spare parts and other materials considered scrap due to replacement.

i. Report on the Physical Count of Inventories (RPCI) (*Appendix 66*) – shall be used to report the physical count of supplies by type of inventory as at a given date. It shows the balance of inventory items per card and per count and shortage/overage, if any. These include the semi-expendable property wherein the issue is covered by ICS.

j. Inspection and Acceptance Report (IAR) (*Appendix 62)* – shall be used for inspection and acceptance of purchased and delivered property, supplies and materials.

k. Report of Accountability for Accountable Forms (RAAF) (*Appendix 67)* – shall be prepared by the Accountable Officer to report on the movement and status of accountable forms in his/her possession. The accountable forms include those with or without face value.

l. Inventory Custodian Slip (ICS) (*Appendix 59*) – shall be prepared upon issue of semi-expendable property covered by approved RIS.

Sec. 18. Illustrative Accounting Entries. The following are the illustrative accounting entries for transactions involving inventories:

a. Inventory Held for Sale:

Account Title	Account Code	Debit	Credit
Merchandise Inventory	10401010	₱ 1,000	
Cash-Modified Disbursement Systems (MDS), Regular	10104040		₱ 1,000
To recognize purchase of inventories for sale amounting to ₱ 1,000			
Cash-Collecting Officers	10101010	₱ 1,200	
Sales Discounts	40202161	300	
Sales Revenue	40202160		₱ 1,500
To recognize sale of merchandise for ₱ 1,500 at 20% discount			
Cost of Sales	50402010	₱ 1,000	
Merchandise Inventory	10401010		₱ 1,000
To recognize sale of merchandise inventory worth ₱ 1,000			
Sales Revenue	40202160	₱ 1,500	
Revenue and Expense Summary	30301010		₱ 1,500
To close the Revenue accounts to Revenue and Expense Summary account			
Revenue and Expense Summary	30301010	₱ 1,300	
Cost of Sales	50402010		₱ 1,000
Sales Discount	40202161		300
To close the Expense accounts to Revenue and Expense Summary account			
Revenue and Expense Summary	30301010	₱ 1,200	
Accumulated Surplus/(Deficit)	30101010		₱ 1,200
To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

b. Inventory Held for Distribution:

Account Title	Account Code	Debit	Credit
Welfare Goods for Distribution	10402020	₱ 2,000	
Accounts Payable	20101010		₱ 2,000
To recognize the purchase of welfare goods for distribution			

Account Title	Account Code	Debit	Credit
Accounts Payable	20101010	₱ 2,000	
Cash-Modified Disbursement Systems (MDS), Regular	10104040		₱ 2,000
To recognize payment of welfare goods purchased			
Welfare Goods Expenses	50203060	₱ 2,000	
Welfare Goods for Distribution	10402020		₱ 2,000
To recognize the issue/distribution of goods amounting to ₱ 2,000			
Revenue and Expense Summary	30301010	₱ 2,000	
Welfare Goods Expenses	50203060		₱ 2,000
To close the expense account to Revenue and Expense Summary account			
Accumulated Surplus/(Deficit)	30101010	₱ 2,000	
Revenue and Expense Summary	30301010		₱ 2,000
To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

c. Inventory Held for Manufacturing:

Account Title	Account Code	Debit	Credit
Raw Materials Inventory	10403010	₱ 1,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 1,000
To recognize purchase of raw materials worth ₱ 1,000			
Direct Labor	50401010	₱ 500	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 500
To recognize direct labor costs incurred in operations for ₱ 500			
Manufacturing Overhead	50401020	₱ 300	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 300
To recognize applied manufacturing overhead amounting to ₱ 300			
Work-in-Process Inventory	10403020	₱ 1,800	
Raw Materials Inventory	10403010		₱ 1,000
Direct Labor	50401010		500
Manufacturing Overhead	50401020		300
To recognize transfer of raw materials, direct labor and manufacturing overhead to production process amounting to ₱ 1,800			
Finished Goods Inventory	10403030	₱ 1,800	
Work-in-Process Inventory	10403020		₱ 1,800
To recognize transfer of completed units to finished goods worth ₱ 1,800			
Cash-Collecting Officers	10101010	₱ 2,500	
Sales Revenue	40202160		₱ 2,500
To recognize sales revenue of finished goods for ₱2,500			

Account Title	Account Code	Debit	Credit
Cost of Sales	50402010	₽ 1,800	
Finished Goods Inventory	10403030		₽ 1,800
To recognize cost of sales of finished goods inventory worth ₽1,800			
Sales Revenue	40202160	₽ 2,500	
Revenue and Expense Summary	30301010		₽ 2,500
To close the Revenue accounts to Revenue and Expense Summary account			
Revenue and Expense Summary	30301010	₽ 1,800	
Cost of Sales	50402010		₽ 1,800
To close the Expense accounts to Revenue and Expense Summary account			
Revenue and Expense Summary	30301010	₽ 700	
Accumulated Surplus/(Deficit)	30101010		₽ 700
To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

d. Inventory Held for Consumption:

Account Title	Account Code	Debit	Credit
Office Supplies Inventory	10404010	₽ 600	
Accounts Payable	20101010		₽ 600
To recognize purchase of office supplies on account amounting to ₽ 600			
Office Supplies Expenses	50203010	₽ 400	
Office Supplies Inventory	10404010		₽ 400
To recognize issue/consumption of office supplies amounting to ₽ 400			
Revenue and Expense Summary	30301010	₽ 520	
Office Supplies Expenses	50203010		₽ 520
To close the expense accounts to Revenue and Expense Summary account			
Accumulated Surplus/(Deficit)	30101010	₽ 520	
Revenue and Expense Summary	30301010		₽ 520
To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

e. Semi-Expendable Machinery and Equipment:

Account Title	Account Code	Debit	Credit
Semi-Expendable Machinery	10405010	₽ 13,000	
Cash-Modified Disbursement System (MDS), Regular	10401010		₽ 13,000
To recognize purchase of air-conditioning unit amounting to ₽ 13,000			

Account Title	Account Code	Debit	Credit
Semi-Expendable Office Equipment	10405020	₱ 14,500	
Cash-Modified Disbursement System (MDS), Regular	10401010		₱ 14,500
To recognize purchase of printer amounting to ₱ 14,500			
Semi-Expendable Machinery and Equipment Expenses	50203210	₱ 27,500	
Semi-Expendable Machinery	10405010		₱ 13,000
Semi-Expendable Office Equipment	10405020		14,500
To recognize the issue of semi-expendable machinery and office equipment to end-users			
Repairs and Maintenance-Semi-Expendable Machinery and Equipment	50213210	₱4,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱4,000
To recognize repair of the air-conditioning unit two years after purchase			
Revenue and Expense Summary	30301010	₱ 31,500	
Semi-Expendable Machinery and Equipment Expenses	50203210		₱ 27,500
Repairs and Maintenance-Semi-Expendable Machinery and Equipment	50213210		4,000
To close the expense account to Revenue and Expense Summary account			
Accumulated Surplus/(Deficit)	30101010	₱ 31,500	
Revenue and Expense Summary	30301010		₱ 31,500
To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

f. Semi-Expendable Furniture, Fixtures and Books:

Account Title	Account Code	Debit	Credit
Semi-Expendable Furniture and Fixtures	10406010	₱ 10,000	
Cash-Modified Disbursement System (MDS), Regular	10401010		₱ 10,000
To recognize purchase of sofa set amounting to ₱ 10,000			
Semi-Expendable Books	10406020	₱ 12,500	
Cash-Modified Disbursement System (MDS), Regular	10401010		₱ 12,500
To recognize purchase of books amounting to ₱ 12,500			
Semi-Expendable Furniture, Fixtures and Books Expenses	50203220	₱ 22,500	

Account Title	Account Code	Debit	Credit
Semi-Expendable Furniture and Fixtures	10406010		₱ 10,000
Semi-Expendable Books	10406020		₱ 12,500

To recognize the issue of semi-expendable furniture, fixtures and books to end-users

Account Title	Account Code	Debit	Credit
Revenue and Expense Summary	30301010	₱ 22,500	
Semi-Expendable Furniture, Fixtures and Books Expenses	50203220		₱ 22,500

To close the expense account to Revenue and Expense Summary account

Account Title	Account Code	Debit	Credit
Accumulated Surplus/(Deficit)	30101010	₱ 22,500	
Revenue and Expense Summary	30301010		₱ 22,500

To close the Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account

g. Impairment and Reversal of Inventories

1. Inventories Held for Sale:

Assume:

Cost	₱4,000,000
Net Realizable Value*	3,880,000
Impairment Loss	₱ 120,000

*Computation of Net Realizable Value

Estimated Selling Price	₱4,080,000
Less: Estimated cost of disposal	200,000
Net Realizable Value	₱3,880,000

Account Title	Account Code	Debit	Credit
Impairment Loss-Inventories	50503070	₱120,000	
Merchandise Inventory	10401010		₱120,000

To recognize impairment loss of inventories held for sale

2. Inventories Held for Distribution:

Assume:

Inventories	Cost	Current Replacement Cost	Impairment Loss
Office Supplies Inventory	₱2,000,000	₱1,750,000	₱250,000
Welfare Goods for Distribution	1,000,000	850,000	150,000
Total	₱3,000,000	₱2,600,000	₱ 400,000

Account Title	Account Code	Debit	Credit
Impairment Loss-Inventories	50503070	₽400,000	
Office Supplies Inventory	10404010		₽250,000
Welfare Goods for Distribution	10402020		150,000

To recognize impairment loss of Office Supplies Inventory and Welfare Goods for Distribution

3. Inventories Held for Manufacturing:

Account Title	Account Code	Debit	Credit
Impairment Loss-Inventories	50503070	₽ 15,000	
Raw Materials Inventory	10403010		₽ 15,000

To recognize impairment of raw materials inventory at the reporting date – P15,000

Raw Materials Inventory	10403010	₽ 15,000	
Accumulated Surplus/(Deficit)	30101010		₽ 15,000

To recognize the reversal of write-down of Raw Materials Inventory after the reporting date – ₽ 15,000

Chapter 9

INVESTMENT PROPERTY

Sec. 1. Scope. This Chapter provides standards, policies, procedures and guidelines in accounting for investment property (IP) under PPSAS 16, Investment Property. Entities shall apply these policies on IP, including (a) the measurement in a lessee's financial statements of IP interests held under a lease accounted for as a finance lease and (b) the measurement in a lessor's financial statements of IP provided to a lessee under an operating lease.

Sec. 2. Definitions of Terms. The following terms are used in this Chapter with the meanings specified:

a. *Carrying amount* – is the amount at which an asset is presented in the statement of financial position.

b. *Cash Generating Unit* – the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

c. *Cost* – is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

d. *Depreciation* – is the systematic allocation of the depreciable amount of an asset over its useful life.

e. *Impairment* – a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

f. *Investment Property* – is a property (land or buildings-or part of a building-or both) held to earn rentals, or for capital appreciation or both. It is not held for use in the production or supply of goods or services, for administrative purposes, or sale in the ordinary course of business.

g. *Owner-occupied property* – is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

h. *Recoverable amoun*t – is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Sec. 3. Items considered as Investment Property. The following are examples of IP:

a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;

b. Land held for a currently undetermined future use;

c. A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis;

d. A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties;

e. Property that is being constructed or developed for future use as IP; and

f. Significant portion of a property that is held to earn rentals or for capital appreciation rather than to provide services, and insignificant portion that is held for use in the production or supply of goods or services or for administrative purposes.

Sec. 4. Items not considered as Investment Property. The following are not IP:

a. Biological assets related to agricultural activity;

b. Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources;

c. Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;

d. Property being constructed or developed on behalf of third parties;

e. Owner-occupied property, including:

    1. Property held for future use as owner-occupied property;

    2. Property held for future development and subsequent use as owner-occupied property;

    3. Property occupied by employees; or

    4. Owner-occupied property awaiting disposal.

f. Property that is leased to another entity under a finance lease;

g. Property held to provide a social service and which also generates cash inflows;

h. Property held for strategic purposes; and,

i. Property held for use in the production or supply of goods or services or for administrative purposes.

Sec. 5. Criteria for Recognition. IP shall be recognized as an asset when, and only when:

a. It is probable that the future economic benefits or service potential that are associated with the IP will flow to the entity; and

b. The cost or fair value of the IP can be measured reliably.

Sec. 6. Measurement at Initial Recognition. IP shall be measured initially at its cost. Transaction costs shall be included in this initial measurement. Cost includes purchase price and any directly attributable expenditures, such as:

a. Professional fees for legal services;

b. Property transfer taxes; and

c. Other transaction costs.

Costs not included at initial recognition:

a. Start-up costs unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management;

b. Operating losses incurred before the investment property achieves the planned level of occupancy; or

c. Abnormal amounts of wasted materials, labor or other resources incurred in constructing or developing the property.

Sec. 7. Mode of Acquisition of Investment Property. IP can be acquired through cash purchase, non-exchange transaction, construction, exchange of assets and installment.

a. Cash Purchase**.** The cost of a purchased IP consists of the purchase price and all costs directly attributable to its acquisition, such as, professional fees for legal services, property transfer taxes and other transaction costs.

   Example: Entity A purchased a land for capital appreciation at a cash price of ₱1,000,000. Professional fees and transfer taxes totaling to ₱50,000 were also paid. The accounting entry to recognize the purchase shall be as follows:

Account Title	Account Code	Debit	Credit
Investment Property, Land	10501010	₱ 1,050,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 1,050,000
To recognize purchase of land for capital appreciation			

b. Non-exchange Transaction. Where an IP is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. Non-exchange transactions may be through transfer of property at no cost (donation), or by the exercise of powers of sequestration.

   Example: Entity A received an unconditional donation of a piece of land with a fair value of ₱2,000,000. The accounting entry to recognize the receipt of donated land shall be as follows:

Account Title	Account Code	Debit	Credit
Investment Property, Land	10501010	₱ 2,000,000	
Income from Grants and Donations in Kind	40402020		₱ 2,000,000
To recognize receipt of donated land			

c. Self-constructed Property. If an IP is self-constructed, whether by contract or by administration, all costs related to the construction shall be recognized as "Construction in Progress" while it is not completed. Upon completion, these costs shall be transferred to an "Investment Property" account when the criteria for recognition of such are met.

Example: Entity A constructed a building intended to earn rent income. Contract price is ₽11,200,000, inclusive of VAT, payable in two progress billings. Advance payment to contractor is 15% of the contract price while retention fee is 10% of the progress billing.

The following are the illustrative accounting entries:

Account Title	Account Code	Debit	Credit
Advances to Contractors	19902010	₽ 1,680,000	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₽ 1,680,000
To recognize payment of mobilization fee to contractor			
Construction in Progress-			
Buildings and Other Structures	10610030	₽ 5,600,000	
Advances to Contractors	19902010		₽ 1,680,000
Accounts Payable	20101010		3,920,000
To recognize first progress billing – 50% completed (₽11,200,000 x 50% = ₽5,600,000 – ₽1,680,000 = ₽3,920,000)			
Accounts Payable	20101010	₽ 3,920,000	
Guaranty/Security Deposits			
Payable	20401040		₽ 560,000
Due to BIR	20201010		350,000
Cash-Modified Disbursement			
System (MDS), Regular	10104040		3,010,000
To recognize payment for first progress billing			
Cash-Tax Remittance Advice	10104070	₽ 350,000	
Subsidy from National			
Government	40301010		₽ 350,000
To recognize constructive receipt of NCA for TRA			
Due to BIR	20201010	₽ 350,000	
Cash-Tax Remittance Advice	10104070		₽ 350,000
To recognize constructive remittance of withholding tax through TRA			
Construction in Progress-			
Buildings and Other Structures	10610030	₽ 5,600,000	
Accounts Payable	20101010		₽ 5,600,000
To recognize receipt of final progress billing			
Accounts Payable	20101010	₽ 5,600,000	
Guaranty/Security Deposit			
Payable	20401040		₽ 560,000
Due to BIR	20201010		350,000
Cash-Modified Disbursement			
System (MDS), Regular	10104040		4,690,000
To recognize payment of final progress billing			

Account Title	Account Code	Debit	Credit
Cash-Tax Remittance Advice	10104070	₱ 350,000	
Subsidy from National Government	40301010		₱ 350,000
To recognize constructive receipt of NCA for TRA			
Due to BIR	20201010	₱ 350,000	
Cash-Tax Remittance Advice	10104070		₱ 350,000
To recognize constructive remittance of withholding tax through TRA			
Investment Property, Buildings	10501020	₱ 11,200,000	
Construction in Progress-Buildings and Other Structures	10610030		₱ 11,200,000
To recognize IP based on the certificate of acceptance			
Guaranty/Security Deposits Payable	20401040	₱ 1,120,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 1,120,000
To recognize refund of retention fee			

Entity A constructed a building by administration with total costs of ₱1,048,000, consisting of construction materials (inclusive of VAT), labor costs and various overhead expenses amounting to ₱448,000, ₱350,000, and ₱250,000, respectively.

The illustrative accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
Construction Materials Inventory	10404130	₱ 448,000	
Due to BIR	20201010		₱ 24,000
Cash-Modified Disbursement System (MDS), Regular	10104040		424,000
To recognize payment of construction materials amounting to ₱ 448,000			
Construction in Progress-Investment Property, Buildings	10599010	₱ 448,000	
Construction Materials Inventory	10404130		₱ 448,000
To recognize issue of construction materials amounting to ₱ 448,000			
Construction in Progress-Investment Property, Buildings	10599010	₱ 350,000	
Due to BIR	20201010		₱ 35,000
Cash-Modified Disbursement System (MDS), Regular	10104040		315,000
To recognize payment of labor costs amounting to ₱350,000			
Construction in Progress-Investment Property, Buildings	10599010	₱ 250,000	
Water Expenses	50204010		₱ 10,000
Electricity Expenses	50204020		150,000
Salaries and Wages-Regular	50101010		90,000
To recognize payment of overhead expenses amounting to ₱250,000			

Account Title	Account Code	Debit	Credit
Cash-Tax Remittance Advice	10104070	₱ 59,000	
Subsidy from National Government	40301010		₱ 59,000
To recognize constructive receipt of NCA for TRA			
Due to BIR	20201010	₱ 59,000	
Cash-Tax Remittance Advice	10104070		₱ 59,000
To recognize constructive remittance of taxes withheld through TRA			
Investment Property, Buildings	10501020	₱ 1,048,000	
Construction in Progress-Investment Property, Buildings	10599010		₱ 1,048,000
To recognize investment property upon completion of construction			

d. Installment Payment**.** If payment for IP is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

Example: Entity A purchased a land for capital appreciation. Cash price is ₱1,120,000, 50% down payment and the balance is payable in 10 equal annual installments at 10% interest per year.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
Investment Property, Land	10501010	₱ 1,120,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 510,000
Due to BIR	20201010		50,000
Accounts Payable	20101010		560,000
To recognize initial down payment of ₱560,000			
Accounts Payable	20101010	₱ 56,000	
Interest Expenses	50301020	5,600	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 58,100
Due to BIR	20201010		3,500
To recognize payment of first annual installment			
Accounts Payable	20101010	₱ 56,000	
Interest Expenses	50301020	5,600	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 58,100
Due to BIR	20201010		3,500
To recognize payment of second annual installment			

Sec. 8. Measurement after Recognition. After initial recognition, an entity shall use the cost model (*PAG 2, PPSAS 16*) as its accounting policy and this shall be applied to all of its investment property. Under this model, IP shall be measured at cost less any accumulated depreciation and any accumulated impairment losses**.** The depreciation expense and impairment

loss to be recognized shall be computed in the same manner as that for PPE. Refer to Chapter 10-Property, Plant and Equipment for illustrative transactions.

Sec. 9. Transfers To or From Investment Property. Transfers to or from IP shall be made when, and only when, there is a change in use, as evidenced by the following:

a. Commencement of owner-occupation, for a transfer from IP to owner-occupied property;

b. Commencement of development with a view to sale, for a transfer from IP to inventories;

c. End of owner-occupation, for a transfer from owner-occupied property to IP; or

d. Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to IP.

Sec. 10. Transfer from Investment Property to Owner-occupied Property. Consistent with application of cost model in recognizing subsequent measurement of PPE, when an entity converts its IP to owner-occupied property, the latter shall be carried at cost less any accumulated depreciation and any accumulated impairment loss.

Example: On January 1, 2015, Entity A decided to occupy a building currently used as an IP. The building has a cost of ₱20,000,000, original useful life of 10 years, accumulated depreciation of ₱9,500,000, allowance for impairment of ₱500,000, residual value of 5% of the cost and remaining useful life of 5 years.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
January 1, 2015			
Buildings	10604010	₱ 20,000,000	
Accumulated Depreciation-Investment Property, Buildings	10501021	9,500,000	
Accumulated Impairment Losses-Investment Property, Buildings	10501022	500,000	
Accumulated Depreciation-Buildings	10604011		₱ 9,500,000
Accumulated Impairment Losses-Buildings	10604012		500,000
Investment Property, Buildings	10501020		20,000,000
To recognize transfer from IP to owner-occupied property			
January 31, 2015			
Depreciation-Buildings and Other Structures	50501040	₱ 158,333.33	
Accumulated Depreciation-Buildings	10604011		₱ 158,333.33
To recognize depreciation of building for the month of January 2015 (₱ 20,000,000 – 1,000,000/10 x 1/12 = ₱ 158,333.33)			

Sec. 11. Transfer from Investment Property to Inventories. When an entity converts its IP to Inventories, the latter shall be recognized at the carrying amount of the former and shall be measured in accordance with PPSAS 12-Inventories.

Example: On January 1, 2015, Entity A decided to subdivide, develop and sell a land currently held as an IP. The land has a cost of ₱20,000,000.

The accounting entry shall be as follows:

Account Title	Account Code	Debit	Credit
January 1, 2015			
Merchandise Inventory Land/Reclaimed Land-06	10401010	₱ 20,000,000	
Investment Property, Land	10501010		₱ 20,000,000
To recognize transfer from IP to Inventories			

Sec. 12. Transfer from Owner-occupied Property to Investment Property. Consistent with application of cost model in recognizing subsequent measurement of IP, when an entity converts its owner-occupied property to IP, the latter shall be carried at cost less any accumulated depreciation and any accumulated impairment loss.

Example: On January 1, 2015, Entity A decided to lease out an owner-occupied building with a cost of ₱10,000,000, original useful life of 10 years, accumulated depreciation of ₱4,750,000, allowance for impairment of ₱250,000, residual value of 5% and remaining useful life of 5 years.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
January 1, 2015			
Investment Property, Buildings	10501020	₱10,000,000	
Accumulated Depreciation-Buildings	10604011	4,750,000	
Accumulated Impairment Losses-Buildings	10604012	250,000	
Buildings	10604010		₱ 10,000,000
Accumulated Depreciation-Investment Property, Buildings	10501021		4,750,000
Accumulated Impairment Losses-Investment Property, Buildings	10501022		250,000
To recognize transfer from PPE to IP			
January 31, 2015			
Depreciation-Investment Property	50501010	₱ 79,166.67	
Accumulated Depreciation-Investment Property, Buildings	10501021		₱ 79,166.67
To recognize the depreciation of the IP for the month of January 2015			

Sec. 13. Transfer from inventories to investment property. When an entity converts its inventories to IP, the latter shall be recognized at the carrying amount of the former and shall be depreciated over its remaining useful life applying the policies in this Chapter.

Example: A building held for sale in the ordinary course of business is to be leased out by the entity. The building is carried as inventory at a cost of ₱10,000,000 at the time of change in use on June 1, 2015. Residual value is 5% and remaining useful life is 5 years.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
June 1, 2015			
Investment Property, Buildings	10501020	₱ 10,000,000	
Merchandise Inventory	10401010		₱ 10,000,000
To recognize transfer from Merchandise Inventory to IP			
June 30, 2015			
Depreciation-Investment Property	50501010	₱ 158,333.33	
Accumulated Depreciation-Investment Property, Buildings	10501021		₱ 158,333.33
To recognize depreciation of IP for the month of June 2015			

Sec. 14. Derecognition of Investment Property. An IP shall be derecognized on disposal or when the IP is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.

Sec. 15. Gains/Losses. Gains or losses arising from the retirement or disposal of IP shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and shall be recognized in surplus or deficit in the period of the retirement or disposal.

Example: A building held as IP is sold to another entity for ₱5,000,000. It had a cost of ₱4,000,000, accumulated depreciation of ₱500,000 and allowance for impairment of ₱100,000.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱ 5,000,000	
Accumulated Depreciation-Investment Property, Buildings	10501021	500,000	
Accumulated Impairment Losses-Investment Property, Buildings	10501022	100,000	
Investment Property, Buildings	10501020		₱ 4,000,000
Gain on Sale of Investment Property	40501030		1,600,000
To recognize the gain on the disposal of the IP			

Sec. 16. Compensation from third parties. Compensation from third parties for IP that was impaired, lost or given up shall be recognized in surplus or deficit when the compensation becomes receivable.

Example: A building held as IP was razed by fire. It had a cost of ₱4,000,000, accumulated depreciation of ₱500,000 and allowance for impairment of ₱100,000.

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
Loss of Assets	50504090	₱ 3,400,000	
Accumulated Depreciation- Investment Property, Buildings	10502011	500,000	
Accumulated Impairment Losses- Investment Property, Buildings	10502012	100,000	
Investment Property, Buildings	10502010		₱ 4,000,000
To recognize the loss of Investment Property, Buildings			
Due from Government-Owned or Controlled Corporations	10303020	₱ 1,500,000	
Other Service Income	40201990		₱ 1,500,000
To recognize the receivable due from GSIS Insurance Fund			
Cash-Collecting Officers	10101010	₱ 1,500,000	
Due from Government-Owned or Controlled Corporations	10303020		₱ 1,500,000
To recognize collection from GSIS Insurance Fund			
Cash-Treasury/Agency Deposit, Regular	10104010	₱ 1,500,000	
Cash-Collecting Officers	10101010		₱ 1,500,000
To recognize remittance to BTr			

Sec. 17. Impairment of Investment Property. An asset is said to be impaired when its carrying amount in the SFP exceeds its recoverable amount due to fall in market value of an asset. The following policies apply to impairment of an asset:

a. At each reporting date, an entity shall assess whether there is an indication that an asset may be impaired. If an indication of impairment exists, the entity shall estimate the recoverable amount of the asset. In assessing whether there is an impairment of an asset, an entity shall consider, as a minimum, the following indications:

    1. External sources of information:

        i. During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

        ii. Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates, or in the market to which an asset is dedicated;

        iii. Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;

    2. Internal sources of information:

        i. Evidence is available of obsolescence or physical damage of an asset;

ii. Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

iii. A decision to halt the construction of the asset before it is complete or in a usable condition; and

iv. Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected, which includes the existence of:

(a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(b) Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted;

(c) A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or

(d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future. (Par. 25 and 27, PPSAS 26)

b. The computation for impairment loss is shown in the formula below:

Impairment Loss	=	Carrying Amount less Recoverable Amount
Carrying amount	=	Cost less Accumulated Depreciation and Accumulated Impairment Loss
Recoverable Amount	=	Higher of Fair Value less Cost to sell and Value in Use
Value in Use	=	Present Value of the Asset's estimated future cash flows

Estimates of future cash flows shall include:

1. Projections of cash inflows from the continuing use of the asset;

2. Projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

3. Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life. (Par. 52, PPSAS 26)

c. The impairment loss shall be recognized as an expense in the financial statement.

Example:

Investment Property, Buildings (with estimated useful life of 40 years)	₱35,000,000
Accumulated Depreciation (for 25 years)	20,781,250
Carrying Amount	₱14,218,750
Fair Value (net of cost to sell) of Investment Property, Buildings	₱14,150,000
Value in Use	₱13,500,000
Recoverable Amount	₱14,150,000
Computation of impairment loss:	
Carrying Amount	₱14,218,750
Less: Recoverable amount (Fair Value)	14,150,000
Impairment Loss	₱ 68,750

The accounting entry to recognize impairment loss is as follows:

Account Title	Account Code	Debit	Credit
Impairment Loss-Investment Property *Buildings-02*	50503080	₱68,750	
Accumulated Impairment Losses-Investment Property, Buildings	10502012		₱68,750
To recognize impairment loss of the investment property			

d. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life. Depreciation after the recognition of an impairment loss shall be computed as follows:

$$\text{Depreciation Expense} = \frac{\text{Revised Carrying Amount – Residual Value}}{\text{Remaining Estimated Useful Life (in months)}}$$

Example:	Investment Property, Buildings	₱35,000,000
	Less: Accumulated Depreciation (25 years)	20,781,250
	Impairment Loss	68,750
	Revised Carrying Amount	₱14,150,000

$$₱\ 68{,}888.89 = \frac{₱14{,}150{,}000 – ₱1{,}750{,}000}{180 \text{ mos.}}$$

The accounting entry to recognize the adjusted depreciation is as follows:

Account Title	Account Code	Debit	Credit
Depreciation-Investment Property	50501010	₱ 68,888.89	
Accumulated Depreciation-Investment Property, Buildings	10502011		₱ 68,888.89
To recognize monthly depreciation expense after recognition of an impairment loss			

e. If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit). (*Par. 77, PPSAS 26*)

An impairment loss shall be recognized for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized immediately in surplus or deficit. (*Par. 91, PPSAS 26*)

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

1. Its fair value less costs to sell (if determinable);

2. Its value in use (if determinable); and

3. Zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash generating assets of the unit. (*Par. 92, PPSAS 26*)

Sec. 18. Reversal of Impairment Loss. An entity shall assess whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If such indication exists, the entity shall estimate the recoverable amount of that asset.

a. The entity shall consider, at the minimum, the following indications in assessing whether an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased:

   1. External sources of information:

      i. The asset's market value has increased significantly during the period;

      ii. Significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic, or legal environment in which the entity operates or in the market to which the asset is dedicated; and

      iii. Market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

   2. Internal sources of information:

      i. Significant changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or the manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs;

A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and

ii. Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

b. If the impairment loss recognized for an asset no longer exists or may have decreased, this indicates that the remaining useful life, the depreciation method or the residual value may need to be reviewed and adjusted even if no impairment loss is reversed for the asset.

c. An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

d. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

e. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit.

   The following are the procedures in recognizing reversal of impairment loss:

   1. Determine the recoverable amount, which is the higher between the fair value less cost to sell and the value in use, of the investment property.

   2. Compare the recoverable amount with the carrying amount (net of accumulated depreciation and accumulated impairment losses) as at the reporting period. If the recoverable amount is higher than the carrying amount, the difference is the estimated reversal of previously recognized impairment loss or a portion thereof. On the other hand, if the recoverable amount is equal to or lower than the carrying amount, no reversal shall be recognized.

   3. Compute the carrying amount (net of accumulated depreciation) had no impairment loss been recognized in prior periods.

   4. Compare the carrying amount (net of accumulated depreciation and accumulated impairment losses) with the carrying amount (net of accumulated depreciation) had no impairment loss been recognized in prior periods. If the former is lesser than the latter, the difference is compared with the estimated reversal computed in (2).

   5. The amount of reversal of the impairment loss is the lower of the difference between the two carrying amounts referred to in (4) and the estimated reversal in (2).

Example of Reversal of Impairment Loss:

Step	Assumptions and Computations	Amount
	Investment Property, Buildings	₱35,000,000.00
	Less: Accumulated Depreciation, Investment Property, Buildings (27 years)	
	Accumulated Depreciation (25 years) ₱20,781,250.00	
	Accumulated Depreciation (2 years) (68,055.56 x 24 months) 1,653,333.33	22,434,583.33
	Accumulated Impairment Losses	68,750.00
	Revised Carrying Amount, December 31 (27th year)	₱ 12,496,666.67
1	Assume on December 31 of the 27th year:	
	Fair value less cost to sell	₱ 13,000,000.00
	Value in Use (present value of future cash flows)	₱ 12,700,000.00
	Recoverable Amount	₱ 13,000,000.00
2	Computation of the estimated reversal of impairment loss:	
	Recoverable Amount	₱ 13,000,000.00
	Carrying Amount with impairment loss, December 31 (27th year)	12,496,666.67
	Estimated Reversal	₱ 503,333.33
3	Computation of the Carrying Amount as if no impairment loss is recognized:	
	Cost of Investment Property, Buildings	₱35,000,000.00
	Less: Accumulated Depreciation-Investment Property, Buildings (for 27 years)	22,443,750.00
	Carrying Amount had no impairment loss been recognized in prior years	₱12,556,250.00
4	Computation of the difference between the two carrying amounts:	
	Carrying Amount had no impairment loss been recognized in prior years	₱ 12,556,250.00
	Carrying Amount with impairment	12,496,666.67
	Difference	₱ 59,583.33
5	Comparison between the estimated reversal in Step 2 and the difference in Step 4	
	Estimated Reversal	₱ 503,333.33
	Difference	₱ 59,583.33
	The amount of reversal of the impairment loss is the lower of the two amounts.	₱ 59,583.33

The accounting entry to recognize reversal of impairment loss recognized in previous year:

Account Title	Account Code	Debit	Credit
Accumulated Impairment Losses- Investment Property, Buildings	10502012	₽ 59,583.33	
Reversal of Impairment Losses	40602010		₽ 59,583.33
To recognize reversal of impairment loss			

Example of No Reversal of Impairment Loss:

Step	Assumptions and Computations	Amount
1	Assume on December 31 of the 27th year:	
	Fair value less cost to sell	₽ 12,000,000.00
	Value in Use (present value of future cash flows)	₽ 10,000,000.00
	Recoverable Amount	₽ 12,000,000.00

2	Computation of the estimated reversal of impairment loss:	
	Recoverable Amount	₽ 12,000,000.00
	Carrying Amount with impairment loss, December 31 (27th year)	12,496,666.67
	Difference	(₽ 496,666.67)
	Note: No reversal of impairment loss shall be recognized.	

f. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

g. A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized immediately in surplus or deficit. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit. (*Par. 110, PPSAS 26*)

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:

1. Its recoverable amount (if determinable); and

2. The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit. (*Par. 111, PPSAS 26*)

Sec. 19. Accounting Records to be Prepared and Maintained. The Accounting Division/Unit shall record promptly the acquisition, description, estimated life, depreciation, impairment loss, disposal, and other information for each class of IP in the Investment Property Ledger Card (IPLC) (*Appendix 68*). The IPLC shall be reconciled with the inventory of the asset and the control accounts and any discrepancies shall be immediately verified and adjusted.

Sec. 20. Disclosures. An entity shall disclose:

a. That it applies the cost model;

b. When classification is difficult, the criteria it uses to distinguish IP from owner-occupied property and from property held for sale in the ordinary course of operations;

c. The amounts recognized in surplus or deficit for:

    1. Rental revenue from IP;

    2. Direct operating expenses (including repairs and maintenance) arising from IP that generated rental revenue during the period; and

    3. Direct operating expenses (including repairs and maintenance) arising from IP that did not generate rental revenue during the period.

d. The existence and amounts of restrictions on the realizability of IP or the remittance of revenue and proceeds of disposal;

e. Contractual obligations to purchase, construct or develop IP or for repairs, maintenance, or enhancements;

f. The depreciation methods used;

g. The useful lives or the depreciation rates used;

h. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

i. The reconciliation of the carrying amount of IP at the beginning and end of the period, showing the following:

    1. Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

    2. Additions resulting from acquisitions through entity combinations;

    3. Disposals;

    4. Depreciation;

    5. The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with PPSAS 21 or PPSAS 26, as appropriate;

    6. The net exchange differences arising on the translation of the financial statement into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

7. Transfers to and from inventories and owner-occupied property; and

8. Other changes.

Sec. 21. Procedures in Recording Investment Property. The procedures in recording investment property are as follows:

Area of Responsibility	Seq. No.	Activity
		Acquisition of IP
Property and/or Supply Division/Unit	1	***Cash purchase/Installment payment*** Follow the same procedures as prescribed under Sec. 46, Chapter VI – Disbursements. Assigns property number on the IP and indicates the same on the IAR. Forwards the IAR to the Accounting Division/Unit.
	2	***Self-construction of IP (by administration or by contract)*** Follow the same procedures as prescribed under Sec. 46-47, Chapter 10 – Property, Plant and Equipment. Assigns property number on the IP and indicates the same on the Certificate of Acceptance (CAc). Forwards the CAc to the Accounting Division/Unit.
Accounting Division/Unit	3	***Initial Recognition*** Based on the supporting documents, prepare JEV to recognize the IP in the books of accounts (GJ, GL and IPLC).
Cash/Treasury Unit	4	***Generation of Income*** Issues OR for the rent income. Follows the same procedures as prescribed under Sec. 43 - Procedures on Collections and Deposits, Chapter V – Revenue and Other Receipts.
Accounting Division/Unit	5	***Depreciation*** Prepares JEV to recognize the monthly depreciation in the books of accounts (GJ, GL and IPLC).
	6	***Impairment Loss, if applicable*** Prepares JEV to recognize impairment loss, if applicable, in the books of accounts (GJ, GL and IPLC).

Area of Responsibility	Seq. No.	Activity
	7	***<u>Reversal of Impairment Loss, if applicable</u>*** Prepares JEV to recognize reversal of impairment loss, if applicable, in the books of accounts (GJ, GL and IPLC).
	8	***<u>Disposal</u>*** *Sale of IP held for capital appreciation* Upon sale of IP, prepares JEV to derecognize the IP and recognize the gain/loss in the books of accounts (GJ, GL and IPLC) based on SDs.

Chapter 10

PROPERTY, PLANT AND EQUIPMENT

Sec. 1. Scope. This Chapter covers accounting for Property, Plant and Equipment (PPE) which includes land; land improvements; buildings and other structures; machinery and equipment; transportation equipment; furniture, fixtures and books; leasehold improvements; and other PPE including specialist military equipment, infrastructure assets, and heritage assets. It also, covers accounting treatment, recognition, measurement, derecognition to ensure that all PPEs are properly valued and recorded, and the disclosure requirements in reporting PPE.

Sec. 2. Definition of Terms. When used in this Manual, the following terms shall mean:

a. *Carrying Amount* – is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

b. *Cost* – is the amount of cash or cash equivalents paid and the fair value (FV) of the other consideration given to acquire an asset at the time of its acquisition or construction.

c. *Depreciation* – is the systematic allocation of the depreciable amount of an asset over its useful life.

d. *Depreciable Amount* – is the cost of an asset, or other amount substituted for cost, less its residual value.

e. *Entity-specific Value* – is the present value (PV) of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

f. *Exchange Transactions* – are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

g. *Fair Value* – is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

h. *Impairment Loss of a Cash-generating Asset* – is the amount by which the carrying amount of an asset exceeds its recoverable amount.

i. *Impairment Loss of a Non Cash-generating Asset* – is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

j. *Non-exchange Transactions* – are transaction where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

k. *Property, Plant and Equipment* – are tangible assets that are:

   1. purchased, constructed, developed or otherwise acquired;

2. held for use in the production or supply of goods or services or to produce program outputs;
3. for rental to others;
4. for administrative purposes;
5. expected to be used during more than one reporting period; and
6. not intended for resale in the ordinary course of operations.

l. *Residual Value* – is the equivalent to at least five percent (5%) of the cost of an asset that the entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life, unless a more appropriate percentage is determined by an entity based on their operation.

m. *Recoverable Service Amount* – is the higher of a non cash-generating asset's fair value less costs to sell and its value in use.

n. *Useful Life* – is the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from the asset by an entity.

o. *Value in use of a cash generating asset* – the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

p. *Value in use of a non-cash generating asset* – the present value of the asset's remaining service potential.

Sec. 3. Criteria for Recognition. The cost of an item of PPE shall be recognized as assets if, and only if:

a. it is probable that the future economic benefits or service potential associated with the item will flow to the entity;

b. the cost or fair value of the item can be measured reliably;

c. beneficial ownership and control clearly rest with the government;

d. the asset is used to achieve government objectives; and

e. it meets the capitalization threshold of ₱15,000.

Under this recognition principle, an entity shall evaluate all its PPE costs at the time they are incurred. These costs include cost incurred initially to acquire or construct an item of PPE and costs incurred subsequently to add to, replace part of, or service the PPE.

Sec. 4. Applying the Capitalization Threshold of ₱15,000. The capitalization threshold of ₱15,000 represents the minimum cost of an individual asset recognized as a PPE on the Statement of Financial Position.

a. Items with individual values below the threshold but which work together in the form of a group of network asset whose total value exceeds the threshold shall be recognized as part of the primary PPE. (Example: computer network, PABX system, sewerage system).

Expenditures incurred on purchasing, developing, and operating hardware, like web servers, staging servers, production servers and internet connections of a website is accounted for as PPE if the total value of the primary asset (communications networks) and these items is within the threshold of ₱15,000 and above.

b. This threshold shall be applied on an individual asset or per item basis. Each item within the bulk acquisition with aggregate or total value of PPE, such as library books, computer peripherals and small items of equipment, will need to meet the capitalization threshold to be recognized as PPE.

Sec. 5. Measurement at Recognition. PPE that qualifies for recognition as an asset shall be measured at cost. However, where the PPE is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. The cost of an item of PPE comprises: (*Pars. 30 and 31, PPSAS 17*)

a. Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

b. Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples of directly attributable costs are:

    1. Costs of employee benefits arising directly from the construction or acquisition of the item of PPE;

       This shall be limited to salaries and benefits of employees directly involved in the project delivery (example: project management or construction)

    2. Costs of site preparation;

    3. Initial delivery and handling costs;

    4. Installation and assembly costs;

    5. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

    6. Professional fees.

c. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

   These costs may be incurred as a result of a contract. When such costs can be reasonably estimated, they shall be accrued (net of expected recoveries), as part of the capital asset and amortized over its useful life.

   The provision for future site restoration costs is to be recognized as a liability until the future site restoration takes place. Example, when an entity constructs an asset on leased land, with the condition that it restores the site to its original condition at the end of the lease term. In this case, an estimate of the cost of demolishing the asset and cleaning-up the site shall be capitalized as part of the cost of the asset and amortized to expense at the same rate as the asset. The rationale behind this accounting treatment is that the site restoration costs linked to the use of the asset and hence shall be recognized over the years of use rather than at the time the restoration work is performed.

Where future site restoration costs are expected to be significant but cannot be reasonably estimated, a contingent liability shall be reported in accordance with PPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.

Computation of cost of PPE with Dismantling Cost

Example: The East Avenue Medical Center purchased medical equipment, with estimated useful life of five years, on January 2, 2014 with the following data:

Purchase price	₱1,000,000
Delivery cost	15,000
Dismantling cost at the end of five-year useful life	80,000

Computation of Cost:

Purchase price	₱1,000,000
Delivery cost	15,000
PV of Dismantling Cost (₱80,000 x 0.62092[1])	49,674
Total Cost	₱1,064,674

[1] – assumed: average borrowing rate at the time of acquisition is 10% (0.62092 is the PV factor of 1)

Computation of Interest Expense:

Year	Computation of Interest	Initial Cost	Interest	Carrying Amount
Year 1	₱ 49,674 x 10%	₱ 49,674	₱ 4,967	₱ 54,641
Year 2	54,641 x 10%		5,464	60,105
Year 3	60,105 x 10%		6,011	66,116
Year 4	66,116 x 10%		6,612	72,728
Year 5			7,272	80,000

Computation of Depreciation Expense:

Residual Value = ₱1,015,000 x 5% = ₱50,750

Note: PV of dismantling cost shall not be included in the computation of residual value

$$\text{Depreciation Expense} = \frac{₱1{,}064{,}674 - ₱50{,}750}{5 \text{ years}} = ₱202{,}785$$

The accounting entries to recognize the medical equipment shall be as follows:

Account Title	Account Code	Debit	Credit
January 2, 2014			
Medical Equipment	10605110	₱ 1,064,674	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 1,015,000
Other Provisions	20601990		49,674
To recognize cash purchase of medical equipment			

Account Title	Account Code	Debit	Credit
1st year – 2014 (Dec. 2014)			
Depreciation-Machinery and Equipment	50501050	₱ 202,785	
Accumulated Depreciation-Medical Equipment	10605111		₱ 202,785
To recognize the depreciation for the year			
1st year – 2014 (Dec. 2014)			
Interest Expenses	50301020	₱ 4,967	
Other Provisions	20601990		₱ 4,967
To recognize the finance charges corresponding to the provisions for the year			

Items of PPE may be required under existing laws, rules and regulations for safety or environmental reasons. The acquisition of such PPE, although not directly increasing the future economic benefits of or service potential of any particular existing item of PPE, may be necessary for the entity to obtain the future economic benefits or service potential from its other assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment as Non-Cash Generating Asset.

Sec. 6. Costs not qualified for recognition as PPE. The following are examples of costs that are expensed rather than recognized as elements of cost of a PPE: (*Par. 33, PPSAS 17*)

a. Costs of opening a new facility;

b. Costs of introducing a new product or service (including costs of advertising and promotional activities);

c. Costs of conducting business in a new location or with a new class of customers (including costs of staff training); and

d. Administration and other general overhead costs.

Sec. 7. Modes of Acquisition of PPE. Acquisition is the process through which one entity gains possession or takes over the ownership of a particular PPE. The different modes of acquiring PPE includes purchase, construction, exchange transaction, non-exchange transaction, transfer and finance lease.

Sec. 8. Purchase of PPE. PPE acquired through purchase are charged against appropriations/allotments or special budget for capital outlay. PPE can be purchased on cash basis, on account, on installment basis, with promotional items, and at a lump sum price.

a. On Cash Basis. PPE acquired through cash purchase shall initially be recognized at cost which includes cash paid plus all costs incurred in bringing the asset to the location necessary for its intended use such as delivery, installation costs, etc. These are recognized in the books of accounts as PPE after inspection and acceptance of delivery.

   Example: An entity purchased a photocopying machine with the following costs:

Total cost:	
Invoice price	₱45,000
Delivery cost	3,000

Installation cost	1,500
Test run cost	1,000
Total	50,500
Less: Withholding Tax	3,140
Net Amount Paid	₱37,460

The accounting entries to recognize the photocopying machine shall be as follows:

Account Title	Account Code	Debit	Credit
Office Equipment	10605020	₱50,500	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱37,460
Due to BIR	20201010		3,140
To recognize cash purchase of office equipment			

Note: Refer to Chapter 22-Illustrative Entries of this Manual for the constructive receipt of NCA for TRA and remittance to BTr

b. On Account. When an asset is acquired on account subject to a cash discount, the cost of the asset is equal to the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

Example: An entity purchased a threshing machine on account at ₱200,000, with credit terms of 2/10, n/30.

The accounting entries to recognize the machine shall be as follows:

Account Title	Account Code	Debit	Credit
Agricultural and Forestry Equipment	10605040	₱196,000	
Accounts Payable	20101010		₱196,000
To recognize purchase of machinery on account			
Accounts Payable	20101010	₱196,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱184,240
Due to BIR	20201010		11,760
To recognize payment of machinery within the discount period			
Accounts Payable	20101010	₱196,000	
Other Losses	50504990	4,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱188,240
Due to BIR	20201010		11,760
To recognize payment of machinery beyond the discount period			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Note: The cost of the asset is the invoice price minus the discount regardless of whether the discount is taken or not. Cash discounts are generally considered as reduction of cost and not as income. If the discount is not taken, it shall be recognized as Other Losses.

c. On Installment Basis. The cost of an item of PPE is the cash price equivalent or its fair value at the recognition date. However, if acquired through installment and payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is capitalized as allowed in PPSAS 5, Borrowing Cost.

Example: An entity purchased a bulldozer at an installment price of ₱3,000,000. The terms are ₱500,000 down payment and the balance is payable in four equal annual installments. The cash price of the heavy equipment is ₱2,700,000. The purchase shall be recognized as follows:

Account Title	Account Code	Debit	Credit
Construction and Heavy Equipment	10605080	₱2,700,000	
Accounts Payable	20101010		₱2,200,000
Cash-Modified Disbursement System (MDS), Regular	10104040		355,359
Due to BIR	20201010		144,641
To recognize the purchase and initial payment for the bulldozer acquired on installment basis			

Note: Refer to Chapter 22 – Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Accounts Payable	20101010	₱550,000	
Interest Expenses	50301020	75,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 625,000
To recognize the first installment payment and corresponding interest			

d. Purchase with promotional items. If promotional items are received upon purchase of the PPE, the allocation of cost for the promo items received shall be as follows:

1. If the promotional item received is the same as the PPE purchased, the total purchase cost shall be allocated to the total quantity purchased plus the promotional item.

Example: An entity purchased 10 units of motor vehicles at ₱330,000 per unit totaling ₱3,300,000. An additional unit was received as promotional item. Computation of the cost per unit is ₱3,300,000/11 units = ₱300,000.

The journal entry to recognize the motor vehicles are as follows:

Account Title	Account Code	Debit	Credit
Motor Vehicles	10606010	₱ 3,300,000	
Accounts Payable	20101010		₱ 3,300,000
To recognize the purchase of 11 units of motor vehicles at ₱300,000/unit			
Accounts Payable	20101010	₱3,300,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 3,102,000.00
Due to BIR	20201010		198,000.00
To recognize the payment of 11 units of motor vehicles at ₱300,000/unit			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

e. If the promotional item received is different from the PPE purchased, the cost of the promo item shall be its fair value. It shall be deducted from the total cost of the items purchased and the balance shall be allocated to the total quantity purchased.

Example: An entity purchased a motor vehicle at ₱330,000. A window-type air conditioning unit with fair value of ₱20,000 was received as promotional item. Computation of the cost of motor vehicle is ₱330,000 – ₱20,000 = ₱310,000. The journal entry to recognize the motor vehicles are as follows:

Account Title	Account Code	Debit	Credit
Motor Vehicles	10606010	₱310,000	
Accounts Payable	20101010		₱310,000
To recognize the purchase of motor vehicles at ₱310,000			
Office Equipment	10605020	₱20,000	
Accounts Payable	20101010		₱20,000
To recognize the receipt of window-type air conditioning unit as promo item			
Accounts Payable	20101010	₱330,000.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱310,200
Due to BIR	20201010		19,800
To recognize the payment of accounts payable			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

f. At a lump sum price. In case the acquisition of PPE is at a "lump sum price", the cost shall be apportioned to the asset acquired in order to have proper basis for computing depreciation. The purchase cost shall be distributed based on the relative fair value of the assets acquired.

Example: An entity purchased a land and building in cash at a single cost of ₱4,400,000. The land and building have fair values of ₱1,000,000 and ₱3,000,000, respectively, at the time of acquisition. The cost shall be allocated as follows:

Property	Fair Value	Fraction	Allocated Cost
Land	₱1,000,000	¼	₱1,100,000.00
Building	3,000,000	¾	3,300,000.00
	₱4,000,000		4,400,000.00
Less: Withholding Tax			220,000.00
Net Amount Paid			₱4,180,000.00

The accounting entry to recognize the land and building shall be as follows:

Account Title	Account Code	Debit	Credit
Land	10601010	₱1,100,000.00	
Buildings	10604010	3,300,000.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱4,180,000

Account Title	Account Code	Debit	Credit
Due to BIR	20201010		220,000

To recognize cash purchase of land and building at proportionate cost based on relative fair values of the property

Note: Refer to Chapter 22 – Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

The cost of several PPE purchased at lump sum price per set/group/lot shall be allocated to each PPE based on the breakdown of cost reflected in the invoice, if any. In the absence of such breakdown, the allocation of cost shall be based on the relative fair value of the assets acquired.

Example: An entity purchased a computer set with printer, table and chair at a lump sum price of ₱55,000. The invoice reflected the following cost component:

PPE Acquired	Invoice Cost
Computer (CPU, Monitor, Keyboard and Mouse)	₱48,000.00
Printer	3,500.00
Computer Table	2,500.00
Computer Chair	1,000.00
Total Cost	55,000.00
Less: Withholding Tax	3,300
Net Amount Paid	₱ 51,700

The purchase shall be recognized as follows:

Account Title	Account Code	Debit	Credit
Information and Communications Technology Equipment	10605030	₱ 48,000.00	
Semi-Expendable Information and Communications Technology Equipment	10405030	3,500.00	
Semi-Expendable Furniture and Fixtures	10406010	3,500.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 51,700
Due to BIR	20201010		3,300

To recognize the purchase of computer set with printer, table and chair

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

g. Construction of PPE. During the construction period, all expenses incurred in relation to the construction of the PPE shall be taken up in the books as Construction in Progress (CIP) with the appropriate asset classification. As soon as the construction is completed, the "Construction in Progress" account shall be reclassified to the proper asset account. Likewise, all expenses such as interests, license fees, etc., during the construction period shall be capitalized.

However, where loans intended for the construction of infrastructure projects that were contracted by the NG and recorded in the BTr, borrowing cost shall not be capitalized. Instead, the interest on loans shall be recognized as expenses in the NG books of the BTr.

For loans borrowed directly by the NGAs, the allowed alternative treatment discussed in Sec. 5, Chapter 17-Borrowing Costs, this Manual shall be used. At the end of the project, any PPE acquired and used in the construction shall be reclassified to the appropriate PPE account based on the depreciated cost. Such cost shall be deducted from the cost of completed/constructed PPE.

If the project is to be constructed by administration, the procurement of labor and materials shall be in compliance with the provisions of R.A. No. 9184 and its Revised Implementing Rules and Regulations. If by job order contracts, refer to relevant COA and CSC rules and regulations.

1. Illustrative accounting entries for construction undertaken by contract:

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱75,000	
Guaranty/Security Deposits Payable	20401040		₱75,000
To recognize receipt of cash from the contractor paid as performance bond			
Cash-Treasury/Agency Deposit, Trust	10104030	₱75,000	
Cash-Collecting Officers	10101010		₱75,000
To recognize deposit of (cash) performance bond to BTr through AGDB			
Advances to Contractors	19902010	₱120,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱120,000
To recognize payment of 15% of contract amount as advances to contractor (₱800,000 x 15%)			
Construction in Progress-Buildings and Other Structures	10699030	₱400,000	
Accounts Payable	20101010		₱340,000
Advances to Contractors	19902010		60,000
To recognize payable based on the first progress billing on the construction of building			

Computation:

50% of ₱800,000	₱400,000
Less: Recoupment of advances to contractors (50% of ₱120,000)	60,000
Net Amount	₱ 340,000

Account Title	Account Code	Debit	Credit
Accounts Payable	20101010	₱ 340,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 282,200
Guaranty/Security Deposits Payable	20401040		34,000
Due to BIR	20201010		23,800
To recognize payment of payable based on the first progress billing on the construction of building			

Computation:

Accounts Payable		₱340,000
Less: 10% Retention	34,000	
Withholding Tax	23,800	57,800
Net Amount		₱282,200

Account Title	Account Code	Debit	Credit
Construction in Progress-Buildings and Other Structures	10699030	₱400,000	
Accounts Payable	20101010		₱340,000
Advances to Contractors	19902010		60,000
To recognize the payable based on the final billing on the construction of building			

Computation:

50% of ₱800,000	₱400,000
Recoupment of advances to contractors	(60,000)
Liquidated damages for delayed completion	(8,000)
Amount Due	₱332,000

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱8,000	
Miscellaneous Income	40609990		₱8,000
To recognize collection of liquidated damages (1/10 of 1% of the contract)			
Accounts Payable	20101010	₱340,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱282,200
Guaranty/Security Deposits Payable	20401040		34,000
Due to BIR	20201010		23,800
To recognize payment of final billing			

Computation:

Accounts Payable		₱340,000
Less: 10% Retention	34,000	
Withholding Tax	23,800	57,800
Net Amount		₱282,200

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Account Title	Account Code	Debit	Credit
Buildings	10604010	₱800,000	
Construction in Progress-Buildings and Other Structures	10699030		₱800,000
To recognize turn-over and acceptance of building-contract amount			
Guaranty/Security Deposits Payable	20401040	₱ 75,000	
Cash-Modified Disbursement System (MDS), Trust	10104060		₱ 75,000
To recognize return of performance bond			
Guaranty/Security Deposits Payable	20401040	₱68,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 68,000
To recognize release of retention fee			

2. Illustrative accounting entries for construction by administration:

Account Title	Account Code	Debit	Credit
Construction Materials Inventory	10404130	₱ 250,000	
Accounts Payable	20101010		₱ 250,000
To recognize the delivery and acceptance of construction materials with charge invoice			
Accounts Payable	20101010	₱ 250,000.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱236,607.14
Due to BIR	20201010		13,392.86
To recognize payment for construction materials delivered			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Account Title	Account Code	Debit	Credit
Construction in Progress-Building and Other Structures	10699030	₱ 250,000	
Construction Materials Inventory	10404130		₱ 250,000
To recognize issue of construction materials			
Construction in Progress-Building and Other Structures	10699030	₱ 56,000	
Accounts Payable	20101010		₱ 56,000
To setup liability for labor payroll			
Advances to Special Disbursing Officers	19901030	₱ 50,400	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 50,400
To recognize cash advance granted to disbursing officer for payment of labor payroll			
Accounts Payable	20101010	₱ 56,000	
Advances to Special Disbursing Officers	19901030		₱ 50,400
Due to BIR	20201010		5,600
To recognize liquidation of advances made by the disbursing officer			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Account Title	Account Code	Debit	Credit
Other Infrastructure Assets	10603990	₱ 306,000	
Construction in Progress-Building and Other Structures	10699030		₱ 306,000
To transfer CIP account to PPE account upon completion of the project			

Sec. 9. Exchange Transactions. One or more items of PPE may be acquired in exchange for a non-monetary assets, or a combination of monetary and non-monetary assets. The cost of such an item of PPE is measured at its fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. However, if the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. Recognition of costs in the carrying amount of an item of PPE ceases when the item is in the location and condition necessary for it to

be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. The following costs are not included in the carrying amount of an item of PPE:

a. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

b. Initial operating losses, such as those incurred while demand for the item's output builds up; and

c. Costs of relocating or reorganizing part or all of the entity's operations

Sec. 10. Types of Exchange Transactions. The types of exchange transaction are exchange with commercial substance and exchange without commercial substance.

a. Exchange with Commercial Substance. An exchange transaction has commercial substance by considering the extent to which its future cash flows or service potentials is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

1. The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

2. The entity-specific value of the portion of the entity's operations affected by the transaction changes as the result of the exchange; and

3. The difference in (a) or (b) is significant relative to the fair value of the asset exchanged.

b. Exchange without Commercial Substance. If the PPE acquired in an exchange transaction lacks commercial substance, the cost is measured at the carrying amount of the asset given up. Consequently, no gain or loss shall be recognized.

Example: If the fair value of the car received cannot be measured, the carrying amount of the old truck given up of ₱250,000 shall be used. The accounting entry shall be as follows:

Account Title	Account Code	Debit	Credit
Accumulated Depreciation-Motor Vehicles	10606011	₱ 750,000	
Motor Vehicles	10606010	250,000	
Motor Vehicles	10606010		₱ 1,000,000

To derecognize the old truck given up and recognize the new car received at the carrying amount of the old truck (Cost = ₱ 1,000,000; Acc. Dep. = ₱ 750,000)

Sec. 11. Non-exchange Transaction. PPE acquired through a non-exchange transaction, such as donation, presidential proclamation, taxes, transfers and grants, its cost shall be measured at its fair value as at the date of acquisition. However, this does not constitute revaluation. If the fair value cannot be determined, the asset shall be recorded at a nominal value (the value that is stated on currency or face value).

Sec. 12. Donation without Condition. Cost of PPE acquired through donation without condition shall be taken up at its fair value at the date it is acquired. All expenses incurred in connection with the donated asset, such as delivery and installation costs, shall be included in the amount recognized as asset. The fair value of the PPE shall be recognized as "Income from Grants and Donations in Kind."

Example: A bus was donated to Entity A with a fair value of ₱1,000,000. Duties and taxes paid were ₱10,000; thus, the total cost amounted to ₱1,010,000. The donation received shall be recognized as follows:

Account Title	Account Code	Debit	Credit
Motor Vehicles	10606010	₱1,010,000	
Income from Grants and Donations in Kind	40402020		₱1,000,000
Cash-Modified Disbursement System (MDS), Regular	10104040		10,000
To recognize donations in kind received and duties and taxes paid			

Sec. 13. Donation with Condition. Where a PPE is acquired through donation with conditions or restrictions, a liability account shall be recognized until the conditions or restrictions have been fulfilled.

Example: A land was donated to Entity A with a condition that a school building will be constructed to operate as an elementary school for 20 years. The land has a fair value of ₱950,000 at the time of donation. The building has a residual value of 5% and an estimated useful life of 20 years. Building was available for use on June 1, 2014. The accounting entries to recognize the donation and building constructed shall be as follows:

Account Title	Account Code	Debit	Credit
Land	10601010	₱950,000	
Other Deferred Credits	20501990		₱950,000
To recognize the fair value of the land received as donations (Provide SL)			

Assume that the school building constructed by administration costing ₱600,000 has been inspected and accepted by Entity A. (*Note*: Assume that the transactions on the construction of the building were already recognized.)

Account Title	Account Code	Debit	Credit
School Buildings	10604020	₱600,000	
Construction in Progress-Buildings and Other Structures	10699030		₱600,000
To recognize the school building constructed and completed			

The monthly depreciation shall be computed as follows:

Cost less estimated residual value (5%) divided by estimated useful life in months (20 years x 12 mos.). The monthly depreciation shall be (₱600,000 - ₱30,000)/240 = ₱2,375.

Account Title	Account Code	Debit	Credit
Depreciation-Buildings and Other Structure	50501040	₱2,375	
Accumulated Depreciation-School Buildings	10604021		₱2,375
To recognize depreciation for the month of June 2014			

Since the condition (construction of school building) was fulfilled, the following adjustment shall be made:

Account Title	Account Code	Debit	Credit
Other Deferred Credits	20501990	₽950,000	
Income from Grants and Donations in Kind	40402020		₽950,000
To recognize income from grants and donations in kind upon fulfillment of condition of the donation			

Sec. 14. Intra-agency transfers of PPE (from Central Office to Regional Offices/Staff Bureaus or vice versa). These shall be recognized at the carrying amount of the asset received. The receiving department/office shall recognize the asset at its original historical cost less accumulated depreciation and accumulated impairment loss.

a. PPE purchased and transferred in the same year

Example: Entity A-Central Office transferred on December 15, 2014 to Regional Office (RO) No. I a Lexmark Printer purchased on January 12, 2014 with an acquisition cost of ₽40,000 and accumulated depreciation of ₽7,600.

The accounting entries to recognize the transfer are as follows:

1. Entity A-Central Office books

Account Title	Account Code	Debit	Credit
Subsidy to Regional Offices/Staff Bureaus	50214070	₽32,400	
Accumulated Depreciation-Information and Communications Technology Equipment	10605031	7,600	
Information and Communications Technology Equipment	10605030		₽40,000
To recognize the transfer of a Lexmark Printer to Entity A-RO No. I			

2. Entity A-RO No. I books

Account Title	Account Code	Debit	Credit
Information and Communications Technology Equipment	10605030	₽ 40,000	
Accumulated Depreciation-Information and Communications Technology Equipment	10605031		₽ 7,600
Subsidy from Central Office	40301060		32,400
To recognize the receipt of transferred Lexmark Printer from Entity A-Central Office			

Note: The Source Agency/Entity shall provide the Receiving Agency/Entity the necessary documents/information on the transferred PPE such as the remaining useful life of the PPE, among others.

b. PPE purchased in Prior Year (PY) and transferred in Current Year (CY)

Example: On December 15, 2014, the Entity A-Central Office transferred to Entity A-RO No. I a Lexmark Printer purchased on December 20, 2013 with acquisition cost of

₱40,000, estimated useful life of five years, residual value of five percent (5%), and accumulated depreciation of ₱7,600. The accounting entries to recognize the transfer are as follows:

1. Entity A-Central Office

Account Title	Account Code	Debit	Credit
Accumulated Surplus/(Deficit)	30101010	₱32,400	
Accumulated Depreciation- Information and Communications Technology Equipment	10605031	7,600	
Information and Communications Technology Equipment	10605030		₱40,000
To recognize the transfer of printer to Entity A-RO No. I			

2. Entity A-RO No. I

Account Title	Account Code	Debit	Credit
Information and Communications Technology Equipment	10605030	₱40,000	
Accumulated Depreciation- Information and Communications Technology Equipment	10605031		₱ 7,600
Accumulated Surplus/(Deficit)	30101010		32,400
To recognize the receipt of printer from Entity A-Central Office			

Sec. 15. Inter-agency transfer of PPE. Transfer from one government entity to another shall be recognized by the recipient entity at net carrying value. The transferor shall derecognize the PPE account upon transfer.

Example: Entity A transferred to Entity B a computer purchased last year with acquisition cost of ₱40,000 and accumulated depreciation of ₱7,600. The following are the accounting entries to recognize the PPE:

Account Title	Account Code	Debit	Credit
Entity A – Transferor			
Accumulated Surplus/(Deficit) *[1]	30101010	₱ 32,400	
Accumulated Depreciation-Information and Communications Technology Equipment	10605031	7,600	
Information and Communications Technology Equipment	10605030		₱ 40,000
To derecognize the computer transferred to Entity B			
Entity B – Recipient			
Information and Communications Technology Equipment	10605030	₱ 32,400	
Accumulated Surplus/(Deficit) *[2]	30101010		₱ 32,400
To recognize the receipt of computer from Entity A			

*Notes:**[1] - In case the transfer was made within the same year of purchase, Financial Assistance to NGAs shall be used. (Transferor)

*[2] - In case the transfer was made within the same year of purchase, Subsidy from Other National Government Agencies shall be used. (Recipient)

Sec. 16. Grants. Grants are assistance in the form of transfer of resources, in cash or in kind, to an agency/entity from other levels of government, private sectors or international institutions with or without conditions relating to the operating activities of the agency/entity. These grants shall be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis. Grants, including non-monetary its cost shall be measured at its fair value as at the date of acquisition, and shall be recognized when there is reasonable assurance that: (a) the entity will comply with the conditions attached, and (b) the grants will be received.

The grant qualifies as trust receipt and the agreement stipulates that any PPE acquired shall be donated to the recipient entity upon completion of the projects. The following are the accounting entries:

Account Title	Account Code	Debit	Credit
Cash-Collecting Officers	10101010	₱ 1,000,000	
Due to Other NGAs	20201050		₱ 1,000,000
To recognize the receipt of the grants			
Cash-Treasury/Agency Deposit, Trust	10104030	₱ 1,000,000	
Cash-Collecting Officers	10101010		₱ 1,000,000
To recognize the deposit of grants received to the National Treasury			
Cash-Modified Disbursement System (MDS), Trust	10104060	₱ 200,000	
Cash-Treasury/Agency Deposit, Trust	10104030		₱ 200,000
To recognize the receipt of NCA from the DBM			
Information and Communications Technology Equipment	10605030	₱ 200,000	
Cash-Modified Disbursement System (MDS), Trust	10104050		₱ 200,000
To recognize the IT Equipment upon purchase			
Due to Other NGAs	20201050	₱ 200,000	
Income from Grants and Donations in Kind	40402020		₱ 200,000
To recognize income in proportion to the cost of ICT equipment			
Depreciation Expense-Machinery and Equipment	50501050	₱ 38,000	
Accumulated Depreciation-Information and Communications Technology Equipment	10605031		₱ 38,000
To recognize depreciation expense for the year			

₱200,000 - 10,000 = ₱190,000
₱190,000 / 5 yrs = ₱38,000 (annual depreciation)

Sec. 17. Acquisition of PPE through Fund Transfer to other Government Agencies or Civil Society Organizations

a. Acquisition by Source Agency/Entity. Implementation of projects through funds transferred to other government agencies may require the acquisition of the necessary PPE. For proper monitoring and accountability, the following policies shall be followed:

   1. The source agency/entity shall record and monitor the PPE purchased out of inter-agency transferred funds when the PPE meets the recognition criteria and the MOA/U provides that the PPE will be returned to the source agency/entity.

   2. The depreciation of PPE shall be in accordance with Sec. 28 of this Chapter.

b. Acquisition by Implementing Agency/Entity. In most cases, implementation of projects funded by other government agencies requires the acquisition of the necessary PPE. Therefore, for proper monitoring and accountability, the following policies shall be followed:

   1. The funds received from inter-agency fund transfer shall be recorded in the fund cluster for trust receipts as asset.

   2. The implementing agency/entity shall record and monitor the PPE purchased out of inter-agency transferred funds when the PPE meets the recognition criteria and the MOA/U provides that the PPE will be donated to the implementing agency/entity.

      At the end of the project, the transfer shall be made in accordance with the MOA/U as in the following cases:

      i. Case 1 – The MOA/U provides that the PPE will be donated to the implementing agency/entity.

      ii. Case 2 – The MOA/U provides that the PPE will be returned by the implementing agency/entity to the Source Agency/Entity.

Note: Examples of accounting entries are shown in Annex M of Volume I of this Manual.

Sec. 18. Finance Lease. Another mode of acquiring PPE is through finance leases. A finance lease is a kind of lease that transfers substantially all the risks and rewards incident to ownership of an asset. At the start of the lease term, lessees shall recognize assets acquired under finance leases as assets, and the associated lease obligations as liabilities in their statements of financial position. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the lease term or its useful life, whichever is shorter. The detailed procedures on finance lease are discussed in Chapter 13-Leases of this Manual.

Sec. 19. Receipt, Inspection and Acceptance of PPE. Receipt of items purchased by the agency/entity shall be inspected by the inspection officer/committee before acceptance by the Supply and/or Property Custodian. Acceptance shall be made only if the PPE delivered conform to the standards and specifications in the PO (*Appendix 61*). Inspection and acceptance shall be made using the IAR (*Appendix 62*).

Sec. 20. Recording of Deliveries. Deliveries of PPE shall be recorded immediately in the Property Card (*Appendix 69*) maintained by the Supply and/or Property Division/Unit on the basis of the IAR and other supporting documents. The IAR and other supporting documents shall be forwarded to the Accounting Division/Unit for the recording of deliveries in the books of accounts through JEV and in the Property, Plant and Equipment Ledger Card (PPELC) (*Appendix 70*). Based on the IAR and other supporting documents, the Supply and/or Property Division/Unit shall prepare the DV and submit to the Accounting Division/Unit for the processing of payment (Refer to Chapter 6-Disbursements).

Sec. 21. Issue of PPE. Based on approved RIS, the Supply and/or Property Custodian shall prepare the Property Acknowledgement Receipt (PAR) (*Appendix 71*) to support the issue of property to end-user. The PAR shall be renewed at least every three years or every time there is a change in accountability or custodianship of the property.

Sec. 22. Measurement after Recognition. For consistency and uniformity, the cost model shall be applied to an entire class of PPE. Cost model means that PPE are carried at cost, less any accumulated depreciation and any accumulated impairment losses.

Sec. 23. Subsequent Costs of PPE other than Reforestation Projects. Subsequent costs are costs of the day-to-day servicing of an item of PPE which are recognized as an expense when incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as "repairs and maintenance" of an item of PPE.

Parts of some items of property, plant, and equipment may require replacement at regular intervals. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in Sec. 3 of this Chapter, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred, if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Chapter.

Sec. 24. Repairs and Maintenance. Repairs and maintenance primarily maintain or improve the functionality and capacity of the PPE; increase its service life; improve the quality of its output; or reduce the operating cost. These may be categorized into major and minor repairs. Minor repairs shall be directly charged to expense account "Repairs and Maintenance" of the specific PPE while major repairs shall be added to the carrying amount of the PPE and shall be depreciated over the remaining life of the PPE. Where cost cannot easily be differentiated between a minor or major repair, it shall be treated as expense.

a. Spare parts and servicing equipment carried as inventory shall be recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as PPE when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PPE, they are accounted for as PPE.

b. Parts of some items of PPE may require recurring replacement such as a road needing resurfacing every few years or non-recurring replacement such as replacing the interior walls of a building. Under the recognition principle, an entity recognizes in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized.

Pro-forma accounting entries for repairs and maintenance are as follows:

Account Title	Account Code	Debit	Credit
Repairs and Maintenance-Transportation Equipment	50213060	₱15,000.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱14,196.43
Due to BIR	20201010		803.57
To recognize minor repair of motor vehicle (body repainting)			
Motor Vehicles	10606010	₱80,000.00	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱75,714.29
Due to BIR	20201010		4,285.71
To recognize the cost of replacement of motor engine			

Note: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Account Title	Account Code	Debit	Credit
Loss of Assets	50504090	₱22,500	
Accumulated Depreciation-Motor Vehicles	10606011	47,500	
Motor Vehicles	10606010		₱70,000
To derecognize the replaced motor engine			

Repairs and maintenance which are necessary to obtain the expected service potential of a capital asset for its estimated useful life are not betterments. These costs shall be expensed when incurred. These include repairs to restore assets damaged by fire, flood, accidents or similar events, to the condition just prior to the event; and routine maintenance and expenditures, such as repainting, cleaning and replacing minor parts.

Sec. 25. Betterments. Betterments are enhancements to the future economic benefits or service potential of a capital asset, such as:

a. an increase in the previously assessed physical output or service capacity;
b. a reduction in associated operating costs;
c. an extension of the estimated useful life; or
d. an improvement in the quality of output.

Betterments which meet the threshold of the applicable capital asset category are capitalized. Otherwise, they are expensed. Where betterment enhances the future economic benefits or service potential of a capital asset without increasing its estimated useful life, the depreciation period shall remain the same. Where betterment increases the estimated useful life of a capital asset, its useful life shall be changed. The revised depreciation period shall not exceed the estimated useful life of that capital asset. Where betterment involves the replacement of an identifiable component of a capital asset, the original cost of that component and the related accumulated depreciation shall be derecognized.

For example, a road may need resurfacing every few years. Under the recognition principle, the cost of resurfacing shall be recognized in the carrying amount of the road. However, the carrying amount of those parts that are resurfaced shall be derecognized in accordance with the derecognition provisions of this Chapter.

Where a cost cannot easily be differentiated between a repair and betterment, the cost shall be treated as an expense with respect to the accounting principle of conservatism.

Some parts of an item of PPE may require replacement/betterment at regular intervals, of which these are capitalized. Replacements/Betterments improve the functionality or increase the useful life of the PPE, while repairs and maintenance primarily maintain the functionality of the asset.

An entity shall capitalize the costs incurred for repair, betterment, enhancement, expansion or upgrade of existing PPE if the amount is material and:

a. where the expenditure results in an effective increase in the future economic benefits or service potential that is expected to be derived from using the asset and the increase in future economic benefits or service potential will be realized;

b. there has been an effective increase in the quality of the services provided by the asset beyond that previously determined; or

c. there has been an effective extension to the asset's useful life as a result of the expenditure.

Sec. 26. Additions and Rearrangements. Additions are modifications which increase the physical size or function of the PPE. Two types of expenditures which shall be both capitalized are namely, entirely new unit and expansion, and enlargement or extension of the old asset. For example, the addition of a wiring to a building or the addition of an air conditioning system increases the service potential of that facility and shall be capitalized. On the other hand, rearrangements are cost incurred in moving an asset from one location to another that will benefit future periods but do not represent additions, replacements or improvements.

The cost of an addition which is a new unit is depreciated over its useful life. But the cost of an expansion shall be depreciated over its useful life or remaining life of the PPE of which it is part, whichever is shorter. Rearrangement cost is the relocation or reinstallation of an asset which proves to be less efficient in its original location. This cost is also known as "moving cost", "reinstallation cost" or "relocation cost." This cost is capitalized and amortized over the remaining life of the asset for which it pertains. The undepreciated amount of the original installation cost shall be expensed and the pertinent accumulated depreciation accordingly derecognized.

Sec. 27. Depreciation. PPE gradually loses its ability to provide service over the course of time. Because of this, its cost needs to be distributed on a systematic basis over its useful life. The allocated cost is referred to as depreciation. The depreciation charge for each period shall be recognized as expense unless it is included in the carrying amount of another asset. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories. Similarly, depreciation of PPE used for development activities may be included in the cost of an intangible asset recognized. The following are policies regarding depreciation of PPE:

a. There are three factors an entity must consider in determining depreciation:

    1. Initial cost,
    2. Useful life, and
    3. Expected residual value at the end of its useful life.

b. Except for land and not recognized heritage assets, all PPE shall be depreciated.

c. Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. For simplicity and to avoid proportionate computation, depreciation shall be for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation shall be for the succeeding month.

d. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

e. The straight line method of depreciation shall be adopted unless another method is more appropriate for entity operation. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

f. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets. The agency/entity is in the best position to estimate the expected useful life of its PPE. As a guideline, PPE shall be depreciated over the following life spans:

Property, Plant and Equipment		Estimated Useful Life
Land Improvements	-	Over the useful life of the asset to which the improvement was made or the useful life of the improvement if significantly shorter
Infrastructure Assets	-	20 to 50 years
Buildings and Other Structures	-	30 to 50 years
Machinery and Equipment	-	5 to 15 years
Transportation Equipment:		
Motor vehicles	-	5 to 15 years
Motor vehicles (Military vehicles)	-	3 to 20 years
Trains	-	10 to 20 years
Aircrafts and Aircrafts Ground Equipment	-	10 to 20 years
Watercrafts	-	10 to 25 years
Furniture, Fixtures and Books	-	2 to 15 years
Leased Assets, excluding Land	-	Over the useful life of the leased asset or the lease term, whichever is shorter. The lease term would include any renewal option periods where extension of the lease is expected.
Leased Assets Improvements	-	Over the useful life of the improvement or the lease term, whichever is shorter. The lease term would include any renewal option periods where extension of the lease is expected.
Service Concession Assets	-	Over the useful life of the service concession asset or the term of the service concession arrangement, whichever is shorter. The term of the service concession arrangement

Property, Plant and Equipment		Estimated Useful Life
		would include any renewal option periods where extension of the service concession arrangement is expected.
Other Property, Plant and Equipment	-	2 to 15 years

g. Based on the above life spans, the entity shall prepare the specific estimated useful life for each asset based on its experience on the life of its PPE, copy furnished the Resident Auditor and the Government Accountancy Sector of COA.

h. The estimated useful life of the undepreciated portion of a PPE shall be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

i. A residual value equivalent to at least five percent (5%) of the cost shall be adopted unless a more appropriate percentage is determined by the entity based on its operation subject to the approval of COA.

   Generally, infrastructure assets have no residual value. In case, the residual value of parts of the infrastructure assets can be determined, the policy of at least five percent (5%) of the cost of that part shall be applied.

j. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with Chapter 19-Financial Reporting of this Manual.

k. The computation of monthly depreciation expense shall be as follows:

$$\text{Depreciation Expense} = \frac{\text{Cost – Residual Value}}{\text{Estimated Useful Life (in months)}}$$

l. Depreciation shall be recognized as a debit to the “Depreciation Expense” account and a credit to the “Accumulated Depreciation” account. Accumulated Depreciation is a contra-asset account presented in the FS as deduction from the related asset account. Depreciation expense shall be recognized on a monthly basis subject to item (c) of this Section.

   Example: On June 5, 2014, an office equipment was purchased at ₱22,000 and has an estimated useful life of 5 years and 5% residual value. Said equipment was available for use on June 20, 2014.

$$\text{Monthly Depreciation} = \frac{₱\ 22{,}000 – ₱\ 1{,}100}{60 \text{ months}} = ₱348.33$$

   The accounting entry shall be as follows:

Account Title	Account Code	Debit	Credit
June 30, 2014			
No depreciation expense recognized.			

Account Title	Account Code	Debit	Credit
July 31, 2014			
Depreciation-Machinery and Equipment	50501050	₱ 348.33	
Accumulated Depreciation-Office Equipment	10605021		₱ 348.33
To recognize depreciation for the month of July 2014			

m. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be recorded and depreciated separately.

The engine amounting to ₱15,000,000 and the passenger seats amounting to ₱5,000,000 are expected to be replaced after 5 years of continuous use with 5% residual value. The remaining parts of the aircraft are estimated to have a residual value of ₱2,250,000 after 20 years.

Parts	Amount	Residual Value	Estimated Life	Depreciation
Engine	₱15,000,000	750,000	5 yrs. (60 mos.)	₱237,500
Passenger Seats	5,000,000	250,000	5 yrs. (60 mos.)	79,167
Remaining Parts	45,000,000	2,250,000	20 yrs. (240 mos.)	178,125
Total	₱65,000,000			₱494,792

The accounting entry to recognize the depreciation is as follows:

Account Title	Account Code	Debit	Credit
Depreciation Expense-Transportation Equipment	50501060	₱494,792	
Accumulated Depreciation-Aircrafts and Aircrafts Ground Equipment	10606031		₱494,792
To recognize monthly depreciation			

Sec. 28. Impairment of PPE other than Reforestation Projects. A property is said to be impaired when its carrying amount in the Statement of Financial Position exceeds its recoverable service amount or recoverable amount due to fall in market value of an asset. To determine whether an item of PPE is impaired, an entity applies PPSAS 21, *Impairment of Non-Cash Generating Assets*, or PPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. The procedures in determining the amount of impairment loss and reversal for cash generating PPEs, if any, are provided in Sections 17 and 18, respectively, of Chapter 9 - Investment Property of this Manual. The following policies apply to impairment of non-cash generating PPEs:

a. At each reporting date, an entity shall assess whether there is an indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset. In assessing whether there is an impairment of an asset, an entity shall consider, as a minimum, the following indications :

1. External sources of information:

   i. Cessation, or near cessation, of the demand or need for services provided by the asset; and

   ii. Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;

2. Internal sources of information:

   i. Evidence is available of physical damage of an asset;

   ii. Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;

   iii. A decision to halt the construction of the asset before it is complete or in a usable condition; and

   iv. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

b. The computation for impairment loss is shown in the formula below:

Impairment Loss	=	Carrying Amount less Recoverable Service Amount
Carrying amount	=	Cost less Accumulated Depreciation and Accumulated Impairment Loss
Recoverable Service Amount	=	Higher of Fair Value less Cost to sell and Value in Use
Value in Use	=	Present Value of the Asset's remaining Service Potential

Computation of Value in Use:

1. Depreciated Replacement Cost Approach

   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 depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

   The replacement cost and reproduction cost of an asset are determined on an optimized basis since the entity would not replace or reproduce the asset with a like asset if it is an overdesigned or overcapacity asset. Overdesigned assets contain features that are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides.

   Example:

Acquisition cost of ICT Equipment	₱500,000
Acquisition date	January 2, 2012

Estimated Useful Life	5 years
Residual Value:	
in 2012	10%
in 2014	5%
Replacement cost	₱300,000
Fair Value less Cost to Sell	₱100,000

Computation of Impairment Loss:

Cost	₱500,000
Accumulated Depreciation as at December 31, 2013 [(₱500,000-50,000) x 2/5]	180,000
Carrying Amount as at December 31, 2013	320,000
Depreciation in 2014 [(₱320,000-25,000)/3]	98,333
Carrying Amount as at December 31, 2014	₱221,667

Replacement Cost	₱300,000
Depreciation from 2012-2013 (₱300,000 x 0.90 x 2/5)	108,000
Depreciation for 2014 ₱300,000-108,000= ₱192,000-(300,000 x .05) x 1/3)	59,000
Depreciated Replacement Cost	₱133,000

Fair Value Less Cost to Sell	₱100,000
Depreciated Replacement Cost	133,000
Recoverable Service Amount	₱133,000

Note: Recoverable service amount is the higher between the fair value less cost to sell and value in use using the depreciated replacement cost approach

Carrying Amount as at December 31, 2014	₱221,667
Recoverable Service Amount	133,000
Impairment Loss	₱ 88,667

2. Restoration Cost Approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the value in use of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Example: Entity A purchased a machinery in 2009 at the cost of ₱1,000,000, with estimated useful life of 10 years. In 2014, the machinery sustained damage due to fire requiring ₱200,000 to be restored to a usable condition. The restoration will not affect the useful life of the asset. The cost of new machinery to provide a similar service is ₱1,200,000 in 2014. The fair value less cost to sell is ₱400,000.

Computation of Impairment Loss:

Cost	₱1,000,000
Accumulated Depreciation as at December 31, 2013 [(₱1,000,000-100,000) x 4/10]	360,000
Carrying Amount as at December 31, 2013	640,000
Depreciation in 2014 [(₱640,000-50,000)/6]	98,333
Carrying Amount as at December 31, 2014	₱541,667

Replacement Cost	₱1,200,000
Depreciation from 2009-2013 (₱1,200,000 x 0.90 x 4/10)	432,000
Depreciation for 2014 ₱1,200,000-432,000= [₱768,000-(1,200,000 x .05)]/6	118,000
Depreciated Replacement Cost	₱650,000
Restoration Cost	200,000
Value in Use	450,000

Fair Value less Cost to Sell	400,000
Value in Use	450,000
Recoverable Service Amount	₱450,000

Note: Recoverable service amount is the higher between the fair value less cost to sell and value in use using the restoration cost approach.

Carrying Amount as at December 31, 2014	₱541,667
Recoverable Service Amount	450,000
Impairment Loss	₱ 91,667

3. Service Units Approach

Under this approach, the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Example: On January 31, 2011, Entity A acquired a new printing machine at a cost of ₱400,000. The estimated useful life of the machine would be 4 million copies of books to be printed over 10 years. In 2014, it was reported that an automated feature of the machine's function does not operate as expected, resulting in a 15 percent reduction in the machine's annual output level over the remaining 5 years of the useful life of the asset. The replacement cost of a new printing machine is ₱450,000 in 2014. The fair vale less cost to sell of the same year is ₱200,000.

Cost	₱400,000
Accumulated Depreciation as at December 31, 2013 [(₱400,000-40,000) x 3/10]	108,000
Carrying Amount as at December 31, 2013	292,000
Depreciation in 2014 [(₱292,000-20,000)/7]	38,857
Carrying Amount as at December 31, 2014	₱253,143

Replacement Cost	₱450,000
Depreciation from 2011-2013 (₱450,000 x 0.90 x 3/10)	121,500
Depreciation for 2014 ₱450,000-121,500= [₱328,500-(450,000 x .05)]/7	43,714
Depreciated Replacement Cost	₱284,786

Value in Use (₱284,786 x 85%)	₱ 242,068

Fair Value less Cost to Sell	₱ 200,000
Value in Use	₱ 242,068

Recoverable Service Amount	₱ 242,068

Note: Recoverable service amount is the higher between the fair value less cost to sell and value in use using the restoration cost approach.

Carrying Amount as at December 31, 2014	₱253,143
Recoverable Service Amount	₱ 242,068
Impairment Loss	₱ 11,075

The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment:

1. Impairments identified from significant long-term changes in the technological, legal, or government policy environment are generally measurable using a depreciated replacement cost approach or a service units approach, when appropriate;

2. Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand, are generally measurable using a depreciated replacement cost or a service units approach, when appropriate; and

3. Impairments identified from physical damage are generally measurable using a restoration cost approach or a depreciated replacement cost approach, when appropriate. (Par. 50, PPSAS 21)

c. The impairment loss may be recognized in the financial statement as an expense, or liability if, and only if, that is required by PPSAS 19-Provisions, Contingent Liabilities and Contingent Assets, as discussed in Chapter 18 of this Manual.

Example of Impairment Loss recognized as expense:

ICT Equipment	₱350,000
Accumulated Depreciation (for 2 years)	126,000
Carrying Amount	₱224,000

Fair Value of ICT Equipment less cost to sell	₱200,000
Value in Use	₱150,000

Computation of impairment loss:	
Carrying Amount	₱224,000
Less: Recoverable Service Amount (Fair Value)	200,000
Impairment Loss	₱ 24,000

The accounting entry to recognize impairment loss is as follows:

Account Title	Account Code	Debit	Credit
Impairment Loss-Property, Plant and Equipment	50503090	₱24,000	
Accumulated Impairment Losses-Information and Communications Technology Equipment	10605032		₱24,000
To recognize impairment loss of ICT Equipment			

d. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

Depreciation after the recognition of an impairment loss shall be computed as follows:

$$\text{Depreciation Expense} = \frac{\text{Revised Carrying Amount} - \text{Residual Value}}{\text{Remaining Estimated Useful Life (in months)}}$$

Example:	ICT Equipment	₱350,000
	Less: Accumulated Depreciation (2 years)	126,000
	Accumulated Impairment Losses	24,000
	Revised Carrying Amount	₱200,000

$$₱5{,}069.44 = \frac{₱200{,}000 - ₱17{,}500}{36 \text{ mos.}}$$

The accounting entry to recognize the adjusted depreciation is as follows:

Account Title	Account Code	Debit	Credit
Depreciation Expense-Machinery and Equipment	50501050	₱5,069.44	
Accumulated Depreciation-Information and Communications Technology Equipment	10605031		₱5,069.44
To recognize monthly depreciation expense after recognition of an impairment loss			

Sec. 29. Reversal of Impairment Loss. An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.

a. The entity shall consider, as a minimum, the following indications in assessing whether an impairment loss recognized in prior periods for an asset no longer exist or may have decreased:

1. External sources of information:

    i. Resurgence of the demand or need for services provided by the asset; and

    ii. Significant long-term changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

2. Internal sources of information:

    i. Significant long-term changes with a favorable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs;

    ii. A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition; and

    iii. Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.

b. If there is an indication that an impairment loss recognized for an asset may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation method or the residual value shall be reviewed and adjusted even if no impairment loss is reversed for the asset.

c. An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

d. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss had been recognized for the asset in prior periods.

e. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit.

    The following are the procedures in recognizing reversal of impairment loss:

    1. Determine the recoverable service amount, which is the higher between the fair value less cost to sell and the value in use, of the PPE.

    2. Compare the recoverable service amount with the carrying amount (net of accumulated depreciation and accumulated impairment losses) as at the reporting period. If the recoverable service amount is higher than the carrying amount, the difference is the estimated reversal of previously recognized impairment loss or a portion thereof. On the other hand, if the recoverable service amount is equal to or lower than the carrying amount, no reversal shall be recognized.

3. Compute the carrying amount (net of accumulated depreciation) had no impairment loss been recognized in prior periods.

4. Compare the carrying amount (net of accumulated depreciation and accumulated impairment losses) with the carrying amount (net of accumulated depreciation) had no impairment loss been recognized in prior periods. If the former is lesser than the latter, the difference is compared with the estimated reversal computed in (2).

5. The amount of reversal of the impairment loss is the lower of the difference between the two carrying amounts referred to in (4) and the estimated reversal in (2).

Example of Reversal of Impairment Loss:

Step	Assumptions and Computations		Amount
	Office Equipment		₱50,000
	Less: Accumulated Depreciation		
	Accumulated Depreciation (2 years)	₱19,000	
	Accumulated Depreciation (1 year) (P21,000-P2,500/3 years)	6,167	25,167
	Accumulated Impairment Losses		10,000
	Revised Carrying Amount, December 31 (3rd year)		₱14,833
1	Assume on December 31 of the 3rd year:		
	Fair value less cost to sell		₱29,000
	Value in Use (present value of service potential)		₱20,000
	Recoverable Service Amount		₱29,000
2	Computation of the estimated reversal of impairment loss:		
	Recoverable Service Amount		₱29,000
	Carrying Amount with impairment loss, December 31 (3rd year)		₱14,833
	Estimated Reversal		₱14,167
3	Computation of the Carrying Amount as if no impairment loss is recognized:		
	Cost of Office Equipment		₱50,000
	Less: Accumulated Depreciation-Office Equipment (for 3 years)		28,500
	Carrying Amount had no impairment loss been recognized in prior years		₱21,500
4	Computation of the difference between the two carrying amounts:		
	Carrying Amount had no impairment loss been recognized in prior years		₱21,500
	Carrying Amount with impairment		₱14,833
	Difference		₱ 6,667

Step	Assumptions and Computations	Amount
5	Comparison between the estimated reversal in Step 2 and the difference in Step 4	
	Estimated Reversal	₽14,167
	Difference	₽ 6,667
	The amount of reversal of the impairment loss is the lower of the two amounts.	₽ 6,667

The accounting entry to recognize reversal of impairment loss recognized in previous year:

Account Title	Account Code	Debit	Credit
Accumulated Impairment Losses-Office Equipment	10605022	₽ 6,667	
Impairment Loss-Property, Plant and Equipment	50503090		₽ 6,667
To recognize reversal of impairment loss			

Example of No Reversal of Impairment Loss:

Step	Assumptions and Computations	Amount
1	Assume on December 31 of the 3rd year:	
	Fair value less cost to sell	₽12,000
	Value in Use (present value of service potential)	₽10,000
	Recoverable Service Amount	₽12,000
2	Computation of the estimated reversal of impairment loss:	
	Recoverable Service Amount	₽12,000
	Carrying Amount with impairment loss, December 31 (3rd year)	14,833
	Difference	(₽2,833)
	Note: No reversal of impairment loss shall be recognized.	

f. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, if any, on a systematic basis over its remaining useful life.

Sec. 30. Heritage Assets. Heritage assets are those assets which have historical, cultural and environmental significance, and are intended to be preserved in trust for future generations. Examples of heritage assets include historical buildings and monuments, statues, museum and gallery collections, archeological sites, national archives, ruins, conservation areas, nature reserves, and works of art.

a. The following are characteristics of heritage assets (although these characteristics are not exclusive to such assets):

   1. Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

2. Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

3. They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and

4. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

b. Heritage assets shall be measured at cost. If acquired through non-exchange transaction, its cost is its fair value at the date of acquisition. Depreciation shall not be recognized but these shall be subject to impairment. Fair value, if measurable, shall be disclosed.

c. Some heritage assets have future economic benefits or service potential other than their heritage value, for example, a historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of PPE. (*Par. 11*, *PPSAS 17*)

d. For accountability purposes, a Registry of Heritage Assets (RHA) (*Appendix 72*) shall be maintained for heritage assets not recognized in the books of accounts, by the Accounting Division/Unit and appropriate PAR shall be issued to end-user/accountable officer. At the end of each month, the total amount shall be posted in the Registry of Heritage Asset-Summary (RHAS) (*Appendix 72A*).

Sec. 31. Infrastructure Assets. Besides the five criteria for recognizing PPE, infrastructure assets have the following additional characteristics:

a. Part of a system or network;
b. Specialized in nature and do not have alternative uses;
c. Immovable; and
d. May be subject to constraints on disposal.

In accordance with PPSAS 17, public infrastructures shall be recognized as PPE in the entity's financial statements. These shall be recorded in the books of accounts as Infrastructure Assets such as road networks, sewer system, water and power supply systems, communication networks, etc.

Sec. 32. Reforestation Projects. With the implementation of PPSAS, reforestation projects are recognized as Land Improvements, Reforestation Projects in the books of accounts of the DENR or other entity concerned.

Sec. 33. Initial Costs for Reforestation Projects. The following constitutes the initial costs of Land Improvements-Reforestation Projects:

a. Survey, Mapping and Planning (SMP)

b. Nursery Operation and Seedling Production or Procurement

c. Plantation Establishment (Site preparation, hauling of seedlings and planting)

d. Social Mobilization, and Information, Education and Communication (IEC) (food, transportation, meeting of partners, flyers signage, etc.)

e. Project monitoring and Supervision (hiring of Extension officers, travelling expenses, IT equipment, supplies and materials, etc.)

f. Man hours of regular and permanent employees

g. Measurable cost of inputs from other agencies, Local Government Units (LGUs) and Non-Government Organizations (NGOs)

Only directly attributable cost shall be recognized as part of the initial cost of the project constituting the Construction in Progress-Land Improvements based on the progress reports and other relevant reports and supporting documents provided by the concerned unit of the entity and/or the contractors/partners. These costs shall be recorded in the appropriate Construction in Progress–Land Improvements Ledger Cards maintained for Reforestation Projects for each contractor.

With appropriate assistance from DA, DAR, DENR, DSWD, LGUs and other government agencies and instrumentalities and private sector, the members of People's Organization (POs) concerned implementing the reforestation project, shall primarily be responsible for the maintenance and protection of the established plantations.

Sec. 34. Turn-Over of Reforestation Projects. After the duration of the planting activities (three years), the reforestation project shall be turned over to the entity provided that the conditions in the contract have been complied with, and project has passed the performance evaluation by a third party identified by the entity.

The "Construction in Progress" account shall be transferred to account "Land Improvements, Reforestation Projects" based on the Final Inspection and Acceptance Report submitted by the Implementing Agency/Contractor (IAC) and duly accepted by unit concerned of the agency/entity, supported with, among others, geo-tagged photos of all planted sites covered by Memorandum of Agreement (MOA)/Letter of Authority (LOA) and Work and Financial Plan (WFP).

Sec. 35. Subsequent Costs for Reforestation Projects. Subsequent expenditures incurred for the reforestation project shall be accounted for as follows:

a. Costs for the maintenance and protection incurred within the duration of the reforestation project such as construction of firelines, strip brushing, replanting, providing pest control, patrolling shall be capitalized.

b. Costs for the maintenance and protection incurred after the duration or turn-over of the reforestation project shall be charged to Repairs and Maintenance-Land Improvements.

c. The cost of replacing trees shall be expensed where small numbers of trees are being replaced in any one particular area.

Sec. 36. Impairment of Reforestation Projects. When reforestation projects are destroyed/impaired by force majeure (fortuitous event beyond the control of man e.g., typhoon, flood, landslides, earthquakes, and the like), an impairment loss shall be taken up for the trees as soon as it is discovered that the trees in the area have been destroyed. The Assessment and Validation Office (AVO) has indicated that they cannot provide an objective split between the land value and the tree value as part of their normal valuation process. This being the case, it will be up to each agency/entity to liaise with their valuers at the point in time a reforestation area has been destroyed to arrive at an impairment value.

Sec. 37. Illustrative Accounting Entries for Reforestation Projects

Example: The DENR awarded a reforestation project to ABC Cooperative Inc., a registered PO to participate in the National Greening Program under E.O. No. 26 dated February 24, 2011 by planting trees in the Municipality of San Mateo, Rizal. The contract price is ₱1,000,000. The accounting entries to recognize the reforestation project shall be as follows:

Account Title	Account Code	Debit	Credit
Advances to Contractors	19902010	₱ 150,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 150,000
To recognize payment of 15% mobilization fee			
Construction in Progress-Land Improvements	10699010	₱ 350,000	
Advances to Contractors	19902010		₱ 52,500
Due to BIR	20201010		21,875
Guaranty/Security Deposits Payable	20401040		35,000
Cash-Modified Disbursement System (MDS), Regular	10104040		240,625
To recognize payment of 1st progress billing – 35% work accomplished			

Note 1: Refer to Chapter 22-Illustrative Entries for the constructive receipt of NCA for TRA and remittance to BTr

Account Title	Account Code	Debit	Credit
Construction in Progress-Land Improvements	10699010	₱ 350,000	
Advances to Contractors	19902010		₱ 52,500
Due to BIR	20201010		21,875
Guaranty/Security Deposits Payable	20401040		35,000
Cash-Modified Disbursement System (MDS), Regular	10104040		240,625
To recognize payment of 2nd progress billing – 35% work accomplished			
Construction in Progress-Land Improvements	10610010	₱ 300,000	
Advances to Contractors	19902010		₱ 45,000
Due to BIR	20201010		18,750
Guaranty/Security Deposits Payable	20401040		30,000
Cash-Modified Disbursement System (MDS), Regular	10104040		206,250
To recognize payment of 3rd and final billing – 30% work accomplished			

Account Title	Account Code	Debit	Credit
Guaranty/Security Deposits Payable	20401040	₱ 100,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 100,000
To recognize refund of retention fee			

Note 2: Retention fee is refunded if all the requirements stipulated in the contract was met.

Account Title	Account Code	Debit	Credit
Loss of Assets	50504090	₱ 500,000	
Construction in Progress-Land Improvements	10610010		₱ 500,000
To recognize damaged reforestation project			

Note 3: Damaged 50% of the project as approved by the Regional Director (RD) stated in the Assessment and Validation Report (AVR) and verified by the COA Auditor

Account Title	Account Code	Debit	Credit
Land Improvements, Reforestation Projects	10602020	₱ 500,000	
Construction in Progress-Land Improvement	10610010		₱ 500,000
To recognize the turn-over and acceptance of the reforestation project			

Note 4: Undamaged 50% of the project as approved by the RD as stated in the AVR and verified by the COA Auditor

Note 5: For the documentary requirements refer to 13.3 of COA Circular No. 2012-001.

Sec. 38. Physical Count of PPE. The entity shall have a periodic physical count of PPE, which shall be done annually and presented on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) (*Appendix 71*) as at December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during the physical count shall be reported to the Accounting Division/Unit for proper accounting/recording.

Sec. 39. Derecognition. The cost of the PPE together with the related accumulated depreciation and accumulated impairment loss shall be removed from the accounts (*2014 ed. Financial Accounting, Volume I, Valix*). The carrying amount of an item of PPE shall be derecognized on disposal or when no future economic benefits or service potential is expected from its use or disposal. The following are the policies on the disposal of PPE:

a. The gain or loss arising from derecognition of an item of PPE shall be included in surplus or deficit when the item is derecognized.

b. If, under the recognition principle, an entity recognizes in the carrying amount of PPE the cost of a replacement for its part, then the carrying amount of the replaced part shall be derecognized. If it is not practicable to determine the carrying amount of the replaced part, the entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

c. The gain or loss arising from the disposal of an item of PPE shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item;

d. A JEV shall be prepared by the Accounting Division/Unit to derecognize the asset from the books of accounts only after its disposal;

e. Disposal procedures of unserviceable property shall be in accordance with applicable rules and regulations on Supply and Property Management Manual, and Sec. 79 of P.D. No. 1445.

Pro-forma accounting entries to recognize disposal of PPE are as follows:

Account Title	Account Code	Debit	Credit
1. Disposal through sale (less than carrying amount)			
Cash-Collecting Officers	10101010	₱45,000	
Accumulated Depreciation-Motor Vehicles	10606011	450,000	
Loss on Sale of Property, Plant and Equipment	40501040	5,000	
Motor Vehicles	10606010		₱500,000
To recognize sale of unserviceable motor vehicle at less than the carrying amount			
2. Disposal through sale (above carrying amount)			
Cash-Collecting Officers	10101010	₱60,000	
Accumulated Depreciation-Motor Vehicles	10606011	450,000	
Motor Vehicles	10606010		₱500,000
Gain on Sale of Property, Plant and Equipment	50504040		10,000
To recognize sale of unserviceable motor vehicle above the carrying amount			
3. Disposal through Donation			
Donations	50299080	₱50,000	
Accumulated Depreciation-Motor Vehicles	10606011	450,000	
Motor Vehicles	10606010		₱500,000
To recognize disposal through donation			
4. Disposal through Destruction			
Impairment Loss-Property, Plant and Equipment	50503090	₱50,000	
Accumulated Impairment Losses-Motor Vehicles	10606012		₱50,000
To recognize impairment loss of the unserviceable PPE			
Accumulated Depreciation-Motor Vehicles	10606011	₱ 450,000	
Accumulated Impairment Losses-Motor Vehicles	10606012	50,000	
Motor Vehicles	10606010		₱ 500,000
To derecognize unserviceable PPE through disposal by destruction			

Sec. 40. Idle, Unserviceable and Fully Depreciated PPE. The following are the policies on idle, unserviceable and fully depreciated PPE:

a. Temporary idle activity or abandonment of PPE does not preclude depreciating the asset, as future benefits are consumed not only through usage but also through obsolescence, and wear and tear.

b. A PPE is said to be fully depreciated when the carrying amount is equal to zero or residual value. The cost of fully depreciated assets remaining in service and the related accumulated depreciation and accumulated impairment losses shall not be removed from the accounts.

c. A PPE is said to be unserviceable if it is no longer capable of providing the entity with future economic benefits or service potential.

d. All unserviceable property shall be reported in the Inventory and Inspection Report of Unserviceable Property (IIRUP) (*Appendix 74*). PPE reported in the IIRUP shall be dropped from the books by debiting Impairment Loss-Property, Plant and Equipment (cost of the PPE less Accumulated Depreciation).

Sec. 41. Loss of Property. The accounting policies on loss of property are as follows:

a. When a loss of government funds or property occurs while they are in transit or the loss is caused by fire, theft, or other casualty or force majeure, the officer accountable therefore or having custody thereof shall immediately notify the Commission or the auditor concerned and, within thirty days or such longer period as the Commission or auditor may in the particular case allow, shall present his applicable for relief, with the available supporting evidence. Whenever warranted by the evidence credit for the loss shall be allowed. An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts. (*Sec. 73, P.D. No. 1445*)

b. Lost property and the related accumulated depreciation and impairment loss shall be derecognized in the books upon receipt of the Report of Lost, Stolen, Damaged, Destroyed Property (RLSDDP) (*Appendix 75*) supported by a Notice of Loss prepared and submitted by the Accountable Officer. The loss shall be charged to account “Loss of Assets” at an amount equal to its carrying amount.

   Established accountability of the accountable officer:

   Sample Computation:

Cost of Medical Equipment	₱200,000
Accumulated Depreciation	38,000
Accumulated Impairment Loss	34,000
Net Carrying Value (Loss of Asset)	₱128,000

c. The accountability of the accountable officer over the loss of depreciable asset shall be based on depreciated replacement cost (DRC) PPSAS 21 par. 45. DRC is replacement cost less accumulated depreciation calculated on the basis of replacement cost.

   Sample Computation:

Replacement Cost (Current market price)	₱150,000
Accumulated Depreciation	54,000
Depreciated replacement cost	₱ 96,000

d. A receivable account shall be set up to record the accountability of the accountable officer simultaneous with derecognition of the lost PPE.

e. Compensation from third parties for items of PPE that were impaired, lost or given up shall be recognized as income when the compensation becomes receivable**.**

f. In case of partial destruction/loss of PPE the amount to be derecognized shall be its carrying value less the fair value of the remaining serviceable portion.

The following are the accounting entries to recognize the loss of PPE:

a. Total loss of PPE

Account Title	Account Code	Debit	Credit
Loss of Assets	50504090	₱128,000	
Accumulated Depreciation-Medical Equipment	10605111	72,000	
Medical Equipment	10605110		₱200,000
To recognize loss of medical equipment			
Due from Officers and Employees	10305020	₱96,000	
Other Deferred Credits	20501990		₱96,000
To set up the accountability of the accountable officer			
Other Deferred Credits	20501990	₱96,000	
Due from Officers and Employees	10305020		₱96,000
To recognize adjustment due to the grant of relief from accountability to accountable officer by COA			
Note: If request for relief from accountability denied			
Cash-Collecting Officers	10101010	₱96,000	
Due from Officers and Employees	10305020		₱96,000
To recognize receipt of payment from accountable officer for the lost asset if relief was not granted			
Other Deferred Credits	20501990	₱96,000	
Miscellaneous Income	40699990		₱96,000
To recognize income realized from lost asset due to payment by accountable officer			
Cash-Collecting Officers	10101010	₱15,000	
Proceeds from Insurance/ Indemnities	40609010		₱15,000
To recognize proceeds from insurance claim			

b. Partial loss of PPE

Cost of six rooms school building	₱500,000
Accumulated Depreciation	225,000
Carrying Amount	₱275,000

Assumed that two rooms were razed by fire.

Fair Value of four remaining rooms	₱184,000

Computation for the Loss:

Carrying Amount	₱275,000
Less: Fair Value of remaining rooms	184,000
Partial Loss	₱ 91,000

Account Title	Account Code	Debit	Credit
Loss of Assets	50504090	₱91,000	
Accumulated Depreciation -Buildings	10604011	75,000	
Buildings	10604010		₱166,000
To recognize partial loss of building due to fire			

Sec. 42. Accounting and Property Records to be maintained for PPE. The Chief Accountant shall maintain the PPELC for each category of PPE including work and other animals, livestock etc. The PPELC shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the Property and Supply Office/Unit shall likewise maintain PC for PPE in their custody to account for the receipt and disposition of the same. The balance per PC shall be reconciled with PPELC maintained by the Accounting Division/Unit. They shall also be reconciled with other property records like PAR.

The following are the forms/reports necessary to account for PPE:

a. Purchase Request (*Appendix 60*) – this form shall be used by the requisitioner to request for the purchase of PPEs items not available on stock. It shall be the basis of preparing the Purchase Order (PO).

b. Purchase Order (*Appendix 61*) – this form shall be prepared by the Supply and/or Property Division/Unit to support the purchase of PPE, supplies and materials, etc. It serves as the contract between the entity and the supplier for the delivery of specified items based on the stipulations stated which was agreed upon during the procurement process.

c. Inspection and Acceptance Report (*Appendix 62*) – this form shall be used to report the result of the inspection made by the Authorized Inspector on the deliveries and the status of the accepted items by the Supply and/or Property Custodian. This form shall also be used for the inspection of repairs, infrastructures and reforestation projects.

d. Property Card (*Appendix 70*) – this card shall be used by the Supply and/or Property Division/Unit to record the description, acquisition, transfer, disposal, and other information about the PPE. It shall be kept for each class of PPE.

e. Property, Plant and Equipment Ledger Card *(Appendix 71)* – this card shall be used for each class of PPE to record the acquisition, description, custody, estimated life, depreciation, impairment, disposal, transfer/adjustment, repair history and other information about the property. It shall be kept and maintained by the Accounting Office/Unit.

f. Property Acknowledgement Receipt (*Appendix 72*) –This form shall be used by the Supply and/or Property Division/Unit to report the issuance of PPE and the acknowledgement of the end-user.

g. Report on the Physical Count of Property, Plant and Equipment (*Appendix 73*) – this form shall be used to report the physical count and condition of PPE by type as at a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE per property cards and per count and the shortage/overage, if any. It shall be rendered by the Inventory Committee, on its yearly physical count of properties owned by the entity.

h. Inventory and Inspection Report for Unserviceable Property (*Appendix 74*) – this report shall be used to account for all unserviceable property of an entity which is subject to disposal. It also serves as the basis in derecognizing the unserviceable properties carried in the PPE accounts.

i. Report of Lost, Stolen, Damaged or Destroyed Property (*Appendix 75*) – this form shall be used by the accountable officer/employee to report or notify the concerned officials of the lost, stolen, damaged or destroyed property.

j. Property Transfer Report *(Appendix 76)* – this form shall be used every time there will be transfer of property from an outgoing officer to his successor or from one accountable officer/employee to another of the same or another entity.

Sec. 43. Property Accounting System. The Property Accounting System consists of the following procedures:

a. Recording of Receipt, Inspection and Acceptance of PPE
b. Recording of Requisition and Issue of PPE
c. Construction of PPE by administration
d. Construction of PPE by contract

The requesting office in need of the PPE item/s, after the Supply and/or Property Division/Unit has determined that the items are not available in stock, shall prepare and cause the approval of the PR *(Appendix 60*). Based on the approved PR and after accomplishing all the required procedures adopting a particular mode of procurement/acquisition, the agency/entity shall issue a duly approved Contract/PO *(Appendix 61)*. Procedures relative to the obligation of allotment to cover the funding requirement of the Contract/PO and payment of the inspected and accepted deliveries are discussed under Chapter 3-Budget Execution, Monitoring and Reporting, and Chapter 6-Disbursements, of this Manual. Physical count/inventory, which is required annually, is an indispensable procedure for checking the integrity of property custodianship.

Sec. 44. Procedures in the Recording of Receipt, Inspection and Acceptance of PPE

Area of Responsibility	Seq. No.	Activity
		Delivery/Receipt of PPE
Supply and/or Property Division/Unit		
Supply and/or Property Custodian	1	Signs "Received" portion of the original and Copy 2 of the DR. Files the original and returns Copy 2 of the DR to the Supplier/ Procurement Service.
	2	Prepares IAR in three copies. Forwards IAR, original of DR, and Copy 2 of approved PO from file to Property Inspector/Committee for inspection of deliveries. *Note 1* **–** Distribution of the IAR shall be as follows: *Original* – Supplier (to be attached to the DV) *Copy 2* – Property Inspector/Inspection Committee

Area of Responsibility	Seq. No.	Activity
		Copy 3 – Supply and/or Property Division/Unit's file
Property Inspector	3	Inspects and verifies PPE as to quantity and conformity with specifications based on the DR and approved PO. If in order, signs and indicates date of inspection in the 'Inspection' column of the IAR. Retains Copy 3 of IAR. Forwards the PPE, Copies 1-2 of IAR, original of DR and Copy 2 of PO to Supply and/or Property Custodian for acceptance.
	4	If specifications are not in order or delivery is not complete, indicates notation on the IAR that the deliveries are not in conformity with specifications agreed under the approved PO or deliveries are not complete.
Supply and/or Property Custodian	5	Receives the item/s from the Property Inspector, and assigns property number on the PPE received and indicate the same on the IAR.
	6	Signs on the 'Acceptance' column of the IAR, acknowledging receipt of the items delivered. Checks the appropriate box whether complete or partial (indicate quantity received) delivery, and indicate the date of receipt and remarks, if any. Forwards the IAR to the Accounting Division/Unit
	7	If specifications are not in order or delivery is not complete, contact the supplier for appropriate action.
Accounting Division/Unit	8	Based on the IAR and supporting documents, prepare JEV and recognize the receipt of PPE in the books of accounts (GJ and GL).
Accounting Staff	9	Records promptly the receipt/acquisition of PPE in the PPELC maintained for each class of PPE.
Supply and/or Property Division/Unit	10	Prepares DV indicating the Supplier as Payee. Attaches the original IAR, Copy 2 of DR, PO and photocopy of PR. Forwards documents to Budget Division/Unit for the preparation of ORS. Forwards Copy 2 of IAR and copy of PO to the Property Card Keeper for recording in the PC. *Note 2* – For succeeding activities on processing of payment for delivered PPE, refer to Chapter 3 and 6 of this Manual, for the Procedures in the Recording of Obligations and Procedures in Disbursements, respectively.

Area of Responsibility	Seq. No.	Activity
		Note 3 – For purchases made through the Procurement Service, the DV shall be prepared on the basis of the Approved Agency Procurement Request. The payment shall be made directly to the Procurement Service.
Supply and/or Property Custodian	9	Records promptly the receipt/acquisition of PPE in the Property Card maintained for each item of PPE.

Sec. 45. Procedures in the Recording of Requisition and Issue of PPE

Area of Responsibility	Seq. No.	Activity
Requesting Office		
Requesting Personnel	1	Prepares RIS in three copies. It shall be distributed as follows: *Original* – Accounting Division/Unit (to be attached to the PAR) *Copy 2* – Requisitioning Division/Office's file *Copy 3* – Supply and/or Property Division/Unit's file Fills out the necessary information pertaining to requisition, except the 'Issue' columns of the RIS.
Authorized Official	2	Reviews RIS and signs on the "Requested by" portion in the RIS.
Requesting Personnel	3	Records the signed RIS in the logbook and indicate the date, particulars and remarks. Forwards the same to Supply and/or Property Division/Unit for processing of the requisition.
Supply and/or Property Division/Unit		
Receiving Staff	4	Receives signed RIS from Requesting Office. Records the date, particulars and requesting office in the logbook. Assigns number on RIS and issues Copy 2 to Requesting Personnel for file.
Designated Staff	5	Determines the availability of the requisitioned PPE. If not available, returns the RIS to the Requesting Office for the preparation of PR for the PPE requested. If available, forwards RIS to the Supply and/or Property Custodian.
Supply and/or Property Custodian	6	Receives and initials RIS. Forwards the original and Copy 3 of RIS to the Head of the Supply and/or Property Division/Unit for review and approval.

Area of Responsibility	Seq. No.	Activity
Head of the Supply and/or Property Division/Unit	7	Reviews RIS and signs the “Approved By” portion of RIS. Forwards Copies 1 and 3 of RIS to Supply and/or Property Custodian.
Supply and/or Property Custodian	8	Based on the approved RIS, indicates the number in the RIS.
	9	Prepares PAR. Indicates the quantity, unit, description and property number of the items being issued. Signs in the “Issued by” portions of the RIS and PAR. Records the date, number and particulars in the PAR logbook. *Note 1* **–** PAR shall be distributed as follows: *Original* – Supply and/or Property Division/Unit file *Copy 2* – Recipient or user of the property file *Note 2* **–** The PAR shall be renewed every three years or every time there is a change in custodianship/user of the property
Concerned Office Requesting Personnel	10	Retrieves Copy 2 of RIS. Checks item if in conformity with RIS. Signs ‘Received By’ portion of original and Copy 2 of PAR and RIS.
	11	Returns original PAR and Copies 1 and 3 of RIS to Supply and/or Property Custodian for recording in the PC. Files Copy 2 of PAR and Copy 3 of RIS.
Supply and/or Property Division/Unit		
Supply and/or Property Custodian	12	Files original of PAR per accountable officer/employee and Copy 3 of RIS. Forwards the original RIS to the Accounting Division/Unit.
Supply and/or Property Custodian	13	Records promptly the issuance of PPE in the PC maintained for each class of PPE.
Accounting Division/Unit		
Designated Staff	14	Receives original RIS from the Supply and/or Property Division/Unit. Prepares JEV to record the issuance of PPE.
PPELC Keeper	15	Records promptly the issuance of PPE in the PPELC maintained for each class of PPE.

Sec. 46. Procedures in the Construction of PPE by administration

Area of Responsibility	Seq. No.	Activity
Supply and/or Property Division/Unit, and/or Accounting Division/Unit	1	***Receipt, Inspection, Acceptance and Recording of Materials*** Follow the same procedures as prescribed under Sec. 15-Procedures in the Receipt, Inspection, Acceptance and Recording Deliveries of Inventory Items, Chapter 8-Inventory, except that the receipt of these materials shall be recognized as a debit to "Construction Materials Inventory" account.
Supply and/or Property Division/Unit, and/or Accounting Division/Unit	2	***Requisition and Issue of Materials*** Follow the same procedures as prescribed under Sec. 16-Procedures in the Requisition and Issuance of Inventory Items, Chapter 8-Inventory, except that such shall be recognized as a debit to "Construction in Progress" and a credit to "Construction Materials Inventory". Posts the issuance to the CIP Ledger Card.
Supply and/or Property Division/Unit, and/or Accounting Division/Unit	3	***Payment of Direct Labor and Overhead Expenses*** Follow the same procedures as prescribed under Sec. 33-Procedures for Disbursements of Advances to Special Disbursing Officers, Chapter 6-Disbursements, except that such shall be recognized as a debit to "Construction in Progress" and a credit to appropriate asset or liability accounts. Posts the disbursements to the CIP Ledger Card (*Appendix 77*). *Note 1* – Refer to Sec. 8(g) on Acquisition or Construction of PPE for the illustrative accounting entries for construction by administration.
Supply and/or Property Division/Unit	3	***Upon Completion of the Project*** Based on the Project Management Team's Certification of 100% Completion, assigns property number on the completed project and indicates the same on the Certificate of Acceptance (CAc). Forwards the Project Management Team's Certification of 100% Completion and CAc to the Accounting Division/Unit.
Accounting Division/Unit	4	Prepares JEV to recognize in the books of accounts the completed project based on the Project Management Team's Certification of 100% Completion and Final Acceptance. *Note 2* – Upon completion of the project, the fair value less cost to sell of PPE purchased and used in the construction (e.g., motor

Area of Responsibility	Seq. No.	Activity
		vehicles, computers, air conditioning units, etc.) shall be deducted from the total project cost and to be recognized in the appropriate PPE accounts.

Sec. 47. Procedures in the Construction of PPE by contract

Area of Responsibility	Seq. No.	Activity
		Public Bidding
Bids and Awards Committee	1	Conducts bidding in accordance with R.A. 9184.
Cash/Treasury Unit Collecting Officer/Cashier	2	Issues Official Receipt for Bidders' Bond payment. Follows the same procedures as prescribed under Sec. 40- Detailed Procedures for Collections and Deposits through the Collecting Officer, Chapter 5-Revenue and Other Receipts.
Bids and Awards Committee	3	Award the project to the bidder with Lowest Calculated Responsive Bid.
Head of the Agency/Entity	4	Signs the contract and forwards to the Accounting Division/Unit.
Accounting Division/Unit Chief Accountant/ Head of Accounting Division/Unit	5	Certifies the contract as to availability of funds. This may be done by stamping on the contract itself or by preparing a Certificate of Availability of Funds (CAF).
Budget Division/Unit Designated Staff	6	Prepares ORS for the entire contract price and attaches the signed contract and CAF.
Cash/Treasury Unit	7	Issues OR for the receipt of Performance Bond (cash bond). The amount of Performance Bond will be decreased by the amount paid for the Bidders' Bond. Follow the same procedures as prescribed under Sec. 40-Detailed Procedures for Collections and Deposits through the Collecting Officer, Chapter 5-Revenue and Other Receipts.
Accounting Division/Unit	8	Validates/Verifies the performance bond (non-cash bond) issued by the insurance company.
Project Management Unit and/or Supply and/or Property Unit	9	Prepares DV for the payment of mobilization fee. Attaches the bill of the creditor and copies of the contract, original ORS, abstract of bids, bidder's bond, notice to commence work, performance bond and blue print and other documents required under COA Circular No. 2012-001.

Area of Responsibility	Seq. No.	Activity
		For the procedures on disbursements, refer Chapter 6-Disbursements.
Accounting Division/Unit	10	Posts the disbursements in the appropriate CIPLC. *Note 1* – All transactions pertaining to the construction including accounts payable shall be posted in the CIPLC.
		Progress Billings
Project Management Unit and/or Supply and/or Property Unit	11	Prepares DV for the progress billing received. Attaches the bill of the creditor, Project Management Team's Certification of Work Done and copy of the original ORS and other documents required under COA Circular No. 2012-001.
		Final Billing
Project Management Unit and/or Supply and/or Property Unit	12	Prepares DV for the progress billing received. Attaches the bill of the creditor, Project Management Team's Certification of 100% Completion and Final Acceptance, and copies of the contract, original ORS, performance bond, Statement of Work Accomplished duly Approved by the Head of the Procuring Entity and notice to commence work.
Project Management Unit and/or Supply and/or Property Unit	11	Prepares DV for the refund of Retention fee to the contractor. Attaches the bill of the creditor, Project Management Team's Certification of 100% Completion and Final Acceptance, and copies of the contract, original ORS, abstract of bids, bidder's bond, performance bond and notice to commence work.

Sec. 48. Disclosure. The financial statements shall have the following PPE disclosures:

a. The financial statements shall disclose, for each class of PPE recognized in the financial statements:

   1. The measurement bases used for determining the gross carrying amount;

   2. The depreciation methods used;

   3. The useful lives or the depreciation rates used; and

   4. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

b. A reconciliation of the carrying amount at the beginning and end of the period showing:

   1. Additions;

2. Disposals;

3. Acquisitions through entity combinations;

4. Increases or decreases and impairment losses;

5. Impairment losses recognized in surplus or deficit in accordance with PPSAS 21;

6. Depreciation;

7. Other changes; and

8. A reconciliation report shall be prepared using the following format:

Reconciliations (in thousand pesos)

Particulars	**Land**		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Comparative Reporting Periods	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Beginning Carrying Amount	2,025	2,025	2,090	2,260	1,085	1,100	200	150
Add : Additions	-	-	250	100	120	200	20	100
Total	2,025	2,025	2,340	2,360	1,205	1,300	220	250
Less : Disposals	-	-	(150)	(40)	(60)	(80)	(20)	-
Depreciation (As per Statement of Financial Performance)	-	-	(160)	(180)	(145)	(135)	(50)	(50)
Impairment Loss (As per Statement of Financial Performance)	-	-	(30)	(50)	-	-	-	-
Ending Carrying Amount (As per Statement of Financial Position)	2,025	2,025	2,000	2,090	1,000	1,085	150	200
Gross Cost (Asset Account Balance per Statement of Financial Position)	2,025	2,025	2,420	2,320	1,280	1,135	250	250
Less : Accumulated Depreciation	-	-	(340)	(180)	(280)	(135)	(100)	(50)
Allowance for Impairment			(80)	(50)				
Carrying Amount (As per Statement of Financial Position)	2,025	2,025	2,000	2,090	1,000	1,085	150	200

c. The financial statements shall also disclose for each class of PPE recognized in the financial statements:

1. The existence and amounts of restrictions on title, and PPE pledged as securities for liabilities;

2. The amount of expenditures recognized in the carrying amount of an item of PPE in the course of its construction;

3. The amount of contractual commitments for the acquisition of PPE; and

4. If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of PPE that were impaired, lost or given up that is included in surplus or deficit.

d. Agencies are encouraged to disclose the following using the data in the IIRUP:

   1. The carrying amount of temporarily idle PPE;
   2. The gross carrying amount of any fully depreciated PPE that is still in use;
   3. The carrying amount of PPE retired from active use and held for disposal; and
   4. When the cost model is used, the fair value of PPE when this is materially different from the carrying amount.

Chapter 11

AGRICULTURE

Sec. 1. Scope. This Chapter provides standards, policies, procedures and guidelines on the recognition, measurement, presentation and disclosure requirements of agricultural activity prescribed under PPSAS 27, Agriculture. Agencies shall apply these policies on biological assets and agricultural produce at the point of harvest when they relate to agricultural activity except for land related to agricultural activity, intangible assets related to agricultural activity, and biological assets held for the supply of services.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

a. *Agricultural Activity* – is the management by an entity of the biological transformation and harvest of biological assets for sale, including exchange or non-exchange transactions, or for conversion into agricultural produce, or into additional biological assets. (*Par. 9, PPSAS 27*)

b. *Agricultural Produce* – is the harvested product of the entity's biological assets. (*Par. 9, PPSAS 27*)

c. *Bearer Biological Assets* – are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity. Bearer biological assets are not agricultural produce but, rather, are self-regenerating. Example, livestock from which milk is produced, grape vines, fruit trees, and trees from which firewood is harvested while the tree remains. (*Par. 40, PPSAS 27*)

d. *Biological Asset* – is a living animal or plant. (*Par. 9, PPSAS 27*)

e. *Biological Transformation* – comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes in a biological asset. (*Par. 9, PPSAS 27*)

f. *Consumable Biological Assets* – are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets. Examples of consumable biological assets are animals and plants for one-time use such as livestock intended for the production of meat, livestock held for sale, fish in farms, crops such as maize and wheat, and trees being grown for lumber.

g. *Costs to Sell* – are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. (*Par. 9, PPSAS 27*)

h. *Degeneration* – is a decrease in the quantity or deterioration in quality of an animal or plant. (*Par. 11, PPSAS 27*)

i. *Group of Biological Assets* – is an aggregation of similar living animals or plants. (*Par. 9, PPSAS 27*)

j. *Growth* – is an increase in quantity or improvement in quality of an animal or plant. (*Par. 11, PPSAS 27*)

k. *Harvest* – is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

l. *Mature Biological Assets* – are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets). (*Par. 43, PPSAS 27*)

m. *Procreation* – is the creation of additional living animals or plants. (*Par. 11, PPSAS 27*)

Sec. 3. Examples of Biological Assets, Agricultural Produce and Products. The following are examples of biological assets, agricultural produce and products that are the result of processing after harvest.

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Trees in a plantation forest	Felled trees	Logs, Lumber
	Coconut fruit (mature)	Coconut oil
	Coconut fruit (young)	Coconut juice
	Coconut husk	Bunot
	Coconut trunks	Coco lumber
Plants	Rice	Rice Flour
	Harvested cane	Sugar
	Corn	Corn Flour, Corn Starch
	Cotton	Thread, Clothing
	Cassava	Cassava Flour
Dairy cattle	Milk	Cheese
Sheep	Wool	Yarn, Carpet
Pigs	Carcass	Sausages, Cured hams
Bushes	Leaf	Tea, Cured tobacco
Vines	Grapes	Wine
Fruit trees	Picked fruit	Processed fruit

Sec. 4. Agricultural Activity. It covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). The following are certain common features that exist within this diversity:

a. *Capability to change.* Living animals and plants are capable of biological transformation;

b. *Management of change.* Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

c. *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

Sec. 5. Biological Transformation. Biological transformation results in the following types of outcomes:

a. Asset changes through:

1. Growth (an increase in quantity or improvement in quality of an animal or plant),
2. Degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or
3. Procreation (creation of additional living animals or plants); or

b. Production of agricultural produce such as latex, tea leaf, wool, and milk.

Sec. 6. Recognition. An entity shall recognize a biological asset or agricultural produce when and only when:

a. The entity controls the asset as a result of past events;

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.

b. It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

The future benefits or service potential are normally assessed by measuring the significant physical attributes.

c. The fair value or cost of the asset can be measured reliably. (*Par. 13, PPSAS 27*)

Sec. 7. Measurement. A biological asset shall be measured on initial recognition and at each reporting date at its fair value less costs to sell, except where market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, that biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. (*Pars. 16 and 34, PPSAS 27)*

In determining cost, accumulated depreciation and accumulated impairment losses, an entity considers policies on Inventories, Property, Plant and Equipment, Impairment of Non-Cash-Generating Assets and Impairment of Cash-Generating Assets. (*Par. 37, PPSAS 27*)

In all cases, agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying PPSAS 12-Inventories or another applicable Standard. (*Par. 18, PPSAS 27*)

Sec. 8. Determination of Fair Value. The following are the basis for determining the fair value of a biological asset or agricultural produce:

a. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An entity selects the attributes corresponding to the attributes used in the market as a basis for pricing. (*Par. 19, PPSAS 27*)

b. When entities enter into contracts to sell their biological assets or agricultural produce at a future date, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of a contract. (*Par. 20, PPSAS 27*)

c. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity uses the most relevant one. For example, if an entity has access to two active markets, it would use the price existing in the market expected to be used. (*Par. 21, PPSAS 27*)

d. The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle to that market or to the location where it will be distributed at no charge or for a nominal charge. (*Par. 14, PPSAS 27*)

e. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

   1. The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;
   2. Market prices for similar assets with adjustment to reflect differences; and
   3. Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat. (*Par. 22, PPSAS 27*)

f. In some cases, the information sources listed in letter (e) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates. (*Par. 23, PPSAS 27*)

g. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value. (*Par. 24, PPSAS 27*)

h. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An entity considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an entity includes the net cash flows that market participants would expect the asset to generate in its most relevant market. (*Par. 25, PPSAS 27*)

i. An entity does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest). (*Par. 26, PPSAS 27*)

j. In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an entity incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an entity uses assumptions consistent with those used in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored. (*Par. 27, PPSAS 27*)

k. Cost may sometimes approximate fair value, particularly when:

    1. Little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to reporting date); or
    2. The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle). (*Par. 28, PPSAS 27*)

l. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An entity may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets. (*Par. 29, PPSAS 27*)

m. An entity that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal. (*Par. 35, PPSAS 27*)

Sec. 9. Gain or Loss. A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises. Likewise, a gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises. (*Pars. 30 & 32, PPSAS 27*)

Sec. 10. Disclosure. The financial statements shall have the following disclosures on biological assets and agricultural produce:

a. An entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets. (*Par. 38, PPSAS 27*)

b. An entity shall provide a description of each group of biological assets, distinguishing between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.

c. An entity shall distinguish between mature and immature biological assets, as appropriate. These distinctions provide information that may be helpful in assessing the timing of future cash flows and service potential. An entity discloses the basis for making any such distinctions. (*Par. 42, PPSAS 27*)

d. If not disclosed elsewhere in information published with the financial statements, an entity shall describe:

    1. The nature of its activities involving each group of biological assets; and

    2. Non-financial measures or estimates of the physical quantities of:

i. Each group of the entity's biological assets at the end of the period; and
ii. Output of agricultural produce during the period. (*Par. 44, PPSAS 27*)

e. An entity shall disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets. (*Par. 45, PPSAS 27*)

f. An entity shall disclose the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest. (*Par. 46, PPSAS 27*)

g. An entity shall disclose:

1. The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;

2. The nature and extent of restriction on the entity's use or capacity to sell biological assets;

3. The amount of commitments for the development or acquisition of biological assets; and

4. Financial risk management strategies related to agricultural activity. (*Par. 47, PPSAS 27*)

h. An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:

1. The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;

2. Increases due to purchases;

3. Increases due to assets acquired through a non-exchange transaction;

4. Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations;

5. Decreases due to distributions at no charge or for a nominal charge;

6. Decreases due to harvest;

7. Increases resulting from entity combinations;

8. Net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and

9. Other changes. (*Par. 48, PPSAS 27*)

i. An entity shall disclose, by group or otherwise, the amount of change in fair value less costs to sell included in surplus or deficit due to physical changes and price changes. Separate disclosure of physical and price changes is useful in appraising current period performance and future prospects, particularly when there is a production cycle of more than one year. This information is generally less useful when the production cycle is less than one year (for example, when raising chickens or growing cereal crops).

j. Additional disclosures for biological assets where fair value cannot be measured reliably

   1. If an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the entity shall disclose for such biological assets:

      i. A description of the biological assets;
      ii. An explanation of why fair value cannot be measured reliably;
      iii. If possible, the range of estimates within which fair value is highly likely to lie;
      iv. The depreciation method used;
      v. The useful lives or the depreciation rates used; and
      vi. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period. (*Par. 52, PPSAS 27*)

   2. If, during the current period, an entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, an entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets: (*Par. 53, PPSAS 27*)

      i. Impairment losses;
      ii. Reversals of impairment losses; and
      iii. Depreciation.

   3. If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an entity shall disclose for those biological assets:

      i. A description of the biological assets;
      ii. An explanation of why fair value has become reliably measurable; and
      iii. The effect of the change. (*Par. 54, PPSAS 27)*

Sec. 11. Narrative Procedures. The procedures of the acquisition and recognition of biological assets are as follows:

a. Acquisition of biological assets

Area of Responsibility	Seq. No.	Activity
Biological Asset's Caretaker/Officer-in-charge	1	Upon receipt of biological asset and based on the approved IAR, Delivery Receipt and other supporting documents, records the biological asset in the Biological Assets Property Card (BAPC) (*Appendix 78*).
	2	Submit copies of the approved IAR with the required supporting documents to the Accounting Division/Unit.
Accounting Division/Unit Accountant/Bookkeeper	3	Prepare JEV to recognize the receipt of the biological asset. (Refer to Sec. 12-Illustrative Accounting Entries of this Chapter)
	4	Post the appropriate accounts in the GJ, GL and SL for biological assets. (Refer to Sec. 55, Chapter 19-Financial Reporting)

b. Recognition of gain or loss due to physical change

Area of Responsibility	Seq. No.	Activity
Biological Asset's Caretaker/Responsible Person	1	Prepare Quarterly Report of Biological Assets (QRBA) (*Appendix 79)* containing, among others, the balances at the beginning of the quarter and the changes in fair value of the biological assets due to physical changes such as: a) growth, b) degeneration, c) production, and d) procreation.
	2	Submit the QRBA to the Accounting Division/Unit.
Accounting Division/Unit Accountant/Bookkeeper	3	Prepare JEV to recognize the gain or loss on fair value of the biological asset due to physical changes. (Refer to Sec. 12-Illustrative Accounting Entries of this Chapter)
	4	Post the appropriate accounts in the GJ, GL and SL for biological assets. (Refer to Sec. 55, Chapter 19-Financial Reporting)

c. Recognition of gain or loss due to price changes

Area of Responsibility	Seq. No.	Activity
Biological Asset's Caretaker/Responsible Person	1	Regularly, gather data on current fair value of the biological assets and post in the respective individual BAPC.
	2	Prepare QRBA containing, among others, the balances at the beginning of the quarter and the changes in fair value of the biological assets due to price changes
	3	Submit to the Accounting Division/Unit the QRBA with the table of current fair values of biological assets.
Accounting Division/Unit Accountant/Bookkeeper	4	Prepare JEV to recognize the gain or loss on fair value of the biological asset. (Refer to Sec. 12-Illustrative Accounting Entries of this Chapter)
	5	Post the appropriate accounts in the GJ, GL and SL for biological assets. (Refer to Sec. 55, Chapter 19-Financial Reporting)

Sec. 12. Illustrative Accounting Entries. The illustrative accounting entries as well as sample financial statement presentation and disclosures are shown below.

Assume that the CY 2015 transactions of Entity A for revolving fund/income generating project are as follows:

Balances as at January 1, 2015:

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	₱75,000	
Accumulated Surplus/(Deficit)	30101010		₱75,000

Transactions made during the year are the following:

Date	Transactions
January 1, 2015	Purchased five 2-year old breeding stocks with FV less cost to sell of ₱5,000 each.
	Purchased feeds and other agricultural supplies amounting to ₱2,000.
	Issued feeds and other agricultural supplies to the caretaker.
July 1, 2015	Born 10 breeding stocks with FV less cost to sell of ₱2,000 each
	Purchased two 2-year old breeding stocks at fair value less cost to sell as at date

Date	Transactions
	Purchased feeds and other agricultural supplies amounting to ₱8000
December 31, 2015	Born three breeding stocks with FV less cost to sell of ₱2,100
	Sold one 3-year old breeding stock at ₱5,600
	Paid salaries of caretaker - ₱6,000
	Purchased feeds and agricultural supplies for stock - ₱10,000

The fair values of breeding stocks are as follows:

Date	Age	FV
January 1, 2015	2	₱5,000
July 1, 2015	Newborn	2,000
	0.5	2,000
	2	5,100
	2.5	5,200
	3	5,500
December 31, 2015	Newborn	2,100
	0.5	2,150
	2	5,200
	2.5	5,400
	3	5,700

a. The following entries shall be made:

Account Title	Account Code	Debit	Credit
January 1, 2015			
Breeding Stocks	10701010	₱5,000	
Cash in Bank-Local Currency, Current Account	10102020		₱5,000
To recognize purchase of five 2-year old breeding stocks at ₱1,000 each			
Agricultural and Marine Supplies Inventory	10404090	₱2,000	
Cash in Bank-Local Currency, Current Account	10102020		₱2,000
To recognize purchase of feeds and other agricultural supplies			
Agricultural and Marine Supplies Expenses	50203100	₱2,000	
Agricultural and Marine Supplies Inventory	10404090		₱2,000
To recognize issue of feeds and other agricultural supplies to the caretaker			

Account Title	Account Code	Debit	Credit
July 1, 2015			
Breeding Stocks	10701010	₱20,000	
Gain on Initial Recognition of Biological Assets	40501050		₱20,000
To recognize the ten new born breeding stocks with FV less cost to sell at ₱2,000 each			
Breeding Stocks	10701010	₱10,200	
Cash in Bank-Local Currency, Current Account	10102020		₱10,200
To recognize purchase of two breeding stocks with FV less cost to sell at ₱5,100 each			
Agricultural and Marine Supplies Inventory	10404090	₱18,000	
Cash in Bank-Local Currency, Current Account	10102020		₱18,000
To recognize purchase of feeds and other agricultural supplies			
December 31, 2015			
Breeding Stocks	10701010	₱6,300	
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change	40501070		₱6,300
To recognize the three new born breeding stocks at ₱2,100 each			
Breeding Stocks	10701010	₱5,600	
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change	40501070		₱3,400
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Price Change	40501080		2,200
To recognize the increase in fair value of the breeding stocks (*See computation in the reconciliation*)			
Cash-Collecting Officers	10101010	₱5,600	
Loss on Sale of Biological Assets	50504050	100	
Breeding Stocks	10701010		₱5,700
To recognize the sale of one 3-year old breeding stock			
Salaries and Wages-Casual/ Contractual	50101020	₱6,000	
Cash in Bank-Local Currency, Current Account	10102020		₱6,000
To recognize payment of salaries of caretaker			

Account Title	Account Code	Debit	Credit
Agricultural and Marine Supplies Inventory	10404090	₱10,000	
Cash in Bank-Local Currency, Current Account	10102020		₱10,000
To recognize purchase of feeds and other agricultural supplies for stock			

b. The following closing entries shall be made:

Account Title	Account Code	Debit	Credit
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change	40501070	₱29,700	
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Price Change	40501080	2,200	
Loss on Sale of Biological Assets	50504050		₱ 100
Revenue and Expense Summary	30301010		31,800
To close gain and loss accounts			
Revenue and Expense Summary	30301010	₱8,000	
Salaries and Wages-Casual/ Contractual	50101020		₱2,000
Agricultural and Marine Supplies Inventory	10404090		6,000
To close expense accounts			
Revenue and Expense Summary	30301010	₱23,800	
Accumulated Surplus/(Deficit)	30101010		₱23,800
To close Revenue and Expense Summary account to Accumulated Surplus/(Deficit) account			

Sec. 13. Financial Statements and Reconciliation Statements. The following are the FS and reconciliations that shall be prepared:

a. Statement of Financial Position

Entity A
Statement of Financial Position
As at December 31, 2015

ASSETS		
Cash in Bank-LCCA	₱ 3,800	
Cash-Collecting Officer	5,600	
Total		₱ 9,400
Inventories		
Agricultural and Marine Supplies Inventory		28,000
Biological Assets		
Breeding Stocks		61,400
TOTAL ASSETS		₱ 98,800

LIABILITIES AND NET ASSETS/EQUITY	
Net Assets/Equity	
Accumulated Surplus/(Deficit)	98,800
TOTAL LIABILITIES AND NET ASSETS/EQUITY	₽ 98,800

b. Statement of Financial Performance

Entity A
Statement of Financial Performance
For the Year Ended December 31, 2015

Revenue		
Gain from Changes in Fair Value Less Cost to Sell of Breeding Stocks	₽ 31,900	
Loss on Sale of Biological Assets	(100)	
Total Revenue		₽ 31,800
Less: Expenses		
Salaries and Wages – Casual/Contractual	6,000	
Agricultural and Marine Supplies Expenses	2,000	
Total Expenses		8,000
Surplus (Deficit) for the Period		₽ 23,800

c. Reconciliation of Carrying Amount of Breeding Stock

Entity A
Reconciliation of the Carrying Amount of Breeding Stocks
As at December 31, 2015

Carrying Amount as at January 1, 2015		₽ 0
Increases due to purchases		35,200
Gain arising from changes in fair value less costs to sell attributable to physical changes	*Note 1*	29,700
Gain arising from changes in fair value less costs to sell attributable to price changes	*Note 2*	2,200
Decreases due to sales		(5,700)
Carrying amount at December 31, 2015		₽ 61,400

Note 1: Due to Physical Change

Date Recognized	Qty.	CAFV [1]	PAFV [2]	Difference	Amount
July 1, 2015					
newborn	10		2,000	2,000	₽ 20,000
Dec. 31, 2015					
newborn	3		2,100	2,100	6,300
0.5 years old	10	2,150	2,100	500	500

2.5 years old	2	5,400	5,200	200	400
3 years old	5	5,700	5,200	500	2,500
					₱ 29,700

Note 2: Due to Price Change

Date Recognized	Qty.	CFV [3]	PFV [4]	Difference	Amount
Dec. 31, 2015					
0.5 years old	10	2,100	2,000	100	₱ 1,000
2.5 years old	2	5,200	5,100	100	200
3 years old	5	5,200	5,000	200	1,000
					₱ 2,200

[1] *CAFV – Current Age Fair Value*
[2] *PAFV – Previous Age Fair Value*
[3] *CFV– Current Fair Value - FV of the Breeding Stocks of the same age when the breeding stocks were recognized*
[4] *PFV – Previous Fair Value - FV of the breeding stocks on the previous recognition date*

Chapter 12

INTANGIBLE ASSETS

Sec. 1. Scope. This Chapter covers accounting treatment, recognition, measurement, as well as, the presentation and disclosure requirements in reporting intangible assets.

Sec. 2. Definitions. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

a. *Active Market* – is a market in which all the following conditions exist:

   1. the items traded in the market are homogeneous,

   2. willing buyers and sellers can normally be found at any time; and

   3. prices are available to the public.

b. *Amortization* – is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

c. *Development* – is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

d. *Intangible Assets* – are identifiable non-monetary asset without physical substance.

e. *Intangible Heritage Assets* – are intangible assets which displayed the following characteristics:

   1. Their value in cultural, environmental and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

   2. Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

   3. Their value may increase over time; and

   4. It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

f. *Research* – is original and planned investigation undertaken with the prospect of gaining new scientific and technical knowledge and understanding.

Sec. 3. Nature of Intangible Asset. To qualify as intangible asset, an item must possess the following elements: identifiability, control over a resource and existence of future economic benefits or service potential.

a. Identifiability – an intangible asset is identifiable when it:

   1. is separable, i.e., capable of being separated and divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a

related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

2. arises from binding arrangements including contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. (*Par. 19, PPSAS 31*)

b. Control over a resource – an entity controls an asset if it has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way. (*Par. 21, PPSAS 31*)

c. Existence of future economic benefits or service potential – the future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an on-line system that allows citizens to apply or renew licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing). (*Par. 25, PPSAS 31*)

Common examples of intangible assets are computer software, patents, copyrights, franchise, motion picture films, trademarks or brand names, licenses, acquired import quotas, lists of users of a service, and relationships with users of a service.

Sec. 4. Recognition of Intangible Asset. An intangible asset shall be recognized if, and only if:

a. It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and

b. The cost or fair value of the asset can be measured reliably. (*Par. 28, PPSAS 31*)

An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. (*Par. 29, PPSAS 31*)

Sec. 5. Measurement of an Intangible Asset. An intangible asset shall be measured initially at cost. If an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date. (*Par. 31, PPSAS 31*)

Sec. 6. Acquisition of Intangible Assets. Intangible assets can be acquired (a) by separate purchase or acquisition, (b) as part of a business or entity combination, (c) through a non-exchange transaction, (d) by exchanges of assets, or (e) by self-creation (internal generation).
“’

a. Separate Purchase or Acquisition – the cost of a separately acquired intangible asset comprises:

1. its purchase price, including import duties and non-refundable taxes, after deducting trade discounts and rebates; and

2. any directly attributable cost of preparing the asset for its intended use, such as costs of employee benefits and professional fees arising directly from bringing the asset to its working condition, and costs of testing whether the asset is functioning properly. (*Pars. 34 and 35, PPSAS 31*)

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment. (*Par. 39, PPSAS 31*)

Examples of expenditures that are not part of the cost of an intangible asset are:

1. Costs of introducing a new product or service (including costs of advertising and promotional activities);

2. Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and

3. Administration and other general overhead costs.

b. Entity Combination – intangible assets acquired in an entity combination shall be measured at its fair value on the date of acquisition.

c. Non-Exchange Transactions – intangible asset acquired free of charge or for nominal consideration, through a non-exchange transaction, shall be initially recognized at fair value at the date it is acquired.

d. Exchanges of Assets – the cost of such an intangible asset acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

e. Internal Generation – to assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into: (a) research phase; and (b) development phase.

   1. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only. (*Pars. 50-51, PPSAS 31*)

   2. No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred. Examples of research activities are:

      i. Activities aimed at obtaining new knowledge;

ii. The search for, evaluation and final selection of, applications of research findings or other knowledge;

iii. The search for alternatives for materials, devices, products, processes, systems or services; and

iv. The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services. (*Pars. 52 and 54, PPSAS 31)*

3. An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:

   i. The technical feasibility of completing the intangible asset so that it will be available for use or sale;

   ii. Its intention to complete the intangible asset and use or sell it;

   iii. Its ability to use or sell the intangible asset;

   iv. How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

   v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

   vi. Its ability to measure reliably the expenditure attributable to the intangible asset during its development. (*Par. 55, PPSAS 31*)

4. Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognized as intangible assets since these cannot be distinguished from the cost of developing the entity's operations as a whole. (*Par. 61, PPSAS 31*)

5. The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Reinstatement of expenditure previously recognized as an expense is prohibited.

6. The following are not components of the cost of an internally generated intangible asset:

   i. Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

   ii. Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and

   iii. Expenditure on training staff to operate the asset. (*Par. 65, PPSAS 31*)

Sec. 7. Recognition of an Expense. Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date. (*Par 70, PPSAS 31*)

Sec. 8. Measurement after Initial Recognition. After initial recognition, intangible assets should be carried at its cost less any accumulated amortization and any accumulated impairment losses.

Sec. 9. Useful Life. Intangible assets are classified as having: (a) Indefinite life – no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provides service potential to, the entity; and (b) Finite life – a limited period of benefit to the entity.

a. An intangible asset with a finite useful life is amortized on a straight line method while an intangible asset with an indefinite useful life is not. (*Par. 88, PPSAS 31*)

b. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. As a guideline, the finite useful life of intangible assets shall be 2 to 10 years. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale). (*Par. 96, PPSAS 31*)

Sec. 10. Residual Value. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

a. There is a commitment by a third party to acquire the asset at the end of its useful life; or

b. There is an active market for the asset, and: (1) residual value can be determined by reference to that market; and (2) it is probable that such a market will exist at the end of the asset's useful life.

Sec. 11. Amortization of Intangible Assets. The amortization period and amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with PPSAS 3.

Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.

An intangible asset with an indefinite useful life shall not be amortized.

Sec. 12. Subsequent Expenditure. Subsequent expenditure on an intangible asset shall be recognized as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

Sec. 13. Impairment. An entity is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount: (a) annually; and (b) whenever there is an indication that the intangible asset may be impaired.

An entity shall assess intangible assets with definite useful life at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount or the recoverable amount of the asset**.**

The procedures in determining the amount of impairment loss and reversal for cash generating assets, if any, are provided in Sections 17 and 18, respectively, of Chapter 9-Investment Property of this Manual.

The procedures in determining the amount of impairment loss and reversal for non-cash generating assets, if any, are provided in Chapter 10-Property, Plant and Equipment of this Manual.

Sec. 14. Derecognition. An intangible asset shall be derecognized (a) on disposals (including disposal through a non-exchange transaction); or (b) when no future economic benefits or service potential are expected from its use or disposal.

If, in accordance with the recognition principle in Sec. 4 of this Chapter, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an intangible asset, then it derecognizes the carrying amount of the replaced part. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or internally generated.

The consideration receivable on disposal of an intangible asset is recognized initially at its fair value. If payment for the intangible asset is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with PPSAS 9-Revenue from Exchange Transactions reflecting the effective yield on the receivable.

Sec. 15. Gain or Loss arising from Derecognition. The gain or loss arising from derecognition (eliminated from statement of financial position) of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized. Gains shall be classified as revenue.

Sec. 16. Disclosure. For each class of intangible asset, distinguishing between internally generated intangible assets and other intangible assets, an entity shall disclose the following:

a. Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;

b. The amortization method used, which is straight line method, for intangible assets with finite useful lives;

c. The gross carrying amount, any accumulated amortization and any accumulated impairment losses at the beginning and end of the period;

d. The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;

e. A reconciliation of the carrying amount at the beginning and end of the period showing:

    1. Additions, indicating separately those from those internal development, those acquired separately;

    2. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations and other disposals;

    3. Impairment losses recognized in surplus or deficit during the period (if any);

    4. Impairment losses reversed in surplus or deficit during the period (if any);

    5. Any amortization recognized during the period; and

    6. Other changes in the carrying amount during the period.

f. For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;

g. A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the entity's financial statements;

h. For intangible assets acquired through a non-exchange transaction and initially recognized at fair value:

    1. The fair value initially recognized for these assets; and

    2. Their carrying amount.

i. The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities;

j. The amount of contractual commitments for the acquisition of intangible assets;

k. The aggregate amount of research and development expenditure recognized as an expense during the period;

l. An entity that recognized intangible heritage assets is not required to apply the measurement requirements of this chapter but must apply the following disclosure requirements:

    1. The measurement basis used;

    2. The amortization method used, if any;

    3. The gross carrying amount;

4. The accumulated amortization at the end of the period, if any; and

5. A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

m. An entity is encouraged, but not required, to disclose the following information:

1. A description of any fully amortized intangible asset that is still in use; and

2. A brief description of significant intangible assets controlled by the entity but not recognized as assets because they did not meet the recognition criteria in this Chapter.

Sec. 17. Illustrative Accounting Entries. The following are the illustrative accounting entries of a purchased software transactions:

a. Purchase of Intangible Assets

Example: An entity spent ₱5,600,000 (inclusive of VAT) in acquiring its new software package from outside party at the beginning of the year. Such software shall be installed and used to speed up processing the entity's operations. The useful life of the software is determined to be 10 years and no residual value was assigned to it.

Account Title	Account Code	Debit	Credit
Computer Software	10801020	₱ 5,600,000	
Due to BIR	20201010		₱ 350,000
Cash-Modified Disbursement System (MDS), Regular	10104040		5,250,000
To recognize the purchase of the software package			

b. Amortization at the end of the first year

Account Title	Account Code	Debit	Credit
Amortization-Intangible Assets	50502010	₱ 1,120,000	
Accumulated Amortization-Computer Software	10801021		₱ 1,120,000
To recognize the amortization of the software at the end of the first year (₱5,600,000/5 years = ₱1,120,000)			

c. Impairment Loss

Computer Software (with estimated useful life of 5 years)	₱5,600,000
Accumulated Amortization-Computer Software (for 3 years)	3,360,000
Carrying Amount	₱2,240,000
Fair Value (net of cost to sell) of Computer Software	₱2,200,000
Value in Use	₱2,000,000

Computation of impairment loss:	
Carrying Amount	₱2,240,000
Less: Recoverable amount (Fair Value)	2,200,000
Impairment Loss	₱ 40,000

The accounting entry to recognize impairment loss is as follows:

Account Title	Account Code	Debit	Credit
Impairment Loss-Intangible Assets *Computer Software-02*	50503110	₱40,000	
Accumulated Impairment Losses-Computer Software	10801012		₱40,000
To recognize impairment loss of the computer software			

Chapter 13

LEASES

Sec. 1. Scope. This Chapter covers the accounting standards and policies involving transactions on leases, except for agreements or contracts for services that do not transfer the right to use assets from one contracting party to the other. The herein discussion will involve standards on recognition, initial and subsequent measurement of leased assets and the disclosure requirements prescribed under PPSAS 13-Leases.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used shall be construed to mean as follows:

a. *Commencement of the lease term* – is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).

b. *Contingent rent* – is that portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).

c. *Economic life* – is either:

   1. The period over which an asset is expected to yield economic benefits or service potential to one or more users; or

   2. The number of production or similar units expected to be obtained from the asset by one or more users.

d. *Finance lease* – is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

e. *Gross investment in the lease* – is the aggregate of:

   1. The minimum lease payments receivable by the lessor under a finance lease; and

   2. Any unguaranteed residual value accruing to the lessor.

f. *Guaranteed residual value* – is:

   1. For a lessee, that part of the residual value that is guaranteed by the lessee, or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

   2. For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor that is financially capable of discharging the obligation under the guarantee.

g. *Inception of the lease* – is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

   1. A lease is classified as either an operating or a finance lease; and

   2. In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.

h. *Initial direct costs* – are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

i. *Interest rate implicit in the lease* – is the discount rate that, at the inception of the lease, causes the aggregate present value of:

   1. The minimum lease payments; and

   2. The unguaranteed residual value,

   to be equal to the sum of (a) the fair value of the leased asset and (b) any initial direct costs of the lessor.

j. *Lease* – is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.

k. *Lease term* – is the non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

l. *Lessee's incremental borrowing rate of interest* – is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

m. *Minimum lease payments* – are the payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

   1. For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

   2. For a lessor, any residual value guaranteed to the lessor by:

      a. The lessee;
      b. A party related to the lessee; or
      c. An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

   However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

n. *Net investment in the lease* – is the gross investment in the lease discounted at the interest rate implicit in the lease.

o. *Non-cancelable lease* – is a lease that is cancelable only:

1. Upon the occurrence of some remote contingency;

2. With the permission of the lessor;

3. If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or

4. Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

p. *Operating lease* – is a lease other than a finance lease.

q. *Unearned finance revenue* – is the difference between:

1. The gross investment in the lease; and

2. The net investment in the lease.

r. *Unguaranteed residual value* – is that portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

s. *Useful life* – is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

Sec. 3. Changes in Lease Payments between the Inception of the Lease and the Commencement of the Lease Term. A lease agreement or commitment may include a provision to adjust the lease payments (a) for changes in the construction or acquisition cost of the leased property, or (b) for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Sec. 4. Hire Purchase Contracts. The definition of a lease includes contracts for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfillment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Sec. 5. Classification of Leases. The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and gain from appreciation in value or realization of a residual value. Leases are classified either as finance lease or operating lease which classification depends on the substance of the transaction rather than the form of the contract.

The following are examples of situations that individually or in combination would normally lead to a lease being classified as:

a. Finance Lease

1. The lease transfers ownership of the asset to the lessee by the end of the lease term;

2. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

3. The lease term is for the major part of the economic life of the asset even if title is not transferred. A lease qualifies to be accounted for as finance lease if the contract is a non-cancellable contract;

4. At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset

5. The leased assets are of such a specialized nature that only the lessee can use them without major modifications;

6. The leased assets cannot easily be replaced by another asset;

7. If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

8. Gains or losses from the fluctuation in the fair value of the residual (leased asset) accrue to the lessee (for example in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and

9. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

b. Operating Lease. A lease is classified as an operating lease if it does not transfer substantially all the risk and rewards incidental to ownership.

Sec. 6. Lease of Land and Building. The following are policies regarding lease of land and building:

d. When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease.

e. The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification.

f. To classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

g. If the amount that would initially be recognized for the land element is immaterial, the land and buildings may be treated as a single unit and classified as a finance or operating lease. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

Sec. 7. Accounting for Leases. Accounting for leases shall be made according to their classification, as follows:

a. Finance Lease – Lessee's Books

1. At the commencement of the lease term, lessees shall recognize assets acquired under finance lease as assets, and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities shall be recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used;

2. Initial direct costs incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements, which are identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognized as an asset;

3. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability;

4. Contingent rents shall be charged as expenses in the period in which they are incurred; and

5. A finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognized shall be calculated in accordance with PPSAS 17-Property, Plant and Equipment, and PPSAS 31-Intangible Assets, as appropriate. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term or its useful life.

b. Finance Lease – Lessor's Books

1. Lessors shall recognize lease payments receivable at an amount equal to the net investment in the lease;

2. Initial direct costs such as commissions, legal fees and internal costs are often incurred by lessors in negotiating and arranging a lease. Such initial direct costs are included in the initial measurement of the finance lease receivable, and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable;

3. The recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Lease payments relating to the accounting period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue; and

4. Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the revenue allocation over the lease term is revised, and any reduction in respect of amounts already accrued is recognized immediately.

c. Operating Lease – Lessee's Books

1. Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the user's benefit.

d. Operating Lease – Lessor's Books

1. Lease revenue from operating leases shall be recognized as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefits derived from the leased asset is diminished;

2. Initial direct costs, such as finder's fee and legal expenses, incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset, and recognized as an expense over the lease term on the same basis as the lease revenue; and

3. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with PPSAS 17 or PPSAS 31, as appropriate.

Sec. 8. Illustrative Accounting Entries. The following are the illustrative accounting entries to recognize lease transactions both in the lessee's and lessor's books of accounts:

Case 1: Finance Lease – Lessee

On January 2, 2014, Entity A (Lessee) entered into a 20-year lease on office building. The ownership of the building will be turned over to the lessee at the end of the lease term. The lease requires 20 equal annual amount, payable beginning December 31, 2014. Implicit interest rate is 6%, which is known to lessee. Periodic lease payment is ₱100,000. The carrying amount and fair value of the office building on January 2, 2014 is ₱1,150,000 and the estimated useful life is 20 years. The present value factor is rounded to 5 decimal places. The amortization table following the effective interest method is shown in the succeeding page:

Date	Payment	Interest	Principal	Present Value
January 1, 2014				1,146,992.00
December 31, 2014	100,000.00	68,819.52	31,180.48	1,115,811.52
December 31, 2015	100,000.00	66,948.69	33,051.31	1,082,760.21
December 31, 2016	100,000.00	64,965.61	35,034.39	1,047,725.82
December 31, 2017	100,000.00	62,863.55	37,136.45	1,010,589.37
December 31, 2018	100,000.00	60,635.36	39,364.64	971,224.74
December 31, 2019	100,000.00	58,273.48	41,726.52	929,498.22
December 31, 2020	100,000.00	55,769.89	44,230.11	885,268.11
December 31, 2021	100,000.00	53,116.09	46,883.91	838,384.20
December 31, 2022	100,000.00	50,303.05	49,696.95	788,687.25
December 31, 2023	100,000.00	47,321.24	52,678.76	736,008.49
December 31, 2024	100,000.00	44,160.51	55,839.49	680,169.00
December 31, 2025	100,000.00	40,810.14	59,189.86	620,979.14
December 31, 2026	100,000.00	37,258.75	62,741.25	558,237.88
December 31, 2027	100,000.00	33,494.27	66,505.73	491,732.16
December 31, 2028	100,000.00	29,503.93	70,496.07	421,236.09
December 31, 2029	100,000.00	25,274.17	74,725.83	346,510.25
December 31, 2030	100,000.00	20,790.62	79,209.38	267,300.87
December 31, 2031	100,000.00	16,038.05	83,961.95	183,338.92
December 31, 2032	100,000.00	11,000.34	88,999.66	94,339.25
December 31, 2033	100,000.00	5,660.75	94,339.25	-

The **Present Value (PV) factor** used in the amortization table is 11.46992 which is based on the present value annuity table where payment will be at end of the period. Thus, the present value of ₱1,146,992 is equal to ₱100,000 multiplied by 11.46992.

Payment = annual lease payments
Interest = preceding present value multiplied by 6%
Principal = rental payment less the interest
Present Value = balance of lease liability or the preceding present value less principal.

The illustrative entries to recognize the transactions in the books of the Entity A (Lessee) shall be as follows:

Account Title	Account Code	Debit	Credit
January 2, 2014			
Leased Assets, Buildings and Other Structures	10608020	₱1,146,992	
Finance Lease Payable	20101070		₱1,146,992
To recognize lease payable computed as follows: (PV of MLP = ₱100,000 x 11.46992 = ₱1,146,992)			

Note: The assets and liabilities shall be recognized at the amounts equal to the fair value of the asset, or if lower, the present value of the minimum lease payments. Therefore, ₱1,146,992, the PV of the minimum lease payment, was used instead of the fair value of ₱1,150,000.

Account Title	Account Code	Debit	Credit
December 31, 2014			
Finance Lease Payable	20101070	₱31,180.48	
Interest Expenses	50301020	68,819.52	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱100,000.00
To recognize lease payment for the 1st year			
Depreciation-Leased Assets	50501080	₱54,482.12	
Accumulated Depreciation-Leased Assets, Buildings and Other Structures	10608021		₱54,482.12
To recognize depreciation for the year Depreciation = (₱1,146,992 – ₱57,349.60) ÷ 20 years			

Account Title	Account Code	Debit	Credit
December 31, 2015			
Finance Lease Payable	20101070	₱33,051.31	
Interest Expenses	20101050	66,948.69	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱100,000.00
To recognize lease payment for the 2nd year			
Depreciation-Leased Assets	50501080	₱54,482.12	
Accumulated Depreciation-Leased Assets, Buildings and Other Structures	10608021		₱54,482.12
To recognize depreciation for the year			
December. 31, 2016			
Finance Lease Payable	20101070	₱35,034.39	
Interest Payable	20101050	64,965.61	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱100,000.00
To recognize lease payment for the 3rd year			
Depreciation-Leased Assets	50501080	₱54,482.12	
Accumulated Depreciation-Leased Assets, Buildings and Other Structures	10608021		₱54,482.12
To recognize depreciation for the year			

Note: For the 4th to the 20th year, the illustrative entries shall be the same using the amount of interest expense and the reduction of lease liability shall be based on per amortization table while the annual depreciation expense shall be uniform up to the 20th year.

Case 2: Finance Lease – Lessor (Sales Type Lease)

On January 2, 2014, Entity B (Lessor), a dealer, leased to Entity A an office equipment recognized as Merchandise Inventory with an annual rental of ₱40,000 for 5 years payable beginning December 31, 2014. The estimated useful life of the office equipment is 5 years and the cost is ₱120,000. The implicit interest rate is 10% which is known to lessee. The present value factor is rounded to 5 decimal places.

Based on the Present Value Annuity Table – Payment at End of the Period, the PV factor is 3.79079.

Computation of Unearned Interest:

Gross Rentals (₱40,000 x 5)	₱200,000.00
Less: Present Value of annuity of 1 for 5 years at 10% (₱40,000 x 3.79079)	151,631.60
Unearned Interest Income	₱ 48,368.40

Computation of the Gross Profit on Sales:

Present Value of Rentals	₱151,631.60
Less: Cost of Merchandise Inventory (Office Equipment)	120,000.00
Gross Profit on Sales	₱ 31,631.60

The amortization table is shown below:

Date	Payment	Interest	Principal	Present Value
January 1, 2014				151,631.60
December 31, 2014	40,000.00	15,163.16	24,836.84	126,794.76
December 31, 2015	40,000.00	12,679.48	27,320.52	99,474.24
December 31, 2016	40,000.00	9,947.42	30,052.58	69,421.66
December 31, 2017	40,000.00	6,942.17	33,057.83	36,363.83
December 31, 2018	40,000.00	3,636.38	36,363.83	-

Payment = annual lease payments
Interest = preceding present value multiplied by 10%
Principal = rental payment less the interest
Present Value = balance of lease liability or the preceding present value less principal

The illustrative accounting entries in the books of Entity B (Lessor) shall be as follows:

Account Title	Account Code	Debit	Credit
January 2, 2014			
Finance Lease Receivable	10302020	₱200,000.00	
Sales Revenue	40202160		₱151,631.60
Deferred Finance Lease Revenue	20501010		48,368.40
To recognize finance lease receivable			
Cost of Sales	50402010	₱120,000.00	
Merchandise Inventory	10401010		₱120,000.00
To recognize the cost of sold office equipment			
December 31, 2014			
Cash-Collecting Officers	10101010	₱40,000.00	
Finance Lease Receivable	10302020		₱40,000.00
To recognize receipt of annual lease payment			
Deferred Finance Lease Revenue	20501010	₱15,163.16	
Interest Income	40202210		₱15,163.16
To recognize interest income for the year			

The Finance Lease Receivable in the Entity B's (Lessor) Statement of Financial Position shall be presented showing the gross receivable, the unearned interest income and the net carrying amount. For example, the Statement of Financial Position as at December 31, 2014 shall show the following:

	Current	Non-Current	Total
Finance Lease Receivable	₱40,000.00	₱120,000.00	₱160,000.00
Less: Unearned interest income	12,679.48	20,525.76	33,205.23
Net Carrying amount as at December 31, 2014	₱27,320.52	₱ 99,474.24	₱126,794.77

Account Title	Account Code	Debit	Credit
December 31, 2015			
Cash-Collecting Officers	10101010	₽40,000.00	
Finance Lease Receivable	10302020		₽40,000.00
To recognize receipt of annual lease payment			
Deferred Finance Lease Revenue	20501010	₽12,679.48	
Interest Income	40202210		₽12,679.48
To recognize interest income for the year			
December 31, 2016			
Cash-Collecting Officers	10101010	₽40,000.00	
Finance Lease Receivable	10302020		₽40,000.00
To recognize receipt of annual lease payment			
Deferred Finance Lease Revenue	20501010	₽9,947.42	
Interest Income	40202210		₽9,947.42
To recognize interest income for the year			
December 31, 2017			
Cash-Collecting Officers	10101010	₽40,000.00	
Finance Lease Receivable	10302020		₽40,000.00
To recognize receipt of annual lease payment			
Deferred Finance Lease Revenue	20501010	₽6,942.17	
Interest Income	40202210		₽6,942.17
To recognize interest income for the year			
December 31, 2018			
Cash-Collecting Officers	10101010	₽40,000.00	
Finance Lease Receivable	10302020		₽40,000.00
To recognize receipt of annual lease payment			
Deferred Finance Lease Revenue	20501010	₽3,636.17	
Interest Income	40202210		₽3,636.17
To recognize interest income for the year			

Case 3: Operating Lease

On January 2, 2014, Entity B purchased a machine for ₽1,600,000. On the same date, the machine was leased to Entity A for a non-cancelable term of 4 years. The machine is expected to have a useful life of 8 years. The machine is to be depreciated on straight-line basis without residual value. Initial direct costs incurred by Entity B were ₽40,000. Uneven lease payments by Entity A are to be made at the beginning of the year as follows:

January 2, 2014	₽ 400,000
January 2, 2015	480,000
January 2, 2016	360,000
January 2, 2017	300,000
Total	₽ 1,540,000

a. Operating Lease – Books of Entity B – Lessor

Account Title	Account Code	Debit	Credit
January 2, 2014			
Other Machinery and Equipment	10605990	₱1,600,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱1,600,000
To recognize acquisition of equipment for lease			
Other Machinery and Equipment	10605990	₱40,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱40,000
To recognize payment of initial direct costs in the acquisition of the equipment			
Cash-Collecting Officers	10101010	₱400,000	
Rent/Lease Income	40202050		₱385,000
Other Unearned Revenue	20502990		15,000
To recognize receipt of rent for the year (₱1,540,000/4yrs = ₱385,000)			

Note: If it is the policy of the agency/entity to recognize the rent/lease income and the corresponding finance charge on a monthly basis, the amounts should be recognized first under account Other Unearned Revenue and amortized monthly.

Account Title	Account Code	Debit	Credit
Cash-Treasury/Agency Deposits, Regular	10104010	₱400,000	
Cash-Collecting Officers	10101010		₱400,000
To recognize remittance of collection to the BTr			
December 31, 2014			
Depreciation-Machinery and Equipment	50501050	₱210,000	
Accumulated Depreciation-Other Machinery and Equipment	10605991		₱210,000
To recognize depreciation for the year			
₱1,600,000/8 = ₱200,000			
40,000/4 = 10,000			
Total ₱210,000			
January 2, 2015			
Cash-Collecting Officers	10101010	₱480,000	
Rent/Lease Income	40202050		₱385,000
Other Unearned Revenue	20502990		95,000
To recognize collection of income from leased property			
Cash-Treasury/Agency Deposits-Regular	10104010	₱480,000	
Cash-Collecting Officers	10101010		₱480,000
To recognize remittance to the BTr			
December 31, 2015			
Depreciation-Machinery and Equipment	50501050	₱210,000	
Accumulated Depreciation-Other Machinery and Equipment	10605991		₱210,000
To recognize depreciation for the year			

Account Title	Account Code	Debit	Credit
January 2, 2016			
Cash-Collecting Officers	10101010	₱360,000	
Other Unearned Revenue	20502990	250,000	
Rent/Lease Income	40202050		₱385,000
To recognize collection of income from leased property			
Cash-Treasury/Agency Deposits, Regular	10104010	₱360,000	
Cash-Collecting Officers	10101010		₱360,000
To recognize remittance of collection to the BTr			
December 31, 2016			
Depreciation-Machinery and Equipment	50501050	₱210, 000	
Accumulated Depreciation-Other Machinery and Equipment	10605991		₱210,000
To recognize depreciation for the year			
January 2, 2017			
Cash-Collecting Officers	10101010	₱300,000	
Other Unearned Revenue	20502990	85,000	
Rent/Lease Income	40202050		₱385,000
To recognize collection of income from leased property			
Cash-Treasury/Agency Deposits, Regular	10104010	₱300,000	
Cash-Collecting Officers	10101010		₱300,000
To recognize remittance to the BTr			
December 31, 2017			
Depreciation-Machinery and Equipment	50501050	₱210,000	
Accumulated Depreciation-Other Machinery and Equipment	10605991		₱210,000
To recognize depreciation for the year			

b. Operating Lease – Books of Entity A – Lessee

Account Title	Account Code	Debit	Credit
January 2, 2014			
Rent/Lease Expenses	50299050	₱385,000	
Prepaid Rent	19902020	15,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱400,000
To recognize rent/lease expense for the year			
January 2, 2015			
Rent/Lease Expenses	50299050	₱385,000	
Prepaid Rent	19902020	95,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱480,000
To recognize rent/lease expense for the year			
January 2, 2016			
Rent/Lease Expenses	50299050	₱385,000	

Account Title	Account Code	Debit	Credit
Prepaid Rent	19902020		₱ 25,000
Cash-Modified Disbursement System (MDS), Regular	10104040		360,000
To recognize rent/lease expense for the year			
January 2, 2017			
Rent/Lease Expenses	50299050	₱385,000	
Prepaid Rent	19902020		₱ 85,000
Cash-Modified Disbursement System (MDS), Regular	10104040		300,000
To recognize rent/lease expense for the year			

Sec. 9. Disclosure. The financial statements shall have the following disclosures for finance lease and operating lease:

a. Finance Lease – Lessee:

1. For each class of asset, the net carrying amount at the reporting date;

2. A reconciliation between the total of the future minimum lease payments at the reporting date, and their present value;

3. In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:

   i. Not later than one year;
   ii. Later than one year and not later than five years; and
   iii. Later than five years;

4. Contingent rents recognized as an expense in the period;

5. The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date; and

6. A general description of the lessee's material leasing arrangements including, but not limited to, the following:

   i. The basis on which contingent rent payable is 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 return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

b. Finance Lease – Lessor:

1. A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:

i. Not later than one year;
ii. Later than one year and not later than five years; and
iii. Later than five years;

2. Unearned finance revenue;

3. The unguaranteed residual values accruing to the benefit of the lessor;

4. The accumulated allowance for uncollectible minimum lease payments receivable;

5. Contingent rents recognized in the statement of financial performance; and

6. A general description of the lessor's material leasing arrangements.

c. Operating Lease – Lessee:

1. The total of future minimum lease payments under non-cancelable operating leases for each of the following period;

   i. Not later than one year;
   ii. Later than one year and not later than five years; and
   iii. Later than five years;

2. The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date;

3. Lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and

4. A general description of the lessee's significant leasing arrangements including, but not limited to, the following:

   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 return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

d. Operating Lease – Lessor:

1. The future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following period;

   i. Not later than one year;
   ii. Later than one year and not later than five years; and
   iii. Later than five years;

2. Total contingent rents recognized in the statement of financial performance in the period; and

3. A general description of the lessor’s leasing arrangements.

Chapter 14

SERVICE CONCESSION ARRANGEMENTS: GRANTOR

Sec. 1. Scope. This Chapter provides standards, policies, guidelines and procedures of accounting for service concession arrangements by the grantor, a public sector entity. This includes the recognition of service concession asset, liability, revenue, expenses and equity, and the required presentation and disclosures in the financial statements.

Sec. 2. Definition of Terms. For the purpose of this Manual and this Chapter, the terms used as stated below shall be construed as follows:

a. *Binding Arrangements* – are contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

b. *Grantor* – is the public sector entity that grants the right to use the service concession asset to the operator.

c. *Operator* – is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

d. *Service Concession Arrangement* – is a binding arrangement between a grantor and an operator in which:

    1. The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and

    2. The operator is compensated for its services over the period of the service concession arrangement.

e. *Service Concession Asset* – is an asset used to provide public services in a service concession arrangement that:

    1. Is provided by the operator which:

        i. the operator constructs, develops, or acquires from a third party;
        ii. or is an existing asset of the operator; or

    2. Is provided by the grantor which:

        i. is an existing asset of the grantor; or
        ii. is an upgrade to an existing asset of the grantor. (*Par. 8, PPSAS 32*)

Sec. 3. Recognition and Measurement of a Service Concession Asset. The service concession assets shall be recognized and measured as follows:

a. The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

    1. The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and

2. The grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement. (*Par. 9, PPSAS 32*)

The grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools, or universities) as the grantor (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if, for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met. (*AG7, PPSAS 32*)

Control should be distinguished from management. If the grantor retains both the degree of control described in item a.1 and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf—even though, in many cases, it may have wide managerial discretion. (*AG10, PPSAS 32*)

b. This Chapter also applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the conditions in Sec. 3 (a) of this Chapter are met.

The assessment of whether a service concession asset should be recognized in accordance with Sec. 3 or the preceding paragraph for a whole-of-life asset is made on the basis of all of the facts and circumstances of the arrangement. (*AG5, PPSAS 32*)

c. The grantor shall initially measure the service concession asset as follows:

1. At fair value, if the service concession assets is provided by the operator in accordance with this Section; or

2. At cost in accordance with PPSAS 17-Property, Plant and Equipment and PPSAS 31-Intangible Assets, as appropriate, if the service concession assets are reclassified from the existing assets of the grantor.

d. After initial recognition or reclassification, service concession assets shall be accounted for as a service concession assets (separate class of PPE) or service concession intangible assets (separate class of intangible assets), as appropriate.

Sec. 4. Concession Arrangements Provided under R.A. No. 7718. The following are examples of service concession arrangements provided under R.A. No. 7718, An Act Amending Certain Sections Of Republic Act No. 6957, Entitled "An Act Authorizing The Financing, Construction, Operation And Maintenance Of Infrastructure Projects By The Private Sector, And For Other Purposes",:

a. Build-operate-and-transfer (BOT) – A contractual arrangement whereby the project proponent undertakes the construction, including financing, of a given infrastructure facility, and the operation and maintenance thereof. The project proponent operates the facility over a fixed term during which it is allowed to charge facility users appropriate tolls, fees, rentals, and charges not exceeding those proposed in its bid or as negotiated and incorporated in the contract to enable the project proponent to recover its investment, and operating and maintenance expenses in the project. The project proponent transfers the facility to the government agency or local government unit concerned at the end of the fixed term that shall not exceed fifty (50) years. This shall include a supply-and-operate situation which is a contractual arrangement whereby the supplier of equipment and machinery for a given infrastructure facility, if the interest of the Government so requires, operates the facility providing in the process technology transfer and training to Filipino nationals.

b. Build-transfer-and-operate (BTO) – A contractual arrangement whereby the public sector contracts out the building of an infrastructure facility to a private entity such that the contractor builds the facility on a turn-key basis, assuming cost overruns, delays, and specified performance risks. Once the facility is commissioned satisfactorily, title is transferred to the implementing agency. The private entity however operates the facility on behalf of the implementing agency under an agreement.

c. Contract-add-and-operate (CAO) – A contractual arrangement whereby the project proponent adds to an existing infrastructure facility which it is renting from the Government and operates the expanded project over an agreed franchise period. There may or may not be a transfer arrangement with regard to the added facility provided by the project proponent.

   If there will be transfer of the added facility to the public sector at the end of the arrangement, this shall be treated as service concession arrangement, for the purpose of this Manual.

d. Develop-operate-and-transfer (DOT) – A contractual arrangement whereby favorable conditions external to a new infrastructure project which is to be built by a private project proponent are integrated into the arrangement by giving that entity the right to develop adjoining property, and thus, enjoy some of the benefits the investment creates such as higher property or rent values.

e. Rehabilitate-operate-and-transfer (ROT) – A contractual arrangement whereby an existing facility is turned over to the private sector to refurbish, operate and maintain for a franchise period, at the expiry of which the legal title to the facility is turned over to the Government. The term is also used to describe the purchase of an existing facility from abroad, importing, refurbishing, erecting and consuming it within the host country.

Sec. 5. Recognition and Measurement of Liabilities. The service concession liabilities shall be recognized and measured as follows:

a. Where the grantor recognizes a service concession asset, the grantor shall also recognize a liability at the same amount as with the service concession asset, adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

b. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

c. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

   1. Making payments to the operator (the "financial liability" model);

   2. Compensating the operator by other means (the "grant of a right to the operator" model) such as:

i. Granting the operator the right to earn revenue from third-party users of the service concession asset; or
ii. Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility). (*Par. 17, PPSAS 32*)

Sec. 6. Financial Liability Model. A model where the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized as a financial liability.

a. The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator.

b. The finance charge and charges for services provided by the operator in a service concession arrangement shall be accounted for as expenses.

c. Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the grantor to the operator shall be allocated by reference to the relative fair values of the service concession asset and the services. Where the asset and service components are not separately identifiable, the service component of payments from the grantor to the operator is determined using estimation techniques.

Sec. 7. Grant of a Right to the Operator Model. Where the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability recognized as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

As the right granted to the operator is effective for the period of the service concession arrangement, the grantor does not recognize revenue from the exchange immediately. Instead, a liability (Deferred Service Concession Revenue) is recognized for any portion of the revenue that is not yet earned. The revenue (Service Concession Revenue) is recognized according to the economic substance of the service concession arrangement, and the liability (Deferred Service Concession Revenue) is reduced as revenue (Service Concession Revenue) is recognized.

Sec. 8. Dividing the Arrangement. If the grantor pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability (Service Concession Arrangements Payable) and partly by the grant of a right to the operator (Deferred Service Concession Revenue), it is necessary to account separately for each part of the total liability. The amount initially recognized for the total liability shall be the same amount as the service concession asset adjusted by the amount of any other consideration (e.g., cash) from the grantor to the operator, or from the operator to the grantor.

Sec. 9. Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets. The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with PPSAS 19 for Provisions, Contingent Liabilities and Contingent Assets, and PPSAS 28-30 for Financial Instruments, discussed in Chapters 18 and 7 of this Manual, respectively.

Sec. 10. Other Revenues. The grantor shall account for revenues from a service concession arrangement, other than those specified in Sec. 7 (revenue arising from exchanges of assets between the grantor and the operator under the Grant of a Right to the Operator Model) in accordance with PPSAS 9-Revenue from Exchange Transactions discussed in Chapter 5-Revenue and Other Receipts of this Manual.

Examples of these arrangements are: when an operator uses (a) a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or (b) a private parking facility adjacent to a public facility, where the recognition criteria provided in Sec. 3 are met.

Sec. 11. Impairment of Service Concession Assets. The grantor shall apply the procedures in determining the amount of impairment loss and reversal for cash generating assets, if any, provided in Sections 17 and 18, respectively, of Chapter 9-Investment Property of this Manual.

The procedures in determining the amount of impairment loss and reversal for non-cash generating assets, if any, are provided in Chapter 10-Property, Plant and Equipment of this Manual.

Sec. 12. Derecognition of Service Concession Assets. If the service concession asset no longer meets the conditions for recognition in Sec. 3, the grantor follows derecognition principles in Chapter 10-Property, Plant and Equipment, and Chapter 12-Intangible Assets of this Manual, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction.

Sec. 13. Presentation and Disclosure. The financial statements shall have the following disclosures for service concession assets:

a. The grantor shall present information in accordance with the presentation and disclosure of assets, liabilities, revenue, expenses, and net assets/equity provided in Chapter 19-Financial Reporting of this Manual.

b. All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:

    1. A description of the arrangement;

    2. Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);

    3. The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:

        i. Rights to use specified assets;
        ii. Rights to expect the operator to provide specified services in relation to the service concession arrangement;
        iii. Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;

iv. Rights to receive specified assets at the end of the service concession arrangement;
v. Renewal and termination options;
vi. Other rights and obligations (e.g., major overhaul of service concession assets); and
vii. Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and

4. Changes in the arrangement occurring during the reporting period.

Sec. 14. Illustrative Accounting Entries. The illustrative entries related to service concession arrangements are presented below:

a. Financial Liability Model

Account Title	Account Code	Debit	Credit
Service Concession-Road Networks	10611010	xxx	
Service Concession Arrangement Payable	20101090		xxx
To recognize the service concession asset			
Interest Expenses	50301020	xxx	
Service Concession Arrangement Payable	20101090		xxx
To recognize the finance charge prior to payment being made			
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
Subsidy from National Government	40301010		xxx
To recognize receipt of NCA for payment of liabilities			
Depreciation-Service Concession *01-Road Network*	50501110	xxx	
Accumulated Depreciation-Service Concession-Road Networks	10611011		xxx
To recognize depreciation expense			
Service Concession Arrangement Payable	20101090	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
To recognize payment of liabilities			

b. Grant of Right to the Operator Model

Account Title	Account Code	Debit	Credit
Service Concession-Road Networks	10611010	xxx	
Deferred Service Concession Revenue	20501020		xxx
To recognize construction and upgrade on service concession assets made by the operator			

Account Title	Account Code	Debit	Credit
Deferred Service Concession Revenue	20501020	xxx	
Service Concession Revenue	40202240		xxx

To recognize the revenue earned by the operator on third party user of service concession asset

Detailed illustrative entries related to service concession arrangements are shown in Chapter 22 of this Manual.

Chapter 15

INTERESTS IN JOINT VENTURES

Sec. 1. Scope. This Chapter covers the accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:

a. Venture capital organizations; or

b. Mutual funds, unit trusts and similar entities including investment linked insurance funds

that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with PPSAS 29, Financial Instruments: Recognition and Measurement. A venturer holding such an interest shall make the disclosures required under Sec. 13 items (c) and (d) of this Chapter.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms as stated below shall be construed to mean as follows:

a. *Equity method* – is a method of accounting whereby an interest in a jointly controlled entity is initially recognized at cost, and adjusted thereafter for the post-acquisition change in the venturer's share of net assets/equity of the jointly controlled entity. The surplus or deficit of the venturer includes the venturer's share of the surplus or deficit of the jointly controlled entity.

b. *Joint control* – is the agreed sharing of control over an activity by a binding arrangement.

c. *Joint Venture* – Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity that is subject to joint control.

d. *Significant influence* – is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

e. *Venturer* – is a party to a joint venture and has joint control over that joint venture. (*Par. 6, PPSAS 8*)

Sec. 3. Forms and Structures of Joint Ventures. The following are the three forms and structures of joint ventures:

a. Jointly controlled operations;

b. Jointly controlled assets; and

c. Jointly controlled entities.

Sec. 4. Jointly Controlled Operations. In a jointly controlled operation, a venturer uses its own assets in the joint venture and, because it controls those assets, continues to recognize them in its financial statements. The venturer also recognizes the liabilities and expenses that it incurs, and its share of income from sales by the joint venture. Each venturer records joint venture transactions in their own books of account.

Sec. 5. Jointly Controlled Assets. In respect of an interest in jointly controlled assets, a venturer recognizes in its financial statements its share of the jointly controlled assets, classified according to the nature of assets rather than as an investment. It also recognizes its share of any jointly incurred liabilities and expenses, and revenue from the sale or use of its share of the output of the joint venture. Similarly with the jointly controlled operations, each venturer recognizes joint venture transactions in their own books of account.

Sec. 6. Jointly Controlled Entities. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a binding arrangement between the venturers establishes joint control over the activity of the entity. (*Par. 29, PPSAS 8*)

A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture. (*Par. 30, PPSAS 8*)

A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with IPSASs, or other accounting standards if appropriate. (*Par. 33, PPSAS 8*)

Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its financial statements as an investment in the jointly controlled entity. (*Par. 34, PPSAS 8*)

Sec. 7. Financial Statements of a Venturer. A venturer shall recognize its interest in a jointly controlled entity using the equity method.

The interest of the venturer in the jointly controlled entity is to be initially recognized at cost. The carrying amount of the investment is adjusted subsequently to recognize the venturer's share in the surplus or deficit of the jointly controlled entity. The investment is decreased for every distributions received. The carrying amount will also be adjusted to reflect the venturer's proportionate interest in the adjusted net assets of the jointly controlled entity, if the net assets did change. The entity shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.

Sec. 8. Exceptions to Equity Method. Interests in jointly controlled entities for which there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition, and that management is actively seeking a buyer, as set out in paragraph 3(a) of PPSAS 8-Interests in Joint Ventures, shall be classified as held for trading and accounted for in accordance with Chapter 7-Financial Instruments of this Manual.

Sec. 9. Separate Financial Statements of a Venturer. An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 58-64 of PPSAS 6. This Chapter does not mandate which entities produce separate financial statements available for public use.

Sec. 10. Transactions between a Venturer and a Joint Venture. When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognize only that portion of the gain or loss that is attributable to the interests of the other venturers. The venturer shall recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

When a venturer purchases assets from a joint venture, the venturer shall not recognize its share of the gains of the joint venture from the transaction until it resells the assets to an independent party. A venturer shall recognize its share of the losses resulting from these transactions in the same way as gains, except that losses shall be recognized immediately when they represent a reduction in the net realizable value of current assets or an impairment loss.

Sec. 11. Reporting Interests in Joint Ventures in the Financial Statements of an Investor. An investor in a joint venture that does not have joint control, but does have significant influence, shall account for its interest in a joint venture as an investment in associates.

Guidance on accounting for interests in joint ventures where an investor does not have joint control or significant influence can be found in PPSAS 29-Financial Instruments: Recognition and Measurement.

Sec. 12. Operators of Joint Ventures. Operators or managers of a joint venture shall account for any fees in accordance with PPSAS 9-Revenue from Exchange Transactions.

Management fee paid to venturer as operator or manager of a joint venture shall be accounted for as an expense in the books of the joint venture.

Sec. 13. Disclosure. A venturer shall disclose:

a. The aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:

    1. 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;

    2. Its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and

    3. Those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture;

b. A brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:

    1. Any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets that have arisen jointly with other venturers; and

    2. Its share of the contingent assets of the joint ventures themselves.

c. The aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

1. 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

2. Its share of the capital commitments of the joint ventures themselves.

d. A listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognizes its interests in jointly controlled entities using the equity method shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue, and expenses related to its interest in joint ventures; and

e. The method it uses to recognize its interests in jointly controlled entities.

Sec. 14. Illustrative Accounting Journal Entries. The following are accounting journal entries to recognize the Joint Venture transactions for jointly controlled operations, jointly controlled assets and jointly controlled entities:

a. Jointly Controlled Operations

Entities A and B tendered jointly for a public contract with an LGU to construct a motorway between two municipalities. Following the tender process, the LGU awarded the contract jointly to entities A and B. In accordance with the contractual arrangements, entities A and B are jointly contracted with the LGU for delivery of the motorway in return for a fixed price contract of ₱16 million.

In accordance with the agreement between entities A and B:

1. Entities A and B each used their own equipment and employees in the construction activity:

2. Entity A constructed three bridges needed to cross rivers on the route at a cost of ₱5 million;

3. Entity B constructed all of the other elements of the motorway at a cost of ₱7 million; and

4. Entities A and B shared equally in the ₱16 million jointly invoiced from the LGU.

The journal entries in the venturer books to account for their interests in the joint venture (jointly controlled operation) are as follows:

Account Title	Account Code	Debit	Credit
Entity A			
Construction in Progress-Infrastructure Assets	10699020	₱5,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱5,000,000
To recognize payment for the construction cost incurred for putting up three bridges			

Account Title	Account Code	Debit	Credit
Road Networks	10603010	₱5,000,000	
Construction in Progress-			
Infrastructure Assets	10699020		₱5,000,000
To recognize completion of construction of three bridges			
Cash in Bank-Local Currency,			
Current Account	10102020	₱8,000,000	
Road Networks	10603010		₱5,000,000
Other Business Income	40202990		3,000,000
To recognize the revenue earned and the turn-over to LGU of the completed three bridges			
Entity B			
Construction in Progress-			
Infrastructure Assets	10699020	₱7,000,000	
Cash in Bank-Local Currency,			
Current Account	10102020		₱7,000,000
To recognize payment for the construction cost incurred for putting up the all other elements of the motorway			
Road Networks	10603010	₱7,000,000	
Cash in Bank-Local Currency,			
Current Account	10102020		₱7,000,000
To recognize construction cost incurred for building all of the other elements of the motorway			
Cash in Bank-Local Currency,			
Current Account	10102020	₱8,000,000	
Road Networks	10603010		₱7,000,000
Other Business Income	40202990		1,000,000
To recognize the revenue earned and the turn-over to LGU of the completed elements of motorway			

The above illustration is an example of a jointly controlled operation because entities A and B have retained control of the assets they use to perform the contract requirements and are responsible for their respective liabilities. They meet their respective contractual obligations by providing construction services to the LGU. Entities A and B recognize in their financial statements their own PPE and operating assets. They also recognize the income and expenses associated with providing construction services to the LGU.

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b. Jointly Controlled Assets

Entities A, B and C contractually form a Joint Venture operation on January 2, 2014 to construct an oil well to extract oil that each of the venturer will purify. The three companies agree to contribute the following amounts of capital to the venture in the same proportion as their rights to the assets and outputs.

Entity	Amount of Capital Contribution	Share %
A	₱37,500,000	50%
B	22,500,000	30%
C	15,000,000	20%
	₱75,000,000	100%

On January 15, 2012 the resources are used to purchase land for ₱15 million and an oilrig and other equipment for ₱35 million. The balance of ₱25 million will be called on by the joint venture manager as required. B and C companies borrowed ₱5 million and ₱7 million, respectively, to finance their contributions to the joint venture.

Account Title	Account Code	Amount in thousand pesos					
		A		**B**		**C**	
		Debit	Credit	Debit	Credit	Debit	Credit
Land	10601010	₱7,500		₱4,500		₱3,000	
Construction and Heavy Equipment	10605080	17,500		10,500		7,000	
Cash in Bank-Local Currency, Current Account	10102020		₱25,000		₱10,000		₱3,000
Loans Payable-Domestic	20102040				5,000		7,000
To recognize the jointly controlled assets in the books of the venturers							

c. Jointly Controlled Entities

Entities M and N were partners in a joint venture, Entity MN, sharing profits and losses at 80% and 20%, respectively. Details are as follows:

Particulars	Entity M	Entity N	Entity MN
Cash contributed	₱1,600,000	₱400,000	₱2,000,000
Merchandise Inventory contributed	7,200,000	1,800,000	9,000,000
Merchandise Inventory, end			700,000
Sales			12,000,000
Expenses			600,000
Net Profit	2,480,000	620,000	3,100,000

The journal entries in the books of the joint venture and co-venturer are as follows:

Account Title	Account Code	Debit	Credit
Entity M			
Investment in Joint Venture	10205010	₱1,600,000	
Cash in Bank-Local Currency, Current Account	10102020		₱1,600,000
To recognize the cash contributed to Entity MN			
Investment in Joint Venture	10205010	₱7,200,000	
Merchandise Inventory	10401010		₱7,200,000
To recognize the value of goods given to Entity MN			

Account Title	Account Code	Debit	Credit
Investment in Joint Venture	10205010	₱2,480,000	
Share in the Profit of Joint Venture	40202220		₱2,480,000
To recognize the share in the profit of joint venture, Entity MN			

Entity N

Account Title	Account Code	Debit	Credit
Investment in Joint Venture	10205010	₱400,000	
Cash in Bank, Local Currency, Current Account	10102020		₱400,000
To recognize the cash contributed to Entity MN			
Investment in Joint Venture	10205010	₱1,800,000	
Merchandise Inventory	10401010		₱1,800,000
To recognize the value of goods given to Entity MN			
Investment in Joint Venture	10205010	₱620,000	
Share in the Profit of Joint Venture	40202220		₱620,000
To recognize the share in the profit of joint venture, Entity MN			

Chapter 16

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Sec. 1. Scope. This Chapter covers the accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of PPSAS 29-Financial Instruments: Recognition and Measurement.

Sec. 2. Definition of Terms. For the purpose of this Manual and this Chapter, the terms used as stated below shall be construed as follows:

a. *Closing rate* – the spot exchange rate at the reporting date.

b. *Exchange difference* – the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. (*Par. 10, PPSAS 4*)

c. *Exchange Rate* – the ratio of exchange for two currencies. (*Par. 10, PPSAS 4*)

d. *Foreign Currency* – the currency other than the functional currency of the entity. (*Par. 10, PPSAS 4*)

e. *Foreign Currency Transactions* – are transactions that are denominated and require settlement in foreign currency, including transactions arising when an entity:

   1. Buys or sells goods or services whose price is denominated in a foreign currency;

   2. Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

   3. Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency. (*Par. 23, PPSAS 4*)

f. *Functional Currency* – the currency of the primary economic environment in which the entity operates. (*Par. 10, PPSAS 4*)

g. *Monetary items* – are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. (*Par. 10, PPSAS 4*)

h. *Non-Monetary items* – items which essential feature is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. (*Par. 17, PPSAS 4*)

i. *Spot exchange rate* – the exchange rate for immediate delivery. (*Par. 10, PPSAS 4*)

Sec. 3. Initial Recognition. A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. (*Par. 24, PPSAS 4*)

For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. (*Par. 25, PPSAS 4*)

Sec. 4. Measurement at Reporting Date. At each reporting date:

a. Foreign currency monetary items shall be translated using the closing rate;

b. Nonmonetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

c. Nonmonetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. (*Par. 27, PPSAS 4*)

Sec. 5. Recognition of Exchange Difference of Monetary Items. Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognized in surplus or deficit in the period in which they arise. (*Par. 32, PPSAS 4*)

Sec. 6. Recognition of Exchange Difference of Non-Monetary Items. When a gain or loss on a nonmonetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a nonmonetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit. (*Par. 35, PPSAS 4*)

Sec. 7. Accounting for Change in Functional Currency. The entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change. (*Par. 40, PPSAS 4*) The entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for nonmonetary items are treated as their historical cost. (*Par. 42, PPSAS 4*) The functional currency can only be changed if there are modifications to the underlying transactions, events, and conditions that are relevant to the entity.

When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change. (*Par. 40, PPSAS 4*)

The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for nonmonetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 37 and 44(c) are not recognized in surplus or deficit until the disposal of the operation. (*Par. 42, PPSAS 4*)

An entity's functional currency reflects the underlying transactions, events, and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events, and conditions. (*Par. 15, PPSAS 4*)

Sec. 8. Accounting for Translation of Financial Statements to a Presentation Currency other than the Functional Currency. The financial performance and financial position of an entity shall be translated into a different presentation currency using the following procedures:

a. Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

b. Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and

c. All resulting exchange differences shall be recognized as a separate component of net assets/equity. *(Par. 44, PPSAS 4)*

The financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures: (a) Assets and liabilities for each statement of financial position presented (i.e., including comparatives) shall be translated at the closing rate at the date of that statement of financial position; (b) Revenue and expenses for each statement of financial performance (i.e., including comparatives) shall be translated at exchange rates at the dates of the transactions; and (c) All resulting exchange differences shall be recognized as a separate component of net assets/equity. (*Par. 44, PPSAS 4*)

Sec. 9. Disclosures and Presentation. The entity shall disclose:

a. The amount of exchange differences recognized in surplus or deficit; and

b. Net exchange differences recognized and accumulated in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

Sec. 10. Illustrative Accounting Entries. The illustrative accounting entries at initial recognition, at reporting date and settlement are as follows:

Example: On June 2, 2014, the BTr received credit advice amounting to $1,000,000 from the BSP for loan received from WB for the rehabilitation of roads in provinces affected by calamities. The loan is payable within 30 years. Exchange rate at the transaction date is ₱46:$1.

a. At initial recognition:

Account Title	Account Code	Debit	Credit
Cash in Bank-Foreign Currency, Bangko Sentral ng Pilipinas	10103010	₱46,000,000	
Loans Payable-Foreign	20102050		₱46,000,000
To recognize the loan received from World Bank			

b. At the reporting date:

Assume that at year-end (reporting date) the exchange rate is ₱47:$1.

Account Title	Account Code	Debit	Credit
Loss on Foreign Exchange	50504010	₱1,000,000	
Loans Payable-Foreign	20102050		₱1,000,000
To recognize the change in the foreign exchange rate at reporting date (₱47 x $1,000,000) – ₱46,000,000 = ₱1,000,000			

c. At the settlement date:

Assume that payment of 1st installment is on June 30, 2013 of $33,333. As at that date, the exchange rate is ₱45:$1.

Account Title	Account Code	Debit	Credit
Loans Payable-Foreign	20102050	₱1,566,666.67	
Cash in Bank-Foreign Currency, Bangko Sentral ng Pilipinas	10103010		₱1,500,000.00
Gain on Foreign Exchange (FOREX)	40501010		66,666.67
To recognize the first installment payment (₱47 x $ 33,333.33) – (₱45 x $33,333.33) = ₱1,500,000			

Chapter 17

BORROWING COSTS

Sec. 1. Scope. This Chapter covers the definition, recognition and measurement, presentation and the adequate disclosures required in accordance with PPSAS 5 on Borrowing Costs. It also includes the policies and guidelines in accounting for borrowing costs.

Sec. 2. Definition of Terms. For the purpose of this Manual and this Chapter, the terms used as stated below shall be construed to mean as follows:

a. *Borrowing costs* – are interest and other expenses incurred by an entity in connection with the borrowing of funds. (*Par. 5, PPSAS 5*)

b. *Qualifying asset* – is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. (*Par. 5, PPSAS 5*)

Sec. 3. Composition of Borrowing Costs. Borrowing costs may include:

a. Interest on bank overdrafts and short-term and long-term borrowings;

b. Amortization of discounts or premiums relating to borrowings;

c. Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

d. Finance charges in respect of finance leases and service concession arrangements; and

e. Exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs. (*Par. 6, PPSAS 5*)

Sec. 4. Recognition: Benchmark Treatment. Borrowing costs shall be recognized as an expense in the period in which they are incurred. (Par. 14, PPSAS 5) For the borrowing costs pertaining to loans borrowed by the NG which are recognized by the Bureau of the Treasury, the benchmark treatment shall be used. (*PAG2, PPSAS 5*)

Sec. 5. Recognition: Allowed Alternative Treatment. Borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. Said costs shall be capitalized when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. (*Pars. 17, 18 & 19, PPSAS 5*)

For loans borrowed directly by the NGAs, the allowed alternative treatment shall be used (*PAG2, PPSAS 5*) and applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity. (*Par. 20, PPSAS 5*)

Sec. 6. Borrowing Costs Eligible for Capitalization. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period. (*Pars. 23 and 25, PPSAS 5*)

Sec. 7. Commencement of Capitalization. The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when outlays for the asset are being incurred, borrowing costs are being incurred, and activities that are necessary to prepare the asset for its intended use or sale are in progress. (*Par. 31, PPSAS 5*)

Sec. 8. Suspension of Capitalization. Capitalization of borrowing costs shall be suspended during extended periods in which active development is interrupted, and expensed. (*Par. 34, PPSAS 5*)

Sec. 9. Cessation of Capitalization. Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When the construction of a qualifying asset is completed in parts, and each part is capable of being used while construction continues on other parts, capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed. (*Pars. 36 and 38, PPSAS 5*)

Sec. 10. Disclosures. The financial statements shall disclose:

a. The accounting policy adopted for borrowing costs;

b. The amount of borrowing costs capitalized during the period; and

c. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization. (*Pars. 16 and 40, PPSAS 5*)

Sec. 11. Illustrative Accounting Entries. The following are the illustrative accounting entries for borrowing costs:

a. Specific Borrowings

Example: On January 2, 2014, Entity A obtained a loan for ₱10,000,000 at an interest rate of 10%, specifically to finance the construction of a building. The proceeds of the loan were temporarily invested and earned interest income amounting to ₱120,000. Total disbursements from January to December 2014 amounted to ₱35,000,000.

Actual interest on specific borrowing (10,000,000 x 10%)	₱ 1,000,000
Less: Interest earned	120,000
Total interest added to the cost of the asset	880,000
Total disbursements from Jan. to Dec. 2014	35,000,000
Total cost	₱ 35,880,000

The journal entries are as follows:

Account Title	Account Code	Debit	Credit
Construction in Progress-Buildings and Other Structures	10699030	₱1,000,000	
Interest Payable	20101050		₱1,000,000
To recognize interest on borrowings			
Cash in Bank-Local Currency, Current Account	10102020	₱ 120,000	
Construction in Progress-Buildings and Other Structures	10699030		₱ 120,000
To recognize interest in temporary investment			
Construction in Progress-Buildings and Other Structures	10699030	₱35,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱35,000,000
To recognize payments for the construction of building			

b. General Borrowings

Example: Entity A had the following general borrowings during 2014 that were used to finance the construction of its new building:

Date	Term	Interest Rate	Amount
January 2, 2014	5 yrs.	7.5 %	₱20,000,000
January 2, 2014	2 yrs.	12 %	30,000,000
Total borrowings			₱50,000,000

Entity A made the following disbursements in relation to the construction of its building which started on January 2 and was completed on December 31, 2014:

January 2	₱12,000,000
March 31	7,000,000
June 2	8,000,000
August 1	5,000,000
December 31	3,000,000
Total Disbursements	₱35,000,000

Interest was paid on December 31, 2014.

1. Computation of actual interest incurred

Interest rate	Loan Amount	Interest Cost
7.5%	₱20,000,000	₱1,500,000
12%	30,000,000	3,600,000
Total		₱5,100,000

2. Computation of Weighted Average Interest Rate

Total interest cost on general borrowing / Total general borrowings	=	5,100,000 / 50,000,000
Weighted Average Interest Rate	=	10.2 %

3. Computation of Weighted Average Accumulated Expenditure

January 2	₱12,000,000	x	12	=	₱144,000,000
March 31	7,000,000	x	9	=	63,000,000
June 2	8,000,000	x	7	=	56,000,000
August 1	5,000,000	x	5	=	25,000,000
December 31	3,000,000	x	0	=	
Total Disbursements	₱35,000,000				₱288,000,000
Divided by 12 months					12
Weighted Average Accumulated Expenditures					₱24,000,000

4. Computation of borrowing cost for capitalization

Weighted Average Accumulated Expenditure	₱24,000,000
x Weighted Average Interest Rate	10.2%
Borrowing Cost for capitalization	₱ 2,448,000

The journal entries are as follows:

Account Title	Account Code	Debit	Credit
Construction in Progress-Buildings and Other Structures	10699030	₱12,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱12,000,000
To recognize payments for the construction of building on January 2, 2014			
Construction in Progress-Buildings and Other Structures	10699030	₱7,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱7,000,000
To recognize payments for the construction of building on March 31, 2014			
Construction in Progress-Buildings and Other Structures	10699030	₱8,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱8,000,000
To recognize payments for the construction of building on June 2, 2014			
Construction in Progress-Buildings and Other Structures	10699030	₱5,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱5,000,000
To recognize payments for the construction of building on August 1, 2014			

Account Title	Account Code	Debit	Credit
Construction in Progress-Buildings and Other Structures	10699030	₱3,000,000	
Cash in Bank-Local Currency, Current Account	10102020		₱3,000,000
To recognize payments for the construction of building on December 31, 2014			
Construction in Progress-Buildings and Other Structures	10699030	₱2,448,000	
Interest Expenses	50301020	2,652,000	
Cash in Bank-Local Currency, Current Account	10102020		₱5,100,000
To recognize payment of interest on borrowings			

Chapter 18

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Sec. 1. Scope. This Chapter covers the definition, recognition, measurement, related disclosures and presentation of provisions, contingent liabilities and contingent assets prescribed under PPSAS 19.

Sec. 2. Definition of terms. For the purpose of this Manual and this Chapter, the terms used as stated below shall be construed to mean as follows:

a. *Constructive Obligation* – is an obligation that derives from an entity's actions where:

   1. By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

   2. As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

b. *Contingent Asset* – is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

c. *Contingent Liability* is:

   1. A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

   2. A present obligation that arises from past events, but is not recognized because:

      i. It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

      ii. The amount of the obligation cannot be measured with sufficient reliability. (*Par. 18, PPSAS 19*)

d. *Executory Contracts* – are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent. (*Par. 18, PPSAS 19*)

e. *Legal Obligation* – is an obligation that derives from:

   1. contract (through its explicit or implicit terms);

   2. legislation; or

   3. other operation of law. (*Par. 18, PPSAS 19*)

f. *Obligating Event* – is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation. (*Par. 18, PPSAS 19*)

g. *Onerous Contract* – is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it. (*Par. 18, PPSAS 19*)

h. *Provision* – is a liability of uncertain timing or amount. (*Par. 18, PPSAS 19*)

i. *Restructuring* – is a program that is planned and controlled by management, and materially changes either:

   1. The scope of an entity's activities; or

   2. The manner in which those activities are carried out. (*Par. 18, PPSAS 19*)

Sec. 3. Criteria for Recognition. A provision shall be recognized when:

a. An entity has a present obligation (legal or constructive) as a result of a past event;

b. It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

c. A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognized.

In some cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date. (*Par. 23, PPSAS 19*)

An entity shall not recognize a contingent liability. However, it is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. Likewise, an entity shall not recognize a contingent asset since this may result in the recognition of revenue that may never be realized. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable. (*Pars. 35, 36, 39, 41 and 42, PPSAS 19*)

Sec. 4. Measurement. A provision shall be measured as follows:

a. Best Estimate

   The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The best estimate is the amount that an entity would rationally pay to settle the obligation at reporting date or to transfer it to a third party at that time. (*Pars. 44 and 45, PPSAS 19*)

   The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. (*Par. 46, PPSAS 19*)

b. Risks and Uncertainties

The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision. (*Par. 50, PPSAS 19*)

c. Present Value

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted. (*Pars. 53 and 56, PPSAS 19*)

d. Future Events

Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur. (*Par. 58, PPSAS 19*)

e. Expected Disposal of Assets

Gains from the expected disposal of assets shall not be taken into account in measuring a provision. (*Par. 61, PPSAS 19*)

Sec. 5. Reimbursements. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement. (*Pars. 63 and 64, PPSAS 19*)

Sec. 6. Changes in Provisions. Provisions shall be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed. (*Par. 69, PPSAS 19*)

Sec. 7. Use of Provisions. A provision shall be used only for expenditures for which the provision was originally recognized. (*Par. 71, PPSAS 19*)

Sec. 8. Application of the Recognition and Measurement Rules

a. Future Operating Net Deficits

Provisions shall not be recognized for net deficits from future operating activities. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. (*Pars. 73 and 75, PPSAS 19*)

b. Onerous Contracts

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognized and measured as a provision. (*Par. 76, PPSAS 19*)

c. Restructuring

A constructive obligation to restructure arises only when an entity:

1. Has a detailed formal plan for the restructuring identifying at least:

    i. The activity/operating unit or part of an activity/operating unit concerned;
    ii. The principal locations affected;
    iii. The location, function, and approximate number of employees who will be compensated for terminating their services;
    iv. The expenditures that will be undertaken; and
    v. When the plan will be implemented; and

2. Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement. (*Par. 90, PPSAS 19*)

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

a. Necessarily entailed by the restructuring; and

b. Not associated with the ongoing activities of the entity. (*Par. 93, PPSAS 19*)

A restructuring provision does not include such costs as retraining or relocating continuing staff, marketing, or investment in new systems and distribution networks. (*Par. 94, PPSAS 19*)

Sec. 9. Disclosures. For each class of provision, an entity shall disclose:

a. The carrying amount at the beginning and end of the period;

b. Additional provisions made in the period, including increases to existing provisions;

c. Amounts used (that is, incurred and charged against the provision) during the period;

d. Unused amounts reversed during the period; and

e. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

f. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

g. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and

h. The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

i. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

j. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events; and

k. The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

l. Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

    1. An estimate of its financial effect;

    2. An indication of the uncertainties relating to the amount or timing of any outflow; and

    3. The possibility of any reimbursement.

m. Where an inflow of economic benefits or service potential is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect.

n. Unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

    1. An estimate of its financial effect;

    2. An indication of the uncertainties relating to the amount or timing of any outflow; and

    3. The possibility of any reimbursement.

o. Comparative information is not required. (*Pars. 97, 98, 100 and 105, PPSAS 19*)

Sec. 10. Illustrative Accounting Entries. The following are the illustrative accounting entries to recognize provisions books of accounts:

Example: The East Avenue Medical Center purchased medical equipment, with estimated useful life of five years, on January 2, 2014 with the following data:

Purchase price	₱1,000,000
Delivery cost	15,000
Dismantling cost at the end of five-year useful life	80,000

Computation of Cost:

Purchase price	₱1,000,000
Delivery cost	15,000
PV of Dismantling Cost (₱80,000 x 0.62092[1])	49,674
Total Cost	₱1,064,674

[1] – assumed: average borrowing rate at the time of acquisition is 10% (0.62092 is the PV factor of 1)

Computation of Interest Expense:

Year	Computation of Interest	Initial Cost	Interest	Carrying Amount
Year 1	₱ 49,674 x 10%	₱ 49,674	₱ 4,967	₱ 54,641
Year 2	54,641 x 10%		5,464	60,105
Year 3	60,105 x 10%		6,011	66,116
Year 4	66,116 x 10%		6,612	72,728
Year 5			7,272	80,000

Computation of Depreciation Expense:

Residual Value = ₱1,015,000 x 5% = ₱50,750

Note: PV of dismantling cost shall not be included in the computation of residual value

$$\text{Depreciation Expense} = \frac{₱1{,}064{,}674 - ₱50{,}750}{5 \text{ years}} = ₱202{,}785$$

The accounting entries shall be as follows:

Account Title	Account Code	Debit	Credit
January 2, 2014			
Medical Equipment	10605110	₱1,064,674	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱1,015,000
Other Provisions	20601990		49,674
To recognize cash purchase of medical equipment			
1st year – 2014 (Dec. 2014)			
Depreciation-Machinery and Equipment	50501050	₱202,785	
Accumulated Depreciation-Medical Equipment	10605111		₱202,785
To recognize the depreciation for the year			
Interest Expenses	50301020	₱4,967	
Other Provisions	20601990		₱ 4,967
To recognize the finance charges corresponding to the provisions for the year			

Chapter 19

FINANCIAL REPORTING

Sec. 1. Scope. This Chapter prescribes the manner in which the general purpose financial statements (GPFS) should be prepared and presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

It presents the:

a. overall considerations for the preparation and presentation of financial statements;

b. guidance for their structure;

c. minimum requirements for the content of financial statements prepared under the accrual basis of accounting as required by the PPSAS; and

d. other guidelines and requirements in the preparation of financial statements.

The recognition, measurement and disclosure of specific transactions and other events are discussed in other Chapters of this Manual.

Provisions of PPSAS 1-Presentation of financial statements and the applicable PAG shall be applied in the presentation and preparation of GPFS.

The application for the following PPSAS topics shall be discussed:

a. Presentation of Financial Statements;

b. Statement of Cash Flows;

c. Events after the Reporting Date;

d. Related Party Disclosures;

e. Accounting Policies, Changes in Accounting Estimates and Errors; and

f. Accounting Process

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

a. *Accounting Policies* – are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. (*Par. 7, PPSAS 3*)

b. *Cash* – comprises cash on hand and cash in bank (held under current and savings account) and cash treasury accounts.

c. *Cash Equivalents* – are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. (*Par. 8, PPSAS 2*)

d. *Cash Flows* – are inflows and outflows of cash and cash equivalents. (*Par. 8, PPSAS 2*)

e. *Change in accounting estimate* – is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors. (*Par. 7, PPSAS 3*)

f. *Financial Reporting* – is the process of preparation, presentation and submission of general purpose financial statements and other reports. The objective of financial reporting is to provide information about the entity that is useful to users for accountability purposes and decision-making.

g. *General Purpose Financial Statements* – are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. (*Par. 3, PPSAS 1*)

h. *Material omissions or misstatements of items* – are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. (*Par. 7, PPSAS 1*)

i. *Notes* – contain information in addition to that presented in the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and Statement of Cash Flows. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements. (*Par. 7, PPSAS 1*)

j. *Prospective application of a change in accounting policy* – means applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed. (*Par. 7, PPSAS 3*)

k. *Prospective application of recognizing the effect of a change in an accounting estimate* – means recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change. (*Par. 7, PPSAS 3*)

l. *Retrospective application* – is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied. (*Par. 7, PPSAS 3*)

m. *Retrospective restatement* – is correcting the recognition, measurement, and disclosure of amounts of elements of financial statements as if a prior period error had never occurred. (*Par. 7, PPSAS* 3)

Sec. 3. Purpose of Financial Statements

a. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

1. providing information about the sources, allocation, and uses of financial resources;

2. providing information about how the entity financed its activities and met its cash requirements;

3. providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

4. providing information about the financial condition of the entity and changes in it;

5. providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments;

b. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

    1. indicating whether resources were obtained and used in accordance with the legally adopted budget; and

    2. indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities. (*Par. 15-16 PPSAS 1*)

c. Financial statements provide information about an entity's:

    1. Assets;

    2. Liabilities;

    3. Net assets/equity;

    4. Revenue;

    5. Expenses;

    6. Other changes in net assets/equity;

    7. Cash flows; and

    8. Comparison of budget and actual amounts. (*Par. 17, PPSAS 1*)

Sec. 4. Responsibility for Financial Statements. The responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting entity, particularly the head of finance/accounting office and the head of entity or his authorized representative. The Statement of Management Responsibility for Financial Statements (*Annex G*) shall serve as the covering letter in transmitting the entity financial statements to the COA, and other regulatory agencies and other entities. It shows the entity's responsibility for the preparation and presentation of the financial statements.

Sec. 5. Components of Financial Statements. A complete set of financial statements (condensed and by fund cluster) to be submitted by an entity shall include the following:

a. Statement of Financial Position (SFP) (*Annex A*);

b. Statement of Financial Performance (SFPer) (*Annex B*);

c. Statement of Changes in Net Assets/Equity (SCNA/E) (*Annex C*);

d. Statement of Cash Flows (SCF) (*Annex D*);

e. Statement of Comparison of Budget and Actual Amount (SCBAA) (*Annex E*); and

f. Notes (*Annex F*), comprising a summary of significant accounting policies and other explanatory notes. (*Par. 21, PPSAS 1*)

For the purpose of preparing the Annual Financial Report, all national government agencies shall submit to the Government Accountancy Sector, COA detailed financial statements and trial balances by fund cluster.

Sec. 6. Qualitative Characteristics of Financial Reporting. An entity shall present information including accounting policies in a manner that meets the following qualitative characteristics enumerated in PPSAS 1:

a. Understandability – information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

b. Relevance – information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

c. Materiality – the relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error, judged in the particular circumstances of its omission or misstatement.

d. Timeliness – the usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

If there is an undue delay in the reporting of information, it may lose its relevance. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users. (*Appendix A, PPSAS 1*)

e. Reliability – reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

f. Faithful representation – information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

g. Substance over form – if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they be accounted for and presented in accordance with their substance and economic reality, and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

h. Neutrality – information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

i. Prudence – is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

j. Completeness – the information in financial statements should be complete within the bounds of materiality and cost.

k. Comparability – information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the comparison of financial statements of different entities and comparison of the financial statements of the same entity over periods of time. An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies, and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods. (*PPSAS 1*)

Sec. 7. Fair Presentation and Compliance with PPSAS. 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, revenue, and expenses set out in PPSASs. The application of PPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation. (*Par. 27, PPSAS 1*)

An entity whose financial statements comply with PPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with PPSASs unless they comply with all the requirements of PPSASs. (*Par. 28, PPSAS 1*)

A fair presentation also requires an entity:

a. To select and apply accounting policies in accordance with PPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. PPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item.

b. To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

c. To provide additional disclosures when compliance with the specific requirements in PPSASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. (*Par. 29, PPSAS 1*)

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material. (*Par. 30, PPSAS 1*)

Sec. 8. Going Concern. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. (*Par. 38, PPSAS 1*)

Sec. 9. Consistency of Presentation. The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

a. it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in PPSAS 3; or

b. a PPSAS requires a change in presentation. (*Par. 42, PPSAS 1*)

Sec. 10. Materiality and Aggregation. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial. (*Par. 45, PPSAS 1*)

Sec. 11. Offsetting. Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by a PPSAS. (*Par. 48, PPSAS 1*)

In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material. (*Par. 51, PPSAS 1*)

Sec. 12. Comparative Information. Except when a PPSAS permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. (*Par. 53, PPSAS 1*)

a. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:

    1. The nature of the reclassification;

    2. The amount of each item or class of items that is reclassified; and

    3. The reason for the reclassification. (*Par. 55, PPSAS 1*)

b. When it is impracticable to reclassify comparative amounts, an entity shall disclose:

    1. The reason for not reclassifying the amounts; and

    2. The nature of the adjustments that would have been made if the amounts had been reclassified. (*Par. 56, PPSAS 1*)

Sec. 13. Identification of the Financial Statements. The financial statements shall be identified clearly, and distinguished from other information in the same published document. (*Par. 61, PPSAS 1*). In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

a. The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;

b. Whether the financial statements cover the individual entity or a group of entity;

c. The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;

d. Name of fund cluster;

e. The reporting currency; and

f. The level of rounding used in presenting amounts in the financial statements. (*Par. 63, PPSAS 1*)

Sec. 14. Reporting Period. Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

a. The reason for using a longer or shorter period; and

b. The fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement, and related notes are not entirely comparable. (*Par. 66, PPSAS 1)*

Sec. 15. Statement of Financial Position. The Statement of Financial Position is a formal statement which shows the financial condition of the entity as at a certain date. It includes information on the three elements of financial position, namely, assets, liabilities and equity. The Statement of Financial Position shall be presented in comparative, detailed and condensed format.

a. Condensed Statement of Financial Position – presents only the major sub-classification of Statement of Financial Position accounts in the Revised Chart of Accounts. Condensed Statement of Financial Position shall be submitted at yearend to the concerned Auditor. Its breakdown and other relevant information shall be disclosed in the Notes to Financial Statements.

b. Detailed Statement of Financial Position – presents all Statement of Financial Position accounts in the Revised Chart of Accounts as a line item in the financial report. Detailed Statement of Financial Position shall be submitted at yearend to the Government Accountancy Sector, COA, as part of the yearend financial statements.

Sec. 16. Current/Non-current Distinction. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its Statement of Financial Position.

a. Current/Non-current Assets. An asset shall be classified as current when it satisfies any of the following criteria:

   1. It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;

   2. It is held primarily for the purpose of being traded;

   3. It is expected to be realized within twelve months after the reporting date; or

   4. It is 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 reporting date.

   All other assets shall be classified as non-current. (*Par. 76, PPSAS 1*)

b. Current/Non-current Liabilities. A liability shall be classified as current when it satisfies any of the following criteria:

   1. It is expected to be settled in the entity's normal operating cycle;

   2. It is held primarily for the purpose of being traded;

   3. It is due to be settled within twelve months after the reporting date; or

   4. The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

   All other liabilities shall be classified as non-current. *(Par. 79, PPSAS 1*)

Sec. 17. Information to be presented on the Face of Statement of Financial Position. As a minimum, the face of the Statement of Financial Position shall include line items that present the following amounts:

a. Cash and cash equivalents;

b. Receivables from exchange transactions;

c. Recoverable from non-exchange transactions (taxes and transfers);

d. Financial assets (excluding amounts shown under (a), (b) and (c));

e. Inventories;

f. Investment Property;

g. Property, Plant and Equipment;

h. Intangible assets;

i. Taxes and Transfers Payable;

j. Payables under exchange transactions;

k. Provisions;

l. Financial liabilities (excluding amounts shown under (h), (i) and (j)); and

m. Net assets/equity.

Additional line items, headings, and sub-totals shall be presented on the face of the Statement of Financial Position when such presentation is relevant to an understanding of the entity's financial position. (*Par. 89, PPSAS 1*)

An entity shall disclose, either on the face of the Statement of Financial Position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. (*Par. 93, PPSAS 1*)

Sec. 18. Statement of Financial Performance. The Statement of Financial Performance shows the results of operation/performance of the entity at the end of a particular period. All items of revenue and expense recognized in a period shall be included in surplus or deficit unless a PPSAS requires otherwise.

a. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period, as follows:

   1. The correction of prior period errors (*PPSAS 3*);

   2. The effect of changes in accounting policies (*PPSAS 3*); and

   3. Gains or losses on remeasuring available-for-sale financial assets. (*PPSAS 29*)

b. The Statement of Financial Performance shall be prepared in comparative detailed and comparative condensed format.

Sec. 19. Information to be presented in the Statement of Financial Performance. The presentation of information in the Statement of Financial Performance shall be governed by the following provisions:

a. As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:

1. Revenue;

2. Finance costs;

3. Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;

4. Gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and

5. Surplus or deficit. (*Par. 102, PPSAS 1*)

b. Additional line items, headings, and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance. (*Par. 104, PPSAS 1*)

c. When items of revenue and expense are material, their nature and amount shall be disclosed separately. (*Par. 105, PPSAS 1*)

d. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

   1. Write-downs of inventories to net realizable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

   2. Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

   3. Disposals of items of property, plant, and equipment;

   4. Privatizations or other disposals of investments;

   5. Discontinuing operations;

   6. Litigation settlements; and

   7. Other reversals of provisions. (*Par. 107, PPSAS 1*)

e. An entity shall present, either on the face of the statement of financial performance or in the notes:

   1. a sub-classification of total revenue, classified in a manner appropriate to the entity's operations (*Par. 108, PPSAS 1*); and,

   2. an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant. (*Par. 109, PPSAS 1*)

f. Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense. (*Par. 115, PPSAS 1*)

Sec. 20. Statement of Changes in Net Assets/Equity. The Statement of Changes in Net Assets/Equity shows the changes in equity between two accounting periods reflecting the increase or decrease in the entity's net assets during the year.

An entity shall present a statement of changes in net assets/equity showing on the face of the statement:

a. Surplus or deficit for the period;

b. Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items (example: unrealized gain/(loss) from changes in the fair value of financial assets);

c. Total revenue and expense for the period (calculated as the sum of (a) and (b);

d. The effects of changes in accounting policies and corrections of errors for each component of net asset/equity disclosed; and

e. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period.

Sec. 21. Statement of Comparison of Budget and Actual Amount. A separate additional financial statement for comparison of budget and actual amounts shall be prepared since the financial statements and budget of NGAs are not on the same accounting basis. (*PAG4, PPSAS 1*)

Sec. 22. Statement of Cash Flows. The Statement of Cash Flows summarizes the cash flows from operating, investing and financing activities of an entity during a given period. It identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date.

Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows. (*Par. 126, PPSAS 1*)

Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. (*Par. 9, PPSAS 2*)

Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents. (*Par. 11, PPSAS 2*)

Sec. 23. Presentation of Statement of Cash Flows. The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.

a. Operating Activities – Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity.

    1. Cash inflows from operating activities include, among others:

i. Cash receipt of assistance and subsidy from other NGAs, LGUs and GOCCs

ii. Receipt of NCA;

iii. Collection of income and revenues including tax revenues, service and business income, shares, grants, donations and prior year's income;

iv. Collection of loans, leases and other receivables including receivables from audit disallowances;

v. Cash receipt of trust liabilities and other trust receipts;

vi. Receipt of inter-entity and intra-entity fund transfers; and

vii. Receipt of advance payments, refunds, and other deferred credits.

2. Cash outflows from operating activities include, among others:

i. Yearend closing of remittances/deposits to National Treasury;

ii. Cash payments of expenses including replenishment of PCF;

iii. Cash payments to suppliers for goods and services;

iv. Cash payments for purchases of consumable biological assets;

v. Grant of cash advances;

vi. Prepayments and deposits;

vii. Payment of accounts payable;

viii. Payments representing financial assistance/subsidy;

ix. Remittances of personnel benefit contributions and mandatory deductions;

x. Cash payments in relation to litigation settlements;

xi. Release of inter/intra entity fund transfers; and

xii. Other cash disbursements included in the computation of surplus/deficit.

b. Investing Activities – Involve the acquisition and disposal of non-current assets and other investments not included in cash equivalent. These activities include cash transactions such as the purchase of PPE, short and long-term investments and other non-current assets.

1. Cash inflows under investing activities include, among others:

i. Cash receipts from sales/disposal of PPE, intangibles, investment property and other long-term assets;

ii. Cash receipts from sales of stocks, bonds, interests in joint ventures and other investments;

iii. Collection of long-term loans (other than advances and loans of a public financial institution);

iv. Proceeds from matured/return of investments; and

v. Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

2. Cash outflows under investing activities include, among others:

i. Cash payments to acquire PPE, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed PPE;

ii. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

iii. Cash advances and loans made to other parties (other than advances and loans made by a public financial institution); and

iv. Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

c. Financing Activities – Are activities concerning buildup of equity capital or borrowings of the entity. These include cash transactions involving the equity and non-current liabilities. Examples of cash flows arising from financing activities are:

1. Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

2. Cash repayments of amounts borrowed; and

3. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

The net increase in cash provided by (used in) operating activities, investing activities and financing activities for the year, and the cash balance at the start of the year, shall equal the cash balance at the end of the year as shown in the Statement of Financial Position.

Sec. 24. Direct Method of Reporting Cash Flows from Operating Activities. The entity shall report cash flows from operating activities using the direct method disclosing major classes of gross cash receipts and gross cash payments (*PAG2, PPSAS 2*). Information about major classes of gross cash receipts and gross cash payments may be obtained either:

a. From the accounting records of the entity; or

b. By adjusting operating revenues, operating expenses (interest and similar revenue, and interest expense and similar charges for a public financial institution) and other items in the statement of financial performance for:

1. Changes during the period in inventories and operating receivables and payables;

2. Other non-cash items; and

3. Other items for which the cash effects are investing or financing cash flows. (*Par. 28, PPSAS 2*)

Entities reporting cash flows from operating activities using the direct method shall provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities. This reconciliation shall be provided in the notes to the financial statements. (*Par. 29, PPSAS 2*)

Sec. 25. Reporting Cash Flows from Investing and Financing Activities. The entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in Sec. 26 of this Chapter are reported on a net basis. (*Par. 31, PPSAS 2*)

Sec. 26. Reporting Cash Flows on a Net Basis. Cash flows from operating, investing and financing activities may be reported on a net basis for:

a. Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity; and

b. Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. (*Par. 32, PPSAS 2*)

Sec. 27. Foreign Currency Cash Flows. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. (*Par. 36, PPSAS 2*)

Sec. 28. Unrealized Gains and Losses. These are unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates. (*Par. 39, PPSAS 2*)

Sec. 29. Components of Cash and Cash Equivalents. An entity should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the Statement of Financial Position. (*Par. 56, PPSAS 2*)

An entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity. (*Par. 59, PPSAS 2*)

Sec. 30. Notes to Financial Statements. Notes to financial statements are integral parts of the financial statements. Notes provide additional information and help clarify the items presented in the financial statements. It provides narrative description or disaggregation of items in the financial statements and information about them that do not qualify for recognition.

Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the Statement of Financial Position, Statement of Financial Performance, Statement of

Changes in Net Assets/Equity, and Statement of Cash Flows shall be cross-referenced to any related information in the notes. (*Par. 128, PPSAS 1*)

Sec. 31. Structure of the Notes to Financial Statements. The notes shall:

a. present information about the basis of preparation of the financial statements and the specific accounting policies used, in accordance with paragraphs 132-139;

b. disclose the information required by IPSASs that is not presented on the face of the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and Statement of Cash Flows; and

c. provide additional information that is not presented on the face of the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and Statement of Cash Flows, but that is relevant to an understanding of any of them. (*Par. 127, PPSAS 1*)

Sec. 32. Contents of Notes to FS. The Notes to Financial Statements should contain the following:

a. a statement of compliance with PPSASs;

b. summary of significant accounting policies adopted and followed by the reporting entity shall include:

    1. the measurement basis (or bases) used in preparing the financial statements;

    2. the extent to which the entity has applied any transitional provisions in any PPSAS; and

    3. the other accounting policies used that are relevant to an understanding of the financial statements;

c. supporting information for items presented on the face of the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity or Statement of Cash Flows, in the order in which each statement and each line item is presented; and

d. additional information required by PPSAS that is not shown on the face of the financial statements but is relevant to an understanding of any of them which includes the following:

    1. disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded or expenses incurred without appropriation/allotment, then details shall be disclosed; (*Par. 24 (b) PPSAS 1*)

    2. nature and extent of prior period errors; (*PPSAS 3*)

    3. events after the reporting date that have a material effect on the financial statements; (*PPSAS 14*)

    4. contingent liabilities (*PPSAS 19*), and unrecognized contractual commitments;

    5. related party disclosure (*PPSAS 20*); and

6. non-financial disclosures, e.g., the entity's financial risk management objectives and policies. (*PPSAS 15*)

Sec. 33. Events After the Reporting Date. Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

a. Adjusting events after the reporting date – those that provide evidence of conditions that existed at the reporting date; and

b. Non-adjusting events after the reporting date – those that are indicative of conditions that arose after the reporting date. (*Par. 5, PPSAS 14*)

The reporting date is set every end of the calendar year while the date on which the financial statements are authorized for issue is the date when the Statement of Management's Responsibility is approved by the Chief Executive or his authorized representative and the Head of Finance Department. (*PAG2, PPSAS 14*)

The chief accountant or the official in charge or keeping the accounts of a government agency shall submit to the Commission year-end trial balances and such other supporting or subsidiary statements as may be required by the Commission not later than the fourteenth day of February. Trial balances returned by the Commission for revision due to non-compliance with accounting rules and regulations, shall be resubmitted within three days after the date of receipt by the official concerned. (*Sec. 41(2), P.D. No. 1445)*

Sec. 34. Adjusting Events After the Reporting Date. The entity should adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date. Examples are as follows:

a. The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date;

b. The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example: (i) The bankruptcy of a debtor that occurs after the reporting date usually confirms that a loss already existed at the reporting date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and (ii)the sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;

c. The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

d. The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government entity under a revenue-sharing agreement in place during the reporting period;

e. The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

f. The discovery of fraud or errors that show that the financial statements were incorrect. (*Par 10-11, PPSAS 14)*

Sec. 35. Disclosures of Events after the Reporting Date. The required disclosures for events after the reporting date are as follows:

a. an entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact. (*Par. 26, PPSAS 14*)

b. if an entity receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, the entity shall update disclosures that relate to these conditions in the light of the new information. (*Par. 28, PPSAS 14*)

c. if non-adjusting events after the reporting date are material, nondisclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the entity shall disclose the following for each material category of non-adjusting event after the reporting date:

   1. the nature of the event; and

   2. an estimate of its financial effect or a statement that such an estimate cannot be made.

   The following, among others are examples of non-adjusting events after the reporting date which requires disclosure:

   1. an acquisition or disposal of a major controlled entity;

   2. announcement of a plan to discontinue an operation or a major program;

   3. major purchases and disposal of asset; and

   4. the destruction of a major building by a fire after the reporting date.

Sec. 36. Selection and Consistency in the Application of Accounting Policies. In choosing an accounting policy to be applied to a transaction, the entity shall consider the relevant PPSAS to be applied and any relevant application guidance issued by the Commission**.** An entity shall select and apply accounting policies consistently for similar transactions, other events and conditions, unless PPSAS specifically requires specific accounting policies.

Sec. 37. Changes in Accounting Policies. The entity should be consistent in the application of an accounting policy.

a. Change is not allowed in PPSAS unless the change:

   1. Is required by PPSAS; or

   2. Results in the financial statements that providing reliable and more relevant information about the effects of transactions, other events and conditions on the

entity’s financial position, financial performance, or cash flows. (*Par. 17, PPSAS 3*)

b. The following are considered changes in accounting policies:

   1. Change from one basis of accounting to another basis of accounting; and

   2. Change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting.

Sec. 38. Accounting for Changes in Accounting Policies. An entity shall account for a change in accounting policy resulting from the initial application of a PPSAS in accordance with the specific transitional provisions, if any (*Par. 24, PPSAS 3*). When an entity changes an accounting policy upon initial application of a PPSAS that does not include specific transitional provisions applying to that change, it shall apply the change retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change (*Par. 24 and 28, PPSAS 3*). When a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. (*Par. 27, PPSAS 3*)

Sec. 39. Disclosures for Changes in Accounting Policy. When initial application of an PPSAS (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:

a. the title of the Standard;

b. when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

c. the nature of the change in accounting policy;

d. when applicable, a description of the transitional provisions;

e. when applicable, the transitional provisions that might have an effect on future periods;

f. for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

g. the amount of the adjustment relating to periods before those presented, to the extent practicable; and

h. if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures. (*Par. 33, PPSAS 3*)

Sec. 40. Changes in Accounting Estimates. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

a. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. (*Par. 40, PPSAS 3*)

b. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required, of:

   1. tax revenue due to government;

   2. bad debts arising from uncollected receivables;

   3. inventory obsolescence;

   4. the fair value of financial assets or financial liabilities;

   5. the useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets; and

   6. warranty obligations. (*Par. 37, PPSAS 3*)

c. The effect of a change in an accounting estimate shall be recognized prospectively by including it in surplus or deficit in:

   1. the period of the change, if the change affects the period only; or

   2. the period of the change and future periods, if the change affects both.

d. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change. (*Par. 42, PPSAS 3*)

Sec. 41. Disclosures for Changes in Accounting Estimates. The required disclosures for changes in accounting estimates are as follows:

a. the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect (*Par. 44, PPSAS 3*); and

b. if the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact. (*Par. 45, PPSAS 3*)

Sec. 42. Errors. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. Financial statements do not comply with PPSASs if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's Statement of Financial Position, Statement of Financial Performance, or Statement of Cash Flows.

a. Errors may be classified as current period errors and prior period errors.

1. Current period errors – are errors committed and discovered within the same period. It shall be corrected by an adjusting entry, within the same year before the financial statements are authorized for issue.

2. Prior period errors – are omissions from, and misstatements in, the entities' financial statements for one or more prior periods arising from failure to use, or misuse of reliable information that**:**

   i. was available when financial statements for those periods were authorized for issue; and

   ii. could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

b. An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

1. restating the comparative amounts for prior period(s) presented in which the error occurred; or

2. if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented. (*Par. 47, PPSAS 3*)

c. The correction of a prior period error is excluded from the computation of income and expense for the period in which the error is discovered. (*Par. PPSAS 3*)

Sec. 43. Limitations of Retrospective Restatement of Prior Period Errors. The limitations of retrospective restatement of prior period errors are as follows:

a. A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error. (*Par. 48, PPSAS 3*)

b. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period). (*Par. 49, PPSAS 3*)

c. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable. (*Par. 50, PPSAS 3*)

Sec. 44. Disclosure of Prior Period Errors. An entity shall disclose the following:

a. the nature of the prior period error;

b. for each prior period presented, to the extent practicable, the amount of the correction for each financial statements line item affected;

c. the amount of the correction at the beginning of the earliest prior period presented; and

d. if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures. (*Par. 54, PPSAS 3*)

Sec. 45. Retrospective Restatement of Errors. The following is an sample illustration of retrospective restatement of errors:

Entity ABC discovered in 2015 that the revenue recognized in 2014 has been inadvertently omitted in the amount of ₱6,200,000.

The entity's Statement of Financial Performance and Statement of Changes in Net Assets/Equity before adjustment of the error for 2014 and 2015 are as follows:

Entity ABC
Statement of Financial Performance

a. Before adjustment

Particular	2015	2014
Revenue	₱ 50,000,000	₱ 40,500,000
Other Operating Revenue	20,100,000	18,000,000
Total Revenue	70,100,000	58,500,000
Expenses	(55,000,000)	(45,000,000)
Surplus	₱ 15,100,000	₱ 13,500,000

Entity ABC
Statement of Changes in Net Assets/Equity

Particular	2015	2014
Opening accumulated surpluses	₱ 103,500,000	₱ 90,000,000
Surplus for the period	15,100,000	13,500,000
Closing accumulated surplus	₱ 118,600,000	₱ 103,500,000

b. The entity shall make the following adjustments:

1. Prepare adjusting entry to recognize the adjustment of the 2014 revenue in 2015;

Account Title	Account Code	Debit	Credit
Accounts Receivables (or applicable account)	10301010	₱6,200,000	
Accumulated Surplus/(Deficit)	30101010		₱6,200,000
To correct the revenue inadvertently omitted in 2014			

2. Restate in the comparative financial statements the amounts for prior period/s to reflect the change; and

3. Restate the opening balances of assets, liabilities and equity for 2015.

Entity ABC
Statement of Financial Performance

c. After adjustment

Particular	2015	2014 As Restated
Revenue	₽ 50,000,000	₽ 46,700,000
Other Operating Revenue	20,100,000	18,000,000
Total Revenue	70,100,000	64,700,000
Expenses	(55,000,000)	(45,000,000)
Surplus	₽ 15,100,000	₽ 19,700,000

d. Notice that the Revenue, Total Revenue and the Surplus figures presented in 2014 are already the adjusted amounts. Statement of Changes in Net Assets/Equity are as follows:

Entity ABC
Statement of Changes in Net Assets/Equity

Particular	2015	2014 As Restated
Opening Accumulated Surplus/(Deficit) as previously reported	₽ 103,500,000	₽ 90,000,000
Correction of error	6,200,000	-
Opening Accumulated Surplus/(Deficit) as restated	109,700,000	90,000,000
Surplus for the period	15,100,000	19,700,000
Closing Accumulated Surplus/(Deficit)	₽ 124,800,000	₽ 109,700,000

e. Surplus for the period for 2014 are already adjusted, while the opening Accumulated Surpluses in 2015 is restated.

f. Extracts from Notes to the Financial Statements in 2015

Business and Operating Income of ₽6,200,000 was inadvertently omitted from the financial statements of 2014. The financial statements of 2014 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 2015 Statement of Financial Performance.

Effect on 2014 Statement of Financial Performance

Particular	Amount
Increase in Business and Operating Income	₽6,200,000
Increase in Net Income	₽6,200,000

Effect on 2015 Statement of Financial Position

Particular	Amount
Increase in Accounts Receivables	₽6,200,000
Increase in Net Asset/Equity	₽6,200,000

Sec. 46. Interim Financial Statements. Financial statements that are required to be prepared at any given period or at a financial reporting period without closing the books of accounts. The following interim financial statements shall be prepared and submitted whenever needed:

a. Statement of Financial Position;

b. Statement of Financial Performance;

c. Statement of Cash Flows;

d. Statement of Changes in Net Assets/Equity;

e. Statement of Comparison of Budget and Actual Amount; and

f. Notes to Financial Statements.

The interim financial statements shall be prepared employing the same accounting principles used for annual reports. Adjusting and closing journal entries shall be prepared. However, only the adjusting journal entries are recognized in the books of accounts. To facilitate the preparation of the interim financial statements, the use of the worksheet is recommended.

Sec. 47. Preparation and Submission of Other Reports. In addition to the set of financial statements enumerated in Section 5 of this Chapter, the following reports/ schedules/statements shall be submitted to GAS, COA:

a. Pre-Closing Trial Balances

b. Post-Closing

c. Other schedules

    1. Regional Breakdown of Income

    2. Regional Breakdown of Expenses

Sec. 48. Trial Balance. Trial Balance (TB) is a list of all the GL accounts and their balances at a given time. The accounts are listed in the order in which they appear in the RCA, with the debit balances in the left column and the credit balances in the right column.

a. The TB shows the equality of debit and credit balances of all GL accounts as at a given period. It is prepared and submitted monthly, quarterly and annually. At the end of the fiscal year, the pre-closing and the post-closing trial balances shall be prepared.

b. The TB is prepared to:

    1. Prove the mathematical equality of the debits and credits after posting;

    2. Check the accuracy of the postings;

    3. Uncover errors in journalizing and posting; and

    4. Serve as basis for the preparation of the financial statements.

Sec. 49. Pre-Closing Trial Balance. The Pre-Closing Trial Balance shall be prepared after posting the AJE in the GJ and the same to the GL. It shows the adjusted balances of all accounts as at a given period. This is also described/termed as the Adjusted Trial Balance. The TB shall be supported with the schedule of SL balances of the controlling accounts.

Sec. 50. Adjusting Journal Entries. Adjusting journal entries are made at the end of an accounting period to allocate revenue and expenses to the period in which they actually occurred. AJEs are required every time a financial statement is prepared to make the statement truly reflective of the financial condition of the entity at a given period. Adjustments are of two main types:

a. Accrued items

b. Deferred items

Sec. 51. Other Adjustments. The following adjustments shall also be made (if applicable) for fair presentation of the results of operation of the entity in the financial statements:

a. Unused NCA (National)

b. Petty Cash Fund

c. Unreleased Commercial Checks

d. Allowance for/Accumulated Impairment Losses of asset accounts

e. Write-down of Inventories

f. Correction/Reclassification Entries

g. Adjustment for reversal of Impairment Losses

h. Depreciation Expense

i. Exchange differences on foreign currency

j. Other adjustments

Sec. 52. Adjustment for Accrued Items. It is an adjusting entry for an economic activity already undertaken but not yet recognized into asset and revenue accounts or liability and expense accounts. It requires asset/revenue adjustments and liability/expense adjustments.

a. Asset/Revenue Adjustment. It involves earned revenues not yet recognized as assets and income at the end of the accounting period. Examples are receivables for revenues already earned but not yet collected nor billed as at the year-end. The adjusting journal entry are as follows:

Account Title	Account Code	Debit	Credit
Interest Receivable	10301050	xxx	
Interest Income	40202210		xxx
To recognize interest income already earned			

b. Liability/Expense Adjustment. It involves expenses, which have already been incurred but remained unpaid at the end of the accounting period. Examples are salaries and wages, water, electricity and other expenses which are already incurred but not yet paid. The adjusting journal entry are as follows:

Account Title	Account Code	Debit	Credit
Salaries and Wages-Regular	50101010	xxx	
Due to Officers and Employees	20101020		xxx
To recognize salaries and wages not yet paid			

Sec. 53. Adjustment for Deferred Items. These are adjusting entries transferring data previously recognized in an asset account to an expense account, or data previously recognized in a liability account to a revenue account. In contrast to the accrued items, it requires asset/expense adjustments and liability/revenue adjustments.

a. Asset/Expense Adjustments**.** These pertain to assets, portion of which are consumed/used/incurred at the end of the accounting period. Examples of these adjustments are prepayments. Prepayments are expenses paid before they are incurred. At the end of the accounting period, the expired portion shall be determined and an adjusting journal entry shall be prepared to recognize the expense applicable to the period being reported.

Account Title	Account Code	Debit	Credit
Original Entry:			
Prepaid Rent	19902020	₱ 1,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 1,000
Adjusting Entry:			
Rent/Lease Expenses	50299050	₱ 900	
Prepaid Rent	19902020		₱ 900

b. Liability/Revenue Adjustments. For accounting purposes, the cash received does not represent revenue until it has been earned. Thus, the recognition of revenue must be deferred until it is earned. Advance income collections are recognized by debiting Cash and by crediting a liability account for unearned revenue. As unearned revenue is earned, an adjusting journal entry is made at the end of each period to transfer the appropriate amount from the liability account to revenue account. This adjustment reflects the fact that all or part of the entity's obligation to its customers has been fulfilled and that revenue has been realized.

Account Title	Account Code	Debit	Credit
Original Entry:			
Cash-Modified Disbursement System (MDS), Regular	10104040	₱ 1,000	
Other Unearned Revenue	20502990		₱ 1,000
Adjusting Journal Entry:			
Other Unearned Revenue	20502990	₱ 900	
Other Service Income	40201990		₱ 900

Sec. 54. Petty Cash Fund Adjustments. At the end of the year, all unreplenished Petty Cash Fund expenses shall be reported and supporting papers submitted to the Accounting

Division/Unit, to recognize the expenses incurred to the period to which they relate. In case no replenishment could be made for lack of fund, a JEV shall be prepared to recognize all the expenses paid under the Petty Cash with a credit to the account "Petty Cash". If replenishment is made, the credit shall be the appropriate cash account.

Sec. 55. Reversion of Unused Notice of Cash Allocation. For NGAs receiving subsidies from the national government in the form of NCA, adjusting journal entry shall be made for the reversion of the unused or unutilized NCA at the end of the accounting period. The entry for lapsed regular NCA and those issued for the payment of accounts payable/retirement gratuity/terminal leave, shall be:

Account Title	Account Code	Debit	Credit
Subsidy from National Government	40301010	₱ 10,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 10,000

For unused NCA issued for the release of performance/bidders/bail bonds, which were deposited with the National Treasury, a JEV shall be drawn with debit to account "Cash-Treasury/Agency Deposit, Trust" and credit to account "Cash-Modified Disbursement System (MDS), Trust."

Sec. 56. Adjustments for Unreleased Commercial Checks. A Schedule of Unreleased Commercial Checks shall be prepared by the Cashier for submission to the Accounting Division/Unit. All unreleased checks at the end of the year shall be reverted back to the cash accounts. A JEV shall be prepared to recognize the restoration of the cash equivalent to the unreleased checks and the recognition of the appropriate liability/payable account. The accounting entry for the restoration of the unreleased check to the cash account shall be a debit to "Cash in Bank, Local Currency Current" account with credit to the appropriate liability account. There shall be no physical cancellation of the checks. The JEV supporting such restoration shall form part of the supporting document to the financial statements to be submitted to COA at year end. At the start of the ensuing year, another JEV shall be drawn to reverse the previous entry made and recognize the availability of the checks for release. This procedure shall not apply to account "Cash-Modified Disbursement System (MDS)" since there is no actual cash with the GSBs.

Sec. 57. Closing Journal Entries. Closing journal entries are entries which close out the balances of all nominal/temporary and intermediate accounts at the end of the year. The closure will reduce the balance of those accounts to zero. The nominal and intermediate accounts that shall be closed at the end of the year are as follows:

a. Balance of all revenue accounts to the "Revenue and Expense Summary" account;

b. Balance of all expense accounts to the "Revenue and Expense Summary" account;

c. Balance of the "Revenue and Expense Summary" to the "Accumulated Surplus/(Deficit)" account;

d. Balance of all "Cash-Treasury/Agency Deposit, Regular" to the "Accumulated Surplus/(Deficit)" account; and

e. Other Closing Entries.

For the purpose of preparing the financial statements for the first, second and third quarters, the closing entries shall be prepared, but shall not be recorded in the books of accounts.

Sec. 58. Post-Closing Trial Balance. The Post-Closing Trial Balance shall be prepared at the end of the year after preparing and posting the closing journal entries in the GJ and posting to the GL. Since revenue and expense accounts have been closed out, the only accounts with balances are balance sheet or real accounts.

Sec. 59. Narrative Procedures. The procedures in the preparation and submission of trial balances and other reports are as follows:

Area of Responsibility	Seq. No.	Activity
		Preparation of Unadjusted Trial Balance
Accounting Division/Unit		
Bookkeeper/ Designated Staff	1	Posts the monthly summarized journal entries from the Special Journals and GJ to the respective GLs.
	2	Posts the source/summarizing documents to the respective SLs.
		Note 1 – The summarizing/source documents are the following: • Report of Collections and Deposits • Report of Checks Issued • Report of Advice to Debit Account Issued • Report of Cash Disbursements • Registries of OUs without complete set of books • Journal Entry Voucher • Disbursement Voucher • Other Supporting Documents
Bookkeeper/ Designated Staff	3	Foots and extracts the balances of the GLs and SLs
	4	Based on the balances in the GL, prepares the unadjusted Trial Balance to check the equality of debits and credits. Files temporarily.
		Preparation of Pre-Closing Trial Balance
	5	Prepares AJE through the JEV for unrecorded transactions and for all accounts that need to be adjusted/corrected (Refer to Sections 50-56 of this Chapter).
	6	Records the JEV in the GJ and affected SLs.
	7	Posts the GJ to the GLs.
	8	Foots and extracts balances of the GLs and SLs.

Area of Responsibility	Seq. No.	Activity
	9	Based on the GLs, prepares Pre-Closing Trial Balance in four copies. Files temporarily the Pre-Closing Trial Balance. *Note 2* – The preparation of the AJEs is at month end or as necessary.
Head of Accounting Division/Unit	10	Reviews and signs the "Certified Correct" portion of the Pre-Closing Trial Balance and the supporting schedules.
Bookkeeper/ Designated Staff	11	Submits the Pre-Closing Trial Balance to the Offices concerned. Records submission in the logbook maintained. Files Copy 4 of the Pre-Closing Trial Balance and Copy 4 of supporting schedules for preparation of financial statements.
		Preparation of Post-Closing Trial Balance at yearend
Bookkeeper/ Designated Staff	12	Prepares closing journal entries through JEV and records the same in the GJ (Refer to Sec. 57 of this Chapter).
	13	Posts the GJ in the respective GLs and SLs.
	14	Foots and extracts the balances of the GLs and the SLs.
	15	Based on the GLs, prepares Post-Closing Trial Balance in four copies.
	16	Reconciles the supporting schedules presented in the Notes to Financial Statements with the amounts in the Post-Closing Trial Balance. If not reconciled, prepares the necessary corrections through JEV. Records the JEV in the GJ. Posts the GJ in the respective GLs, and prepares the revised Post-Closing Trial Balance.
	17	Signs the "Prepared by" portion of supporting schedules and initials the "Certified Correct by" portion of the Post-Closing Trial Balance.
	18	Prepares transmittal letter and forwards the same together with the Post-Closing Trial Balance and supporting schedules to the Head of the Accounting Division/Unit.
Head of Accounting	19	Reviews and signs "Certified Correct by" portion of the Post-Closing Trial Balance, supporting schedules

Area of Responsibility	Seq. No.	Activity
Division/Unit		and transmittal letter, and forwards the same to the Accounting Staff for distribution.
Accounting Staff	20	Distributes the Post-Closing Trial Balance and supporting schedules to the Concerned Offices. Records in the logbook the submission of the same. *Note 3* – Trial Balances and supporting schedules shall be distributed as follows: *Copy 1* – COA Resident Auditor *Copy 2* – Government Accountancy Sector, COA *Copy 3* – DBM *Copy 4* – Accounting Division/Unit, File *Note 4* – The frequency of submission of Pre-Closing Trial Balance/Post-Closing Trial Balance and other reports shall be as follows: • Pre-Closing Trial Balance and other reports – monthly, within ten days after the end of the month to the COA Resident Auditor and DBM • Yearend Pre-Closing Trial Balance/Post-Closing Trial Balance and other reports – on or before February 14 of the following year to the COA Resident Auditor, DBM and Government Accountancy Sector, COA.

Sec. 60. Deadlines on Submission of Reports. All NGAs shall prepare and submit the following financial statements and schedules as follows, within the prescribed deadline:

a. Provincial Offices and Operating Units

Entity/Office	Statement/Report	Deadline	Submit to:
Monthly	Trial Balances (TBs) and Supporting Schedules (SSs)	Ten days after the end of the month	Auditor, Regional Accountant
Quarterly	TBs, FSs, SSs	Ten days after the end of the quarter	Auditor, Regional Accountant
Yearend	TBs, FSs, SSs	On or before January 20 of the following year	Auditor, Regional Accountant

b. Regional/Branches Offices

Entity/Office	Statement/Report	Deadline	Submit to:
Monthly	TBs and SSs	Ten days after the end of the month	Regional Auditor, Central Office Chief Accountant
Quarterly	TB, FS, SDs	Ten days after the end of the quarter	Regional Auditor, Central Office Chief Accountant
Year-end	TBs, FS, SSs (combined RO and OUs)	On or before January 31 of the following year	Regional Auditor, Central Office Chief Accountant

c. Central/Head/Main Offices

Entity/Office	Statement/Report	Deadline	Submit to:
Monthly	TBs and SSs	Ten days after the end of the month	Auditor, DBM, Management,
Quarterly	TB, FSs, SSs	Ten days after the end of the quarter	Auditor, DBM, Management
Yearend	TBs, FS, SSs (combined CO, ROs and OUs)	February 14 of the following year	COA Auditor, DBM, COA-GAS

Chapter 20

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Sec. 1. Scope. This Chapter provides the standards, policies, guidelines and procedures in the Consolidation of Financial Statements. It is an accounting process that allows an entity to combine its financial data with information from its controlled entities and present financial reports as a single entity which is the whole National Government.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms enumerated shall be construed to mean as follows:

a. *Consolidated Financial Statements* – are the financial statements of an economic entity (controlling entity and controlled entities) presented as those of a single entity.

b. *Controlled Entity* – is an entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).

c. *Controlling Entity* – is an entity that has one or more controlled entities.

d. *Equity method* – is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.

e. *Minority Interest* – is that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity.

f. *Separate Financial Statements* – are those presented by a controlling entity, an investor in an associate, or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees. (*Par. 7, PPSAS 6)*

Sec. 3. Presentation of Consolidated Statements. A controlling entity, other than a controlling entity described in the following paragraph shall present consolidated financial statements in which it consolidates its controlled entities. (*Par. 15, PPSAS 6*)

A controlling entity need not present consolidated financial statements if:

a. The controlling entity is:

1. Itself a wholly-owned controlled entity, and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or

2. A partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements.

b. The controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

c. The controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

d. The ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with PPSASs. (*Par. 16, PPSAS 6*)

Sec. 4. Components of Consolidated Financial Statements. The consolidated financial statements shall include:

a. Statement of Financial Position;

b. Statement of Financial Performance;

c. Statement of Cash Flows;

d. Statement of Changes in Net Assets/Equity;

e. Statement of Comparison between Budget and Actual Amounts; and

f. Notes to Financial Statements.

Sec. 5. Scope of Consolidated Financial Statements. Consolidated financial statements shall include all controlled entities of the controlling entity, except where there is evidence that:

a. control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition; and

b. management is actively seeking a buyer (*Par. 21, PPSAS 6*)

A controlled entity is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust, or similar entity. (*Par. 26, PPSAS 6*)

A controlled entity is not excluded from consolidation because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Relevant information is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. (*Par. 27, PPSAS 6*)

Sec. 6. Establishing Control of Another Entity for Financial Reporting Purposes. Whether an entity controls another entity for financial reporting purposes is a matter of judgment, based on the definition of control and the particular circumstances of each case. The two elements of the definition of control that need to be considered are the:

a. Power element which is the power to govern the financial and operating policies of another entity; and

b. Benefit element representing the ability of the controlling entity to benefit from the activities of the other entity. (*Par. 28, PPSAS 6*)

For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity (a) may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend), and (b) is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend, and also enable it to achieve some of its social policy objectives. (*Par. 29, PPSAS 6*)

Sec. 7. Determining whether the Control Exists for Financial Reporting Purposes. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

a. Power Conditions

    1. The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

    2. The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body.

    3. The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

    4. The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body, and control of the other entity is by that board or by that body.

b. Benefit Conditions

    1. The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.

    2. The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity. (*Par. 39, PPSAS 6*)

When one or more of the circumstances listed in the preceding paragraph does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

a. Power Indicators

   1. The entity has the ability to veto operating and capital budgets of the other entity.

   2. The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

   3. The entity has the ability to approve the hiring, reassignment, and removal of key personnel of the other entity.

   4. The mandate of the other entity is established and limited by legislation.

   5. The entity holds a golden share (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

b. Benefit Indicators

   1. The entity holds direct or indirect title to the net assets/equity of the other entity, with an ongoing right to access these.

   2. The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation, or in a distribution other than a liquidation.

   3. The entity is able to direct the other entity to cooperate with it in achieving its objectives.

   4. The entity is exposed to the residual liabilities of the other entity.

Sec. 8. Procedures in the Consolidation of Financial Statements. In preparing the consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities line by line, by adding together like items of assets, liabilities, net assets/equity, revenue, and expenses. In order that the consolidated financial statements may present financial information about the economic entity as that of a single entity, the following steps are to be taken:

a. The carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (the relevant international or national accounting standard dealing with business combinations provides guidance on the treatment of any resultant goodwill);

b. Minority interests in the surplus or deficit of consolidated controlled entities for the reporting period are identified; and

c. Minority interests in the net assets/equity of consolidated controlled entities are identified separately from the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:

   1. The amount of those minority interests at the date of the original combination (the relevant international or national accounting standard dealing with business combinations provides guidance on calculating this amount); and

   2. The minority's share of changes in net assets/equity since the date of combination. (*Par. 43, PPSAS 6*)

d. Balances, transactions, revenues, and expenses between entities within the economic entity shall be eliminated in full. Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. (*Pars. 45 and 49, PPSAS 6*)

e. Minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity's net assets/equity. Minority interests in the surplus or deficit of the economic entity shall also be separately disclosed. (*Par. 54, PPSAS 6*).

Sec. 9. Accounting for Controlled Entities, Jointly Controlled Entities and Associates in Separate Financial Statements. When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for:

a. Using the equity method as defined in Chapter 15-Interests in Joint Venture; or

b. As a financial instrument in accordance with PPSAS 29-Financial Instruments: Recognition and Measurement.

Sec. 10. Disclosures. The following disclosures shall be made in consolidated financial statements:

a. A list of significant controlled entities;

b. The fact that a controlled entity is not consolidated in accordance with Sec. 5 of this Chapter;

c. Summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues, and surplus or deficit;

d. The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, with an explanation of how control exists;

e. The reasons why the ownership interest of more than 50% of the voting or potential voting power of an investee does not constitute control;

f. The reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as at a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period; and

g. The nature and extent of any significant restrictions (e.g., resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends, or similar distributions, or to repay loans or advances. (*Par. 62, PPSAS 6*)

When separate financial statements are prepared for a controlling entity that elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

a. The fact that the:

   1. financial statements are separate financial statements;

2. exemption from consolidation has been used;

3. name of the entity whose consolidated financial statements that comply with PPSASs have been produced for public use and the jurisdiction in which the entity operates (when it is different from that of the controlling entity); and

4. address where those consolidated financial statements are obtainable.

b. A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and

c. A description of the method used to account for the entities listed under (b). (*Par. 63, PPSAS 6*)

When a controlling entity, venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall:

a. disclose:

1. The fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation, or other authority;

2. A list of significant controlled entities, jointly controlled entities, and associates, including the name; the jurisdiction in which the entity operates (when it is different from that of the controlling entity); proportion of ownership interest; and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and

3. A description of the method used to account for the entities listed under (b);

b. and identify the financial statements prepared in accordance with Sec. 3 in this Chapter and Chapter 15-Interests in Joint Venture of this Manual, to which they relate. (*Par. 64, PPSAS 6*)

Chapter 21

BANK RECONCILIATION

Sec. 1. Scope. This Chapter covers the preparation of the bank reconciliation statements for "Cash in Bank" and "Cash-Modified Disbursement System (MDS)" accounts including the proposed adjusting entries.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

a. *Bank Charges* – charges imposed by the bank for various services rendered excluding interest charges. This also includes cost of checkbooks, penalties and surcharges on overdrafts.

b. *Bank Reconciliation* – settlement of differences contained in the bank statement and the cash account in the agency's/entity's books of accounts.

c. *Bank Statement* – reflects the transactions in the agency's/entity's (depositor's) bank account for a period such as deposits made to the account as well as checks/ADAs drawn on the account, bank charges, returned items, etc.

d. *Canceled Check/ADA* – checks/ADAs issued and chargeable to the agency bank account but was later voided due to expiration of validity, and other valid reasons.

e. *Credit Memorandum* – document issued by the bank informing an increase in the depositor's (Agency's/Entity's) account, such as previous bank debit errors and collection directly deposited to the agency's/entity's bank account.

f. *Debit Memorandum* – document issued by the bank informing a decrease in the account, such as previous bank credit errors or service charges and fees.

g. *Deposits-in-Transit* – are amounts of agency/entity deposits in the bank but which are yet to be recorded by the bank until the next period. These usually pertain to late deposits in the last day of business for a period.

h. *Lapsed NCAs* – NCAs which are no longer valid or its validity has expired but remain unadjusted by the bank or the agency/entity.

i. *Notice of Cash Allocation* – authority issued by the DBM to central, regional and provincial offices and operating units to cover the cash requirements of the agency/entity.

j. *Outstanding Checks* – checks the agency/entity has issued and recognized but which have not been presented to the bank for payment.

k. *Returned Check* – a check returned by the bank due to errors or deficiencies in the maker's or agency's/entity's account.

l. *Unrecorded Deposits* – are collections of the agency/entity which are directly deposited by the debtor/client to the bank account of the agency/entity but remain unrecorded by the agency/entity as at the period under reconciliation.

Sec. 3. Objectives. The Bank Reconciliation Statement (BRS) shall be prepared in order to:

a. check correctness of both the bank's and agency's/entity's records,

b. serve as a deterrent to fraud, and

c. enable the agency/entity or bank to take up charges or credits recognized by the bank or agency/entity but not yet known to the agency/entity or bank.

This shall be used in the reconciliation of bank and treasury accounts maintained with Government Servicing Bank (GSB).

Sec. 4. Method of Bank Reconciliation. The monthly BRS shall be prepared by the Chief Accountant/designated staff for each of the bank accounts maintained by the agency/entity using the Adjusted Balance Method. Under this method, the book balance and the bank balance are brought to an adjusted cash balance that must appear on the Statement of Financial Position.

Sec. 5. Preparation of the Bank Reconciliation Statement. The Chief Accountant/Designated Staff shall within ten days from receipt of the monthly Bank Statement (BS) together with the paid checks, original copies of Debit Memoranda (DM)/Credit Memoranda (CM) from the GSB, reconcile the BS with the GL and prepare the BRS in four copies.

Sec. 6. Recognition of Adjustments. The Chief Accountant/Designated Staff shall prepare a JEV to recognize all reconciling items that require adjustment and correction in the books of accounts.

Sec. 7. Reporting. The Chief Accountant shall submit the BRS within twenty days after receipt of the monthly BS to the following:

Original	–	COA Auditor (with all the supporting documents and JEVs)
Copy 2	–	Head of Agency/Entity
Copy 3	–	Accounting Division/Unit file
Copy 4	–	Bank, if necessary

Sec. 8. Procedures for the Preparation of the Bank Reconciliation Statement for "Cash-Modified Disbursement System (MDS)" accounts tranche

Area of Responsibility	Seq. No.	Activity
Accounting Division/ Unit		
Designated Staff	1	Secures/Gathers the monthly BS, GL and SLs of accounts "Cash-Modified Disbursement System (MDS), Regular", "Cash-Modified Disbursement System (MDS), Special Account", "Cash-Modified Disbursement System (MDS), Trust" and previous month's BRS.
	2	Ensures that the unadjusted ending book and bank balances per previous month's BRS are the current month's beginning book and bank balances, respectively.

Area of Responsibility	Seq. No.	Activity
Designated Staff	3	Reviews the previous month's BRS to determine reconciling items needing adjustments by the agency/entity which remain unadjusted.
	4	Lists or marks the previous months' unadjusted items for inclusion in the current month's reconciling items.
	5	Compares the NCAs recognized in the books with those reflected in the bank statements to determine the unrecognized, lapsed or unused NCA and/or any errors.
	6	Compares the checks/ADAs recognized in the books with those in the bank statements.
	7	Adds to the unadjusted balance per bank the following: a. NCAs received by the agency/entity but not yet recognized by the bank; and b. errors discovered in the BS that understates the cash balance.
	8	Subtracts from the unadjusted balance per bank the following: a. NCAs which are no longer valid/lapsed NCA; b. outstanding checks; c. outstanding ADA; and d. errors in the BS that overstates the cash balance.
	9	Calculates the correct/adjusted balance per bank.
	10	Adds to the unadjusted balances of accounts "Cash-Modified Disbursement System (MDS), Regular", "Cash-Modified Disbursement System (MDS), Special Account" and "Cash-Modified Disbursement System (MDS), Trust" the following: a. NCAs received but not yet recognized by the agency/entity; b. cancelled checks; and c. errors discovered in the agency's/entity's records that understates the cash balance.
	11	Subtracts from the unadjusted balances of accounts "Cash-Modified Disbursement System (MDS), Regular", "Cash-Modified Disbursement System (MDS), Special Account" and "Cash-Modified

Area of Responsibility	Seq. No.	Activity
		Disbursement System (MDS), Trust” the following: a. lapsed NCA not yet adjusted by the agency/entity; b. errors in the agency’s/entity’s records that overstate the cash balance; and c. bank charges.
	12	Calculates the adjusted balances of accounts “Cash-Modified Disbursement System (MDS), Regular”, “Cash-Modified Disbursement System (MDS), Special Account” and “Cash-Modified Disbursement System (MDS), Trust”.
	13	Prepares the BRS in accordance with the format shown in Appendix 80.
	14	Prepares JEVs to recognize the necessary adjustments for all items affecting the cash balance per books.
Chief Accountant/Head of Accounting Division/Unit	15	Reviews and approves the BRS and JEVs.
Designated Staff	16	Records the adjustments in the General Journal based on the approved JEVs.
	17	Submits the BRS to the following: *Original* – COA Auditor (with all the supporting documents and JEVs) *Copy 2* – Head of Agency/Entity *Copy 3* – Accounting Division/Unit file *Copy 4* – Bank, if necessary

Sec. 9. Illustrative Accounting Entries for Adjustments in the Bank Reconciliation Statement for “Cash-Modified Disbursement System (MDS)” accounts. The illustrative accounting entries for the adjustments are as follows:

a. Unrecognized/Understatement of NCA for regular and special account with allotment release order

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050	xxx	
or			

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Trust	10104060	xxx	
Subsidy from National Government	40301010		xxx

b. Unrecognized/Understatement of NCA for special account without allotment release order and trust account

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Special Account	10104040	xxx	
or			
Cash-Modified Disbursement System (MDS), Trust	10104050	xxx	
Cash-Treasury/Agency Deposit, Special Account	10104020		xxx
or			
Cash-Treasury/Agency Deposit, Trust	10104030		xxx

c. Cancelled MDS checks/ADAs (without intention to replace)

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050	xxx	
or			
Cash-Modified Disbursement System (MDS), Trust	10104060	xxx	
Expenses or other appropriate account	xxxxxxxx		xxx

d. Understatement of “Cash in Bank” account due to erroneous recording of amount of checks issued

Account Title	Account Code	Debit	Credit
Cash-Modified Disbursement System (MDS), Regular	10104040	xxx	
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050	xxx	
or			
Cash-Modified Disbursement System (MDS), Trust	10104060	xxx	
Accounts Payable or Other Liabilities	xxxxxxxx		xxx

e. Lapsed NCA or unused NCA at yearend

For regular and special account with allotment release order

Account Title	Account Code	Debit	Credit
Subsidy from National Government	40301010	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx

For special account without allotment release order and trust account

Account Title	Account Code	Debit	Credit
Cash-Treasury/Agency Deposit, Special Account	10104020	xxx	
or			
Cash-Treasury/Agency Deposit, Trust	10104030	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx

f. Overstatement of "Cash in Bank" account due to erroneous recording of the amount of checks issued

Account Title	Account Code	Debit	Credit
Expenses or Accounts Payable or Other Liabilities		xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx
or			
Cash-Modified Disbursement System (MDS), Trust	10104060		xxx

g. Overstatement of "Cash in Bank" account due to erroneous recording of the amount of NCA received

For regular and special account with allotment release order

Account Title	Account Code	Debit	Credit
Subsidy from National Government	40301010	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx

Account Title	Account Code	Debit	Credit
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx

For special account without allotment release order and trust account

Account Title	Account Code	Debit	Credit
Cash-Treasury/Agency Deposit, Special Account	10104020	xxx	
or			
Cash-Treasury/Agency Deposit, Trust	10104030	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx

h. Bank Charges

Account Title	Account Code	Debit	Credit
Bank Charges or any appropriate Account	xxxxxxxx	xxx	
Cash-Modified Disbursement System (MDS), Regular	10104040		xxx
or			
Cash-Modified Disbursement System (MDS), Special Account	10104050		xxx
or			
Cash-Modified Disbursement System (MDS), Trust	10104060		xxx

Sec. 10. Procedures for the Preparation of the Bank Reconciliation Statement for Authorized Government Depository Bank accounts

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit		
Designated Staff	1	Secures/Gathers the BS, GL and SLs of "Cash in Bank" accounts and previous month's BRS.
	2	Ensures that the unadjusted balance per book and balance per bank in the previous month's BRS are the current month's beginning book and bank balances, respectively. If not the same, determines the cause of the difference and effects the appropriate adjustments, if necessary.
	3	Reviews the previous month's BRS to determine reconciling items needing adjustments by the

Area of Responsibility	Seq. No.	Activity
		agency/entity which remain unadjusted. Lists or marks the previous months' unadjusted items for inclusion in the current month's reconciling items.
	4	Compares the deposits per book with those reflected in the BS.
	5	Compares the checks issued per book with those negotiated as reflected in the BS.
	6	Adds to the unadjusted balance per bank, the following: a. unrecorded deposits or deposit-in-transit; and b. errors discovered in the BS that understates the bank balance.
	7	Subtracts from the unadjusted balance per bank, the following: a. outstanding checks; and b. errors in the BS which overstates the bank balance.
	8	Calculates the adjusted balance per bank.
	9	Adds to the balance of the "Cash in Bank" account per GL: a. deposits per BS which were not yet recorded in the books; b. cancelled checks; and, c. errors discovered in the agency's records that understates the book balance.
	10	Subtracts from the balance of the "Cash in Bank" account per GL: a. returned check deposits; b. errors in the agency's records which overstate the cash balance; and c. bank charges.
	11	Calculates the adjusted balance per books.
	12	Prepares the BRS in accordance with the format shown as Appendix 81.
Chief Accountant/Head of Accounting Division/Unit	13	Reviews and approves the BRS.

Area of Responsibility	Seq. No.	Activity
Designated Staff	14	Prepares JEVs to record the necessary adjustments affecting the balance per books as follows:
Chief Accountant/Head of Accounting Division/Unit	15	Reviews and approves the JEVs.
Designated Staff	16	Records the adjustments in the GJ based on the approved JEVs.
	17	Submits the BRS to the following: *Original* – COA Auditor (with all the supporting documents and JEVs) *Copy 2* – Head of Agency/Entity *Copy 3* – Accounting Division/Unit file *Copy 4* – Bank, if necessary

Sec. 8. Illustrative Accounting Entries for Adjustments in the Bank Reconciliation Statement for Authorized Government Depository Bank accounts. The illustrative accounting entries for the adjustments are as follows:

a. Unrecorded Deposit

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Income/Other Payables or other appropriate Account	xxxxxxxx		xxx

b. Understatement of cash in bank due to erroneous recording of the amount of checks issued

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Expenses or Accounts Payable or Other Liabilities	xxxxxxxx		xxx

c. Understatement of cash in bank due to erroneous recording of deposits

Account Title	Account Code	Debit	Credit
Cash in Bank-Local Currency, Current Account	10102020	xxx	
Revenue/Other Payables or other appropriate Account	xxxxxxxx		xxx

d. Returned check deposits

Account Title	Account Code	Debit	Credit
Revenue/Other Payables or other appropriate Account	xxxxxxxx	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx

e. Overstatement of cash in bank due to errors or understatements in recording of the amount of checks issued

Account Title	Account Code	Debit	Credit
Expenses or Accounts Payable or Other Liabilities	xxxxxxxx	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx

f. Overstatement of the book balance due to error in recording the amount of deposits

Account Title	Account Code	Debit	Credit
Revenue/Other Payables or other appropriate Account	xxxxxxxx	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx

g. Bank Charges

Account Title	Account Code	Debit	Credit
Bank Charges or any appropriate Account	xxxxxxxx	xxx	
Cash in Bank-Local Currency, Current Account	10102020		xxx

Chapter 22

ILLUSTRATIVE ACCOUNTING ENTRIES AND FINANCIAL STATEMENTS

Sec. 1. Illustrative Accounting Entries. This Chapter illustrates the accounting entries to be recognized in the books of accounts and records of NGAs, BTr and COA and the resulting financial statements for the following transactions:

a. Regular Agency Fund – *Annex H*

b. Foreign Assisted Projects Fund – *Annex I*

c. Special Account-Locally Funded/Domestic Grants Fund – *Annex J*

d. Special Account-Foreign Assisted/Foreign Grants Fund – *Annex K*

e. Retained Income – *Annex L*

f. Trust Receipts-Inter-Agency Transferred Funds (IATF) – *Annex M*

g. Trust Receipts-Other Than IATF deposited with AGDB – *Annex N*

h. Trust Receipts-Other Than IATF remitted to BTr – *Annex O*

Sec. 2. The illustrative entries for non-typical transactions showing the effects of the different accounting policies for each topic are presented in other chapters of this Manual.