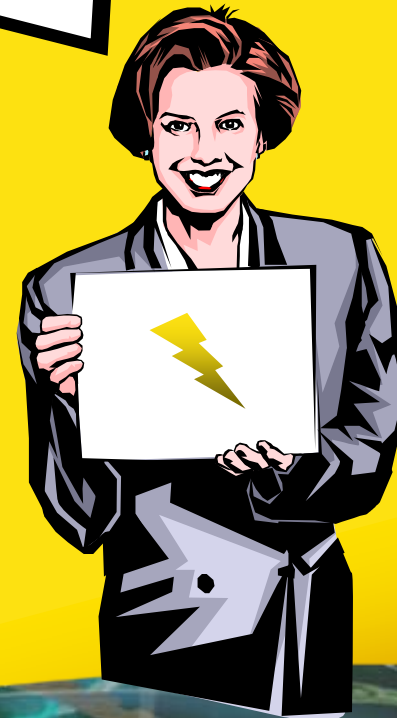


**Framework for the  
Preparation & Presentation  
of  
FINANCIAL STATEMENTS**



THE FRAMEWORK is not a  
Philippine Accounting Standard



# *Framework*

- **does not define standards for any particular measurement or disclosure issue**

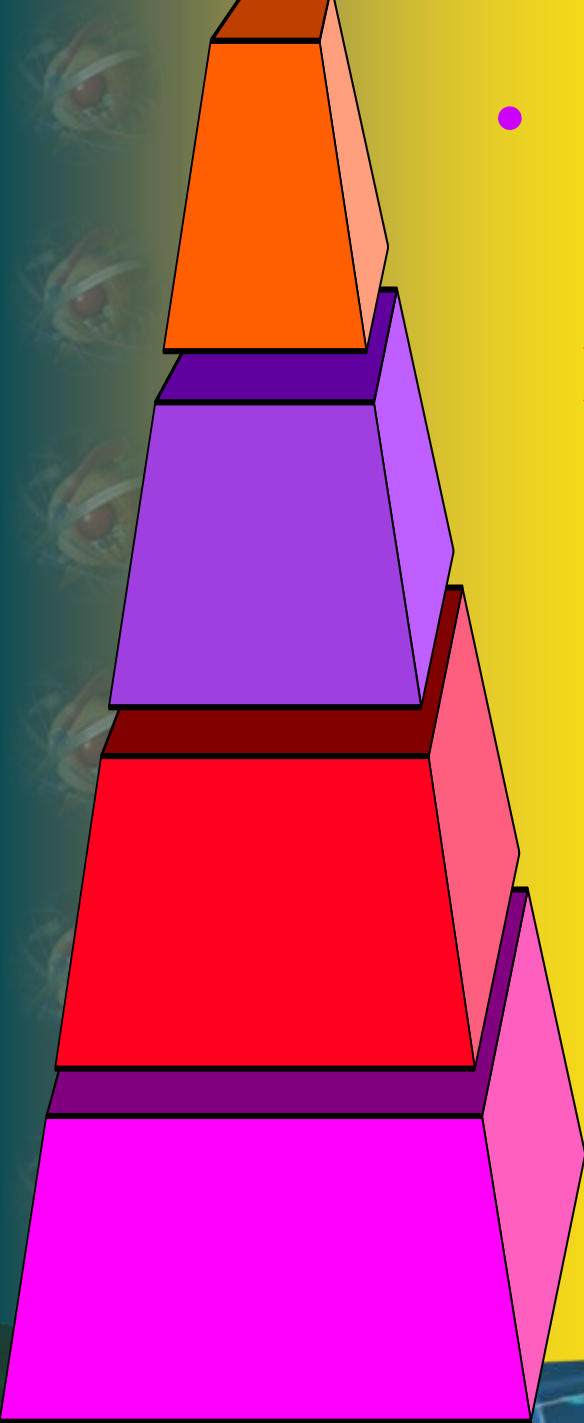
# FRAMEWORK:

- nothing in the framework overrides any specific Philippine Accounting Standard – Philippine Financial Reporting Standard

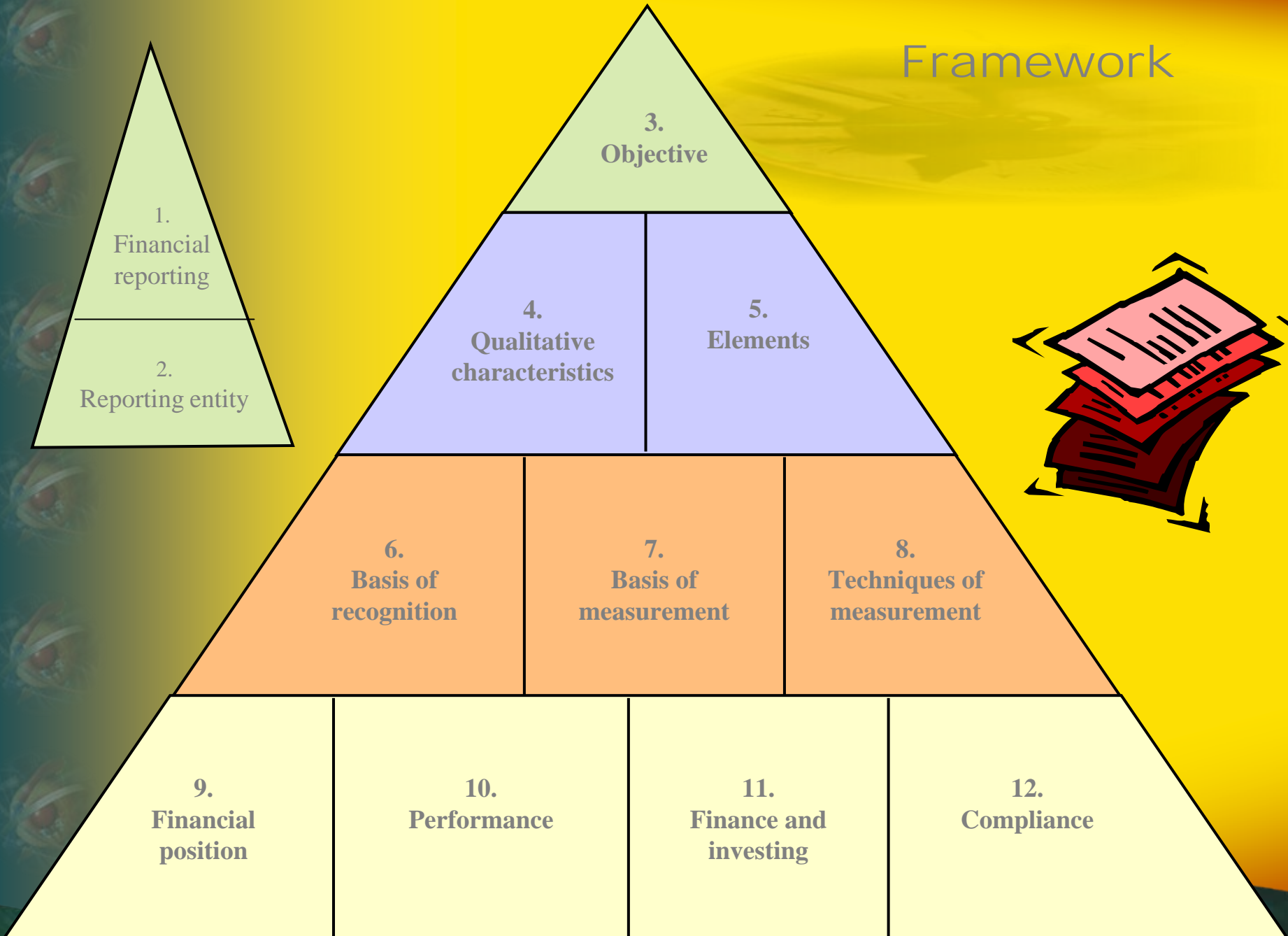
# Coverage

- *objective of financial statements*

- *qualitative characteristics that determine the usefulness of information in financial statements;*
- *definition, recognition and measurement of the elements from which financial statements are constructed; and*
- *Concepts of capital and capital maintenance.*



# Framework

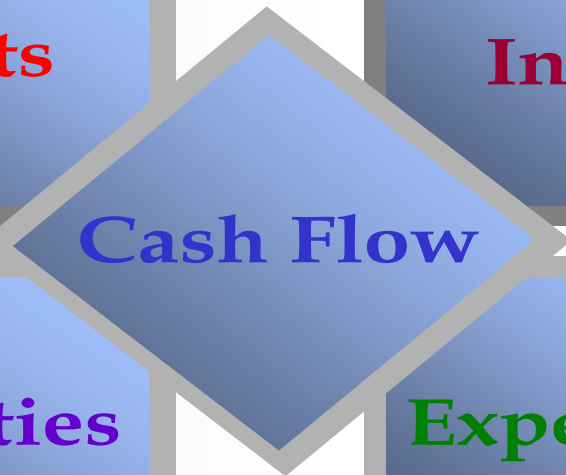






Balance Sheet

Income Statement



Net Worth

Net Income



# FRAMEWORK

## PFRS FINANCIAL STATEMENTS

- Objective
  - provide information about financial position, performance, cash flows
  - useful to a wide range of users in making economic decisions



**Conceptual Framework**



**Objective of  
Financial Statements  
1<sup>st</sup>**

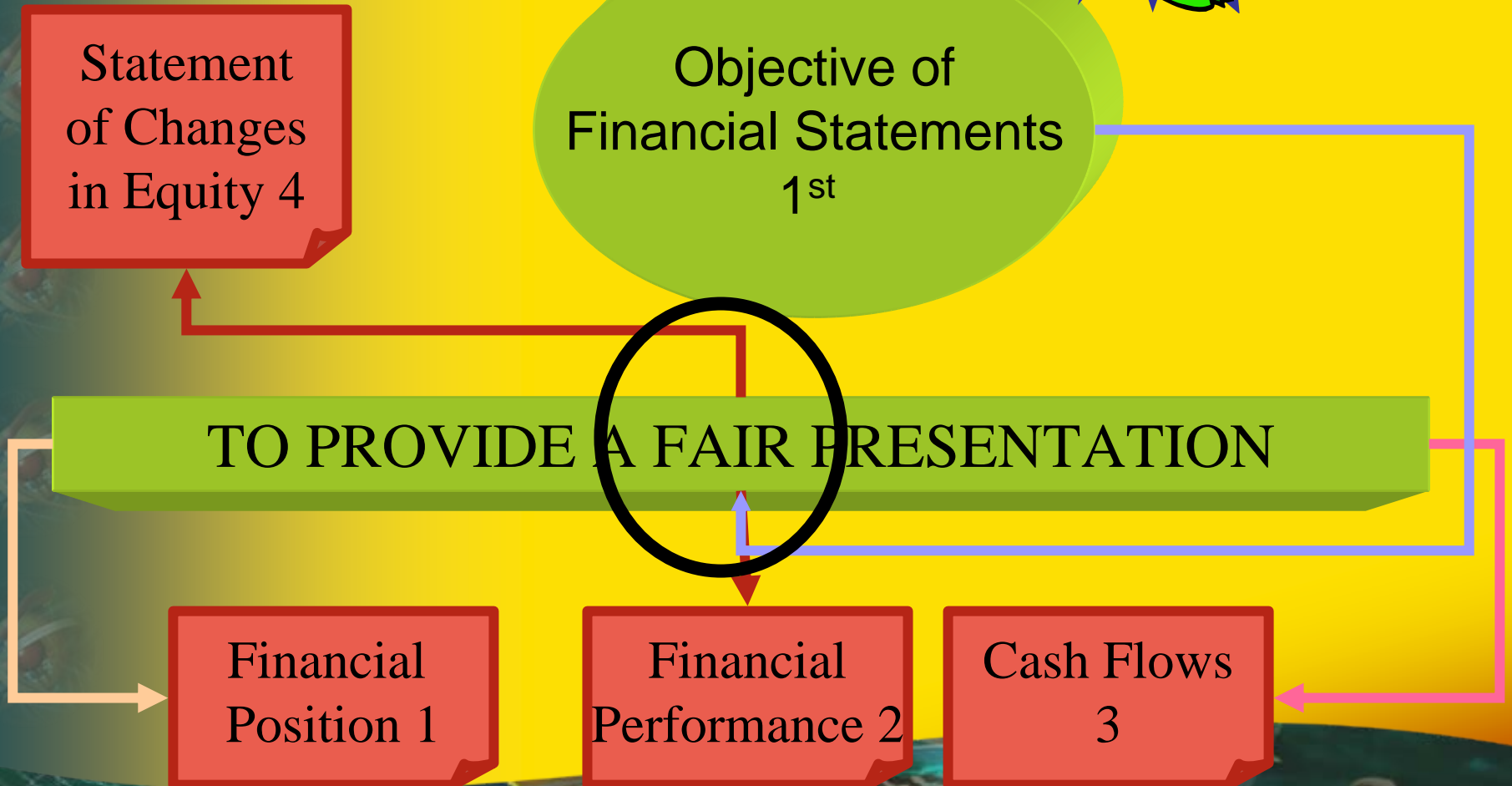
**Statement  
of Changes  
in Equity 4**

**TO PROVIDE A FAIR PRESENTATION**

**Financial  
Position 1**

**Financial  
Performance 2**

**Cash Flows  
3**



# FRAMEWORK

## PFRS OVERRIDE

- In PFRS financial statements, PFRS *overrides*
  - tax rules
  - rules on distributable profits
  - banking and insurance regulations
  - funding rules for pension plans
  - national GAAP
- May need to prepare different financial statements for different purposes



ACCOUNTING POLICIES

# Balance Sheet

Assets

Income

Cash Flow

Liabilities

Expenses

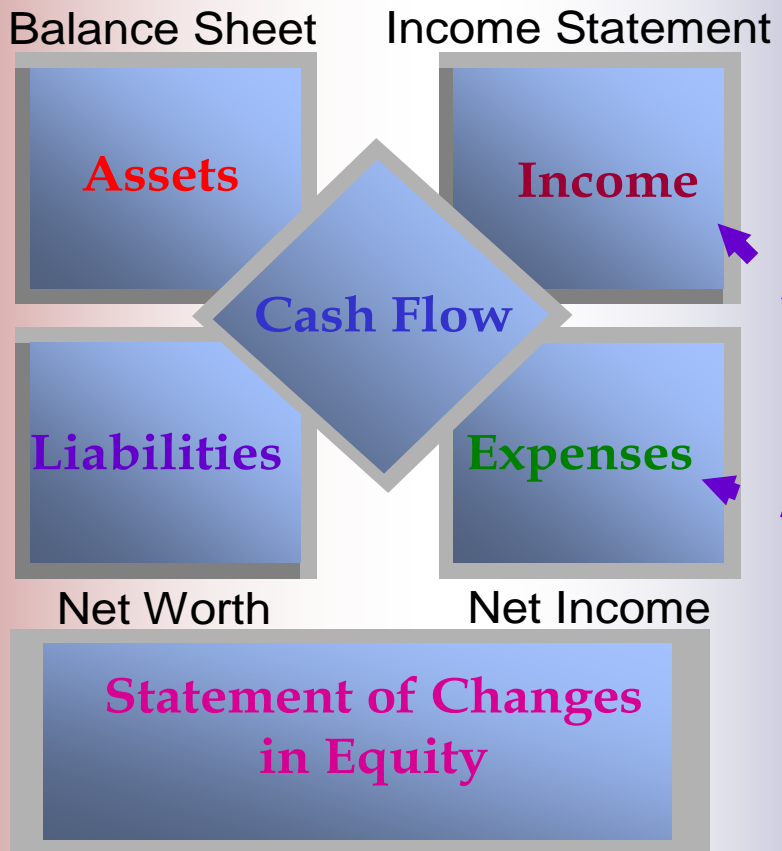
Net Worth

Net Income

Statement of Changes  
in Equity

NOTES TO FINANCIAL STATEMENTS

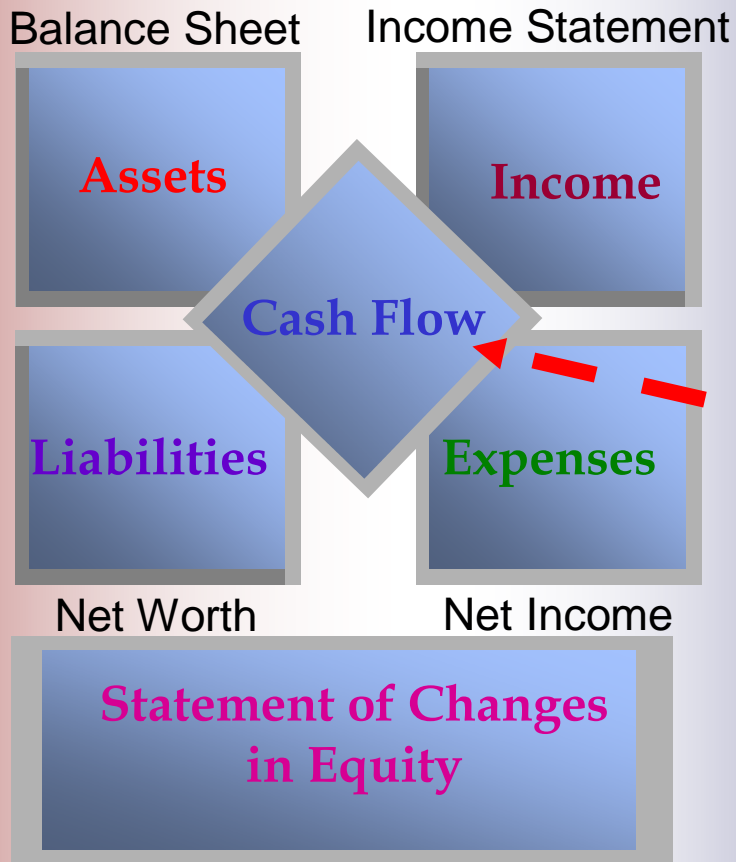
# Income Statement



NOTES TO FINANCIAL STATEMENTS



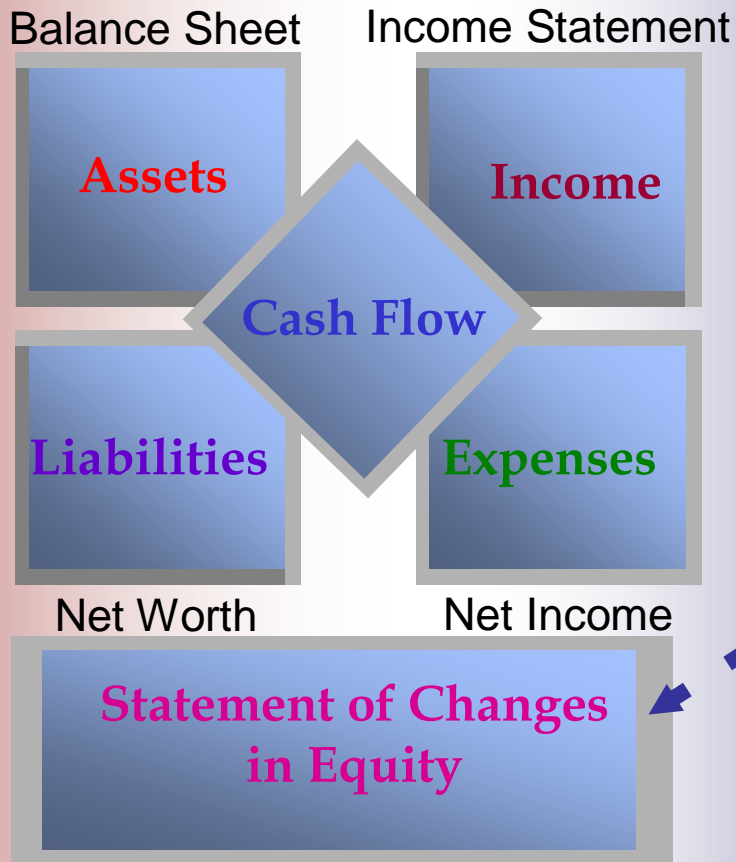
# Cash Flow Statement





# Statement of Changes in Equity

ACCOUNTING POLICIES



NOTES TO FINANCIAL STATEMENTS





# Assumptions

The financial statements are prepared under the accrual basis of accounting, except for cash flow information.

*Accrual Basis*

*Going Concern*

## **Going concern**

When preparing financial statements, management makes an assessment of the entity's ability to continue as a going concern. Financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

UNDERSTANDABILITY

RELEVANCE

QUALITATIVE  
CHARACTERISTICS

RELIABILITY

COMPARABILITY



# RELEVANCE

Materiality



# Reliability

Faithful Representation

Substance over Form

Neutrality

Prudence

Completeness



CONSTRAINTS

Timeliness

Balance between  
Benefit & Cost

Balance between  
Qualitative  
Characteristics

Fair Presentation

## Consistency of presentation

The presentation and classification of items in the financial statements are retained from one period to the next unless:

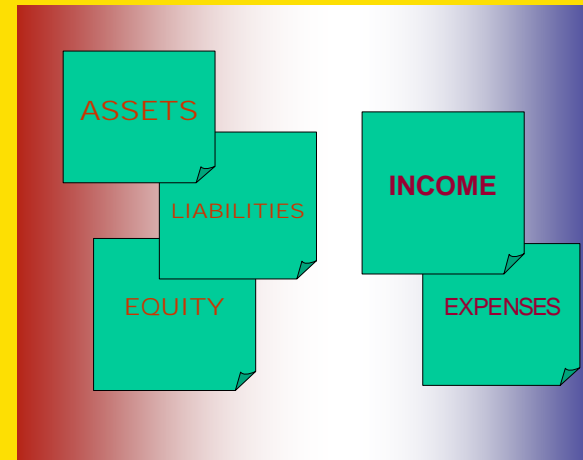
- a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for selection and application of accounting policies in IAS 8; or
- b) a standard or an interpretation requires a change in presentation.



# FRAMEWORK

## FINANCIAL ELEMENTS

- Balance sheet
  - assets
  - liabilities
  - equity
- Income statement
  - income
  - expenses



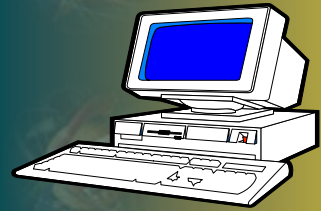
It meets  
definition of  
asset or liability

There is any  
probable future  
economic benefit  
associated with  
asset/liability will  
flow to/from entity

cost or value  
can be reliably  
measured

When to recognize Assets/Liabilities





# Is it an ASSET?



## DEFINITION CRITERIA

a resource **controlled** by the enterprise as a result of past events & from which future economic benefits are expected to flow to the enterprise.

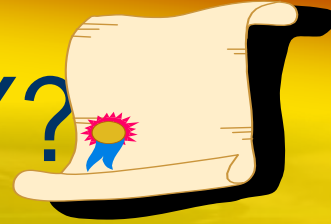
[F.49(a)]



## RECOGNITION in the BALANCE SHEET

1. when it is probable that the future economic benefits will flow to the enterprise &
  2. asset has a cost or value that can be measured reliably.
- [F.89]

# Is it an LIABILITY?

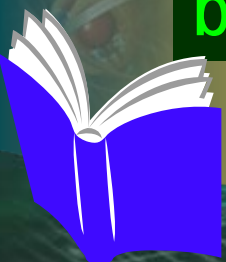


## DEFINITION CRITERIA

present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. [F.49(b)]

## RECOGNITION in the BALANCE SHEET

1. when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation &
2. amount at which the settlement will take place can be measured reliably. [F.91]



# Is it EQUITY?



- residual interest in the assets of the enterprise after deducting all its liabilities.  
[F.49(c)]

# Is it an INCOME?



## DEFINITION CRITERIA

increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. [F.70]

**RECOGNITION** in the **INCOME STATEMENT** when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably



# Is it an EXPENSE?

## DEFINITION CRITERIA

decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. [F.70]



## RECOGNITION in the INCOME STATEMENT

when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably

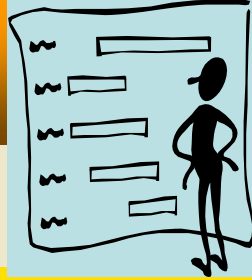
# FRAMEWORK

## MEASUREMENT: ASSETS & LIABILITIES

| ENTRY PRICES     | EXIT PRICES       |
|------------------|-------------------|
| Historical cost  | Realizable value  |
| Replacement cost | Net selling price |
| Current cost     | Present value     |
|                  | Value in use      |
|                  |                   |

# IASB FRAMEWORK

## Fair Value of Assets & Liabilities



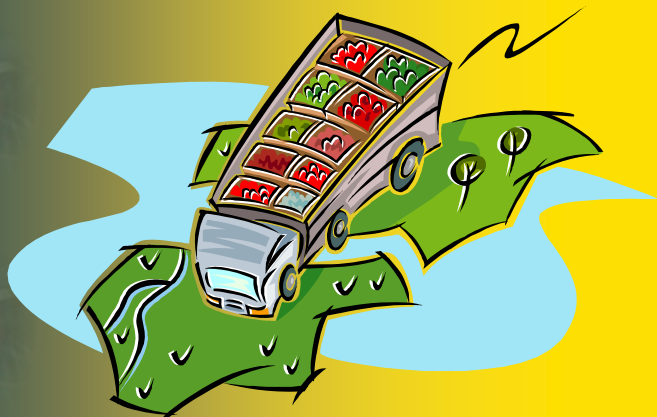
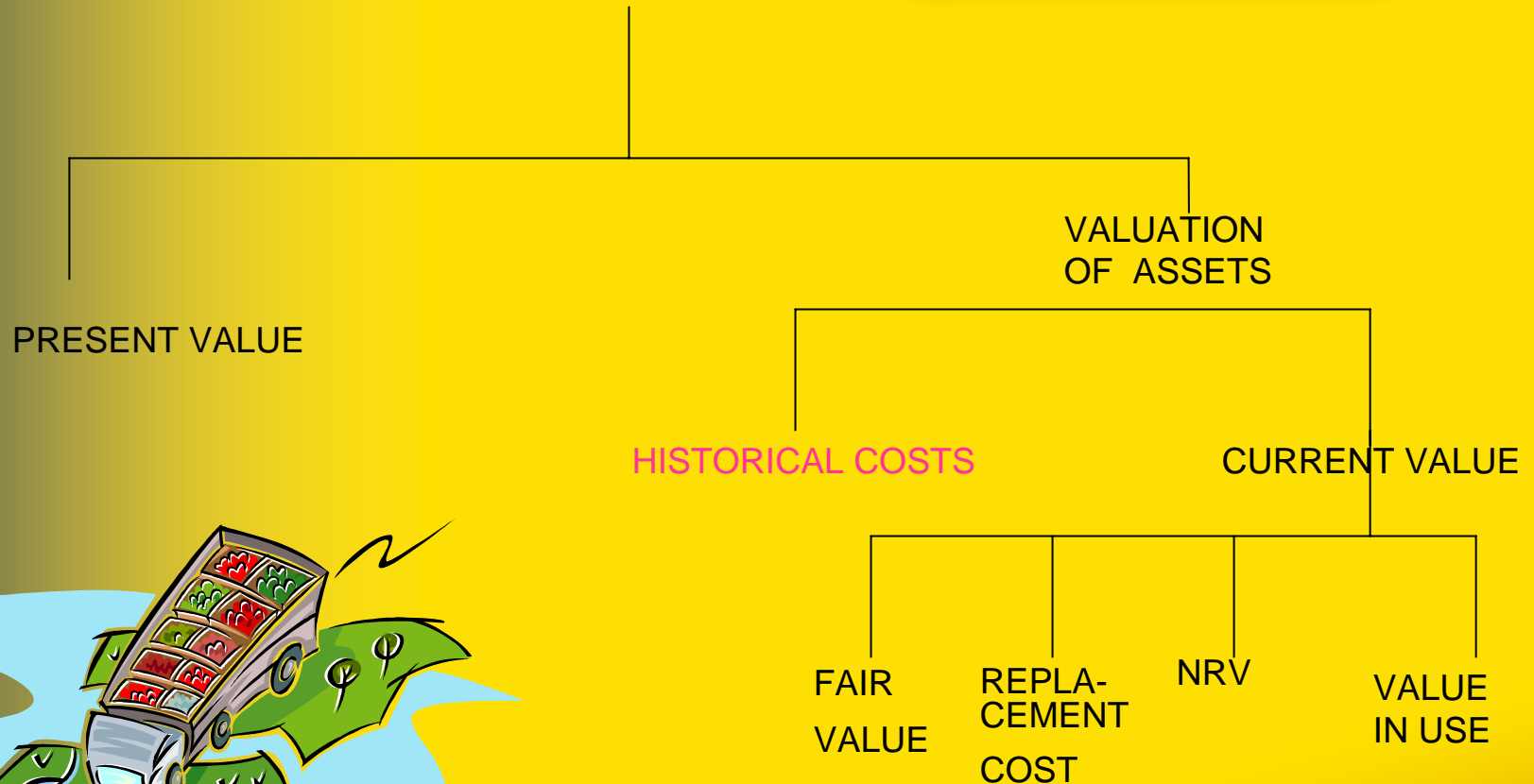
| <b>BUYER'S<br/>ENTRY PRICE</b>  |   | <b>SELLER'S<br/>EXIT PRICE</b>   |
|---|---|--|
| <ul style="list-style-type: none"><li>•REPLACEMENT COST</li><li>•CURRENT COST</li></ul> | Exchange between knowledgeable, willing parties in arm's length transaction | <ul style="list-style-type: none"><li>•REALIZABLE VALUE</li><li>•NET SELLING PRICE</li></ul> |

# FRAMEWORK

## MEASUREMENT OF ASSETS/LIABILITIES

- Initial measurement
  - entry price
  - usually ‘cost’
  - may need to use ‘fair value’ to determine cost
- Subsequent measurement
  - usually lower of cost-based measurement and current exit price
  - sometimes required or allowed to use current entry price

# Valuation methods & PFRS-standards



# Capital Maintenance Adjustments

- revaluation or restatement of assets and liabilities gives rise to increase or decreases in equity.
  - these items are included in equity as capital maintenance adjustments or revaluation reserves.

