

**PHILIPPINE FINANCIAL
REPORTING
FRAMEWORK FOR
COOPERATIVES**

Effectivity

- Effective for 2016 AUDITED FINANCIAL STATEMENTS
- Accordingly, CDA issued MC 2016-06 – REVISED STANDARD CHART OF ACCOUNTS , to conform with the Philippine Financial Reporting Framework for Cooperatives

Threshold

- Applicable for all COOPERATIVES REGISTERED with CDA, regardless of size
- Exception: COOPERATIVE BANKS – mandated to apply full PFRS by BSP, but taking into consideration Cooperative laws, rules, regulations and principles as well

Financial Statement Presentation

- Fair presentation: presumed to result if the PFRF for COOPS is followed
- COOPS shall present a complete set of financial statements at least annually
- At least one year comparative financial statements and note data
- Presentation and classification of items should be consistent from one period to the next.

Statement of Financial Condition

- A current/non-current distinction is normally required for presentation unless the liquidity basis is more reliable and relevant.
- Minimum presentation requirements required in the statement of financial condition.

Statement of Financial Condition- MINIMUM INFORMATION

- (a) cash and cash equivalents.
- (b) loans and receivables.
- (c) financial assets (excluding amounts shown under (a), (b), (i) (j) and (k)).
- (d) inventories.
- (e) property, plant and equipment.
- (f) investment property.
- (g) intangible assets.

Statement of Financial Condition- MINIMUM INFORMATION

- (h) biological assets.
- (i) investments in associates.
- (j) investments in joint ventures
- (k) investments in subsidiaries

Statement of Financial Condition- MINIMUM INFORMATION

- (l) trade and other payables.
- (m) interest on share capital payable
- (n) patronage refund payable
- (o) due to unions and federations (CETF)
- (p) financial liabilities (excluding amounts shown under (l), (m), (n), (o) and (s)).
- (q) liabilities and assets for current tax (if applicable).
- (r) deferred tax liabilities and deferred tax assets (if applicable).
- (s) provisions.

Statement of Financial Condition- MINIMUM INFORMATION

- (t) members' equity
- (u) donation and grants
- (v) statutory funds (Reserve Fund, Education and Training Fund, Optional Fund, Community Development Fund)
- (w) revaluation surplus

***** TAKE NOTE: NO OTHER UNREALIZED GAINS AND LOSSES ARE ALLOWED EXCEPT FOR REVALUATION SURPLUS**

Statement of Operations-MINIMUM INFORMATION

- Revenue
 - Cost of sales or services
 - Finance cost
 - Selling or Marketing cost
 - Administrative cost
 - Other Items
 - Tax expense (if applicable)
 - Allocation of Net Surplus
- should always disclose distribution of net surplus among statutory funds as well as interest on share capital and patronage refund

ISSUES ON THE STATEMENT OF OPERATIONS:

- No concept of OTHER COMPREHENSIVE INCOME- all items of income and expense, whether realized or unrealized, will be part of NET SURPLUS
- Basis of computation of INCOME TAX

Statement of Changes in Equity

Should show a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

- (i) the amounts of investments by, and distributions to, members, showing separately issues of shares , and treasury share transactions (include Deposits on Share Capital Subscription)
- (ii) donations and grants
- (iii) movements in Statutory Funds (includes allocation of Net Surplus as reconciled with amounts per Statement of Operations)
- (iv) movements in revaluation surplus

ISSUES ON THE STATEMENT OF CHANGES IN EQUITY

- DEPOSITS ON SHARE CAPITAL SUBSCRIPTION- can we classify them as LIABILITIES like in corporations? NO BECAUSE THEY ARE ALSO ENTITLED TO INTEREST ON SHARE CAPITAL

Statement of Cash Flows

- Cash flows must be split into operating, investing and financing activities.
- Operating activities may be presented using either the direct or indirect approach.
- Disclose interest on share capital and patronage refund paid
- Disclose other interest on share capital, patronage refund received, dividends received
- other interest paid and received- part of operating activities

Notes to Financial Statements

- This information is provided to support the primary financial statements.
- Include a summary of accounting policies, information about judgments, and information about estimation uncertainty.
- Required to comply with the disclosure requirements in the rest of the standard.
- Comparative information is needed for all amounts presented in the financial statements.

Accounting Policies, Errors and Estimates

- Change in accounting policy is accounted for **CURRENTLY**
- Accounting estimates are accounted for currently and prospectively
- Accounting errors are accounted for **IN THE CURRENT PERIOD (effect in CURRENT YEAR FS ONLY- use PRIOR PERIOD ADJUSTMENT account in the Statement of Operations)**

Basic financial instruments

- A cooperative shall account for the following financial instruments as basic financial instruments in accordance with this section.
 - cash.
 - a debt instrument (such as account, note, or loan receivable or payable)
 - investment in publicly traded securities
 - investment in non-publicly traded securities

Basic financial instruments – initial recognition

A cooperative shall recognize a financial asset or a financial liability only when the cooperative becomes a party to the contractual provisions of the instrument.

Basic financial instruments – initial measurement

When a financial asset or financial liability is recognized initially, a cooperative shall measure it at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction

Basic financial instruments – initial measurement

If the arrangement constitutes a financing transaction, the cooperative shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Basic financial instruments – subsequent measurement

- A. Debt instruments – at amortized cost
- B. Short-term debt instruments- undiscounted amount
- C. Investments in publicly- traded securities – at fair value with changes in fair value recognized in profit and loss
- D. Investments in non publicly-traded securities mutual funds, as well as other externally-managed funds – at cost less impairment

ISSUES ON FINANCIAL INSTRUMENTS

1. INVESTMENTS IN MUTUAL FUNDS- must be reported only AT COST. No UNREALIZED GAINS and LOSSES.

- FOR COOPS WITH UNREALIZED GAINS AND LOSSES STILL REPORTED IN THEIR FINANCIAL STATEMENTS, CLOSE UNREALIZED GAINS/ LOSSES TO COST.
- Test for IMPAIRMENT

2. INVESTMENTS IN PUBLICLY-TRADED SECURITIES –
PER PFRF, REPORT AT THEIR FAIR VALUE

HOW TO DISTRIBUTE GAINS IF THE OBJECTIVE IS NOT REALLY TO TRADE BUT TO HOLD FOR SALE OR FOR MATURITY?

Basic Financial Instruments - Dividends

The cooperative shall recognize dividends and other distributions received from the equity investment as income without regard to whether the distributions are from accumulated profits of the investee arising before or after the date of acquisition. Stock dividends do not involve transfer of resources from investee. Accordingly, stock dividends received shall not be recognized as income.

ISSUES ON DIVIDENDS

- **STOCK DIVIDENDS FROM SECONDARY OR TERTIARY COOPS:**
 - Even if there is a statement increasing the number of shares, NO ENTRY SHOULD BE BOOKED.

Inventories

- Measured at the lower of cost and estimated selling price less costs to complete and sell
- Cost is determined using:
 - Specific identification for large items
 - FIFO or weighted average for others
- Inventory cost includes costs to purchase, costs of conversion and costs to bring the asset to present location and condition

Investment in Associates, Joint Ventures, Subsidiaries

shall be accounted for using the **cost model**

Note: this requires auditors to test for impairment, as the model encourages cooperatives not to take into consideration losses of their investee.

Investment Property

- Shall be accounted for using the **COST-DEPRECIATION-IMPAIRMENT MODEL**.
- **To be presented as a separate line item in the Statement of Financial Condition**

Property, plant and equipment

- Cost model (cost less accumulated depreciation and impairment)
- **REVALUATION MODEL – ALLOWED FOR LAND ONLY, AND SUBJECT TO GUIDELINES ISSUED BY THE AUTHORITY**
- **APPRAISAL INCREASE SHALL BE CLASSIFIED AS REVALUATION SURPLUS UNDER THE EQUITY SECTION**

Intangible Assets

- All costs incurred to internally develop intangible assets such as research and development costs are charged to expense
- Intangible assets must be measured using cost-amortization-impairment model
 - Revaluation of intangible asset is not permitted
- All intangible assets are considered to have a finite life. If unable to estimate the useful life of an intangible asset, the life is presumed to be 10 years

Leases

- Leases are either finance or operating leases.
- Finance leases result in substantially all the risks and rewards incidental to ownership being transferred to the lessee, while operating leases do not.
- Operating lease- expense
- Finance lease - capitalize
- **ANY CHANGE/ DEVELOPMENT IN PFRS OR PFRS FOR SME RE LEASES WILL NOT AFFECT COOPS UNLESS THE CDA ISSUES AN MC ADOPTING SUCH.**

Provisions and Contingencies

➤ **Provisions** are recognized only when

1. there is a **present obligation** as a result of a past event,
2. it is **probable** that the entity will be required to transfer economic benefits, and
3. the amount can be **estimated reliably**.

➤ **Contingent liabilities**

- Not recognised as liabilities.
- **Disclose** if reasonably possible or probable but not estimable

➤ **Contingent assets**

- Not recognised as assets.
- **Disclose if probable**

Revenue

➤ Recognition:

- Sale of goods and services- accrual
- Interest Income for Savings and Credit Cooperatives – interest is recognized when earned and received
- Rebates- treated as reduction of revenues, not expensed; income is not recognized for the portion not yet received.

Donations and grants

- Treated as part of equity
- Reported as a separate Line Item in the Statement of Financial Condition
- **ISSUE: ARE THEY DONATIONS/ GRANTS?
OR PROJECT SUBSIDY (treated as liability)**

Borrowing costs

- A cooperative shall recognize all borrowing costs as an expense in the period they are incurred.
- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset may be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this framework.
- Such borrowing costs are capitalized as part of the cost of the asset when it is probable that they will result in future economic benefits to the cooperative and the costs can be measured reliably.

Borrowing costs

- Only those borrowing costs applicable to the borrowings of the entity may be capitalized. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of other international and/or national accounting standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other standards.

Borrowing costs

- Capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted, and expensed. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalization.

ISSUE ON BORROWING COSTS

- **HOW TO SEPARATE BORROWING COSTS USED IN OPERATIONS AND USED FOR QUALIFYING ASSETS.**
 - Coops must be able to segregate which part of the borrowings were used for the qualifying asset and auditors must perform substantive tests to validate such.

Impairment of Assets

➤ Inventories

- write down, in profit or loss, to **lower of cost and selling price less costs to complete and sell**.

➤ All other assets

- write down, in profit or loss, to **recoverable amount**, if below carrying amount.
- When the circumstances that led to the impairment no longer exist, the **impairment is reversed through profit or loss (in the Statement of Operations)**

Employee Benefits

- **VESTED** past service costs are recognized immediately in the Statement of Operations
- **UNVESTED PAST SERVICE COSTS SHALL BE AMORTIZED OVER THE REMAINING VESTING PERIOD**
- **Actuarial gains or losses** are recognized immediately in the **Statement of Operations**
- Disclose short-term employee benefits

ISSUES ON EMPLOYEE BENEFITS

FUNDING OF RETIREMENT LIABILITY

- OTHER FUNDS AND DEPOSITS
- MUST DISCLOSE

FORMAL RETIREMENT PLAN (WITH PLAN ASSETS)

- PFRF SECTION ON RETIREMENT MUST BE DISCLOSED WITH THE ACTUARY; OTHERWISE, ACTUARIAL VALUATION WILL NOT BE IN ACCORDANCE WITH PFRF. SET UP OF LIABILITIES AND EXPENSE FOR THE YEAR MUST BE IN ACCORDANCE WITH PFRF AND NOT WITH PFRS /PFRS FOR SMEs

- PLAN ASSETS – must be in the name of the RETIREMENT PLAN (not COOP). DISCLOSE ALL PARTICULARS WITH RESPECT WITH THE PLAN ASSETS.

Foreign Currency Transaction

- Foreign currency transaction gains and losses are recognized in the Statement of Operations

Events after the End of the Reporting Period

- Events after the end of the reporting period are classified as
 1. Adjusting events
 - Those that provide evidence of conditions that **existed at period end**
 2. Non-adjusting events
 - Those that are indicative of conditions that arose **after period end**

Related Party Disclosures

- Disclose **parent-subsidiary relationships**, including the name of the parent and (if any) the ultimate controlling party.
- Disclose **key management personnel compensation** in total for all key management.
- Disclose the following for **related party transactions**:
 - Nature of the relationship and transactions
 - Amount of the transaction
 - Provisions for uncollectible receivables
 - Any expense recognised during the period in respect of an amount owed by a related party

Specialized Activities- Agriculture

- Biological assets are measured at **cost less accumulated depreciation and impairment.**
- At harvest, agricultural produce is to be measured at **cost**

Specialized Activities- Agriculture

- A cooperative shall disclose the following with respect to its biological assets:
 - a description of each class of its biological assets.
 - the depreciation method used.
 - the useful lives or the depreciation rates used.
 - the gross **carrying amount** and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Specialized activities – extractive activities

- A cooperative using this framework that is engaged in the exploration for, evaluation or extraction of mineral resources (extractive activities) shall account for expenditure on the acquisition or development of tangible or intangible assets for use in extractive activities. When a cooperative has an obligation to dismantle or remove an item, or to restore the site, such obligations and costs are accounted for in accordance with Section on *Provisions and Contingencies*.

Statutory Funds

- The manner of Distribution of Net Surplus into its Statutory Funds, Interest on Share Capital and Patronage Refund, shall be presented on the Statement of Operations.
- Movements in the Statutory Funds; i.e. Allocation from Net Surplus and Deductions, shall be accounted for in the Statement of Changes in Equity.
- Statutory Funds shall be set up in accordance with Article 86 of RA 9520 and the Cooperative's By-Laws.

Statutory Funds

- ❖ RESERVE FUND – at least 10% of net surplus-
 - note: for new coops, reserve fund should be at 50% of net surplus for the first 5 years
- ❖ COOPERATIVE EDUCATION & TRAINING FUND- not more than 10%
 - (½ to be recorded as DUE TO UNIONS AND FEDERATIONS
 - ½ to be recorded as COOPERATIVE EDUCATION AND TRAINING FUND- LOCAL)
- ❖ COMMUNITY DEVELOPMENT FUND- not less than 3%
- ❖ OPTIONAL FUND- not more than 7%

Distribution of net surplus – recovery of prior years' losses

- Since the reserve fund account is intended, among others, to meet operational losses, all accumulated losses incurred by the cooperatives in their business operations shall therefore be charged against this Fund which shall be decided upon by the Board of Directors.
- All charges against the Reserve Fund shall be subsequently be offset by the following modified allocation and distribution of net surpluses until such time the debit balance of the Reserve Fund account shall have been fully offset

Distribution of net surplus – recovery of prior years' losses

- Twenty five per centum (25%) shall be declared as interest on share capital and patronage refund;
- Cooperative Education and Training Fund – one half of the per centum as provided in the by-laws.
- Community Development Fund – one half of the per centum as provided in the by-laws.
- Optional Fund – one half of the per centum as provided in the by-laws.
- Reserve Fund – remaining amount of net surplus.

End of Presentation

THANK YOU!!!