PFRSC

November 2023

Exposure Draft

Philippine Financial Reporting Standards for Cooperatives®
(PFRSC)

First edition of the *PFRS for Cooperatives*

Comments to be received by December 11, 2023

[Draft] First edition of the *PFRS For COOPERATIVES*

Introduction

The Philippine Financial Reporting Standard for Cooperatives was developed because of the peculiarities and uniqueness of the operations of cooperatives. The emergence of cooperatives as a form of business enterprise in the Philippines is indeed inevitable. Unlike the other collective organizations recognized by the Philippine Constitution to own, manage and operate business entities, cooperatives do not have financial reporting standards that truly reflect the cooperatives' financial condition and results of operation. The uniqueness and peculiarities of cooperatives make it necessary to prescribe a comprehensive financial reporting standard that will address the needs of the users of the cooperatives' financial statements.

Presently, cooperatives cannot strictly follow the full PFRS for the reason that Republic Act No. 9520, otherwise known as the Philippine Cooperative Code of 2008, specifically provides for treatment of certain accounts which are unique only to cooperatives and such peculiarities are in accord with universally-accepted cooperative principles. As a consequence, cooperative external auditors are left with no option but to render, at times, qualified opinion because the cooperatives could not comply with the PFRS. As a matter of fact, other cooperative external auditors express varied opinions on the presentation of the audited financial statements of cooperatives ranging from unmodified, qualified, adverse and disclaimer of opinion on the items presented in the financial statements.

The main objective of this PFRSC is to guide the cooperatives in presenting their financial condition and performance in the financial statements to ensure consistency in recording, recognizing and measuring financial transactions, which, if followed properly, will ensure stability and transparency throughout the financial reporting process of the cooperatives.

When would the proposals be effective?

This Exposure Draft proposes that the effective date of this Standard shall take effect following the completion of its publication in the Official Gazette or newspapers of general circulation and filing of copy thereof with the Office of the National Administrative Register (ONAR)

The public is advised that the CDA Board of Directors in its meeting held on 15 November 2023 per Board Resolution No. 861 S-2023 resolved to approve the exposure of this draft 1st Edition of the Philippine Financial Reporting Standards for Cooperatives for comments and suggestions of all concerned parties

This Exposure Draft / *First edition of the* PFRS for Cooperatives is published by the BOA-CDA-PICPA Technical Working Group (TWG) for comment and suggestions only. Comments and suggestions need to be submitted through email at sed@cda.gov.ph

All comments and suggestions will be on the public record unless the respondent requests confidentiality and will be posted on the CDA website at www.cda.gov.ph . Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. If you would like to request confidentiality, please contact us at sed@cda.gov.ph upon submitting your comment.

Disclaimer: To the extent permitted by applicable law, the TWG expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

Invitation to comment

The TWG invites comments on Exposure Draft *First edition of the* PFRS For COOPERATIVES. Comments are most helpful if they:

(a) specify the paragraph(s) to which they relate;

(b) contain a clear rationale;

(c) identify any wording in the proposals that is difficult to translate; and

(d) include any alternative approach the TWG should consider, if applicable.

Comments should be placed in the following template

Name / Organization/ Firm	Chapter/ Section	Comment/Suggestion With clear rationale

TABLE OF CONTENTS

Overview of the TWG's proposals in this Exposure Draft

Following are the lists the proposed Chapter of the *PFRS For COOPERATIVES.*

Chapter	**Subject of proposed PFRS for Cooperatives**
Chapter I General Provisions	This Chapter consists of the Title, Statement of Policy and Rationale of the proposed PFRS for Cooperatives.
Chapter II *Concepts and Pervasive Principles*	This Chapter describes the **objective of financial statements** of Cooperative and the qualities that make the information in the financial statements useful. It also sets out the concepts and basic principles underlying the financial statements that are truly applicable for Philippine cooperatives
Chapter III *Financial Statement Presentation*	This Chapter explains **fair presentation** of **financial statements**, what compliance with this Standard requires, and what a complete set of financial statements is.
Chapter IV *Statement of Financial Condition*	This Chapter sets out the information that is to be included and how to be presented in a **statement of financial condition**. The statement of financial condition presents a cooperative's **assets, liabilities** and **equity** as of a specific date—the end of the **reporting period**. It also emphasizes the need to present Current and Non-Current Distinction of assets and liabilities as separate classification in the statement of financial condition.
Chapter V *Statement of Operations*	This Chapter requires a cooperative to present its financial **performance** for the period. It sets out the information that is to be presented in the statement and how to present it. It also introduces the allocation/distribution of Net Surplus in accordance with the provision of Article 85 and 86 of RA9520 (The Philippine Cooperative Code of 2008)
Chapter VI *Statement of Changes in Equity*	Requirements for presenting the **changes in equity** for a period in a **Statement of Changes in Equity** are set out in this Chapter
Chapter VII *Statement of Cash Flows*	This Chapter sets out the information that is to be included and how to be presented in a **statement of cash flows**. The statement of cash flows provides information about the changes in **cash** and **cash equivalents** of a cooperative for a **reporting period**, showing separately changes from

Chapter	Subject of proposed PFRS for Cooperatives
	operating activities, **investing activities** and **financing activities**.
Chapter VIII *Notes to the Financial Statements*	This Chapter sets out the principles underlying information that is to be included and how to be presented in the **Notes** to the Financial Statements. Notes contain information in addition to that presented in the **Statement of Financial Condition**, **Statement of Operations, Statement of Changes in Equity**, and **Statement of Cash Flows**. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this Standard requires disclosures that are normally presented in the notes.
Chapter IX *Accounting Policies, Estimates and Errors*	This Chapter provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers **changes in accounting estimates** and corrections of **errors** in prior period financial statements.
Chapter X *Financial Instruments*	This Chapter deals with recognizing, derecognizing, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**).
Chapter XI *Inventories*	This Chapter sets out the principles for recognizing and measuring **inventories**.
Chapter XII *Investments in Associates, Joint Ventures and Subsidiaries*	This Chapter applies to accounting for investments in **associates, joint ventures and subsidiaries** in the financial statements of an investor.
Chapter XIII *Investment Property*	This Chapter applies to accounting for investments in land or buildings that meet the definition of **investment property** and some property interests held by a lessee under an operating lease that are treated like investment property.
Chapter XIV *Property, Plant and Equipment*	This Chapter applies to accounting for **property**, **plant, and equipment**, as well as recognition, measurement, impairment, derecognition and disclosures.

Chapter	Subject of proposed PFRS for Cooperatives
Chapter XV *Intangible Assets*	This Chapter applies to accounting for all intangible assets and intangible assets held by a Cooperative for sale in the ordinary course of business.
Chapter XVI *Allocation and Distribution of Net Surplus*	This Chapter shall be applied in the accounting of the allocation and distribution of net surplus as required under Article 85 of RA 9520. Net surplus shall be determined as follows: a) In accordance with the cooperative's by-laws; b) Every cooperative shall determine its net surplus at the close of every fiscal year and at such other times as may be prescribed by the by-laws; c) Shall not be construed as profit but as an excess of payments made by the members for loans borrowed, or the goods and services availed by them from the cooperative or the difference of the rightful amount due to the members for their products sold or services rendered to the cooperative including other inflows of assets resulting from its other operating activities and which shall be deemed to have been returned to them if the same is distributed as prescribed under Article 85.
Chapter XVII *Statutory Funds*	This Chapter shall be applied in accounting for all Statutory Funds required by Republic Act 9520. Section 86 of RA 9520 requires cooperatives to allocate statutory reserves in the distribution of net surplus. Statutory Funds are comprised of the following: a) Reserve fund which shall be at least ten percent (10%) of net surplus; provided that in the first five (5) years of operation after registration, this amount shall not be less than fifty percent (50%) of the net surplus. b) Education and Training Fund shall not be more than ten percent (10%) of the net surplus. c) Community Development Fund which shall not be less than three percent (3%) of the net surplus. d) Optional Fund which shall not exceed seven percent (7%) of the net surplus.

<table>
<tr><th>Chapter</th><th>Subject of proposed PFRS for Cooperatives</th></tr>
<tr><td>Chapter XVIII
Leases</td><td>This chapter applies to leases and agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets.

This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Some arrangements, such as outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.</td></tr>
<tr><td>Chapter XIX
Provisions and Contingencies</td><td>This chapter applies to all provisions (i.e. liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other sections of this Standard. These include provisions relating to:

(a) leases, however, this section deals with operating leases that have become onerous.
(b) construction contracts.
(c) employee benefit obligations.

The requirements in this section do not apply to executory contracts unless they are onerous contracts. 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.

The word ‘provision’ is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities, and therefore are not covered by this section.</td></tr>
<tr><td>Chapter XX
Liabilities and Equity</td><td>This chapter establishes principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as members of a cooperative.

This section shall be applied when classifying all types of financial instruments except:

(a) employers’ rights and obligations under employee benefit plans.
(b) financial instruments, contracts and obligations under share-based payment transactions.</td></tr>
</table>

<table>
<tr><th>Chapter</th><th>Subject of proposed PFRS for Cooperatives</th></tr>
<tr><td>Chapter XXI
Donation and Grants</td><td>This chapter specifies the accounting for all donations and grants. A donation and grant is assistance by another entity in the form of a transfer of resources to a cooperative in return for past or future compliance with specified conditions relating to the operating activities of the cooperative.

Donations and grants exclude those forms of assistance that cannot reasonably have a value placed upon them and transactions with the government that cannot be distinguished from the normal trading transactions of the cooperative.</td></tr>
<tr><td>Chapter XXII
Borrowing Costs</td><td>This chapter specifies the accounting for borrowing costs. Borrowing costs are interest and other costs that a cooperative incurs in connection with the borrowing of funds.

Borrowing costs include:

(a) interest expense calculated using either the straight line or the effective interest method.
(b) finance charges in respect of finance leases.
(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.</td></tr>
<tr><td>Chapter XXIII
Impairment of Assets</td><td>This chapter shall be applied in accounting for the impairment of all assets other than the following,:

(a) assets arising from employee benefits.
(b) financial assets.</td></tr>
<tr><td>Chapter XXIV
Employee Benefits</td><td>Employee benefits are all forms of consideration given by a cooperative in exchange for service rendered by employees.

Employee benefits covered by this chapter shall be any of the following:

(a) short-term employee benefits, which are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service.

(b) post-employment benefits, which are employee benefits (other than termination benefits) that are payable after the completion of employment.

(c) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the</td></tr>
</table>

Chapter	Subject of proposed PFRS for Cooperatives
	period in which the employees render the related service. (d) termination benefits, which are employee benefits payable as a result of either: (i) a cooperative's decision to terminate an employee's employment before the normal retirement date, or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits. This chapter explains the accounting, measurement and recognition of Employees Benefit – short term and long term.
Chapter XXV *Events After the End of the Reporting Period*	This chapter defines events after the end of the **reporting period** and sets out principles for recognizing, measuring and disclosing those events.
Chapter XXVI *Related Party Disclosures*	This chapter requires a cooperative to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial condition and operation have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
Chapter XXVII *Specialized Activities*	This chapter provides guidance on financial reporting by Cooperatives involved in three types of specialized activities—agriculture, extractive activities, and service concessions.
Chapter XXVIII *Final Provisions*	This chapter presents the transitory period, sanctions, repealing and separability clause and the effectivity of this PFRS for Cooperatives.

PHILIPPINE FINANCIAL REPORTING STANDARDS FOR COOPERATIVES

Pursuant to Republic Act No. 11364, Republic Act No. 9520, Republic Act No. 10744 and its Implementing Rules and Regulations (IRR), the Authority hereby adopts and prescribes the use of this Philippine Financial Reporting Standards for Cooperatives registered with the Cooperative Development Authority except Cooperative Banks which shall use the financial reporting framework prescribed by Bangko Sentral ng Pilipinas (BSP).

CHAPTER I

GENERAL PROVISIONS

Section 1. Title

This Draft shall be known and cited as the Philippine Financial Reporting Standards for Cooperatives (PFRSC).

Section 2. Statement of Policy

It is hereby declared a policy of this Authority to promote the principle of transparency and accountability in the financial reporting of cooperatives to protect the interest and welfare of their members and other stakeholders.

Section 3. Rationale

The main objective of this PFRSC is to guide the cooperatives in presenting their financial condition and performance in the financial statements.

The emergence of cooperatives as a form of business enterprise in the Philippines is indeed inevitable. Unlike the other collective organizations recognized by the Philippine Constitution to own, manage and operate business entities, cooperatives do not have financial reporting standards that truly reflect the cooperatives' financial condition and results of operation. The uniqueness and peculiarities of cooperatives make it necessary for the Authority to prescribe the comprehensive financial reporting standard that will address the needs of the users of the cooperatives' financial statements.

Presently, cooperatives cannot strictly follow the full PFRS for the reason that Republic Act No. 9520, otherwise known as the Philippine Cooperative Code of 2008, specifically provides for treatment of certain accounts which are unique only to cooperatives and such peculiarities are in accord with universally-accepted cooperative principles. As a consequence, cooperative external auditors are left with no option but to render, at times, qualified opinion because the cooperatives could not comply with the PFRS. As a matter of fact, other cooperative external auditors express varied opinions on the presentation of the audited financial statements of cooperatives ranging from unmodified, qualified, adverse and disclaimer of opinion on the items presented in the financial statements. For so many years, the cooperatives have long been clamoring for a separate financial reporting standard that is truly applicable for Philippine cooperatives.

This Financial Reporting Standard for Cooperatives was developed because of the peculiarities and uniqueness of the operations of cooperatives. Hence, a separate standard for cooperatives was conceptualized taking into consideration cooperative laws, rules, regulations, principles and nature of business.

CHAPTER II

CONCEPTS AND PERVASIVE PRINCIPLES

Section 1. Scope

This Chapter describes the **objective of financial statements** of Cooperative and the qualities that make the information in the financial statements useful. It also sets out the concepts and basic principles underlying the financial statements that are truly applicable for Philippine cooperatives.

Section 2. Objective of Financial Statements of Cooperative

The objective of financial statements of a cooperative is to provide information about the **financial condition**, **performance** and **cash flows** of the cooperative that is useful for economic decision-making

Financial statements also show the results of the stewardship and the accountability of management for the resources entrusted to it.

Section 3. Qualitative Characteristics of Information in the Financial Statements

3.1 Understandability

The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

3.2 Relevance

The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of **relevance** when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

3.3 Materiality

Information is **material**—and therefore has relevance—if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. However, it is inappropriate to make, or leave uncorrected, immaterial departures from this Standard to achieve a particular presentation of a cooperative's financial condition, financial performance or cash flows.

3.4 Reliability

The information provided in financial statements must be **reliable**. Information is reliable when it is free from material error and bias and represents faithfully that which it either purports to represent or could reasonably be expected to represent. Financial statements are not free from bias if, by the selection or presentation of information, they are intended to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

3.5 Substance Over Form

Transactions and other events and conditions should be accounted for and presented in accordance with their substance and not merely their legal form. This enhances the reliability of financial statements.

3.6 Prudence

The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of **prudence** in the preparation of the financial statements. 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 income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income, or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

3.7 Completeness

To be reliable, the information in financial statements must be complete and within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.

3.8 Comparability

Users must be able to compare the financial statements of a cooperative through time to identify trends in its financial condition and performance. Users must also be able to compare the financial statements of different cooperatives to evaluate their relative financial condition, performance and cash flows. Hence, the measurement and display of the financial effects of like transactions and other events and conditions must be carried out in a consistent way throughout a Cooperative and over time for that Cooperative and in a consistent way across cooperative. In addition, users must be informed of the **accounting policies** employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes.

3.9 Timeliness

To be relevant, financial information must be able to influence the economic decisions of users. **Timeliness** involves providing the information within the decision time frame. If there is undue delay in the reporting of information it may lose its relevance. Management may need to balance the relative merits of timely reporting and the provision of reliable information. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the needs of users in making economic decisions.

3.10 Balance Between Benefit and Cost

The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is substantially a judgmental process. Furthermore, the costs are not necessarily borne by those users who enjoy the benefits, and often the benefits of the information are enjoyed by a broad range of external users.

Section 4. Financial Condition

The financial condition of a cooperative is the relationship of its assets, liabilities and equity as of a specific date as presented in the **Statement of Financial Condition**.

These are defined as follows:

a. An **asset** is a resource controlled by the cooperative as a result of past events and from which future economic benefits are expected to flow to the cooperative.

b. A **liability** is a present obligation of the cooperative arising from past events, the settlement of which is expected to result in an outflow from the cooperative of resources embodying economic benefits.

c. An **equity** is the residual interest in the assets of the cooperative after deducting all its liabilities.

Some items that meet the definition of an asset or a liability may not be recognized as assets or liabilities in the statement of financial condition because they do not satisfy the criteria for **recognition** as an asset or a liability. In particular, the expectation that future economic benefits will flow to or from a cooperative must be sufficiently certain to meet the probability criterion before an asset or liability is recognized.

4.1 Assets

The future economic benefit of an asset is its potential to contribute, directly or indirectly, to the flow of cash and **cash equivalents** to the cooperative. Those cash flows may come from using the asset or from disposing of it.

Many assets, for example property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset. Some assets are intangible.

In determining the existence of an asset, the right of ownership is not essential. Thus, for example, property held on a lease is an asset if the cooperative controls the benefits that are expected to flow from the property.

4.2 Liabilities

An essential characteristic of a liability is that the cooperative has a present obligation to act or perform in a particular way. The obligation may be either a legal obligation or a **constructive obligation**. A legal obligation is legally enforceable as a consequence of a binding contract or statutory requirement. A constructive obligation is an obligation that is derived from cooperative's actions such as when:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the cooperative has indicated to other parties that it will accept particular responsibilities, and

(b) as a result, the cooperative has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The settlement of a present obligation usually involves the payment of cash, transfer of other assets, provision of services, the replacement of that obligation with another obligation, or conversion of the obligation to equity. An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

4.3 Equity

Equity is the residual of recognized assets minus recognized liabilities. It consists of Members' Equity, Statutory Funds, Donations and Grants, Revaluation Surplus, Unrealized gains or losses on Investments and Restricted capital for Surety and Fund Balances as applicable.

Section 5. Performance

Performance is the relationship of the income and expenses of a cooperative during a **reporting period**. **Profits or losses** are frequently used as measures of performance or as the basis for other measures, such as return on investment. Income and expenses are defined as follows:

(a) **Income** is increases in economic benefits during the reporting 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 members and donations.

(b) **Expenses** are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity investors.

The recognition of income and expenses results directly from the recognition and measurement of assets and liabilities.

5.1 Income

The definition of income encompasses both revenue and gains.

(a) **Revenue** is income that arises in the course of the ordinary activities of a cooperative and is referred to by a variety of names including sales, service income, commission, interest, dividends, royalties and rent.

(b) **Gains** are other items that meet the definition of income but are not revenue. When gains are recognized in the statement of operation, they are usually displayed separately because knowledge of them is useful for making performance economic decisions.

5.2 Expenses

The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the cooperative.

(a) **Expenses** that arise in the course of the ordinary activities of the cooperative include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, or property, plant and equipment.

(b) **Losses** are other items that meet the definition of expenses and may arise in the course of the ordinary activities of the cooperative. When losses are recognized in the statement of operations, they are usually presented separately because knowledge of them is useful for making economic decisions.

Section 6. Recognition of Assets, Liabilities, Income and Expenses

Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:

(a) it is **probable** that any future economic benefit associated with the item will flow to or from the cooperative, and

(b) the item has a cost or value that can be measured reliably.

The failure to recognize an item that satisfies those criteria is not rectified by disclosure of the **accounting policies** used or by **notes** or explanatory material.

6.1 The probability of Future Economic Benefit

The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the cooperative. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.

6.2 Reliability of Measurement

The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognized in the financial statements.

An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes or explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial condition, performance and changes in financial condition of a cooperative by the users of financial statements.

Section 7. Measurement of Assets, Liabilities, Income and Expenses

Measurement is the process of determining the monetary amounts at which a cooperative measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. This Standard specifies which measurement basis a cooperative shall use for many types of assets, liabilities, income and expenses.

Two common measurement bases are historical cost and fair value:

(a) For assets, **historical cost** is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.

(b) **Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in a normal transaction.

Section 8. Accrual Basis

Unless otherwise provided in this Standard, a cooperative shall prepare its financial statements, except for cash flow information, using the **accrual basis** of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Allowance for probable losses on receivables shall be based on the past due amount using portfolio at risk for purposes of prudence in financial reporting.

Section 9. Recognition in Financial Statements

9.1 Assets

A cooperative shall recognize an asset in the statement of financial condition when it is probable that the future economic benefits will flow to the cooperative and the asset has a cost or value that can be measured reliably. An asset is not recognized in the statement of financial condition when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the cooperative beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of operations.

A cooperative shall not recognize a **contingent asset** as an asset. However, when the flow of future economic benefits to the cooperative is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

9.2 Liabilities

A cooperative shall recognize a liability in the statement of financial condition when:

(a) the cooperative has an obligation at the end of the reporting period as a result of a past event,

(b) it is probable that the cooperative will be required to transfer resources embodying economic benefits in settlement, and

(c) the settlement amount can be measured reliably.

A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognized because it fails to meet one or both of the conditions (b) and (c) above. A cooperative
``

9.3 Income

The recognition of income results directly from the recognition and measurement of assets and liabilities. A cooperative shall recognize income in the statement of operations 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.

This applies to all accounts, except for cooperatives with lending operations, where interest income on loans is recognized only when earned and received during the period.

9.4 Expenses

The recognition of expenses results directly from the recognition and measurement of assets and liabilities. A cooperative shall recognize expenses in the statement of operations 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.

9.5 Profit or Loss

Profit or loss is the arithmetical difference between income and expenses. Profit or loss, as used in this Standard, is a general term that refers to net surplus or loss of a cooperative. It is not a separate element of financial statements, and a separate recognition principle is not needed for it.

Unless otherwise provided, this Standard does not allow the recognition of items in the statement of financial condition that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the 'matching concept' for measuring profit or loss.

Section 10. Measurement at Initial Recognition

At initial recognition, a cooperative shall measure assets and liabilities at historical cost unless this Standard requires initial measurement on another basis such as fair value.

Section 11. Subsequent Measurement

11.1 Assets

Most assets that a cooperative initially recognized at historical cost are subsequently measured on other measurement bases. For example:

(a) A cooperative measures property, plant and equipment at the lower of depreciated cost and recoverable amount.

(b) A cooperative measures inventories at the lower of cost and selling price less costs to complete and sell.

(c) A cooperative recognizes an impairment loss relating to non-financial assets that are in use or held for sale.

(d) A cooperative measures investment in listed securities at fair value.

Measurement of assets at those lower amounts is intended to ensure that an asset is not measured at an amount greater than the cooperative expects to recover from the sale or use of that asset.

11.2 Liabilities Other Than Financial Liabilities

Most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the **reporting date**.

Section 12. Offsetting

A cooperative shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Standard.

(a) Measuring assets net of valuation allowances - for example, allowance for inventory obsolescence and allowance for probable losses on receivables - is not offsetting.

(b) If a cooperative's normal operating activities do not include buying and selling non-current assets, including investments and operating assets, then the cooperative reports gains and losses on disposal of such assets by deducting from the proceeds on disposal the **carrying amount** of the asset and related selling expenses.

CHAPTER III

FINANCIAL STATEMENTS PRESENTATION

Section 1. Scope

This Chapter explains **fair presentation** of **financial statements**, what compliance with this Standard requires, and what a complete set of financial statements is.

Section 2. Fair Presentation

Financial statements shall present fairly the **financial condition**, financial **performance** and **cash flows** of a cooperative. Fair presentation requires the faithful representation of the effects of transactions and events in accordance with the definitions and **recognition** criteria for assets, liabilities, income and expenses.

The application of this Standard with additional disclosure when necessary is presumed to result in financial statements that achieve a fair presentation of the financial condition, financial performance and cash flows of cooperatives. The additional disclosures are necessary when compliance with the specific requirements in this Standard is insufficient to enable users to understand the effect of particular transactions and events on the cooperative's financial condition and financial performance.

Section 3. Compliance with the Standard for Cooperatives

A cooperative whose financial statements comply with the ***Philippine Financial Reporting Standard for Cooperatives*** shall make an explicit and unreserved statement of such compliance in the **notes**. Financial statements shall not be described as complying with the ***Philippine Financial Reporting Standard for Cooperatives*** unless they comply with all the requirements of this Standard.

Section 4. Going Concern

When preparing financial statements, the management of a cooperative using this Standard shall make an assessment of the cooperative's ability to continue as a going concern. A cooperative is a going concern unless management either intends to liquidate the cooperative or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to twelve months from the **reporting date**.

When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the cooperative's ability to continue as a going concern, the cooperative shall disclose those uncertainties. When a cooperative does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the reason why the cooperative is not regarded as a going concern.

Section 5. Frequency of Reporting

A cooperative shall present a complete set of financial statements at least annually.

Section 6. Consistency of Presentation

A cooperative shall retain the presentation and classification of items in the financial statements from one period to the next unless:

(a) it is apparent, following a significant change in the nature of the cooperative'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 Chapter IX, *Accounting Policies, Estimates and Errors*, or

(b) this Standard requires a change in presentation.

When the presentation or classification of items in the financial statements is changed, a cooperative shall reclassify comparative amounts unless the reclassification is **impracticable**. When comparative amounts are reclassified, a cooperative shall disclose the following:

(a) the nature of the reclassification.
(b) the amount of each item or class of items that is reclassified.
(c) the reason for the reclassification.

If it is impracticable to reclassify comparative amounts, a cooperative shall disclose why reclassification was not practicable.

Section 7. Comparative Information

Except when this Standard permits or requires otherwise, a cooperative shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. A cooperative shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Section 8. Materiality and Aggregation

A cooperative shall present separately each material class of similar items. A cooperative shall present separately items of a dissimilar nature or function unless they are immaterial.

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Section 9. Complete Set of Financial Statements

A complete set of financial statements of a cooperative shall include all of the following:

(a) Statement of Financial Condition
(b) Statement of Operations
(c) Statement of Changes in Equity
(d) Statement of Cash Flows
(e) Notes

The financial statements shall be presented in comparative form. Comparative amounts are required in respect of the previous period for all amounts presented in the financial statements, a complete set of financial statements means that a cooperative shall present, as a minimum, two of each of the required financial statements and related notes.

In a complete set of financial statements, a cooperative shall present each financial statement with equal prominence.

Section 10. Identification of the Financial Statements

A cooperative shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, a cooperative shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the registered name of the cooperative.
(b) the date of the end of the reporting period and the period covered by the financial statements.

(c) the **presentation currency.**
(d) the level of rounding, if any, used in presenting amounts in the financial statements.

A cooperative shall disclose the following in the notes:

(a) Registration Number
(b) Date of Registration.
(c) The address of its registered office (or principal place of business, if different from the registered office address)
(d) A description of the nature of the cooperative's operations and its principal activities.
(e) Area of Operations

CHAPTER IV

STATEMENT OF FINANCIAL CONDITION

Section 1. Scope

This section sets out the information that is to be presented in a **statement of financial condition** and how to present it. The statement of financial condition presents a cooperative's **assets, liabilities** and **equity** as of a specific date—the end of the **reporting period**.

Information to be presented in the statement of financial condition:

As a minimum, the statement of financial condition shall include line items that present the following amounts:

(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
(h) Biological assets
(i) Investments in Associates
(j) Investments in Joint Ventures
(k) Investments in Subsidiaries
(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
(t) Members' Equity
(u) Donations and Grants
(v) Statutory Funds (Reserve Fund, Education & Training Fund, Optional Fund and Community Development Fund)
(w) Revaluation Surplus
(x) Net Unrealized Gain or Loss on Investments
(y) Restricted capital for surety
(z) Fund Balance

A cooperative shall present additional line items, headings and subtotals in the statement of financial condition when such presentation is relevant to an understanding of the cooperative's **financial condition**.

Section 2. Current/Non-Current Distinction

A cooperative shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial condition, except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented in order of approximate liquidity (ascending or descending).

2.1 Current Assets

A cooperative shall classify an asset as current when:

(a) it expects to realize the asset, or intends to sell or consume it, in the normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realize the asset within twelve months after the reporting date; or

(d) the asset 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.

A cooperative shall classify all other assets as non-current. When the cooperative's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

2.2 Current Liabilities

A cooperative shall classify a liability as current when:

(a) it expects to settle the liability in the normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting date; or

(d) the cooperative does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date.

A cooperative shall classify all other liabilities as non-current.

Section 3. Sequencing of Items and Format of Items in the Statement of Financial Condition

This Standard does not prescribe the sequence or format in which items are to be presented. It simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial condition. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the cooperative's financial condition, and

(b) the descriptions used and the sequencing of items or aggregation of similar items may be amended according to the nature of the cooperative and its transactions, to provide information that is relevant to an understanding of the cooperative's financial condition.

The judgment on whether additional items are presented separately is based on an assessment of all of the following:

(a) the amounts, nature and liquidity of assets.
(b) the function of assets within the cooperative.
(c) the amounts, nature and timing of liabilities.

Section 4. Information to be Presented Either in the Statement of Financial Condition or in the Notes

4.1 A cooperative shall disclose sub-classifications of the line items presented in the statement of financial condition.

4.2 A cooperative shall disclose the following, either in the statement of financial condition or in the notes:

(a) for each class of share capital:

(i) the number of shares authorized;

(ii) the number of shares subscribed;
(iii) the number of shares issued and fully paid;
(iv) par value per share;
(v) a reconciliation of the number of shares issued at the beginning and at the end of the period;
(vi) treasury shares

(b) a description of each statutory fund within the equity.
(c) a description of each donation including the donor, amount, and condition of donations.
(d) details of the revaluation surplus including additions to and charges made

4.3 If, at the reporting date, a cooperative has a binding sale agreement for a major disposal of assets, or a group of assets and liabilities, the cooperative shall disclose the following information:

(a) a description of the asset(s) or the group of assets and liabilities.

(b) a description of the facts and circumstances of the sale or plan.

(c) the carrying amount of the assets or, if the disposal involves a group of assets and liabilities, the carrying amounts of those assets and liabilities.

4.4 **The Allocation of Net Surplus shall be presented in the Statement of Operations in accordance with the provisions of the cooperative by-laws which should be consistent with Articles 85 and 86 of RA 9520 (Cooperative Code). The balance of each of the statutory funds after allocation shall be incorporated in the presentation of the Statement of Financial Condition for the year then ended.**

CHAPTER V

STATEMENT OF OPERATIONS

Section 1. Scope

This Chapter requires a cooperative to present its financial **performance** for the period. It sets out the information that is to be presented in the statement and how to present it.

Section 2. Presentation of Total Income

A cooperative shall present its profit or loss:

As a minimum, a cooperative shall include, in the statement of operations, line items that present the following amounts for the period:

(a) Revenue
(b) Cost of Sales or Direct Cost of Services
(c) Finance Cost
(d) Selling or Marketing Cost
(e) Administrative Cost
(f) Other Income or Expense
(g) Net Surplus before Income Tax
(h) Tax Expense, if applicable
(i) Net Surplus for Allocation of Statutory Funds and ISCPR
(j) Allocation for Statutory Funds and ISCPR

A cooperative shall present additional line items, headings and subtotals in the statement of operations, when such presentation is relevant to an understanding of the cooperative's financial performance.

Section 3. Analysis of Expenses

A cooperative shall present an analysis of expenses based on the function of expenses within the cooperative where expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, a cooperative should disclose its cost of sales separately from other expenses.

Section 4. Accounts Peculiar to Cooperatives Affecting the Statement of Operations

A cooperative shall disclose the following income and expenses separately:

4.1. Other Income Account

(a) Project subsidy
(b) Optional Fund Subsidy
(c) Donation/Grants Subsidy
(d) Education and Training Fund Subsidy
(e) CETF Subsidy

4.2. Other Expense Account

(a) Provision for CGF (KBGF)
(b) Members' Benefit Expense
(c) Incidental Expenses
(d) General Assembly Meeting
(e) Affiliation Fee

(f) Social and Community Service Expense
(g) School Support Fund
(h) Subsidized Project Expense

Section 5. Allocation/Distribution of Surplus

Net Surplus of cooperatives is distributed in accordance with the provisions of Articles 85 and 86 of RA No. 9520 (The Philippine Cooperative Code of 2008)

Section 6. Disclosure

Disclosure in the revenue account on the amount of revenues or sales made to members and to non-members.

CHAPTER VI

STATEMENT OF CHANGES IN EQUITY

Section 1. Scope

This Chapter sets out requirements for presenting the **changes in equity** for a period in a **Statement of Changes in Equity.**

Section 2. Statement of Changes in Equity

2.1 Purpose

The statement of changes in equity presents the amounts of investments and withdrawals by members, addition and utilization of statutory funds, movement in donations and grants, and revaluation surplus during the period.

2.2 Information to be Presented in the Statement of Changes in Equity

A cooperative shall present a Statement of Changes in Equity showing reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(a) the amounts of investments and withdrawals by members, showing separately issued shares, and treasury shares
(b) Donations and Grants
(c) movements in Statutory Funds (includes allocation of Net Surplus as reconciled with amounts per Statement of Operations)
(d) movements in Revaluation Surplus
(e) movements in Net Unrealized Gains/Losses on Investments
(f) movements in Restricted Capital for Surety
(g) movements in Fund Balances

CHAPTER VII

STATEMENT OF CASH FLOWS

Section 1. Scope

This Chapter sets out the information that is to be presented in a **statement of cash flows** and how to present it. The statement of cash flows provides information about the changes in **cash** and **cash equivalents** of a cooperative for a **reporting period**, showing separately changes from **operating activities**, **investing activities** and **financing activities**.

Section 2. Cash Equivalents

Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Section 3. Information to be Presented in the Statement of Cash Flows

A cooperative shall present a statement of cash flows that presents movements in **cash and cash equivalent** for a reporting period classified into operating activities, investing activities and financing activities.

3.1 Operating Activities

Operating activities are the principal **revenue**-producing activities of the cooperative. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of **profit or loss (surplus or loss)**. Examples of cash flows from operating activities are:

(a) cash receipts from: (1) sale of goods; (2) interest, penalties and other charges on loans receivables; and (3) rendering of services

(b) cash receipts from royalties, fees, commissions and other revenue.

(c) cash payments to suppliers for goods and services.

(d) cash payments to and on behalf of employees.

(e) cash payments for income tax (if applicable)

(f) cash receipts and payments from investments, loans and other contracts held for dealing or trading purposes, which are similar to inventory acquired specifically for resale.

Some transactions, such as the sale of an item of property, plant and equipment, may give rise to gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

3.2. Investing Activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment (including self-constructed property, plant and equipment), intangible assets and other long-term assets.

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets.

(c) cash payments to acquire equity or debt instruments of other cooperative and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading).

(d) cash receipts from sales of equity or debt instruments of other cooperative and interests in joint ventures (other than receipts for those instruments classified as cash equivalents or held for dealing or trading).

3.3 Financing Activities

Financing activities are activities that result in changes in the size and composition of the members' equity and borrowings of a cooperative. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares

(b) cash payments to members to acquire or redeem the cooperative's own shares.

(c) cash proceeds from loans, notes, mortgages and other short-term or long-term borrowings.

(d) cash repayments of amounts borrowed.

(e) cash payments by a lessee for the reduction of the outstanding liability relating to a **finance lease**.

(f) cash payment for interest on share capital and patronage refund.

(g) utilization of statutory fund.

Section 4. Reporting Cash Flows from Operating Activities

A cooperative shall present cash flows from operating activities using either:

(a) the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows, or

(b) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

4.1 Indirect Method

Under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as **depreciation, provisions**, accrued income (expenses) not yet received (paid) in cash, and unrealized foreign currency gains and losses.

(c) all other items for which the cash effects relate to investing or financing.

4.2 Direct Method

Under the direct method, net cash flow from operating activities is presented by disclosing information about major classes of gross cash receipts and gross cash payments. Such information may be obtained either:

(a) from the accounting records of the cooperative; or

(b) by adjusting sales, cost of sales and other items in the Statement of Comprehensive Income (or the Income Statement, if presented) for:

i. changes during the period in inventories and operating receivables and payables;

ii. other non-cash items; and

iii. other items for which the cash effects are investing or financing cash flows.

Section 5. Reporting Cash Flows from Investing and Financing Activities

A cooperative shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

Section 6. Foreign Currency Cash Flows

A cooperative shall record cash flows arising from transactions in a foreign currency in the cooperative'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.

Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, to reconcile cash and cash equivalents at the beginning and the end of the period, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency must be presented in the statement of cash flows. Therefore, the cooperative shall remeasure cash and cash equivalents held during the reporting period (such as amounts of foreign currency held and foreign currency bank accounts) at period-end exchange rates. The cooperative shall present the resulting unrealized gain or loss separately from cash flows from operating, investing and financing activities.

Section 7. Interest on Share Capital, Patronage Refund, and Deposit Liabilities

A cooperative shall also present separately cash flows from

a. interest on share capital,
b. patronage refund paid and received,
c. dividend received, and
d. other interest paid and received as part of **operating activities**.

Section 8. Income Tax

If applicable, a cooperative shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities.

Section 9. Components of Cash and Cash Equivalents

A cooperative shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial condition. However, a cooperative is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial condition.

The composition of cash and cash equivalent accounts shall include cash on hand, cash in banks, checks and other cash items, cash in cooperative federation/s, revolving fund, change fund, and petty cash fund.

CHAPTER VIII

NOTES TO THE FINANCIAL STATEMENTS

Section 1. Scope

This Chapter sets out the principles underlying information that is to be presented in the **Notes** to the Financial Statements and how to present them. Notes contain information in addition to that presented in the **Statement of Financial Condition**, **Statement of Operations, Statement of Changes in Equity**, and **Statement of Cash Flows**. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this Standard requires disclosures that are normally presented in the notes.

Section 2. Structure of the Notes

The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific **accounting policies** used;

(b) disclose the information required by this Standard that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

A cooperative shall, as far as practicable, present the notes in a systematic manner. A cooperative shall cross-reference each item in the financial statements to any related information in the notes.

A cooperative normally presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with the *Philippine Financial Reporting Standard for Cooperatives*;

(b) a summary of significant accounting policies applied;

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

Section 3. Disclosure of Accounting Policies

A cooperative shall disclose the following in the summary of significant accounting policies:

(a) the measurement basis (or bases) used in preparing the financial statements.

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

Section 4. Information About Judgments

A cooperative shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations that management has made in the process of applying the cooperative's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Section 5. Information About Key Sources of Estimation Uncertainty

A cooperative shall disclose in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and
(b) their carrying amount as at the end of the reporting period.

CHAPTER IX

ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Section 1. Scope

This Chapter provides guidance for selecting and applying the **accounting policies** used in preparing **financial statements**. It also covers **changes in accounting estimates** and corrections of **errors** in prior period financial statements.

Section 2. Selection and Application of Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by a cooperative in preparing and presenting financial statements.

If this Standard specifically addresses a transaction, other event or condition, a cooperative shall apply this Standard. However, the cooperative need not follow a requirement in this Standard if the effect of doing so would not be **material**.

If this Standard does not specifically address a transaction, other event or condition, a cooperative's management shall use its judgment in developing and applying an accounting policy that results in information that is:

(a) **relevant** to the economic decision-making needs of users, and

(b) **reliable**, in that the financial statements:

  i. represent faithfully the **financial condition**, financial **performance** and **cash flows** of the cooperative;

  ii. reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

  iii. are neutral, i.e. free from bias;

  iv. are prudent; and

  v. are complete in all material respects.

In making the judgment, management shall refer to, and consider the applicability of, the following sources in descending order:

(a) the requirements and guidance in this Standard dealing with similar and related issues, and

(b) the definitions, **recognition** criteria and **measurement** concepts for assets, liabilities, income and expenses and the pervasive principles in *Concepts and Pervasive Principles*.

Section 3. Consistency of Accounting Policies

A cooperative shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless this Standard specifically requires or permits categorization of items for which different policies may be appropriate. If this Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

Section 4. Changes in Accounting Policies

A cooperative shall change an accounting policy only if the change:

(a) is required by changes to this Standard, or

(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the cooperative's financial condition, financial performance or cash flows.

The following are not changes in accounting policies:

(a) the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring.

(b) the application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material.

(c) a change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that this Standard would otherwise require or permit to be measured at fair value.

If this Standard allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and a cooperative changes its previous choice, that is a change in accounting policy.

Section 5. Applying changes in accounting policies

A cooperative shall recognize the cumulative effect of the changes in accounting policy in profit or loss in the period of the change.

Section 6. Disclosure of a change in Accounting Policy

When an amendment to this Standard has an effect on the current period or might have an effect on future periods, a cooperative shall disclose the following:

(a) the nature of the change in accounting policy.

(b) the cumulative effect of the change in accounting policy recognized in profit and loss.

(c) for voluntary change in accounting policy, the reasons why applying the new accounting policy provides reliable and more relevant information.

Section 7. Changes in Accounting Estimates

A 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 corrections of errors. 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.

A cooperative shall recognize the effect of a change in an accounting estimate **prospectively** by including it in profit or loss in:

(a) the period of the change, if the change affects that period only, or

(b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the cooperative shall recognize it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Section 8. Disclosure of a Change in Estimate

A cooperative shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the cooperative to estimate the effect of the change in one or more future periods, the cooperative shall disclose those estimates.

Section 9. Corrections of Prior Period Errors

Prior period errors are omissions from, and misstatements in, the cooperative's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorized for issue, and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include mathematical computation, changes in accounting policies, misinterpretations and frauds.

The cooperative shall recognize the effect of the correction of prior period error in the financial statements of the current period.

Section 10. Disclosure of Prior Period Errors

An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error.

(b) to the extent practicable, the amount of the correction for financial statement line item affected.

(c) an explanation if it is not practicable to determine the amounts to be disclosed.

Financial statements of subsequent periods need not repeat these disclosures.

CHAPTER X

FINANCIAL INSTRUMENTS

Section 1. Scope

This Chapter deals with recognizing, derecognizing, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**).

Section 2. Introduction

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments within the scope of this section:

(a) cash.

(b) demand and fixed-term deposits when the cooperative is the depositor, e.g. bank accounts.

(c) commercial paper and commercial bills held.

(d) accounts, notes and loans receivable and payable.

(e) bonds and similar debt instruments.

(f) investments in equity instruments.

2.1 Scope of Financial Instruments

This section applies to all financial instruments except for the following:

(a) investments in associates, joint ventures and subsidiaries

(b) financial instruments that meet the definition of cooperative's own equity

(c) leases

(d) employers' rights and obligations under employee benefit plans

Section 3. Initial Recognition of Financial Assets and Liabilities

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.

Loans receivables and payables shall be classified as current and non-current assets and liabilities, respectively. Performing loans can be classified as current and non-current, while non-performing loans are classified as current only. Deposit Liabilities and Revolving Capital Payable shall be classified as current and non-current liabilities.

For this purpose, performing loans refer to loans paid on or before due dates while non-performing loans are past due loans based on Portfolio at risk with a grace period of 30 days.

Section 4. Initial Measurement

When a financial asset or financial liability is recognized initially, a cooperative shall measure it at the transaction price unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. 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.

4.1 Examples – Financial Assets

a. For a long-term loan made to another entity, a receivable is recognized at the present value of cash receivable (including interest payments and repayment of principal) from that entity.

b. For goods sold to a customer on short-term credit, a receivable is recognized at the undiscounted amount of cash receivable from that entity, which is normally the invoice price.

c. For an item sold to a customer on two-year interest-free credit, a receivable is recognized at the current cash sale price for that item. If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the prevailing market rate(s) of interest for a similar receivable.

d. For a cash purchase of another entity's ordinary shares, the investment is recognized at the amount of cash paid to acquire the shares.

e. For loans receivable to members, a receivable is recognized for the difference between the gross receivable and the related unearned interest income.

4.2 Examples – Financial Liabilities

a. For a loan received from a bank, a payable is recognized initially at the present value of cash payable to the bank (e.g. including interest payments and repayment of principal).

b. For goods purchased from a supplier on short-term credit, a payable is recognized at the undiscounted amount owed to the supplier, which is normally the invoice price.

Section 5. Subsequent Measurement

At the end of each **reporting period**, a cooperative shall measure financial instruments as follows, without any deduction for transaction costs the cooperative may incur on sale or other disposal:

a. Debt instruments shall be measured at **amortized cost** using the effective or straight line interest amortization method.

b. Debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e. net of impairment unless the arrangement constitutes, in effect, a financing transaction. If the arrangement constitutes a financing transaction, the cooperative shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

c. Financial Assets invested in publicly-traded securities with quoted price in the form of debt or equity securities that are held for trading purposes shall be measured at fair value with changes in fair value recognized in profit or loss.

d. Financial Assets invested in publicly-traded securities with quoted price in the form of debt or equity securities not intended to be disposed within 12-month period shall be measured at fair value with changes in fair value recognized in equity.

e. At initial recognition of the Financial Asset in publicly traded securities, a cooperative may make an irrevocable election to present either in Financial Asset through Profit or Loss or Financial Asset through Equity. Subsequently, reclassification from Financial Asset at Fair Value through Profit and Loss to Financial Asset at Fair Value through Equity or vice versa is not allowed

f. Investments in non-publicly-traded securities, mutual fund and other externally managed funds shall be measured at cost less impairment.

Section 6. 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.

Section 7. Derecognition of a Financial Asset

A cooperative shall derecognize a financial asset only when:

a. the contractual rights to the cash flows from the financial asset expire or are settled, or

b. the cooperative transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or

c. the cooperative, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the cooperative shall:

    i. Derecognize the asset; and

    ii. Recognize separately any rights and obligations retained or created in the transfer.

The carrying amount of the transferred asset shall be allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations shall be measured at their fair values at that date. Any difference between the consideration received and the amounts recognized and de-recognized in accordance with this paragraph shall be recognized in profit or loss in the period of the transfer.

If a transfer does not result in derecognition because the cooperative has retained significant risks and rewards of ownership of the transferred asset, the cooperative shall continue to recognize the transferred asset in its entirety and shall recognize a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the cooperative shall recognize any income on the transferred asset and any expense incurred on the financial liability.

If a transferor provides non-cash collateral (such as debt or equity instruments) to the transferee, the accounting for the collateral by the transferor and the transferee depends on whether the transferee has the right to sell or re-pledge the collateral and on whether the transferor has defaulted. The transferor and transferee shall account for the collateral as follows:

(a) If the transferee has the right by contract or custom to sell or re-pledge the collateral, the transferor shall reclassify that asset in its statement of financial condition (e.g. as a loaned asset, pledged equity instruments or repurchase receivable) separately from other assets.

(b) If the transferee sells collateral pledged to it, it shall recognize the proceeds from the sale and a liability measured at fair value for its obligation to return the collateral.

(c) If the transferor defaults under the terms of the contract and is no longer entitled to redeem the collateral, it shall de-recognize the collateral, and the transferee shall recognize the collateral as its asset initially measured at fair value or, if it has already sold the collateral, de-recognize its obligation to return the collateral.

(d) Except as provided in (c), the transferor shall continue to carry the collateral as its asset, and the transferee shall not recognize the collateral as an asset.

Section 8. Derecognition of a Financial Liability

A cooperative shall derecognize a financial liability (or a part of a financial liability) only when it is extinguished—i.e. when the obligation specified in the contract is discharged, is cancelled or expires.

If an existing borrower and lender exchange financial instruments with substantially different terms, the cooperatives shall account for the transaction as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a cooperative shall account for a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) as an extinguishment of the original financial liability and the recognition of a new financial liability.

The cooperative shall recognize in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Section 9. Impairment of Financial Instrument

At the end of the reporting period,

At the end of each reporting period, the cooperative shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the cooperative shall recognize an impairment loss in profit or loss immediately.

Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the entity about the following loss events:
a) a breach of contract by the debtor, such as a default or delinquency in interest or principal payments;
b) the entity, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the entity would not otherwise consider; or
c) significant financial difficulty of the debtor or the issuer or it has become probable that the debtor or the issuer will enter bankruptcy or other financial reorganization.

Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or the issuer operates.

An entity shall assess financial assets that are individually significant for impairment separately. An entity shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Loans and trade receivables shall be subject to impairment using Portfolio at Risk.

Section 10. Disclosures

9.1 Disclosure of Accounting Policies for Financial Instruments

A cooperative shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

9.2 Statement of Financial Condition – Categories of Financial Assets and Financial Liabilities

A cooperative shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the statement of financial condition or in the notes:

(a) financial assets measured at fair value through profit or loss.

(b) financial assets that are debt instruments measured at amortized cost including the method of amortization.

(c) financial assets measured at fair value through equity

(d) financial assets measured at cost less impairment.

(e) financial liabilities measured at amortized cost.

(f) loan commitments measured at cost less impairment.

A cooperative shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial condition and performance. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the cooperative).

For all financial assets measured at fair value, the cooperative shall disclose the basis for determining fair value, e.g. quoted market price in an active market.

If a reliable measure of fair value is no longer available for an equity instrument measured at fair value through profit or loss, the cooperative shall disclose that fact.

9.3 Derecognition

If a cooperative has transferred financial assets to another party in a transaction that does not qualify for derecognition, the cooperative shall disclose the following for each class of such financial assets:

(a) the nature of the assets.

(b) the nature of the risks and rewards of ownership to which the cooperative remains exposed.

(c) the carrying amounts of the assets and of any associated liabilities that the cooperative continues to recognize.

9.4 Collateral

When a cooperative has pledged or assigned financial assets as collateral for liabilities or contingent liabilities, it shall disclose the following:

(a) the carrying amount of the financial assets assigned or pledged as collateral.

(b) the terms and conditions relating to its pledge or assignment.

9.5 Defaults and Breaches on Loans Payable

For loans payable recognized at the reporting date for which there is a breach of terms or default of principal, interest, or redemption terms that have not been remedied by the reporting date, a cooperative shall disclose the following:

(a) details of that breach or default.

(b) the carrying amount of the related loans payable at the reporting date.

(c) whether the breach or default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.

9.6 Items of Income, Expense, Gains or Losses

A cooperative shall disclose the following items of income, expense, gains or losses:

(a) the aging schedule of receivables using portfolio at risk.

(b) the enumeration of acceptable collaterals and guarantees.

CHAPTER XI

INVENTORIES

Section 1. Scope

This Chapter sets out the principles for recognizing and measuring **inventories**.

Inventories are **assets**:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

This Chapter applies to all inventories, except:

(a) work in progress arising under construction contracts, including directly related service contracts;

(b) financial instruments;

(c) **biological assets** related to agricultural activity.

Section 2. Measurement of Inventories

A cooperative shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

Section 3. Cost of Inventories

A cooperative shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

3.1 Costs of Purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the cooperative from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

A cooperative may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognized as interest expense over the period of the financing and is not added to the cost of the inventories.

3.2 Costs of Conversion

The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labor.

3.3 Allocation of Production Overheads

A cooperative shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

3.4 Joint Products and By-Products

A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, a cooperative shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most byproducts, by their nature, are immaterial. When this is the case, the cooperative shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the **carrying amount** of the main product is not materially different from its cost

3.5 Other Costs Included in Inventories

A cooperative shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Section 4. Costs Excluded from Inventories

Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labor or other production costs.
(b) storage costs, unless those costs are necessary during the production process before a further production stage.
(c) administrative overheads that do not contribute to bringing inventories to their present location and condition.
(d) selling costs.

Section 5. Cost of Inventories of a Service Provider

To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Section 6. Techniques for Measuring Cost, such as Standard Costing, Retail Method and Most Recent Purchase Price

A cooperative may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Section 7. Cost Formula

A cooperative shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

A cooperative shall measure the cost of inventories by using the first-in, first-out (FIFO) or weighted average cost formula. A cooperative shall use the same cost formula for all inventories having a similar nature and use to the cooperative. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this Standard.

Section 8. Impairment of Inventories

Cooperative shall assess at the end of each **reporting period** whether any inventories are impaired, i.e. the carrying amount is not fully recoverable (e.g. because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the cooperative to measure the inventory at its selling price less costs to complete and sell, and to recognize an **impairment loss**. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Section 9. Recognition as an Expense

When inventories are sold, the cooperative shall recognize the carrying amount of those inventories as an expense in the period in which the related revenue is recognized.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this Standard relevant to that type of asset.

Section 10. Disclosures

A cooperative shall disclose the following:

(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 cooperative.
(c) the total carrying amount of inventories pledged as security for liabilities.

CHAPTER XII

INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND SUBSIDIARIES

Section 1. Scope

This Chapter applies to accounting for investments in **associates, joint ventures and subsidiaries** in the financial statements of an investor.

Section 2. Definition

2.1 Associate Defined

An associate is an entity, including an unincorporated entity, over which the investor has significant influence.

Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not **control** or **joint control** over those policies.

(a) If an investor holds, directly or indirectly, twenty percent (20%) or more of the voting power of the associate, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case.

(b) Conversely, if the investor holds, directly or indirectly, less than twenty percent (20%) of the voting power of the associate, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated.

(c) A substantial or majority ownership by another investor does not preclude an investor from having significant influence.

2.2. Joint Venture Defined

Joint control is the contractually agreed sharing of **control** over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or **jointly controlled entities**.

2.3. Subsidiary Defined

A **Subsidiary** is an entity that is controlled by the parent entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. That presumption may be overcome in exceptional circumstances if it can be clearly demonstrated that such ownership does not constitute control.

Section 3. Measurement—Accounting Policy

An investor shall account for all of its investments in associates, joint ventures and subsidiaries using the cost model.

Section 4. Cost Model

An investor shall measure its investments in associates, joint ventures and subsidiaries at cost less any accumulated **impairment losses.**

The investor shall recognize dividends and other distributions received from the investment as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

Section 5. Financial Statement Presentation

An investor shall classify investments in associates, joint ventures and subsidiaries as non-current assets.

Section 6. Disclosures

An investor in an associate, joint venture and subsidiary shall disclose the following:

(a) its **accounting policy** for investments in associates, joint venture or subsidiary.
(b) the **carrying amount** of investments in associates, joint venture or subsidiary.
(c) the amount of dividends and other distributions recognized as income.

CHAPTER XIII

INVESTMENT PROPERTY

Section 1. Scope

This Chapter applies to accounting for investments in land or buildings that meet the definition of **investment property** and some property interests held by a lessee under an operating lease that are treated like investment property.

Section 2. Definition and Initial Recognition of Investment Property

Investment property is property (land or a building, or part of a building, or both) held by the cooperative to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

Mixed use property shall be separated between investment property and property, plant and equipment. However, if it is not possible to separate the components of property, such property shall be reported as investment property if the owner-occupied component is only an **insignificant** portion of the property as a whole.

Section 3. Measurement at Initial Recognition

A cooperative shall measure investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

Section 4. Measurement after Recognition

Investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses.

Section 5. Transfers

A cooperative shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

Section 6. Disclosures

A cooperative shall disclose the following for all investment property:

(a) the accounting policy used.

(b) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

(c) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

i. additions.

ii. disposals.

iii. transfers to property, plant and equipment or inventory.

iv. impairment losses recognized or reversed in profit or loss.

v. depreciation.

vi. other changes.

This reconciliation need not be presented for prior periods.

CHAPTER XIV

PROPERTY, PLANT AND EQUIPMENT

Section 1. Scope

Property, plant, and equipment are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) are expected to be used during more than one period.

Property, plant and equipment do not include:

(a) biological assets related to agricultural activity, or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar non-regenerative resources.

Section 2. Recognition

A cooperative shall apply the recognition criteria in this Standard in determining whether to recognize an item of property, plant or equipment. Therefore, the cooperative shall recognize the cost of an item of property, plant and equipment as an asset if, and only if:

(a) it is **probable** that future economic benefits associated with the item will flow to the cooperative, and

(b) the cost of the item can be measured reliably.

Spare parts and servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when a cooperative 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 property, plant and equipment, they are considered property, plant and equipment.

Parts of some items of property, plant and equipment may require replacement at regular intervals (e.g. the roof of a building). A cooperative shall add to 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 replacement part is expected to provide incremental future benefits to the cooperative. The carrying amount of those parts that are replaced is **derecognized.**

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, a cooperative shall allocate the initial cost of the asset to its major components and **depreciate** each such component separately over its **useful life**.

A condition of continuing to operate an item of property, plant and equipment (e.g. a bus) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous major inspection (as distinct from physical parts) is derecognized. This is done regardless of whether the cost of the previous major inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Land and buildings are separable assets, and a cooperative shall account for them separately, even when they are acquired together.

Section 3. Measurement at Recognition

A cooperative shall measure an item of property, plant and equipment at initial recognition at its cost.

3.1 Elements of Cost

The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and nonrefundable 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. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

(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 a cooperative 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.

(d) Interest and other financing cost of funds borrowed intended for the construction or development of an asset.

The following costs are not costs of an item of property, plant and equipment, and a cooperative shall recognize them as an expense when they are incurred:

(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 customer (including costs of staff training).

(d) administration and other general overhead costs.

The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognized in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

3.2 Measurement of Cost

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments.

3.3 Exchanges of Assets

An item of property, plant or equipment may be acquired in exchange for a nonmonetary asset or assets, or a combination of monetary and non-monetary assets. A cooperative shall measure the cost of the acquired asset at **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. In that case, the asset’s cost is measured at the carrying amount of the asset given up.

Section 4. Measurement After Initial Recognition

A cooperative shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated **impairment losses**. A cooperative shall recognize the costs of day-to-day servicing of an item of property, plant and equipment in profit or loss in the period in which the costs are incurred.

Revaluation of land may be allowed the amount of land at original cost shall be disclosed separately in the notes. Also, the appraisal increase shall be presented as Revaluation Surplus under Equity Section of the Statement of Financial Condition. These shall be discussed under the guidelines to be issued by the Authority

Section 5. Depreciation

If the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, a cooperative shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its useful life. Other assets shall be depreciated over their useful lives as a single asset. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated.

The depreciation charge for each period shall be recognized in profit or loss unless another Chapter of this Standard requires the cost to be recognized as part of the cost of an asset. For example, the depreciation of manufacturing property, plant and equipment is included in the costs of inventories.

5.1 Depreciable Amount and Depreciation Period

A cooperative shall allocate the **depreciable amount** of an asset on a systematic basis over its useful life.

Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual **reporting date**. If such indicators are present, a cooperative shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The cooperative shall account for the change in residual value, depreciation method or useful life as a change in an **accounting estimate**.

Depreciation of an asset begins when it 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. Depreciation of an asset ceases when the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

A cooperative shall consider all the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

5.2 Depreciation Method

A cooperative shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which a cooperative expects to consume an asset's future economic benefits, the cooperative shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The cooperative shall account for the change as a change in an accounting estimate.

Section 6. Impairment

6.1 Recognition and Measurement of Impairment

At each **reporting date**, a cooperative shall determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognize and measure the impairment loss.

6.2 Compensation for Impairment

A cooperative shall include in profit or loss compensation from third parties for items of property, plant and equipment that were impaired, lost or given up only when the compensation becomes receivable.

6.3 Property, Plant and Equipment Held for Sale

A plan to dispose of an asset before the previously expected date is an indicator of impairment that triggers the calculation of the asset's recoverable amount for the purpose of determining whether the asset is impaired.

Section 7. Derecognition

A cooperative shall derecognize an item of property, plant and equipment:

(a) on disposal, or
(b) when no future economic benefits are expected from its use or disposal.

A cooperative shall recognize the gain or loss on the derecognition of an item of property, plant and equipment in profit or loss when the item is derecognized. The cooperative shall not classify such gains as revenue.

In determining the date of disposal of an item, a cooperative shall apply the criteria for recognizing revenue from the sale of goods.

A cooperative shall determine the gain or loss arising from the derecognition of an item of property, plant and equipment as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Section 8. Disclosures

A cooperative shall disclose the following for each class of property, plant and equipment that was deemed appropriate:

(a) the measurement bases used for determining the gross carrying amount.
(b) the depreciation methods used.
(c) the useful lives or the depreciation rates used.
(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.
(e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:

    I additions.

Ii disposals.
iii. transfers to investment property.
iv. impairment losses recognized or reversed in profit or loss.
v. depreciation.
vi. other changes.

This reconciliation need not be presented for prior periods.

The cooperative shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the cooperative has restricted title or that is pledged as security for liabilities.

(b) the amount of contractual commitments for the acquisition of property, plant and equipment.

(c) if there has been a valuation on the land, the fair value of the property, the extent to which the fair value is based on a valuation by an independent professional appraiser and the date of valuation.

CHAPTER XV

INTANGIBLE ASSETS

Section 1. Scope

This Chapter applies to accounting for all **intangible assets** and intangible assets held by a Cooperative for sale in the ordinary course of business.

An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

(a) it is separable, i.e. capable of being separated or divided from the Cooperative and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Cooperative or from other rights and obligations.

Intangible assets do not include:

(a) financial assets, or

(b) mineral rights and mineral reserves, such as oil, natural gas and similar nonregenerative resources.

Section 2. Recognition

2.1 General Principle for Recognizing Intangible Assets

A cooperative shall apply the recognition criteria in this Standard in determining whether to recognize an intangible asset. Therefore, the cooperative shall recognize an intangible asset as an asset if, and only if:

(a) it is **probable** that the expected future economic benefits that are attributable to the asset will flow to the cooperative;

(b) the cost or value of the asset can be measured reliably;

(c) the asset does not result from expenditure incurred internally on an intangible item; and

(d) The probability recognition criterion is always considered satisfied for intangible assets that are separately acquired.

A cooperative shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the **useful life** of the asset.

A cooperative uses judgment to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

Section 3. Initial Measurement

A cooperative shall measure an intangible asset initially at cost.

3.1 Separate Acquisition

The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and

(b) any directly attributable cost of preparing the asset for its intended use.

3.2 Acquisition by Way of Donations and Grants

If an intangible asset is acquired by way of donations and grants, the cost of that intangible asset is its fair value at the date the grant is received.

3.3 Exchanges of Assets

An intangible asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. A cooperative shall measure the cost of such an intangible asset at 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. In that case, the asset's cost is measured at the **carrying amount** of the asset given up.

3.4 Internally Generated Intangible Assets

A cooperative shall recognize expenditure incurred internally on an intangible item, including all expenditure for both **research** and **development** activities, as an expense when it is incurred unless it forms part of the cost of another asset that meets the recognition criteria in this Standard.

As examples of applying the preceding paragraph, a cooperative shall recognize expenditure on the following items as an expense and shall not recognize such expenditure as intangible assets:

(a) internally generated brands, logos, publishing titles, customer lists and items similar in substance.
(b) training activities.
(c) advertising and promotional activities.
(d) relocating or reorganizing part or all of a Cooperative.

However, the preceding paragraph does not preclude recognizing a prepayment as an asset when payment for goods or services has been made in advance of the delivery of the goods or the rendering of the services.

Section 4. Past Expenses Not to be Recognized as an Asset

Expenditure on an intangible item that was initially recognized as an expense shall not be recognized at a later date as part of the cost of an asset.

Section 5. Measurement after Recognition

A cooperative shall measure intangible assets at cost less any accumulated **amortization** and any accumulated **impairment losses**.

Section 6. Amortization Over Useful Life

For the purpose of this Standard, all intangible assets shall be considered to have a finite useful life. The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the cooperative expects Standard to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the cooperative without significant cost.

If a cooperative is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be ten (10) years.

6.1 Amortization Period and Amortization Method

A cooperative shall allocate the **depreciable amount** of an intangible asset on a systematic basis over its useful life. The amortization charge for each period shall be recognized as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

Amortization begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be usable in the manner intended by management. Amortization ceases when the asset is derecognized. The cooperative shall choose an amortization method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the cooperative cannot determine that pattern reliably, it shall use the straight-line method.

6.2 Residual Value

A cooperative shall assume that the **residual value** of an intangible asset is zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life, or

(b) there is an active market for the asset and:

  i. residual value can be determined by reference to that market; and

  ii. it is probable that such a market will exist at the end of the asset's useful life.

6.3 Review of Amortization Period and Amortization Method

Factors such as a change in how an intangible asset is used, technological advancement, and changes in market prices may indicate that the residual value or useful life of an intangible asset has changed since the most recent annual **reporting date**. If such indicators are present, a cooperative shall review its previous estimates and, if current expectations differ, amend the residual value, amortization method or useful life. The cooperative shall account for the change in residual value, amortization method or useful life as a change in an **accounting estimate**.

Section 7. Retirements and Disposals

A cooperative shall derecognize an intangible asset, and shall recognize a gain or loss in profit or loss:

(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

Section 8. Disclosures

A cooperative shall disclose the following for each class of intangible assets:

(a) the useful lives or the amortization rates used.
(b) the amortization methods used.
(c) the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.
(d) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
  i. additions.
  ii. disposals.

iii. amortization.
iv. impairment losses.
iv. other changes.

This reconciliation need not be presented for prior periods.

A cooperative shall also disclose:

(a) description, the carrying amount and remaining amortization period of any individual intangible asset that is **material** to the cooperative's **financial statements**.

(b) for intangible assets acquired by way of donations and grants and initially recognized at fair value.

   i. the fair value initially recognized for these assets, and
   ii. their carrying amounts.

(c) the existence and carrying amounts of intangible assets to which the cooperative has restricted title or that are pledged as security for liabilities.

(d) the amount of contractual commitments for the acquisition of intangible assets.

A cooperative shall disclose the aggregate amount of research and development expenditure recognized as an expense during the period (i.e. the amount of expenditure incurred internally on research and development that has not been capitalized as part of the cost of another asset that meets the recognition criteria in this Standard).

CHAPTER XVI

ALLOCATION AND DISTRIBUTION OF NET SURPLUS

Section 1. Scope

This Chapter shall be applied in the accounting of the allocation and distribution of net surplus as required under Article 85 of RA 9520.

Net surplus shall be determined as follows:

(a) In accordance with the cooperative's by-laws;
(b) Every cooperative shall determine its net surplus at the close of every fiscal year and at such other times as may be prescribed by the by-laws;
(c) Shall not be construed as profit but as an excess of payments made by the members for loans borrowed, or the goods and services availed by them from the cooperative or the difference of the rightful amount due to the members for their products sold or services rendered to the cooperative including other inflows of assets resulting from its other operating activities and which shall be deemed to have been returned to them if the same is distributed as prescribed under Article 85.

Section 2. Recognition and Measurement

As provided under Article 86 of RA 9520, all cooperatives are mandated to allocate and distribute their net surpluses as follows:

a) At least ten *per centum* (10%) for Reserve Fund to be used for the stability of cooperative and to meet net losses in its operations;

   In the first five (5) years of operation after registration, this amount shall not be less than fifty *per centum* (50%) of the net surplus:

   i. The reserve fund shall be used for the stability of the cooperative and to meet net losses in its operations. Net loss incurred for the period shall be charged against the reserve fund. The general assembly may decrease the amount allocated to the reserve fund when the reserve fund already exceeds the share capital.

   ii. The reserve fund shall not be utilized for investment, other than those allowed in the Cooperative Code. Such sum of the reserve fund in excess of the share capital may be used at anytime for any project that would expand the operations of the cooperative upon the resolution of the general assembly.

   iii. Upon the dissolution of the cooperative, the reserve fund shall not be distributed among the members. The general assembly may resolve:

      - To establish an usufructuary trust fund for the benefit of any federation or union to which the cooperative is affiliated; and

      - To donate, contribute, or otherwise dispose of the amount for the benefit of the community where the cooperative operates. If the members cannot decide upon the disposal of the reserve fund, the same shall go to the federation or union to which the cooperative is affiliated.

b) Not more than ten *per centum* (10%) for Cooperative Education and Training Fund;

c) Not less than three *per centum* (3%) for the Community Development Fund;

d) Not more than seven *per centum* (7%) for the Optional Fund;

That in no case shall the total per centum of the Community Development Fund and Optional Fund be more than ten *per centum* (10%).

e) The remaining net surplus shall be made available to the members in the form of interest and patronage refunds not to exceed the normal rate of return on investments and patronage refund

Under Article 61, par (b), last paragraph of RA 9520, cooperatives can only be granted exemption from payment of taxes if at least twenty-five *per centum* (25%) of their net income (net surplus) is returned to the members in the form of interest and/or patronage refunds.

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, viz:

a. Twenty-five *per centum* (25%) shall be declared as interest on share capital and patronage refund;

b. Cooperative Education and Training Fund – one half of the *per centum* as provided in the by-laws.

c. Community Development Fund – one half of the *per centum* as provided in the bylaws.

d. Optional Fund – one half of the *per centum* as provided in the by-laws.

e. Reserve Fund – remaining amount of net surplus.

To harmonize with the existing accounting pronouncements and to avoid confusion, the statutory reserves referred to in Articles 85 and 86 of RA 9520 shall henceforth be termed STATUTORY FUNDS for purposes of accounting and financial statements presentations.

In the bylaws of the cooperatives applying for registration, items 3 and 4 mentioned above shall therefore be included. For existing cooperatives modified allocation and distribution of net surplus shall be adopted.

Section 3. Disclosure

The Cooperative shall disclose the manner of distribution of its surplus in accordance with its by-laws, in compliance with RA 9520. It shall also disclose such in cases where it is in the process of recovery of losses of previous years.

CHAPTER XVII

STATUTORY FUNDS

Section 1. Scope

This Chapter shall be applied in accounting for all Statutory Funds required by Republic Act 9520. Section 86 of RA 9520 requires cooperatives to allocate statutory reserves in the distribution of net surplus.

Statutory Funds are comprised of the following:

(a) Reserve fund which shall be at least ten percent (10%) of net surplus; provided that in the first five (5) years of operation after registration, this amount shall not be less than fifty percent (50%) of the net surplus.

(b) Education and Training Fund shall not be more than ten percent (10%) of the net surplus.

(c) Community Development Fund which shall not be less than three percent (3%) of the net surplus.

(d) Optional Fund which shall not exceed seven percent (7%) of the net surplus.

Section 2. Recognition and Measurement

A cooperative shall recognize statutory funds as components of equity and shall observe the following:

(1) The reserve fund shall be used for the stability of the cooperative and to meet net operating losses in its operation. Direct charging of uncollectible, write-offs or inventory losses is prohibited.

Upon the dissolution of the cooperative, the reserve fund shall not be distributed among the members. The general assembly may resolve:

a) To establish a usufructuary trust fund for the benefit of any cooperative federation or union to which the cooperative is affiliated; or

b) To donate, contribute or otherwise dispose of the amount for the benefit of the community where the cooperative operates.

(2) Education and training fund shall be used for the training, development and other similar cooperative activities geared towards the growth of the cooperative movement. Half of the amount allocated for the fund annually shall be spent by the cooperative for their own education and training purposes, while the other half may be remitted to a union or federation chosen by the cooperative.

Upon the dissolution of the cooperative, the unexpended balance of the fund appertaining to the cooperative shall be credited to the cooperative education and training fund of the chosen union or federation.

(3) The community development fund shall be used for projects or activities that will benefit the community where the cooperative operates.

(4) The optional fund shall be used for acquisition of land and/or building, machinery and equipment, replacement fund for PPE, members' benefits, and other necessary funds.

Section 3. Disclosure

The cooperative shall disclose in the statement of changes in equity and in the notes to the financial statement the following:

(a) Any additions to the statutory funds arising from the distribution of the net surplus for the period.

(b) Charges made against the statutory funds such as but not limited to:

1. Charging of net loss for the operating period to the reserve fund.
2. Utilization of reserve fund
3. Utilization of education and training fund
4. Utilization of community development fund
5. Utilization of optional fund.
6. Acquisition of assets, replacement of assets charged against the optional fund.

(c) Disclosure on the percentage of utilization of cooperative education and training fund between members and officers/staff. In no case shall the allocation of the fund for officers and staff be higher than the members.

(d) For multi-year utilization of community development fund the disclosure shall include the amount to be utilized for the next twelve (12) months and the remaining unutilized portion and the period covered.

(e) Other movements in the statutory funds during the period.

CHAPTER XVIII

LEASES

Section 1. Scope

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative.
(b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
(c) measurement of property held by lessees that is accounted for as **investment property** and measurement of investment property provided by lessors under operating leases.
(d) measurement of **biological assets** held by lessees under finance leases and biological assets provided by lessors under operating leases.
(e) leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated to changes in the price of the leased asset, changes in foreign exchange rates, or a default by one of the counterparties.
(f) operating leases that are onerous.

This section applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This section does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Some arrangements, such as outsourcing arrangements, telecommunication contracts that provide rights to capacity, and take-or-pay contracts, do not take the legal form of a lease but convey rights to use assets in return for payments. Such arrangements are in substance leases of assets, and they should be accounted for under this section.

Section 2. Classification of Leases

A lease is classified as a **finance lease** if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an **operating lease** if it does not transfer substantially all the risks and rewards incidental to ownership.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term.
(b) 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.
(c) the lease term is for the major part of the economic life of the asset even if title is not transferred.
(d) at the inception of the lease the **present value** of the minimum lease payments amount to at least substantially all of the fair value of the leased asset.
(e) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor’s losses associated with the cancellation are borne by the lessee.
(b) gains or losses from the fluctuation in the **residual value** of the leased asset accrue to the lessee (e.g. in the form of a rent rebate equaling most of the sales proceeds at the end of the lease).

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

The above examples and indicators are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset is transferred to the lessee at the end of the lease for a variable payment equal to the asset's then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all risks and rewards incidental to ownership.

Lease classification is made at the inception of the lease and is not changed during the term of the lease unless the lessee and the lessor agree to change the provisions of the lease (other than simply by renewing the lease), in which case the lease classification shall be re-evaluated.

Section 3. Financial statements of lessees—finance leases

3.1 Initial Recognition

At the commencement of the lease term, a lessee shall recognize its rights of use and obligations under finance leases as assets and liabilities in its statement of financial condition at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease) are added to the amount recognized as an asset.

The present value of the minimum lease payments should be calculated using the **interest rate implicit in the lease**. If this cannot be determined, the **lessee's incremental borrowing rate** shall be used.

3.2 Subsequent Measurement

A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method or straight line method**. The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as expenses in the periods in which they are incurred.

A lessee shall depreciate an asset leased under a finance lease in accordance with the relevant section of this Standard for that type of asset. 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 and its useful life. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired.

3.3 Disclosures

(a) A lessee shall disclose a general description of the lessee's significant leasing arrangements including, for example, amount of non-cancellable lease commitment, terms of lease, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

This is in addition to the requirements for disclosure about assets in accordance with other Sections of this Standard.

Section 4. Financial Statements of Lessees—Operating Leases

4.1 Recognition and Measurement

A lessee shall recognize lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless either:

(a) another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis, or

(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then, this condition (b) is not met.

4.2 Disclosures

(a) A lessee shall disclose a general description of the lessee's significant leasing arrangements including, for example, amount of non-cancellable lease commitment, terms of lease, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Section 5. Financial Statements of Lessors: Finance Leases

5.1 Initial Recognition and Measurement

A lessor shall recognize assets held under a finance lease in their statements of financial condition and present them as a receivable at an amount equal to the **net investment in the lease**. The net investment in a lease is the lessor's **gross investment in the lease** discounted at the interest rate implicit in the lease. The gross investment in the lease is the aggregate of:

(a) the minimum lease payments receivable by the lessor under a finance lease, and

(b) any unguaranteed residual value accruing to the lessor.

For finance leases other than those involving manufacturer or dealer lessors, initial direct costs (costs that are incremental and directly attributable to negotiating and arranging a lease) are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

5.2 Subsequent Measurement

The recognition of finance income 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 period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. If there is an indication that the estimated unguaranteed residual value used in computing the lessor's gross investment in the lease has changed significantly, the income allocation over the lease term is revised, and any reduction in respect of amounts accrued is recognized immediately in profit or loss.

5.3 Manufacturer or Dealer Lessors

Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

(a) profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts, and

(b) finance income over the lease term.

The sales revenue recognized at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit, which is recognized in accordance with the cooperative's policy for outright sales.

If artificially low rates of interest are quoted, selling profit shall be restricted to that which would apply if a market rate of interest were charged. Costs incurred by manufacturer or dealer lessors in connection with negotiating and arranging a lease shall be recognized as an expense when the selling profit is recognized.

5.4 Disclosures

A lessor shall make the following disclosures for finance leases:

(a) a reconciliation between the gross investment in the lease at the end of the reporting period, and the present value of minimum lease payments receivable at the end of the reporting period.
(b) unearned finance income.
(c) the unguaranteed residual values accruing to the benefit of the lessor.
(d) the accumulated allowance for uncollectible minimum lease payments receivable.
(e) contingent rents recognized as income in the period.
(f) a general description of the lessor's significant leasing arrangements, including, for example, amount of non-cancellable lease commitment, terms of lease, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.

Section 6. Financial Statements of Lessors: Operating Leases

6.1 Recognition and Measurement

A lessor shall present assets subject to operating leases in its statement of financial condition according to the nature of the asset.

A lessor shall recognize lease income from operating leases (excluding amounts for services such as insurance and maintenance) in profit or loss on a straight-line basis over the lease term, unless either

(a) another systematic basis is representative of the time pattern of the lessee's benefit from the leased asset, even if the receipt of payments is not on that basis, or
(b) the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then condition (b) is not met.

A lessor shall recognize as an expense costs, including depreciation, incurred in earning the lease income. The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets.

A lessor shall add to the carrying amount of the leased asset any initial direct costs it incurs in negotiating and arranging an operating lease and shall recognize such costs as an expense over the lease term on the same basis as the lease income.

A manufacturer or dealer lessor does not recognize any selling profit on entering into an operating lease because it is not the equivalent of a sale.

6.2 Disclosures

A lessor shall disclose a general description of the lessor's significant leasing arrangements, including, for example, amount of non-cancellable lease commitment, terms of lease, information about contingent rent, renewal or purchase options and escalation clauses, and restrictions imposed by lease arrangements.

In addition, the requirements for disclosure about assets in accordance with other Sections in this Standard apply to lessors for assets provided under operating leases.

Section 7. Sale and Leaseback Transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease.

7.1 Sale and Leaseback Transaction Results in a Finance Lease

If a sale and leaseback transaction results in a finance lease, the seller-lessee shall not recognize immediately, as income, any excess of sales proceeds over the carrying amount. Instead, the seller-lessee shall defer such excess and amortize it over the lease term.

7.2 Sale and Leaseback Transaction Results in an Operating Lease

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, the seller-lessee shall recognize any profit or loss immediately. If the sale price is below fair value, the seller-lessee shall recognize any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortize such loss in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortize it over the period for which the asset is expected to be used.

7.3 Disclosures

Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of significant leasing arrangements includes description of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

CHAPTER XIX

PROVISIONS AND CONTINGENCIES

Section 1. Scope

This section applies to all **provisions** (i.e. liabilities of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this Standard. These include provisions relating to:

(d) leases, however, this section deals with operating leases that have become onerous.
(e) construction contracts.
(f) employee benefit obligations.

The requirements in this section do not apply to executory contracts unless they are **onerous contracts**. 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.

The word ‘provision’ is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the **carrying amounts** of assets, rather than recognition of liabilities, and therefore are not covered by this section.

Section 2. Initial Recognition

A cooperative shall recognize a provision only when:

(a) the cooperative has an obligation at the **reporting date** as a result of a past event;
(b) it is **probable** (i.e. more likely than not) that the cooperative will be required to transfer economic benefits in settlement; and
(c) the amount of the obligation can be estimated reliably.

The cooperative shall recognize the provision as a liability in the statement of financial condition and shall recognize the amount of the provision as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

The condition that the cooperative has an obligation at the reporting date as a result of a past event means that the cooperative has no realistic alternative to settling the obligation. This can happen when the cooperative has a legal obligation that can be enforced by law or when the cooperative has a **constructive obligation** because the past event (which may be an action of the cooperative) has created valid expectations in other parties that the cooperative will discharge the obligation. Obligations that will arise from the cooperative’s future actions do not satisfy the condition, no matter how likely they are to occur and even if they are contractual.

Section 3. Initial Measurement

A cooperative shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date. The best estimate is the amount a cooperative would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

(a) When the provision involves a large population of items, the estimate of the amount reflects the weighing of all possible outcomes by their associated probabilities. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.
(b) When the provision arises from a single obligation, the individual most likely outcome may be the best estimate of the amount required to settle the obligation. However, even in such a case, the cooperative considers other possible outcomes. When other possible outcomes

are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

When the effect of the time value of money is **material**, the amount of a provision shall be the **present value** of the amount expected to be required to settle the obligation. The discount rate (or rates) shall be a rate (or rates) that reflect(s) current market assessments of the time value of money. The risks specific to the liability should be reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

A cooperative shall exclude gains from the expected disposal of assets from the measurement of a provision.

When some or all of the amount required to settle a provision may be reimbursed by another party (e.g. through an insurance claim), the cooperative shall recognize the reimbursement as a separate asset only when it is virtually certain that the cooperative will receive the reimbursement on settlement of the obligation. The amount recognized for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial condition as an asset and shall not be offset against the provision. In the statement of income, the cooperative may offset any reimbursement from another party against the expense relating to the provision.

Section 4. Subsequent Measurement

A cooperative shall charge against a provision only those expenditures for which the provision was originally recognized.

A cooperative shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognized shall be recognized in profit or loss unless the provision was originally recognized as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount shall be recognized as a finance cost in profit or loss in the period it arises.

Section 5. Contingent Liabilities

A **contingent liability** is either a possible but uncertain obligation or a present obligation that is not recognized because it is not probable and estimates. Disclosure of a contingent liability is required unless the possibility of an outflow of resources is remote. When a cooperative is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Section 6. Contingent Assets

A cooperative shall not recognize a **contingent asset** as an asset. Disclosure of a contingent asset is required when an inflow of economic benefits is probable. However, when the flow of future economic benefits to the cooperative is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Section 7. Disclosures

7.1 Disclosures About Provisions

For each class of provision, a cooperative shall disclose all of the following:

(a) a reconciliation showing

  (i) the carrying amount at the beginning and end of the period;
  (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments.

(c) an indication of the uncertainties about the amount or timing of those outflows.

(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Comparative information for prior periods is not required.

7.2 Disclosures about contingent liabilities

Unless the possibility of any outflow of resources in settlement is remote, a cooperative shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) an estimate of its financial effect;
(b) an indication of the uncertainties relating to the amount or timing of any outflow; and
(c) the possibility of any reimbursement.

If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.

7.3 Disclosures about contingent assets

If an inflow of economic benefits is probable (more likely than not) but not virtually certain, a cooperative shall disclose a description of the nature of the contingent assets at the end of the **reporting period**, and, when practicable without undue cost or effort, an estimate of their financial effect. If it is impracticable to make this disclosure, that fact shall be stated.

7.4 Prejudicial disclosures

In extremely rare cases, disclosure of some or all of the information required by this section can be expected to prejudice seriously the position of the cooperative in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, a cooperative need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

CHAPTER XX

LIABILITIES AND EQUITY

Section 1. Scope

This section establishes principles for classifying financial instruments as either liabilities or equity and addresses accounting for equity instruments issued to individuals or other parties acting in their capacity as member of a cooperative.

This section shall be applied when classifying all types of financial instruments except:

(c) employers' rights and obligations under employee benefit plans.
(d) financial instruments, contracts and obligations under share-based payment transactions.

Section 2. Classification of an Instrument as Liability or Equity

Equity is the residual interest in the assets of a cooperative after deducting all its liabilities. A liability is a present obligation of the cooperative arising from past events, the settlement of which is expected to result in an outflow from the cooperative of resources embodying economic benefits. Equity includes investments by the **members** of the cooperative, plus additions to those investments, minus reductions to members' investments as a result of payment to withdrawing members. Equity also includes statutory funds, donations and grants, and revaluation surplus.

Section 3. Original Issue of Shares

A cooperative shall recognize the issue of shares as equity when it issues those instruments and the member is obliged to provide cash or other resources to the cooperative in exchange for the instruments.

(a) If the equity instruments are issued before the cooperative receives the cash or other resources, the cooperative shall present the amount receivable as an offset to equity in its statement of financial condition, not as an asset.

(b) If the cooperative receives the cash or other resources before the equity instruments are issued, and the cooperative cannot be required to repay the cash or other resources received, the cooperative shall recognize the corresponding increase in equity to the extent of consideration received.

(c) To the extent that the equity instruments have been subscribed for but not issued, and the cooperative has not yet received the cash or other resources, the cooperative shall not recognize an increase in equity.

A cooperative shall measure the equity instruments at the par value of the shares issued.

Section 4. Treasury Shares

Treasury shares are the equity instruments of a cooperative that have been issued and subsequently reacquired by the cooperative. A cooperative shall deduct from equity the par value of treasury shares. The cooperative shall not recognize a gain or loss on the purchase, sale, issue or cancellation of treasury shares.

CHAPTER XXI

DONATIONS AND GRANTS

Section 1. Scope

This section specifies the accounting for all donations and grants. A **donation and grant** is assistance by another entity in the form of a transfer of resources to a cooperative in return for past or future compliance with specified conditions relating to the operating activities of the cooperative.

Donations and grants exclude those forms of assistance that cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the cooperative.

Section 2. Recognition and Measurement

A cooperative shall recognize donations and grants in equity when the assets are received. Donations and grants shall be measured at the fair value of the asset received.

When a donation or a grant relates to a depreciable asset, any donations and grants initially recognized in equity shall be recognized in profit or loss over the useful life of the depreciable asset.

Section 3. Disclosures

A cooperative shall disclose the following about donations and grants:

(a) the nature and amounts of donations and grants recognized in the financial statements.
(b) unfulfilled conditions and other contingencies attaching to donations or grants that have not been recognized in equity.
(c) an indication of other forms of assistance from which the cooperative has directly benefited.

CHAPTER XXII

BORROWING COSTS

Section 1. Scope

This section specifies the accounting for **borrowing costs**. Borrowing costs are interest and other costs that a cooperative incurs in connection with the borrowing of funds. Borrowing costs include:

(d) interest expense calculated using either the straight line or the effective interest method.
(e) finance charges in respect of finance leases.
(f) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Section 2. Recognition

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 Standard.

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.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the outlays on the qualifying asset had not been made. When a cooperative borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

To the extent that funds are borrow ed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should 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.

The financing arrangements for a qualifying asset may result in a cooperative obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for outlays on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their outlay on the qualifying asset. In determining the amount of borrowing costs eligible for capitalization during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.

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 should be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate should 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 should not exceed the amount of borrowing costs incurred during that period.

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.

Section 3. Commencement of Capitalization

The capitalization of borrowing costs as part of the cost of a qualifying asset should commence when:

(a) Outlays for the asset are being incurred;
(b) Borrowing costs are being incurred; and
(c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Outlays on a qualifying asset include only those outlays that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. The average carrying amount of the asset during a period, including borrowing costs previously capitalized, is normally a reasonable approximation of the outlays to which the capitalization rate is applied in that period.

The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits.

However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalized during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalization.

Section 4. Suspension of Capitalization

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. However, capitalization of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalization continues during an extended period needed for inventories to mature or an extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Section 5. Cessation of Capitalization

Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities 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 should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts.

Section 6. Disclosures

The financial statements should disclose:

(a) The accounting policy adopted for borrowing costs;
(b) The amount of borrowing costs capitalized or recognized as expense during the period; and
(c) The capitalization rate used to determine the amount of borrowing costs eligible for capitalization (when it was necessary to apply a capitalization rate to funds borrowed generally).

CHAPTER XXIII

IMPAIRMENT OF ASSETS

Section 1. Objective and Scope

An **impairment loss** occurs when the **carrying amount** of an asset exceeds its **recoverable amount**. This section shall be applied in accounting for the impairment of all assets other than the following, for which other sections of this Standard establish impairment requirements:

(c) assets arising from **employee benefits**.
(d) **financial assets**.

Section 2. Impairment of Inventories

2.1 Selling Price Less Costs to Complete and Sell

A cooperative shall assess at each **reporting date** whether any inventories are impaired. The cooperative shall make the assessment by comparing the **carrying amount** of each item of inventory with its selling price less costs to complete and sell. If an item of inventory is impaired, the cooperative shall reduce the carrying amount of the inventory (or the group) to its selling price less costs to complete and sell. That reduction is an impairment loss and it is recognized immediately in profit or loss.

If it is **impracticable** to determine the selling price less costs to complete and sell for inventories item by item, the cooperative may group items of inventory relating to the same product line that have similar purposes or end uses and are produced and marketed in the same geographical area for the purpose of assessing impairment.

2.2 Reversal of Impairment

A cooperative shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the cooperative shall reverse the amount of the impairment (i.e. the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Section 3. Impairment of Assets Other Than Inventories

3.1 General Principles

If, and only if, the recoverable amount of an asset is less than its carrying amount, the cooperative shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss.

A cooperative shall recognize an impairment loss immediately in profit or loss.

3.2 Indicators of Impairment

A cooperative shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the cooperative shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

If it is not possible to estimate the recoverable amount of the individual asset, a cooperative shall estimate the recoverable amount of the **cash-generating unit** to which the asset belongs. This may be the case because measuring recoverable amount requires forecasting cash flows, and sometimes individual assets do not generate cash flows by themselves. An asset's cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In assessing whether there is any indication that an asset may be impaired, a cooperative shall consider, as a minimum, the following indications:
External sources of information

(a) 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.
(b) Significant changes with an adverse effect on the cooperative 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 cooperative operates or in the market to which an asset is dedicated.
(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.
(d) The carrying amount of the net assets of the cooperative is more than the estimated fair value of the cooperative as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the cooperative).

Internal sources of information

(a) Evidence is available of obsolescence or physical damage of an asset.

(b) Significant changes with an adverse effect on the cooperative 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, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
(c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

If there is an indication that an asset may be impaired, this may indicate that the cooperative should review the remaining useful life, the **depreciation (amortization)** method or the **residual value** for the asset and adjust it in accordance with the section of this Standard applicable to the asset even if no impairment loss is recognized for the asset.

3.4 Measuring Recoverable Amount

The recoverable amount of an asset or a cash-generating unit is the higher of its **fair value less costs to sell** and its **value in use**. If it is not possible to estimate the recoverable amount of an individual asset to an asset should be read as references also to an asset's cash-generating unit.

It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal.

3.5 Fair Value Less Costs to Sell

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that a cooperative could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, a cooperative considers the outcome of recent transactions for similar assets within the same industry.

3.6 Value in Use

Value in use is the **present value** of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps:

(a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal, and
(b) applying the appropriate discount rate to those future cash flows.

The following elements shall be reflected in the calculation of an asset's value in use:

(a) an estimate of the future cash flows the cooperative expects to derive from the asset.
(b) expectations about possible variations in the amount or timing of those future cash flows.
(c) the time value of money, represented by the current market risk-free rate of interest.
(d) the price for bearing the uncertainty inherent in the asset.
(e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the cooperative expects to derive from the asset.

In measuring value in use, estimates of future cash flows shall include:

(a) projections of cash inflows from the continuing use of the asset.

(b) 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.

(c) net cash flows, if any, expected to be received (or paid) for the disposal of the asset at the end of its useful life in an arm's length transaction between knowledgeable, willing parties.

The cooperative may wish to use any recent financial budgets or forecasts to estimate the cash flows, if available. To estimate cash flow projections beyond the period covered by the most recent budgets or forecasts, a cooperative may wish to extrapolate the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

Estimates of future cash flows shall not include:

(a) cash inflows or outflows from financing activities, or

(b) income tax receipts or payments.

Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:

(a) a future restructuring to which A Cooperative is not yet committed, or

(b) improving or enhancing the asset's performance.

The discount rate (rates) used in the present value calculation shall be a pre-tax rate (rates) that reflect(s) current market assessments of:

(a) the time value of money, and

(b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The discount rate (rates) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted, to avoid double-counting.

3.7 Recognizing and Measuring an Impairment Loss for a Cash-Generating Unit

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 assets of the unit pro rata on the basis of the carrying amount of each asset in the cash- generating unit.

However, A Cooperative shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero.

Any excess amount of the impairment loss that cannot be allocated to an asset because of the restriction in the above paragraph shall be allocated to the other assets of the unit pro rata on the basis of the carrying amount of those other assets.

Section 4. Reversal of an Impairment Loss

A Cooperative shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the cooperative shall determine whether all or part of the prior impairment loss should be reversed. The procedure for making that determination will depend on whether the prior impairment loss on the asset was based on:

(a) the recoverable amount of that individual asset, or

(b) the recoverable amount of the cash-generating unit to which the asset belongs

Section 5. Reversal Where Recoverable Amount was Estimated for an Individual Impaired Asset

When the prior impairment loss was based on the recoverable amount of the individual impaired asset, the following requirements apply:

(a) The cooperative shall estimate the recoverable amount of the asset at the current reporting date.

(b) If the estimated recoverable amount of the asset exceeds its carrying amount, the cooperative shall increase the carrying amount to recoverable amount, subject to the limitation described in (c) below. That increase is a reversal of an impairment loss. The cooperative shall recognize the reversal immediately in profit or loss.

(c) The reversal of an impairment loss shall not increase the carrying amount of the asset above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(d) After a reversal of an impairment loss is recognized, the cooperative shall adjust the depreciation (amortization) charge for the asset 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.

Section 6. Reversal when Recoverable Amount was Estimated for a Cash-Generating Unit

When the original impairment loss was based on the recoverable amount of the cash generating unit to which the asset belongs, the following requirements apply:

(a) The cooperative shall estimate the recoverable amount of that cash-generating unit at the current reporting date.

(b) If the estimated recoverable amount of the cash-generating unit exceeds its carrying amount, that excess is a reversal of an impairment loss. The cooperative shall allocate the amount of that reversal to the assets of the unit pro rata with the carrying amounts of those assets, subject to the limitation described below. Those increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized immediately in profit or loss.

(c) In allocating a reversal of an impairment loss for a cash-generating unit, the reversal shall not increase the carrying amount of any asset above the lower of

(i) its recoverable amount, and
(ii) the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

(d) Any excess amount of the reversal of the impairment loss that cannot be allocated to an asset because of the restriction in (c) above shall be allocated pro rata to the other assets of the cash-generating unit.

(e) After a reversal of an impairment loss is recognized, if applicable, the cooperative shall adjust the depreciation (amortization) charge for each asset in the cash-generating unit 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.

CHAPTER XXIV

EMPLOYEE BENEFITS

Section 1. Scope

Employee benefits are all forms of consideration given by a cooperative in exchange for service rendered by employees. Employee benefits covered by this section shall be any of the following:

(e) short-term employee benefits, which are employee benefits (other than **termination benefits**) that are wholly due within twelve months after the end of the period in which the employees render the related service.

(f) **post-employment benefits**, which are employee benefits (other than termination benefits) that are payable after the completion of employment.

(g) other long-term employee benefits, which are employee benefits (other than post-employment benefits and termination benefits) that are not wholly due within twelve months after the end of the period in which the employees render the related service.

(h) termination benefits, which are employee benefits payable as a result of either:

  (i) a cooperative's decision to terminate an employee's employment before the normal retirement date, or
  (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Section 2. General Recognition Principle for All Employee Benefits

A cooperative shall recognize the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the cooperative during the **reporting period**:

(a) as a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the **reporting date**, a cooperative shall recognize that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

Section 3. Short-Term Employee Benefits

3.1. Composition

Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;
(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service;
(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
(d) non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees.

3.2 Measurement of Short-Term Benefits Generally

When an employee has rendered service to a cooperative during the reporting period, the cooperative shall measure the amounts recognized in accordance with Section 2 of this Chapter at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

3.3 Recognition and Measurement—Short-Term Compensated Absences

A cooperative may compensate employees for absence for various reasons including annual vacation leave and sick leave. Some short-term compensated absences accumulate— they can be carried forward and used in future periods if the employee does not use the current period's entitlement in full. Examples include annual vacation leave and sick leave. A cooperative shall recognize the expected cost of **accumulating compensated absences** when the employees render service that increases their entitlement to future compensated absences. The cooperative shall measure the expected cost of accumulating compensated absences at the undiscounted additional amount that the cooperative expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period. The cooperative shall present this amount as a **current liability** at the reporting date.

A cooperative shall recognize the cost of other (non-accumulating) compensated absences when the absences occur. The cooperative shall measure the cost of non-accumulating compensated absences at the undiscounted amount of salaries and wages paid or payable for the period of absence.

3.4 Recognition—Profit-Sharing and Bonus Plans

A cooperative shall recognize the expected cost of profit-sharing and bonus payments only when:

(a) the cooperative has a present legal or **constructive obligation** to make such payments as a result of past events (this means that the cooperative has no realistic alternative but to make the payments), and

(b) a reliable estimate of the obligation can be made.

Section 4. Post-employment benefits: distinction between defined contribution plans and defined benefit plans

Post-employment benefits include, for example:

(a) retirement benefits, such as pensions, and
(b) other post-employment benefits, such as post-employment life insurance and postemployment medical care.

Arrangements whereby a cooperative provides post-employment benefits are **postemployment benefit plans**. A cooperative shall apply this section to all such arrangements whether or not they involve a separate entity to receive contributions and to pay benefits. In some cases, these arrangements are imposed by law rather than by action of the cooperative. In some cases, these arrangements arise from actions of the cooperative even in the absence of a formal, documented plan.

Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their principal terms and conditions.

(a) Defined contribution plans are post-employment benefit plans under which a cooperative pays fixed contributions into a separate entity (a fund) and has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by a cooperative (and perhaps also the employee) to a postemployment benefit plan or to an insurer, together with investment returns arising from the contributions.

(b) Defined benefit plans are post-employment benefit plans other than defined contribution plans. Under defined benefit plans, the cooperative's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the cooperative. If actuarial or investment experience is worse than expected, the cooperative's obligation may be increased, and vice versa if actuarial or investment experience is better than expected.

Insured Benefits

A cooperative may pay insurance premiums to fund a post-employment benefit plan. The cooperative shall treat such a plan as a defined contribution plan unless the cooperative has a legal or constructive obligation either:

(a) to pay the employee benefits directly when they become due, or
(b) to pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

A constructive obligation could arise indirectly through the plan, through the mechanism for setting future premiums, or through a **related party** relationship with the insurer. If the cooperative retains such a legal or constructive obligation, the cooperative shall treat the plan as a defined benefit plan.

Section 5. Post-Employment Benefits: Defined Contribution Plans

5.1. Recognition and Measurement

A cooperative shall recognize the contribution payable for a period:

(a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, a cooperative shall recognize that excess as an asset.
(b) as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment

Section 6. Post-Employment Benefits: Defined Benefit Plans

6.1 Recognition

In applying the general recognition principle to defined benefit plans, a cooperative shall recognize:

(a) a liability for its obligations under defined benefit plans net of plan assets and any unrecognized past service costs;
(b) the net change in that liability during the period as the cost of its defined benefit plans during the period

6.2 Measurement of the Defined Benefit Liability

A cooperative shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date), minus

b) the **fair value at** the reporting date of **plan assets** (if any) out of wh**ich the obligations are to** be settled directly; and
c) any unrecognized past service costs

6.3 Discounting

A cooperative shall measure its defined benefit obligation on a discounted **present value** basis. The cooperative shall determine the rate used to discount the future payments by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated period of the future payments.

6.4 Actuarial Valuation Method

If a cooperative is able, without undue cost or effort, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires a cooperative to measure its defined benefit obligations on a basis that reflects estimated future salary increases. Additionally, the projected unit credit method requires a cooperative to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

If a cooperative is not able, without undue cost or effort, to use the projected unit credit method to measure its obligation and cost under defined benefit plans, the cooperative is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:

(a) ignore estimated future salary increases (i.e. assume current salaries continue until current employees are expected to begin receiving post-employment benefits);

(b) ignore future service of current employees (i.e. assume closure of the plan for existing as well as any new employees); and

(c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (i.e. assume all current employees will receive the post-employment benefits). However, mortality after service (i.e. life expectancy) will still need to be considered.

This Standard does not require a cooperative to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation, nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels.

6.5 Plan Introductions, Changes, Curtailments and Settlements

If a defined benefit plan has been introduced or changed in the current period, the cooperative shall increase or decrease its defined benefit liability to reflect the change, and shall recognize the vested past service as an expense in measuring profit or loss in the current period. Unvested past service costs shall be amortized over the remaining vesting period of the covered employees. Conversely, if a plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated, and the cooperative shall recognize the resulting gain or loss in profit or loss in the current period.

6.6 Defined Benefit Plan Asset

If the present value of the defined benefit obligation at the reporting date is less than the sum of the fair value of plan assets at that date and any unrecognized past costs, the plan has a surplus.

6.7 Cost of a Defined Benefit Plan

A cooperative shall recognize the net change in its defined benefit liability during the period, other than a change attributable to benefits paid to employees during the period or to contributions from the employer, as the cost of its defined benefit plans during the period. That cost is recognized either entirely in profit or loss as an expense unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

6.8 Actuarial Gains and Losses

A cooperative is required to recognize all actuarial gains and losses in the period in which they occur. A cooperative shall recognize all actuarial gains and losses in profit or loss.

The net change in the defined benefit liability that is recognized as the cost of a defined benefit plan includes:

(a) the change in the defined benefit liability arising from employee service rendered during the reporting period.
(b) interest on the defined benefit obligation during the reporting period.
(c) the returns on any plan assets and the net change in the fair value of recognized reimbursement rights during the reporting period.
(d) actuarial gains and losses arising in the reporting period.
(e) increases or decreases in the defined benefit liability resulting from introducing a new plan or changing an existing plan in the reporting period
(f) decreases in the defined benefit liability resulting from curtailing or settling an existing plan in the reporting period.

Employee service gives rise to an obligation under a defined benefit plan. In measuring its defined benefit obligation, a cooperative considers the probability that some employees may not satisfy vesting requirements. Similarly, although some post-employment benefits (such as post-employment medical benefits) become payable only if a specified event occurs when an employee is no longer employed (such as an illness), an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

If defined benefits are reduced for amounts that will be paid to employees under government-sponsored plans, a cooperative shall measure its defined benefit obligations on a basis that reflects the benefits payable under the government plans, but only if:

(a) those plans were enacted before the reporting date, or
(b) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

6.10 Reimbursements

If a cooperative is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the cooperative shall recognize its right to reimbursement as a separate asset. The cooperative shall measure the asset at fair value. In the statement of operations, the expense relating to a defined benefit plan may be presented net of the amount recognized for a reimbursement.

Section 7. Other Long-Term Employee Benefits

Other long-term employee benefits include, for example:

(a) long-term compensated absences such as long-service or sabbatical leave.
(b) long-service benefits.
(c) long-term disability benefits.
(d) profit-sharing and bonuses payable twelve months or more after the end of the period in which the employees render the related service.
(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

A cooperative shall recognize a liability for other long-term employee benefits measured at the net total of the following amounts:

(a) the present value of the benefit obligation at the reporting date, minus
(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

A cooperative shall recognize the change in the liability in accordance with this Standard.

Section 8. Termination Benefits

A cooperative may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.

8.1 Recognition

Because termination benefits do not provide a cooperative with future economic benefits, a cooperative shall recognize them as an expense in profit or loss immediately.

When a cooperative recognizes termination benefits, the cooperative may also have to account for a curtailment of retirement benefits or other employee benefits.

A cooperative shall recognize termination benefits as a liability and an expense only when the cooperative is demonstrably committed either:

(a) to terminate the employment of an employee or group of employees before the normal retirement date, or
(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

A cooperative is demonstrably committed to a termination only when the cooperative has a detailed formal plan for the termination and is without realistic possibility of withdrawal from the plan.

8.2 Measurement

A cooperative shall measure termination benefits at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their discounted present value.

Section 9. Disclosures

9.1 Disclosures About Short-Term Employee Benefits

This section does not require specific disclosures about short-term employee benefits.

9.2 Disclosures About Defined Contribution Plans

A cooperative shall disclose the amount recognized in profit or loss as an expense for defined contribution plans.

9.3 Disclosures About Defined Benefit Plans

A cooperative shall disclose the following information about defined benefit plans. If a cooperative has more than one defined benefit plan, these disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful:

(a) a general description of the type of plan, including funding policy.
(b) the cooperative's accounting policy for recognizing actuarial gains and losses and the amount of actuarial gains and losses recognized during the period.
(c) a narrative explanation if the cooperative uses any of the simplifications in measuring its defined benefit obligation.
(d) the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date.
(e) a reconciliation of opening and closing balances of the defined benefit obligation showing separately benefits paid and all other changes.
(f) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognized as an asset, showing separately, if applicable:

    (i) contributions;
    (ii) benefits paid; and
    (iii) other changes in plan assets.

(g) the total cost relating to defined benefit plans for the period, disclosing separately the amounts

    (i) recognized in profit or loss as an expense, and
    (ii) included in the cost of an asset.

(h) for each major class of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major class constitutes of the fair value of the total plan assets at the reporting date.

(i) the amounts included in the fair value of plan assets for:

    (i) each class of the cooperative's own financial instruments, and (ii) any property occupied by, or other assets used by, the cooperative.

(j) the actual return on plan assets.

(k) the principal actuarial assumptions used, including, when applicable:

    (i) the discount rates;

(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
(iii) the expected rates of salary increases;
(iv) medical cost trend rates; and
(v) any other material actuarial assumptions used.

This reconciliation need not be presented for prior periods.

9.4 Disclosures About Other Long-Term Benefits

For each category of other long-term benefits that a cooperative provides to its employees, the cooperative shall disclose the nature of the benefit, the amount of its obligation and the extent of **funding** at the reporting date.

9.5 Disclosures About Termination Benefits

For each category of termination benefits that a cooperative provides to its employees, the cooperative shall disclose the nature of the benefit, its accounting policy, and the amount of its obligation and the extent of funding at the reporting date.

When there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. Thus, a cooperative shall disclose information about its contingent liabilities unless the possibility of an outflow in settlement is remote.

CHAPTER XXV

EVENTS AFTER THE END OF THE REPORTING PERIOD

Section 1. Scope

This section defines events after the end of the **reporting period** and sets out principles for recognizing, measuring and disclosing those events.

Section 2. Events after the end of the reporting period defined

Events after the end of the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period), and

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).

Events after the end of the reporting period include all events up to the date when the financial statements are authorized for issue, even if those events occur after the public announcement of profit or loss of other selected financial information.

Section 3. Recognition and Measurement

3.1 Adjusting Events After the End of the Reporting Period

A Cooperative shall adjust the amounts recognized in its financial statements, Including Related disclosures, to reflect adjusting events after the end of the reporting period.

The following are examples of adjusting events after the end of the reporting period that require a cooperative to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) the settlement after the end of the reporting period of a court case that confirms that the cooperative had a present obligation at the end of the reporting period. The cooperative adjusts any previously recognized **provision** related to this court case or recognizes a new provision. The cooperative does not merely disclose a contingent liability. Rather, the settlement provides additional evidence to be considered in determining the provision that should be recognized at the end of the reporting period.

(b) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

   (i) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the cooperative needs to adjust the **carrying amount** of the trade receivable; and
   (ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

(c) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(d) the determination after the end of the reporting period of the amount of profit-sharing or bonus payments, if the cooperative had a legal or **constructive obligation** at the end of the reporting period to make such payments as a result of events before that date. (e) the discovery of fraud or **errors** that show that the financial statements are incorrect.

3.2 Non-Adjusting Events After the End of the Reporting Period

A cooperative shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the end of the reporting period.

Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorized for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, a cooperative does not adjust the amounts recognized in its financial statements for the investments. Similarly, the cooperative does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure.

(b) an amount that becomes receivable as a result of a favorable judgment or settlement of a court case after the **reporting date** but before the financial statements are issued. This would be a contingent asset at the reporting date, and disclosure may be required. However, agreement on the amount of damages for a judgment that was reached before the reporting date, but was not previously recognized because the amount could not be measured reliably, may constitute an adjusting event.

3.3 Interest on Share Capital and Patronage Refund

If a cooperative declares interest on share capital and patronage refund to its members after the end of the reporting period, the cooperative shall recognize those interest on share capital and patronage refund as a liability at the end of the reporting period.

Disclosure in the notes shall include the proportionate amount of patronage of non-member patron set aside in the general fund and the amount transferred to reserve fund or education and training fund in case a non-member does not request nor agree to become a member or fails to comply with the provisions of the bylaws for admission to membership.

Section 4. Disclosure

4.1 Date of Authorization for Issue

A cooperative shall disclose the date when the financial statements were authorized for issue and who gave that authorization.

4.2 Non-Adjusting Events After the End of the Reporting Period

A cooperative shall disclose the following for each category of non-adjusting event after the end of the reporting period:

(a) the nature of the event, and
(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorized for issue:

(a) announcement of a plan to discontinue an operation.
(b) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government.
(c) the destruction of a major production plant by a fire.
(d) announcement, or commencement of the implementation, of a major restructuring.
(e) issues or repurchases of a cooperative's debt or equity instruments.
(f) abnormally large changes in asset prices or foreign exchange rates.
(g) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees.
(h) commencement of major litigation arising solely out of events that occurred after the end of the reporting period.

CHAPTER XXVI

Related Party Disclosures

Section 1. Scope

This section requires a cooperative to include in its financial statements the disclosures necessary to draw attention to the possibility that its **financial condition** and operation have been affected by the existence of **related parties** and by transactions and outstanding balances with such parties.

Section 2. Related Party Defined

A related party is a person or entity that is related to the cooperative that is preparing its financial statements.

(a) A person is related to a reporting cooperative if that person or that person's close family member:
    (i) is a member of the key management personnel of the reporting cooperative;
    (ii) has control over the reporting cooperative; or
    (iii) has joint control or significant influence over the reporting cooperative or has significant voting power in it.

(b) An entity is related to a reporting cooperative if any of the following conditions applies:
    (i) the entity is an associate, subsidiary or joint venture of the cooperative.
    (ii) the entity is a post-employment benefit plan for the benefit of employees of the reporting cooperative
    (iii) the cooperative is controlled or jointly controlled by a person identified in (a).

In considering each possible related party relationship, a cooperative shall assess the substance of the relationship and not merely the legal form.

Section 3. Disclosures

3.1 Disclosure of Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the cooperative, directly or indirectly, including any director (whether executive or otherwise) of that cooperative. Compensation includes all employee benefits. Employee benefits include all forms of consideration paid, payable or provided by the cooperative, or on behalf of the cooperative in exchange for services rendered to the cooperative.

A cooperative shall disclose key management personnel compensation in total.

3.2 Disclosure of Related Party Transactions

A **related party transaction** is a transfer of resources, services or obligations between a reporting cooperative and a related party, regardless of whether a price is charged. Examples of related party transactions include:

(a) transactions between a cooperative and its key management personnel.

(b) transactions in which a cooperative or person that controls the reporting cooperative incurs expenses directly that otherwise would have been borne by the reporting cooperative.

If a cooperative has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:

(a) the amount of the transactions.

(b) the amount of outstanding balances and:

  (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and
  (ii) details of any guarantees given or received.

(c) provisions for uncollectible receivables related to the amount of outstanding balances.

(d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the cooperatives on behalf of the related party or vice versa.

A cooperative shall make the disclosures required separately for each of the following categories:

(a) Entities with control, joint control or significant influence over the cooperative.
(b) Entities over which the cooperative has control, joint control or significant influence.
(c) Key management personnel of the cooperatives (in the aggregate).
(d) other related parties.

The following are examples of transactions that shall be disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished).
(b) purchases or sales of property and other assets.
(c) rendering or receiving of services.
(d) leases.
(e) transfers of research and development.
(f) transfers under license agreements.
(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind).
(h) provision of guarantees or collateral.
(i) settlement of liabilities on behalf of the cooperatives or by the cooperatives on behalf of another party.
(j) participation by a parent or subsidiary in a defined benefit plan that shares risks between group cooperatives.

A cooperative shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

A cooperative may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the cooperative

CHAPTER XXVII

SPECIALIZED ACTIVITIES

Section 1. Scope

This section provides guidance on financial reporting by Cooperatives involved in three types of specialized activities—agriculture, extractive activities, and service concessions.

Section 2. Agriculture

A cooperative using this Standard that is engaged in **agricultural activity** shall use the cost model as its accounting policy for its **biological assets.**

Section 3. Recognition

A cooperative shall recognize a biological asset or **agricultural produce** when and only when:

(a) the cooperative controls the asset as a result of past events;
(b) it is probable that future economic benefits associated with the asset will flow to the cooperative; and
(c) the cost of the asset can be measured reliably.

Section 4. Measurement

4.1 The cooperative shall measure biological assets at cost less any accumulated **depreciation** and any accumulated **impairment** losses.

The cooperative shall measure agricultural produce harvested from its biological assets at cost.

4.2 Disclosures

A cooperative shall disclose the following with respect to its biological assets:

(a) a description of each class of its biological assets.
(b) the depreciation method used.
(c) the useful lives or the depreciation rates used.
(d) the gross **carrying amount** and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

Section 5. Extractive Activities

A cooperative using this Standard 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*.

Section 6. Service Concession Arrangements

A service concession arrangement is an arrangement whereby a government or other public sector body (the grantor) contracts with a private operator to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals. In those arrangements, the grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement.

There are two principal categories of service concession arrangements:

(a) In one, the operator receives a financial asset—an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes guarantees by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.

(b) In the other, the operator receives an intangible asset—a right to charge for use of a public sector asset that it constructs or upgrades and then operates and maintains for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service. Sometimes, a single contract may contain both types: to the extent that the government has given an unconditional guarantee of payment for the construction of the public sector asset, the operator has a financial asset; to the extent that the operator has to rely on the public using the service in order to obtain payment, the operator has an intangible asset.

6.1 Accounting – Financial Asset Model

The operator shall recognize a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The operator shall measure the financial asset at fair value.

6.2 Accounting – Intangible Asset Model

The operator shall recognize an intangible asset to the extent that it receives a right (a license) to charge users of the public service. The operator shall initially measure the intangible asset at fair value. Thereafter, it shall follow accounting for the intangible asset.

CHAPTER XXVIII

FINAL PROVISIONS

Section 1. Transition Period

Starting in 2023 and thereafter, the Board of Directors and the Audit Committee of the cooperative as well as its external auditor shall ensure that the audited financial statements of the cooperative shall be fully compliant with the standards herein set forth.

Section 2. Administrative Sanctions

Cooperatives which failed to comply with this Circular shall be subject to the following sanctions after compliance with due process of law:

- First non-compliance – written warning;
- Second non-compliance – no Certificate of Compliance shall be issued;
- Third non-compliance – revocation of certificate of registration

Failure of the Accredited Cooperative External Auditor to render qualified opinion in case the Audited Financial Statement does conform with this standard shall be a ground for non-renewal of his/her accreditation.

Section 3. Repealing Clause

Any provision of Memorandum Circular No. 2022-25 and 2022-24, otherwise known as the *Philippine Financial Reporting Framework for Cooperatives* and *Revised Standard Chart of Accounts for Cooperatives respectively*, including any treatment, interpretation or presentation of an account thereof, not consistent with the proper application of pertinent provision of this Circular is hereby repealed or modified accordingly. All circulars, memoranda, and any other issuances or parts thereof inconsistent with any of the provisions of this Circular are likewise hereby repealed.

Section 4. Separability Clause

Should any part of this Circular be declared invalid or unconstitutional, the other provisions herein not affected thereby shall continue to have force and effect.

Section 5. Effectivity

This Memorandum Circular shall take effect following the completion of its publication in the Official Gazette or newspapers of general circulation and filing of copy thereof with the Office of the National Administrative Register (ONAR)