CIRCULAR

TO: All Heads of Government-Owned or Controlled Corporations, Government Instrumentalities with Corporate Powers/Government Corporate Entities, and their Subsidiaries, and Water Districts; Heads of Finance/Comptrollership/Financial Management Services, Chief Accountants/Heads of Accounting Units, Budget Officers/Heads of Budget Units; COA Assistant Commissioners, COA Directors, COA Auditors; and all others concerned


1.0 RATIONALE/PURPOSE

Commission on Audit (COA) Resolution No. 2014-003 dated January 24, 2014 prescribed the adoption of 25 Philippine Public Sector Accounting Standards (PPSASs) effective January 1, 2014 by non-government business enterprises (Non-GBEs), as amended by COA Resolution No. 2015-040 dated December 01, 2015, on the effectivity of the adoption of the PPSAS from May 22, 2015 to January 1, 2016. These PPSASs were based on International Public Sector Accounting Standards (IPSASs) which were published in the 2012 Handbook of International Public Sector Accounting Pronouncements (HIPSAP) of the International Public Sector Accounting Standards Board.

COA Circular No. 2015-003 dated April 16, 2015 prescribed the classification of all government corporations (GCs) and other entities/instrumentalities with corporate powers as Government Business Enterprises (GBEs) or Non-GBEs for the purpose of determining the applicable financial reporting framework in the preparation of their Financial Statements (FS), and the mandatory adoption of the Philippine Financial Reporting Standards (PFRS) by all GBEs and PPSAS by all Non-GBEs.

COA Resolution No. 2015-040 moved the first time adoption of PFRS by GBEs from May 22, 2015 to January 1, 2016.
Recently, COA Circular No. 2015-010 dated December 1, 2015 prescribed
the adoption of the Revised Chart of Accounts (RCA) for GCs consisting of
Government-Owned or Controlled Corporations (GOCCs), Government Financial
Institutions (GFIs), Government Instrumentalities with Corporate Powers (GICPs)/
Government Corporate Entities (GCEs), and their Subsidiaries, and Water Districts.

COA Circular No. 2016-006 dated December 29, 2016 prescribed guidelines
on the conversion from the Philippine Government Chart of Accounts under the
New Government Accounting System per COA Circular No. 2004-008 dated
September 20, 2004, as amended, to the RCA for GCs under COA Circular No.
2015-010 dated December 1, 2015, new, revised and deleted accounts, and relevant
accounting policies and guidelines in the implementation thereof.

Lastly, COA Resolution No. 2017-006 dated April 26, 2017 prescribed the
adoption of additional six (6) PPSASs and updates on PPSAS prescribed through
COA Resolution No. 2014-003 dated January 24, 2014 in accordance with the 2016
Edition of the HIPSAP published by the International Federation of Accountants
(IFAC), effective January 1, 2017.

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

1.1 Preparation of the FS and other related financial reports required for
submission to COA and other oversight agencies for the reporting period
ending December 31, 2017 and onwards; and

1.2 Implementation of the PFRS/PPSAS in accordance with the IFRS/IPSAS
provisions.

2.0 COVERAGE

This Circular covers all funds maintained by all GCs, except for Special
Accounts in the General Fund (SAGF) by some GCs which are covered by COA

3.0 DEFINITIONS

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

3.1 Government Corporations (GCs) - refer to GOCCs, GFIs, and GICPs/GCEs,
including their subsidiaries, and water districts. The regional, branch and field
offices are component units of the corporation.

3.2 Entity – refers to a government agency, department, or operating/field unit.
The following terms are defined in COA Circular No. 2015-003 and are used in this Circular with the same meaning specified therein:

a. Government-Owned or Controlled Corporations (GOCCs)
b. Government Financial Institutions (GFIs)
c. Government Instrumentalities with Corporate Powers (GICPs)/Government Corporate Entities (GCEs)
d. Government Business Enterprises (GBEs)
e. Non-Government Business Enterprises (Non-GBEs)

4.0 GENERAL GUIDELINES

4.1 All GCs shall prepare for calendar year (CY) 2017 and onwards one set of FS as enumerated in paragraph 4.2, for all the combined funds (consolidated).

4.2 The components of the general purpose FS in accordance with Philippine Accounting Standard (PAS) 1/PPSAS 1 are as follows:

a. For GBEs

1. Statement of Financial Position (Annex A)
2. Statement of Comprehensive Income (Annex B)
4. Statement of Changes in Equity (Annex D)
5. Statement of Financial Position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its FS, or when it reclassifies items in its FS, to be presented as a separate column after the previous year amounts in Annex A (Annex E); and
6. Notes to FS comprising a summary of significant accounting policies and other explanatory notes

b. For Non-GBEs

5. Statement of Comparison of Budget and Actual Amounts (SCBAA) (Annex J)
6. Notes to FS comprising a summary of significant accounting policies and other explanatory notes (Annex K)

4.3 For the purpose of preparing the Annual Financial Report (AFR) and the Annual Audit Reports (AARs) for CY 2017 and onwards, all GCs shall submit separately to the COA auditors and the Government Accountancy Sector (GAS), COA, in printed and digital copies, the separate detailed FS and Trial Balance (TB) by fund and Combined Detailed FS and TB for all funds.
4.4 The guidelines in the submission of year-end FS and other financial reports/schedules for inclusion in the AFR for GOCCs and their subsidiaries starting CY 2014 as prescribed under COA Circular No. 2015-004 dated July 16, 2015 except for the format of FS and Statement of Management Responsibility shall continue to be observed.

4.5 Consistent with paragraph 3.2 of COA Circular No. 2015-004, the Chief Accountant shall ensure that the copies of the reports for GAS are the same with those submitted to the Supervising Auditor (SA)/Audit Team Leader (ATL) for audit and preparation of the AAR. Any revision on the submitted FS due to some adjustments must be appropriately communicated to GAS and SA/ATL concerned to avoid discrepancies between the financial data in the AAR and the AFR. However, revisions shall not be allowed beyond March 31 to give GAS enough time to reconcile with the audited FS to be furnished by the Corporate Government Sector not later than April 30. Any revision after March 31 shall be accepted only when justified and considered by the SA/ATL in the AAR.

4.6 The chart of accounts prescribed in COA Circular No. 2015-010 and the new accounts and revised code, title, and/or description under COA Circular No. 2016-006 shall be used.

4.7 The guidelines on the implementation of PFRS and PPSAS under paragraphs 6.0 and 7.0 shall be implemented by GBEs and Non-GBEs, respectively.

5.0 SPECIFIC GUIDELINES

5.1 All GCs shall submit separately to the COA auditors and the GAS, COA, in printed and digital copies the FS in paragraph 4.2, together with the detailed FS (Annexes A-1 or E-1, B-1 and C-1 for GBEs and F-1 to H-1 for Non-GBEs) and TB (Annex L) on or before February 14 of each year.

5.2 The Statement of Management Responsibility for Financial Statements (Annex M for both GBEs and Non-GBEs), duly signed by officials concerned, shall be attached to the FS. In case there is/are adjustment/s made in the FS in the course of audit after the FS has been submitted to GAS, the corresponding adjustment in the date of management responsibility should also be made and submitted to GAS and the COA auditor.

5.3 To serve as guide to preparers of FS of GBEs, a basic model or pro-forma Notes to FS shall be included in the Government Accounting Manual for GCs.

5.4 To serve as guide to preparers of FS of Non-GBEs for the first-time adoption of PPSAS, a basic model or pro-forma Notes to FS is presented in “Annex K”.

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5.5 To implement smoothly fund accounting and to facilitate the monitoring of budget information and the preparation of the budget and accounting reports, the following forms and registry shall be used/maintained by GCs:

a. Budget Utilization Request and Status (BTRS) (Annex N)
b. Registry of Budget, Utilization and Disbursements (RBUD) (Annex O-1 to O-4)
c. Notice of Budget Utilization Request and Status Adjustment (NBURSA) (Annex P)
d. Disbursement Voucher (DV) (Annex Q)
e. Journal Entry Voucher (JEV) (Annex R)

5.6 To serve as guide in the preparation of the SCBA by GCs classified as Non-GBEs, the instructions in the preparation of the same are presented in Annex S.

6.0 GUIDELINES ON THE IMPLEMENTATION OF PFRS

6.1 COA Circular No. 2015-003 prescribed the mandatory adoption of the PFRS by all GBEs.

6.2 Changes made in accounting policies by GBEs that are already applying PFRS shall be subject to the requirements on changes in accounting policies in PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and specific transitional requirements in other PFRS.

6.3 The following are the guidelines in the implementation of specific PFRS:

a. First-time Adoption of PFRS (PFRS 1)

1. In accordance with the provisions of PFRS 1, if in CY 2017 a GBE will qualify as a first-time adopter, its first PFRS FS shall include at least three statements of financial position, two statements of profit and loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows, two statements of changes in equity, and related notes, including comparative information.

Thus, the CY 2017 FS of a first-time adopter shall include the following:

a. Statements of Financial Position as at December 31, 2017, December 31, 2016 and January 1, 2016 (Opening Statement of Financial Position);

b. Statements of Comprehensive Income for the years ended December 31, 2017 and 2016;

c. Statements of Cash Flows for the years ended December 31, 2017 and 2016;
d. Statements of Changes in Equity for the years ended December 31, 2017 and 2016; and

e. Related notes including comparative information.

2. The specific transitional provisions in other PFRS do not apply to a first-time adopter. Thus, a first-time adopter shall only apply the provisions of PFRS 1. The determination whether a GBE will qualify as a first-time adopter or not shall be in accordance with paragraphs 3 to 4 of PFRS 1.

3. The entities shall provide explanation on how the transition from previous basis of accounting to PFRS affected its reported financial position, financial performance, and cash flows, by including the following reconciliations:

a. Reconciliations of its equity reported in accordance with previous basis of accounting to its equity in accordance with PFRS for both of the following dates:
   (i) January 1, 2016, the date of transition to PFRS; and

b. A reconciliation to its total comprehensive income in accordance with PFRS for the latest period in the entity’s most recent annual FS (December 31, 2016). The starting point for that reconciliation shall be total comprehensive income in accordance with previous basis of accounting for the same period or if an entity did not report such a total, the profit or loss under previous basis of accounting shall be the starting point.

c. If the entity recognized or reversed any impairment losses for the first-time in preparing its opening PFRS statement of financial position, the disclosures in PAS 36 - Impairment of Assets will be required if the entity recognized those impairment losses or reversals in the period beginning with the date of transition to PFRS (January 1, 2016).

4. The entities shall also provide explanation of material adjustments to the statement of cash flows in accordance with the previous basis of accounting.

5. The reconciliations required by paragraphs 6.3.a.3.a and 6.3.a.3.b shall distinguish the correction of those errors from changes in accounting policies.

b. Presentation of Financial Statements (PAS 1)

1. GBEs which will not qualify as first-time adopters in accordance with PFRS 1 shall present its first FS in accordance with PAS 1. The CY 2017 FS shall include, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive
income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related notes; and a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Thus, the CY 2017 FS shall include the following:

a. Statements of Financial Position as at December 31, 2017 and December 31, 2016; January 1, 2016 (when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its FS, or when it reclassifies items in its FS)

b. Statements of Comprehensive Income for the years ended December 31, 2017 and December 31, 2016;

c. Statements of Cash Flows for the years ended December 31, 2017 and 2016;

d. Statements of Changes in Equity for the years ended December 31, 2017 and 2016; and
e. Related notes including comparative information.

c. Borrowing Costs (PAS 23)

1. The entity shall capitalize only those borrowing costs incurred after January 1, 2016 that meet the criteria for capitalization.

2. Prior to full compliance with the applicable provisions of PAS 23, an entity shall for the meantime disclose such fact in its Notes to FS.

d. Leases (PAS 17)

1. Entities which have pre-existing leases shall determine whether these are finance or operating leases in accordance with the criteria laid down in paragraphs 7-19 of PAS 17.

2. The entity shall recognize a lease classified as a finance lease retrospectively in accordance with PFRS 1 for first-time adopter and PAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors for GBEs already implementing PFRS. Appropriate FS presentation, disclosures and/or adjusting entries shall be prepared/effectected.

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

   a. Apply the amendments to those leases on the basis of the facts and circumstances existing as at January 1, 2016; and
b. Recognize the asset and liability related to the lease newly classified as finance lease at their fair values (FVs) on that date; any difference between those FVs is recognized in retained earnings.

4. Depreciation of the Leased Asset shall be computed using the straight line method.

e. Property, Plant and Equipment (PPE) (PAS 16)

1. The requirements of paragraphs 24–26 of PAS 16 regarding the initial measurement of an item of PPE acquired in an exchange of assets transaction shall be applied prospectively or only to future transactions.

2. PPE controlled but not owned by the entity

   a. An entity shall recognize the cost and the related accumulated depreciation and impairment losses of existing PPE which were not previously recognized due to absence of ownership/title based on contracts, memoranda of agreement and other reasons.

   b. Where the acquisition cost of an asset acquired through a non-exchange transaction is not known, its cost may be estimated by reference to its FV as at the date of acquisition in accordance to PFRS 13 on Fair Value Measurement.

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

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

      2. The acquired item is measured at FV even if an entity cannot immediately derecognize the asset given up.

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

3. The effect on the recognition of depreciation as a result of the change in the estimated residual value to at least five percent (5%) of the cost of the asset shall be applied prospectively.

4. If the GC uses the cost model as its accounting policy, the straight-line method of depreciation shall be adopted unless another method is more appropriate for entity operation. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
5. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets. The agency/entity is in the best position to estimate the expected useful life of its PPE. As a guideline, PPE shall be depreciated over the following life spans:

<table>
<thead>
<tr>
<th>Item of PPE</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Improvements</td>
<td>Over the useful life of the asset to which the improvement was made or the useful life of the improvement if significantly shorter</td>
</tr>
<tr>
<td>Infrastructure Assets</td>
<td>20 to 50 years</td>
</tr>
<tr>
<td>Buildings and Other Structures</td>
<td>30 to 50 years</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>5 to 15 years</td>
</tr>
<tr>
<td>Transportation Equipment:</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>5 to 15 years</td>
</tr>
<tr>
<td>Motor vehicles (Military vehicles)</td>
<td>3 to 20 years</td>
</tr>
<tr>
<td>Trains</td>
<td>10 to 20 years</td>
</tr>
<tr>
<td>Aircrafts and Aircrafts Ground Equipment</td>
<td>10 to 20 years</td>
</tr>
<tr>
<td>Watercrafts</td>
<td>10 to 25 years</td>
</tr>
<tr>
<td>Furniture, Fixtures and Books</td>
<td>2 to 15 years</td>
</tr>
<tr>
<td>Leased Assets, excluding Land</td>
<td></td>
</tr>
<tr>
<td>Leased Assets Improvements</td>
<td>Over the useful life of the improvement or the lease term, whichever is shorter. The lease term would include any renewal option periods where extension of the lease is expected.</td>
</tr>
<tr>
<td>Service Concession Assets</td>
<td>Over the useful life of the service concession asset or the term of the service concession arrangement, whichever is shorter. The term of the service concession arrangement would include any renewal option periods where extension of the service concession arrangement is expected.</td>
</tr>
<tr>
<td>Other Property, Plant and Equipment</td>
<td>2 to 15 years</td>
</tr>
</tbody>
</table>

The above life span of PPE shall be used unless a more appropriate estimated useful life of PPE is determined by the entity based on their operation.
6. Tangible items below the capitalization threshold of P15,000

   a. Tangible items below the capitalization threshold of P15,000 shall be accounted in accordance with the policies prescribed under paragraph 5.4 of COA Circular No. 2016-006 on conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008 dated September 20, 2004, as amended, to the RCA for GCs under COA Circular No. 2015-010, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof.

   b. These tangible items shall be recognized as expenses upon issue to end-user. The carrying amount of semi-expendable property recognized as PPE already issued to end-user as of January 1, 2016 shall be recognized as an adjustment to the opening balance of retained earnings for CY 2016.

f. Accounting for Government Grants and Disclosure of Government Assistance (PAS 20)

   1. An entity adopting the Standard for the first time shall:

      a. Comply with the disclosure requirements, where appropriate; and


h. Impairment of Assets (PAS 36)

   1. The recognition of impairment and reversal of impairment shall be applied prospectively.

Provisions, Contingent Liabilities and Contingent Assets (PAS 37)

   1. Entities shall adjust the opening balance of retained earnings for the CY 2016 to recognize the provisions, if applicable and practicable. If not practicable, this fact shall be disclosed in the Notes to FS.

i. Other PFRS not mentioned in paragraphs 6.3.a to 6.3.h above

   1. An entity shall apply the specific transitional requirements of said PFRS, if applicable unless impracticable.

7.0 GUIDELINES ON THE IMPLEMENTATION OF PPSAS

7.1 Changes made in accounting policies by Non-GBEs that are already applying PPSAS shall be subject to the requirements on changes in accounting policies in PPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors; and specific transitional requirements in other PPSAS.
7.2 A first-time adopter shall only apply the provisions of PPSAS 33, *First-time Adoption of Accrual Basis IPSASs*. The determination whether a Non-GBE will qualify as a first-time adopter or not shall be in accordance with paragraph 14 of PPSAS 33.

7.3 The following are the guidelines in the implementation of specific PPSAS:

**a. Presentation of Financial Statements (PPSAS 1)**

1. Considering the significant changes in the accounting policies as a result of the first time adoption of the PPSAS effective January 1, 2016, comparative information for CY 2015 and CY 2016 is not required. Thus, the CY 2016 financial statements shall reflect the CY 2016 balances only. After CY 2016, comparative information for the current and immediately preceding year shall be reflected in all the components of FS, except in the Statement of Comparison of Budget and Actual Amounts.

**b. First-time Adoption of Accrual Basis IPSASs (PPSAS 33)**

1. Non-GBEs which were not able to adopt the PPSAS in CY 2016 shall be considered first-time adopter in CY 2017. Their CY 2017 PPSAS financial statements shall include the following:


   b. Statements of Financial Performance for the years ended December 31, 2017 and 2016;

   c. Statements of Cash Flows for the years ended December 31, 2017 and 2016;

   d. Statements of Changes in Net Assets/Equity for the years ended December 31, 2017 and 2016;

   e. Statement of Comparison of Budget and Actual Amounts for CY 2017; and

   f. Related notes including comparative information.

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

3. A first-time adopter shall disclose:

   a. The date of adoption of PPSAS; and
b. Information and explanations about how the transition from the previous basis of accounting to PPSAS affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.

c. Investment Property (PPSAS 16)

1. The estimated useful life and the estimated residual value and method of depreciation used for PPE shall be applied to depreciable Investment Property.

d. Property, Plant and Equipment (PPSAS 17)

1. PPE controlled but not owned by the entity

a. An entity shall recognize the cost and the related accumulated depreciation and impairment losses of existing PPE which were not previously recognized due to absence of ownership/title based on contracts, memoranda of agreement and other reasons.

b. Where the acquisition cost of an asset acquired through a non-exchange transaction is not known, its cost may be estimated by reference to its FV as at the date of acquisition.

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

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

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

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

2. The effect on the recognition of depreciation as a result of the change in the estimated residual value to at least five percent (5%) of the cost of the asset shall be applied prospectively.

3. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets. The agency/entity is in the best position to estimate the expected useful life. As a guideline, PPE shall be depreciated over the life spans prescribed in Paragraph 6.3.e.5 hereof.
4. Tangible items below the capitalization threshold of P15,000

a. Tangible items below the capitalization threshold of P15,000 shall be accounted in accordance with the policies prescribed under paragraph 5.4 of COA Circular No. 2016-006 on Conversion from the Philippine Government Chart of Accounts under the New Government Accounting System per COA Circular No. 2004-008, as amended, to the RCA for GCs under COA Circular No. 2015-010, new, revised and deleted accounts, and relevant accounting policies and guidelines in the implementation thereof.

b. These tangible items shall be recognized as expenses upon issue to end-user. The carrying amount of semi-expendable property recognized as PPE already issued to end-user as of January 1, 2016 shall be recognized as an adjustment to the opening balance of "Accumulated Surplus/(Deficit)" for CY 2016.

5. Philippine Application Guidance (PAG) No. 2 of PPSAS 17 provides that for consistency and uniformity, the cost model shall be adopted for all classes of PPE. Prior to the adoption of PPSAS, if a Non-GBE has adopted the revaluation model in the valuation of its PPE, the disposition of the Revaluation Surplus/Appraisal Capital Stock account shall be dealt with as a change in accounting policy as follows:

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\begin{align*}
\text{Revaluation Surplus/Appraisal Capital Stock} & \quad \text{xxx} \\
\text{Accumulated Depreciation-Appropriate PPE Account} & \quad \text{xxx} \\
\text{Appropriate PPE Account} & \quad \text{xxx}
\end{align*}
\]

To recognize the effect of the change in accounting policy as a result of adopting the cost model in the valuation of PPE

8.0 SAVING CLAUSE

Procedural issues and other matters not covered in this Circular shall be covered by supplemental issuances and/or shall be referred to the GAS, this Commission, for resolution.

9.0 REPEALING CLAUSE

All circulars, memoranda and other issuances or parts thereof, which are inconsistent with the provisions of this Circular are hereby amended/repealed/modified accordingly.
10.0 EFFECTIVE DATE

This Circular shall take effect fifteen (15) days after publication in a newspaper of general circulation.

MICHAEL G. AGUINALDO
Chairperson

JOSE A. FABIA
Commissioner

ISABEL D. AGITO
Commissioner