Republic of the Philippines
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 8
Series of 2005

SUBJECT: ADOPTION OF PHILIPPINE ACCOUNTING STANDARDS (PAS)

The Commission, in its meeting of December 22, 2005, approved the adoption in its rules and regulations of the PAS 101 – Financial Reporting Standards for Non-Publicly Accountable Entities (NPAEs) as approved by the Accounting Standards Council to provide temporary relief to qualified small and medium enterprises in the application of the new accounting standards.

The standard is effective for financial reporting periods beginning January 1, 2005.

Issued this 27th day of December 2005 at EDSA, Greenhills, Mandaluyong City.

FE B.BARIN
Chairperson

Accounting Standards Council

Philippine Accounting Standard 101

Financial Reporting Standards for Non-Publicly Accountable Entities

Philippine Accounting Standard 101
Contents

Paragraphs

Philippine Accounting Standard (PAS) 101
Financial Reporting Standards for
Non-publicly Accountable Entities

Introduction	1 – 5
Objective	6
Qualifying Entities	7 – 10
Option Available to Qualifying Entities	11 – 13
Financial Reporting Standards Applicable to Qualifying Entities	14
Disclosure	15
Effective Date	16

Appendix
Financial Reporting Standards Effective as of December 2004 Applicable to Qualifying Entities

Approval of PAS 101 by the ASC

Philippine Accounting Standard 101
Financial Reporting Standards for Non-publicly Accountable Entities

Introduction

1. The Accounting Standards Council (ASC), in line with the accounting profession's objective to converge Philippine accounting standards with international accounting standards, issued a number of new accounting standards, referred to as Philippine Financial Reporting Standards (PFRSs) that became effective in 2005. The adoption of the new accounting standards was approved by the Securities and Exchange Commission (SEC), the Board of Accountancy (BOA) and Professional Regulation Commission (PRC); and the Bangko Sentral ng Pilipinas (BSP). The PFRSs were intended at that time to be applicable to *all* reporting entities that prepared financial statements in conformity with generally accepted accounting principles in the Philippines.

2. Considering the significant number of small and medium-sized entities (SMEs) in the Philippines, the ASC has considered providing temporary relief to SMEs in the application of the new standards.

3. The ASC plan was given impetus by the decision of the International Accounting Standards Board (IASB) in 2005 to undertake a project to develop accounting standards suitable for entities that (1) do not have public accountability and (2) publish general purpose financial statements for external users (e.g., owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies). The IASB refers to this group of entities as ***Non-Publicly Accountable Entities, or NPAEs***. The IASB has decided to use the term "non-publicly accountable entities", rather than "small and medium-sized entities" because the latter term has different meanings around the world.

4. Under the IASB project, an entity has public accountability if:

   - it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market;

   - it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity;

   - it is a public utility or similar entity that provides an essential public service; or

- it is economically significant in its home country on the basis of criteria such as total assets, total income, number of employees, degree of market dominance, and nature and extent of external borrowings.

5. The IASB expects to issue an exposure draft on accounting by NPAEs in March 2006 and the final standard in 2007.

Objective

6. The objective of this Standard is to provide temporary relief in the application of the new PFRSs that became effective in 2005 to entities that are covered by this Standard. The Standard identifies which entities are covered, provides an option to these entities in the application of the new PFRSs, and specifies the financial reporting standards applicable to these entities.

Qualifying Entities

7. This Standard shall be applied in the general purpose financial statements prepared and presented by an entity with no public accountability. An entity has public accountability:

   a. if it is required to file financial statements under SEC Rule 68.1, *Special Rule on Financial Statements of Reporting Companies under Section 17.2 of the Securities Regulation Code*. Under the SEC rules, these would include:

      (1) an issuer which has sold a class of their securities pursuant to a registration under Section 12 of the Code;

      (2) an issuer with a class of securities listed for trading on an Exchange; and

      (3) an issuer with assets of at least ₱50 million and having 200 or more holders each holding at least 100 shares of a class of its equity securities as of the first day of the issuer's fiscal year;

   b. if it is in the process of filing its financial statements for the purpose of issuing any class of instruments in a public market;

   c. if it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank (all types of banks), an investment house, a finance company, an insurance company, a securities broker/dealer, a mutual fund and a pre-need company;

   d. if it is a public utility or similar entity that provides an essential public service; or

   e. if it is economically significant, as described in paragraph 8; or

f. if it is considered by its primary regulator to have public accountability.

8. For purposes of paragraph 7(e), an entity is considered economically significant if it exceeds either of the following: total assets of ₱250 million or total liabilities of ₱150 million. The total assets and total liabilities are based on the entity's annual financial statements and on consolidated totals, if the entity presents consolidated financial statements.

9. The criteria for an economically significant entity are arbitrary and will be reviewed when the IASB has issued its final standard on NPAEs or earlier if necessary.

10. For purposes of this Standard, an entity that is a subsidiary of a parent that is considered to have public accountability under paragraph 7 is similarly considered to have public accountability.

Option Available to Qualifying Entities

11. A qualifying entity under this Standard is allowed not to apply in its general purpose financial statements the new PFRSs that became effective in 2005.

12. A qualifying entity, however, may still choose to apply any or all of the new PFRSs.

13. An entity that has public accountability, as provided in paragraphs 7 and 10, is required to apply the new PFRSs in its financial statements for 2005, unless its primary regulator issues a pronouncement exempting the entity from applying a new standard or certain provisions of a new standard.

Financial Reporting Standards Applicable to Qualifying Entities

14. A qualifying entity under this Standard that chooses to avail of the option not to apply the new PFRSs shall apply the applicable financial reporting standards effective as of December 2004 in preparing its general purpose financial statements. The Appendix lists these standards.

Disclosure

15. A qualifying entity shall disclose the basis of preparation of its financial statements and the specific accounting policies used.

Effective Date

16. A qualifying entity shall apply this Standard for annual periods beginning on or after January 1, 2005. The Standard shall be effective for 2005 to 2007, unless revoked earlier.

Appendix

Financial Reporting Standards Effective as of December 2004 Applicable to Qualifying Entities under PAS 101

	Framework for the Preparation and Presentation of Financial Statements
SFAS 1 (rev)	Presentation of Financial Statements
SFAS 4 (rev)	Inventories
SFAS 8	Accounting for the Effects of Changes in Foreign Exchange Rates
SFAS 8A	Deferral of Foreign Exchange Differences (an amendment of SFAS 8)
SFAS 10	Summary of Generally Accepted Accounting Principles on Investments
SFAS 13 (rev)	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
SFAS 18	Summary of Generally Accepted Accounting Principles on Stockholders' Equity
SFAS 22 (rev)	Cash Flow Statements
SFAS 24	Retirement Benefit Costs
SFAS 25	Borrowing Costs
SFAS 26	Construction Contracts
SFAS 28	Revenue
SFAS 10/IAS 10	Events After the Balance Sheet Date
SFAS 12/IAS 12	Income Taxes
SFAS 16/IAS 16	Property, Plant and Equipment
SFAS 17/IAS 17	Leases
SFAS 20/IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
SFAS 22/IAS 22	Business Combinations
SFAS 24/IAS 24	Related Party Disclosures
SFAS 26/IAS 26	Accounting and Reporting by Retirement Benefit Plans
SFAS 27/IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
SFAS 28/IAS 28	Accounting for Investments in Associates
SFAS 31/IAS 31	Financial Reporting of Interests In Joint Ventures
SFAS 35/IAS 35	Discontinuing Operations
SFAS 36/IAS 36	Impairment of Assets
SFAS 37/IAS 37	Provisions, Contingent Liabilities and Contingent Assets
SFAS 38/IAS 38	Intangible Assets

Note: The following standards, which were effective as of December 31, 2004, were excluded from the above list since these apply to entities with public accountability, such as listed entities, banks or insurance companies.

SFAS 19	Summary of Generally Accepted Accounting Principles for the Banking Industry
SFAS 27	Accounting and Reporting for the Nonlife Insurance Industry
SFAS 29	Earnings Per Share
SFAS 30	Interim Financial Reporting
SFAS 31	Segment Reporting

Approval of PAS 101 by the ASC

The Accounting Standards Council (ASC) has approved in October 2005 the issuance of Philippine Accounting Standard (PAS) 101, *Financial Reporting Standards for Non-publicly Accountable Entities*.

ASC Members

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