

# FINANCIAL REPORTING PRACTICES OF LISTED PHILIPPINE FIRMS<sup>1</sup>

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*This article summarizes the results of a study undertaken to determine the degree of compliance by Philippine firms to the rules and principles of financial reporting contained in Philippine generally accepted accounting principles (GAAP). A second objective of the study was to determine the users' degree of satisfaction with financial statement information.*

*In general, the researchers found that firms in the study complied with generally accepted accounting principles. A majority of the firms studied, however, were inclined to follow only the minimum disclosures required by GAAP. Prevalent instances of non-compliance were noted for the required financial disclosures relating to consolidated financial statements, long-term investments, earnings per share (EPS) computations, and operating expenses. There were also significant instances of violations of specific rules uncovered which have the potential of resulting in damage to investors and other users who rely on the information in these reports.*

*The user survey produced the following : (1) Users of financial statement information expressed an "average" level satisfaction over the content and amount of disclosures in firms' financial reports. (2) While relying heavily on audited financial statements as a source of financial information, users believe that window-dressing or manipulation of certain financial statement items occurs most of the time and the degree of window-dressing is perceived as significant to very significant. (3) On whether or not external auditors are impartial/objective, users are divided almost equally although they do place much importance on the auditor's opinion. This, despite the fact that a significant majority of them believe that auditors primarily serve the interests of the audited firm rather than the public.*

*Some recommendations are offered for the improvement of financial reporting practices in the Philippines.*

## I. INTRODUCTION

A key ingredient in the development of the capital market is a well-functioning information system that provides investors with inputs in their resource

allocation decision in a timely and efficient manner. Publicly-listed corporations have a greater responsibility than non-listed companies to provide reliable and

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informative financial reports. This is so because the former's shares are sold to and held by a broader, financial statement users that the reports comply with these generally accepted financial reporting rules and principles.

This article summarizes the results of a study that had two primary objectives:

- (1) To determine compliance by publicly-listed Philippine companies with the reporting rules and standards on revenue and cost recognition prescribed by Philippine GAAP, and
- (2) To establish the degree of satisfaction of users of financial statements over the content and amount of disclosures in listed firms' financial reports.

## II. SCOPE AND METHODOLOGY

There are two parts to the study. First is the documentary analysis and second is the users' survey. For the first, 422 financial statements covering the period 1991 to 1995 of 132 companies listed in the Philippine Stock Exchange (PSE) were examined<sup>2</sup>. The financial statements were obtained from either the PSE or the Securities and Exchange Commission (see Appendix A for a list of the companies whose financial statements were reviewed for the study). Of the 132 companies, 79 had a complete set of financial statements, meaning from 1991 to 1995.

The financial statements were analyzed in terms of the extent and contained in the Accounting Standards Council Statements of Financial Accounting Standards Nos. 1 to 23 (see Appendix B).

Table 1 on the next page summarizes the industry profile of the companies in the study. The number of companies and the number of years covered were limited by the availability of the financial statements and the limited time provided to conduct the study. The study also excluded determination of the precise peso effect (other than to say whether it was to over or understate) on asset values or reported earnings of the firms where instances of noncompliance were uncovered.

For the second part of the study, a questionnaire survey of individuals working in companies identified as extensive users of financial information was undertaken (see Table 2 on next page for profile of respondents). Seventy-four (74) valid responses were received out of the 350 mailed questionnaires, representing a response rate of 21 percent.

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<sup>2</sup> The 132 companies represent 60% of the total number of companies listed in the PSE as of April 1997.



**Table 1**  
**Industry Classification<sup>3</sup> of Companies Whose Financial Statements**  
**Were Reviewed for the Study**

INDUSTRY	COMPLETE FINANCIAL STATEMENTS	INCOMPLETE FINANCIAL STATEMENTS	TOTAL	COMPANIES IN SURVEY(%)
Banking	14	2	16	12
Holding	5	11	16	12
Mining	10	5	15	11
Oil	9	5	14	11
Manufacturing	8	5	13	10
Property	7	6	13	10
Food,Beverage, and Tobacco	9	3	12	9
Construction	5	6	11	8
Communication	5	4	9	7
Transportation Services	1	4	5	4
Hotel	2	1	3	2
Power and Energy	2	-	2	2
Others	2	-	2	2
Financial Services	-	1	1	0
TOTAL	79	53	132	100

**Table 2**  
**Profile of Respondents in the Survey**

TYPES OF FIRMS	NO. OF RESPONDENTS	RESPONDENTS (%)
Commercial Banks	24	32
Investment Banks	16	22
Brokerage Firms	11	15
Financing Companies	8	11
Insurance	3	4
Mutual Funds	1	1
Academe	1	1
Others	10	14
TOTAL	74	100

<sup>3</sup> Based on PSE classification of listed companies

### III. FINDINGS

#### A. Compliance with Generally Accepted Accounting Principles

The majority of companies surveyed complied with basic financial reporting requirements, e.g., the provision of a 'complete' set of financial statements, including details on changes in stockholders' equity, description of accounting policies, and notes to the financial statements.

In all 132 companies whose financial statements were reviewed in the study, however, at least one instance of non-compliance was found in their financial reports for the period 1991 to 1995. In all cases, the financial statements were accompanied by unqualified opinions of the company's external auditor. An unqualified opinion means that, based on tests conducted by the certified public accountant, the financial statements audited comply with generally accepted accounting principles and present the financial condition and operating results of the company fairly and in all material respects.

Table 3 summarizes the extent of non-compliance with specific GAAP financial reporting rules and requirements among the firms. As can be seen, the most prevalent areas of non-compliance involve disclosure requirements, particularly as regards long term investments qualifying under the equity method (87% of companies surveyed), information regarding consolidated subsidiaries (82%), and long term investments accounted for

using the cost method (78%). Among the sectors in the study, holding companies and issuers of consolidated financial statements appear to be the more frequent culprits of this type of violation.

For instance, thirty-three (33) percent of the holding companies did not disclose the carrying values of individually significant investments accounted for using the equity method. Failure to disclose the percentage ownership over certain investments has been noted in one bank, one company in transportation services, one construction company, one property company and seven holding companies.

More than 50 percent of the holding companies did not present summarized information for significant equity investments accounted for using the equity method. A number of holding companies' financial position and/or results of operations were found to be materially dependent on the performance of these investments. For instance, 28 percent of Holding Company A's 1995 income was contributed by a 14 percent-owned power company; two (2) percent of Holding Company B's 1995 total revenues was contributed by a 37 percent-owned bank and another two (2) percent was contributed by a 24 percent-owned affiliate in the transportation services industry; and four (4) percent of Holding Company C's revenues was contributed by a 27 percent-owned power company. None of the above holding companies presented summarized financial information regarding these investments as required by SFAS 11.

For companies presenting consolidated financial statements, disclosures did not conform to rules on the information required



for consolidated financial statements. A number of holding companies, four companies in the food, beverage and tobacco sector, one in manufacturing and distribution, and several banks did not disclose material facts such as the description of newly acquired subsidiaries, the cost of the newly acquired subsidiaries, the method of accounting for the business combination, and certain proforma information required by SFAS no. 20, par. 45 in their financial statements.<sup>4</sup>

GAAP also requires disclosure of disaggregated information for subsidiaries or groups of subsidiaries whose activities are dissimilar from those of the other companies in the group when these subsidiaries are material in relation to consolidated financial position or results of operations (SFAS No. 21, pars. 38-39). More than sixty (60) percent of the holding companies surveyed in the study are in a variety of businesses (e.g., one holding company has a significant amount of its revenues coming from a property subsidiary; another from packaging and consumer products; a third from three unrelated subsidiaries -- food, property and telecommunications) and have not informed users of the extent to which the group's financial position and results of operations rely on the performance of

certain businesses or groups of businesses.

While the main area of non-compliance, i.e. that of inadequate disclosures, can be said to be 'errors of omission', there were also instances where the errors were that of 'commission'. We refer here to cases in which the team found that the treatment of some financial items by the companies concerned is contrary to that prescribed by the rules.

These 'errors of commission' are in the following areas: (1) computation and presentation of earnings per share, (2) consolidation of financial statements, (3) accounting for short-term and long-term equity investments, and (4) reporting the effects of an accounting change.

While the second category of GAAP violations is not as common as the first, the fact that this type of violation exists is cause for concern. The companies which committed these violations belong to the country's largest capitalized and, supposedly, more heavily regulated (by virtue of their being publicly listed) group of companies. They are audited by the bigger and more reputable accounting firms in the country. Their financial statements are read and relied upon by the most number of investors and analysts, both locally and abroad. Given the foregoing, the room for error in financial reporting for these companies must be small.

Significant cases of 'errors of commission' are described below. These cases were clustered into four; earnings per share, consolidation of financial statements, short and long term investments, and reporting the effects of an accounting change.

<sup>4</sup> For the period in which a business combination occurs, GAAP requires the presentation, on a proforma basis, of results of operations for the period "as though the companies had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period". Proforma presentation of the immediately preceding period's results of operations as though the business combination had occurred in the beginning of the immediately preceding period is likewise required to be presented.



## 1.0 Earnings Per Share (EPS)

Three companies (a food and beverage company, and two in transportation services) did not reflect on the EPS figure the effect of a stock dividend declared but undistributed during the year. These companies reported the effect of the stock dividend on EPS in the year succeeding declaration, when presumably either or both the ex-and distribution dates fell. This serves to overstate EPS in the year the stock dividends were declared.

Another questionable practice has to do with the restatement of a prior year's EPS to reflect the effect of a subsequently declared stock dividend.<sup>5</sup> As discussed in the paragraph below, the current practice of a number of companies may result in an understatement of restated EPS, thus potentially leading an investor analyzing year-on-year performance to overrate the current year's performance.

In restating prior years' EPS, at least two companies (a telecommunications company and a holding firm) divided prior year's (i.e., year t-1) net income by the number of outstanding shares at the end of the current year (t) rather than restate EPS using the weighted average number of outstanding shares (WANOS) at t-1 adjusted for the stock dividend at year t, as is

required by the rules. This practice resulted in an understatement of the restated EPS figure for these companies as there was an issuance of new shares in the previous year (i.e., the year that EPS is being restated). For the holding firm, for example, the understatement of restated EPS meant that year-on-year increase in EPS (with year in which EPS was restated as the base year) is only 85% and not 127% as was claimed in the company's report to stockholders.

Two cases of error in the computation of EPS which resulted in an overstatement of reported EPS were identified: (1) a mining company failed to include subscribed capital stock in the number of outstanding shares, and (2) a bank failed to deduct preferred dividends from net income to arrive at net income available to common shareholders.

EPS is one of the most important figures reported in financial statements. As indicated by the results of the user survey (Table 4), EPS has a mean value of 2.638 for the degree of importance attached to the EPS figures (range is 1 to 3 with "1" as not important and "3" very important) when analyzing financial statements. Since EPS is frequently used for financial statement analysis, particularly for security valuation and analysis, it is vital that the basis for computing EPS is clear and consistent across firms.

## 2.0 Consolidation of Financial State-ments

Two types of exceptions are noted under this section: (a) non-presentation of consolidated financial statements by

<sup>5</sup> Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of outstanding common shares. Weights are determined by the number of days during the income statement period that the common shares were outstanding; i.e., in the hands of shareholders.



a company that is required to do so, and (b) failure to eliminate intercompany accounts in the consolidation of financial statement accounts.

SFAS No. 21, par. 5 requires presentation of consolidated financial statements when the following conditions are present:

- a. When total liabilities of any one entity in the group are more than P50 million, or when total liabilities of the group are more than P150 million as shown in the balance sheets at the beginning of the most recently completed fiscal year.
- b. When the parent company's securities are traded on securities exchanges or over-the-counter markets.
- c. For the following financial intermediaries: banks, financing companies, investment houses, and investment companies.

Consolidated financial statements present the financial condition and performance of a group of companies, as if these were a single economic entity. Given the close interdependencies existing within a group, as well as the ease with which non-transparent financial transfers can take place within the group, presentation of a total

consolidated picture as regards assets and liabilities as well as results of operations is necessary for the protection of investors and creditors of the individual companies comprising the consolidated entity. Below are cases where these requirements are not met:

- A telecommunications firm presented only the parent company's financial statements in its 1995 annual report, without disclosing the reasons for not consolidating two subsidiaries over which it has more than 50 percent ownership. The same is true for a manufacturing firm with five subsidiaries in 1991 and nine subsidiaries in 1992 and 1993.
- Another manufacturing firm which fell under the purview of SFAS no. 21, par. (a) did not present consolidated financial statements in 1994. In 1995, when it presented comparative consolidated financial statements for the group, it was found that in 1994, aggregate borrowings of the parent company and its subsidiaries amounted to P2.154 billion, or P1.19 billion more than the figure reported only for the parent company in the preceding year. Consolidated accounts payable and accrued expenses in 1994 stood at P790 million, or P488 million more than the figure reported for the parent company. The information that the consolidated balance sheet contained is clearly material in an assessment of the financial condition of the group to which the manufacturing firm belongs.

- A mining company failed to eliminate the "Realized Gains on Intercompany Sale of Real Property" account in its 1993 and 1994 consolidated financial statements. This resulted in an overstatement of consolidated revenues by 4 percent and 7.24 percent in 1993 and 1994, respectively.
- A firm in the transportation services sector presented exactly the same figures in its parent and consolidated income statements. The results of operations of a subsidiary should be shown as a single figure in a parent company's income statements (as equity in net earnings of subsidiary) while in a consolidated income statement, revenues and expenses of the parent and the subsidiary are combined item by item (eliminating the effects of intercompany transactions). The presentation of exactly the same figures for all the items in the parent company and consolidated income statements suggests that errors were committed either in the preparation or in the presentation of these reports. While bottom line figures will not differ, a consolidated income statement presents results of operations of the consolidated entity in greater detail and is thus supposed to be more informative than the parent company's income statement.

### 3.0 Short Term and Long Term Investments

Violations under this item include (1) reporting investments in shares of stock of other companies when there is no significant influence at cost instead of at lower of aggregate cost or market;<sup>6</sup> and (2) misclassification of a long term investment.

The practice of reporting stock investments not accounted for using the equity method at cost rather than at lower of aggregate cost or market value as required by GAAP is prevalent among the companies surveyed. More than 50 percent of companies with either short term or long term stock investment portfolios that do not qualify for the use of the equity method of accounting do not recognize declines in the value of their portfolios unless the decline is, to management's assessment, permanent. This does not adhere to SFAS No. 10, "Summary of Generally Accepted Accounting Principles on Investments", which requires the establishment of a valuation account that is adjusted for temporary movements in the value of a company's stock investment portfolio, with corresponding recognition of unrealized gains or losses in the income statement for current marketable equity securities and in the stockholders' equity section for long term equity investments. In fact, in the financial statements analyzed, recognition of unrealized gains and losses on this type of

<sup>6</sup> SFAS 11, par. 5 states that an investment of less than 20% of the voting stock of an investee should lead to a presumption that an investor does not have the ability to exercise significant influence over an investee unless such ability can be demonstrated. For these investments (both short term and long term investments), valuation is based on the lower of cost or market value determined at the balance sheet date.



investment seems to be more the exception than the rule. The current practice will have the effect of overstating net income in periods when the aggregate market value of short term stock investments falls below aggregate cost.

Another unusual practice noted involves a bank that misclassified a long term stock investment (value is over P750 million). It reported an unlisted stock to which no ready market value is available as part of its trading securities account. The SFAS that governs the banking industry defines trading account securities as "readily marketable securities held by the bank for trading purposes ... Trading account securities generally consist of debt securities and commercial papers and other securities issued by private entities ...". The rule goes on to state that securities that have no ready market price should not be included in this account. The misclassification has the effect of improving the bank's financial ratios involving current assets.

#### 4.0 Reporting the Effects of an Accounting Change

The companies in the study appear to be generally prudent in complying with the requirements of SFAS 17 when they implemented a change in accounting principle. With the exception of changes due to the adoption of SFAS No. 23, there were few instances of a change in accounting policy used. Two

noteworthy cases, however, are discussed below.

##### a. Change in Depreciation Method

A mining company did not retroactively effect a change in its method of depreciation for some of its equipment. GAAP requires application of a new accounting method as if that method had been used since the beginning of the company's operations (SFAS No. 17 par 17). The effect is required to be presented as a single item adjustment in the income statement of the year of the change. This mining company only disclosed that as a result of the change, depreciation during the year was reduced by about P76 million. The adjustment would have resulted in a net increase in reported income for the year, given that the change in method apparently reduces depreciation expense.

##### b. Change in Depreciable Life

A telecommunications company increased the depreciable life of its property and equipment (building from 25 to 50 years; electronic and communications equipment from 5-10 years to 25-50 years; and of the test equipment and other instruments, office furniture, fixtures and equipment from 4 to 10 years) in 1995. It was explained in the notes that the change was effected to more closely reflect the expected remaining life of these assets. While SFAS no. 17 does not preclude changes in accounting estimates, such significant changes in the

depreciable life cast some doubt on the policy followed in setting the useful life of fixed assets, especially since the reduction in depreciation expense enabled the company to report a positive net income instead of a net loss for the year.<sup>7</sup>

### B. Perceptions of the Users of Financial Information

The profile of the respondents to the questionnaire surveys show a preponderance of financial services companies with fifty-nine (or almost 80 percent) of the 74 respondents belonging to companies which are in the nature of financial intermediaries and advisers (commercial and investment banks, financing companies, stock brokerage firms). About a like number of respondents (58 of 74) have research/credit investigation departments with full-time staff doing financial analysis. The top three purposes for which financial analysis is undertaken are for credit decisions (54%), investment for own/company account (46%), and for giving investment advice to clients (41%).

The respondents tended to indicate the level of their satisfaction with the amount and content of information in companies' financial statements as "average." They rely heavily on the information provided in publicly-available financial statements, ranking these first among sources of information most often used. However, they also believe that Philippine companies

window-dress or manipulate their financial statements most of the time. The top three (3) accounts they believe to be manipulated/window-dressed are revenues, operating expenses and net income. Eighty three (83) percent of respondents also believe that the degree of window-dressing is significant to very significant (see Table 4).

Those who believe that external auditors are impartial or objective slightly edge out the non-believers (49.3% vs. 40.6%). Forty-eight (48) percent of the respondents place much importance on the auditor's opinion. Nevertheless, more than 80 percent of the respondents are also of the opinion that external auditors serve primarily the interests of the audited firm instead of the public's.

Most of the respondents found the notes to the financial statements very useful in supplementing the information in the financial statements and pay most attention to the following items in the notes: details of revenues, operating expenses and long term debt.

In terms of improvements in reporting practices, the survey respondents generally prefer more detailed information in three areas: [1] major sources of revenue (86.5%), [2] major acquisitions/investments and divestments during the period covered by the financial statements (85.1%) and [3] operating expenses (75.7%).

### IV. RECOMMENDATIONS

To address the inadequacies in reporting practices described in this paper, several recommendations are proposed. The

<sup>7</sup> The leading telecommunications company depreciates its plant, property and equipment over a range of 5-20 years.



recommendations are grouped into two: general recommendations and recommendations for specific sectors.

### *General Recommendations*

#### 1.0 Define materiality more precisely.

GAAP allows the exercise of judgment in the determination of materiality. SFAS no. 1, Sec. D, par. F-13 defines *materiality* as follows: "Materiality - Financial reporting is only concerned with information that is significant enough to affect evaluations or decisions". As a result, there are differences in the application of the concept of materiality in financial reporting. The latest set of financial reporting rules promulgated by the Securities and Exchange Commission partially alleviate this problem by stating an explicit rule in determining materiality in connection with disclosures required regarding significant subsidiaries (RSA Rule 48 Part I par. b.14).<sup>8</sup> The rules,

<sup>8</sup> The definition reads: Significant subsidiary- The term "significant subsidiary" means a subsidiary, including its subsidiaries, which meets any of the following conditions: [A] The registrant's and its other subsidiaries' investments in and advances to the subsidiary exceed 10 percent of the total assets of the registrant and its subsidiaries consolidated as of the end of the most recently completed fiscal year (for a proposed business combination to be accounted for as a pooling of interests, this condition is also met when the number of common shares exchanged or to be exchanged by the registrant exceeds 10 percent of its total common shares outstanding as at the date the combination is initiated); or [B] The registrant's and its other subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the subsidiary exceeds 10 percent of the total assets of the registrant and its subsidiaries consolidated as of the end of the most recently completed fiscal year; or [C] The registrant's and its other subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the subsidiary exceeds 10 percent of

however, do not provide such guidance in determining materiality in relation to other disclosure requirements (e.g. for related party transactions) as these add little to the SFAS definition. "The term 'material' when used to qualify a requirement for the furnishing of information as to any subject, limits the information required to those matters to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to buy or sell the securities registered." (RSA 48 Part I par. b.9).

The team believes that more explicit guidelines on materiality (e.g. by defining a material item in terms of a percentage of revenues or total assets) such as that provided in defining a significant subsidiary should be provided by the Securities and Exchange Commission or the Accounting Standards Council so that companies are clear as to what items need disclosure or detailing in their financial reports.

#### 2.0 State GAAP disclosure requirements as mandatory rather than preferred.

Particularly in connection with the disclosure requirements for significant subsidiaries and equity investments, rules have to be written to leave no doubt that the information has to be disclosed in the financial statements. Phrases such as "it is desirable that ..." found, for example, in the present SFAS (No. 21 par. 38) as well as in RSA Rule 48 (Part V par. c.1) should be

such income of the registrant and its subsidiaries consolidated for the most recently completed fiscal year.

reconsidered. The team believes that it is more advantageous to users of financial information when companies err on the side of over-disclosure rather than under-disclosure.

### 3.0 Require disclosure of basis of computing earnings per share.

Recognizing the importance of the EPS figure, companies should be required to disclose the computation of earnings per share. In the study, the team noted that 89 percent of listed Philippine companies did not provide enough information to enable the user of the financial statement to validate the EPS figure that was presented in the report. At the minimum, net income available to common shareholders and the weighted average number of shares outstanding should be presented in the financial statements. However, it would benefit the investors if stock movements are presented to enable them to verify the EPS presented in the income statement.

Restatement of prior years' EPS for current year's stock dividend should be done based on the weighted average number of shares outstanding of the prior year adjusted for the current year's stock dividend. The practice of using the number of shares outstanding at the end of the current year to restate a prior year's EPS should be discouraged.

It is also proposed that companies describe the stock dividend adjustments made to reported EPS on the face of the income statement (as a parenthetical note or a footnote) rather than in the (end) notes to the financial statements. The footnote should state the rates of the stock dividend declarations that had been used as adjustments to the EPS figure. It will thus be immediately clear to the user of the financial statement whether or not stock dividend declarations had been considered in the reported EPS figure.

### 4.0 Require presentation of details of revenues and operating expenses.

The team noted in its findings that seven (7) percent of the companies studied failed to provide details on major sources of revenues and 46 percent of the companies did not present details on operating expenses. This information is indispensable for financial analysis and forecasting. Companies should make information regarding their major revenue sources and major items of operating expenses accessible to their investors.

GAAP should thus be amended to make explicit the requirement that companies detail their major sources of revenue and operating expenses. This recommendation is supported by the survey of users of financial statements. Two of the top three improvements users would like to see with regard to financial reporting practices of Philippine firms are more detailed information regarding major sources of revenues and operating expenses.



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### ***Financial Reporting Recommendations for the Oil and Mining Sector***

Oil and mining companies should be required to comply strictly with the requirements of SFAS 6 par. 27 regarding the provision in their financial statements of a description of the major classes of property and equipment and the separation of depreciable from non-depreciable assets. Mining companies should be required to separately report the book value of their Mine and Mine Development Costs. Thus, mining companies should not lump this item together with its other depreciable assets.

Oil and mining companies should also be required to comply strictly with the disclosure of their accounting treatment for exploration and development costs. Twenty-five (25) percent of the mining companies studied did not provide an accounting policy note on this matter.

### ***Financial Reporting Recommendations for the Banking Sector***

For this sector, it is suggested that disclosure of the following be made: (1) the breakdown of their loan portfolio and allowance for doubtful accounts as well as changes thereof by type/market (e.g. consumer loans, commercial credit, real estate, etc.); (2) the non-accruing loans amount; and (3) amount of funds managed under trust and the income realized from trust operations.

The first two recommendations aim to increase the information available to investors to enable them to make better assessments of individual bank's stability. As regards disclosure regarding trust income, it was noted in the study that very few banks disclose this item separately (most lump it with other income and expenses). Increased transparency in this aspect of a bank's business is believed to result in greater confidence in banks' financial reports.

### ***Financial Reporting Recommendations for Holding Companies***

The requirement to provide disaggregated financial information regarding significant subsidiaries and equity investments is particularly important for holding companies, given their diverse operations. Holding companies should also comply strictly with the requirement to itemize their major sources of revenue and operating expenses.

### ***Financial Reporting Recommendations for Telecommunications Firms***

Firms in the telecommunications, power and energy sectors should be required to present a breakdown of the major classes of their plant, property and equipment and to provide a detailed description of their depreciation policies. The manner by which these firms account for their fixed assets is very important, given the significant amount of their investments in this type of asset. As described in a finding earlier in this report, adjustments in the depreciable lives of certain fixed assets can mean the difference between

reporting positive net income or a net loss.

As a final comment, violations of specific rules and errors in financial statement preparation and presentation

uncovered by the team lead one to the conclusion that the control system in the financial reporting process in the Philippines needs to be strengthened. Recommendations to this end, however, are beyond the scope of the present study.

### Reference

Compilation of Statements of Financial Accounting Standards Nos. 1-23. Accounting Standards Council (Philippines).



**Appendix A**  
**Companies Whose Financial Statements Were Reviewed in the Study**

**List A – Companies With Financial Statements From 1991-1995**

**BANKS**

Asia Trust  
 Bank of the Philippine Islands  
 China Banking Corporation  
 Citytrust Banking Corporation  
 Far East Bank and Trust Corp.  
 Metro Bank and Trust Corp.  
 PCI Bank  
 PDCP Development Bank  
 Philippine National Bank  
 Rizal Commercial Banking Corp.  
 Security Bank and Trust Corp.  
 Solid Bank  
 Union Bank  
 Urban Bank

**COMMUNICATION**

ABS-CBN  
 Globe Telecoms  
 Manila Broadcasting Company  
 PLDT  
 Philippine Telegraph and Telephone Company

**POWER AND ENERGY**

Meralco  
 Petron

**TRANSPORTATION SERVICES**

Negros Navigation Co.

**CONSTRUCTION AND OTHER RELATED PRODUCTS**

Alsons Cement Corp.  
 Davao Union Cement Corp.  
 EEI Corp.  
 Republic Cement Corp.  
 Republic Glass Holdings Corp.

**FOOD, BEVERAGE AND TOBACCO**

Cosmos Bottling  
 Jollibee Foods  
 Philippine Tobacco Flue Curing & Redry Corp.  
 Purefoods Corp.  
 RFM Corp.  
 San Miguel Corp.  
 Selecta Dairy Products  
 Victorias Milling  
 Vitarich Corp.

**HOLDING FIRMS**

Ayala Corp.  
 A. Soriano Consolidated Industries  
 Bacnotan Consolidated Industries

Dhamala Phils.  
 First Philippine Holdings Corp.

**MANUFACTURING, DISTRIBUTION & TRADING**

Atlas Fertilizer  
 Bogo Medellin Co.  
 Interphil Laboratories  
 Jardine Davies  
 Marsman & Co.  
 PICOP Resources  
 Sime Darby Pilipinas  
 Victorias Milling Corp.

**HOTEL, RECREATION AND OTHER SERVICES**

Manila Jockey Club  
 Philippine Racing Club

**OTHERS**

Chemical Industries of the Philippines  
 FEU

**PROPERTY**

Ayala Land  
 Belle Corp.  
 Cebu Holdings  
 Megaworld Properties and Holdings  
 Philippine Realty and Holdings Corp.  
 Pryce Properties  
 Robinson's Land

**MINING**

Abra Mining and Industrial Corp.  
 Atok Big Wedge Minds  
 Benguet Corp.  
 Dizon Copper Silver Mines  
 Lepanto Consolidated  
 Liberty Mines  
 Manila Mining Corp.  
 Philiex Mining  
 Semirara Coal Corp.  
 Vulcan Industrial & Mining Corp.

**OIL**

Alcorn Petroleum & Minerals Corp.  
 Balabac Oil Expl. & Drilling  
 Basic Petroleum & Minerals, Inc.  
 Oriental Petroleum & Minerals Corp.  
 Petrofields Exploration & Devt. Corp.  
 San Jose Oil Co.  
 Seafont Resources  
 The Philodrill Corp.  
 Trans-Asia Oil & Minerals Devt Corp.

**List B – Companies with Incomplete Set of Financial Statements from 1991-1995**

**BANKS**

Philippine Trust Co.  
Prudential Bank

**COMMUNICATION**

Easycall Communications  
Liberty Telecommunications  
Manila Bulletin  
Pilipino Telephone

**TRANSPORTATION SERVICES**

Cebu Shipyard and Eng'g. Works Inc.  
International Container Terminal Services  
Kepphil Shipyard  
William, Gothong and Aboitiz

**CONSTRUCTION AND RELATED SERVICES**

AGP Industrial Corp.  
Bacnotan Cement Corp.  
Fortune Cement  
Hi Cement  
Philippine National Construction Corp.  
Sanitary Wares Manufacturing

**FOOD, BEVERAGE AND TOBACCO**

Alaska Milk  
Swift Foods  
Universal Robina

**HOLDING**

Aboitiz Equity Ventures  
Alsons Consolidated Resources  
Benpres Holdings  
DMCI Holdings  
Fil-Estate Land Inc.  
Filinvest Development Corp.  
Guoco Holdings  
JG Summit Holdings  
Metro Pacific Corp.

**SM Fund**

Southeast Asia Cement Holdings

**PROPERTY**

Cityland Development Corp.  
Empire East Land  
Filinvest Land Inc.  
Kuok Phils. Properties Inc.  
Primetown Property Group  
SM Prime Holdings

**MINING**

Apex Mining  
Atlas Consolidated  
Baguio Gold Mining  
Island Mining and Industrial Corp.  
United Paragon Mining Corp.

**OIL**

Cophil Exploration  
Sinophil Corp.  
South China Petroleum  
& Exploration  
South Seas Natural Resources Inc.  
Unioil & Gas Devt. Co.

**MANUFACTURING, DISTRIBUTION & TRADING**

Ionics Circuit  
Mondragon International  
San Carlos Milling  
Steniel Manufacturing  
Uniwide Sales

**HOTEL, RECREATION & OTHER SERVICES**

Acesite (Phils.) Hotel Corp.

**FINANCIAL SERVICES**

Bankard



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**Appendix B**  
**Statement of Financial Accounting Standards<sup>9</sup>**

No.	Title
1	Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises
2	Summary of Generally Accepted Accounting Principles on Cash
3	Summary of Generally Accepted Accounting Principles on Receivables
4	Summary of Generally Accepted Accounting Principles on Inventories
5	Summary of Generally Accepted Accounting Principles on Liabilities
6	Summary of Generally Accepted Accounting Principles on Property, Plant and Equipment (Carried at Historical Cost)
7	Contingencies and Subsequent Events
8	Accounting for the Effects of Changes in Foreign Exchange Rates
9	Summary of Generally Accepted Accounting Principles on Intangible Assets
10	Summary of Generally Accepted Accounting Principles on Investments
11	The Equity Method for Accounting for Investments in Common Stock
12	Revaluation of Property, Plant and Equipment Through Appraisal
13	Reporting the Effects of Disposal of a Segment of a Business and of Extraordinary Items and Prior Period Adjustments on the Results of Operations of an Enterprise
14-15	Statement of Changes in Financial Position (superseded by SFAS No. 22)
16	Related Party Disclosures
17	Accounting Changes
18	Summary of Generally Accepted Accounting Principles on Stockholders' Equity
19	Summary of Generally Accepted Accounting Principles for the Banking Industry
20	Accounting for Business Combination
21	Summary of Generally Accepted Accounting Principles on the Consolidation of Financial Statements
22	Statement of Cash Flows
23	Accounting for Income Taxes

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<sup>9</sup> As of December 1996