

Compilation of Material Findings on 2013 AFS of Financing Companies

Components of Financial Statements	Findings
Auditor's Report	<p>1. The Management Responsibility and Opinion paragraphs of the Auditor's Report incorrectly cited PFRS for SMEs as basis. Considering that the company is a holder of secondary license with the Commission as a financing company, it should have adopted full PFRS (SRC Rule 68, as amended).</p> <p>2. There is no legal matter paragraph to cover the supplementary information required under BIR Revenue Regulation 15-2010 (PSA 700).</p> <p>3. The Auditor's Report failed to cover the Reconciliation Schedule of Retained Earnings Available for Dividend Declaration and Schedule of all effective standards and interpretations under PFRS as of reporting date (SRC Rule 68, as amended, Financial Reporting Bulletin Nos. 1 and 16)</p>
Statement of Financial Position	Material items on the face of the Statement of Financial Position are not cross-referenced to related Notes to Financial Statement (PAS 1)
Supplemental Documents Required under SRC Rule 68, as amended	<p>The following required schedules are not attached to the financial statements:</p> <p>1. Audited schedule of all effective standards and interpretations under PFRS as of reporting date attached to the AFS (SRC Rule 68, as amended, Financial Reporting Bulletin No. 1 & 16, Series of 2012 and 2013, respectively)</p> <p>2. The schedule of financial soundness indicator in two comparative periods as necessary follows (i) current/liquidity ratios; (ii) solvency ratios; (iii) debt-to- equity ratios (iv) assets-to –equity ratios; (v) other relevant ratios as the Commission may consider (SRC Rule 68, as amended).</p> <p>3. A schedule showing the following information for two comparative periods: (a) ratio or percentage of total real estate investments to total assets; (b) total receivables to total assets; (c) total DOSRi receivables to networth; (d) total amount of receivables from single corporation to total receivables. (SRC Rule 68 ,as amended).</p>
Notes of Financial Statements	
Approval of Financial Statements	The company incorrectly indicated in the Notes to FS that the 2013 AFS were approved for issuance by the Board of directors on April 2, 2013 (PAS 1).
Assets Acquired	The company recognized Assets Acquired under Other Noncurrent assets despite materiality of amount. This should have been recognized as a separate line item. (PAS 1).
Basis of Preparation	Based on Note 2, the company prepared its financial statements in accordance with PFRS for SME. The company should have adopted full "PFRS" considering that it is a holder of secondary license with the Commission as a financing Company (SRC Rule 68, as amended).

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Capital Management	<ol style="list-style-type: none"> 1. There is no discussion of externally imposed capital requirement (IRR of Financing Company Act of 1998 and PAS 1) 2. There is no disclosure of the company's objectives, policies and processes for managing capital (PAS 1). 3. Based on Note 26, it states that the company is not subjected to externally imposed capital requirements. This is not correct given the capital requirement under Section 2 and 6 of the Implementing Rules and Regulations (IRR) of RA No. 8556 or the Financing Company Act of 1998. 4. The company's paid-up capital is less than the required minimum paid-up capital of P10M (Sec. 11 the Implementing Rules and Regulations of Financing Company Act of 1998 (R.A. No. 8556)
Deposit for Future Capital Stock Subscription	<p>Incomplete disclosures on deposit for future capital stock subscription, i.e. date of filing with SEC (PAS 1, Financial Reporting Bulletin No. 6, Series of 2013)</p>
Equity	<ol style="list-style-type: none"> 1. The company's paid-up capital is less than the required minimum paid-up capital of P10M (Sec. 11 the Implementing Rules and Regulations of Financing Company Act of 1998 (R.A. No. 8556) 2. The company's Retained Earnings exceeds its paid-in capital by 100%. There is no disclosure of any appropriation of Retained Earnings to comply with Section 43 of the Corporation Code.

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Financial Assets	<p>1. Based on Note 2.3, Trade receivables are stated initially at nominal value. This is not in accordance with PAS 39, which requires that loans and receivables shall be measured at its fair value plus transaction cost except for financial assets classified at fair value through profit or loss.</p> <p>2. Incomplete disclosures on Loans Receivable, i.e., interest rate applied, repayment schedule and restrictions (PAS 1).</p> <p>3. There are no disclosures showing that the existence of the following conditions were considered in the provisioning for 100% allowance for probable losses:</p> <ul style="list-style-type: none"> a. Clean loans and advances past due for a period of more than six (6) months; b. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans; c. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful; d. When the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired; e. Accrued interest receivable that remain uncollected after six (6) months from the maturity date of such loans to which it accrues; and f. Accounts receivable past due for 361 days or more. <p>Section 9 (f) of the Rules and Regulations to Implement the Provisions of Republic Act No. 8556 (The Financing Company Act of 1998).</p> <p>4. There is no accounting policy on derecognition of financial assets and subsequent measurement of Receivables (PAS 39).</p> <p>5. There are no accounting policies on initial and subsequent measurement of financial assets (PFRS 7).</p>
Financial Liabilities	<p>1. There are no accounting policies on initial and subsequent measurement of financial liabilities (PFRS 7).</p> <p>2. There are no disclosures on Notes Payable-Banks and Notes Payable-Others (PAS 1).</p> <p>3. There is no accounting policy on derecognition of financial liabilities (PAS 39)</p> <p>4. The company recognized Bills payable under Other Non-current assets. It should have been treated as a separate line item considering the materiality of amount (PAS 1).</p> <p>5. Incomplete disclosures on bills payable, i.e. interest rate, collateral used and carrying amount of the assets, terms and schedule of payments (PAS 1, 39, PFRS 7).</p>
Financial Risk Management	There are no qualitative and quantitative analysis on each financial risk (PFRS 7)

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Leases	<p>1. Incomplete disclosures on lease, i.e., a general description of the lessee's significant leasing arrangement. The total future minimum lease payments under non-cancellable operating leases for each of the following periods: (a) not later than one year; (b) later than one year and not later than five years; (c) later than five years (PAS 17).</p> <p>2. There are no accounting policy and disclosures on leases (PAS 17).</p>
Loans and Receivables	<p>1. The total credit that the company extended to its directors, officers and stockholders exceeds fifteen (15%) percent of its networth (Sec. 9(c) of the Implementing Rules and Regulations of Financing Company Act of 1998, R.A. No. 8556).</p> <p>2. Incomplete disclosures on "Accounts Receivable", i.e., interest rate applied, repayment schedule and any restriction (PAS 1).</p> <p>3. The funds used or invested in financing activities is less than 50% of the company's total funds (Sec. 9 (b) of R.A. No. 8556 of the Financing Company Act of 1998).</p>
Loans Payable	Incomplete disclosures on loans payable, i.e., collateral used and carrying amount of asset, covenants and warranties whether the company is compliant with conditions as of end of year, relative to defaults and breaches (PFRS 7, pars. 18 and 19,PAS 1)
Property Plant and Equipment	Note 10 states that "the amount of the land and building approximately their fair value based on the recent comparative price index level of similar properties within the same area of location". This is inconsistent with the PPE schedule on the same Note which do not include such properties (PAS 1 and 16).
Related Party Transactions	Incomplete disclosures on Related Party Transactions, i.e., Key management compensation, assets used as collateral and its carrying amount, specific nature of relationship with affiliates, the nature of consideration to be provided in settlement .(PAS 24).
Retained Earnings	There are no disclosures on the appropriated Retained Earnings, i.e., timeline, date of Board of Directors' approval for the appropriation of the retained earnings and the detailed plan on such appropriated retained earnings (Financial Reporting Bulletin No. 15)
Retirement Benefits	Based on Note 18, the company recognized a retirement benefit cost. This is however not supported in the Statement of Financial Position which do not show any recognized retirement benefit liability (PAS 26)

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Revenue	<ol style="list-style-type: none">1. There is no specific accounting policy on revenue recognition on currency trading income (PAS 18)2. There is no specific revenue recognition policy on interest income and service fees and other charges (PAS 18).3. The disclosures on Note 14 are not descriptive on the nature of the company's business as a financing entity (PAS 1 and 18).4. There is no specific revenue recognition policy on Miscellaneous income despite materiality of amount (PAS 18)5. Based on Note 2, interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable. This is not consistent with PAS 18 paragraph 30 (a) which states that interest shall be recognized using the effective interest method.6. Based on Note 4.8 Revenues from operations such as interest on loans are recognized only in the books when earned and collected. This is contrary to PAS 18 paragraph 30(a) which states that interest shall be recognized using the effective interest method.
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