

**GOVERNMENT ACCOUNTING  
MANUAL  
for  
Local Government Units**

**THE ACCOUNTING  
POLICIES**

VOLUME I

# **GOVERNMENT ACCOUNTING MANUAL**

## **for**

### **Local Government Units**

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## **FOREWORD**

To internationally align the financial reporting framework of the Philippine Government, the Commission on Audit under its exclusive authority granted in the 1987 Constitution to promulgate accounting rules and regulations adopted the International Public Sector Accounting Standards. The Commission harmonize the International Public Sector Accounting Standards to the Philippine setting and now known as the International Public Sector Accounting Standards (IPSAS).

The Local Government Sector through the dynamic leadership of Assistant Commissioner Divinia M. Alagon initiated the constitution of a team to develop the accounting manual for the local governments compliant to the IPSAS.

The Government Accounting Manual for Local Government Units will serve as guide to local government finance officers, accountants, bookkeepers, budget officers, general service officers, and other officers in the actual implementation of the new accounting framework which shall be the basis in preparing and presenting the general purpose financial statements.

## ACKNOWLEDGEMENT

The Government Accounting Manual (GAM) for Local Government Units (LGUs) provides the guide in the recognition and reporting of the financial transactions of the LGUs. The Local Government Sector (LGS) recognizes the peculiarities of the transactions in the LGUs, thus, upon the initiative of then Commissioner Heidi L. Mendoza and Assistant Commissioner Divinia M. Alagon, the LGS prepared this Manual. Their efforts were duly supported with the following members of the Committee created under COA Office Order No. 2014-753 dated December 15, 2014:

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## Chapter 1

### INTRODUCTION

**Section 1. Objective.** This Manual prescribes the guidelines for the uniform recognition, measurement, presentation and disclosure of financial transactions, and preparation of financial reports in the local government units (provinces, cities and municipalities).

**Section 2. Coverage.** This Manual covers the basic policies and standards, the chart of accounts, the detailed guidance for the recognition, measurement and presentation procedures, and the record and report forms and formats.

**Section 3. Legal Basis.** This Manual is prescribed by the Commission on Audit pursuant to Section 2(2), Article IX-D of the 1987 Constitution of the Republic of the Philippines which provides that:

*The Commission on Audit shall have exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures, or uses of government funds and properties.(Underscoring supplied)*

## Chapter 2

### BASIC FEATURES AND POLICIES

**Section 4. Basic Features and Policies.** The Local Government Accounting System shall have the following features and policies, to wit:

- a. International Public Sector Accounting Standards (IPSAS). IPSAS shall be the framework in the preparation and presentation of the local governments' financial statements.
- b. Accrual accounting. Income and expenses shall be on accrual basis of accounting. Income from taxes shall be recognized as receivable when the taxable event occurs. Expense shall also be recognized upon incurrence.
- c. Fund Concept. Local governments, except the barangays, shall maintain three funds; namely:
  1. General Fund
  2. Special Education Fund
  3. Trust Fund
- d. Separation of Books. Separate set of books of accounts shall be maintained for each fund.
- e. Budgetary Accounts. Separate set of books shall be maintained for the budgetary accounts in view of the difference of the budgetary basis from the accounting basis.
- f. Special Accounts in the General Fund. Special Accounts in the General Fund (SAGF) shall be maintained for the following:
  1. Public utilities and economic enterprises
  2. Loans, interests, bonds issued and other contributions for specific purposes
  3. Development projects funded from the Share in Internal Revenue Collections
  4. Share from National Wealth
  5. Such other special accounts which may be created by law or ordinance
- g. Complete subsidiary records for all accounts (assets, liabilities and equity) shall be maintained for public utilities and economic enterprises. Subsidiary records for the receipts, transfers and expenditures of all other special accounts shall be maintained.
- h. Chart of accounts. A new chart of accounts shall be adopted.
- i. Books of accounts. The following books of accounts shall be maintained:
  1. Books of original entry
    - i. Cash Receipts Journal
    - ii. Procurement Received Journal
    - iii. Cash Disbursement Journal
    - iv. Check Disbursement Journal
    - v. Authority to Debit Account Disbursement Journal
    - vi. General Journal
  2. Books of Final Entry
    - i. General Ledger
    - ii. Subsidiary Ledgers
      1. Special Accounts
      2. General Ledger Accounts

- j. Cashbooks. Treasurers and disbursing officers shall maintain the following cashbooks, as applicable:
  - 1. Cashbook – Cash in Treasury
  - 2. Cashbook – Cash in Bank
  - 3. Cashbook – Cash Advances (except for Cash Advances to Officers and Employees)
- k. General Purpose Financial Statements. A complete set of financial statements comprises:
  - 1. Statement of financial position
  - 2. Statement of financial performance
  - 3. Statement of changes in net assets/equity
  - 4. Statement cash flows
  - 5. Statement of comparison of budget and actual amounts
  - 6. Notes to financial statements, comprising a summary of significant accounting policies and explanatory notes
- l. Consolidated financial statements. Financial statements of controlled entities shall be consolidated with the financial statements of the controlling entity.
- m. Current/Non-Current Distinction. LGUs shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of their statement of financial position.
- n. Current Asset. Asset shall be classified as current when it is expected to be realized in, or is held for sale or consumption within, the LGU's accounting cycle or cash or cash equivalent not restricted for exchanged or used for at least 12 months after the reporting date.
- o. Current Liability. Liability shall be classified as current when it is expected to be settled in the LGU's accounting cycle or twelve months after the reporting date.
- p. Non-current Assets or Liabilities. All other assets or liabilities not classified as current shall be considered as non-current.
- q. Direct Method. The Cash Flow Statement shall be presented following the direct method of presentation.
- r. Cash equivalents. Cash equivalents shall comprise short term investments with maturities of 3 months or less from acquisition date that are readily convertible to known amounts of cash and which are subject to insignificant risk in changes in value.
- s. Changes in Accounting Policy. Any change in the accounting policy shall be applied to transactions, other events and a condition retrospectively as if the policy had always been observed except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.
- t. Changes in Accounting Estimates. Any change in accounting estimate shall be applied prospectively.
- u. Prior Period Errors. Omissions from, and misstatements in, the entity's financial statements for one or more prior periods shall be corrected through retrospective restatement in the recognition, measurement, and disclosure of amounts of elements of the financial statements as if a prior period error had never occurred.
- v. Appropriations and Allotments. The Budget Office shall maintain the Record of Appropriations and Allotments, which shall be the basis for the certification as to the availability of appropriations.

- w. Allotments and Obligations. The Accounting Office shall maintain the Registry of Appropriations, Allotments and Obligations, which shall be the basis in the recording of allotments and obligations in the books of accounts.
- x. Measurement of Inventory. Inventories for sale at the end of the period shall be measured at the lower of cost or net realizable value. Inventories for distribution at no charge or nominal charge and those for consumption shall be measured at the lower of cost and current replacement cost. Where inventories are acquired through non-exchange transaction, their cost shall be measured at their fair value at the date of acquisition.
- y. Weighted average cost formula. Cost of each item for similar inventory items shall be computed through the weighted average cost formula. The cost of each item is determined from the weighted average cost of similar items at the beginning of the period and the cost of similar items purchased for the period.
- z. Cost Model. After recognition as an asset, property, plant and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.
- aa. Infrastructure assets. These are assets that display some or all the following characteristics:
  - 1. Part of a system or network
  - 2. Specialized in nature and do not have alternative uses
  - 3. Immovable
  - 4. Subject to constraints on disposal

These assets shall be accounted for in the same manner as property, plant and equipment, and be subject to depreciation, impairment and derecognition. These include, among others, road networks, flood controls, sewer systems, etc.
- bb. Replacement costs. Replacement cost shall be recognized as part of the cost of the property, plant and equipment. The carrying amount of the replaced part shall be derecognized.
- cc. Derecognition of Infrastructure Assets. Replaced portion of infrastructure assets shall be derecognized. If it is not practical to determine the cost of the carrying amount of the replaced part, the replacement costs may be used as the carrying amount of the replaced portion which is the subject of the derecognition.
- dd. Cost of Property, Plant and Equipment. The cost of an item of PPE comprises:
  - 1. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
  - 2. 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.
  - 3. 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 an entity 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 the period.
- ee. Criteria for Capitalization Threshold. Asset items classifiable as Machinery and Equipment; Furniture, Fixtures and Books; and Other Property, Plant and Equipment with individual cost of at least P15,000 and a life of more than one year shall be recognized as Property, Plant and Equipment. However, items with individual values below the threshold but which work together in the form of

group of network asset and whose total value exceeds the threshold shall be recognized as part of the primary PPE. (Example: printers)

- ff. Depreciation. The straight line method of depreciation shall be used. A residual value of five percent of the cost shall be set up (except for the road network system of which no residual value shall be recognized) and depreciation shall start when the PPE begins to be available for use, i.e., when the PPE is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the asset is derecognized or if the asset is fully depreciated.
- gg. Impairment. Assets, except Inventories and biological assets shall be tested for impairment. Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. When the carrying cost of an asset is higher than its recoverable cost or service potential, the asset is impaired, thus, the need to recognize an impairment loss.
- hh. Biological assets. Living animal or plant assets of the agency shall be recognized and measured on initial recognition and at each reporting date at its fair value less cost to sell.
- ii. Recognition of liability. Liability shall be recognized at the time goods and services are accepted or rendered and supplier/creditor bills are received.
- jj. Interest accrual. Interest income and/or expense shall be recognized on a time proportion basis in the books of accounts.
- kk. Rendition of accounts by accountable officers. Local treasurers, accountants and other accountable officers shall render their accounts in accordance with COA regulations.



## Chapter 3

### ACCOUNTING SYSTEM

#### A. GENERAL ACCOUNTING PLAN

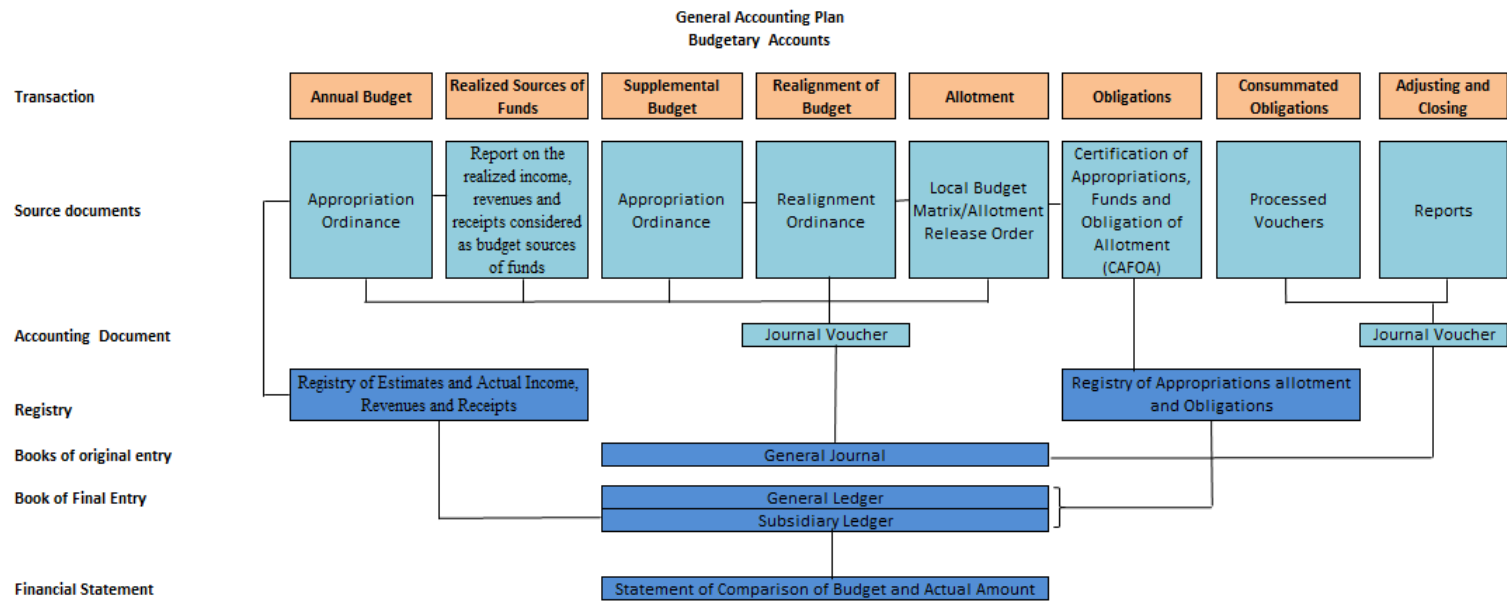
**Section 5. General Accounting Plan.** The General Accounting Plan shows the overall accounting cycle in the Local Government Unit. Separate plan presents the budgetary accounts and another for the financial transactions. Transactions shall emanate from the different offices/departments of the local government units (LGUs). These offices/departments will provide/produce the source documents and other accounting forms leading to the perfection of the transaction, whether it be budgetary, collections or disbursements. The source documents and accounting forms shall be the basis for the preparation of reports by the Office of the Treasurer. The Office of the Accountant shall record the transactions to the registries or to the corresponding books of original entry. Posting to the books of final entry and preparation of the financial reports shall also be undertaken by the Office of the Accountant.

The General Accounting Plan for the Budgetary Accounts (*Table 1*) presents the following type of budgetary transactions:

- a. Annual Budget
- b. Realized Sources of Funds
- c. Supplemental Budget
- d. Realignment of Budget
- e. Allotment
- f. Obligations
- g. Consummated Obligations

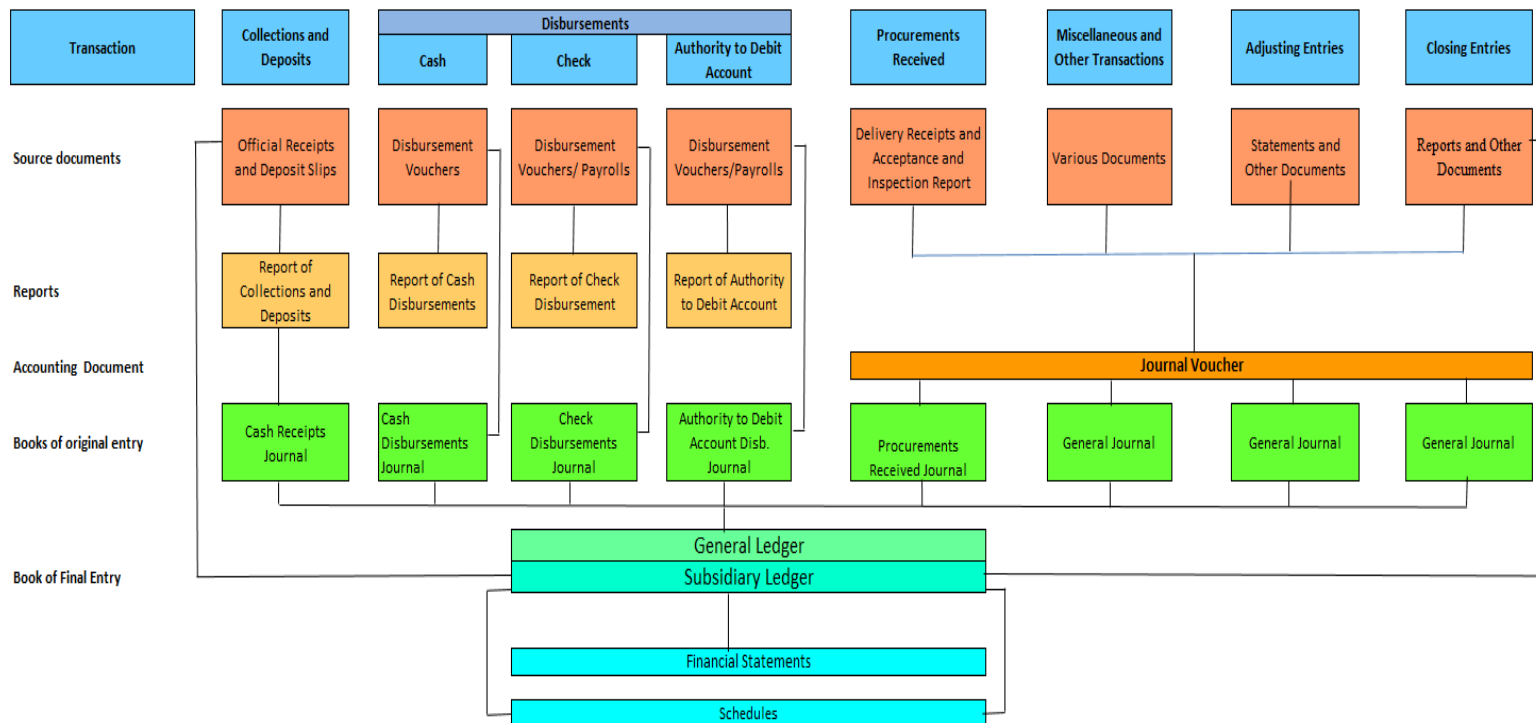
The General Accounting Plan for the Financial Transactions (*Table 2*) presents the following financial transactions:

- a. Collections and Deposits
- b. Disbursements
  - Cash
  - Check
  - Authority to Debit Account
- c. Procurements Received
- d. Miscellaneous and Other Transactions
- e. Adjusting Entries
- f. Closing Entries



# General Accounting Plan

## Financial Transactions



## **B. BUDGETARY ACCOUNTS**

**Section 6. Budgetary Accounts.** Budgetary accounts are composed of estimates of income, revenues and receipts, appropriations, allotments, obligations and commitments. Transactions of the budgetary accounts shall be recorded in the books of accounts for the budgetary accounts.

**Section 7. Budget.** A budget is a financial plan containing the estimates of income and total appropriations covering the current operating expenditures and capital outlays of a local government unit. The budget document contains the following:

1. A budget message of the local chief executive setting forth in brief the significance of the executive budget, particularly in relation to the approved local development plan;
2. A brief summary of the functions, projects, and activities to be accomplished in pursuit of the goals and objectives of the local government unit for the ensuing fiscal year, specifically the delivery of basic services or facilities enumerated under Section 17 of the Local Government Code;
3. Summary of financial statements setting forth:
  - a. The actual income and expenditures during the immediately preceding year;
  - b. The actual income and expenditures of the first two (2) quarters and the estimates of income and expenditures for the last two (2) quarters of the current fiscal year;
  - c. The estimates of income for the ensuing fiscal year from ordinances and laws existing at the time the proposed budget is transmitted, together with other proposals;
  - d. The estimated expenditures necessary to carry out the functions, projects, and activities of the local government unit for the ensuing fiscal year;
  - e. All essential facts regarding the bonded and other long-term obligations and indebtedness of the local government unit, if any;
  - f. Summary statement of all statutory and contractual obligations due; and
  - g. Such other financial statements and data as are deemed necessary or desirable in order to disclose in all practicable detail the financial condition of the local government unit.<sup>1</sup>

**Section 8. Estimates of Income/Revenues and Receipts.** The estimates of income consist of the estimates of revenues and receipts from local (internal) and external sources as well as the estimates from proceeds of loans and borrowings, and revenues expected to be realized during the year. The local and external revenue sources of receipts are as follows:

1. Local Sources
  - Tax Revenue
  - Non-Tax Revenue
2. External Sources
  - Share from Internal Revenue Taxes
  - Share from Government-Owned and/or Controlled Corporations (GOCCs)

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<sup>1</sup> Section 314, Republic Act (RA) No. 7160.

- Other Share from National Tax Collections
- Assistance and Subsidy
- Inter-local transfers
- Capital Investment receipts
- Receipts from Loans and Borrowings

**Section 9. Accounting for Estimates of Income/Revenues and Receipts.** Based on the approved annual budget, the Accounting Office shall prepare a journal voucher to record the estimates of income, revenues and receipts. The estimates shall be taken up by a debit to the Estimates of Income, Revenues and Receipts account and a credit to the appropriate estimate income group accounts. This shall be recorded in the books of the budgetary accounts. The details of the estimates of income, revenues and receipts shall be posted in the Registry of Estimates and Actual Income, Revenues and Receipts (REAIRR).

**Section 10. Appropriations.** Appropriation is an authorization made by ordinance, directing the payment of goods and services from the local government funds under specified condition or for specific purposes.<sup>2</sup> Appropriation also refers to estimates of expenditures in a budget when finally authorized and reviewed by the appropriate authorities concerned. The local sanggunian authorizes the annual budget thru the issuance of appropriation ordinance.

**Section 11. Functional Classification of Appropriations.** Appropriate records shall be maintained for Appropriations, Allotments and Obligations. Appropriations shall be recorded in accordance with the functional classifications, programs and projects as follows:

1. General Public Services
  - Executive Services
  - Legislative Services
  - Planning and Development Coordination Services
  - Budgeting Services
  - Treasury Services
  - Accounting Services
  - Administrative Services
  - Civil Registry Services
  - General Services
  - Assessment of Real Property Services
  - Local Disaster Risk Reduction and Management Office
  - Auditing Services
  - Information Services
  - Legal Services
  - Prosecution Services
  - Administrative of Justice Services
  - Land Registration Services
  - Mining Claim Registration Services
  - Police Services
  - Fire Protection Services

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<sup>2</sup> Sec. 306(b), RA No. 7160.

2. Education, Culture, Sports and Manpower Development
  - Public Education Services
  - Medical Subsidiary Services
  - Manpower Development Services
  - Maintenance of Sports Center, Athletic Field and Playground Maintenance Services
  - Cultural Projects
  - Cultural/Conference/Convention Center Operations
3. Health Services
  - Health Services
  - Field Projects (Immunization, Inoculation, Blood Donor Services)
  - Day Care Clinic
  - Hospital Services
  - Chest Clinic
4. Labor and Employment
  - Labor and Employment Services
5. Housing and Community Development
  - Housing Projects
  - Street Cleaning
  - Garbage Collections
  - Sewerage and Drainage System
  - Street Lighting
  - Community Development Services
6. Social Welfare Services
  - Social Welfare and Development Services
  - Family Planning Services
  - Other Social Services
7. Economic Services
  - Agricultural Services
  - Veterinary Services
  - Natural Resources Services
  - Architectural Services
  - Engineering Services
  - Economic Enterprises and Public Utilities Operations Services
  - Tourism Services
8. Other Services
  - 20% Development Fund
  - Local Disaster Risk Reduction and Management Fund
  - Share from Development of National Wealth
  - Share from Tobacco Excise Tax

- Services that cannot be categorized in any of the Sectors identified above

**Section 12. Accounting for Appropriations.** The journal voucher shall be drawn to record the annual budget of the local government unit. The accounting entry to take up the appropriations shall be a debit to Appropriations – Annual Budget and a credit to Legislative Appropriations. The details of the appropriations shall be recorded in the following registries maintained for each office/project under each service provided in each functional classification:

- Registry of Appropriations, Allotments and Obligations – Capital Outlay (RAAOCO)
- Registry of Appropriations, Allotments and Obligations – Personal Services (RAAOPS)
- Registry of Appropriations, Allotments and Obligations– Maintenance and Other Operating Expenses (RAAOMOOE)
- Registry of Appropriations, Allotments and Obligations – Financial Expenses (RAAOFE)

The Local Disaster Risk Reduction Management Fund (LDRRMF) shall be recorded in the Registries as follows:

- Registry of Appropriations, Allotments and Obligations–Quick Response Fund
- Registry of Appropriations, Allotments and Obligations – Capital Outlay (RAAOCO)
- Registry of Appropriations, Allotments and Obligations– Maintenance and Other Operating Expenses (RAAOMOOE)

The registries shall be updated for every change or additions in the appropriations.

Separate set of registries shall be maintained for current and continuing appropriations.

**Section 13. Accounting for Supplemental Budget and Realignment.** Supplemental budgets enacted during the year are similarly recorded as the annual budget. A journal voucher is drawn and the details are recorded in the registries of both the estimates of income, revenues and receipts and the appropriations. Realignment of the annual budget items shall likewise be recorded thru a journal voucher based on the approved ordinance for the purpose. The Accounting Office shall effect the changes in the Registry of Appropriations, Allotments and Obligations showing the reductions and additions of the budget items.

**Section 14. Accounting for Re-enacted Budget.** In case the LGU is operating on a re-enacted budget, said re-enacted budget shall likewise be recorded in the registries. The amount to be taken up in the books shall be limited to the annual appropriations for salaries and wages of existing positions, statutory and contractual obligations, like the 5% contributions to the Metro Manila Development Authority for LGUs in NCR only, Terminal Leave and Retirement Gratuity Benefits and Debt Service, and essential operating expenses authorized in the annual and supplemental budgets for the preceding year. Once the current

budget is approved, the necessary adjustments shall be made by taking up the approved annual budget less the amount previously recorded.

**Section 15. Allotments.** Allotment is the authorization issued by the Local Chief Executive (LCE) to a department/office of the LGU, which allows the LGU to incur obligations, for specified amounts, within the appropriation ordinance. The Local Budget Matrix (LBM) or Local Budget Execution (LBE Form No. 1) is issued to effect the comprehensive release for a particular department/office. Release of reserve amounts or amounts for later release, including appropriated amounts under the needing clearance of the LBM shall be effected through the use of Allotment Release Order (ARO) or LBEF No. 2.

**Section 16. Accounting for Allotments.** The Accountant, upon receipt of the Local Budget Matrix or Allotment Release Order shall draw a journal voucher to record the allotments in the General Journal and in the Registries of Appropriations, Allotments and Obligations.

Allotments, obligations for the LDRRMF shall be similarly recorded in the respective registries.

The accounting entry to take up release of allotment shall be a debit to Released Current Allotment and a credit to Current Allotment.

**Section 17. Obligations.** Obligations refer to the amounts committed to be paid by the LGU for any lawful expenditure made by an accountable officer for and in behalf of the local government unit concerned.

**Section 18. Accounting for Obligations.** All obligations must be accompanied by a certificate signed by the local budget officer, the local accountant, and the local treasurer showing that an appropriation therefor exists, the estimated amount of such expenditure has been obligated, and the funds are available for the purpose, respectively. For this purpose, Certification on Appropriations, Funds and Obligation of Allotment (CAFOA) form shall be accomplished in six (6) copies. The Head of the Requesting Unit shall prepare the CAFOA. The original and four copies of the CAFOA together with the supporting documents shall be forwarded to the local budget officer and a file copy retained.

The local budget officer shall certify as to the existence of available appropriation by signing the appropriate box of the CAFOA. Four copies (original and three additional copies) of the CAFOA shall be forwarded to the local treasurer and a copy shall be retained on file.

The local treasurer shall certify as to the availability of funds by signing the appropriate box of the CAFOA. Three copies (original and two additional copies) of the CAFOA shall be forwarded to the Accounting Office and a copy shall be retained on file.

The Accounting Office shall process the CAFOA.

1. Examine the CAFOA for regularity.
2. Verify reference to the Registry whether there is an unobligated balance of allotment sufficient to meet the requested obligation.



3. If funds are sufficient, assign obligation number to CAFOA for identification and indicate thereon the approved amount and the date of approval.
4. Write the amount obligated.
5. Forward the CAFOA for signature of the Accountant.
6. Forward a copy of the CAFOA to the Registry keeper, file one copy sequentially with the supporting documents and return the original copy to the requesting official to be attached to the disbursement voucher.
7. Processed CAFOAs shall be filed in the active file, and the subsidiary ledger portion of the form shall be filled up and updated to indicate the status of the obligation. All processed CAFOAs shall be maintained in the active file and all CAFOAs with consummated obligations (services rendered/goods delivered) shall be filed in the consummated file to denote, the consummation of the transactions or recognition of the payable account. CAFOAs of all paid transactions shall be filed in the inactive file. The total amount of all balances (obligations minus consummated obligations) of the active CAFOAs shall be equal to the total commitments and the total balance (consummated minus paid) of the CAFOAs with the consummated file shall be equal to the unpaid obligations.

All processed CAFOAs shall be recorded in Section B (Actual) of the appropriate Registry of Appropriations, Allotment and Obligations (RAAOs) under the Obligations column and extended to the proper Details column.

The registries shall be monitored and updated for each obligation incurred to ensure that obligations do not exceed the available allotments.

At the end of each month, the RAAOs shall be footed. The total amount of the Obligations column shall equal to the overall total of the Details columns. The total obligations of all RAAOs for the current and the continuing appropriations shall be summarized separately. The total Obligations from current appropriations shall be recorded as a debit to the account Current Allotment – Obligated and a credit to Obligations-Current Allotment. Obligations from continuing appropriations shall be recorded as a debit to the account Continuing Allotment – Obligated and a credit to Obligations-Continuing Allotment.

Any correction/adjustment by the Accounting Office which will require the corresponding adjustment in the CAFOA and in the appropriate Registries shall be coordinated with the Budget Office monthly.

**Section 19. Consummated Obligations.** Refers to the incurred obligations funded from either the current or continuing appropriations and for which the corresponding services have been rendered or the subject goods have been delivered.

**Section 20. Accounting for Consummated Obligations.** Upon receipt of the processed vouchers of claims for services rendered or goods delivered, the corresponding CAFOAs in the active file shall be updated. At the end of the month, separate Summary of Consummated Obligations shall be prepared for consummated obligations charged to current and continuing appropriations. A journal voucher shall be drawn to record the consummated obligations by a debit to Current Allotment – Obligations Consummated for obligations charged to the current appropriations and Continuing Allotment - Obligations Consummated

for obligations charged to the continuing appropriation and both to be credited to the account Consummated Obligations.

**Section 21. Commitments.** Commitment is an obligation of which a contract has been perfected however, the corresponding liability has not been recognized as of the financial statement date due to non-delivery of procured goods or services.

**Section 22. Accounting for Commitments.** At the end of the year, the CAFOAs in the active file shall be equal to the total obligations from current and continuing allotment which has not been closed to the Consummated Obligations account. A JV shall be drawn at the end of the year as a closing entry debiting Obligations-Current Allotment and/or Obligations-Continuing Allotment and crediting Current Allotment – Obligations Consummated and Continuing Allotment - Obligations Consummated and the difference to the account Commitments. This represents the total obligations of which no liability has been recognized yet.

**Section 23. Accounting for the Realized Income, Revenues and Receipts.** At every end of the month, the Accounting Office shall prepare a report on the realized income, revenues and receipts considered as budget sources of funds. Based on the duly certified report a journal voucher shall be drawn to record the debit to the Fund Balance account and a credit to the Realized Income, Revenues and Receipts account. The details shall be recorded in Part B (Actual Collections) section of the Registry of Estimates and Actual Income, Revenues and Receipts.

**Section 24. Accounting for the Unreleased Appropriations for Capital Outlays.** At the end of the year, unreleased appropriations for capital outlays shall be recognized as continuing appropriations.

**Section 25. Accounting for the Unobligated Allotments for Capital Outlays.** At the end of the year, unobligated allotments for capital outlays shall be recognized as continuing allotments.

**Section 26. Accounting for Unreleased/Unobligated Current Operating Appropriations/Allotments.** Unreleased/Unobligated current operating appropriations/allotments shall be reverted back to the unappropriated funds at the end of the year. Utilization thereof shall be subject to the budget process. The unreleased/unobligated current operating appropriations/allotment of special purpose funds (20% Development Fund, Share from National Wealth and Share from Tobacco Excise Tax) shall only be appropriated within the same special purpose.

**Section 27. Accounting for the Unrealized Estimates of Income, Revenues and Receipts.** At the end of the year all unrealized estimates of income, revenues and receipts recognized as sources of funds for the budget shall be adjusted accordingly in the books of accounts for the budgetary accounts.

## Section 28. Illustrative Accounting Entries.

Particulars	Account Title	Account Code	Debit	Credit
<b>Annual Budget:</b>				
A. Estimates of Income:	B. Appropriations			
Tax Revenue-				
Real Property Tax – Basic	8,000	Personal Services		5,000
Business Tax	2,000	MOOE		7,000
Share from National Taxes-		CO		10,000
Share from Internal Revenue Collections	<u>15,000</u>	20% Development Fund		<u>3,000</u>
<b>Total</b>	<b><u>25,000</u></b>	<b>Total</b>		<b><u>25,000</u></b>
<b>Estimates Income</b>				
a. To record estimated sources of revenues and receipts for appropriation.	Estimates of Income Revenues and Receipts	3-05-02-010	25,000	
	Estimates – Internal Sources	3-05-02-020		10,000
	Estimates – External Sources	3-05-02-030		15,000
<b>Appropriations</b>				
b. To record the appropriations	Appropriations –Annual Budget	3-05-02-050	25,000	
	Legislative Appropriations	3-05-02-070		25,000
<b>Release of the following Allotment:</b>				
	Personal Services	5,000		
	MOOE	6,000		
	Capital Outlay	7,000		
	20% Dev. Fund	<u>3,000</u>		
	<b>Total</b>	<b><u>21,000</u></b>		
c. To record release of allotment	Released Current Allotment	3-05-02-080	21,000	
	Current Allotment	3-05-02-090		21,000
<b>Realization of the Estimated Income</b>				
A. Realized Income:				
Tax Revenue-				
Real Property Tax – Basic		2,000		
Business Tax		3,000		
Share from National Taxes-				
Share from Internal Revenue Collections		<u>15,000</u>		
<b>Total</b>		<b><u>20,000</u></b>		
d. To record realized estimates of income based on the Report of the Realized Budgetary Income Revenues and Receipts	Fund Balance	3-05-01-010	20,000	
	Realized Income Revenues and Receipts	3-05-02-040		20,000

Particulars	Account Title	Account Code	Debit	Credit																																																												
<b>Obligation</b>																																																																
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20% Development Fund	<u>3,000</u>																																																															
Total	<u>12,000</u>																																																															
e. To record the obligation from current allotment based on the CAFOA	Current Allotments-Obligated Obligations-Current Allotment	3-05-03-010 3-05-03-020	12,000	12,000																																																												
<b>Consummated Obligations</b>																																																																
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CO	2,000																																																															
20% Development Fund	<u>3,000</u>																																																															
Total	<u>11,300</u>																																																															
f. To record consummated obligations from current allotment	Current Allotment –Obligations Consummated Consummated Obligations	3-05-03-050 3-05-03-070	11,300	11,300																																																												
<b>Pre-closing trial balance</b>																																																																
<table><tr><th>Account Title</th><th>Account Code</th><th>Dr. Bal.</th><th>Cr. Bal.</th></tr><tr><td>Estimates of Income Revenues and Receipts</td><td>3-05-02-010</td><td>25,000</td><td></td></tr><tr><td>Estimates – Internal Sources</td><td>3-05-02-020</td><td></td><td>10,000</td></tr><tr><td>Estimates – External Sources</td><td>3-05-02-030</td><td></td><td>15,000</td></tr><tr><td>Appropriations –Annual Budget</td><td>3-05-02-050</td><td>25,000</td><td></td></tr><tr><td>Legislative Appropriations</td><td>3-05-02-070</td><td></td><td>25,000</td></tr><tr><td>Released Current Allotment</td><td>3-05-02-080</td><td>21,000</td><td></td></tr><tr><td>Current Allotment</td><td>3-05-02-090</td><td></td><td>21,000</td></tr><tr><td>Realized Income Revenues and Receipts</td><td>3-05-02-040</td><td></td><td>20,000</td></tr><tr><td>Fund Balance</td><td>3-05-01-010</td><td>20,000</td><td></td></tr><tr><td>Current Allotments-Obligated</td><td>3-05-03-010</td><td>12,000</td><td></td></tr><tr><td>Obligations-Current Allotment</td><td>3-05-03-020</td><td></td><td>12,000</td></tr><tr><td>Current Allotment –Obligations Consummated</td><td>3-05-03-050</td><td>11,300</td><td></td></tr><tr><td>Consummated Obligations</td><td>3-05-03-070</td><td></td><td>11,300</td></tr><tr><td><b>Total</b></td><td></td><td><b><u>114,300</u></b></td><td><b><u>114,300</u></b></td></tr></table>					Account Title	Account Code	Dr. Bal.	Cr. Bal.	Estimates of Income Revenues and Receipts	3-05-02-010	25,000		Estimates – Internal Sources	3-05-02-020		10,000	Estimates – External Sources	3-05-02-030		15,000	Appropriations –Annual Budget	3-05-02-050	25,000		Legislative Appropriations	3-05-02-070		25,000	Released Current Allotment	3-05-02-080	21,000		Current Allotment	3-05-02-090		21,000	Realized Income Revenues and Receipts	3-05-02-040		20,000	Fund Balance	3-05-01-010	20,000		Current Allotments-Obligated	3-05-03-010	12,000		Obligations-Current Allotment	3-05-03-020		12,000	Current Allotment –Obligations Consummated	3-05-03-050	11,300		Consummated Obligations	3-05-03-070		11,300	<b>Total</b>		<b><u>114,300</u></b>	<b><u>114,300</u></b>
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Consummated Obligations	3-05-03-070		11,300																																																													
<b>Total</b>		<b><u>114,300</u></b>	<b><u>114,300</u></b>																																																													
<b>Adjustment of overestimated and underestimated income</b>																																																																
<table><tr><td>A. Adjustment of over/under estimated income:</td><td>Estimate</td><td>Actual</td><td>(Over)under Estimate</td></tr><tr><td>Tax Revenue- Real Property Tax – Basic</td><td>8,000</td><td><sup>5</sup>2,000</td><td>(6,000)</td></tr><tr><td>Business Tax</td><td>2,000</td><td><sup>5</sup>3,000</td><td>1,000</td></tr><tr><td>Share from National Taxes-</td><td></td><td></td><td></td></tr><tr><td>Share from Internal Revenue Collections</td><td><u>15,000</u></td><td><u><sup>6</sup>15,000</u></td><td>-</td></tr><tr><td><b>Total</b></td><td><b><u>25,000</u></b></td><td><b><u><sup>7</sup>20,000</u></b></td><td><b><u>( 5,000)</u></b></td></tr></table>					A. Adjustment of over/under estimated income:	Estimate	Actual	(Over)under Estimate	Tax Revenue- Real Property Tax – Basic	8,000	<sup>5</sup> 2,000	(6,000)	Business Tax	2,000	<sup>5</sup> 3,000	1,000	Share from National Taxes-				Share from Internal Revenue Collections	<u>15,000</u>	<u><sup>6</sup>15,000</u>	-	<b>Total</b>	<b><u>25,000</u></b>	<b><u><sup>7</sup>20,000</u></b>	<b><u>( 5,000)</u></b>																																				
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Particulars	Account Title	Account Code	Debit	Credit			
g. To record adjustment of overestimated income	Estimates of Income Revenues and Receipts Estimates – Internal Sources	3-05-02-010 3-05-02-020	(6,000)	(6,000)			
h. To record adjustment of underestimated income	Estimates of Income Revenues and Receipts Estimates – Internal Sources	3-05-02-010 3-05-02-020	1,000	1,000			
<b>Reversions of non-continuing appropriations and allotments</b>							
	Appropriations	Allotments	Balance	Obligation	Balance	Consum-mated	Commit-ment
Personal Services	5,000	5,000	-0-	3,000	<sup>2</sup> 2,000	2,500	500
MOOE	7,000	6,000	<sup>1</sup> 1,000	4,000	<sup>2</sup> 2,000	3,800	200
CO	10,000	7,000	<sup>3</sup> 3,000	2,000	<sup>4</sup> 5,000	2,000	-0-
20% Development Fund	3,000	3,000	-0-	3,000	-0-	3,000	-0-
Total	<b>25,000</b>	<b>21,000</b>	<b>4,000</b>	<b>12,000</b>	<b>9,000</b>	<b><sup>8</sup>11,300</b>	<b><sup>9</sup>700</b>
i. To record reversion of non-continuing appropriations	Legislative Appropriations Reversion of Unallotted CY Appropriations	3-05-02-070 3-05-04-010					<sup>1</sup> (1,000) 1,000
j. To record reversion of non-continuing allotment	Legislative Appropriations Current Allotments Released Current Allotments Reversion of Unobligated CY Allotments	3-05-02-070 3-05-02-090 3-05-02-080 3-05-04-020			(4,000)		<sup>2</sup> (4,000) (4,000) 4,000
<b>Recognition of continuing appropriation and allotments from current year appropriations</b>							
k. To record continuing appropriations	Legislative Appropriations Continuing Appropriations	3-05-02-070 3-05-01-040					(3,000) <sup>3</sup> 3,000
l. To record continuing allotment	Current Allotment Continuing Allotments	3-05-02-090 3-05-01-030					(5,000) <sup>4</sup> 5,000
<b>Closing Entries</b>							
m. To record closing entries of realized income to the unappropriated balance	Estimates – Internal Sources Estimates – External Sources Unappropriated Balance	3-05-02-020 3-05-02-030 3-05-01-020			<sup>5</sup> 5,000 <sup>6</sup> 15,000		20,000
n. To record closing entries of realized income to the estimates.	Realized Income Revenues and Receipts Estimates of Income, Revenues and Receipts	3-05-02-040 3-05-02-010			<sup>7</sup> 20,000		20,000
o. To close consummated obligations of current and continuing allotments	Consummated Obligations Fund Balance	3-05-03-030 3-05-01-010			<sup>8</sup> 11,300		11,300

Particulars	Account Title	Account Code	Debit	Credit																								
p. To close obligations from current not yet consummated	Obligations – Current Allotment Commitments	3-05-03-010 3-05-01-050	<sup>9</sup> 700	700																								
q. To close released current allotment to the legislative appropriations	Legislative Appropriations Released Current Allotments	3-05-02-070 3-05-02-080	17,000	17,000																								
r. To close obligations from current allotments	Obligations – Current Allotment Current Allotment –Obligations Consummated	3-05-03-010 3-05-03-050	11,300	11,300																								
s. To close reversion of non-continuing appropriations and allotments of CY appropriations	Reversion of Unobligated Non-continuing Appropriations Reversion of Unobligated Non-continuing Allotments Appropriations-Annual Budget	3-05-04-010 3-05-04-020 3-05-02-040	1,000 4,000	5,000																								
t. To close current year appropriations utilized	Unappropriated Surplus Appropriations-Annual Budget	3-05-01-020 3-05-02-040	20,000	20,000																								
<b>Post-closing trial balance</b>																												
<table><tr><th>Account Title</th><th>Account Code</th><th>Dr. Bal.</th><th>Cr. Bal.</th></tr><tr><td>Fund Balance</td><td>3-05-01-010</td><td>8,700</td><td></td></tr><tr><td>Continuing Allotment</td><td>3-05-01-030</td><td></td><td>5,000</td></tr><tr><td>Continuing Appropriations</td><td>3-05-01-040</td><td></td><td>3,000</td></tr><tr><td>Commitments</td><td>3-05-01-050</td><td></td><td>700</td></tr><tr><td><b>Total</b></td><td></td><td><b><u>8,700</u></b></td><td><b><u>8,700</u></b></td></tr></table>					Account Title	Account Code	Dr. Bal.	Cr. Bal.	Fund Balance	3-05-01-010	8,700		Continuing Allotment	3-05-01-030		5,000	Continuing Appropriations	3-05-01-040		3,000	Commitments	3-05-01-050		700	<b>Total</b>		<b><u>8,700</u></b>	<b><u>8,700</u></b>
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Continuing Appropriations	3-05-01-040		3,000																									
Commitments	3-05-01-050		700																									
<b>Total</b>		<b><u>8,700</u></b>	<b><u>8,700</u></b>																									

## C. INCOME/REVENUES/RECEIPTS/COLLECTIONS AND DEPOSITS

**Section 29. Income.** Income refers to all revenues and receipts collected or received forming the gross accretions of funds of the local government unit.<sup>3</sup>

**Section 30. Revenues.** Revenue refers to income derived from the regular system of taxation enforced under authority of law or ordinance, and, as such, accrue more or less regularly every year.<sup>4</sup>

**Section 31. Receipts.** Receipts refers to income realized from operations and activities of the local government or are received by it in the exercise of its corporate functions, consisting of charges for services rendered, conveniences furnished, or the price of

<sup>3</sup> Sec 306(i), RA No. 7160.

<sup>4</sup> Sec. 306(m), Ibid.

a commodity sold, as well as loans, contributions or aids from other entities, except provisional advances for budgetary purposes.<sup>5</sup>

**Section 32. Separation of Books and Depository Accounts.** Local accountants and treasurers shall maintain separate books and depository accounts, respectively, for each fund in their custody or administration.<sup>6</sup>

**Section 33. Depository Accounts.** Local treasurer shall maintain depository accounts in the name of their respective local government units with authorized government depository banks, located in or nearest to their respective areas of jurisdiction. Earnings of its depository accounts shall accrue exclusively thereto.

**Section 34. Remittance of Government Monies to the Local Treasury.** Officers of the local government authorized to receive and collect monies arising from taxes, revenue, or receipts of any kind shall remit the full amount received and collected to the treasury of such local government unit which shall be credited to the particular account or accounts to which the monies in question properly belong.<sup>7</sup>

**Section 35. Sources of Income of LGUs.** The main sources of revenue of LGUs are as follows:

- a. Tax revenue
- b. Service and Business Income
- c. Transfers, Assistance and Subsidy
- d. Shares, Grants and Donations
- e. Gains
- f. Miscellaneous Income

**Section 36. Tax Revenue accounts.** The following shall comprise the tax revenue accounts applicable to LGUs:

- a. Tax on Individuals and Corporation
  - 1. Professional Tax
  - 2. Community Tax
- b. Property Taxes
  - 1. Real property Tax – Basic
  - 2. Special Education Tax
  - 3. Special Levy on Idle Lands
  - 4. Special Levy on Lands Benefited by Public Works Projects
  - 5. Real Property Transfer Tax
- c. Taxes on Goods and Services
  - 1. Business Tax
  - 2. Tax on Sand, Gravel and Other Quarry Products
  - 3. Tax on Delivery Trucks and Vans

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<sup>5</sup> Sec. 306(l), RA 7160.

<sup>6</sup> Sec 310, *Ibid.*

<sup>7</sup> Sec. 307, *Ibid.*

4. Amusement Tax
5. Franchise Tax
6. Printing and Publication Tax
- d. Other Taxes
- e. Fines and Penalties
- f. Share from National Taxes
  1. Share from Internal Revenue Collections (IRA)
  2. Share from Expanded Value Added Tax
  3. Share from National Wealth
  4. Share from Tobacco Excise Tax (RA 7171 and 8240)
  5. Share from Economic Zones

**Section 37. Service and Business Revenue Accounts.** The following shall comprise the service and business revenue accounts applicable to LGUs:

- a. Service Income
  1. Permit Fees
  2. Registration Fees
  3. Registration Plates, Tags and Stickers Fees
  4. Clearance and Certification Fees
  5. Supervision and Regulation Enforcement Fees
  6. Inspection Fees
  7. Verification and Authentication Fees
  8. Processing Fees
  9. Occupation Fees
  10. Fishery Rentals, Fees and Charges
  11. Fees for Sealing and Licensing of Weights and Measures
  12. Fines and Penalties - Service Income
  13. Other Service Income
- b. Business Income
  1. School Fees
  2. Affiliation Fees
  3. Seminar/Training Fees
  4. Rent Income
  5. Communication Network Fees
  6. Transportation System Fees
  7. Road Network Fees
  8. Waterworks System Fees
  9. Power Supply System Fees
  10. Seaport System Fees
  11. Parking Fees
  12. Receipts from Operation of Hostels/Dormitories and Other Like Facilities
  13. Receipts from Market Operations
  14. Receipts from Slaughterhouse Operations
  15. Receipts from Cemetery Operations
  16. Receipts from Printing and Publication



17. Sales Revenue
18. Garbage Fees
19. Hospital Fees
20. Dividend Income
21. Interest Income
22. Service Concession Revenue
23. Other Service Concession Revenue
24. Lease Revenue
25. Share in the Profit of Joint Venture
26. Fines and Penalties - Business Income
27. Other Business Income

**Section 38. Transfers and Subsidy accounts.** The following shall comprise the transfers and subsidy accounts applicable to LGUs:

- a. Transfers refer to funds given to the fund or local government unit from other funds or agencies for specific purpose.
  1. Transfers from General Funds as LGU Counterpart/Project Equity Share
  2. Transfers from General Fund of Unspent DRRMF
  3. Transfers from National Government Agencies
  4. Transfers from Other Local Government Units
- b. Subsidies refer to transfer of funds to the fund or local government unit from other funds or government agencies without specific purpose.
  1. Subsidy from National Government
  2. Subsidy from Local Government Units
  3. Subsidy from Government-Owned and/or Controlled Corporations
  4. Subsidy from Other Funds
  5. Subsidy from General Fund Proper/Other Special Accounts
  6. Subsidy from Local Economic Enterprise/Public Utility

**Section 39. Shares, Grants and Donations.** The following shall comprise the shares, grants and donations accounts applicable to LGUs:

- a. Shares
  1. Share from PAGCOR
  2. Share from PCSO
- b. Grants and Donations
  1. Grants and Donations in Cash
  2. Grants and Donations in Kind
  3. Grants from Concessionary Loans

**Section 40. Gains.** The following shall comprise the gains accounts applicable to LGUs:

- a. Gain from Changes in Fair Value of Financial Instruments
- b. Gain on Foreign Exchange (FOREX)
- c. Gain on Sale of Investments
- d. Gain on Sale of Investment Property
- e. Gain on Sale of Property, Plant and Equipment
- f. Gain on Initial Recognition of Biological Assets
- g. Gain on Sale of Biological Assets
- h. Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change
- i. Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Price Change
- j. Gain from Initial Recognition of Agricultural Produce
- k. Gain on Sale of Intangible Assets
- l. Reversal of Impairment Losses
- m. Other Gains

**Section 41. Method of Accounting for Revenues.** The accrual method of accounting revenues shall be used to record all revenues and receipts accruing to the LGU. The LGU shall recognize the revenue and the asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. For business and service revenues and other receipts, the asset and the revenue shall be recognized when services are rendered and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the amount of revenue can be measured reliably.

Interest income earned as at the financial statement date shall take into account the effective yield on the asset.

**Section 42. Basis of Recording Real Property Tax/Special Education Tax.** Real Property Tax Receivable/Special Education Tax Receivable shall be established at the beginning of the year based on Real Property Tax Account Register/Taxpayer's Index Card. At the beginning of the year, the Treasurer shall officially furnish the Chief Accountant list showing the name of taxpayers and the amount due and collectible for the current year. Based on the list, the Local Accountant shall draw a Journal voucher (JV) to record Real Property Tax Receivable/Special Education Tax Receivable and the corresponding income accounts.

**Section 43. Discount on Real Property Tax/Special Education Tax.** Discounts for advance and prompt payment of Real Property Tax and the Special Education Tax shall be recognized in the year the taxes are due. Said discounts shall be apportioned to the concerned LGUs in accordance with the sharing prescribed for real property tax and special education tax. Unallocated discounts on advance payments shall be presented as deduction to the Deferred Real Property Tax or Deferred Special Education Tax.

**Section 44. Fines and Penalties on Real Property Tax/Special Education Tax.** Fines and penalties on real property tax/special education tax shall be recognized as income upon collection.

Fines and penalties arising from real property taxes shall be distributed to concerned LGUs in accordance with the sharing prescribed under the Local Government Code for Real Property Tax and the additional one percent (1%) tax for the Special Education Fund.

**Section 45. Share from National Taxes.** Shares from National Taxes represent shares of the LGU from internal revenue taxes collected, incremental collection from value added tax, utilization and development of the national wealth in the LGU's respective territorial jurisdiction, tobacco excise tax and economic zones. Revenues from these sources are recognized upon receipt of the Authority to Debit Account (ADA) from the Bureau of Treasury and receipt of payments of agencies (in case of agencies directly paying to the LGU e.g. in case of hydro power plants and locators in economic zones) and credited to the appropriate income account.

**Section 46. Service and Business Income.** Business and Service Income are revenues from exchange transactions. Revenue is recognized once services are rendered and when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue from sale of goods shall be recognized when all of the following conditions have been satisfied:

- a. the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- b. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. The amount of revenue can be measured reliably;
- d. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services shall be recognized when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue shall be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all of the following conditions are satisfied:

- a. The amount of revenue can be measured reliably;
- b. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- c. The stage of completion of the transaction at the reporting date can be measured reliably; and
- d. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The appropriate income account shall be credited to record the specific business and service revenue transactions.

**Section 47. Rent Income.** These are income earned from use of government property/facilities under operating lease. The revenue is recognized on a straight-line basis over the lease term irrespective of when the payments are due unless another systematic basis is more representative of the time pattern in which benefits derived is diminished. In case of contingent rent which is a portion of the lease payments that is not fixed in amount, but based on the future amount of a factor that changes other than with the passage of time shall also be recognized as rent income.

Example: Lease of land for 4 years, at the following lease payment rates. Initial direct cost was P20,000. The land will be used for parking space with pay. A contingent rent is stipulated at 5% of the lessee's rental income beyond P100,000.00 per year.

Date	Stipulated Lease Payments	Annual Rent Income to be Recognized	Lessee's Annual Income	Rent income Recognized
Jan.1, 2017	P80,000.00	107,500.00	-0-	107,500.00
Jan.1. 2018	100,000.00	107,500.00	120,000	=107,500+(5% x 20,000) =107,500+1,000 =108,500.00
Jan.1, 2019	120,000.00	107,500.00	150,000	=107,500+(5% x 50,000) =107,500+2,500 =110,000.00
Jan.1, 2020	130,000.00	107,500.00	90,000	107,500.00
Total	430,000.00	430,000/4=107,500		

The accounting entry shall be as follows:

Particulars	Account Title	Account Code	Debit	Credit
a. To record receipt of payment – Jan. 1, 2017	Cash Local Treasury Other Deferred Credits	1-01-01-010 2-05-01-990	80,000	80,000
b. To recognize income at the end of the year. Dec. 31, 2017	Other Deferred Credits Operating Lease Receivable Rent Income	2-05-01-990 1-03-02-010 4-02-02-050	80,000 27,500	107,500
c. To record receipt of payment – Jan. 1, 2018 plus the contingent rent of P1,000 (5%(120,000-100,000))	Cash Local Treasury Other Deferred Credits	1-01-01-010 2-05-01-990	101,000	101,000
d. To recognize income at the end of the year- Dec. 31, 2018	Other Deferred Credits Operating Lease Receivable Rent Income (107,500+1,000)	2-05-01-990 1-03-02-010 4-02-02-050	101,000 7,500	108,500
e. To record receipt of payment – Jan. 1, 2019 plus the contingent rent of P2,500 (5% 50,000 )	Cash Local Treasury Other Deferred Credits	1-01-01-010 2-05-01-990	122,500	122,500
f. To recognize income at the end of the year-	Other Deferred Credits Operating Lease Receivable	2-05-01-990 1-03-02-010	122,500	12,500

Particulars	Account Title	Account Code	Debit	Credit
Dec. 31, 2019	Rent Income	4-02-02-050		110,000
g. To record receipt of payment – Jan. 1, 2020	Cash Local Treasury Other Deferred Credits	1-01-01-010 2-05-01-990	130,000	130,000
h. To record income at the end of CY 2020	Other Deferred Credits Operating Lease Receivable Rent Income	2-05-01-990 1-03-02-010	130,000	22,500 107,500

**Section 48. Dividend Income.** These are distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital. Revenue shall be recognized when the entity's right to receive payment is established.

**Section 49. Interest Income.** Interest refers to the charges for the use of cash or cash equivalents, or amounts due to the entity. Revenue from interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset.

**Section 50. Service Concession Revenues.** Service concession revenue is the recognized revenue to reduce the unearned revenue set up upon the recognition of the asset constructed or build by the operator under the grant of a right to the operator model of service concession arrangements.

Example: Municipality has an existing vacant lot with a carrying value of P10,000.00. Businessman A submitted a proposal to construct in the vacant lot a slaughterhouse with a contract cost of P500,000.00 including the cost of slaughter machineries. The service concession shall be for a period of ten years and the operator will be entitled to collect the slaughterhouse fees. The municipality will have a 10% share from the slaughterhouse collections in excess of P50,000.00 annual collections. The service concession arrangement was made effective Jan. 1, 2017. The operator's total collections for CY 2017 was P75,000.00.

Carrying amount of lot P10,000.00	Reclassified to Service Concession Asset
Cost of slaughterhouse and machineries	Recognized as Service Concession Asset with a credit to Deferred Service Concession Revenue
After the end of CY 2017	Recognize the reduction of the Deferred Service Concession equal to P500,000.00/10 period of the service concession agreement Service Concession Revenue = 50,000.00
Contingent rent	$=(75,000-50,000) \times 10\%$ =2,500
Service Concession Asset:	
Reclassified carrying amount of lot	P10,000.00
Cost of slaughterhouse and machineries	P500,000.00
Deferred Service Concession Revenue	P500,000.00
CY 2017 Service Concession	=P500,000.00/10

Revenue	=P50,000.00
Other Service Concession Revenue = Contingent Rent	=2,500.00

**Section 51. Other Service Concession Revenue.** Other revenues or payments received by the grantor from the operator on service concession arrangements in addition to the service concession asset provided by the operator.

**Section 52. Lease Revenue.** Revenues earned from finance leases. Revenue shall be recognized upon collection of the finance lease receivables and/or the passage of appropriate period as it is earned for the recognized deferred finance lease revenue.

**Section 53. Accounting for Lease Revenue.** This is recognized upon collection of the finance lease receivables and/or the passage of appropriate period as it is earned for the recognized deferred finance lease revenue.

**Section 54. Transfers, Assistance and Subsidy.** Transfers represent receipts of the LGU counterpart or equity share, the unspent appropriations for Disaster Risk Reduction and Mitigation Fund, transfers from national government agencies and other local government units.

Assistance and subsidy represent the amount of funds/assets transferred from the National Government, Local Government Units, Government Owned and/or Controlled Corporations without specific purpose. Likewise, these are financial assistance from other funds, General Fund Proper/other special accounts and other local economic enterprises.

**Section 55. Shares, Grants and Donations.** Shares represent LGU share from the income from operations of PAGCOR and PCSO. These are recognized as income upon receipt of the funds.

Grants and donations refer to aids from the private sector or international institutions without specific purpose. The aid or donation may be in cash and in kind. Donations in cash shall be recognized in Philippine currency. Receipts in foreign currency shall be converted into Philippine currency at the date of receipt. Aids or donations in kind shall be recognized at fair value of the in kind donations upon the transfer of the legal title.

Grants from concessionary loans is the non-exchange revenue recognized when the LGU secure borrowings at below market terms. This is the difference between the loan proceeds and the fair value of the loan on initial recognition. This grant is a paper income, thus, not considered for budget purposes.

**Section 56. Accounting for the grant component of concessionary loans.** The grant component is the difference between the loan proceeds and the fair value of the loan on initial recognition and it is recognized as Grants from Concessionary Loans.

**Section 57. Gain.** Gain is the difference between the fair value of the assets and the carrying cost of the asset. The gain may be a paper income or an actually realized income.

Gains from sale of the following assets are actually realized income and are recognized as of the transaction date:

- a. Investments
- b. Investment Property
- c. Property, Plant and Equipment
- d. Biological Assets
- e. Intangible Assets

On the other hand, the following gains are recognized as at the reporting date in the process of the revaluation of the corresponding assets concerned and considered as paper income, thus, not considered for budgeting purposes:

- a. Gain from Changes in Fair Value of Financial Instruments – computed by comparing the carrying value with the fair value of the financial instruments, if the fair value exceeds the carrying value a gain is recognized.
- b. Gain on Foreign Exchange (FOREX)- computed by comparing the foreign exchange rate with the carrying value of the foreign currency as at the reporting date. If the rate is higher than the carrying value a gain on foreign exchange is recognized.
- c. Gain on Initial Recognition of Biological Assets
- d. Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change- computed by comparing the fair value of the existing group of biological assets recognized in the last report less cost to sell with the same fair value of the same group biological assets less cost to sell as at the reporting date, plus the changes in the fair value of new additions
- e. Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Price Change is computed by comparing the fair value of the biological assets inventory at the last reporting date with the fair value as at the current revaluation date all less the cost to sell. If the current net fair value exceeds a gain is recognized.
- f. Gain from Initial Recognition of Agricultural Produce
- g. Reversal of Impairment Losses is the increase in the fair value of the asset

**Section 58. Other Receipts.** Other receipts of the local government units shall be comprised of, but not limited to, the following:

- a. Borrowings
- b. Sale of Property, Plant and Equipment
- c. Refund of Cash Advances
- d. Receipt of Performance/Bidders' Bonds

**Section 59. Borrowings.** Borrowings are proceeds of repayable obligations, generally with interest from the bank, national agency, another local government unit, and private sector. All borrowings incurred shall be recorded direct to the appropriate liability accounts. Upon receipt of the advice from the bank or lending agency informing the release of the proceeds, the Accountant shall draw a Journal Voucher taking up the transaction.

**Section 60. Sale of Property, Plant and Equipment.** Sale of property, plant and equipment refers to the proceeds from the sale of land, buildings, equipment, furniture and other similar property which are recorded in the books as Property, Plant and Equipment. The appropriate Property, Plant and Equipment account shall be credited upon transfer of ownership.

**Section 61. Refund of Cash Advances.** Cash advances for official travel shall be taken up as Advances to Officers and Employees. Refunds made shall be credited to Advances account previously set up. Cash advances for salaries and wages shall be recorded as debits to the account Advances for Payroll Fund. Any refund made shall be credited to this account.

**Section 62. Receipt of Performance Bonds.** Performance bond posted by contractor or supplier to guaranty full and faithful performance of their work may be in the form of cash, certified check or surety. Performance bond in cash or certified check shall be acknowledged by the issuance of official receipt and shall be recorded in the books under the Guaranty/Security Deposits Payable account. In case of surety bond, an acknowledgment receipt shall be issued by the authorized official.

**Section 63. Reporting for Collections and Deposits.** Collectors/Tellers shall issue a receipt to acknowledge collections made. The receipt may be in the form of pre-numbered Official Receipts, or cash tickets and the like. At the close of each business day, these collectors/tellers shall accomplish the Report of Collections and Deposits (RCD) in four copies. The original and two copies, together with the duplicates of the official receipts issued, shall be submitted to the treasurer/cashier to whom the cash collected shall be turned over. The fourth copy of the RCD shall be retained by the collector/teller concerned. Barangay Treasurers deputized to collect taxes imposed by provinces, cities and municipalities shall follow the same procedures in turning over their collections to the treasurer/cashier concerned. The RCD of the local treasurer shall include the validated deposit slips.

In the case of collectors assigned to the field, including deputized barangay collectors for collections made for the city/municipality, where travel time from their places of assignment to the Treasurer's Office is more than one day, turnover of collections shall be made at least once a week or as soon as the collections reach ₱5,000.00.

**Section 64. Verification of Collections and Accountable Forms.** The Treasurer/Cashier shall verify the Report of Collections and Deposits; check the statement of accountable forms as to initial balances on hand, receipts, issues and the ending balances on hand; make a physical count of the accountable forms remaining in the custody of the collector/teller and check the same against the new balances on hand column. He shall indicate his verification by affixing his signature at the back of the triplicate copy of the last official receipt issued. He shall count the money turned over to him and sign the certification and receipt portion of all copies of RCD.

**Section 65. Designation of Liquidating Officers.** The Treasurer may designate liquidating officers from among the collectors/tellers whenever necessary.



- a. Collectors/Tellers shall turn over their collections to their designated liquidating officer. The RCD shall be prepared in five copies, four copies to be submitted to the liquidating officer, the fifth copy to be retained by the collector/teller.
- b. The liquidating officer shall acknowledge the collections received by accomplishing the appropriate part of the RCD submitted by the collectors/tellers. He shall perform the procedures for the receipt and verification of collections turned over to him. He shall also accomplish the RCD in four copies to summarize the collections turned over to him by the collectors/tellers as well as his own collections.
- c. The liquidating officer shall turn over intact the cash collections to the Treasurer/Cashier together with the originals and two copies of the RCDs of collectors/tellers and the duplicates of the official receipts issued. The Treasurer/Cashier shall acknowledge receipt of the cash and all accompanying documents by signing all copies of the RCD of liquidating officer on the certification and receipt portion of the form. The fourth copy of the RCD of the liquidating officer and RCDs of collectors/tellers shall be retained by the liquidating officer.

**Section 66. Deposit of Collections.** The Treasurer/Cashier shall deposit intact all his collections as well as all collections turned over to him by the collectors/tellers with the authorized depository bank daily or not later than the next banking day. He shall record all deposits made in the cashbook and prepare the RCD.

**Section 67. Deposit of Field Collections.** Collections by field collectors shall be remitted to the Cashier or designated liquidating officer of the field office of the LGU. When travel distance of the field office to the local treasury may expose government funds to the risk of loss while in transit, the Cashier or designated liquidating officer, upon authorization by the Treasurer, may deposit the collections in the authorized depository bank near the field office of the LGU. The procedures in reporting collections and deposits prescribed in this Chapter shall be observed.

**Section 68. Accounting for Collections and Deposits.** The Accountant shall determine the account classification of the collections covered by the RCD and the supporting papers submitted by the Treasurer/Cashier and shall accomplish the Journal voucher. The accountant shall also maintain the Abstract of Real Property Tax Collections to facilitate the distribution and remittance of the shares of the different government units concerned in the real property tax collections.

**Section 69. Pro-forma Accounting Entries.** – The following are pro-forma accounting entries for income, collection and deposit:

Particulars	Account Title	Acct. Code	Debit	Credit
<b>REVENUE</b>				
<b>Revenue from Non Exchange Transactions</b>				
<i>Tax Revenue – Real Property Tax – Basic</i>				



Particulars	Account Title	Acct. Code	Debit	Credit												
Tax Revenue – Real Property Tax – Basic (Advanced Payment)																
A. <u>Books of the Municipality</u>																
a. Receipt of real property tax payment from taxpayer for the succeeding year with discount for advanced payment	Cash Local Treasury Discount on Advance Payment of Real Property Tax Deferred Real Property Tax Due to LGUs	1-01-01-010  2-05-01-011  2-05-01-010 2-02-01-070	80  8	   40 48												
<table border="1"><tr><td></td><td>Receipt</td><td>Disc</td></tr><tr><td>Mun</td><td>32.00</td><td>8.00</td></tr><tr><td>Prov</td><td>28.00</td><td>7.00</td></tr><tr><td>Bgy</td><td>20.00</td><td>5.00</td></tr></table> Municipality – 40% Province – 35 % Barangay – 25%		Receipt	Disc	Mun	32.00	8.00	Prov	28.00	7.00	Bgy	20.00	5.00				
	Receipt	Disc														
Mun	32.00	8.00														
Prov	28.00	7.00														
Bgy	20.00	5.00														
b. Deposit of Collection	Cash in Bank-LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	80	80												
B. <u>Year when the Tax is Due</u> <u>Books of the Municipality</u>	Deferred Real Property Tax Discount on Advance Payment of Real Property Tax Real Property Tax - Basic	2-05-01-010  2-05-01-011 4-01-02-040	40	  8 32												
a. Adjusting Entry to reverse the entry to take up the advance payment																
b. Remittance of the share of real property tax to other LGUs  Municipality – 40% Province – 35 % Barangay – 25%	Due to LGUs Cash in Bank-LCCA	2-02-01-070 1-01-02-010	48	48												
C. <u>Books of the Province</u>																
a. Upon receipt of share	Cash Local Treasury Discount on Advance Payment of Real Property Tax Real Property Tax - Basic	1-01-01-010  2-05-01-011 4-01-02-040	28  7	  35												

Particulars	Account Title	Acct. Code	Debit	Credit
D. <u>Books of the Barangay</u>				
a. Upon receipt of share	Cash Local Treasury	1-01-01-010	20	
	Discount on Advance	2-05-01-011	5	
	Payment of Real			
	Property Tax			
	Real Property Tax -			
	Basic	4-01-02-040		25
<b>Revenue from Exchange Transactions</b>				
<b>Service and Business Revenue</b>				
c. Receipt of Revenue	Cash Local Treasury	1-01-01-010	20	
	Permit Fees	4-02-01-010		10
	Receipts from Market			
	Operations	4-02-02-140		10
d. Deposit of collections	Cash in Bank – LCCA	1-01-02-010	20	
	Cash Local Treasury	1-01-01-010		20
<b>Transfer and Subsidy</b>				
<i>1. Subsidy from the General Fund to Special Education Fund to finance its projects</i>				
<u>General Fund Books</u>				
a. Transfer of subsidy from	Subsidy to Other			
General Fund to Special	Funds	5-02-14-060	20	
Education Fund	Cash in Bank – LCCA	1-01-02-010		20
<u>Special Education Fund</u>				
<u>Books</u>				
b. Receipt by the SEF of the	Cash in Bank – LCCA	1-01-02-010	20	
subsidy from GF	Subsidy from Other			
	Funds	4-03-01-040		20
<b>Transfers with Condition</b>				
Entity A received a grant of 1 million pesos Cash from a Private Development Co. to build 4 school buildings in the typhoon devastated region. The school buildings have to be finished before classes start in June, otherwise the unspent funds has to be returned to the grantor.				
Receipt of grant in cash for				

Particulars	Account Title	Acct. Code	Debit	Credit
the school buildings	Cash in Bank-LCCA Trust Liabilities	1-01-02-010 2-04-01-010	500,000	500,000
Payment of 2 units completed school buildings	Construction in Progress – Buildings and Other Structures Cash in Bank-LCCA	1-07-10-030 1-01-02-010	500,000	500,000
Completion of school buildings	School Buildings Construction in Progress – Buildings and Other Structures	1-07-04-020 1-07-10-030	500,000	500,000
Cash donation translated to school buildings.	Trust Liabilities Grants and Donations in Cash	2-04-01-010 4-04-02-010	500,000	500,000
<b>Shares</b>				
<i>1. Shares</i>				
a. Receipt of the Authority to Debit Account (ADA) from BTR for the Share from the Internal Revenue collections	Due from NGAs Share from Internal Revenue Collections	1-03-03-010 4-01-06-010	100	100
b. Receipt of the credit advice from the bank for the share from IRA Deposit of collections	Cash in Bank – LCCA Due from NGAs	1-01-02-010 1-03-03-010	100	100
<i>2. Donation in Cash</i>				
a. Receipt of cash donation	Cash Local Treasury Grants and Donations in Cash	1-01-01-010 4-04-02-010	50	50
b. Deposit of collections	Cash in Bank – LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	50	50
<i>3. Donation in kind</i>				
a. Receipt of donation in kind	Motor Vehicles	1-07-06-010	500	

Particulars	Account Title	Acct. Code	Debit	Credit
– Motor Vehicle	Grants and Donations in Kind	4-04-02-020		500
Original Cost 1,000				
Acc. Depreciation <u>500</u>				
Book Value <u>500</u>				
<b>Borrowings</b>				
<i>1. Borrowings from the Bank</i>				
a. Receipt of borrowed funds from bank -	Cash in Bank –LCCA	1-01-02-010	1,000	
Principal - P1,000	Loans Payable – Domestic	2-01-02-040		1,000
Bank Charges - 10	Bank Charges	5-03-01-040	10	
Interest Expense- 12	Interest Expense	5-03-01-020	12	
	Cash in Bank - LCCA	1-01-02-010		22
<b>Refund of Cash Advance</b>				
<i>1. Cash Advance by an Officer for Local Travel</i>				
a. To take up the cash advance	Advances to Officers and Employees	1-03-05-040	10	
	Cash in Bank – LCCA	1-01-02-010		10
b. To take up the refund of cash advance	Cash Local Treasury	1-01-01-010	10	
	Advances to Officers and Employees	1-03-05-040		10
<i>2. Cash Advance by a Disbursing Officer for Salaries and Wages</i>				
a. To take up the cash advance	Advances for Payroll	1-03-05-020	10	
	Cash in Bank – LCCA	1-01-02-010		10
b. To take up the refund of cash advance	Cash Local Treasury	1-01-01-010	10	
	Advances for Payroll	1-03-05-020		10
<b>Receipt of Performance Bond in Cash</b>				
a. To take up receipt of cash bond	Cash Local Treasury	1-01-01-010	50	
	Guaranty/Security Deposits Payable	2-04-01-040		50
b. To take up deposit of cash bond	Cash in Bank – LCCA	1-01-02-010	50	
	Cash Local Treasury	1-01-01-010		50

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Finance Lease</b>				
<b>Lease Revenue (<i>Lessor's Books</i>)</b>				
a. To record lease receivable	Finance Lease Receivable	1-03-02-020	433,400	
<ul style="list-style-type: none"> <li>Lessor Agency entered into a 5-year lease contract with periodic payment of P86,680.00, payable beginning January 1, 2015.</li> <li>Implicit interest rate is 10% Fair value on said date is P392,490</li> <li>Present Value (PV) of Monthly Lease Payments (MLP) = <math>86,680 \times 4.16987</math> = 361,444</li> </ul> <p>Gross Investment = <math>86,680 \times 5</math> = 433,400</p> <p>PV of MLP = <math>86,680 \times 4.16987</math> = 361,444</p> <p>Unearned Revenue-Leased Assets = = <math>433,400 - 361,444</math> = 71,956</p>	Merchandise Inventory	1-04-01-010		361,444
	Deferred Finance Lease Revenue	2-05-01-030		71,956
b. To record initial payment of lease	Cash Local Treasury	1-01-01-010	86,680	
	Finance Lease Receivable	1-03-02-020		86,680
c. To recognize lease revenue at Dec. 31, 2015	Deferred Finance Lease Revenue	2-05-01-030	27,476	
	Finance Lease Revenue	4-02-02-250		27,476
d. To record lease payment for the 2nd year -Jan. 1, 2016	Cash Local Treasury	1-01-01-010	86,680	
	Finance Lease Receivable	1-03-02-020		86,680
<b>Operating Lease</b>				
<b>Lease Revenue (<i>Lessor's Books</i>)</b>				
<ul style="list-style-type: none"> <li>On January 1, 2015, Lessor Agency purchased a land for P1,200,000. On the same date, the land was leased to Lessee Agency for a non-cancellable term of 4 years.</li> <li>Initial direct costs were P40,000. Lease payments by Lessee Agency are to be made as follows: <ul style="list-style-type: none"> <li>Jan. 1, 2015 P 400,000</li> <li>Jan. 1, 2016 380,000</li> <li>Jan. 1, 2017 360,000</li> <li>Jan. 1, 2018 300,000</li> <li>Total - <u>P 1,440,000</u></li> </ul> </li> </ul> <p>To record acquisition of land for lease on January 1, 2015.</p>	Investment Property-Land	1-06-01-010	1,200,000	

Particulars	Account Title	Acct. Code	Debit	Credit
	Cash in Bank-LCCA	1-01-02-010		1,200,000
a. To record other direct costs.	Investment Property-Land Cash in Bank-LCCA	1-06-01-010 1-01-02-010	40,000	40,000
b. To record receipt of rent for the year, P1,440,000/4 yrs = 360,000	Cash Local Treasury Rent Income Unearned Revenue – Investment Property	1-01-01-010 4-02-02-050 2-05-01-050	400,000	360,000 40,000
<b>Interest Income</b>				
<ul style="list-style-type: none"> <li>On January 1, 2015, LGU A purchased 5-year P100,000 face value bonds for P95,787.63.</li> <li>Issuer pays 5% interest annually</li> <li>The prevailing interest rate is 6%</li> </ul>				
a. To record the investment in bonds on January 01, 2015	Investments in Bonds Cash in Bank – LCCA	1-01-02-010 1-01-02-010	95,787.63	95,787.63
b. To record receipt of interest revenue on December 31, 2015	Cash in Bank - LCCA Interest Income	1-01-02-010 4-02-02-220	5,000	5,000
c. To record amortization of bond discount on December 31, 2015 $= (6\% \times 95,787.63) - 5,000$ $= 5,747.26 - 5,000$ $= 747.26$	Investment in Bonds Interest Income	1-01-02-010 4-02-02-220	747.26	747.26
d. To record the maturity of the bond on December 31, 2019	Cash in Bank - LCCA Investment in Bonds	1-01-02-010 1-02-04-020	100,000	100,000
<b>Biological Assets</b>				
<b><u>Reconciliation of Carrying amounts of Breeding Livestock</u></b>				
Carrying amount, Jan. 1, 2015			P4,000	
Increases due to purchases			6,000	
Gain arising from change in fair value less costs to sell attributable to <u>physical changes</u>			2,500	
Gain arising from change in fair value less costs to sell attributable to <u>price changes</u>			<u>500</u>	13,000
Decreases due to <u>sales</u>				<u>(5,000)</u>
Carrying amount, December 31, 2015				<b><u>P8,000</u></b>
a. To record gain arising	Breeding Stocks	1-08-01-010	2,000	



from change in fair valueless cost to sell attributable to physical changes  b. To record gain arising from change in fair valueless cost to sell attributable to physical changes	Plants and Trees	1-08-01-020	500	2,500
	Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change	4-05-01-080		
	Breeding Stocks	1-08-01-010	400	500
	Plants and Trees	1-08-01-020	100	
	Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Price Change	4-05-01-090		

## **D. DISBURSEMENTS**

**Section 70. Disbursements.** *Disbursements* refer to the settlement of government payables/obligations by cash or by check or by Authority to Debit Account (ADA).

Disbursements are made for the following expense classifications:

- a. Personnel Services (PS)
- b. Maintenance and Other Operating Expenses (MOOE)
- c. Financial Expenses (FE)
- d. Capital Outlays (CO)

All disbursements shall be covered by Disbursement Voucher (DV) or payroll. The Certification on Appropriations, Funds and Obligations of Allotment (CAFOA) is an integral part of the DV.

**Section 71. Disbursement Voucher.** A disbursement voucher is a form used to claim payment of an obligation to an individual or an organization for goods sold or services rendered.

**Section 72. Supporting Documents.** Supporting documents are the required documentation for a transaction to establish the claim. COA Circular No. 2012-001 dated June 14, 2012 and its amendments prescribes the guidelines and documentary requirements for common government transactions.

**Section 73. Basic Requirements Applicable to All Classes of Disbursements<sup>8</sup>.** The basic requirements for all classes of disbursements are :

- a. The existence of a lawful and sufficient appropriation certified as available by the duly authorized officer;

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<sup>8</sup> Section 84, Presidential Decree (PD) No. 1445, Annotated, pp. 443-444.

- b. Legality of the transaction and conformity with rules and regulations ;
- c. Approval of the expense by the head of the agency or his authorized representative; and
- d. Submission of proper evidence to establish the claim.

**Section 74. Certifications on Disbursements.** Disbursements shall require the following certifications on the DV and payroll by:

- a. The head of the department or office who has administrative control of the fund as to necessity, validity, propriety and legality of the claim involved (*Box A of DV*). In case of temporary absence or incapacity of the department head or chief of office, the officer next-in-rank shall automatically perform his function and shall be fully responsible therefor.
- b. The Local Budget Officer as to the existence of the appropriation that has been legally made for the purpose (*CAFOA*).
- c. The Local Accountant as to obligation of allotments and that the supporting documents are complete and proper. In case of cash advance, that the accountable officer has no unliquidated cash advances. In case of trust funds, certification as to the existence of the trust account (*Box B of the DV/payroll*).
- d. The Local Treasurer as to availability of funds for the purpose<sup>9</sup> (*Box C of the DV/payroll*).

**Section 75. Approval of Disbursements.** Approval of disbursements by the Local Chief Executive (LCE) himself shall be required whenever local funds are disbursed, except for regularly recurring administrative expenses such as: payrolls for regular or permanent employees, expenses for light, water, telephone and telegraph services, remittances to government creditor agencies such as GSIS, BIR, PHILHEALTH, LBP, DBP, NPO, PS of the DBM and others, where the authority to approve may be delegated. Disbursement vouchers for expenditures appropriated for the operation of the Sanggunian shall be approved by the provincial Vice Governor, the city Vice Mayor or the municipal Vice Mayor, as the case may be.

**Section 76. Payments by Check.** Checks shall be drawn only on duly approved DV or payroll. It shall be drawn by the Local Treasurer and countersigned by the Local Administrator. In case of temporary absence or incapacity of the aforesaid officials, these duties shall devolve upon their immediate assistants. In the case of municipalities where no Administrator has been appointed, checks shall be countersigned by the municipal Mayor. In case, however, of expenditures appropriated for the operation of the Sanggunian, checks drawn shall be countersigned by the provincial Vice Governor, the city Vice Mayor, or the municipal Vice Mayor, as the case may be.

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<sup>9</sup> Section 344, RA No. 7160.

**Section 77. Release of Checks.** The Treasurer/Cashier shall release the check only to the payee or his duly authorized representative. For purposes of releasing checks, the Treasurer shall maintain a Check Register, by fund, where all checks issued shall be recorded chronologically and where the claimants shall be required to acknowledge receipt thereof. Claimants shall likewise acknowledge receipt of check payment by signing in Box E of the DV and writing the Check No., date, bank name and branch, printed name, designation, date payment was received, Official Receipt (OR) No. and OR date, if applicable.

**Section 78. Recording Check Disbursements in the Cashbooks.** All checks issued, whether released or unreleased, including cancelled checks shall be recorded chronologically in the appropriate Cashbook, Cashbook-Cash in Bank.

Cashbook-Cash in Bank shall be used when recording deposits of collections (Debit column) and withdrawals from the bank thru issuance of checks (Credit column). The cashbook shall be maintained by bank account and by fund and shall be updated and balanced daily. The accountable officer shall, at the end of the month or when required to do so by proper competent authority, rule and foot the cashbook and accomplish the certification.

**Section 79. Reporting of Checks Issued.** The checks issued, whether released or unreleased to claimants shall be reported in the Report of Checks Issued (RCI), which shall be prepared daily and certified by the Treasurer/Cashier/Disbursing Officer for each fund to report checks issued during the period including cancelled ones. Voided, spoiled and unclaimed stale checks with the Cashier shall be reported as cancelled in the List of Unreleased Checks that will be attached to the RCI.

The RCI shall be submitted to the Accountant for individual recording of transactions in the Check Disbursements Journal (CkDJ).

At the end of the year, a Schedule of Unreleased Checks shall be prepared by the Treasurer for submission to the Accounting Office. A JV shall be prepared to record the entry for the restoration of cash equivalent to the unreleased checks and recognition of the appropriate payable/liability accounts. However, there shall be no physical cancellation of the unreleased checks.

In the ensuing year, a JV shall be prepared to reverse the entries made by debiting the appropriate payable/liability accounts and crediting Cash in Bank-Local Currency, Current Account.

**Section 80. Disbursement by Cash.** There are certain instances when it may be very difficult, impractical or impossible to make payments by check, hence in such cases, payments may be made by the disbursing officer in the form of cash through cash advance drawn and maintained in accordance with COA rules and regulations.

Cash advances are of two types, namely, the regular cash advance, and the special cash advance. The *regular cash advances* are those granted to cashiers, disbursing officers, paymasters, and/or property/supply officers separately for any of the following purposes:

- a. Salaries and wages
- b. Commutable allowances

- c. Honoraria and other similar payments to officials and employees
- d. Petty operating expenses consisting of small payments for maintenance and operating expenses which cannot be paid conveniently by check or are required to be paid immediately.

*Special cash advances* are those granted on the explicit authority of the Head of the Agency only to duly designated disbursing officers or employees for other legally authorized purposes, as follows:

- a. Current operating expenditures of the agency field office or the activity of the agency undertaken in the field when it is impractical to pay the same by check, such as:
  - 1. Salaries, wages and allowances
  - 2. Maintenance and other operating expenses
- b. Local and foreign travel expenditures, including transportation fare, terminal fee, travel allowance, representation allowance, per diems (hotel room/lodging expenses, meals and incidental expenses) and other expenses incurred by officials and employees in connection with official travel.

Cash payments shall be made only on duly approved Disbursement Vouchers/Petty Cash Vouchers/Payrolls.

*Proper accounting* shall mean the receipt by the Accountant of the prescribed liquidation documents although not yet recorded in the books of accounts nor audited by the Auditor. *Liquidation* shall mean the recording of the liquidation documents in the books of accounts by the Accountant as a credit to the cash advance account after verifying the same, although not yet audited by the Auditor. *Settlement* shall mean the issuance of the Credit Notice by the Auditor after the audit of the liquidation documents.

**Section 81. Cash Advances for Payroll.** The cash advance shall be equal to the net amount of the payroll for a pay period. The payroll could be for salaries, wages, commutable allowances, honoraria and other similar payments.

**Section 82. Recording Cash Advances for Payroll.** The Disbursing Officer (DO) shall maintain the Cashbook-Cash Advances to monitor the Advances for Payroll. Cash advances for this purpose shall be recorded through a debit to Advances for Payroll and a credit to Cash in Bank – Local Currency, Current Account (LCCA). Payments shall be based on duly approved payroll. Any unclaimed salaries/wages/allowances/honoraria/personnel benefits shall be refunded and issued Official Receipt (OR) to close the account.

**Section 83. Reporting Cash Disbursements for Payroll.** Liquidation of the cash advance shall be made within five (5) days after each fifteen (15) day/end of the month pay period or the end of any pay period. The Report of Cash Disbursements (RCDIsb) is prepared by the accountable officer/dispensing officer to report the utilization of the cash advance. It is submitted, together with the original and duplicate copies of the payroll and supporting documents, to the Accounting Office. The Accountant shall verify the RCDIsb including the

completeness and propriety of the supporting documents, and record the individual transaction in the Cash Disbursements Journal (CDJ).

**Section 84. Cash Advances for Petty Cash.** Petty Cash (PC) shall be maintained under the imprest system. As such, all replenishments shall be directly charged to the expense account and at all times, the PC shall be equal to the total cash on hand and the unreplenished expenses. The PC shall be sufficient for the non-recurring, emergency and petty expenses of the LGU for one month. It shall not be used to purchase regular inventory/items for stock and regular expenses such as rentals, subscriptions, light and water and the like.

Petty Cash shall be set up at the beginning of the year. A Certification on Appropriations, Funds and Obligations of Allotment (CAFOA) shall be prepared for the fund, recorded in the appropriate RAAO and obligated as Other Expenses.

The PC shall be kept separately from the regular collections. Payments out of the PC, which shall be made through a Petty Cash Voucher (PCV) shall be allowed only for amounts not exceeding P15,000.00 for each transaction, except when a higher amount is allowed by law and/or specific authority by the COA (COA Circular No. 97-002 dated February 10, 1997 and COA Circular No. 2012-001 dated June 14, 2012). Splitting of transactions to avoid exceeding the ceiling shall not be allowed.

A DV shall be prepared for replenishments of the PC during the year duly supported by a Petty Cash Replenishment Report (PCRR) or list/summary of PCVs, the PCVs and their supporting documents. A CAFOA shall be prepared for each replenishment and recorded in the RAAO based on actual expenses incurred.

Within 20 days after the end of the year, the Petty Cash Custodian (PCC) shall prepare a Report of Disbursements to liquidate his cash advance for Petty Cash Fund. The CAFOA setting up the fund at the beginning of the year shall be cancelled. Another CAFOA shall be prepared taking up the liquidation and recorded in the RAAO based on the actual expenses incurred. Unused cash shall be returned to the Treasurer who shall issue an Official Receipt to acknowledge the amount returned. A new Cash Advance for Petty Cash Fund shall be set up in the ensuing year.<sup>10</sup>

In case of retirement, resignation, termination or dismissal of the PCC, any unused balance shall be refunded to close the accountability.

**Section 85. Recording Cash Advances for Petty Cash.** To establish the Petty Cash at the start of the year, a DV shall be drawn and supported with a CAFOA for the purpose which shall be charged to the budgetary item, Other Services. Upon the issuance of the check, the Petty Cash account is debited and the Cash in Bank – LCCA account is credited. Disbursements from the PC shall be through the Petty Cash Voucher (PCV), which shall be approved by authorized officials and signed by the payee to acknowledge the amount received.

**Section 86. Reporting Disbursements from Petty Cash.** The Petty Cash Custodian shall prepare the Petty Cash Replenishment Report based on the PCVs and

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<sup>10</sup> *Commission on Audit Circular No. 97-002.*

supporting documents like Official Receipts (ORs), approved purchase request, bills, sales invoices, etc. for replenishment of Petty Cash when the disbursements reach at least 75% of the PC, or as the need requires and the Report of Disbursements to liquidate his cash advance for Petty Cash at the end of the year.

**Section 87. Cash Advances for Travel.** Officers and employees who are given cash advances for official travel need not be designated as Disbursing Officers. Cash advances granted for purposes of official travel, both local and foreign, shall not require bonding of the travelling official or employee.

Travels and assignments shall cover only those which meet the following criteria: (i) it is essential to the effective performance of an official or employee's mandates or functions; (ii) it is required to meet the needs of the department, agency, bureau or office, or there is substantial benefit to be derived by the State; (iii) the presence of the official or employee is critical to the outcome of the meeting, conference, seminar, consultation or any official activity to be attended; and (iv) the projected expenses are not excessive or involve minimum expenditure<sup>11</sup>. These shall refer only to those under the category of conferences, special missions, and other non-study trips. No official or employee may be sent to foreign training, conference or attend international commitments when they are due to retire within one year after the said foreign travel.<sup>12</sup>

The official local travels of the Regional Governors of Autonomous Regions, Provincial Governors and Mayors of Special, Highly Urbanized, and Independent Component Cities, in pursuance of the function of their respective offices, irrespective of the number of days need not be approved by higher authorities. Regardless of the length of travels abroad and the number of delegates, official foreign travel and payment of travel expenses shall be approved by the Secretary of the DILG, or his/her authorized representative for personnel in all levels of LGUs<sup>13</sup>

Government personnel who travel abroad shall be entitled to the Daily Subsistence Allowance (DSA) based on the daily rates established by the International Civil Service Commission (ICSC) of the United Nations which may be accessed at [www.undp.org.ph](http://www.undp.org.ph) or at [www.dfa.gov.ph](http://www.dfa.gov.ph) of the Department of Foreign Affairs (DFA). The DSA shall be apportioned as follows: a) 50% for hotel/lodging; b) 30% for meals; c) 20% for incidental expenses.<sup>14</sup>

Official local travel to destinations beyond the 50-kilometer radius from the permanent official station shall be allowed the following maximum Daily Travel Expenses (DTE) regardless of rank and position:<sup>15</sup>

Destination		Maximum DTE
Cluster 1	Region I	P1,500

<sup>11</sup> Executive Order (EO) No. 77 dated March 15, 2019.

<sup>12</sup> Section 18(c) of the General Provisions of R.A. No. 10633 or the General Appropriations Act of 2013.

<sup>13</sup> EO No. 77 dated March 15, 2019.

<sup>14</sup> EO No. 77 dated March 15, 2019.

<sup>15</sup> EO No. 77 dated March 15, 2019.

Destination		Maximum DTE
	Region II Region III Region V Region VIII Region IX Region XII Region XIII ARMM	
Cluster II	Cordillera Administrative Region Region VI Region VII Region X Region XI	P1,800
Cluster III	National Capital Region Region IV-A Region IV-B	P2,200

Claims for travel expenses within the 50-kilometer radius from the permanent official station may be authorized equivalent to the actual transportation expenses and the DTE provided the rates shall not exceed therein, and provided further that the personnel concerned shall stay in the place of assignment and does not commute daily from the place of assignment to the place of residence or permanent official station and back. The claim for hotel/lodging expense shall be substantiated by a hotel bill or invoice to prove that the official or employee stayed in the place of assignment for the whole duration of the official travel. However, personnel on official travel who commute daily from the place of assignment to the place of residence or permanent official station shall be allowed the actual fare at the prevailing rates of authorized modes of transportation from the permanent official station to the place of assignment and back, and meals in an amount not exceeding the thirty percent (30%) of the authorized meal component of the DTE.<sup>16</sup>

**Section 88. Recording Cash Advances for Travel.** Cash advances for travel shall be recorded as debit to the account Advances to Officers and Employees and a credit to Cash in Bank – Local Currency, Current Account (LCCA).

**Section 89. Reporting Cash Disbursements from Advances for Travel.** For liquidation of advances for travel where the amount of cash advance is equal to or more than the travel expenses incurred, the Liquidation Report (LR) form shall be prepared by the officers/employees concerned and submitted together with the supporting documents to the Accounting Office as basis for preparation of the JV to record liquidation. Any excess amount shall be refunded to the Treasurer who shall issue an Official Receipt which shall also be submitted to the Accounting Office. However, if the amount of cash advance is less than the travel expenses incurred, a DV shall be prepared to liquidate the cash advance and serve

<sup>16</sup> EO No. 77 dated March 15, 2019.

as a claim for reimbursement of the deficiency in amount. The Accounting Office shall maintain a Subsidiary Ledger for each officer or employee to monitor the grant and liquidation of travel cash advances.

**Section 90. Cash Advances for Special Purpose/Time-bound Undertaking.** Cash advances for special purpose/time-bound undertaking shall be granted only to duly authorized Accountable Officer (AO)/Special Disbursing Officer (SDO). The cash advance shall be sourced only from allotments for the specific purpose, e.g. payroll for projects undertaken by administration. It shall be liquidated by the accountable officer within a specific period. Any unutilized cash advance shall be refunded and an OR shall be issued to acknowledge collection thereof.

**Section 91. Recording Cash Advances for Special Purpose/Time-bound Undertaking.** The AO/SDO shall maintain the Cashbook – Cash Advances to monitor and control the granting and utilization of cash advance. Cash advances for special purpose/time-bound undertaking shall be recorded through a debit to Advances to Special Disbursing Officer and a credit to Cash in Bank – Local Currency, Current Account (LCCA). Payments of authorized expenses shall be based on duly approved Disbursement Vouchers (DVs)/payrolls and shall be recorded in the cashbook.

**Section 92. Reporting Cash Disbursements from Advances for Special Purpose/Time-bound Undertaking.** The AO/SDO shall prepare the Report of Cash Disbursements (RCDisb) based on DVs paid. The paid DVs shall be the basis for the recording in the Cash Disbursements Journal (CDJ).

**Section 93. Disbursement through Authority to Debit Account.** Authority to Debit Account (ADA) is a mode of disbursement wherein the local government unit issues an ADA instead of a check to pay its disbursements. The ADA shall be issued based on a duly certified and approved disbursement vouchers or payrolls. The ADA shall be signed by the local treasurer and countersigned by the authorized signatory.

**Section 94. Recording Disbursement through Authority to Debit Account.** The local treasurer shall record the ADA in the cashbook in the same manner as check issuances using the ADA number as the reference.

**Section 95. Reporting Disbursement through Authority to Debit Account.** The local treasurer shall prepare daily the Report of Authority to Debit Account Issued (RADAI) based on the ADA issued. The RADAI supported with copies of the ADA issued and the corresponding DVs/payrolls shall be submitted to the Accounting Office. The Accountant shall verify the RADAI including the completeness and propriety of the supporting documents, and record the individual transaction in the Authority to Debit Account Disbursement Journal (ADADJ).

**Section 96. Handling, Custody and Disposition of the Cashbook.** A newly appointed or designated AO shall start with a new cashbook. Before discharging his duties, the new AO shall be briefed by the Accountant, the Treasurer and the Auditor on the proper recording of the transactions and other matters related to his work. The AO shall maintain separate cashbooks for the different kinds of cash advances. The transactions shall be recorded daily in the prescribed cashbook. Each invoice/receipt/voucher shall be recorded



individually or the total disbursements for the day depending on the volume of the transactions. The book balance shall be reconciled daily with the cash on hand. The cashbook shall be footed and closed at the end of each month. The AO and the Accountant shall reconcile their records at least quarterly.

The cashbooks shall be kept at the Office of the AO and placed inside the safe or cabinet when not in use. It may be taken from his custody only by the Auditor or an official duly authorized by the Agency Head, who shall issue the necessary acknowledgment receipt. During cash examination conducted by the Auditor, the AO shall present his cashbook, cash and cash items for examination upon demand.

When the AO ceases to be one, the cashbook shall be submitted to the Accountant and shall form part of the accounting records. No clearance shall be issued to an AO if he fails to submit the cashbook as required.

**Section 97. Pro-forma Accounting Entries.** Pro-forma accounting entries for disbursement transactions are shown below:

Particulars	Account Title	Account Code	Debit	Credit
<b>1. Payment by Check</b>				
<i>a. Maintenance and Other Operating Expenses</i>				
1. Payment of rent	Rent Expenses Cash in Bank - LCCA	5-02-99-050 1-01-02-010	xxx	xxx
To record payment of rent.				
2. Payment of utilities (MERALCO, PLDT, Maynilad)	Electricity Expenses Telephone Expenses Internet Subscription Expenses Water Expenses Cash in Bank - LCCA	5-02-04-020 5-02-05-020 5-02-05-030 5-02-04-010 1-01-02-010	xxx xxx xxx xxx	xxx
To record payment of utility expenses.				
3. Payment of seminar fee	Training Expenses Cash in Bank - LCCA	5-02-02-010 1-01-02-010	xxx	xxx
To record payment of seminar fees.				
<i>b. Capital Outlay</i>				
1. Receipt and payment of office equipment	Office Equipment Cash in Bank – LCCA Due to BIR	1-06-05-020 1-01-02-010 2-02-01-010	xxx	xxx xxx

Particulars	Account Title	Account Code	Debit	Credit
<b><i>c. Construction of Roads by Contract</i></b>				
1. Advance payment of Mobilization Fee (15%) to contractor to be recouped from progress billings	Advances to Contractors Cash in Bank – LCCA	1-05-01-010 1-01-02-010	xxx	xxx
2. Payment of first billing for 50% accomplishment	Construction in Progress – Infrastructure Assets Due to BIR Guaranty/Security Deposits Payable Advances to Contractors Cash in Bank – LCCA	1-07-10-020 2-02-01-010  2-04-01-040 1-05-01-010 1-01-02-010	xxx	xxx  xxx xxx xxx
3. Payment of second/last billing for 100% accomplishment (no additional retention money)	Construction in Progress – Infrastructure Assets Due to BIR Advances to Contractors Cash in Bank - LCCA	1-07-10-020 2-02-01-010 1-05-01-010 1-01-02-010	xxx	xxx xxx xxx
4. Remittance of taxes withheld VAT -5% EWT-2%	Due to BIR Cash in Bank - LCCA	2-02-01-010 1-01-02-010	xxx	xxx
5. To record completed roads	Road Networks Construction in Progress – Infrastructure Assets	1-07-03-010 1-07-10-020	xxx	xxx
<b><i>d. Cash advance for labor in the construction of a building undertaken by administration</i></b>				
1. Cash advance granted to Disbursing Officer for payroll	Advances for Payroll Cash in Bank - LCCA	1-03-05-020 1-01-02-010	xxx	xxx
2. Liquidation by Disbursing Officer of paid payroll	Construction in Progress – Buildings and Other Structures Advances for Payroll Due to BIR	1-07-10-030 1-03-05-020 2-02-01-010	xxx	xxx xxx

Particulars	Account Title	Account Code	Debit	Credit
3. Remittance of withholding tax	Due to BIR Cash in Bank – LCCA	2-02-01-010 1-01-02-120	xxx	xxx
<b>2. Payment through Cash Advances</b>				
<b>a. Cash Advance for Personnel Services</b>				
<i>Enter obligation in RAAOPS for Salaries and Wages - and Personnel Economic Relief Allowance (PERA) -.</i>				
1. Grant of Cash advance for payroll	Advances for Payroll Cash in Bank –LCCA	1-03-05-020 1-01-02-010	xxx	xxx
2. Liquidation of cash advance for payroll	Salaries and Wages – Regular PERA Due to BIR Due to GSIS Due to Pag-IBIG Advances for Payroll	5-01-01-010 5-01-02-010 2-02-01-010 2-02-01-020 2-02-01-030 1-03-05-020	xxx xxx	xxx xxx xxx xxx
<b>b. Cash Advance for Petty Cash</b>				
1. Release of cash advance for Petty Cash Fund (miscellaneous expenses)	Petty Cash Cash in Bank – LCCA	1-01-01-020 1-01-02-010	xxx	xxx
2. Replenishment of Petty Cash during the year	Traveling Expenses – Local Office Supplies Expenses Repairs and Maintenance – Machinery Equipment Other Maintenance and Operating Expenses Cash in Bank - LCCA	05-02-01-010 5-02-03-010 5-02-13-050 5-02-99-990 1-01-02-010	xxx xxx xxx xxx	xxx
<b>c. Cash advance for Travel</b>				
1. Grant of cash advance for travel	Advances to Officers and Employees Cash in Bank – LCCA	1-03-05-040 1-01-02-020	xxx	xxx

Particulars	Account Title	Account Code	Debit	Credit
2. Liquidation of cash advance during the current year (assuming that the amount utilized equaled to the amount advanced)	Travelling Expenses – Local Advances to Officers and Employees	5-02-01-010 1-03-05-040	xxx	xxx
3. Liquidation of cash advance during the current year (assuming that lesser amount was utilized than the amount advanced)	Travelling Expenses – Local Cash Local Treasury Advances to Officers and Employees	5-02-01-010 1-01-01-010 1-03-05-040	xxx xxx	xxx
4. Liquidation of cash advance during the current year (assuming that bigger amount was utilized and the excess amount was reimbursed) Note: The amount reimbursed is subject to an additional CAFOA.	Travelling Expenses – Local Cash Local Treasury Advances to Officers and Employees	5-02-01-010 1-01-01-010 1-03-05-040	xxx	xxx xxx
<b>d. Cash advance for Special Purpose/Time-bound Undertaking</b>				
1. Grant of cash advance for special purpose/time-bound undertaking	Advances to Special Disbursing Officer Cash in Bank - LCCA	1-03-05-030 1-01-02-010	xxx	xxx
<b>3. Payment by Automatic Debit Arrangement (ADA)</b>				
<b>a. Financial Expenses and Loan amortization</b>				
1. Record interest expenses based on the ADA issued per	Interest Expenses Cash in Bank - LCCA	5-03-01-020 1-01-02-010	xxx	xxx

Particulars	Account Title	Account Code	Debit	Credit
schedule of amortization and interest payments				
2. Amortization of loan	Loans Payable-Domestic Cash in Bank-LCCA	2-01-02-040 1-01-02-010	xxx	xxx
<b><i>b. Payment of payroll thru ADA</i></b>				
	Salaries and Wages – Regular PERA Due to BIR Due to GSIS Due to Pag-IBIG Cash in Bank-LCCA	5-01-01-010 5-01-02-010 2-02-01-010 2-02-01-020 2-02-01-030 1-01-02-010	xxx xxx	xxx xxx xxx xxx xxx

## **E. MISCELLANEOUS TRANSACTIONS**

**Section 98. Miscellaneous Transactions.** Miscellaneous transactions refer to transactions that are unique and not recurring in the ordinary course of operations of the government. These transaction types seldom take place or ideally should not happen at all. The following are considered miscellaneous transactions:

1. Loss of Cash and/or Property
2. Cash Overage
3. Dishonored Check
4. Lost/Spoiled/Stale/Obsolete Check
5. Settlement of Disallowances/Charges
6. Refund of Overpayments

**Section 99. Loss of Cash or Property.** Loss of cash or property may be due to malversation, theft, robbery or other causes.

Cash shortage discovered during cash examination is reported through a final narrative report on the results thereof, indicating among others, the findings and recommendations, and the management comments and audit team's rejoinder, if any. The final copies of the report shall be distributed as follows:<sup>17</sup>

- Accountable Officer;
- Head of the Agency;
- SA; and

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<sup>17</sup> COA Memorandum No. 2013-004 dated July 9, 2013

- Auditor's file.

Based on the narrative report, the Accountant shall draw a JV to take up the cash shortage.

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Cash Shortage</b>				
To take up cash shortage	Due from Officers and Employees Cash, Local Treasury (for the Local Treasurer) or Petty Cash or Advances	1-03-06-020 1-01-01-010  1-01-01-020 1-03-05-0XX	xxx	xxx  xxx xxx

(Appendix 1-B, COA Memorandum No. 2013-004 dated July 9, 2013)

In case of shortage in property accountability, on the basis of the final demand to the accountable officer issued by the Auditor pertaining thereto, the Accountant shall draw a JV to take up the shortage as a receivable from the accountable officer concerned.

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Shortage in Property</b>				
To take up shortage in property	Due from Officers and Employees Accumulated Depreciation Accumulated Impairment Losses (Appropriate asset account)	1-03-06-020 1-0x-xx-xxx  1-0x-xx-xxx 1-xx-xx-xxx	xxx xxx  xxx	xxx

**Section 100. Grant of Relief from Accountability.** When a request for relief for shortages or loss of funds is granted, a copy of the decision shall be forwarded to the Chief Accountant who shall draw a JV to record the transaction. The loss shall be debited to the Loss of Assets account and credited to the appropriate receivable account. In case the request for relief is denied, immediate payment of the shortage shall be demanded from the accountable officer. Restitution shall be acknowledged by the issuance of an official receipt.

The relief from accountability of the accountable public officer granted by the COA shall relieve the agency from responsibility for the loss or damage to public funds or property.<sup>18</sup>

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Grant of relief from cash accountability</b>				
To take up the relief from cash accountability	Loss of Assets (current year) or	5-05-04-090	xxx	

<sup>18</sup> Item F(2) Chapter IV, COA Memorandum No. 2013-004 dated July 9, 2013.

Particulars	Account Title	Acct. Code	Debit	Credit
	Prior Period Adjustments Due from Officers and Employees	3-01-01-020 1-03-06-020	xxx	xxx
<b>Denial of request for relief from cash accountability</b>				
To establish the liability of the defaulting accountable officer when his request for relief is denied	Due from Officers and Employees Cash, Local Treasury (for the Local Treasurer) or Petty Cash Advances	1-03-06-020 1-01-01-010 1-01-01-020 1-03-05-0XX	xxx	xxx xxx xxx
<b>Cash restitution can be made by the defaulting accountable officer during or after the year when the shortage was discovered.</b>				
To take up the settlement of accountability of defaulting accountable officer	Cash, Local Treasury (for the Local Treasurer) Due from Officers and Employees	1-01-01-010 1-03-06-020	xxx	xxx

(Appendix 1-D, COA Memorandum No. 2013-004 dated July 9, 2013)

In case the request for relief from accountability for loss of property caused by fire, theft, force majeure or other causes is granted, a copy of the decision shall likewise be forwarded to the Chief Accountant for the preparation of the JV. The loss shall be debited to the Loss of Assets account and credited to the receivable account from the accountable officer. If request for relief from accountability is denied, payment of the appropriate value of the lost property shall be demanded from the accountable officer.

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Grant of Relief from Accountability for Loss of Government Properties</b>				
To take up relief from accountability on loss of property by a Disbursing Officer	Loss of Assets (current year) or Prior Years' adjustments (prior years) Due from Officers and Employees	5-05-04-090 3-01-01-020 1-03-06-020	xxx xxx	xxx
<b>Denial of Relief from Accountability for Loss of Government Properties</b>				
To record the loss of property by a Disbursing Officer	no more accounting entry as at the onset the receivable was already established.			
<b>Cash Settlement in case of denial of Request for Relief from Accountability</b>				
To take up payment/settlement	Cash, Local Treasury Due from Officers and	1-01-01-010	xxx	

Particulars	Account Title	Acct. Code	Debit	Credit
	Employees	1-03-06-020		xxx

**Section 101. Cash Overage.** A cash overage determined in the examination conducted shall be recorded as ‘Miscellaneous Income’.<sup>19</sup>

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
To take up the cash overage after it has been receipted and to recognize the income account.	Cash Local Treasury Miscellaneous Income	1-01-01-010 4-06-01-010	xxx	xxx
To take up the deposit of the amount receipted	Cash in Bank, LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	xxx	xxx

(Appendix 1-E, COA Memorandum No. 2013-004 dated July 9, 2013)

**Section 102. Dishonored Checks.** A check is dishonored either by non-payment or non-acceptance. Dishonor by non-payment occurs when (a) the check is duly presented for payment and payment is refused or cannot be obtained; or (b) presentment is excused and the check is overdue and unpaid. Dishonor by non-acceptance happens when (a) the check is duly presented for acceptance, and such an acceptance as is prescribed by law is refused or cannot be obtained; or (b) presentment for acceptance is excused and the check is not accepted.

Upon receipt of the debit memo and the dishonored check(s) from the bank, constructive cancellation of the official receipt covering the dishonored check shall be immediately effected by the Treasurer on the copy in his possession. The Treasurer shall immediately photocopy the dishonored checks and record as credit in the Cashbook–Cash in Bank and cancel payment in the taxpayer’s index card. He shall also notify the collector/teller of the dishonor and the cancellation of the official receipt. The collector/teller shall note the cancellation in the triplicate copies of the receipt. The Treasurer shall then inform the Auditor who shall effect the cancellation in the duplicate copy of official receipt, in case the same has already been submitted for audit.

The Treasurer shall forward the debit memo and the photocopy of the dishonored checks to the Accountant. The Accountant shall cancel the official receipt if still in his possession. He shall prepare the JV taking up the dishonored check by crediting the Cash in Bank account and debiting the appropriate income account. In case of dishonor of check payments for RPT or SET, the accounts Due to LGUs for the share of the province and/or barangay, Cash in Bank and RPT Discount recognized, if any, shall be adjusted accordingly. The Accountant shall furnish the Treasurer with a copy of the duly approved JV. The Treasurer shall record the JV number in the Cashbook-Cash in Bank as reference in the entry effecting the cancellation of the dishonored check.

<sup>19</sup> Item E(1)&(3) Chapter IV, COA Memorandum No. 2013-004 dated July 9, 2013.



In the case of dishonored government checks received purely for accommodation or encashment, the same shall be made good by the AO who allowed the encashment.

When a check is dishonored by non-payment or non-acceptance, notice of dishonor must be given to the drawer and to each endorser, and any drawer or endorser to whom such notice is not given is discharged from liability. The notice of dishonor shall be furnished to the Agency Head, Accountant, Auditor and a copy thereof retained by the Collecting Officer (CO). The CO shall cancel the OR covering the dishonored check. If necessary, the head of the agency shall promptly institute the corresponding action for the collection of the amount involved. The CO neglecting or failing to give the required notice of dishonor to the drawer (or to the endorser-payor of the government check), who, as a result thereof, is discharged from liability, shall be personally answerable for the resulting loss suffered by the government.

The making, drawing and issuance of a check payment of which is refused by the drawee because of insufficient funds in or credit with the bank, when presented within ninety (90) days from the date of the check, shall be *prima facie* evidence of knowledge of such insufficiency of funds or credit unless such maker or drawer pays the holder thereof the amount due thereon, or makes arrangements for payment in full by the drawee of such check within five (5) banking days after receiving notice that such check has not been paid by the drawee. A dishonored check shall be settled by tendering payment in cash or by certified check to the CO concerned. No other mode of payment shall be accepted. Upon settlement of the dishonored check in the manner herein prescribed, the CO shall not return the check to the payor concerned unless the latter first surrenders the previous OR therefor. If the previous OR is no longer available, sworn statement to the effect that it has been lost or misplaced should be submitted by the payor.

Dishonored checks shall remain in the custody of the CO, pending their redemption, unless the agency head or the court shall direct otherwise, in which case appropriate receipts should be secured from the officer authorized to take custody of the checks. The CO shall immediately advise the transfer of custody of the check.<sup>20</sup>

Whenever a payor has a record of a previously dishonored private check drawn by him in payment of taxes and dues, even if such check has already been settled, any private check presented by him shall no longer be accepted. In such case, the payor shall be required to pay only in cash or by certified check.

Each head, or treasurer, in the local government units, shall make a list of payors whose checks have been dishonored and shall circularize the list to all COs under his jurisdiction.<sup>21</sup>

***Illustrative accounting entry:***

Particulars	Account Title	Acct. Code	Debit	Credit
Dishonored Checks				

<sup>20</sup> Chapter II, COA Memorandum No. 2013-004 dated July 9, 2013.

<sup>21</sup> Item No. 28, Chapter II, COA Memorandum No. 2013-004 dated July 19, 2013.

Particulars	Account Title	Acct. Code	Debit	Credit
<i>From payment of real property tax in the current year or prior year</i>				
Upon receipt of advice of dishonored check and cancellation of Official Receipt	Due to LGUs Real Property Tax Receivable Cash in Bank, LCCA	2-02-01-070 1-03-01-020 1-01-02-010	xxx xxx	xxx
Receipt of refund/settlement	Cash, Local Treasury Real Property Tax Receivable Due to LGUs	1-01-01-010 1-03-01-020 2-02-01-070	xxx	xxx xxx

**Section 103. Cancellation of Lost Check Issued.** A check is considered lost when it is misplaced, waylaid or left behind inadvertently/negligently by the payee or holder in due course or by the custodian/carrier thereof and after diligent search cannot be found or located; or when it is lost due to fortuitous event, theft or robbery.

Upon submission of sworn statement from the payee that a check issued by the LGU is lost, the treasurer shall immediately notify the bank concerned for the stoppage of payment. He shall forward the sworn statement to the accountant who shall prepare the JV to cancel the payment made. Copy of the JV shall be furnished the treasurer as basis for him to debit the amount in the Cashbook – Cash in Bank.

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Lost/Destroyed/Stale/Obsolete Checks</b>				
<i>Check issued in the current/prior year for replacement</i>				
Check cancellation	Cash in Bank, LCCA Accounts Payable	1-01-02-010 2-01-01-010	xxx	xxx
Replacement	Accounts Payable Cash in Bank, LCCA	2-01-01-010 1-01-02-010	xxx	xxx

**Section 104. Spoiled and Stale Checks.** Checks may be cancelled when they become spoiled or stale. A check is considered spoil when, it is torn, mutilated, defaced or with erasures/errors affecting the genuineness of any material information contained therein.

It is stale, if it has been outstanding for over six months from date of issue or as prescribed by the depository bank. At least one month before a check becomes stale, the Treasurer shall send a written notice to the payee of the existence of the check.

A spoiled or stale check shall be marked cancelled on its face and reported as follows:

1. For spoiled checks which are immediately cancelled and for which the Report of Checks Issued (RCI) has not yet been prepared, the cancelled check shall be attached to the RCI and reported chronologically with the other checks issued and the word “Cancelled” shall be indicated on the report.

2. For stale checks which have been unclaimed and thus, the original DV and supporting documents are still with the Treasurer, the cancelled check shall be presented in the RCI after the last check issued for the period indicated in the report. The original DV and supporting documents shall be returned to the Accountant who shall prepare a JV to record the transaction as Accounts Payable.
3. For checks which became spoiled or stale in the hands of the payee and which require replacement, a new check may be issued upon submission of the spoiled or stale check to the Treasurer. A certified copy of the DV shall be requested from the Auditor for presentation to the Administrator/Local Chief Executive who shall countersign the check. The cancelled check shall be reported and attached to the RCI prepared at the period of cancellation. The replacement check shall also be reported chronologically in the RCI.

**Section 105. Disallowances and Charges.** The Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that all disallowances and charges that have become final and executory as contained in the Notice of Finality of Decision are recorded in the books of accounts.<sup>22</sup>

Accordingly, the Chief Accountant shall, on the basis of the NFD, draw a JV to record in the books of accounts, the disallowance and/or charge as a receivable and credit the appropriate expense account for current year transactions or prior years' adjustment if pertaining to expenses of previous years.<sup>23</sup>

Subsidiary ledgers/records are maintained and properly updated for each official/employee determined to be liable/responsible for the amount disallowed/charged/suspended.<sup>24</sup>

Cash settlement of disallowances shall be recorded by debiting Cash in Treasury and crediting the Receivable – Disallowances and Charges account.

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Disallowances and Charges</b>				
<b><i>a. Recording of disallowance for current year's transaction</i></b>				
When the disallowance becomes final and executory –	Receivables –			
Overpayment of Office Supplies	Disallowances/Charges	1-03-06-010	10	
Amount paid - P100	Office Supplies Inventory	1-04-04-010		10
Should be - 90				
Difference - 10				

<sup>22</sup> Item No. 7.2.1(d), COA Circular No. 2009-006 dated September 15, 2009.

<sup>23</sup> Item No. 22.6. Ibid.

<sup>24</sup> Item No. 7.2.1. Ibid.

Particulars	Account Title	Acct. Code	Debit	Credit
Settlement of Disallowance	Cash, Local Treasury Receivables – Disallowances/ Charges	1-01-01-010 1-03-06-010	10	10
<b>b. Recording of disallowance for prior year's transaction</b>				
When the disallowance becomes final and executory and the Office Supplies Inventory were already charged to Office supplies Expenses	Receivables – Disallowances/ Charges Prior Period Adjustments	1-03-06-010 3-01-01-020	10	10
Settlement of disallowance	Cash, Local Treasury Receivables – Disallowances/ Charges	1-01-01-010 1-03-06-010	10	10
<b>c. Settlement of Charges</b>				
<b>c.1 Recording of charges which collection were made in the current year</b>				
When the charge becomes final and executory – Underpayment of Franchise Tax  Amount Paid - P 100 Should be - 110 Charge - 10  Settlement	Receivables – Disallowances/ Charges Franchise Tax   Cash, Local Treasury Receivables – Disallowances/ Charges	1-03-06-010 4-01-03-070   1-01-01-010 1-03-06-010	10   10	10   10
<b>c.2 Recording of charges which collection were made in the prior year</b>				
When the charge becomes final and executory	Receivables – Disallowances/ Charges Prior Period Adjustments	1-03-06-010 3-01-01-020	10	10
Settlement	Cash, Local Treasury Receivables – Disallowances/ Charges	1-01-01-010 1-03-06-010	10	10

### Section 106. Refund of Overpayments.

Particulars	Account Title	Acct. Code	Debit	Credit
<b>Refund of Overpayment</b>				
<b>a. Overpayment taken up as receivable</b>				
To record overpayment of salaries and wages (When overpayment is ascertained)	Due from Officers and Employees Salaries and Wages – Regular Pay	1-03-06-020 5-01-01-010	xxx	xxx
To record refund of overpayment	Cash, Local Treasury Due from Officers and Employees	1-01-01-010 1-03-06-020	xxx	xxx

Particulars	Account Title	Acct. Code	Debit	Credit
<i>b. Refund of overpayment not taken up as receivable</i>				
Refund of overpayment of Salaries and Wages – Regular Pay during the current year	Cash, Local Treasury Salaries and Wages – Regular	1-01-01-010 5-01-01-010	xxx	xxx
To take up refund of over – payment in the ensuing year	Cash, Local Treasury Prior Period Adjustments	1-01-01-010 3-01-01-020	xxx	xxx

## Chapter 4

### SPECIAL FUNDS

#### A. SPECIAL EDUCATION FUND

**Section 107. Special Education Fund.** The Special Education Fund (SEF) consists of the proceeds of the one percent (1%) tax on the assessed value of real property in addition to the basic real property tax, which a province, a city, or a municipality may levy and collect.

**Section 108. Accrual of the proceeds from SEF.** The proceeds of the additional one percent (1%) real property tax accruing to special education fund shall automatically be transferred to the SEF depository accounts and recognized in the SEF books of accounts.

**Section 109. Allocation of Proceeds of the SEF.** In case of provinces, the proceeds of the special education tax shall be divided equally between the provincial and municipal school boards while in the city, the proceeds shall be solely for the city school board.

**Section 110. Application of Proceeds of the Additional One Percent (1%) SEF Tax.** Said proceeds shall be applied as determined and approved by the local school boards concerned only for the following purposes:<sup>25</sup>

- a. Operation and maintenance of public schools;
- b. Construction and repair of school buildings, facilities and equipment;
- c. Educational research;
- d. Purchase of books and periodicals; and
- e. Sports development.<sup>26</sup>

**Section 111. Special Education Fund Budget.** The Local School Board shall determine in accordance with the criteria set by DepEd, the annual supplementary budgetary needs for the operation and maintenance of public schools within the province, city, or municipality as the case may be, and the supplementary local cost of meeting such needs, which shall be reflected in the form of an annual school board budget corresponding to its share from the proceeds of the special levy on real property constituting the SEF and such other sources of revenue as the Local Government Code and other laws or ordinances may provide.

The division superintendent, city superintendent, or district supervisor, as the case may be, shall prepare the budget of the school board concerned. Such budget shall be supported by programs, projects and activities of the school board for the ensuing fiscal year.<sup>27</sup>

The annual school board shall give priority to the following:

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<sup>25</sup> Sec. 272, RA 7160.

<sup>26</sup> Sec. 99(a), *Ibid.*

<sup>27</sup> Sec. 100(b), *Ibid.*

- a. Construction, repair and maintenance of school buildings and other facilities of public elementary and secondary schools;
- b. Educational research, purchase of textbooks and instructional materials
- c. Establishment and maintenance of extension classes when necessary; and
- d. Holding of sports activities at the division, district, municipal, and barangay levels.

**Section 112. Recording of Special Education Tax Receivable.** Special Education Tax Receivable shall be established at the beginning of the year based on Real Property Tax Account Register (RPTAR) index card. The Treasurer shall furnish the Chief Accountant of a duly certified list showing the names of taxpayers and the amount due and collectible for the year. Based on the list, the Chief Accountant shall draw a JV debiting Special Education Tax Receivable and crediting Special Education Tax.

**Section 113. Collection Procedures for the Special Education Tax.** The additional one percent (1%) tax on real property shall be collected simultaneously with the basic real property tax.

Procedures for the turn-over of collections, frequency of deposit of collection with the bank, preparation of report of collections, verification of collections and accountable forms, preparation of report of accountability for accountable forms as well as consolidation of reports of accountable forms shall be the same as that prescribed for collections in the General Fund.

**Section 114. Separate Cashbook for Special Education Fund.** The Treasurer and/or the concerned accountable officers shall maintain separate cashbook for the SEF which shall be in accordance with the prescribed format.

**Section 115. Separate Registries, Books of Accounts, and Financial Reports for Special Education Fund.** The Accounting Office shall maintain the registries for the appropriations, allotment and obligations and books of accounts for SEF. The Local Accountant shall prepare separate Trial Balance and financial reports such as the Statement of Financial Position, Statement of Financial Performance, Statement of Cash flows, Statement of Net Assets/Equity, Statement of Comparison of Budgets and Actual Amounts and Notes to Financial Statements to be submitted within the prescribed timeline.

**Section 116. Preparation and Control of Certification on Appropriation, Funds and Obligation of Allotment (CAFOA) for Special Education Fund.** The requesting official which may be the division/city superintendent/district supervisor shall prepare and sign the CAFOA. The Budget Officer shall certify as to the existence of appropriation for the proposed expenditure, the Treasurer shall certify as to the availability of funds for the proposed obligation, and the Local Accountant shall certify as to availability of unobligated allotments for the obligation and shall record the same in the appropriate Registry of Appropriations, Allotments and Obligations. The CAFOA shall form an integral part of the disbursement voucher/payroll and the certifications of the local budget officer, local treasurer and local accountant thereon shall serve as their certification of the disbursement as required by law.

**Section 117. Disbursement Procedures.** Disbursement procedures including the reports to be submitted by the accountable officer concerned shall be the same as those for

the General Fund. However, the division/city superintendent of schools or the district supervisor concerned, as the case may be, shall certify vouchers or payrolls as to validity, propriety, and legality of the claim involved and the Local Chief Executive shall approve the disbursements as chairman of the local school board.

**Section 118. Inventory Process.** The inventory accounting system/process including the forms to be used and the reports to be prepared for the inventory shall be the same as those of the General Fund. However, separate inventory records and stock cards for Special Education Fund shall be maintained by the Accounting Office and the General Services Officer or the Treasurer, as the case may be. Likewise, separate Summary for Supplies and Materials Issued pertaining to the fund shall be prepared.

**Section 119. Reporting.** The procedures for the preparation and the submission of trial balance and financial reports for Special Education Fund shall be the same as those of the General Fund. The trial balance and financial statements shall be distributed as follows:

- a. COA Audit Team Leader – 1 copy
- b. COA Supervising Auditor – 1 copy
- c. Division/City Superintendent/District Supervisor – 1 copy
- d. Provincial/City/Municipal Accountant – 1 copy

***Illustrative Accounting Entries – Pro-forma***

Particular	Account Title	Account Code	Debit	Credit
A. Accounting for budgetary accounts				
To record the estimated source of fund.	Estimates of Income/ Revenues/Receipts	3-05-02-010	100,000	
Tax Revenue Special Education Tax Current Year 100,000	Estimates-Internal Sources	3-05-02-020		100,000
To record the approved local school board budget/appropriation	Appropriations – Annual Budget	3-05-02-040	100,000	
Education, Culture, Sports  Public Education-Elementary/Secondary schools  MOOE 30,000 Capital Outlay 70,000	Legislative Appropriations	3-05-02-060		100,000
To record the release of allotment.	Legislative Appropriations	3-05-02-060	100,000	
Public Education	Current Allotment	3-05-02-070		100,000



Particular	Account Title	Account Code	Debit	Credit
Elementary/Secondary schools  MOOE 30,000 CO 70,000				
To record the obligations	Current Allotment	3-05-02-070	20,000	
Electricity expenses – P20,000	Obligations - Current Allotment	3-05-03-010		20,000
<b>B. Accounting for financial transactions</b>				
1. To record the accrual of the Tax Total 100,000  Share of the municipality 50,000	Special Education Tax Receivable Special Education Tax (as far as the share of the collecting LGU)	1-03-01-030 4-01-02-050	50,000	50,000
2. Collection of SET receivables	Cash Local Treasury Special Education Tax Receivable Due to LGUs	1-01-01-010 1-03-01-030 2-02-01-070	100,000	50,000 50,000
3. Remittance of share of the province	Due to LGUs Cash in Bank LCCA	2-02-01-070 1-01-02-010	50,000	50,000
4. Payment of electric bill	Electricity Expenses Cash in Bank LCCA	5-02-04-020 1-01-02-010	20,000	20,000

## **B. TRUST FUND**

**Section 120. Definition of Trust Fund.** Trust Fund shall consist of private and public monies which have officially come into the possession of the local government or of a local government official as trustee, agent or administrator, or which have been received as a guaranty for the fulfilment of some obligation. A trust fund shall only be used for the specific purpose for which it was created or for which it came into the possession of the local government unit.

**Section 121. Separate Books of Accounts for Trust Fund.** Separate set of books complete with subsidiary ledgers shall be maintained for the Trust Fund.

**Section 122. Separate Cashbook for Trust Funds.** The Treasurer shall maintain a separate cashbook for the Trust Funds which shall be in accordance with the prescribed format. Specific trust receipts which require the maintenance of a separate bank account, a separate column specific for the account shall be maintained in the cashbook.

**Section 123. Fund Utilization Request and Status.** Utilization of trust receipts for implementation of projects shall be covered and monitored using a Fund Utilization Request and Status (FURS). FURS shall be prepared by the requisitioning office administering the trust receipts and the Local Accountant shall certify as to availability of funds per accounting records. FURS shall be posted in the Registry of Special Trust Fund.

**Section 124. Registry of Special Trust Fund.** A Registry of Special Trust Fund (RSTF) shall be maintained for each trust receipt for specific purpose. All receipts to the specific trust shall be recorded in the RSTF and all charges to the specific trust receipt as supported by FURS shall be recognized in the RSTF.

**Section 125. Receipts Accruing to the Trust Fund.** Grants and transfers coming from foreign funding institutions, private institutions/individuals and from all levels of the government for specific projects/purpose shall accrue to the Trust Fund. The following list are examples of trust receipts:

- a. Donations from private entities for specific purposes
- b. Fund Transfers from other government agencies with binding agreement or specific purpose as indicated in the release documents. The following are examples of fund transfers:
  1. From the national government  
(e.g. transfers from DILG for specific purpose, Conditional Matching Grant for Provinces (CMGP))
  2. From other LGUs  
(e.g. projects of provincial government implemented by municipalities)
  3. From other public sector entities  
(e.g. transfers of GOCCs to LGUs for specific purpose)
  4. From foreign governments  
(e.g. donations for specific purposes)
- c. Unexpended Balance of Disaster Risk Reduction and Management Fund (DRRMF)
- d. LGU counterpart contributions for specific projects accounted for under the Trust Fund

Loans of LGUs for income generating projects from the Municipal Development Fund Office (MDFO) shall be recorded in the General Fund.

**Section 126. Recognition of Trust Receipts.** Trust receipts shall be recognized and accounted for as Liability in the Trust Fund books of account.

**Section 127. Receipts from Donations and Grants for Specific Purposes.** Trust receipts from donations and grants from private entities for specific purposes shall be recognized as Trust Liabilities.

**Section 128. Fund Transfers from Other Government Agencies with Binding Agreement or Specific Purpose.** Fund transfers from NGAs, GOCCs and other LGUs for

specific purpose recognized as Due From by the source agency shall be recognized as a Due to NGAs, Due to GOCCs and Due to LGUs, respectively.

**Section 129. Fund Transfers from Foreign Governments with Binding Agreement or Specific Purpose.** Fund transfers from foreign governments with binding agreement or specific purpose shall be recognized as Trust Liabilities.

**Section 130. Unexpended Balance of DRRMF.** Unexpended Balance of DRRMF other than those appropriated for capital outlays shall be transferred to the Trust Fund and recognized as Trust Liabilities - DRRMF.

**Section 131. LGU counterpart contributions for specific projects accounted for under the Trust Fund.** LGU counterpart contributions for specific projects accounted under the Trust Fund shall be transferred to the Trust Fund books and recognized as Trust Liabilities.

**Section 132. Cash Collection Procedures.** Cash collections for the Trust Fund shall be acknowledged through the issuance of an official receipt. Procedures for the turnover of collections, frequency of deposit of collection with the bank, preparation of report of collections, verification of collections and accountable forms, preparation of report of accountability for accountable forms as well as consolidation of reports of accountable forms shall be the same as that prescribed for collections in the General Fund.

**Section 133. Collection through the Bank.** The Accountant shall draw a JV to record the receipt of funds for the Trust Fund based on the bank credit memo. The Local Treasurer shall be furnished a copy of the JV for recognition of the receipt in the cash book. The source agency shall also be furnished a copy of the JV to inform the recording of the collection in the books of account.

**Section 134. Recognition of Expenditures.** Upon incurrence of expenditures, the appropriate expense or asset account shall be recognized.

**Section 135. Certification and Approval of Disbursements from Trust Funds.** Disbursements shall require the following certifications:

- a. Certification of vouchers and payrolls as to validity, propriety and legality of the claim involved by the department/ office head administering the trust fund;
- b. Certification as to completeness of supporting documents by the Accountant;
- c. Approval by the Local Chief Executive/Administrator of the fund.

FURS shall be an integral part of the DV.

**Section 136. Disbursement Procedures.** Disbursement procedures including the reports to be submitted by the accountable officer concerned are the same as those for the General Fund.

**Section 137. Recognition of the Revenue.** Upon fulfillment of the condition or purpose of the trust receipt, the corresponding liability account shall be reduced and the revenue account credited. The revenue account to be recognized for each specific trust receipts shall be as follows:

- a. Receipts from private individuals or entities for Donation and Grants for Specific Purposes – Trust receipts utilized for the purpose shall be closed to the Grants and Donations in Cash account.
- b. Fund Transfers from Other Government Agencies with Binding Agreement or Specific Purpose – Trust receipts utilized for the purpose shall be closed Transfers from NGA/LGU/GOCC account.
- c. Fund Transfers from Foreign Governments with Binding Agreement or Specific Purpose – Trust receipts utilized for the transfers from foreign governments with binding agreement or specific purpose shall be closed to the Grants and Donations in Cash account.
- d. Unexpended Balance of the DRRMF – Trust receipts utilized shall be closed to the Transfer from General Fund of Unspent DRRMF account.
- e. LGU counterpart contributions for specific projects accounted for under the Trust Fund – Trust receipts utilized shall be closed to the Transfer from General Fund of LGU Counterpart/ Equity Share account.

Partial fulfillment of the condition and submission of liquidation report to the source agency shall be recorded as a reduction to the liability account and the recognition of Other Deferred Credits account, if the purpose is for the implementation of a capital asset. The Other Deferred Credit account shall be closed to the revenue account upon complete fulfillment of the condition.

#### **Section 138. Reporting guidelines.**

- a. The Monthly report on the utilization of funds received for disaster activities from NDRRMC, other LGUs, other sources and the unexpended balance transferred to Trust Fund shall be prepared and submitted to the NDRRMC through the Office of the Civil Defense, DILG, and the grantor (Annex 1).
- b. Liquidation Report or Report on the Utilization for each trust receipt received for implementation of projects shall be prepared monthly or in a frequency as may be required in the Memorandum of Agreement or regulations covering the trust releases. The Liquidation Report or Report on the Utilization shall be certified correct by the Accountant and submitted to the source agency. The original copies of the voucher/payroll and all supporting documents shall be forwarded by the Accountant to the COA Auditor of the implementing agencies for the audit of the transactions.

**Section 139. Year-end Closing Entries.** All nominal accounts, (revenues and expenses) shall be closed to the Income and Expense Summary account. In case of capital expenditures, the Property, Plant and Equipment (PPE) account recognized for the implementation of the project shall be closed to the Government Equity account and transferred to the General Fund books or the source agency, as the case may be.

**Section 140. Trial Balance and Financial Reports.** The procedures for the preparation and the submission by the Accountant of trial balance and financial reports shall be the same as those of the General Fund except that no Statement of Comparison of Budget and Actual Amount (SCBAA) shall be prepared, in view of the absence of the budget in the Trust Fund.

***Illustrative Accounting Entries (Pro-forma)***

Particular	Account Title	Account Code	Debit	Credit
DRRMF				
<b>1. Unexpended balance of DRRMF current year</b>				
Trust Fund books				
a. Transfer of unexpended/ unobligated balance of the QRF and DRRMF MOOE from General Fund	Cash Local Treasury Trust Liability-DRRMF	1-01-01-010 2-04-01-020	xxx	xxx
b. Deposit of collection	Cash in Bank LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	xxx	xxx
Note: General Fund Book Transfer of unexpended balance	Transfer of Unspent Current Year DRRMF to Trust Fund Cash in Bank LCCA	5-02-15-010 1-01-02-010	xxx	xxx
c. Grant of cash advance for the travelling expenses	Advances to Officers and Employees Cash In Bank LCCA	1-03-05-040 1-01-02-010	xxx	xxx
d. Liquidation of cash advance for travelling expenses	Travelling Expenses- Local Advances to Officers and Employees	5-02-01-010 1-03-05-040	xxx	xxx
End of the year				
e. Close the liability account for the use of the expense incurred out of Trust Liability -DRRMF	Trust Liability DRRMF Transfer from General Fund of Unspent DRRMF	2-04-01-020 4-03-02-020	xxx	xxx
f. To close the transfer from General Fund to Income and Expense Summary account	Transfer from General Fund of Unspent DRRMF Income and Expense Summary	4-03-02-020 3-02-01-010	xxx	xxx
g. To close the expense account to Income and Expense Summary account.	Income and Expense Summary Travelling Expenses-	3-02-01-010	xxx	

Particular	Account Title	Account Code	Debit	Credit
	Local	5-02-01-010		xxx
<b>Cash Donation from Rotary Club for the purchase of 30 units nebulizers and the return of any unspent amount.</b>				
a. Receipt of cash donation	Cash Local Treasury Trust Liabilities	1-01-01-010 2-04-01-010	xxx	xxx
b. Deposit of collections	Cash in Bank LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	xxx	xxx
c. To record the purchase of nebulizers and receipt of delivery	Medical Equipment Due to BIR Accounts Payable	1-07-05-110 2-02-01-010 2-01-01-010	xxx	xxx xxx
d. Payment of procured equipment	Accounts Payable Cash in Bank LCCA	2-02-01-010 1-01-02-010	xxx	xxx
e. To record the return of unused fund to the Rotary Club	Trust Liabilities Cash in Bank LCCA	2-04-01-010 1-01-02-010	xxx	xxx
f. Upon fulfilment of the purpose of the grant	Trust Liabilities Grants and Donation in Cash	2-04-01-010 4-04-02-010	xxx	xxx
g. Close the income account	Grants and Donation-in Cash Income and Expense Summary	4-04-02-010 3-02-01-010	xxx	xxx
h. Close the income and expense account to Government Equity	Income and Expenses Summary Government Equity	3-02-01-010 3-01-01-010	xxx	xxx
i. Transfer of medical equipment to General Fund	Government Equity Medical Equipment	3-01-01-010 1-07-05-110	xxx	xxx
<b>Fund transfer from DPWH for the purchase of construction and heavy equipment with an agreement that the ownership will be transferred to the LGU</b>				
a. Receipt of fund	Cash Local Treasury Due to NGAs	1-01-01-010 2-02-01-050	xxx	xxx
b. Purchase of heavy equipment and receipt of delivery	Construction and Heavy Equipment Due to BIR Accounts Payable	1-07-05-080 2-02-01-010 2-01-01-010	xxx	xxx xxx

Particular	Account Title	Account Code	Debit	Credit
c. Payment of procured equipment	Accounts Payable Cash in Bank LCCA	2-01-01-010 1-01-02-010	xxx	xxx
d. Remittance to BIR	Due to BIR Cash in Bank LCCA	2-02-01-010 1-01-02-010	xxx	xxx
e. Submission of report and fulfilment of the purpose of the fund	Due to NGAs Transfers from National Government	2-02-01-050 4-03-02-030	xxx	xxx
f. Closing Entries	Transfers from National Government Income and Expense Summary	4-03-02-030 3-02-01-010	xxx	xxx
	Income and Summary Government Equity	3-02-01-010 3-01-01-010	xxx	xxx
g. Transfer of equipment to General Fund	Government Equity Construction and Heavy Equipment	3-01-01-010 1-07-05-080	xxx	xxx
<b>Receipt of grant with counterpart fund from LGU</b>				
The Construction of Multi-purpose building as agreed upon between grantor, a private entity, and LGU: Grantor                    1.0 M LGU counterpart <u>.5 M</u> Total <u>1.5 M</u>				
a. Receipt of fund from the grantor	Cash in Bank LCCA Trust Liabilities	1-01-02-010 2-04-01-010	1,000,000	1,000,000
b. Receipt of fund from the General Fund for the LGU counterpart	Cash in Local Treasury Trust Liabilities	1-01-01-010 2-04-01-010	500,000	500,000
Note : Entry in the General Fund book	Transfer for Project Equity Share/LGU Counterpart Cash in Bank LCCA	5-02-15-020 1-01-02-010	500,000	500,000
c. Payment of 100% accomplished –Construction of Building	Construction in Progress-Building and Other Structures	1-07-10-030	xxx	

Particular	Account Title	Account Code	Debit	Credit
	Due to BIR	2-02-01-010		xxx
	Cash in Bank LCCA	1-01-02-010		xxx
d. Transfer of construction in progress to PPE account	Building Construction in Progress – Building & Structures	1-07-04-010 1-07-10-030	xxx	xxx
e. Remittance of tax to BIR	Due to BIR Cash in Bank LCCA	2-02-01-010 1-02-02-020	xxx	xxx
f. End of the year closing of the Trust Liability account for the project equity share	Trust Liabilities Transfer from General Fund of LGU Counterpart/Equity Share	2-04-02-010 4-03-02-010	xxx	xxx
g. Close the trust liability account to income account	Trust Liabilities Grants and Donation-in Cash	2-04-01-010 4-04-02-020	xxx	xxx
h. To close the transfers account to the income and expense accounts	Transfer from General Fund of LGU Counterpart/Equity Share Income and Expense Summary	4-03-02-010 3-02-01-010	xxx	xxx
i. To close the income account to the income and expense summary	Grants and Donation in Cash Income & Expense Summary	4-04-02-020 3-02-01-010	xxx	xxx
j. To close the Income and Expense Summary account to the Government Equity	Income & Expense Summary Government Equity	3-02-01-010 3-01-01-010	xxx	xxx
k. Transfer of building to the General Fund	Government Equity Building	3-01-01-010 1-07-04-010	xxx	xxx
Note: Entry in the General Fund	Building Government Equity	1-07-04-010 3-01-01-010	xxx	xxx
<b>Fund transfer from the Province to the Municipality for the purchase of computers</b>				
a. Receipt of funds	Cash Local Treasury Due to LGUs	1-01-01-010 2-02-01-070	xxx	xxx



<b>Particular</b>	<b>Account Title</b>	<b>Account Code</b>	<b>Debit</b>	<b>Credit</b>
b. Note: Entry in the General Fund book of the Province	Due from LGUs Cash in Bank LCCA	1-03-03-030 1-01-02-010	xxx	xxx
c. Deposit of funds	Cash in Bank LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	xxx	xxx
d. Purchase of computer and receipt of delivery	Information & Community Technology Equipment Due to BIR Accounts Payable	1-07-05-030 2-02-01-010 2-01-01-010	xxx	xxx xxx
e. Payment of procured computer	Accounts Payable Cash in Bank LCCA	2-01-01-010 1-01-02-010	xxx	xxx
f. Remittance to BIR	Due to BIR Cash in Bank LCCA	2-02-01-010 1-01-02-010	xxx	xxx
g. Completion/fulfilment of the purpose	Due to LGUs Transfers from Other LGUs	2-02-01-070 4-03-02-040	xxx	xxx
h. Close the income accounts	Transfers from Other LGUs Income and Expense Summary	4-03-02-040 3-02-01-010	xxx	xxx
i. Close the income and expense summary account to Government equity	Income & Expense Summary Government Equity	3-02-01-010 3-01-01-010	xxx	xxx
j. Transfer of computers to General Fund since per agreement the ownership is transferred to the Municipality	Government Equity Information & Community Technology Equipment	3-01-01-010 1-07-05-030	xxx	xxx

## Chapter 5

### SPECIAL ACCOUNTS

**Section 141. Special Accounts in the General Fund (GF).** Local government units (LGU) shall maintain special accounts in the General Fund for public utilities and economic enterprises; development projects funded from the share of the LGU from the internal revenue collections and from the national wealth; loans, interests, bond issues; and other contributions for special purposes. Other special accounts which may be created by law or ordinance shall also be maintained separately under the GF.

**Section 142. Classification of Special Accounts under the General Fund.** Special accounts under the General Fund are classified into: (a) Local Economic Enterprises (LEE) and Public Utilities (PU); and (b) Other Special Accounts.

**Section 143. Accounting Books, Reports and Registries to be Prepared and Maintained.** Each local economic enterprise and public utility is considered distinct from the others, and is to be maintained with complete subsidiary records for all accounts (assets, liabilities and equity). In case the LGU maintains a number of the same type of LEE or PU, each shall have its own set of subsidiary ledger with distinct title (e.g. 6 hospitals - 6 subsidiary ledgers to be distinctly labelled as Hospital 1, Hospital 2, Hospital 3, etc.). All other special accounts shall each be maintained with separate subsidiary ledgers for the receipts, transfers and expenditures, which shall be distinctly labelled. (e.g. Other Special Account-Share from IRA; Other Special Account-Share from National Wealth, etc.). The Budget and Accounting Office of the LGU shall maintain separate registries for appropriations and obligations, respectively.

**Section 144. Objectives for the Maintenance of Special Accounts under the General Fund.** Separate accounting records for the operation of LEEs and PUs and the other special accounts are maintained in order to:

- a. Provide adequate information regarding the assets, liabilities and equity of the LEEs and PUs; and the receipt and utilization of funds of the other special accounts;
- b. Determine whether the LEEs or PUs have become financially self-sustaining establishments while providing basic needs and services to the public as envisioned by RA 7160; and
- c. Monitor the utilization of funds sourced from the 20% of the internal revenue allotment, share from national wealth, other special sources, as well as loans taken by the local government unit and the transformation of these funds into development projects and purposes set by the governing laws.

#### **A. Local Economic Enterprises and Public Utilities**

**Section 145. Local Economic Enterprises (LEE).** LEEs are revenue-generating establishments created for the purpose of improving production and delivery of basic goods

or services for a specific market or client group.<sup>28</sup> Such establishments may or may not be profitable at all times, or made available to the public at no charge or nominal charge. LEEs include, but are not limited to:

- a. Public markets or shopping malls;
- b. Slaughterhouses;
- c. Sports, cultural and recreation centers;
- d. Hostels and dormitories;
- e. Parking lots;
- f. Ice plants;
- g. Hospitals;
- h. Special and tertiary schools;
- i. Cemeteries and crematoria;
- j. Housing Units for Rent under Operating Lease; and
- k. Other LEEs that may be created by law or ordinance.

**Section 146. Public Utilities (PU).** A PU is a revenue-raising undertaking created for the purpose of providing a basic need or service to the general public which otherwise cannot be provided adequately by the private sector.<sup>29</sup> PUs include, but are not limited to the operation of:

- a. Waterworks system;
- b. Solid waste management system;
- c. Telephone system;
- d. Electric and power services;
- e. Public transport and terminal station services; and
- f. Other public utilities that may be created by law or ordinance.

**Section 147. Creation of LEEs and PUs.** The creation of economic enterprise or public utility is authorized by the local Sanggunian through the enactment of an ordinance, citing the justifications as to its viability or capacity to exist on its own funds. It is supported with a business development plan (long-term, medium-term and annual plan) stating its mission or purpose, clients or beneficiaries, strategies, activities and projects, organizational structure, financial plan or budget and expected returns.<sup>30</sup> Prior to the enactment of ordinance, the economic enterprise or public utility is adopted and approved by the Local Development Council (LDC) after subjecting the proposal to public hearings and deliberations by concerned sectors and stakeholders.

**Section 148. Fund source for a newly-established or existing LEE or PU.** The funding requirement for the establishment or facility of a newly created or existing LEE or PU may be sourced from: (a) the General Fund Proper; (b) 20% Development Fund; (c) other sources such as loans or donations; or (c) combination of such sources.

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<sup>28</sup> *Budget Operations Manual [BOM] for Local Government Units.*

<sup>29</sup> *Ibid.*

<sup>30</sup> *Ibid.*

- a. Fund sourced from the GF – The amount shall be specifically appropriated by the local government concerned in its Annual Budget. The transfer from the General Fund Proper shall be treated as subsidy to the LEE.

***Illustrative transaction and entry:***

GF-Proper Books					LEE Books			
Particulars	Account Title	Account Code	Debit	Credit	Account Title	Account Code	Debit	Credit
Receipt of subsidy from the General Fund- Proper through bank transfer	Subsidy to Local Economic Enterprise/Public Utilities	5-02-14-080	500,000		Cash in Bank, LCCA	1-01-02-010	500,000	
	Cash in Bank, LCCA	1-01-02-010		500,000	Subsidy from General Fund Proper	4-03-01-050		500,000

- b. Fund sourced from the 20% Development Fund –The 20% Development Fund shall be utilized to finance the LGU’s priority development projects, as embodied in its duly approved local development plans and Annual Investment Program (AIP), which should be directly supportive of the Philippine Development Plan and Public Investment Program. All development projects to be funded under the 20% DF shall contribute to the attainment of desirable socio-economic development and environmental management outcomes of the LGU, and shall partake the nature of investment or capital expenditures.<sup>31</sup> Sample transactions and illustrative accounting entries are shown under Item B.1.
- c. Fund sourced from external loans or credit financing – The amount loaned is recorded in the LEE’s books and the borrowing costs incurred are capitalized during the construction of the qualifying asset in accordance with IPSAS 5. Sample transactions and illustrative accounting entries are shown under Item B.4.
- d. Fund sourced from donations or combination of several sources – The cash donations are recorded at cost while donations in kind are measured at fair value at the date of transaction.

***Sample transactions and illustrative accounting entries:***

Transactions	LEE Books			
	Account Title	Account Code	Debit	Credit
Receipt of cash donation of P1 million from the national government for the LEE operation.	Cash in Treasury	1-01-01-010	1,000,000	
	Grants and Donations in Cash	4-04-02-010		1,000,000
Receipt of medical equipment from the national government.	Medical Equipment	1-07-05-110	2,500,000	
	Grants and Donations in Kind	4-04-02-020		2,500,000

**Section 149. Fees or rates for the operation of the LEE or PU.** Local government units may fix the rates for the operation of PUs owned, operated and maintained by them

<sup>31</sup> Department of the Interior and Local Government and Department of Budget and Management Joint Memorandum Circular No. 2017-1 dated February 22, 2017.

within their jurisdiction .<sup>32</sup> This is carried out through the issuance of an enabling ordinance governing the operation and the fees or rates applicable to each LEE or PU. The determination of the rates to be charged as user fees shall use the criteria of affordability, economic viability, and social responsibility.

**Section 150. Funding requirements for the administration, management and operations of the LEE or PU.** The appropriations for salaries, wages, representation and transportation allowances of officials and employees of the economic enterprises and public utilities owned, operated, and maintained by the LGU concerned shall be included and chargeable against their respective annual budgets.<sup>33</sup> The Personal Services (PS) requirements of economic enterprises and public utilities shall not be included in the computation of the maximum amount for PS of the LGU for purposes of determining the PS limitation provided under Section 325 (a) of RA No. 7160. Only when the economic enterprise/public utility has become viable, may regular positions be created for the purpose, which shall be funded solely from the income of the economic enterprise/public utility.

**Section 151. Receipts or collections from operations of the LEE/PU.** Cash collections from the operations of the LEE/PU shall be acknowledged through the issuance of an official receipt. The collection procedures, turnover of collections, frequency of deposit of collection with the depository bank, preparation of report of collections and the reportorial requirements to be prepared by the designated Collecting Officer/Liquidating Officer/Cashier are the same as those prescribed/required for the General Fund as discussed in Chapter 3 of this manual.

***Sample transactions and illustrative entries:***

Transactions	LEE Books			
	Account Title	Account Code	Debit	Credit
Cash collection from paying patients for the period.	Cash Local Treasury Hospital Fees	1-01-01-010 4-02-02-200	300,000	300,000
Deposit of the collections in the depository account of the LEE.	Cash in Bank, LCCA Cash Local Treasury	1-01-02-010 1-01-01-010	300,000	300,000

**Section 152. Maintenance of depository accounts.** Separate depository accounts may be maintained in an Authorized Government Depository Bank for each LEE and PU , as the need requires, The opening of the depository account shall be authorized by the local sanggunian as provided under Section 311 of RA No. 7160. The earnings of such depository account shall accrue exclusively thereto and are taken up in the books in the period they pertain.

**Section 153. Separate Cashbooks for each LEE/PU.** The Treasurer and/or the concerned accountable officers shall maintain separate cashbooks for each LEE/PU, which shall be in accordance with the prescribed format.

**Section 154. Preparation and Control of Obligation for LEEs/PUs.** The CAFOA pertaining to the LEE/PU shall be prepared and signed by the designated head of the LEE/PU or the authorized alternate. The CAFOA shall be forwarded to the local budget officer who

<sup>32</sup> Sec. 153, RA 7160.

<sup>33</sup> Sec. 325, RA 7160 & LBC No. 100 dated October 1, 2012.

shall verify, based on the approved LEE/PU budget, the existence of appropriation for the proposed expenditure and shall certify the CAFOA to that effect. The local treasurer shall certify as to the availability of funds by signing the appropriate box of the CAFOA. The CAFOA is forwarded to the local accountant who shall certify the obligation of the allotment and shall record the same in the appropriate RAAO.

**Section 155. Certification as to Cash Availability.** The Treasurer shall certify the availability of cash in the Disbursement Voucher for the LEE/PU disbursement transaction.

**Section 156. Disbursement procedures in LEE/PU operations.** The basic requirements, certifications and approvals enumerated under Sections 72 to 75, Chapter 3 for disbursements under the General Fund Proper shall apply to LEEs/PUs. All disbursements shall be covered with the required DV, bearing the necessary certifications from authorized officials. Pursuant to Section 344 of RA 7160, vouchers and payrolls shall be certified to and approved by the head of the department or office who has administrative control of the fund concerned, as to the validity, propriety, and legality of the claim involved. The LCE may delegate the approval of disbursements for regularly recurring administrative expenses, such as payrolls for regular or permanent employees, expenses for light, water, telephone and telegraph services, remittances to government creditor agencies such as the GSIS, SSS, LBP, DBP, National Printing Office, Procurement Service of the DBM and others.

**Section 157. Expenses incurred by the LEE/PU.** Expenses shall be taken up in the books as these are incurred and shall follow the same accounting treatment as those applied to transactions under the General Fund Proper.

***Sample transactions and illustrative accounting entries:***

Transactions	LEE Books			
	Account Title	Account Code	Debit	Credit
Purchase of drugs and medicines on account amounting to P10,000,000, for the hospital operations	Merchandise Inventory Due to BIR Accounts Payable	1-04-01-010 2-02-01-010 2-01-01-010	10,000,000	535,714.28 9,464,285.72
Payment	Accounts Payable	2-01-01-010	9,464,285.72	
Details of Due to BIR: 1% EWT (10M/1.12 x 1%)      89,285.71 5% EVAT (10M/1.12 x 5%) <u>446,428.57</u> Total <b>535,714.28</b>	Cash in Bank, LCCA	1-01-02-010		9,464,285.72

**Section 158. Profit from the LEE's and PU's operations.** Profits derived from the operation of LEEs/PUs, after deduction of the cost of improvement, repair and other related expenses of the LEE or PU, shall first be applied for the return of the advances made therefore. Any excess shall form part of the general fund of the local government unit concerned.<sup>34</sup>

<sup>34</sup> Section 313, RA No. 7160 & Local Budget Circular No. 100 dated October 1, 2012.

***Sample transaction and illustrative accounting entry:***

Transaction	LEE Books			
	Account Title	Account Code	Debit	Credit
Transfer of profit to the GF-Proper	Subsidy to GF-Proper Cash in Bank, LCCA	5-02-14-070 1-01-02-010	50,000	50,000

**Section 159. Financial Statements for LEEs/PUs.** The following set of financial statements shall be prepared by the Accountant for every LEE and PU at the reporting date, which shall be combined to the financial statements for the General Fund and shall be made as attachments thereto:

- a. Statement of Financial Condition
- b. Statement of Financial Performance
- c. Statement of Cash Flows
- d. Statement of Comparison of Budget and Actual Amount

The procedures in the preparation of the required LEE/PU financial statements by the LEE/PU Accountant shall be the same as those of the General Fund Proper and shall be distributed as follows:

- 1 copy – COA
- 1 copy – LEE/PU Head
- 1 copy – LGU Accountant
- 1 copy – LEE/PU Accountant (if any)

**B. Other Special Accounts under the General Fund**

**Section 160. Other Special Accounts under the General Fund.** Other special accounts are required to be maintained under the General Fund, such as those pertaining to: (a) 20% of the share of the LGU from the internal revenue collections (20% Development Fund); (b) share from the national wealth; (c) share from the collection of Tobacco Excise Taxes under RA No. 7171, and RA No. 8240; (d) loans and bond issues; and (e) other contributions for special purposes.

**Section 161. Recording and books of accounts for Other Special Accounts under the General Fund Proper.** The amount received shall be taken up in the books of the GF-Proper using the appropriate account titles for each of the Other Special Accounts and recorded in the specific Subsidiary Ledgers maintained for each. Utilization out of the funds received shall be in accordance with the purpose intended by the governing law or regulation. The disbursement process and recording of transactions are the same as those of the General Fund Proper.

**Section 162. Depository accounts for the Other Special Accounts under the General Fund.** Funds for the 20% Development Fund and shares of the LGU from other sources, herein classified as Other Special Accounts, may be deposited together with the funds of the General Fund Proper, at the sound judgment of the LGU.

**Section 163. Fund Receipt and Utilization Report (FRUR) for Other Special Accounts.** The Accounting Office shall prepare a FRUR (Annex 2) for each of the Other

Special Accounts every quarter<sup>35</sup>, a copy of which shall be submitted to the Office of the Auditor on or before the 15<sup>th</sup> day of the month after each quarter. The year-end FRUR, which contains the summary of transactions for the year shall form part of the schedules of the General Fund trial balance.

# **1. Funds from the share of the LGU from the internal revenue collections**

**Section 164. Funds from the share of the LGU from the internal revenue collections (20% Development Fund).** Every LGU shall appropriate in its annual budget no less than twenty percent (20%) of its annual IRA for development projects.<sup>36</sup>

**Section 165. Purpose and utilization of the 20% Development Fund.** The 20% Development Fund shall be utilized to finance the priority development projects and programs, as embodied in the duly approved local development plan, in the following areas:<sup>37</sup>

- a. Social Development
- b. Economic Development
- c. Environmental Management

## ***Sample transactions and illustrative accounting entries:***

### **General Fund**

Transactions	GF- Proper			
	Account Title	Account Code	Debit	Credit
<b>Receipt of IRA from the DBM</b>				
Received P500,000 from DBM (net of P20,000 for MMDA share) for the share in IRA	Cash in Bank, LCCA Subsidy to NGAs	1-01-02-010 5-02-14-020	480,000.00 20,000.00	
Subsidiary: GF Proper 400,000.00 20% Development Fund 100,000.00	Share from Internal Revenue collections	4-01-06-010		500,000.00
(Note: The entry is recorded in the separate SL for the 20% Development Fund)				
<b>Utilization</b> Obligation: Based on the CAFOA recorded in the appropriate journals.				
Construction of Health Center (P1.8 Million contract amount; funds sourced from the continuing appropriation under 20% Development Fund and from the current receipts for the fund				
Payment of 15% mobilization)	Advances to Contractors Cash in Bank - LCCA	1-05-01-010 1-01-02-010	270,000.00	270,000.00

<sup>35</sup> Section 5.1 of Local Budget Memorandum (LBM) No. 69, as amended in LBM No. 69-A dated June 5, 2015.

<sup>36</sup> Section 287, RA No. 7160.

<sup>37</sup> Joint Memorandum Circular No. 2017-1 dated February 22, 2017.



Transactions	GF- Proper			
	Account Title	Account Code	Debit	Credit
1st progress billing for 60% accomplishment  Details: 2% EWT (gross/1.12 x 2%) 19,285.71 5% EVAT (gross/1.12 x 5%) <u>48,214.29</u> Total 67,500.00	Construction in Progress –Buildings and Other Structures Advances to Contractors Due to BIR Cash in Bank - LCCA	1-07-10-030  1-05-01-010 2-02-01-010 1-01-02-010	1,080,000.00    	  162,000.00 67,500.00 850,500.00
2nd and final billing for 100% completion  Details: 2% EWT (gross/1.12 x 2%) 12,857.14 5% EVAT (gross/1.12 x 5%) <u>32,142.86</u> Total <u>45,000.00</u>	Construction in Progress –Buildings and Other Structures Advances to Contractors Due to BIR Cash in Bank - Local Currency, Current Account	1-07-10-030  1-05-01-010 2-02-01-010 1-01-02-010	720,000.00    	  108,000.00 45,000.00 567,000.00
To record construction of completed health center	Hospitals and Health Centers Construction in Progress –Hospitals and Health Center	1-07-04-030 1-07-10-030	1,800,000.00  	 1,800,000.00

## 2. Share in the proceeds from the development and utilization of the national wealth

**Section 166. Share from the national wealth.** National wealth refers to all natural resources within the Philippine territorial jurisdiction including the lands of public domains, water, minerals, coal, petroleum, mineral oils, potential energy sources, gas and oil deposits, forest products, wildlife, flora and fauna, fishery and aquatic resources and all quarry products.<sup>38</sup> Local government units shall have a share of forty percent (40%) of the gross collection derived by the national government from the preceding fiscal year from mining taxes, royalties, forestry and fishery charges, and such other taxes, fees, or charges, including related surcharges, interests, or fines, and from its share in any co-production, joint venture or production sharing agreement in the utilization and development of the national wealth within their territorial jurisdiction.<sup>39</sup>

**Section 167. Purpose and utilization of the fund from the national wealth.** The proceeds from the share of LGUs shall be appropriated by the local sanggunian to finance local development and livelihood projects: Provided, however, that at least 80% of the proceeds derived from the development and utilization of hydrothermal, geothermal, and other sources of energy shall be applied solely to lower the cost of electricity in the LGUs where such a source of energy is located.<sup>40</sup>

*Sample transactions and illustrative accounting entries:*

### General Fund

Particulars	Account Title	Account Code	Debit	Credit
<b>Receipt from the DBM of the share from the national wealth:</b>				
Received P2,000,000 from DBM	Cash in Bank, LCCA Share from the National Wealth	1-01-02-010 4-01-06-030	2,000,000.00  	 2,000,000.00

<sup>38</sup> Department of Energy Circular No. 98-01.

<sup>39</sup> Section 290, RA No. 7160.

<sup>40</sup> Section 294, Ibid.

Particulars	Account Title	Account Code	Debit	Credit
	(Note: The entry is also recorded in the separate SL for the share from the national wealth)			
<b>Utilization of the share from national wealth to finance local development and livelihood projects.</b>				
<b>a. Local Development Projects</b>				
Construction of public infrastructures	Road Networks Due to BIR Cash in Bank, LCCA	1-07-03-010 2-02-01-010 1-01-02-010	xxx	xxx xxx
<b>b. Livelihood Projects</b>				
Purchase of machinery for livelihood project	Machinery Due to BIR Cash in Bank, LCCA	1-07-05-010 2-02-01-010 1-01-02-010	xxx	xxx xxx

### 3. Share from the Tobacco Excise Tax under RA No. 7171 and RA No. 8240

**Section 168. Share from excise tax.** It is a declared policy of the government under RA No. 7171 to extend special support to the farmers of the Virginia tobacco-producing provinces in as much as these farmers are the nucleus of the Virginia tobacco industry which generates a sizeable income, in terms of excise taxes from locally manufactured Virginia-type cigarettes and customs duties on imported blending tobacco, for the National Government. For the reason stated, it is declared that the special support for these provinces shall be in terms of financial assistance for developmental projects to be implemented by the local governments of the provinces concerned.

The Department of Budget and Management (DBM) shall each year determine the beneficiary provinces and their computed share of the funds for the immediate past year. The DBM is directed to retain annually the said funds equivalent to fifteen percent (15%) of excise taxes on locally manufactured Virginia-type cigarettes to be remitted to the qualified beneficiary provinces.<sup>41</sup> Fifteen percent (15%) of the incremental revenue collected from the excise tax on tobacco products shall be allocated and divided among the provinces producing burley and native tobacco in accordance with the volume of tobacco leaf production<sup>42</sup>.

**Section 169. Objectives and utilization of the LGU's share from the Tobacco Excise Tax.** The LGUs share from excise tax shall be utilized to advance the self-reliance of the tobacco farmers. Specifically, the amount received by the LGU as its share has specific purpose, as follows:<sup>43</sup>

- a. Share of Provinces, Cities and Municipalities from the Collection of Excise Tax on Locally Manufactured Virginia-Type Cigarettes under RA No. 7171.
  1. Cooperative projects that will enhance better quality of products, increase productivity, guarantee the market and as a whole increase farmers' income;

<sup>41</sup> Section 1, RA No. 7171.

<sup>42</sup> Section 8, RA No. 8240.

<sup>43</sup> Section 4.0, LBM No. 69.

2. Livelihood projects particularly the development of alternative farming system to enhance farmers' income;
  3. Agro-industrial projects that will enable tobacco farmers in the Virginia tobacco-producing provinces to be involved in the management and subsequent ownership of these project such as post-harvest and secondary processing like cigarette manufacturing and by-product utilization: and
  4. Infrastructure projects such as farm-to-market roads.
- b. Share of Provinces from the Collection of Burley and Native Tobacco Excise Tax pursuant to RA No. 8240, as amended. – The fund shall be exclusively utilized for programs in pursuit of the following objectives:
1. Programs that will provide inputs, training, and other support for tobacco farmers who shift to production of agricultural products other than tobacco including, but not limited to, high-value crops, spices, rice, corn, sugarcane, coconut, livestock and fisheries;
  2. Programs that will provide financial support for tobacco farmers who are displaced or who cease to produce tobacco;
  3. Cooperative programs to assist tobacco farmers in planting alternative crops or implementing other livelihood projects;
  4. Livelihood programs and projects that will promote, enhance and develop the tourism potential in tobacco-growing provinces:
  5. Infrastructure projects such as farm to market roads, schools, hospitals, and rural health facilities; and agro-industrial projects that will enable tobacco farmers to be involved in the management and subsequent ownership of projects, such as post-harvest and secondary processing like cigarette manufacturing and by-product utilization.

***Sample transaction and illustrative accounting entries:***

**General Fund**

Particulars	Account Title	Account Code	Debit	Credit
<b>Receipt of the share from tobacco excise tax:</b>				
<b>Received P1,000,000 from DBM</b>	Cash in Bank, LCCA Share from Tobacco Excise Tax	1-01-02-010 4-01-06-040	1,000,000.00	1,000,000.00
<b>Utilization of the share from tobacco excise tax.</b>				
Purchase of machinery for livelihood projects	Machinery Due to BIR Cash in Bank, LCCA  (Note: The entry is recorded in the separate SL for the share from tobacco excise tax)	1-07-05-010 2-02-01-010 1-01-02-010	xxx	xxx xxx

#### **4. Loans and bond issues**

**Section 170. Loans and bond issues.** An LGU may create indebtedness, and avail of credit facilities to finance local infrastructure and other socio-economic development projects in accordance with the approved local development plan and public investment program. A local government unit may avail of credit lines from government or private banks and lending institutions for the purpose of stabilizing finances.<sup>44</sup> Loans and bonds are common examples of financial liabilities representing a contractual obligation to deliver cash in the future.

**Section 171. Accounting for loans and bond issues.** An entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of transactions of the instrument.<sup>45</sup> When a financial asset or financial liability is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.<sup>46</sup> In case of loans received by an entity at below market terms, any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition shall be recognized as a non-exchange revenue under the account Grants from Concessionary Loans.

After initial recognition, an entity shall measure all financial liabilities at amortized cost using effective interest method.

Loans and bond issues acquired to finance LEEs and PUs shall be recognized in the accounts of the LEEs or PUs concerned. However, other loans and bond issues shall be recognized in the accounts of the General Fund Proper. Subsidiary Ledgers shall be maintained for each loan acquired or bond issued. Subsidiary records shall likewise be maintained to monitor the utilization of the proceeds. An FRUR shall be prepared at the end of each year, until the proceeds have been fully utilized.

**Section 172. Derecognition of loans and bond issues.** An entity shall remove a financial liability from its statement of financial position when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, waived, cancelled or expires.<sup>47</sup>

#### **Section 173. Sample transactions and illustrative accounting entries.**

##### ***Other Special Account – Loans***

##### **a. Acquisition of loan**

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<sup>44</sup> Section 296, RA No. 7160.

<sup>45</sup> Par. 16, International Public Sector Accounting Standards (IPSAS) 29.

<sup>46</sup> Par. 45, IPSAS 29.

<sup>47</sup> Par. 41, Ibid.

Particulars	Account Title	Account Code	Debit	Credit														
	January 1, 20X1																	
On December 1, 20XX, a Sanggunian Resolution was passed authorizing the Local Chief Executive to enter into a loan contract with Land Bank of the Philippines (LBP), to augment the amount of IRA funds in financing the developmental projects contained in its approved Local Development Plan and Public Investment Program. The loan profile are shown hereunder:  <table><tr><td>Date Granted:</td><td>January 1, 20X1</td></tr><tr><td>Amount:</td><td>P5 million</td></tr><tr><td>Maturity Date:</td><td>January 1, 20X6</td></tr><tr><td>Interest Rate:</td><td>5% per annum</td></tr><tr><td>Effective Interest Rate:</td><td>10%</td></tr><tr><td>Interest Payment Terms:</td><td>Per annum</td></tr><tr><td>Loan Repayment Terms:</td><td>Year 1: none Year 2: 10% of the loanable amount Year 3: 20% of the loanable amount Year 4: 30% of the loanable amount Year 5: 40% of the loanable amount</td></tr></table>	Date Granted:	January 1, 20X1	Amount:	P5 million	Maturity Date:	January 1, 20X6	Interest Rate:	5% per annum	Effective Interest Rate:	10%	Interest Payment Terms:	Per annum	Loan Repayment Terms:	Year 1: none Year 2: 10% of the loanable amount Year 3: 20% of the loanable amount Year 4: 30% of the loanable amount Year 5: 40% of the loanable amount	Cash in Bank, LCCA Loans Payable-Domestic Grants from Concessionary Loans <i>To record proceeds of loan from LBP</i>  (Note: This entry and the subsequent entries are recorded in the separate SL for loans)  (Note: See illustrative calculations below)	1-01-02-010 2-01-02-040 4-04-02-030	5,000,000.00	4,215,450.00 784,550.00
	Date Granted:	January 1, 20X1																
	Amount:	P5 million																
	Maturity Date:	January 1, 20X6																
	Interest Rate:	5% per annum																
	Effective Interest Rate:	10%																
	Interest Payment Terms:	Per annum																
	Loan Repayment Terms:	Year 1: none Year 2: 10% of the loanable amount Year 3: 20% of the loanable amount Year 4: 30% of the loanable amount Year 5: 40% of the loanable amount																
December 31, 20X1																		
Interest Expense Loans Payable-Domestic <i>To recognize interest expense</i>	5-03-01-020 2-01-02-040	421,545.00	421,545.00															
Loans Payable-Domestic Cash in Bank, LCCA <i>To record interest payment</i>	2-01-02-040 1-01-02-010	250,000.00	250,000.00															
December 31, 20X2																		
Interest Expense Loans Payable-Domestic <i>To recognize interest expense</i>	5-03-01-020 2-01-02-040	438,699.50	438,699.50															
Loans Payable-Domestic Cash in Bank, LCCA <i>To record partial payment of the loan and interest</i>	2-01-02-040 1-01-02-010	750,000.00	750,000.00															
December 31, 20X3																		
Interest Expense Loans Payable-Domestic <i>To recognize interest expense</i>	5-03-01-020 2-01-02-040	407,569.45	407,569.45															
Loans Payable-Domestic Cash in Bank, LCCA <i>To record partial payment of the loan and interest</i>	2-01-02-040 1-01-02-010	1,225,000.00	1,225,000.00															
December 31, 20X4																		
Interest Expense Loans Payable-Domestic <i>To recognize interest expense</i>	5-03-01-020 2-01-02-040	325,826.40	325,826.40															
Loans Payable-Domestic	2-01-02-040	1,675,000.00																

Particulars	Account Title	Account Code	Debit	Credit
	Cash in Bank, LCCA <i>To record partial payment of the loan and interest</i>	1-01-02-010		1,675,000.00
<b>December 31, 20X5</b>				
	Interest Expense Loans Payable-Domestic <i>To recognize interest expense</i>	5-03-01-020 2-01-02-040	190,909.65	190,909.65
	Loans Payable-Domestic Cash in Bank, LCCA <i>To record full payment of the loan and interest</i>	2-01-02-040 1-01-02-010	2,100,000.00	2,100,000.00

Particulars	Year				
	20X1	20X2	20X3	20X4	20X5
<b>Principal Amount</b>	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00	5,000,000.00
<b>Loan Payment</b>		500,000.00	1,000,000.00	1,500,000.00	2,000,000.00
<b>Outstanding Balance</b>	5,000,000.00	4,500,000.00	3,500,000.00	2,000,000.00	-
<b>Interest Payment</b>	250,000.00	250,000.00	225,000.00	175,000.00	100,000.00
<b>Total Payments (Loan and Interest)</b>	250,000.00	750,000.00	1,225,000.00	1,675,000.00	2,100,000.00
<b>PV of P1 @ 10%</b>	0.90909	0.82645	0.75131	0.68301	0.62092
<b>Present Value of Total Payments</b>	227,272.00	619,835.00	920,360.00	1,144,048.00	1,303,935.00
<b>Carrying Value of Loan</b>					<b>4,215,450.00</b>

Amortization Schedule (Effective Interest Method)					
Date	Capital Payment (a)	Interest Payment (b)	Interest Expense (c)	Discount Amortization (d)	Carrying Amount of Loan (CA) (e)
	* (see Table A)	* (see Table A)	(e x 10%)	(c-b)	([e-a]+d)
January 1, 20X1					4,215,450.00
December 31, 20X1		250,000.00	421,545.00	171,545.00	4,386,995.00
December 31, 20X2	500,000.00	250,000.00	438,699.50	188,699.50	4,075,694.50
December 31, 20X3	1,000,000.00	225,000.00	407,569.45	182,569.45	3,258,263.95
December 31, 20X4	1,500,000.00	175,000.00	325,826.40	150,826.40	1,909,090.35
December 31, 20X5	2,000,000.00	100,000.00	190,909.65	90,909.65	(0.00)
<b>Total</b>	<b>5,000,000.00</b>	<b>1,000,000.00</b>	<b>1,784,550.00</b>	<b>784,550.00</b>	

**b. Issuance of Bonds:**

Particulars	Account Title	Account Code	Debit	Credit
<b>January 1, 20X1</b>				
On January 1, 20X1, the LGU issued 100 of its 5-year, P1,000 face value municipal bonds. In return, the LGU promises to pay an interest of 9%, payable annually every December 31. The LGU uses the effective interest	Cash, LCCA Discount on Bonds Payable-Domestic Bonds Payable-Domestic <i>To record issuance of municipal bonds</i> <i>(P9,000 x 3.791) = P34,119.00</i>	1-01-02-010 2-01-02-021 2-01-02-020	96,209.00 3,791.00	100,000.00

Particulars	Account Title	Account Code	Debit	Credit
method of amortization. The prevailing market interest rate is 10%.	$(P100,000 \times .6209) = \underline{62,090.00}$ <i>Issue price of the bonds P96,209.00</i>			
	<b>December 31, 20X1</b>			
	Interest Expense Discount on Bonds Payable-Domestic Cash, LCCA <i>To record annual payment of interest</i>	5-03-01-020 2-01-02-021 1-01-02-010	9,620.90	620.90 9,000.00
	<b>December 31, 20X2</b>			
	Interest Expense Discount on Bonds Payable-Domestic Cash, LCCA <i>To record annual payment of interest</i>	5-03-01-020 2-01-02-021 1-01-02-010	9,682.99	682.99 9,000.00
	<b>December 31, 20X3</b>			
	Interest Expense Discount on Bonds Payable-Domestic Cash, LCCA <i>To record annual payment of interest</i>	5-03-01-020 2-01-02-021 1-01-02-010	9,751.29	751.29 9,000.00
	<b>December 31, 20X4</b>			
	Interest Expense Discount on Bonds Payable-Domestic Cash, LCCA <i>To record annual payment of interest</i>	5-03-01-020 2-01-02-021 1-01-02-010	9,826.42	826.42 9,000.00
	<b>December 31, 20X5</b>			
	Interest Expense Discount on Bonds Payable-Domestic Cash, LCCA <i>To record annual payment of interest</i>	5-03-01-020 2-01-02-021 1-01-02-010	9,909.40	909.40 9,000.00
	Bonds Payable-Domestic Cash, LCCA <i>To record the retirement of bonds payable</i>	2-01-02-020 1-01-02-010	100,000.00	100,000.00

Amortization Schedule (Effective Interest Method)				
Date	Cash Paid	Interest Expense	Discount Amortization	Carrying Amount of Bonds (CA)
	(a)	(b)	(c)	(d)
	(P100,000.00 x 9%)	(CA x 10%)	(b-a)	(d+c)
January 1, 20X1				96,209.00
December 31, 20X1	9,000.00	9,620.90	620.90	96,829.90
December 31, 20X2	9,000.00	9,682.99	682.99	97,512.89
December 31, 20X3	9,000.00	9,751.29	751.29	98,264.18
December 31, 20X4	9,000.00	9,826.42	826.42	99,090.60
December 31, 20X5	9,000.00	9,909.40	909.40	100,000.00
<b>Total</b>	<b>45,000.00</b>	<b>48,790.66</b>	<b>3,791.00</b>	

**Section 174. Sub-codes for the Special Accounts.** -The following shall be the sub-codes for the special accounts:

<b>Account Title</b>	<b>Sub-code</b>
a. General Fund Proper	01
b. Public markets or shopping malls;	02
c. Slaughterhouses;	03
d. Sports, cultural and recreation centers;	04
e. Hostels and dormitories;	05
f. Parking lots;	06
g. Ice plants;	07
h. Hospitals;	08
i. Special and tertiary schools;	09
j. Cemeteries and crematoria;	10
k. Operation of waterworks system;	11
l. Housing Unit for Lease under Operating Lease	12
m. Solid waste management system;	13
n. Telephone system;	14
o. Electric and power services;	15
p. Public transport and terminal station services	16
q. Share Funds from the share of the LGU from the internal revenue collections	17
r. Share in the proceeds from the development and utilization of the national wealth	18
s. Share from the Tobacco Excise Tax under RA No. 7171, and RA No. 8240	19
t. Loans and bond issues	20

Other local economic enterprises, public utilities and other special accounts may be added to the above list and assigned with specific sub-codes for each type, as needed.



## Chapter 6

### INVENTORY

**Section 175. Inventories.** Inventories are assets in the form of materials or supplies that are:

- a. Consumed in the production process (example: raw materials and supplies used in the production of goods);
- b. Consumed in the course of agency operations or implementation of its activities (e.g.: office supplies, accountable forms, drugs and medicines for health centers, food supplies, etc);
- c. Distributed at no charge or for a nominal charge in the pursuit of any undertaking, programs and projects (e.g. school supplies, welfare goods, drugs and medicines, textbooks, etc.); or
- d. Held for sale in the ordinary course of operations (example: merchandise purchased by an LGU and held for resale such as accountable forms for sale, drugs and medicines for sale, land and other property held for sale, agricultural produce, etc.);

**Section 176. Classification of Inventories.** Inventories shall have the following classification (*refer to the Chart of Accounts for specific account title and description*):

- a. Inventory Held for Sale
- b. Inventory Held for Distribution
- c. Inventory Held for Manufacturing
- d. Inventory Held for Consumption

**Section 177. Cost of Inventories at initial recognition.** Inventories shall be recognized at cost. The cost of inventories shall comprise all costs of purchase, costs of conversion (materials, labor and overhead) and other costs incurred in bringing the inventories to their present location and condition, excluding abnormal amounts of wasted materials, labor, or other production and selling costs. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.<sup>48</sup>

**Section 178. Inventories acquired through non-exchange transactions.** Inventories acquired through a non-exchange transaction shall be measured at their fair value as at the date of acquisition.<sup>49</sup> *Fair Value* is the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace.

**Section 179. Cost of agricultural produce harvested from biological assets.** Inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest.<sup>50</sup>

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<sup>48</sup> Pars. 19 & 25, IPSAS 12.

<sup>49</sup> Par. 16, Ibid.

<sup>50</sup> Par. 29, Ibid.

**Section 180. Weighted Average Method.** During the year, the weighted average cost method shall be used in determining the unit cost of items carried on stock. Under this method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of the period, and the cost of similar items purchased or produced during the period. Illustrative calculation of inventory cost using this method is as follows:

SUPPLIES LEDGER CARD									
(Agency)									
Inventory Item No: 10404010 - 003					Fund: General Fund				
Description: INK CARTRIDGE					Reorder Point : 3				
Unit of Measurement: pc.									
Date	Reference	Receipt			Issuance	Balance			No. Of Days to Consume
		Qty	Unit Cost	Total Cost		Qty	Unit Cost	Total Cost	
01-01-2014	Beginning Balance					1	1,332.55	1,332.55	
01-10-2014	JV-2012-01-000356	4	1,399.18	5,596.71		5	1,385.85	6,929.26	
01-15-2014	JV-2012-01-000357	4	1,539.10	6,156.40		9	1,453.96	13,085.66	
01-20-2014	JV-2012-01-000358	4	1,693.00	6,772.00		13	1,527.51	19,857.66	
02-01-2014	JV-2012-04-003449				10	3	1,527.51	4,582.53	
02-10-2014	JV-2012-07-005454	4	1,490.00	5,960.00		7	1,506.08	10,542.53	
02-21-2014	JV-2012-07-005668				5	2	1,506.08	3,012.16	

(6929.26/5=1385.85)

**Section 181. Valuation/Measurement.** At the end of the reporting date, Inventories shall be measured as follows:

- Inventories held for sale - measured or valued at lower of cost and net realizable value<sup>51</sup>. *Net Realizable Value* is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, or exchange. It is the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations.<sup>52</sup>
- Inventories for consumption and distribution - At the lower of cost and current replacement cost<sup>53</sup>. *Current Replacement Cost* is the cost the entity would incur to acquire the asset on the reporting date.

<sup>51</sup> Par. 15, IPSAS 12.

<sup>52</sup> Pars. 9 & 10, Ibid.

<sup>53</sup> Par. 17, Ibid.

**Section 182. Perpetual Inventory Method.** Inventory records shall be maintained using the perpetual inventory system. Under the system, an agency continually updates its inventory records to account for additions to and subtractions from inventory. The local accountant shall maintain the Supplies Ledger Card (SLC) for each inventory item as the perpetual inventory record.

**Section 183. Small Tangible Items.** Small tangible items with estimated service life of more than one year shall be accounted as inventories upon purchase and recognize as an expense upon issuance to the end-user.

**Section 184. Accountability over Small Tangible Items.** Inventory Custodian Slip shall be issued to end-user of small tangible items to establish accountability over them.

**Section 185. Requisition Procedures.** Written requisitions shall be prepared by the requisitioning departments/office. The following forms shall be used:

- a. Requisition and Issue Slip (RIS) – for supplies and materials carried in stock.
- b. Purchase Request (PR) – for supplies and materials not carried in stock and those that will be procured out of the Petty Cash Fund. The GSO shall certify that the items to be procured are not available on stock in the purchase request.
- c. Issuance Form for In-Kind Donations – for supplies and materials acquired through non-exchange transactions.

**Section 186. Approval of Requisition.** Approval of requisition by the head of office or department concerned who has administrative control of the appropriation against which the proposed expenditure is chargeable is deemed sufficient, except in case of requisition for supplies to be carried in stock which shall be approved by the Local Chief Executive.

**Section 187. Receipt of Inventories.** Receipt of inventories procured shall be documented with an Acceptance and Inspection Report (AIR). The procuring officer shall record in the stock card the inventories received based on the AIR and submit to the local accountant copies of the AIR, Purchase Order and delivery receipts. In case of Inventories acquired thru non-exchange transactions, an Acknowledgment Receipt of In Kind Donations shall be prepared and shall be the basis in recognizing the Inventories in the stock cards. The Acknowledgment Receipt of In Kind Donations shall indicate the purpose of the inventories, if provided.

**Section 188. Recording receipts of inventory.** Upon receipt of the AIR and other supporting documents such as Purchase Orders, Delivery Receipts and/or Supplier's Invoice, the local accountant shall draw a Journal voucher (JV) to record the Inventories in the Journal of Procurements Received and in the inventory ledger cards. In case of the inventories acquired thru non-change transactions, the Report on Receipt of In-Kind Donations for Inventories shall be the basis for drawing the JV for the recognition of the Inventories in the books of accounts. The cost shall be based on the fair value of the goods received.

**Section 189. Issuances of inventory.** Issuances shall be supported with Requisition and Issue Slip (RIS) which the general services officer shall summarize monthly in the Report of Supplies and Materials Issued (RSMI). The RSMI together with the supporting RIS

shall be submitted to the local accountant within five days after the end of the month, and the RSMI shall be the basis in drawing a JV to record the issuances.

**Section 190. Recognition as an Expense.** The carrying amount of Inventories for consumption or distribution shall be recognized as expense upon consumption or distribution, in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed or related service is rendered. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as expense in the period in which the reversal occurs (Par. 44, IPSAS 12). The JV drawn based on the RSMI recognized the expense and the issuance of the Inventories. The Inventories transferred from the Procuring Unit to the distribution site shall be considered issuance, but, at the end of the year, a count shall be conducted to determine the undistributed/unconsumed items and the cost of these items shall be restored back to the inventory account.

**Section 191. Write-down of Inventories.** Write-down is the reduction in the cost of Inventories to its net realizable value, in case of Inventories held for sale, or the replacement cost in case of Inventories held for consumption or distribution. Inventories are written down on an item by item basis. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use. The amount of any write-down of inventories shall be recognized as an expense in the period the write-down occurs.

**Section 192. Pro-forma Accounting Entries.** The following are the pro-forma accounting entries for transactions involving inventories:

a. Inventory Held for Consumption

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Office Supplies Inventory	1-04-04-010	xxx	
Due to BIR	2-02-01-010		xxx
Accounts Payable	2-01-01-010		xxx
To record purchase of office supplies on account.			
Office Supplies Expenses	5-02-03-010	xxx	
Office Supplies Inventory	1-04-04-010		xxx
To record Issuance/consumption of office supplies.			

b. Inventory Held for Sale

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Merchandise Inventory	1-04-01-010	xxx	
Due to BIR	2-02-01-010		xxx
Cash in Bank- LCCA	1-01-02-010		xxx
To record purchase inventories.			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash Local Treasury	1-01-01-010	xxx	
Sales Discounts	4-02-02-181	xxx	
Sales Revenue	4-02-02-180		xxx
To record sale of merchandise at a discount.			
Cost of Sales	5-04-02-010	xxx	
Merchandise Inventory	1-04-01-010		xxx
To record sale of merchandise inventory.			

c. Inventory Held for Distribution

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Welfare Goods for Distribution	1-04-02-020	xxx	
Due to BIR	2-02-01-010		xxx
Accounts Payable	2-01-01-010		xxx
To record the purchase of goods.			
Accounts Payable	2-01-01-010	xxx	
Cash in Bank - LCCA	1-01-02-010		xxx
To record payment of goods purchased.			
Welfare Goods Expenses	5-02-03-060	xxx	
Welfare Goods for Distribution	1-04-02-020		xxx
To record the issuance/distribution of goods.			

**Section 193. Disclosure.** For inventory account balances presented in the financial statements, the following disclosures are required (par. 47, IPSAS 12):

- The accounting policies adopted in measuring inventories, the cost formula used and method of recording;
- The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- The amount of inventories recognized as an expense during the period;
- The amount of any write-down of inventories recognized as an expense in the period;
- The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period;
- The circumstances or events that led to the reversal of a write-down of inventories; and
- The carrying amount of inventories pledged as security for liabilities.

**Section 194. Inventory of Supplies and Materials.** The local chief executive shall require periodic physical inventory of supplies and materials. Physical count of unissued inventory items by type shall be conducted at least once a year and reported in the Report of the Physical Count of Inventories (RPCI). The report shall be submitted to the Auditor not later than January 31 of each year.

**Section 195. Disposal of Supplies and Materials.** Disposal procedures shall be in accordance with applicable rules and regulations on supply and property management in local government units. The Waste Materials Report (WMR) shall be used in the disposal of supplies and materials.

**Section 196. Inventory Accounting System.** The Inventory Accounting System consists of receipt and acceptance of the inventory items, recording the books of accounts, issuance, controlling and monitoring of inventory items.

**Section 197. Inventory Accounting Sub-Systems.** The sub-systems for inventory accounting are as follows:

- a. Receipt, Inspection, Acceptance and Recording Deliveries of Inventory Items
- b. Requisition and Issuance of Inventory Items

**Section 198. Purchase Order (PO).** The Purchase Order shall be used to support purchase of equipment, supplies and materials, etc.

**Section 199. Purchase Request (PR).** The Purchase Request shall be used to request for the purchase of inventory/item not available on stock.

**Section 200. Acceptance and Inspection Report (AIR).** The Acceptance and Inspection Report shall be used to acknowledge the receipt of supplies and equipment purchased and inspection made thereof.

**Section 201. Journal of Procurements Received.** The Journal of Procurements Received is a special journal for procurements received based on the JVs drawn to recognize the supplies and materials received.

**Section 202. Supplies Ledger Card (SLC).** The Supplies Ledger Card is a subsidiary ledger to be maintained by the accounting office for each type of supplies, crops and other inventory items, to record acquisition, issuance and disposal.

**Section 203. Requisition and Issue Slip (RIS).** The Requisition and Issue Slip shall be used to request supplies and materials that are carried in stock.

**Section 204. Report of Supplies and Materials Issued (RSMI).** The Summary of Supplies and Materials Issued shall be prepared monthly by the Supply Officer/GSO and shall be used by the Accounting Office as a basis in preparing the JV to record the supplies and materials issued.

**Section 205. Stock Card (SC).** The Stock Card shall be used to record all receipts and issuances of supplies. It shall be maintained by the Supply and Property Unit for each item in stock.

**Section 206. Report on the Physical Count of Inventories (RPCI).** The Report on the Physical Count of Inventories shall be used to report the physical count of supplies by type of inventory as of a given date. It shows the balance of inventory items per cards and per count and shortage/overage, if any.

**Section 207. Waste Material Report (WMR).** The WMR shall be used to report all waste materials such as destroyed spare parts and other materials considered scrap due to replacement.

## Chapter 7

### PROPERTY PLANT AND EQUIPMENT

**Section 208. Property, Plant and Equipment.** Refers to tangible assets that are:

- a. purchased, constructed, developed or otherwise acquired;
- b. held for use in the production or supply of goods or services or to produce program outputs, for rental to others (other than investment property), and for administrative purposes;
- c. expected to be used for more than one reporting period; and
- d. not intended for resale in the ordinary course of operations.

**Section 209. Criteria for Recognition.** The cost of an item of PPE shall be recognized as assets if all of the following criteria are present:<sup>54</sup>

- a. it is probable that the future economic benefits or service potential associated with the item will flow to the LGU;
- b. the cost or fair value of the item can be measured reliably; and
- c. beneficial ownership and control clearly rest with the government.

**Section 210. Measurement at Recognition.** PPE that qualifies for recognition as an asset shall be measured at cost. Where the PPE is acquired through a non-exchange transaction, its cost shall be measured as its fair value as at the date of acquisition.<sup>55</sup>

**Section 211. Elements of Cost.** The following elements comprise the cost of an item of PPE:<sup>56</sup>

- a. Purchase price, including import duties and non-refundable 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. Examples of directly attributable costs are:
  1. Costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
  2. Costs of site preparation;
  3. Initial delivery and handling costs;
  4. Installation and assembly costs;
  5. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
  6. Professional fees.

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<sup>54</sup> *Par. 14., IPSAS 17.*

<sup>55</sup> *Pars. 26-29, Ibid.*

<sup>56</sup> *Pars. 30-31, Ibid.*



- 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 an LGU 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.

Administrative and other general overhead costs are not considered costs of an item of property, plant and equipment.<sup>57</sup>

**Section 212. Measurement of Cost.** Cost of an item of PPE shall be the cash price equivalent or its fair value at the recognition date. If payment is deferred beyond the normal credit terms, the difference between the cash price equivalent and the total payment made shall be recognized as interest over the period of credit. If PPE is acquired through exchange for a non-monetary or a combination of monetary and non-monetary assets, the cost of the item of PPE shall be the fair value unless a) the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable, then the cost is measured at the carrying amount of the asset given up.

**Section 213. Measurement after Recognition.** For consistency and uniformity, the cost model shall be applied to an entire class of PPE. Cost model means that PPE are carried at cost, less any accumulated depreciation and any accumulated impairment loss.

**Section 214. Subsequent Costs.** Costs of the day-to-day servicing of a PPE shall be recognized as an expense when incurred and described as “repairs and maintenance” of an item of PPE. The repairs and maintenance primarily maintain the functionality of the asset. Parts of some item of PPE may require replacement/betterment at regular intervals and this replacement/betterment improves the functionality or increases the useful life of the PPE, thus, the costs are capitalized. The carrying value of the replaced part shall be derecognized in accordance with the derecognition provisions. Where a cost cannot easily be differentiated between a repair and betterment, the cost shall be recognized as expense in compliance to the accounting principle of conservatism.

**Section 215. Classification of PPE.** PPE are grouped into:

- a. Land
- b. Land Improvements
- c. Infrastructure Assets
- d. Buildings and Other Structures
- e. Machinery and Equipment
- f. Transportation Equipment
- g. Furniture, Fixtures and Books
- h. Leased Assets
- i. Leased Assets Improvement
- j. Construction in Progress
- k. Service Concession Assets
- l. Other Property, Plant and Equipment

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<sup>57</sup> Par. 33(d), IPSAS 17.

**Section 216. Land.** Land refers to parcel of lots owned/controlled by the agency and used or planned to be used in its operations of rendering basic services to its constituents/clientele. Subsidiary ledger shall be maintained for each parcel of lot.

**Section 217. Land Improvements.** This refers to the improvements made on the land which include landscaping, fences and hedges, walkways and parking areas.

**Section 218. Infrastructure Assets.** Infrastructure assets are PPEs that usually display some or all of the following characteristics:<sup>58</sup>

- a. Part of a system or network;
- b. Specialized in nature and do not have alternative uses;
- c. Immovable; and
- d. May be subject to constraints on disposal.

Infrastructure assets include:

- a. Road Networks - roads, highways and bridges, railways, subways, and other road network facilities such as footbridge, traffic lights and road signage for public use;
- b. Flood Control Systems - seawalls, river walls, and other flood control system facilities for public use;
- c. Sewer systems - waste treatment plants and other sewer system facilities for public use. This also includes pumps, purification works, rising/gravity mains, air release valves, screens, overflows and associated infrastructures;
- d. Water Supply Systems - water source facility such as artesian wells, dams/reservoirs, pumping stations and conduits; irrigation canals and laterals; waterways, aqueducts, water utilities systems and other water supply facilities for public use or for income generating purposes;
- e. Power Supply Systems - cost of installations for generation and distribution of electricity such as power stations, electric transformers and other power and energy supply facilities for public use;
- f. Communication Network - cost of communication networks such as towers/transmitters/ transceivers and other communication/ telecommunication facilities for public use or for income generating purposes;
- g. Seaport Systems - costs of ports, lighthouses, harbors and other seaport facilities, for public use or for income generating purposes;
- h. Airport Systems - cost of landing and taking-off area for aircraft, passenger arrival and departure area, facilities for aircraft maintenance, and other airport facilities such as airport runways and taxiways, radio beacon, aprons, and the like, for public use or for income generating purposes;
- i. Parks, Plazas and Monuments - costs parks, plazas and monuments, not classified as Heritage Assets, for recreation and public use or for income generating purposes; and

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<sup>58</sup> Par. 21, IPSAS 17

- j. Other Infrastructure Assets – costs or fair value of other public infrastructures acquired or transferred without cost which cannot be classified under any specific type of public infrastructures for public use or for income generating purposes.

**Section 219. Right-of-Way (ROW).** The "right-of-way" means the land secured and reserved to the public for highway purposes. This also includes real property acquired for other government public infrastructure projects. (RA 917 and RA 10752) The cost of the right-of-way shall be recognized as a land component of a public infrastructure.

**Section 220. Cost Components of the ROW.** The cost of the land subject of the right of way, in case of negotiated purchase, shall include the following components:

- a. current market value of the land;
- b. replacement cost of structures and improvements therein;
- c. current market value of crops and trees therein;
- d. capital gains tax;
- e. documentary stamp tax;
- f. transfer tax; and
- g. registration fees.

However, if the real property is acquired through expropriation the components shall include the difference between the just compensation determined by the court and items a, b and c and exclude the capital gains tax.

In addition to the aforementioned costs, the following items of expenses for activities directly related to right-of-way acquisition shall be included to the cost of the land acquired:

- a. Cost of parcellary surveys and appraisal of properties affected by the project;
- b. Cost of development and implementation of resettlement projects, including planning, social preparation, and other activities under the resettlement action plan; and
- c. Related expenses of the implementing agency (IA) including relevant administrative expenses for right of way management, including the cost of Environmental Compliance Certificate application.

**Section 221. Road Network System.** Road network system is composed of roads, highways and bridges, railways, subways, and other road network facilities such as footbridge, traffic lights and road signage for public use. Subsidiary ledgers shall be maintained for each road, highway, bridge, railway, subway and road network facility. Additional subsidiary ledgers shall be maintained for the sub-components of each subsidiary item under the road network system. For roads, the sub-components shall include the road lot, road pavement, drainage, slope protection structures, and other structures built as part of the network system. The subsidiary record for each sub-component is required in order to provide information on the appropriate cost, additional cost for improvement and betterment, depreciation expenses and impairment losses, and to monitor repairs and maintenance expenses for each sub-component, and further provide a basis for asset management planning.

**Section 222. Flood Control Systems.** These are public infrastructures composed of seawall, river walls and other flood control system facilities. Subsidiary ledgers shall be maintained by type of flood control system and for each component under each type.

**Section 223. Sewer systems.** Public infrastructures composed of the collecting and conducting water waste facility up to the waste treatment plants. LGUs maintaining sewer systems shall prepare complete subsidiary ledger for each component of the system, the corresponding accumulated depreciation and impairment losses of each component.

**Section 224. Water Supply Systems.** *Public* infrastructure for the collection, transmission, treatment, storage, and distribution of *water* for homes, commercial establishments, industry, and irrigation, as well as for such public needs as firefighting and street flushing. Subsidiary ledgers shall be maintained for each type of the system and the components of the system. Example: Municipality A water works system – subsidiary for the main type: Pumping station, water piping system, water meters- subsidiary for the components of the water works system. Separate computation for the accumulated depreciation and impairment losses shall be made for each component of the system.

**Section 225. Power Supply Systems.** Public infrastructures which cover installations for generation and distribution of electricity such as power stations, electric transformers and other power and energy supply facilities for public use or for income generating purposes. Subsidiary ledger shall be maintained for each system and each sub-components shall be recorded in the subsidiary ledger.

**Section 226. Communication Networks.** Public infrastructures which covers communication networks such as towers/transmitters/ transceivers and other communication/telecommunication facilities for public use or for income generating purposes. Subsidiary ledgers shall be maintained for each component of the network.

**Section 227. Seaport Systems.** Public infrastructures which cover cost incurred in the purchase or construction or fair value, if acquired through donation or transfers without cost, of ports, lighthouses, harbors and other seaport facilities, for public use or for income generating purposes. Subsidiary ledger shall be maintained for each system and the sub-component of the system shall be provided in the subsidiary record.

**Section 228. Airport Systems.** Public infrastructures which covers cost incurred in the purchase or construction or fair value, if acquired through donation or transfers without cost, of landing and taking-off area for aircraft, passenger arrival and departure area, facilities for aircraft maintenance, and other airport facilities such as airport runways and taxiways, radio beacon, aprons, and the like, for public use or for income generating purposes. Subsidiary ledger shall be maintained for each system and the sub-component of the system shall be provided in the subsidiary record.

**Section 229. Parks, Plazas and Monuments.** Public infrastructures which cover cost incurred in the construction or fair value, if acquired through donation or transfers without cost, of parks, plazas and monuments, not classified as Heritage Assets, for recreation and public use or for income generating purposes. Subsidiary ledger shall be maintained for each Parks, Plazas and Monuments system and the sub-component of the system shall be provided in the subsidiary record.

**Section 230. Other Infrastructure Assets.** Public infrastructures which cover cost incurred in the purchase or construction or fair value, if acquired through donation or transfers without cost, of other public infrastructures which cannot be classified under any specific type of public infrastructures for public use or for income generating purposes. Subsidiary ledger shall be maintained for each system and the sub-components shall be provided in the subsidiary record.

**Section 231. Buildings and Other Structures.** Refers to the buildings and structures owned/controlled by the agency and used in its operations for the delivery of basic services to clients/constituents.

**Section 232. Machinery and Equipment.** Refers to the machineries and equipment owned/controlled by the agency and used in its operations.

**Section 233. Transportation Equipment.** These are the vehicles owned/controlled by the agency and used in its operations.

**Section 234. Furniture, Fixtures and Books.** Refers to the furniture, fixtures and books owned/controlled by the agency and used in its operations.

**Section 235. Leased Assets.** Refers to the PPEs leased by the agency under finance lease and are used in the rendering of its basic services.

**Section 236. Leased Assets Improvement.** Refers to the improvements effected by the agency as lessee on its leased PPEs under operating lease.

**Section 237. Construction in Progress.** PPEs in the process of assembly or creation. This includes the construction in progress for land improvements, public infrastructures, buildings and other structures, leased assets and leased asset improvements.

**Section 238. Service Concession Assets.** PPEs used to provide public services in a service concession arrangement that:

- a. is provided by the operator which:
  - the operator constructs, develops or acquires from a third party; or
  - an existing asset of the operator; or
- b. is provided by the grantors which:
  - is an existing asset of the grantor; or
  - is an upgrade to an existing asset of the grantor.

The government as the grantor recognize the PPEs as service concession assets if:

- a. The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- b. The grantor controls through ownership, beneficial entitlement or otherwise-any significant residual interest in the asset at the end of the term of the arrangement.

**Section 239. Other Property, Plant and Equipment.** Refers to PPEs not classified under the specific classifications which are owned or controlled by the agency and used in its operations of providing services to its client; such as work and zoo animals.

**Section 240. Modes of Acquisition of PPE.** Acquisition is the process through which an LGU gains possession or takes over the ownership or control of a particular PPE. The acquisition may be through purchase, donation, expropriation, construction, finance lease or exchange of one or more items for non-monetary assets, or a combination of monetary and non-monetary assets.

**Section 241. Acquisition of Road Right-of-Way (ROW).<sup>59</sup>** Acquisition of real properties needed as right-of-way, site or location for projects undertaken by local government units. Acquisition of road right-of-way may be in the regular modes or other modes of acquisition. The regular modes of acquisition:

- a. Donation
- b. Negotiated Sale
- c. Expropriation

The other modes of the right-of-way acquisition are the following:

- a. Acquisition of Properties under Commonwealth Act (CA) No. 141
- b. Exchange or Barter
- c. Easement of Right-of-Way
- d. Acquisition of Subsurface Right-of-Way
- e. Other modes authorized by law

**Section 242. Acquisition of ROW through Donation.<sup>60</sup>** Acquisition through donation may be with a property owner which may be a private individual/corporation or a government agency/corporation. The donation shall be supported with a deed of donation which shall be simple and unconditional, and contain clauses to the effect that the donation is made not to defraud the donor's creditors, and that the donor has, if necessary, reserved for himself enough property for his family's subsistence, sustenance and support in case the donor is a private individual. The donated property shall be recognized at its fair value at the time of the donation and the costs of the documentary stamp tax, transfer tax and registration fees, which the Implementing Agency (IA) shall pay.

Example: LGU A acquires a lot for the construction of a road through donations with the following details:

Particulars	
Market value of the land	P4,500,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00
Total expenses	57,100.00

Accounting entries:

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<sup>59</sup> Sec. 4, IRR of RA No. 10752.

<sup>60</sup> Sec. 5, Ibid.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Road Networks	1-07-03-010	4,557,100.00	
Cash in Bank - LCCA	1-01-02-010		57,100.00
Grants and Donations in Kind	4-04-02-020		4,500,000.00
To record the land donated for the construction of road and the corresponding fees.			

**Section 243. Acquisition of ROW through Negotiated Sale.**<sup>61</sup> Acquisition of real property as ROW project by offering to the property owner a compensation price. The compensation price includes the sum of the:

- a. Current market value of the land;
- b. Replacement cost of structures and improvements therein; and
- c. Current market value of crops and trees therein.

The IA shall also pay for the account of the seller/owner, the Capital Gains Tax, as well as the Documentary Stamp Tax, transfer tax and registration fees.<sup>62</sup> The real property acquired under the acquisition method shall be recognized at the total compensation price and other expenses incurred for the activities related to the acquisition of the property.

Payment of acquisitions under the method shall be as follows:<sup>63</sup>

- a. Upon the execution of a Deed of Sale:
  1. Fifty percent of the negotiated price of the affected land, exclusive of the payment of unpaid taxes remitted to the LGU concerned; and
  2. Seventy percent of the negotiated price of the affected structures, improvements, crops and trees, exclusive of unpaid taxes remitted to the LGU concerned.
- b. If the property owner owns both the land and structures/improvements the implementing agency shall, at the periods stated below, pay the owner the remaining fifty percent of the negotiated price of the affected land, and thirty percent of the affected structures, improvements, crops and trees, exclusive of unpaid taxes remitted to the LGU concerned, provided that the land is already completely cleared of structures, improvements, crops and trees as certified by the IA:
  1. At the time of the transfer of title in the name of the Local Government Unit, in cases where the land is wholly affected; and
  2. At the time of the annotation of a deed of sale on the title, in cases where the land is partially affected.

<sup>61</sup> Sec. 6, IRR of RA No. 10752.

<sup>62</sup> Sec. 6.9, *Ibid.*

<sup>63</sup> Sec. 6.10, *Ibid.*

- c. Where the property owner owns only the land, the IA shall, at the periods state below, pay fifty percent of the negotiated price of the affected land exclusive of unpaid taxes remitted to the LGU concerned:
  1. At the time of the transfer of title in the name of the Local Government Unit, in cases where the land is wholly affected; and
  2. At the time of the annotation of a deed of sale on the title, in cases where the land is partially affected.
- d. Where property owner owns only the structures/improvements, the IA shall, at the periods stated below, pay the property owner the remaining thirty percent of the affected structures, improvements, crops and trees, exclusive of unpaid taxes remitted to the LGU concerned , immediately after the IA has certified that the land is already completely cleared of structures, improvements, crops and trees.
  1. At the time of the transfer of title in the name of the LGU, in cases where the land is wholly affected; and
  2. At the time of the annotation of deed of sale on the title, in cases where the land is partially affected.

Example: LGU A acquires a lot for the construction of a road through negotiated sale with the following details:

<b>Particulars</b>	
Negotiated price for the land	P4,500,000.00
Replacement cost of the structures in the land	1,000,000.00
Current market value of the trees and crops in the subject land	200,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00
Capital Gains Tax	35,000.00
Total expenses	5,792,100.00

Accounting entries:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Road Networks	1-07-03-010	5,792,100.00	
Cash in Bank - LCCA	1-01-02-010		5,792,100.00
To record the land acquired for the construction of road and the corresponding fees.			

**Section 244. Determination of the Current Market Value of the Land.** The current market value of the land shall be determined through the engagement of services procured under the provisions of RA 9184. The services may be of either a government financial institution with adequate experience in property appraisal, or an independent



property appraiser accredited by the Bangko Sentral ng Pilipinas (BSP) or a professional association of appraisers recognized by the BSP.

**Section 245. Determination of the Replacement Cost of Structures and Improvements.** <sup>64</sup> The Replacement Cost of a structure or improvement affected by the ROW shall be based on the current market prices of materials, equipment, labor, contractors profit and overhead, and all other attendant costs associated with the acquisition and installation of a similar asset in place of the affected asset.

If the affected structure has been damaged, then the Replacement Cost should be based on the pre-damaged condition of the structure. The Replacement Cost of the structure may vary from the market value of the existing structure since the structure that would actually replace it may have the different cost at current market prices. The replacement structure has to perform the same functions and meet the performance specifications as the original structure.

**Section 246. Acquisition through expropriation.** <sup>65</sup> Expropriation is the action of the state or an authority to take real property for the ROW, site or location for local government infrastructure from its owner for public use or benefit and offers fair market value compensation. The process of agreeing on a mutually acceptable price can be protracted in the courts. The PPE acquired through expropriation shall be recognized as asset of the LGU upon receipt of the court order for the agency to take possession of the land. The cost of the land shall include:

- a. One hundred percent of the value of the land based on the current relevant zonal valuation of the BIR, issued not more than three years prior to the filing of expropriation complaint;
- b. The replacement cost at current market value of the improvements and/or structures as determined by the IA; a GFI with adequate experience in property appraisal; or an independent property appraiser accredited by the BSP;
- c. The current market value of crops and trees located in the property as determined by the government financial institution or an independent property appraiser to be selected;
- d. If the owner contests the proffered value, the difference between the amount already paid and the just compensation as determined by the court; and
- e. Documentary stamp tax, transfer taxes and registration fees.

Example: LGU A acquires a lot for the construction of a road through expropriation with the following details:

Particulars	
Current zonal valuation of the land	P2,500,000.00
Just compensation for the land as determined by the court	3,000,000.00
Replacement cost of the structures in the land	1,000,000.00
Current market value of the trees and crops in the subject land	200,000.00

<sup>64</sup> Sec. 6.6, IRR of RA No. 10752.

<sup>65</sup> Sec. 7, *Ibid.*

Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00
Capital Gains Tax	35,000.00

Considerations:

Current zonal valuation of the land (CZV)		P2,500,000.00
Difference:		
CZV	P2,500,000.00	
Just compensation for the land as determined by the court	3,000,000.00	
		500,000.00
Replacement cost of the structures in the land		1,000,000.00
Current market value of the trees and crops in the subject land		200,000.00
Documentary stamp tax		18,600.00
Transfer tax		22,500.00
Registration fees		16,000.00
Total		P 4,257,100.00

Accounting entries:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Road Networks	1-07-03-010	4,247,100.00	
Cash in Bank - LCCA	1-01-02-010		4,257,100.00
To record the land acquired for the construction of road and the corresponding fees.			

**Section 247. Acquisition of Properties under the Public Land Act (CA No. 141 dated 07 November 1936).** Acquisition of lands granted through CA No. 141 dated 07 November 1936.

The IA shall:

- a. follow the other modes of acquisition, if the landowner is not the original patent holder and any previous acquisition of said land is not through a gratuitous title; or
- b. follow the provisions under CA No. 141 regarding acquisition of ROW on patent lands, if the landowner is the original patent holder or the acquisition of the land from the original patent holder is through a gratuitous title.

The IA shall pay the owner of the lot the cost of the damages for the improvements within the land equivalent to their replacement cost as determined.

Example: LGU A acquires a lot for the construction of a road from the original patent holder through CA No. 141 with the following details:

Particulars	
Fair market value of the land	P2,500,000.00
Replacement cost of the structures in the land	1,000,000.00
Current market value of the trees and crops in the subject land	200,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00

Considerations:

Replacement cost of the structures in the land	1,000,000.00
Current market value of the trees and crops in the subject land	200,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00
Total	P 1,257,100.00

Accounting entries:

Account Title	Account Code	Debit	Credit
Road Networks	1-07-03-010	1,257,100.00	
Cash in Bank - LCCA	1-01-02-010		1,257,100.00
To record the land acquired for the construction of road and the corresponding fees.			

**Section 248. Acquisition of Properties for Right-of-Way through Exchange or Barter.**<sup>66</sup> Acquisition of property wherein instead of the owner of the property being paid the money value of his property, may request the government to exchange or barter an old abandoned government road or other government property near the project with his said property. The IA may favorably consider this mode, subject to the provisions of relevant laws and the following conditions:

- The exchange shall be done on a “value-for-value” basis, i.e. the properties being exchanged are equivalent in market value or price;
- If the government property to be exchanged with the private property was originally donated by a previous owner, the donation must be verified to ensure that there is no condition which prohibits the government from disposing of it to other private persons. If the said government property was originally acquired

<sup>66</sup> Sec. 9, IRR of RA No. 10752.

through sale, the previous owner shall have the first priority to re-acquire the property if required by law or by the contract or deed of sale;

- c. Owners of property whose land about the said abandoned government road or other property shall not be deprived of access, i.e. egress or ingress, to the new highway to be built, if any; and
- d. The private property owner and the IA which are parties to the exchange or barter agreement shall be subject to applicable capital gains tax and documentary stamp tax in accordance with BIR rules and regulations.

Example: LGU A acquires a lot for the construction of a road from the private property owner and in exchange gives up a property which is not presently used or planned to be used with the following details:

Particulars	
Fair market value of the land to be acquired	P2,500,000.00
Fair market value of the land to be given up in exchange	2,500,000.00
Book value of the land to be given up	600,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00
Capital Gains Tax	35,000.00

Considerations:

Fair market value of the land to be acquired	2,500,000.00
Book value of the land to be given up	600,000.00
Documentary stamp tax	18,600.00
Transfer tax	22,500.00
Registration fees	16,000.00

Accounting entries:

Account Title	Account Code	Debit	Credit
Road Networks	1-07-03-010	2,500,000.00	
Cash in Bank - LCCA	1-01-02-010		57,100.00
Land	1-07-01-010		600,000.00
Other Gains	4-05-01-990		1,842,900.00
To record the land acquired through exchange for the construction of road and the corresponding fees.			

**Section 249. Easement of Right-of-Way.** A mode of acquisition for ROW wherein the portion of a lot needed is minimal, such that the expenses for surveying or segregating that portion from the main lot would be very much more than the value of the part of the lot needed. Under this mode, the ROW easement agreement is executed by the property owner and the IA whereby the former will grant the latter the right to use the affected portion of the lot as ROW, but the owner retains ownership of that portion of the lot. The IA pays the

property owner the value of the portion of the lot based on the existing zonal valuation declared by the BIR. In addition, the IA shall compensate the property owner for the replacement cost of any improvements and structures on the land affected by the ROW. Entry by the IA to the acquired property may be effected upon full payment of the value of the property.

The IA shall cause the registration of all ROW easement agreements with the Register of Deeds concerned within ten days from the date of their execution. The Register of Deeds shall annotate on the respective titles the agreements within seven days from receipt thereof.

The land shall be recognized in the books based on the total cost of the acquisition and the <sup>67</sup>agreement shall be disclosed in the Notes.

Example: LGU A acquires a lot for the road widening project with the following details:

<b>Particulars</b>	
Zonal value of the land to be acquired	500,000.00
Replacement cost of the improvements affected in the land	200,000.00
Registration fees	6,000.00
<b>Total</b>	<b>706,000.00</b>

Accounting entries:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Road Networks	1-07-03-010	706,000.00	
Cash in Bank - LCCA	1-01-02-010		706,000.00
To record the land acquired for the easement of road and the corresponding fees.			

**Section 250. Acquisition of Subsurface Right-of-Way.**<sup>68</sup> When it is necessary to build, construct, or install on the subsurface or subterranean portion of private and government owned lands owned, occupied or leased by other persons, such infrastructure as subways, tunnels, underpasses, waterways, floodways, or utility facilities as part of the government's infrastructure and development project, the government or any of its authorized representatives shall not be prevented from entry into the use of such private and government lands by surface owners or occupants, if such entry and use are made more than 50 meters from the surface.

The IA may undertake the mode of acquisition in the following order:

- a. Negotiate with the property owner a perpetual easement of ROW for the subterranean portions of his property required by the project; and
- b. Offer to acquire from the property owner the affected portion of the land, including the affected structures, improvements, crops and trees therein in accordance with the provisions of RA 10752.

<sup>67</sup> Sec. 10, IRR of RA No. 10752.

<sup>68</sup> Sec. 11, *Ibid.*

The IA may engage the services of a government financial institution or an independent property appraiser, in accordance with the provisions of the IRR of RA 10752 in determining the a) appropriate price offer for the perpetual easement of the ROW or b) the appropriate price offer for the entire affected land including structures, improvement, crops and trees. The easement price shall be twenty percent of the market price of the land.

Example: LGU A acquires a subsurface right-of-way for the construction of an underpass project with the following details:

Particulars	
Market Price of the land	1,500,000.00
Replacement cost of the improvements affected in the land	200,000.00
Total	1,700,000.00

Considerations:

Easement price = 20% of the market price of the land (20% of P1,500,000.00)	300,000.00
Replacement cost of the improvements affected in the land	200,000.00
Total	500,000.00

Accounting entries:

Account Title	Account Code	Debit	Credit
Road Networks	1-07-03-010	500,000.00	
Cash in Bank - LCCA	1-01-02-010		500,000.00
To record the acquisition of subsurface right-of-way.			

**Section 251. Acquisition through Purchase of PPE.** PPE can be purchased on cash basis, on account, on installment basis, with promotional items, and at a lump sum price.

- a. On Cash Basis - PPE acquired through cash purchase shall be recognized at cost which includes the cash paid and all costs incurred in bringing the asset to the location and condition necessary of it to be capable of operating in the manner intended. The additional costs include the delivery, installation costs, etc. The PPE shall be recognized in the books of accounts after inspection and acceptance of delivery.

Example, an LGU purchased a photocopying machine with the following costs:

Total cost:	
Invoice price	P45,000.00
Delivery cost	3,000.00
Installation cost	1,500.00
Test run cost	1,000.00
Total	50,500.00
Less: Withholding Tax	<u>2,651.79</u>

Net Amount Paid

P47,848.21

The accounting entry to recognize the photocopying machine shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Office Equipment	1-07-05-020	50,500.00	
Cash in Bank - LCCA	1-01-02-010		47,848.21
Due to BIR	2-02-01-010		2,651.79
To record cash purchase of office equipment.			

- b. On Account - When an asset is acquired on account subject to a cash discount, the cost of the asset is equal to the purchase price, including import duties and non-refundable taxes, net of trade discounts and rebates.

Example, an LGU purchased a threshing machine on account at P200,000 at the following terms 2/10, n/30.

The accounting entry to recognize the machine shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Agricultural and Forestry Equipment (200,000 x 98% ) (100-2)	1-07-05-040		
		196,000.00	
Due to BIR	2-02-01-010		10,500.00
Accounts Payable	2-01-01-010		185,500.00
To record purchase of machinery on account.			
Accounts Payable	2-01-01-010	185,500.00	
Cash in Bank - LCCA	1-01-02-010		185,500.00
To record payment of machinery within the discount period.			
Accounts Payable	2-01-01-010	185,500.00	
Interest Expense	5-03-01-020	4,000.00	
Due to BIR	2-02-01-010	10,500.00	
Cash in Bank - LCCA	1-01-02-010		200,000.00
To record payment of machinery beyond the discount period.			

- c. On Installment Basis -The cost of an item of PPE is the cash price equivalent or its fair value at the recognition date. However, if acquired through installment and payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest qualifies for capitalization as allowed in IPSAS 5, Borrowing Cost.

Example: An LGU purchased a bulldozer at an installment price of ₱3,000,000. The terms are ₱500,000 down payment and the balance is payable in four equal annual installments. The cash price of the heavy equipment is ₱2,700,000. A promissory note is issued for the installment balance of ₱2,500,000. The PPE shall be recognized as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction and Heavy Equipment	1-07-05-070	2,700,000.00	
Other Prepayments	1-05-01-990	300,000.00	
Notes Payable	2-01-01-040		2,355,358.30
Cash in Bank - LCCA	1-01-02-010		500,000.00
Due to BIR	2-02-01-010		144,641.70
To record the purchase and initial payment for the bulldozer acquired on installment basis.			
Notes Payable	2-01-01-040	588,839.57	
Interest Expense	5-03-01-020	125,000.00	
Cash in Bank- LCCA	1-01-02-010		588,839.57
Other Prepayments	1-05-01-990		125,000.00
To record the first installment payment.			

- d. Purchase with promotional items - If promotional items are received for the purchase of the PPE, the allocation of cost for the promo items received shall be as follows:

1. If the promotional item received is the same as the PPE purchased, the total purchase cost shall be allocated to the total quantity purchased plus the promotional item.

Example: An LGU purchase 10 units of motor vehicles at ₱330,000 per unit totaling ₱3,300,000. An additional unit was received as promotional item. The computation of the cost per unit is  $\text{₱3,300,000} / 11 \text{ units} = \text{₱300,000}$ . The accounting entry to record the motor vehicles shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Motor Vehicles	1-07-06-010	3,300,000.00	
Due to BIR	2-02-01-010		176,784.30
Accounts Payable	2-01-01-010		3,123,215.70
To record the purchase of 11 units of motor vehicles at ₱300,000/unit.			
Accounts Payable	2-01-01-010	3,123,215.70	
Cash in Bank - LCCA	1-01-02-010		3,123,215.70
To record the payment			



2. If the promotional item received is different from the PPE purchased, the cost of the promo item shall be its fair value - It shall be deducted from the total cost of the items purchased and the balance shall be allocated to the total quantity purchased.

Example: An LGU purchase a motor vehicle at ₱330,000. A window-type air conditioning unit with fair value of ₱20,000 was received as the promotional item. The computation of the cost of the motor vehicle is ₱330,000 – ₱20,000 = ₱310,000. The accounting entry to record the motor vehicles shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Motor Vehicles	1-07-06-010	310,000.00	
Office Equipment	1-07-05-020	20,000.00	
Due to BIR	2-02-01-010		17,678.43
Accounts Payable	2-01-01-010		312,321.57
To record the purchase of motor vehicles at P310,000 and the window-type air conditioning unit received as promo items.			
Accounts Payable	2-01-01-010	312,321.57	
Cash in Bank - LCCA	1-01-02-010		312,321.57
To record the payment			

- e. At a lump sum price - In case the acquisition of PPE is at a “lump sum price”, the cost shall be apportioned to the asset acquired in order to have proper basis for computing depreciation. The purchase cost shall be distributed based on the relative fair value of the assets acquired.

Example: An LGU purchase a land and a building on cash at a single cost of ₱4,400,000. The land and building have fair values of ₱1,000,000 and ₱3,000,000, respectively, at the time of acquisition. The cost shall be allocated as follows:

<u>Property</u>	<u>Fair Value</u>	<u>Fraction</u>	<u>Allocated Cost</u>
Land	₱1,000,000.00	→ 1/4	₱1,100,000.00
Building	3,000,000.00	→ 3/4	3,300,000.00
	<u>₱4,000,000.00</u>		4,400,000.00
Less: Withholding Tax			<u>235,714.67</u>
Net Amount Paid			<u>₱4,164,285.33</u>

The accounting entry to record the land and building shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Land	1-07-01-010	1,100,000.00	

Buildings	1-07-04-010	3,300,000.00	
Cash in Bank- LCCA	1-01-02-010		4,164,285.33
Due to BIR	2-02-01-010		235,714.67
To record cash purchase of land and building.			

- f. The cost of several PPE purchased at lump sum price per set/group/lot shall be allocated to each PPE based on the breakdown of cost reflected in the invoice, if any. In the absence of such breakdown the allocation of cost shall be based on the relative fair value of the assets acquired.

Example: An LGU purchased a computer set with table and chairs at a lump sum price of ₱55,000.00. The invoice reflected the following cost component:

<u>PPE acquired</u>	<u>Invoice Cost</u>
Computer (CPU, Monitor, Keyboard and Mouse)	₱48,000.00
Printer	3,500.00
Computer Table	2,500.00
Computer Chair	1,000.00
Total Cost	55,000.00
Less: Withholding Tax	<u>2,946.45</u>
Net Amount Paid	<u>₱52,053.57</u>

The purchase shall be recognized as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Information and Communication Technology Equipment	1-07-05-030	51,500.00	
Furniture and Fixtures	1-07-07-010	3,500.00	
Cash in Bank - LCCA	1-01-02-010		52,053.57
Due to BIR	2-02-01-010		2,946.43
To record the purchase of computer set with table and chair.			

- g. Construction of PPE - During the construction period, all expenses incurred in relation to the construction of the PPE shall be recognized as part of the cost of the PPE.

Illustrative accounting entries for construction undertaken by contract:

<u>Particulars</u>	<u>Amount</u>
Contract Cost	₱1,800,000.00
Mobilization Cost (15% x 1,800,000)	270,000.00
First construction billing (50%)	900,000.00
Final billing	900,000.00

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
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<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Advances to Contractors	1-05-01-010	270,000	
Cash in Bank- LCCA	1-01-02-010		270,000
To record the mobilization cost.			
Construction in Progress-Buildings and Structures	1-07-10-030	900,000	
Due to BIR	2-02-01-010		90,000
Accounts Payable	2-01-01-010		675,000
Advances to Contractors	1-05-01-010		135,000
To record receipt of 1st progress billing for Building			
Accounts Payable	2-01-01-010	675,000	
Cash in Bank- LCCA	1-01-02-010		585,000
Guaranty/Security Deposits Payable	2-04-01-040		90,000
To record payment of 1 <sup>st</sup> progress billing			
Total billing		₱900,000.00	
Less: Recoupment 50% Payable		<u>135,000.00</u>	
		765,000.00	
Less: 10% Retention	90,000.00		
Withholding Tax	<u>90,000.00</u>	<u>180,000.00</u>	
Net Amount payable		<u>₱585,000.00</u>	
Construction in Progress – Buildings & Other Structure	1-07-10-030	900,000	
Accounts Payable	2-01-01-010		675,000
Due to BIR	2-02-01-010		90,000
Advances to Contractors	1-05-01-010		135,000
To record receipt of final billing for building			
Accounts Payable	2-01-01-010	675,000	
Cash in Bank - LCCA	1-01-02-010		585,000
Guaranty/Security Deposits Payable	2-04-01-040		90,000
To record payment of the final for building			
Buildings	1-07-04-010	1,800,000	
Construction in Progress–Buildings & Other Structures	1-07-10-030		1,800,000
To record transfer of the completed building			
Guaranty/Security Deposits Payable	2- 04-01-040	180,000	
Cash in Bank-LCCA	1-01-02-010		180,000
To record return of guarantee deposit and contractors' security			

Illustrative accounting entries for construction by administration:

<u>Particulars</u>	<u>Amount</u>
Construction Materials	P250,000.00
Labor component	200,000.00
Total budget for the building	450,000.00

- h. Receipt of the construction materials with the total cost P245,000.00 based on the invoice and payment thereof.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction Materials Inventory	1-04-04-130	245,000.00	
Due to BIR	2-02-01-010		15,000.00
Accounts Payable	2-01-01-010		230,000.00
To record the delivery and acceptance of construction materials			
Accounts Payable	2-01-01-010	230,000.00	
Cash in Bank-LCCA	1-01-02-010		230,000.00
To record payment for construction materials delivered			

- i. Issuance of the construction materials.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction in Progress – Buildings & Other Structures	1-07-10-030	245,000.00	
Construction Materials Inventory	1-04-04-130		245,000.00
To record the issuance of construction materials			

- j. Set up liability for the labor payroll submitted totaling P190,000.00.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction in Progress – Buildings & Other Structures	1-07-10-030	190,000.00	
Accounts Payable	2-01-01-010		190,000.00
To set up liability for payroll.			

- k. To transfer the completed building to the particular asset account.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Buildings	1-07-04-010	435,000.00	
Construction in Progress - Building & Other Structures	1-07-10-030		435,000.00
To transfer Construction in Progress account to PPE account upon completion of the project			

**Section 252. Acquisition through Finance Lease.** A finance lease is a kind of lease that transfers substantially all the risks and rewards incident to ownership of an asset. At the start of the lease term, the government as lessee shall recognize the assets and liabilities at amounts equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to

be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

Example:

LGU A enters into an agreement to acquire construction heavy equipment (truck) on a finance lease. The details of the transaction are presented below:

Particulars	
Fair value of the equipment	P-5,000,000
Lease term	5 years
Annual lease payments	750,000
Guaranteed residual value	500,000
Down payment	1,000,000
No additional services on the part of the lessor	
Implicit Rate	1.904%

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Opening Value of Lease	5,000,000	4,000,000	3,326,160	2,639,490	1,939,745	1,226,677
Interest Expense		76,160	63,330	50,255	36,932	23,355
Reduction of liability	1,000,000	673,840	686,670	699,745	713,068	726,645+, 500,000
Closing Lease Liability	4,000,000	3,326,160	2,639,490	1,939,745	1,226,677	-32
$=4,000,000 \times 1.904\% = 76,160.00$ $=750,000 - 76,160.00 = 673,840.00$ $=4,000,000 - 673,840 = 3,326,160$						

The accounting entry shall be:

Year 0

Account Title	Account Code	Debit	Credit
Leased Assets, Machinery & Equipment	1-07-08-030	5,000,000	
Cash in Bank - LCCA	1-01-02-010		1,000,000
Finance Lease Payable	2-01-01-070		4,000,000
To record leased assets.			

Year 1

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense	5-03-01-020	76,160	
Finance Lease Payable	2-01-01-070	673,840	
Cash in Bank - LCCA	1-01-02-010		750,000
To record the lease payment for the first year.			

Year 2

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense	5-03-01-020	63,330	
Finance Lease Payable	2-01-01-070	686,670	
Cash in Bank - LCCA	1-01-02-010		750,000
To record the lease payment for the second year.			

Year 3

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense	5-03-01-020	50,255	
Finance Lease Payable	2-01-01-070	699,745	
Cash in Bank - LCCA	1-01-02-010		750,000
To record the lease payment for the third year.			

Year 4

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense	5-03-01-020	36,932	
Finance Lease Payable	2-01-01-070	713,068	
Cash in Bank - LCCA	1-01-02-010		750,000
To record the lease payment for the fourth year.			

Year 5

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense	5-03-01-020	23,323	
Finance Lease Payable	2-01-01-070	1,226,677	
Cash in Bank - LCCA	1-01-02-010		1,250,000
To record the lease payment for the fifth year.			

**Section 253. Non-exchange Transaction.** PPE acquired through a non-exchange transaction, such as donation, funds transferred from agencies for implementation of projects and the completed projects transferred to the LGU, transfers of assets and grants. The transferred PPE shall be measured at its fair value as of the date of acquisition. If the fair value cannot be determined, the asset should be recorded at a nominal value. A nominal value is an economic value expressed in historical nominal monetary terms.

**Section 254. Donation without Condition.** PPE acquired through donation without condition shall be taken up at its fair value at the date it is acquired. All expenses incurred in connection with the donated asset, such as delivery and installation costs, shall be included in the amount recognized as asset. The fair value of the PPE shall be recognized as Income from Grants and Donations.

Example: A bus was received as donation from the Korean Government with a fair value of ₱1,000,000.00. Duties and taxes paid were ₱10,000.00, thus, the total cost amounted to ₱1,010,000.00. The donation received shall be recognized as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Motor Vehicles	1-07-06-010	1,010,000.00	
Cash in Bank - LCCA	1-01-02-010		10,000.00
Grants and Donations in Kind	4-04-02-020		1,000,000.00
To record donations received.			

**Section 255. Donation with Condition.** Where a PPE is acquired thru donation with conditions, the PPE is recognized at fair value and a liability account shall be recognized until the conditions have been fulfilled.

Example: A land was donated to the LGU with a condition that a public market will be constructed on the land. The land has a fair value of ₱950,000 at the time of donation. The accounting entries to recognize the donation and building constructed shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Land	1-07-01-010	950,000.00	
Trust Liabilities	2-04-01-010		950,000.00
To record the fair value of the land received as donations.			

Once the construction of the public market has been fulfilled, the following accounting entry shall be made:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Trust Liabilities	2-04-01-010	950,000.00	
Grants and Donations in Kind	4-04-02-020		950,000.00
To recognize the income.			

**Section 256. Grants.** Grants are assistance in the form of transfer of resources to an LGU from, private sectors or international institutions with conditions relating to the implementation of specific projects, which includes construction of PPEs. Upon receipt of the funds, these are recognized in the Trust Fund books. Implementation of the projects are likewise recognized in the Trust Fund books and upon completion of the project, the corresponding cost are closed from the liability account and recognized as income. The completed assets are transferred to the General Fund books.

Example: Corporation A transferred ₱5,000,000.00 to LGU A for the construction of an evacuation center. The agreement on transfer requires that the funds shall be used for the specific purpose and any savings shall be returned to Corporation A. The details of the transaction are shown as follows:

<b>Particulars</b>	<b>Amount</b>
Amount of grant	P5,000,000.00
Purpose: for construction of evacuation center	
Contract amount	4,900,000.00
Mobilization fee	735,000.00
1 <sup>st</sup> billing 40%	1,960,000.00
2 <sup>nd</sup> billing 100%	2,940,000.00
Completed and accepted by the LGU	

The following shall be the accounting entry.

- a. Receipt of the grant.

Trust Fund books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash in Bank - LCCA	1-01-02-010	5,000,000	
Trust Liabilities	2-04-01-010		5,000,000
To recognize the receipt of the transferred funds.			

- b. Release of the mobilization fee

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Advances to Contractors	1-05-01-010	735,000	
Cash in Bank - LCCA	1-01-02-010		735,000
To recognize the payment for the mobilization fee.			

- c. Receipt of the 1<sup>st</sup> billing

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction in Progress – Buildings & Other Structure	1-07-10-030	1,960,000	
Due to BIR	2-02-01-010		117,600
Accounts Payable	2-01-01-010		1,548,400
Advances to Contractors	1-05-01-010		294,000
To recognize the receipt of the 1 <sup>st</sup> billing.			

- d. Payment of the 1<sup>st</sup> billing

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable	2-01-01-010	1,548,400	
Cash in Bank - LCCA	1-05-01-010		1,352,400
Guaranty/Security Deposits Payable	2-04-01-040		196,000
To record payment of the 1 <sup>st</sup> billing			



e. Receipt of the 2<sup>nd</sup> and final billing

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Construction in Progress – Buildings & Other Structure	1-07-10-030	2,940,000	
Due to BIR	2-02-01-010		176,400
Accounts Payable	2-01-01-010		2,322,600
Advances to Contractors	1-05-01-010		441,000
To recognize the receipt of the final billing.			

f. Payment of the 2<sup>nd</sup> and final billing

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable	2-01-01-010	2,322,600	
Cash in Bank - LCCA	1-05-01-010		2,028,600
Guaranty/Security Deposits Payable	2-04-01-040		294,000
To record payment of the 1 <sup>st</sup> billing			

g. To record the completion of the project

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Buildings	1-07-04-010	4,900,000	
Construction in Progress – Buildings & Other Structure	1-07-10-030		4,900,000
To recognize the completion of the building.			

h. To recognize the compliance of the grant agreement

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Trust Liabilities	2-04-01-010	4,900,000	
Grants and Donations in Cash	4-04-02-010		4,900,000
To recognize the income for the compliance of the grant agreement.			

i. To return the savings to the donor

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Trust Liabilities	2-04-01-010	100,000	
Cash in Bank - LCCA	1-05-01-010		100,000
To recognize the income for the compliance of the grant agreement.			

- j. To close the income account.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Grants and Donations in Cash	4-04-02-010	4,900,000	
Income and Expense Summary	3-02-01-010		4,900,000
To recognize the transfer of the asset to the General Fund books.			

- k. To close the Income and Expense summary account to the Government Equity

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Income and Expense Summary	3-02-01-010	4,900,000	
Government Equity	3-01-01-010		4,900,000
To recognize the transfer of the asset to the General Fund books.			

- l. To recognize the transfer of the asset to the General Fund books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Government Equity	3-01-01-010	4,900,000	
Buildings	1-07-04-010		4,900,000
To recognize the transfer of the asset to the General Fund books.			

- m. To recognize the asset in the General Fund books.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Buildings	1-07-04-010	4,900,000	
Government Equity	3-01-01-010		4,900,000
To recognize the asset in the General Fund books.			

**Section 257. Receipt, Inspection and Acceptance of PPE.** Receipt of items purchased by the LGU shall be accepted by the Property Officer and inspected by the inspection team. Acceptance shall be made only if the PPE delivered conform to the standards and specifications in the Purchase Order (PO) or contract. Inspection and acceptance shall be made using the Acceptance and Inspection Report (AIR).

**Section 258. Recording of Deliveries.** Deliveries of PPE upon acceptance shall be recorded in the Property Card maintained by the Property Unit on the basis of the AIR and other supporting documents. Copies of the AIR and other supporting documents shall be forwarded to the Accounting Office for the recording of deliveries thru a JV and shall be posted in the Journal of Purchases Received and in the Property, Plant and Equipment Ledger Card. Based on the AIR and other supporting documents, the Property Unit shall prepare the DV and submit to the Accounting Office for the processing of payment.

**Section 259. Issuance of PPE.** The property officer shall prepare the Property Acknowledgement Receipt to support the issuance of property to end-user. The Property Acknowledgement Receipt (PAR) shall be renewed at least once in every three years or every time there is a change in accountable officer or custodian of the property.

**Section 260. Depreciation.** PPE gradually losses its value over the course of time. Thus, the depreciable value of the PPE needs to be distributed on a systematic manner over its useful life. The systematic manner of allocating the cost is referred to as depreciation. The depreciation charge for each period shall be recognized as expense unless it is included in the carrying amount of another asset. For example, the depreciation of equipment used in the manufacturing of inventories is included in the costs of conversion of inventories.

**Section 261. Elements in Depreciation.** Three factors to consider in determining depreciation:

- a. Initial Cost;
- b. Useful life; and
- c. Expected residual value at the end of its useful life.

**Section 262. Depreciation Policies.** The following policies shall apply to the depreciation of PPE:

- a. All PPE, except Land shall be subject to depreciation.
- b. Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. To provide uniform provision, depreciation shall be for one month if the PPE is available for use on or before the 15th of the month. However, if the PPE is available for use after the 15th of the month, depreciation shall start on the succeeding month.
- c. Depreciation ceases when the asset is derecognized. Depreciation continues when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.
- d. The straight line method of depreciation shall be adopted. The depreciation method shall be 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.
- e. The estimation of the useful life of the asset shall be determined by management, which shall be within the range herein provided, as follows:

<u>Property, Plant and Equipment</u>		<u>Estimated Useful Life</u>
Land Improvements	-	Over the useful life of the asset to which the improvement was made or the useful life of the improvement if significantly shorter.

<u>Property, Plant and Equipment</u>		<u>Estimated Useful Life</u>
Infrastructure Assets <sup>69</sup>		
Road Network		
Newly constructed		
Pavement	-	10-20 years
Bridges	-	40 years
Box/Pipe culverts	-	15-25 years
Reblocking (concrete/asphalt)	-	5-10 years
Other Public Infrastructure	-	15-25 years
Multi-purpose Pavement/Solar Dryers	-	5 years
Buildings and Other Structures	-	20 to 30 years
Machinery and Equipment	-	5 to 15 years
Transportation Equipment:		
Motor vehicles	-	5 to 15 years
Military vehicles	-	3 to 20 years
Ships and Boats	-	10 to 25 years
Aircraft and Trains	-	10 to 20 years
Furniture, Fixtures and Books	-	2 to 15 years
Leased Assets Improvement	-	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
Other Property, Plant and Equipment	-	2 to 15 years
Intangible Assets	-	2 to 10 years

- f. Based on the table the LGU shall adopt a policy providing the specific estimated useful life for each specific asset based on their experience. The information shall be disclosed in the Notes to Financial Statements.
- g. The estimated useful life of the remaining undepreciated portion of a PPE shall be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.
- h. A residual value equivalent to at five percent of the cost except for the Public Infrastructures shall be adopted unless a more appropriate residual value is determined by the LGU based on their operation subject to the approval of COA.

<sup>69</sup> Department of Public Works and Highways Department Order No. 176, s. 2015.

- i. The residual value and the useful life of an asset shall be reviewed at the end of each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.
- j. The computation of monthly depreciation expense shall be as follows:

$$\text{Depreciation Expense} = \frac{\text{Cost} - \text{Residual Value}}{\text{Estimated Useful Life (in months)}}$$

- k. Depreciation shall be recorded as a debit to the Depreciation Expense account and a credit to the Accumulated Depreciation account. Depreciation expense shall be recorded on a monthly basis.

Example, on June 25, 2018 office equipment was purchased at ₱22,000 and has an estimated useful life of 5 years and 5% residual value. Said equipment was available for use on June 20, 2018.

$$\text{Monthly Depreciation} = \frac{\text{₱22,000.00} - \text{₱1,100.00}}{60 \text{ months}} = \text{₱349.00}$$

The journal entry shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<i>June 30, 2018</i>			
No depreciation expense recorded.			
<i>July 31, 2018</i>			
Depreciation – Machinery & Equipment	5-05-01-050	349.00	
Accumulated Depreciation-Office Equipment	1-07-05-021		349.00
To record depreciation for the month of July 2018.			

1. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be recorded and depreciated separately.

Example, LGU constructed a new road with a total cost of ₱15,000,000. The cost components are:

Particulars	Estimated Life (In Years)	Cost	Depreciation per month
Road Lot		P 2,000,000.00	-0-
Pavement	20	10,000,000.00	41,666.67
Drainage	10	1,500,000.00	12,500.00
Shoulders	5	1,500,000.00	25,000.00
Lined canals	2	500,000.00	20,833.00
Total		15,500,000.00	99,999.67

Journal entry to record the depreciation is as follows:

Account Title	Account Code	Debit	Credit
Depreciation Expense – Infrastructure Assets	5-05-01-030	99,999.67	
Accumulated Depreciation – Road Networks	1-07-03-011		99,999.67
To record monthly depreciation.			

**Section 263. Impairment.** A property is impaired when the carrying amount of an asset exceeds its recoverable service amount due to decline in market value of an asset. The following policies apply to impairment of PPE:

- a. At each reporting date, an LGU shall assess whether there is an indication that an asset may be impaired. If an indication of impairment exists, the LGU shall estimate the recoverable service amount of the asset. In assessing whether there is an impairment of asset, an LGU shall consider the following indications:
  1. External sources of information:
    - i. Cessation, or near cessation, of the demand or need for services provided by the asset; and
    - ii. Significant long-term changes with an adverse effect on the LGU have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the LGU operates;
  2. Internal sources of information:
    - i. Evidence is available of physical damage of an asset;
    - ii. Significant long-term changes with an adverse effect on the LGU 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, or plans to dispose of an asset before the previously expected date;
    - iii. A decision to halt the construction of the asset before it is complete or in a usable condition; and
    - iv. Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.
- b. The computation for impairment loss is shown in the formula below:

Impairment Loss = Carrying Amount less Recoverable Service Amount

Carrying amount = Cost less Accumulated Depreciation and Accumulated Impairment Loss

Recoverable Service = Higher of Fair Value less Cost to sell and Amount Value in Use

Value in Use = Present Value of the Asset remaining Service Potential

Computation of Service Potential:

1. Depreciated replacement cost approach - 'The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.'
2. Restoration cost approach - an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off.
3. Service units approach - an approach that compares the service units provided by the capital asset before and after the impairment event or change in circumstance

c. The impairment loss shall be recognized as an expense in the financial statement.

Example:

IT Equipment	P350,000.00
Accumulated Depreciation	<u>126,000.00</u>
Carrying Amount	<u>P224,000.00</u>

Fair Value of IT Equipment	<u>P200,000.00</u>
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Computation of impairment loss:

Carrying Amount	P224,000.00
Less: Recoverable service amount (Fair Value)	<u>200,000.00</u>
Impairment Loss	<u>P 24,000.00</u>

Journal entry to record impairment loss is as follows:

Account Title	Account Code	Debit	Credit
Impairment Loss – PPE	5-05-03-090	24,000.00	
Accumulated Impairment Losses – Information and Communication Technology Equipment	1-07-05-032		24,000.00
To record impairment loss			

- d. After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

Depreciation after the recognition of an impairment loss shall be computed as follows:

Depreciation Expense =	<u>Revised Carrying Amount – Residual Value</u> Remaining Estimated Useful Life (in months)
=	<u>₱200,000 – ₱17,500*</u> 36 mos.**
=	5,069.44

\* 5% of ₱350,000.00 (initial cost of the equipment)

\*\* 5 years or 60 mos. (total life) less 2 years or 24 mos. (used life)

Journal entry to record the adjusted depreciation is as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Depreciation Expenses -Machinery and Equipment	5-05-01-050	5,069.44	
Accumulated Depreciation – Information and Communication Technology Equipment	1-07-05-031		5,069.44
To record monthly depreciation expense after recognition of an impairment loss			

**Section 264. Reversal of Impairment Loss.** An LGU shall assess whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If such indication exists, the LGU shall estimate the recoverable service amount of that asset. The LGU shall consider the following indications in assessing whether an impairment loss recognized in prior periods for an asset no longer exist or may have decreased:

- a. External sources of information:
  1. Resurgence of the demand or need for services provided by the asset.
  2. Significant long-term changes with a favorable effect on the LGU have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the LGU operates.
- b. Internal sources of information:
  1. Significant long-term changes with a favorable effect on the LGU 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, the asset is used or is expected to be



used. These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs.

2. A decision to resume construction of the asset that was previously halted before it was completed or in a usable condition.
  3. Evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.
- c. If the impairment loss recognized for an asset no longer exists or may have decreased, this indicates that the remaining useful life, or the residual value needs to be reviewed and adjusted even if no impairment loss is reversed for the asset.
  - d. An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount. That increase is a reversal of an impairment loss.
  - e. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.
  - f. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit.
  - g. After a reversal of an impairment loss is recognized, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

Example:

Initial information		
	Office Equipment:	
	Initial Cost	<u>₱ 50,000.00</u>
	Life	5 years
	Residual value	2,500
	Monthly amortization $\frac{50,000-2,500}{60\text{mos}}$	791.67
After the end of the second year		
	Recoverable value of the asset	<u>₱ 21,000.00</u>
	Accumulated Depreciation (2 years)	<u>19,000.00</u>
	Carrying Amount	31,000.00*
	Recoverable Service Amount	<u>21,000.00</u>
	Impairment	<u>10,000.00</u>
	Adjusted Depreciation after Impairment	<u>₱6,167.00**</u>

On the 3 <sup>rd</sup> year		
	Assume that on the third year, the Fair Value of Office Equipment is ₱29,000.00 indicating an impairment recovery.	
	Computation for Reversal of Impairment Loss:	
	Carrying Amount (P50,000-19,000-10,000-6,167)	₱14,833.00
	Less: Recoverable service amount (P29,000-2,500)***	<u>26,500.00</u>
	Reversal of Impairment Loss	<u>(11,667.00)</u>

\*carrying amount = initial cost- accumulated depreciation

\*\* Depreciation =  $\left[ \frac{\text{carrying value after the 2<sup>nd</sup> year 21,000} - \text{residual value 2,500}}{\text{Remaining life of asset 36 mos}} \right] * 12$

\*\*\* Adjusted recoverable service amount = current FV less residual value

Journal entry to record reversal of impairment loss recognized in previous year:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accumulated Impairment Loss – Machinery	1-07-05-010	10,000.00	
Reversal of Impairment Losses	4-05-01-120		10,000.00
To record reversal of impairment loss			

*Note:* The carrying amount is less than the recoverable service amount therefore no impairment loss should be recognized for the current year. (CA = ₱14,833.00 and RSA = ₱29,000.00)

**Section 265. Repairs and Maintenance.** Repairs and maintenance primarily maintain or improve the functionality and capacity of the PPE; increase its service life; improve the quality of its output; or reduce the operating cost. These may be categorized into major and minor repairs.

- a. Under the recognition principle, an LGU shall not recognize in the carrying amount of an item of PPE the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of PPE.
- b. Spare parts and servicing equipment carried as inventory shall be recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as PPE when an LGU 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 PPE, they are accounted for as PPE.

- c. Parts of some items of PPE may require recurring replacement such as a road needing resurfacing every few years or non-recurring replacement such as replacing the interior walls of a building. Under the recognition principle, an LGU recognizes in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized.
- d. Minor repairs shall be directly charged to expense account "Repairs and Maintenance" of the specific PPE.
- e. Major repairs shall be added to the carrying amount of the PPE and shall be depreciated over the remaining life.
- f. Where cost cannot easily be differentiated between a minor or major repair, the cost shall be treated as expense.

Pro-forma accounting entries for repairs and maintenance are as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Minor repair of motor vehicle (Body Repainting)			
Repairs and Maintenance-Transportation Equipment	5-02-13-060	15,000.00	
Cash in Bank - LCCA	1-01-02-010		14,196.43
Due to BIR	2-02-01-010		803.57
To record minor repair of motor vehicle			
2. Major repair of motor vehicle (Change Engine)			
Motor Vehicles	1-07-06-010	80,000.00	
Cash in Bank - LCCA	1-01-02-010		75,714.29
Due to BIR	2-02-01-010		4,285.71
To record the cost of replacement of motor engine.			
Other Supplies and Materials Inventory	1-04-04-990	22,5000	
Accumulated Depreciation- Motor Vehicles	1-07-06-011	47,500	
Motor Vehicles	1-07-06-010		70,000.00
To record derecognition of replaced motor engine and recognize the scrap motor engine.			

**Section 266. Physical Count of PPE.** The LGU shall have a periodic physical count of PPE, which should be done annually and reported on the Report on the Physical Count of Property, Plant and Equipment as of December 31 of each year. This shall be submitted to the Auditor concerned not later than January 31 of the following year. Equipment found at station and losses discovered during inventory taking shall be incorporated in the report furnished the Accounting Office for proper accounting/recording.

**Section 267. Derecognition.** The cost of the PPE together with the related accumulated depreciation and accumulated impairment loss shall be closed from the accounts upon derecognition of PPE on disposal. The following are the policies on the disposal of PPE:

- a. The gain or loss arising from derecognition of an item of PPE shall be included in surplus or deficit when the item is derecognized.
- b. If, under the recognition principle, an LGU recognizes in the carrying amount of PPE the cost of a replacement for its part, then the carrying amount of the replaced part should be derecognized. If it is not practicable to determine the carrying amount of the replaced part, the LGU may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
- c. The gain or loss arising from the disposal of an item of PPE shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item;
- d. All unserviceable property for disposal shall be reported in the Inventory and Inspection Report of Unserviceable Property;
- e. A JV shall be prepared by the Accounting Office to derecognize the asset from the books of accounts only after its disposal;
- f. Disposal procedures of unserviceable property shall be in accordance with applicable rules and regulations.

Pro-forma accounting entries to record disposal of PPE are as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Disposal thru sale (less than carrying amount)			
Cash Local Treasury	1-01-01-010	45,000.00	
Accumulated Depreciation–Motor Vehicles	1-07-06-011	450,000.00	
Loss on Sale of PPE	5-05-04-040	5,000.00	
Motor Vehicles	1-07-06-010		500,000.00
To record sale of unserviceable motor vehicle at less than the carrying amount			
2. Disposal thru sale (above carrying amount)			
Cash Local Treasury	1-01-01-010	60,000.00	
Accumulated Depreciation–Motor Vehicles	1-07-06-011	450,000.00	
Motor Vehicles	1-07-06-010		500,000.00
Gain on Sale of PPE	4-05-01-050		10,000.00
To record sale of unserviceable motor vehicle above the carrying amount			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<b>3. Disposal thru Donation</b>			
Donations	5-02-99-080	50,000.00	
Accumulated Depreciation–Motor Vehicles	1-07-06-011	450,000.00	
Motor Vehicles	1-07-06-010		500,000.00
To record disposal thru donation			
<b>4. Disposal thru Destruction</b>			
Other Losses	5-05-04-990	50,000.00	
Accumulated Depreciation – Motor Vehicles	1-07-06-011	450,000.00	
Motor Vehicles	1-07-06-010		500,000.00
To record disposal thru destruction			

**Section 268. Loss of Property.** The accounting policies on loss of properties are as follows:

- a. The accountable officer shall immediately notify the COA or the Auditor concerned and, within thirty days or such period as the Commission or Auditor may in the particular case allow, shall present his application for relief, with the available supporting evidence.<sup>70</sup>
- b. The Accounting Office shall upon receipt of the Notice of Loss prepared by the Accountable Officer and the corresponding request for relief derecognized in the books of accounts the book value of the lost property and the related accumulated depreciation and impairment loss and recognize the corresponding receivable account from the accountable officer shall be established.

Sample Computation:

Cost of Medical Equipment	₱200,000.00
Accumulated Depreciation	<u>72,000.00</u>
Net Carrying Value (Loss of Asset)	<u>₱127,000.00</u>

- c. Compensation from third parties for items of PPE that were lost shall be recorded as income.
- d. In case of partial destruction/loss of PPE the amount to be derecognized shall be its carrying value less the fair value of the remaining serviceable portion.

The following are the accounting entries to record the loss of PPE:

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<sup>70</sup> Sec. 73, PD No.1445.

1. Total loss of PPE

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due from Officers and Employees	1-03-06-020	127,000.00	
Accumulated Depreciation– Medical Equipment	1-07-05-111	72,000.00	
Medical Equipment	1-07-05-110		200,000.00
To record loss of medical equipment			
Loss of Assets	5-05-04-090	127,000.00	
Due from Officers and Employees	1-03-06-020		127,000.00
To record the grant of relief from accountability to accountable officer by COA.			
Cash Local Treasury	1-01-01-010	15,000.00	
Miscellaneous Income	1-06-01-010		15,000.00
To record proceeds from insurance claim			

2. Partial loss of PPE

Cost of six rooms school building	<u>₱500,000</u>
Accumulated Depreciation	<u>225,000</u>
Carrying Amount	<u>₱275,000</u>
Assumed that two rooms were raised by fire	
Fair Value of four remaining rooms	<u>₱184,000</u>
Computation for the Loss:	
Carrying Amount	<u>₱275,000</u>
Less: Fair Value of remaining rooms	<u>184,000</u>
Partial Loss	<u>₱ 91,000</u>

(Total accumulated depreciation/total no. of classrooms multiplied by the no. of classrooms destroyed)

Total accumulated depreciation:

$$\begin{aligned}\text{Depreciation per classroom} &= 225,000 / 6 \\ &= 37,500\end{aligned}$$

$$\begin{aligned}\text{Depreciation per classroom x no. of classroom raised by fire} \\ &= 37,500 \times 2 \\ &= 75,000\end{aligned}$$

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due from Officers and Employees	1-03-06-020	91,000.00	
Accumulated Depreciation – School Buildings	1-07-04-021	75,000.00	
School Buildings	1-07-04-020		166,000.00
To record partial loss of building due to fire.			

**Section 269. Accounting and Property Records to be maintained for PPE.** The Local Accountant shall maintain the subsidiary ledger cards for each group of PPEs including work and other animals etc. The subsidiary ledger cards are: Land and Land Improvements Ledger Cards for land and land improvements; Local Road Network Ledger Card for road network; Other Public Infrastructure Ledger Cards for the public infrastructures other than the road network; Building and Structure Ledger Cards for buildings and structures; Equipment Ledger Cards for the equipment, and Other Property Ledger Cards, for the other property not provided with special ledger cards. The ledger cards shall be kept to record promptly the acquisition, description, custody, estimated useful life, depreciation, impairment loss, disposal and other information about the asset. For check and balance, the General Service Office and Supply Office/Unit shall likewise maintain the equivalent Property Card (PC) for PPE to account for the receipt and disposition of the same. The balance of the PPE general ledger accounts should always reconcile with subsidiary ledger cards. They should also reconcile with other property records like PAR.

The following are the other forms/reports necessary to account for PPE:

- a. Property Card -this card shall be used by the Supply and Property Unit (SPU) to record the description, acquisition, transfer, disposal, and other information about the PPE. It shall be kept for each class of PPE.
- b. Purchase Request -this form shall be used by the requisitioner to request for the purchase of PPEs items not available on stock. It shall be the basis of preparing the Purchase Order (PO).
- c. Purchase Order -this form shall be prepared by the SPU to support the purchase of PPE, supplies and materials, etc. It serves as the contract between the LGU and the supplier for the delivery of specified items based on the stipulations stated which was agreed upon during the procurement process.
- d. Acceptance and Inspection Report -this form shall be used to acknowledge the receipt of equipment purchased and inspection made thereof.
- e. Property Acknowledgement Receipt. This form shall be used by the SPU to document the issuance of PPE and the acknowledgement of the end-user.
- f. Report on the Physical Count of Property, Plant and Equipment -this form shall be used to report the physical count and condition of PPE by type as of a given date, including those which are unrecorded and those which could not be accounted for. It shows the balance of PPE per property cards and per count and the shortage/overage, if any. It shall be rendered by the Inventory Committee, on its yearly physical count of properties owned/controlled by the LGU.
- g. Inventory and Inspection Report for Unserviceable Property-this report shall be used to account for all unserviceable property of an LGU which is subject to disposal. It also serves as the basis in dropping from the books the unserviceable properties carried in the PPE accounts.

**Section 270. Disclosure.** The financial statements shall have the following PPE disclosures:

- a. The financial statements shall disclose, for each class of PPE recognized in the financial statements:
  1. The measurement bases used for determining the gross carrying amount;
  2. The depreciation methods used;
  3. The useful lives; and
  4. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- b. A reconciliation of the carrying amount at the beginning and end of the period showing:
  1. Additions;
  2. Disposals;
  3. Acquisitions through LGU combinations;
  4. Increases or decreases and impairment losses;
  5. Impairment losses recognized in surplus or deficit in accordance with IPSAS 21;
  6. Depreciation; and
  7. Other changes.
- c. The financial statements shall also disclose for each class of PPE recognized in the financial statements:
  1. The existence and amounts of restrictions on title, and PPE pledged as securities for liabilities;
  2. The amount of expenditures recognized in the carrying amount of an item of PPE in the course of its construction;
  3. The amount of contractual commitments for the acquisition of PPE; and
  4. If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of PPE that were impaired, lost or given up that is included in surplus or deficit.
- d. Agencies are encouraged to disclose the following:
  1. The carrying amount of temporarily idle PPE;
  2. The gross carrying amount of any fully depreciated PPE that is still in use;
  3. The carrying amount of PPE retired from active use and held for disposal; and
  4. The fair value of PPE when this is materially different from the carrying amount.

**Section 271. Reconciliation.** A reconciliation report shall be prepared using the following format:



**Reconciliations**  
(in thousand pesos)

Particulars	Land		Buildings		Machinery		Furniture and Fixtures	
<i>Comparative Reporting Periods</i>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Beginning Carrying Amount	2,025	2,025	2,090	2,260	1,085	1,100	200	150
Add : Additions	-	-	250	100	120	200	20	100
Total	2,025	2,025	2,340	2,360	1,205	1,300	220	250
Less : Disposals	-	-	(150)	(40)	(60)	(80)	(20)	-
Depreciation (As per Statement of Financial Performance)	-	-	(160)	(180)	(145)	(135)	(50)	(50)
Impairment Loss (As per Statement of Financial Performance)	-	-	(30)	(50)	-	-	-	-
Ending Carrying Amount (As per Statement of Financial Position)	<u>2,025</u>	<u>2,025</u>	<u>2,000</u>	<u>2,090</u>	<u>1,000</u>	<u>1,085</u>	<u>150</u>	<u>200</u>
Gross Cost (Asset Account Balance per Statement of Financial Position)	2,025	2,025	2,420	2,320	1,280	1,135	250	250
Less: Accumulated Depreciation Allowance for Impairment	-	-	(340) (80)	(180) (50)	(280)	(135)	(100)	(50)
Carrying Amount (As per Statement of Financial Position)	<u>2,025</u>	<u>2,025</u>	<u>2,000</u>	<u>2,090</u>	<u>1,000</u>	<u>1,085</u>	<u>150</u>	<u>200</u>

## Chapter 8

### INVESTMENT PROPERTY

**Section 272. Definition.** Investment Property is a property (land or buildings – or part of a building – or both) held to earn rentals or for capital appreciation or both. The following are examples of investment property:

- a. Land held for long-term capital appreciation rather than for short-term sale;
- b. Land held for a currently undetermined future use;
- c. A building owned (or held by the LGU under a finance lease) and leased out under one or more operating leases on a commercial basis;
- d. A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis; and
- e. Property that is being constructed or developed for future use as investment property.

The following are not considered investment property:

- a. Biological assets related to agricultural activity;
- b. Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources;
- c. Property held for sale in the ordinary course of business;
- d. Property being constructed or developed on behalf of third parties;
- e. Owner-occupied property or property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes, such as:
  - 1. Property held for future use as owner-occupied property;
  - 2. Property held for future development and subsequent use as owner-occupied property;
  - 3. Property occupied by employees; or
  - 4. Owner-occupied property awaiting disposal.
- f. Property that is leased to another LGU under a finance lease;
- g. Property held to provide a social service and which also generates cash inflows;
- h. Property held for strategic purposes;
- i. Property held for use in the production or supply of goods or services or for administrative purposes;

**Section 273. Criteria for Recognition.** Investment property shall be recognized as an asset when, and only when:

- a. It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the LGU; and
- b. The cost or fair value of the investment property can be measured reliably.

**Section 274. Measurement at Initial Recognition.** Investment property shall be measured at its cost. Investment property acquired through a non-exchange transaction shall be recognized at fair value at the date of its acquisition. *Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction. It includes the purchase price and any directly attributable expenditures, such as:

- a. Legal fees;
- b. Property transfer taxes; and
- c. Other transaction costs incurred to bring the property to the condition necessary capable of being used in the manner intended by management.

Cost not included at initial recognition:

- a. Start-up costs unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management;
- b. Operating losses incurred before the investment property achieves the planned level of occupancy; and
- c. Abnormal amounts of wasted materials, labor or other resources incurred in constructing or developing the property.

**Section 275. Measurement at the reporting date.** The carrying amount or the amount at which an investment property is recognized in the statement of financial position shall be measured at cost less any accumulated depreciation and any accumulated impairment losses. The depreciation expense and impairment loss to be recognized shall be computed in the same manner as that for PPE. Refer to Chapter 7 “Accounting for Property, Plant and Equipment” for illustrative examples.

**Section 276. Transfers To or From Investment Property.** Transfers to or from investment property shall be made when there is a change in use as evidenced by the following:

- a. Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- b. Commencement of development with a view to sale, for a transfer from investment property to inventories;
- c. End of owner-occupation, for a transfer from owner-occupied property to investment property; and
- d. Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

**Section 277. Transfer from Investment Property to Owner-occupied Property.** When an LGU converts its investment property to owner-occupied property, the latter shall be recognized at the carrying amount of the former and shall be depreciated over its remaining useful life applying the policies on IPSAS 17, PPE.

Example: On June 1, 2016, LGU A decides to occupy a building currently used as an investment property. The building has a cost of ₱20,000,000, original useful life of 10 years, accumulated depreciation of ₱9,500,000, allowance for impairment of

₱500,000, residual value of 5% and remaining useful life of 5 years. The accounting entry shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>June 1, 2016</u>			
Buildings	1-07-04-010	10,000,000.00	
Accumulated Depreciation – Investment Property, Buildings	1-07-04-011	9,500,000.00	
Accumulated Impairment Losses – Investment Property, Buildings	1-07-04-012	500,000.00	
Investment Property - Buildings	1-06-01-020		20,000,000.00
To record transfer from Investment Property to PPE.			
<u>December 31, 2016</u>			
Depreciation Expense-Buildings and Other Structures	5-05-01-040	1,050,000.00	
Accumulated Depreciation – Buildings	1-07-04-011		1,050,000.00
To record depreciation from June to December. Depreciation: = ₱10,000,000 – 1,000,000/5 = 1,800,000 x7/12 =1,050,000.00			

**Section 278. Transfer from Investment Property to Inventories.** When an LGU converts its investment property to inventories, the latter shall be recognized at the carrying amount of the former and shall be measured in accordance with IPSAS 12, Inventories.

Example: On June 1, 2016, LGU A decides a land currently held as an investment property to divide, develop and sell. The land has a cost of ₱100 million. The accounting entry shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>June 1, 2016</u>			
Merchandise Inventory	1-04-01-010	100,000,000	
Investment Property - Land	1-06-01-010		100,000,000
To record transfer from Investment Property to PPE.			

**Section 279. Transfer from Owner-occupied Property to Investment Property.** When an LGU converts its owner-occupied property to investment property, the latter shall be recognized at the carrying amount and shall be depreciated over its remaining useful life.

Example: On June 1, 2016 LGU A decides to lease out an owner-occupied building with a cost of ₱10,000,000, original useful life of 10 years, accumulated depreciation of ₱4,750,000, allowance for impairment of ₱250,000, residual value of 5% and remaining useful life of 5 years, the accounting entry shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>June 1, 2016</u>			
Investment Property, Buildings	1-06-01-020	5,000,000.00	
Accumulated Depreciation– Buildings	1-07-04-011	4,750,000.00	
Accumulated Impairment Losses– Buildings	1-07-04-011	250,000.00	
Buildings	1-07-04-010		10,000,000.00
To record transfer from PPE to Investment Property.			
<u>December 31, 2016</u>			
Depreciation Expense- Buildings and Other Structures	5-05-01-050	525,000.00	
Accumulated Depreciation – Investment Property, Buildings	1-06-01-021		525,000.00
To record annual depreciation.			

**Section 280. Transfer from inventories to investment property.** When an LGU converts its inventories to investment property, the latter shall be recognized at the carrying amount and shall be depreciated over its remaining useful life applying the policies in this Chapter.

Example: A building held for sale in the ordinary course of business is to be leased out by the LGU. The building is carried as inventory at a cost of ₱10,000,000 at the time of change in use. Residual value is 5% and remaining useful life is 5 years. The accounting entries shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>June 1, 2016</u>			
Investment Property - Buildings	1-06-01-020	10,000,000.00	
Merchandise Inventory	1-04-01-010		10,000,000.00
To record transfer from Merchandise Inventory to Investment Property.			
<u>December 31, 2016</u>			
Depreciation Expense - Investment Property	5-05-01-010	1,108,333.33	
Accumulated Depreciation – Investment Property, Buildings	1-06-01-021		1,108,333.33
To record annual depreciation			

**Section 281. Derecognition of Investment Property.** An investment property shall be derecognized on disposal.

**Section 282. Gains/Losses.** Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in surplus or deficit in the period of the retirement or disposal.

Example: A building held as investment property is sold to another LGU for ₱5,000,000. It had a cost of ₱4,000,000, accumulated depreciation of ₱500,000 and allowance for impairment of ₱100,000. The accounting entries shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash Local Treasury	1-01-01-010	5,000,000.00	
Accumulated Depreciation – Investment Property, Building	1-06-01-021	500,000.00	
Accumulated Impairment Losses – Investment Property, Building	1-06-01-022	100,000.00	
Investment Property, Building	1-06-01-020		4,000,000.00
Gain on Sale of Investment Property	4-05-01-040		1,600,000.00
To recognize the gain on the disposal of the investment property.			

**Section 283. Impairment of Investment Property.** An investment property is impaired when the carrying amount of the asset exceeds its recoverable service amount due to decline in market value of an asset. The policies on the impairment of PPE apply also to investment property.

**Section 284. Compensation from Third Parties.** Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in surplus or deficit when the compensation becomes receivable.

Example: A building held as investment property was razed by fire. It had a cost of ₱4,000,000, accumulated depreciation of ₱500,000 and allowance for impairment of ₱100,000. The accounting entries shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. At the time of loss			
Loss of Assets	5-05-04-090	3,400,000.00	
Accumulated Depreciation – Investment Property, Building	1-06-01-021	500,000.00	
Accumulated Impairment Losses – Investment Property, Buildings	1-06-01-022	100,000.00	
Investment Property, Buildings	1-06-01-020		4,000,000.00
To recognize the loss of biological asset.			
2. At the time GSIS recognizes its liability for insured property			
Due from GOCCs	1-03-03-020	1,500,000.00	
Miscellaneous Income	4-06-01-010		1,500,000.00
To recognize receivable from GSIS			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
3. Collection from GSIS			
Cash –Local Treasury	1-01-01-010	1,500,000.00	
Due from GOCCs	1-03-03-020		1,500,000.00
To recognize collection from GSIS.			
Cash in Bank -LCCA	1-01-02-010	1,500,000.00	
Cash Local Treasury	1-01-01-010		1,500,000.00
To deposit collections made by the LGU Treasurer			

**Section 285. Presentation and Disclosure.** For investment property account balances presented in the financial statements at year-end, the following disclosures are required:

- a. Investment Property is measured using the cost model;
- b. the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations in case classification is difficult;
- c. The amounts recognized in surplus or deficit for:
  1. Rental revenue from investment property;
  2. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
  3. Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.
- d. The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal;
- e. Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- f. The depreciation methods used;
- g. The useful lives or the depreciation rates used;
- h. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- i. The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
  1. Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;
  2. Additions resulting from acquisitions through LGU combinations
  3. Disposals;
  4. Depreciation;
  5. The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;

6. The net exchange differences arising on the translation of the financial statement into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting LGU;
7. Transfer to and from inventories and owner-occupied property; and
8. Other changes.

**Section 286. Accounting Records to be Prepared and Maintained.** The Accounting Office Unit shall record promptly the acquisition, description, estimated life, depreciation, impairment loss, disposal, and other information for each class of investment property in the Investment Property Ledger Card. The Investment Property Ledger Card (IPLC) shall be reconciled with the physical inventory of the asset and the control accounts and any discrepancies shall be immediately verified and adjusted.



## Chapter 9

### INTANGIBLE ASSETS

**Section 287. Intangible Assets.** Intangible assets are identifiable non-monetary asset without physical substance.

**Section 288. Classification of Intangible Assets.** Intangible Assets shall have the following classification in the chart of accounts (*refer to the Chart of Accounts for account title description*):

- a. Patents/Copyrights, e.g. brand names, trademarks, licenses, etc.
- b. Computer Software
- c. Other Intangible Assets
- d. Service Concession Intangible Assets

**Section 289. Qualifying Characteristics of Intangible Asset.** To qualify as intangible asset, it must possess the following elements: identifiability, control over a resource and existence of future economic benefits or service potential.

- a. Identifiability – an intangible asset is identifiable when it:
  - 1. is separable, i.e., capable of being separated and divided from the LGU and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the LGU intends to do so; or
  - 2. arises from binding arrangements including contractual or other legal rights, regardless of whether those rights are transferable or separable from the LGU or from other rights and obligations.<sup>71</sup>
- b. Control over a resource – an LGU controls an asset if it has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an LGU to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. However, legal enforceability of a right is not a necessary condition for control because an LGU may be able to control the future economic benefits or service potential in some other way.<sup>72</sup>
- c. Existence of future economic benefits or service potential –the future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the LGU. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase

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<sup>71</sup> Par. 19, IPSAS 31.

<sup>72</sup> Par. 21, Ibid.

future revenues (e.g., an on-line system that allows citizens to apply or renew licenses more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).<sup>73</sup>

**Section 290. Recognition of Intangible Asset.** An intangible asset shall be recognized if, and only if:

- a. It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the LGU; and
- b. The cost or fair value of the asset can be measured reliably.<sup>74</sup>

An LGU shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.<sup>75</sup>

**Section 291. Measurement of an Intangible Asset.** An intangible asset shall be measured initially at cost. If an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date.<sup>76</sup>

**Section 292. Acquisition of Intangible Assets.** Intangible assets can be acquired (a) by separate purchase or acquisition, (b) as part of a business or LGU combination, (c) through a non-exchange transaction, (d) by exchanges of assets, or (e) by self-creation (internal generation).

- a. Separate Purchase or Acquisition – the cost of a separately acquired intangible asset comprises:
  1. its purchase price, including import duties and non-refundable taxes, after deducting trade discounts and rebates; and
  2. any directly attributable cost of preparing the asset for its intended use, such as costs of employee benefits and professional fees arising directly from bringing the asset to its working condition, and costs of testing whether the asset is functioning properly.<sup>77</sup>

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment.<sup>78</sup>

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<sup>73</sup> Par. 25, IPSAS 31.

<sup>74</sup> Par. 28, Ibid.

<sup>75</sup> Par. 29, Ibid.

<sup>76</sup> Par. 31, Ibid.

<sup>77</sup> Par. 34-35, Ibid.

<sup>78</sup> Par. 39, Ibid.

Examples of expenditures that are not part of the cost of an intangible asset are:

- Costs of introducing a new product or service (including costs of advertising and promotional activities);
  - Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and
  - Administration and other general overhead costs.
- b. LGU Combination – intangible assets acquired in an LGU combination shall be measured at its fair value on the date of acquisition.
- c. Non-Exchange Transactions – intangible asset acquired free of charge or for nominal consideration, through a non-exchange transaction, shall be initially recognized at fair value at the date it is acquired.
- d. Exchanges of Assets – the cost of such an intangible asset *acquired* in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an LGU cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.
- e. Internal Generation – to assess whether an internally generated intangible asset meets the criteria for recognition, an LGU classifies the generation of the asset into: (a) research phase; and (b) development phase.
1. If an LGU cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the LGU treats the expenditure on that project as if it were incurred in the research phase only.<sup>79</sup>
  2. No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred. Examples of research activities are:
    - i. Activities aimed at obtaining new knowledge;
    - ii. The search for, evaluation and final selection of, applications of research findings or other knowledge;
    - iii. The search for alternatives for materials, devices, products, processes, systems or services; and

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<sup>79</sup> Par. 50-51, IPSAS 31.

- iv. The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.<sup>80</sup>
3. An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an LGU can demonstrate all of the following:
    - i. The technical feasibility of completing the intangible asset so that it will be available for use or sale;
    - ii. Its intention to complete the intangible asset and use or sell it;
    - iii. Its ability to use or sell the intangible asset;
    - iv. How the intangible asset will generate probable future economic benefits or service potential. Among other things, the LGU can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
    - v. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
    - vi. Its ability to measure reliably the expenditure attributable to the intangible asset during its development.<sup>81</sup>
  4. Internally generated brands, mastheads, publishing titles, lists of users of a service, and items similar in substance shall not be recognized as intangible assets since these cannot be distinguished from the cost of developing the LGU's operations as a whole.<sup>82</sup>
  5. The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Reinstatement of expenditure previously recognized as an expense is prohibited.
  6. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Examples of directly attributable costs are:
    - i. Costs of materials and services used or consumed in generating the intangible asset;

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<sup>80</sup> *Par. 52 & 54, IPSAS 31.*

<sup>81</sup> *Par. 55, Ibid.*

<sup>82</sup> *Par. 61, Ibid.*

- ii. Costs of employee benefits arising from the generation of the intangible asset;
- iii. Fees to register a legal right; and
- iv. Amortization of patents and licenses that are used to generate the intangible asset.

**Section 293. Recognition of an Expense.** Expenditure on an intangible item shall be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.<sup>83</sup>

**Section 294. Subsequent Measurement.** After initial recognition, intangible assets should be carried at its cost less any accumulated amortization and any accumulated impairment losses.

**Section 295. Useful Life.** Intangible assets are classified as having: (a) Indefinite life - no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provides service potential to, the LGU; and (b) Finite life - a limited period of benefit to the LGU.

- a. Intangible assets with an indefinite useful shall not be amortized.
- b. An intangible asset with a finite useful life shall be amortized on a straight line method.<sup>84</sup>
- c. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. As a guideline, the finite useful life of intangible assets shall be 2 to 10 years. Amortization shall begin when the asset 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. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale).<sup>85</sup>

**Section 296. Residual Value.** The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- a. There is a commitment by a third party to acquire the asset at the end of its useful life; or
- b. There is an active market for the asset, and: (1) residual value can be determined by reference to that market; and (2) it is probable that such a market will exist at

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<sup>83</sup> Par. 70, IPSAS 31.

<sup>84</sup> Par. 88, Ibid.

<sup>85</sup> Par. 96, Ibid.

the end of the asset's useful life. An active market is a market in which all the following conditions exist:

1. the items traded in the market are homogeneous,
2. willing buyers and sellers can normally be found at any time; and
3. prices are available to the public.

**Section 297. Amortization of Intangible Assets.** The amortization period and amortization method for an intangible asset with a finite useful life shall be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortization period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortization method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IPSAS 3.

Amortization of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations.

An intangible asset with an indefinite useful life shall not be amortized.

**Section 298. Subsequent Expenditure.** Subsequent expenditure on an intangible asset shall be recognized as an expense when it is incurred, unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and the expenditure can be measured and attributed to the asset reliably.

**Section 299. Impairment.** An LGU is required to test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount: (a) annually; and (b) whenever there is an indication that the intangible asset may be impaired.

An LGU shall assess intangible assets with definite useful life at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the LGU shall estimate the recoverable service amount or the recoverable amount of the asset.

The computation for the impairment loss is the same as in the computation for the impairment loss for PPE.

**Section 300. Derecognition.** An intangible asset shall be derecognized (a) on disposals (including disposal through a non-exchange transaction); or (b) when no future economic benefits or service potential are expected from its use or disposal.

**Section 301. Gain or Loss arising from Derecognition.** The gain or loss arising from derecognition (eliminated from statement of financial position) of an intangible asset

shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized. Gains shall be classified as revenue.

**Section 302. Disclosure.** For each class of intangible asset, distinguishing between internally generated intangible assets and other intangible assets, an LGU shall disclose the following:

- a. Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;
- b. The amortization method used, which is straight line method, for intangible assets with finite useful lives;
- c. The gross carrying amount, any accumulated amortization and any accumulated impairment losses at the beginning and end of the period;
- d. The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;
- e. A reconciliation of the carrying amount at the beginning and end of the period showing:
  1. Additions, indicating separately those from those internal development, those acquired separately;
  2. Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the relevant international or national accounting standard dealing with non-current assets held for sale and discontinued operations and other disposals;
  3. Impairment losses recognized in surplus or deficit during the period (if any);
  4. Impairment losses reversed in surplus or deficit during the period (if any);
  5. Any amortization recognized during the period; and
  6. Other changes in the carrying amount during the period.
- f. For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the LGU shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;
- g. A description, the carrying amount, and remaining amortization period of any individual intangible asset that is material to the LGU's financial statements;
- h. For intangible assets acquired through a non-exchange transaction and initially recognized at fair value:

1. The fair value initially recognized for these assets; and
  2. Their carrying amount.
- i. The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities;
  - j. The amount of contractual commitments for the acquisition of intangible assets;
  - k. The aggregate amount of research and development expenditure recognized as an expense during the period;
  - l. A description of any fully amortized intangible asset that is still in use; and
  - m. A brief description of significant intangible assets controlled by the LGU but not recognized as assets because they did not meet the recognition criteria in this Chapter.

**Section 303. Illustrative Accounting Entries.** The following are the illustrative accounting entries of a purchased software transactions:

- a. Purchase of Computer Software Package (estimated life of 10 years with no residual value)

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Computer Software	1-09-01-020	xxx	
Due to BIR	2-02-01-010		xxx
Cash in Bank -LCCA	1-01-02-010		xxx
To recognize the purchase of the software package			

- b. Amortization at the end of the first year

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Amortization-Intangible Assets	5-05-02-010	xxx	
Accumulated Amortization-Computer Software	1-09-01-021		xxx
To recognize the amortization of the software at the end of the first year (yearly amortization computed at acquisition cost over the estimated life)			

- c. Recognition of Impairment Loss

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Impairment Loss-Intangible Assets			
Computer Software-02	5-05-03-100	40,000	
Accumulated Impairment Losses-Computer Software	1-09-01-022		40,000
To recognize impairment loss of the computer software			



Impairment Loss computed as follows: (assume computer software with an estimated life of five years and is impaired on the 3<sup>rd</sup> year of acquisition)

Computer Software (assume an estimated useful life of 5 years)	₱5,600,000
Accumulated Amortization - Computer Software (for 3 years)	<u>3,360,000</u>
Carrying Amount	<u>₱2,240,000</u>
Fair Value (net of cost to sell) of Computer Software	<u>₱2,200,000</u>
Value in Use	<u>₱2,000,000</u>
Computation of impairment loss:	
Carrying Amount	₱2,240,000
Less: Recoverable amount (Fair Value)	<u>2,200,000</u>
Impairment Loss	<u>₱ 40,000</u>

## Chapter 10

### BIOLOGICAL ASSETS

**Section 304. Biological Asset.** Biological asset is a living animal or plant.

**Section 305. Classification of Biological Assets.** Biological assets shall be classified into:

- a. Breeding Stocks
- b. Plants and Trees
- c. Aquaculture
- d. Other Bearer Biological Assets

**Section 306. Agricultural Activity.** Agricultural Activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). The following are common features that exist within this diversity:

- a. Capability to change - living animals and plants are capable of biological transformation;
- b. Management of change - management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and
- c. Measurement of change - The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

**Section 307. Biological Transformation.** The following types of outcomes are the result in the biological transformation:

- a. Asset changes through
  - 1. Growth (an increase in quantity or improvement in quality of an animal or plant),
  - 2. Degeneration (a decrease in the quantity or deterioration in quality of an animal or plant),
  - 3. Procreation is the creation of additional living animals or plants; or

- b. Production of agricultural produce such as latex, tea leaf, wool, and milk.

**Section 308. Recognition.** An LGU shall recognize a biological asset or agricultural produce when and only when:

- a. The LGU controls the asset as a result of past events;
- b. It is probable that future economic benefits or service potential associated with the asset will flow to the LGU; and
- c. The fair value or cost of the asset can be measured reliably.<sup>86</sup>

**Section 309. Measurement.** A biological asset shall be measured regardless of the manner of acquisition (exchange or non-exchange) on initial recognition and at each reporting date at its fair value less costs to sell, except where market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable. In such a case, the biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Agricultural produce harvested from an LGU's biological assets shall be measured at its fair value less costs to sell at the point of harvest.

**Section 310. Determination of Fair Value.** The following are the basis for determining the fair value of a biological asset or agricultural produce:

- a. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes; for example, by age or quality. An LGU selects the attributes corresponding to the attributes used in the market as a basis for pricing.<sup>87</sup>
- b. When entities enter into contracts to sell their biological assets or agricultural produce at a future date, the fair value of a biological asset or agricultural produce is not adjusted because of the existence of such contract.<sup>88</sup>
- c. If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an LGU has access to different active markets, the LGU uses the most relevant one. For example, if an LGU has access to two active markets, it would use the price existing in the market expected to be used.<sup>89</sup>
- d. The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in

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<sup>86</sup> *Par. 13, IPSAS 27.*

<sup>87</sup> *Par. 19, Ibid.*

<sup>88</sup> *Par. 20, Ibid.*

<sup>89</sup> *Par. 21, Ibid.*

the relevant market less the transport and other costs of getting the cattle to that market.

- e. If an active market does not exist, an LGU uses one or more of the following, when available, in determining fair value:
  - 1. The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;
  - 2. Market prices for similar assets with adjustment to reflect differences; and
  - 3. Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.<sup>90</sup>
- f. In some cases, the information sources listed in the previous section may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An LGU considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.<sup>91</sup>
- g. In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an LGU uses the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value.<sup>92</sup>
- h. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. An LGU considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. In determining the present value of expected net cash flows, an LGU includes the net cash flows that market participants would expect the asset to generate in its most relevant market.<sup>93</sup>
- i. An LGU does not include any cash flows for financing the assets, taxation, or re-establishing biological assets after harvest (for example, the cost of replanting trees in a plantation forest after harvest).<sup>94</sup>
- j. In agreeing an arm's length transaction price, knowledgeable, willing buyers and sellers consider the possibility of variations in cash flows. It follows that fair value reflects the possibility of such variations. Accordingly, an LGU incorporates expectations about possible variations in cash flows into either the expected cash flows, or the discount rate, or some combination of the two. In determining a discount rate, an LGU uses assumptions consistent with those used

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<sup>90</sup> Par. 22, IPSAS 27.

<sup>91</sup> Par. 23, *Ibid.*

<sup>92</sup> Par. 24, *Ibid.*

<sup>93</sup> Par. 25, *Ibid.*

<sup>94</sup> Par. 26, *Ibid.*

in estimating the expected cash flows, to avoid the effect of some assumptions being double-counted or ignored.<sup>95</sup>

- k. Cost may sometimes approximate fair value, particularly when:
  - 1. Little biological transformation has taken place since initial cost incurrence (for example, for fruit tree seedlings planted immediately prior to reporting date); or
  - 2. The impact of the biological transformation on price is not expected to be material (for example, for the initial growth in a 30-year pine plantation production cycle).<sup>96</sup>
- l. Biological assets are often physically attached to land (for example, trees in a plantation forest). There may be no separate market for biological assets that are attached to the land but an active market may exist for the combined assets, that is, for the biological assets, raw land, and land improvements, as a package. An LGU may use information regarding the combined assets to determine fair value for the biological assets. For example, the fair value of raw land and land improvements may be deducted from the fair value of the combined assets to arrive at the fair value of biological assets.<sup>97</sup>
- m. An LGU that has previously measured a biological asset at its fair value less costs to sell continues to measure the biological asset at its fair value less costs to sell until disposal.<sup>98</sup>
- n. In all cases, an LGU measures agricultural produce at the point of harvest at its fair value less costs to sell.<sup>99</sup>
- o. In case the market-determined prices or values are not available, and for which alternative estimates of fair value are determined to be clearly unreliable, the biological asset shall be measured at its cost less any accumulated depreciation and accumulated impairment losses. Once the fair value of such a biological asset becomes reliably measurable, the entity shall measure it at its fair value less costs to sell.

**Section 311. Gain or Loss.** A gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in surplus or deficit for the period in which it arises. Likewise, a gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in surplus or deficit for the period in which it arises.<sup>100</sup>

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<sup>95</sup> Par. 27, IPSAS 27.

<sup>96</sup> Par. 28, *Ibid.*

<sup>97</sup> Par. 29, *Ibid.*

<sup>98</sup> Par. 35, *Ibid.*

<sup>99</sup> Par. 36, *Ibid.*

<sup>100</sup> Par. 30 & 32, *Ibid.*

**Section 312. Disclosure.** The LGU shall disclose the following items on biological assets and agricultural produce:

- a. aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.<sup>101</sup>
- b. description of each group of biological assets, distinguishing between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge.
- c. describe the nature of its activities involving each group of biological assets, if not disclosed elsewhere in information published with the financial statements, and non-financial measures or estimates of the physical quantities of each group of the LGU's biological assets at the end of the period and output of agricultural produce during the period.<sup>102</sup>
- d. the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.<sup>103</sup>
- e. the fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.<sup>104</sup>
- f. the existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities.
- g. the nature and extent of restrictions on the entity's use or capacity to sell biological assets.
- h. the amount of commitments for the development or acquisition of biological assets.
- i. financial risk management strategies related to agricultural activity.<sup>105</sup>
- j. reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
  1. The gain or loss arising from changes in fair value less costs to sell;
  2. Increases due to purchases and through a non-exchange;
  3. Decreases attributable to sales and biological assets;
  4. Decreases due to distributions at no charge or for a nominal charge;
  5. Decreases due to harvest;
  6. Increases resulting from LGU combinations;

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<sup>101</sup> Par. 38, IPSAS 27.

<sup>102</sup> Par. 44, *Ibid.*

<sup>103</sup> Par. 45, *Ibid.*

<sup>104</sup> Par. 46, *Ibid.*

<sup>105</sup> Par. 47, *Ibid.*

7. Net exchange differences arising on the translation of financial statements into a different presentation currency; and
  8. Other changes.<sup>106</sup>
- k. Additional disclosures for Biological Assets where Fair Value cannot be measured reliably:
1. If an LGU measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses (see paragraph 32) at the end of the period, the LGU shall disclose for such biological assets:
    - i. A description of the biological assets;
    - ii. An explanation of why fair value cannot be measured reliably;
    - iii. If possible, the range of estimates within which fair value is highly likely to lie;
    - iv. The depreciation method used;
    - v. The useful lives or the depreciation rates used; and
    - vi. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.<sup>107</sup>
  2. If, during the current period, an LGU measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, an LGU shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets: (par. 53, IPSAS 27)
    - i. Impairment losses;
    - ii. Reversals of impairment losses; and
    - iii. Depreciation.
  3. If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, an LGU shall disclose for those biological assets:
    - i. A description of the biological assets;
    - ii. An explanation of why fair value has become reliably measurable; and
    - iii. The effect of the change.<sup>108</sup>

**Section 313. Inventory of Biological Assets.** The local chief executive shall require periodic physical inventory of biological assets. Physical count of biological assets by type shall be conducted at least once a year and reported in the Report of the Physical Count of

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<sup>106</sup> Par. 48, IPSAS 27.

<sup>107</sup> Par. 52, *Ibid.*

<sup>108</sup> Par. 54, *Ibid.*

Biological Assets (RPCBA). The report shall be submitted to the Auditor not later than January 31 of each year.

**Section 314. Loss of Biological Assets.** Loss of biological assets shall follow the same accounting policies applied to loss of properties.

**Section 315. Pro-forma Accounting Entries.** The illustrative accounting entries as well as sample financial statement presentation and disclosures are as follows:

a. Purchase of Breeding Stocks

Account	Account Code	Debit	Credit
Breeding Stocks	1-08-01-010	9,000	
Loss on Initial Recognition of Biological Assets	5-05-04-080	1,000	
Cash in Bank – LCCA	1-01-02-010		10,000
To recognize purchase of 5 breeding stocks (2 years old)			
Cost	10,000		
Less: Cost to Sell	<u>1,000</u>		
Net fair value	<u>9,000</u>		

b. Recording of agricultural produce (e.g. new born breeding stocks)

Account	Account Code	Debit	Credit
Breeding Stocks	1-08-01-010	xxx	
Gain from Changes in Fair Value Less Cost to Sell of Biological Assets Due to Physical Change	4-05-01-090		xxx
To recognize the 10 new born breeding stocks at FV less cost to sell			



## Chapter 11

### FINANCIAL REPORTING

**Section 316. Financial Reporting.** Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors and the government. Financial reporting establishes the boundary around the transactions, other events and activities that may be reported in general purpose financial statements (GPFS). The scope of financial reporting is determined by the information needs of the primary users of GPFS and the objectives of financial reporting.

**Section 317. Objectives of Financial Reporting.** The objectives of financial reporting are as follows:<sup>109</sup>

- a. To provide information about the entity that is useful to users of GPFSs for accountability purposes and for decision making purposes; and
- b. To provide information to users of GPFSs according to their information needs.

**Section 318. Financial statements.** Financial statements are a structured representation of the financial position and financial performance of an entity.<sup>110</sup>

**Section 319. Purpose of Financial Statements.** The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

- a. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:
  1. providing information about the sources, allocation, and uses of financial resources;
  2. providing information about how the entity financed its activities and met its cash requirements;
  3. providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;
  4. providing information about the financial condition of the entity and changes in it;
  5. providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments;

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<sup>109</sup> Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting*, page 45.

<sup>110</sup> Par. 15, *IPSAS I*.

- b. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:
  1. indicating whether resources were obtained and used in accordance with the legally adopted budget; and
  2. indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.<sup>111</sup>
- c. Financial statements provide information about an entity's:
  1. Assets;
  2. Liabilities;
  3. Net assets/equity;
  4. Revenue;
  5. Expenses;
  6. Other changes in net assets/equity;
  7. Cash flows; and
  8. Comparison of budget and actual amounts.<sup>112</sup>

**Section 320. Responsibility for Financial Statements.** The responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting entity, particularly the head of finance/accounting office and the head of entity or his authorized representative. The Statement of Management Responsibility for Financial Statements (*Annex 3*) discloses the entity's responsibility for the preparation and presentation of the financial statements.

**Section 321. Qualitative Characteristics of Financial Reporting.** An entity shall present information including accounting policies in a manner that meets the following qualitative characteristics:<sup>113</sup>

- a. Understandability – information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information. Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.
- b. Relevance – information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

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<sup>111</sup> *Par. 15-16, IPSAS 1.*

<sup>112</sup> *Par. 17, Ibid.*

<sup>113</sup> *Appendix A, Ibid.*

- c. **Materiality** – the relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error, judged in the particular circumstances of its omission or misstatement.
- d. **Timeliness** – the usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. Ongoing factors such as the complexity of an entity’s operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

If there is an undue delay in the reporting of information, it may lose its relevance. To provide information on a timely basis, it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.<sup>114</sup>

- e. **Reliability** – reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.
- f. **Faithful representation** – information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.
- g. **Substance over form** – if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they be accounted for and presented in accordance with their substance and economic reality, and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.
- h. **Neutrality** – information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.
- i. **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 revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

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<sup>114</sup> Appendix A, IPSAS 1.

- j. Completeness – the information in financial statements should be complete within the bounds of materiality and cost.
- k. Comparability – information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the comparison of financial statements of different entities and comparison of the financial statements of the same entity over periods of time. An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies, and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.<sup>115</sup>

**Section 322. Fair Presentation and Compliance with IPSAS.** Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.<sup>116</sup> An entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.<sup>117</sup> Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.<sup>118</sup>

**Section 323. Going Concern.** When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.<sup>119</sup>

**Section 324. Consistency of Presentation.** The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

- a. it is apparent, following a significant change in the nature of the entity'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 IPSAS 3; or
- b. an IPSAS requires a change in presentation.<sup>120</sup>

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<sup>115</sup> Appendix A, IPSAS 1.

<sup>116</sup> Par. 27, *Ibid.*

<sup>117</sup> Par. 28, *Ibid.*

<sup>118</sup> Par. 30, *Ibid.*

<sup>119</sup> Par. 38, *Ibid.*

<sup>120</sup> Par. 42, *Ibid.*

**Section 325. Materiality and Aggregation.** Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.<sup>121</sup>

**Section 326. Offsetting.** Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.<sup>122</sup> In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.<sup>123</sup>

**Section 327. Comparative Information.** Except when an IPSAS permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements. Except on the following instances: <sup>124</sup>

- a. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:
  1. The nature of the reclassification;
  2. The amount of each item or class of items that is reclassified; and
  3. The reason for the reclassification.<sup>125</sup>
- b. When it is impracticable to reclassify comparative amounts, an entity shall disclose:
  1. The reason for not reclassifying the amounts; and
  2. The nature of the adjustments that would have been made if the amounts had been reclassified.<sup>126</sup>

**Section 328. Identification of the Financial Statements.** The financial statements shall be identified clearly, and distinguished from other information in the same published document.<sup>127</sup> In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

- a. The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;
- b. Whether the financial statements cover the individual entity or a group of entity;
- c. The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;
- d. Name of fund cluster;

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<sup>121</sup> Par. 45, IPSAS 1.

<sup>122</sup> Par. 48, *Ibid.*

<sup>123</sup> Par. 51, *Ibid.*

<sup>124</sup> Par. 53, *Ibid.*

<sup>125</sup> Par. 55, *Ibid.*

<sup>126</sup> Par. 56, *Ibid.*

<sup>127</sup> Par. 61, *Ibid.*

- e. The reporting currency; and
- f. The level of rounding used in presenting amounts in the financial statements.<sup>128</sup>

**Section 329. Reporting Period.** Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:

- a. The reason for using a longer or shorter period; and
- b. The fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement, and related notes are not entirely comparable.<sup>129</sup>

**Section 330. Reporting Date.** It is the last day of the reporting period to which the financial statements relate.

**Section 331. Date on which the financial statements are authorized for issue.** It is the date when the Statement of Management's Responsibility is approved by the Chief Executive or his authorized representative and the Head of Accounting Department.<sup>130</sup>

**Section 332. Events After the Reporting Date.** Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

- a. Adjusting events after the reporting date – those that provide evidence of conditions that existed at the reporting date; and
- b. Non-adjusting events after the reporting date – those that are indicative of conditions that arose after the reporting date.<sup>131</sup>

**Section 333. Adjusting Events After the Reporting Date.** Events after the reporting date that require an entity to adjust the amounts recognized in the financial statements, or to recognize items that were not previously recognized. Examples are as follows:

- a. The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date;
- b. The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example: (i) The bankruptcy of a debtor that occurs after the reporting date usually confirms that a loss already existed at the reporting date on a receivable account, and that the

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<sup>128</sup> Par. 63, IPSAS 1.

<sup>129</sup> Par. 66, IPSAS 1.

<sup>130</sup> Section 13. PAG2, IPSAS 14.

<sup>131</sup> Par. 5, IPSAS 14.

entity needs to adjust the carrying amount of the receivable account; and (ii) the sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;

- c. The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;
- d. The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government entity under a revenue-sharing agreement in place during the reporting period;
- e. The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and
- f. The discovery of fraud or errors that show that the financial statements were incorrect.<sup>132</sup>

**Section 334. Non-adjusting Events After the Reporting Date.** Events that the entity shall not adjust the amounts recognized in its financial statements after the reporting date, but shall update disclosures that relate to the conditions in the light of the new information. Examples of non-adjusting events:

- a. An acquisition or disposal of a major controlled entity;
- b. Announcement of a plan to discontinue an operation or a major program;
- c. Major purchases and disposal of asset; and
- d. The destruction of a major building by a fire after the reporting date.

**Section 335. Change in Accounting Policies.** A change from one basis of accounting to another basis of accounting. It is also a change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting. Local government units shall only change an accounting policy as provided in IPSAS. The application of a new accounting policy for transactions, other events, or conditions that did not occur previously is not a change in accounting policy.

**Section 336. Accounting for Changes in Accounting Policies.** Changes resulting from the initial application of an IPSAS shall be recognized in accordance with the specific transitional provisions, if any.<sup>133</sup> Changes in accounting policy upon initial application of a IPSAS that does not include specific transitional provisions shall be applied retrospectively. In retrospective application, the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

**Section 337. Disclosures for Changes in Accounting Policy.** When initial application of an IPSAS (a) has an effect on the current period or any prior period, (b) would

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<sup>132</sup> Pars. 10-11, IPSAS 14.

<sup>133</sup> Par. 24, IPSAS 3.

have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity shall disclose:

- a. The title of the Standard;
- b. When applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- c. The nature of the change in accounting policy;
- d. When applicable, a description of the transitional provisions;
- e. When applicable, the transitional provisions that might have an effect on future periods;
- f. For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- g. The amount of the adjustment relating to periods before those presented, to the extent practicable; and
- h. If retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.<sup>134</sup>

**Section 338. Changes in Accounting Estimates.** It 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 correction of errors. Example of estimates that may be required of:

- a. Tax revenue due to government;
- b. Bad debts arising from uncollected receivables;
- c. Inventory obsolescence;
- d. The fair value of financial assets or financial liabilities;
- e. The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets; and
- f. Warranty obligations.<sup>135</sup>

**Section 339. Accounting for Changes in Accounting Estimate.** Change in an accounting estimate shall be recognized prospectively by including it in surplus or deficit in the period of the change, if the change affects the period only; or the period of the change and future periods, if the change affects both. To the extent that a change gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.<sup>136</sup>

**Section 340. Disclosures for Changes in Accounting Estimates.** The following disclosures shall be required for changes in accounting estimates:

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<sup>134</sup> *Par. 33, IPSAS 3.*

<sup>135</sup> *Par. 37, Ibid.*

<sup>136</sup> *Par. 41 & 42, Ibid.*



- a. the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect;<sup>137</sup> and
- b. the effect in future periods is not disclosed because estimating the amount of it is impracticable.<sup>138</sup>

**Section 341. Errors.** Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud. Financial statements do not comply with IPSASs if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's Statement of Financial Position, Statement of Financial Performance, or Statement of Cash Flows.

**Section 342. Accounting for Errors.** Current period errors or errors committed and discovered within the same period shall be corrected by an adjusting entry, within the same year before the financial statements are authorized for issue. Prior period errors or omissions from, and misstatements in, the entities' financial statements for one or more prior periods arising from failure to use, or misuse of reliable information that was available when financial statements for those periods were authorized for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.<sup>139</sup>

**Section 343. Limitations of Retrospective Restatement of Prior Period Errors.** The limitations of retrospective restatement of prior period errors are as follows:

- a. A prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.<sup>140</sup>
- b. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).<sup>141</sup>
- c. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the

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<sup>137</sup> Par. 44, IPSAS 3.

<sup>138</sup> Par. 45, *Ibid.*

<sup>139</sup> Par. 47, *Ibid.*

<sup>140</sup> Par. 48, *Ibid.*

<sup>141</sup> Par. 49, *Ibid.*

comparative information to correct the error prospectively from the earliest date practicable.<sup>142</sup>

**Section 344. Disclosure of Prior Period Errors.** An entity shall disclose the following items for prior period errors:

- a. The nature of the prior period error;
- b. For each prior period presented, to the extent practicable, the amount of the correction for each financial statements line item affected;
- c. The amount of the correction at the beginning of the earliest prior period presented; and
- d. If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.<sup>143</sup>

**Section 345. Presentation of Retrospective Restatement of Errors.** The following is an example of retrospective restatement of errors:

LGU DEF discovered in 2018 that the revenue recognized in 2017 in the amount of P8,000,000 had been inadvertently omitted.

The entity's Statement of Financial Performance and Statement of Changes in Net Assets/Equity before adjustment of the error for 2017 and 2018 are as follows:

**LGU DEF**  
**Statement of Financial Performance**

- a. Before adjustment

Particular	2018	2017
Revenue	P 50,000,000	P 40,500,000
Other Operating Revenue	<u>20,100,000</u>	<u>18,000,000</u>
Total Revenue	70,100,000	58,500,000
Expenses	<u>(55,000,000)</u>	<u>(45,000,000)</u>
Surplus	P <u>15,100,000</u>	P <u>13,500,000</u>

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<sup>142</sup> Par. 50, IPSAS 3.

<sup>143</sup> Par. 54, Ibid.

**LGU DEF****Statement of Changes in Net Assets/Equity**

Particular	2018	2017
Opening accumulated surpluses	P 103,500,000	P 90,000,000
Surplus for the period	<u>15,100,000</u>	<u>13,500,000</u>
Closing accumulated surplus	<u>P 118,600,000</u>	<u>P 103,500,000</u>

b. The entity shall make the following adjustments:

1. Prepare adjusting entry to recognize the adjustment of the 2017 revenue in 2018;

Account Title	Account Code	Debit	Credit
Accounts Receivables (or applicable account)	1-03-01-010	P8,000,000	
Prior Period Adjustment	3-01-01-020		P8,000,000
<i>To correct the revenue inadvertently omitted in 2017</i>			

2. Restate in the comparative financial statements the amounts for prior period/s to reflect the change; and
3. Restate the opening balances of assets, liabilities and equity for 2017.

**LGU****Statement of Financial Performance**

c. After adjustment

Particular	2018	2017 As Restated
Revenue	P 50,000,000	P 48,500,000
Other Operating Revenue	<u>20,100,000</u>	<u>18,000,000</u>
Total Revenue	70,100,000	66,500,000
Expenses	<u>(55,000,000)</u>	<u>(45,000,000)</u>
Surplus	<u>P 15,100,000</u>	<u>P 21,500,000</u>

- d. Notice that the Revenue, Total Revenue and the Surplus figures presented in 2017 are already the adjusted amounts. Statement of Changes in Net Assets/Equity are as follows:

**LGU****Statement of Changes in Net Assets/Equity**

Particular	2018	2017 As Restated
Opening Accumulated Surplus/(Deficit) as previously reported	P 103,500,000	P 90,000,000

Particular	2018	2017 As Restated
Correction of error	<u>8,000,000</u>	<u>-</u>
Opening Accumulated Surplus/(Deficit) as restated	111,500,000	90,000,000
Surplus for the period	<u>15,100,000</u>	<u>21,500,000</u>
Closing Accumulated Surplus/(Deficit)	<u>P 126,600,000</u>	<u>P 111,500,000</u>

- e. Surplus for the period for 2017 are already adjusted, while the opening Accumulated Surpluses in 2018 is restated.
- f. Extracts from Notes to the Financial Statements in 2018

Business and Operating Income of P8,000,000 was inadvertently omitted from the financial statements of 2017. The financial statements of 2017 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 2018 Statement of Financial Performance.

#### **Effect on 2017 Statement of Financial Performance**

Particular	Amount
Increase in Business and Operating Income	P8,000,000
Increase in Net Income	P8,000,000

#### **Effect on 2017 Statement of Financial Position**

Particular	Amount
Increase in Accounts Receivables	P8,000,000
Increase in Net Asset/Equity	P8,000,000

**Section 346. Adjusting Entries.** Adjusting entries are accounting journal entries made in order to ensure that revenues and expenses are recorded in the period when they are earned or incurred following the revenue recognition and the matching principles.

Adjusting entries are required every time financial statements are prepared. The use of the adjusting entries makes it possible to report on the Statement of Financial Position the appropriate assets, liabilities and equity accounts at the statement date and the Statement of Financial Performance the net income/(loss) for the period.

**Section 347. Types of Adjusting Entries.** There are three types of adjusting entries:

- a. Prepayments;
- b. Accruals; and
- c. Other adjustments

**Section 348. Prepayments.** Prepayments are expenses paid or revenues received before they are incurred or earned. Adjusting entries for prepayments are required at the statement date to record the portion of the prepayment that represents the expense incurred or the revenue earned in the current accounting period. Sub-categories of prepayments are prepaid expenses and unearned revenues.

Prepaid expenses are expenses paid in cash and recorded as assets before they are used or consumed. Prepaid expenses expire either with the passage of time (e.g. rent) or through use and consumption (e.g. supplies). The adjusting entry for prepaid expenses is a debit to the expense account and a credit to the asset account. Examples are rent, supplies, etc. Acquisition of productive facilities is viewed essentially as long term prepayments, hence, periodic adjusting entries for depreciation are included in this category. For depreciation, the entry is a debit to depreciation expense and a credit to accumulated depreciation.

Unearned revenues are recorded as a liability when received and considered earned upon rendition of service (e.g. tuition fees) or the passage of time (e.g. advance payment of real property taxes). The adjusting entry for unearned revenues is a debit to a liability account and a credit to revenue account.

***Illustrative accounting entries:***

Particulars	Account Title	Acct. Code	Debit	Credit
1. Report of supplies utilized for P2,000.	Office Expense      Supplies	5-02-03-010	2,000.00	
	Office Supplies Inventory	1-04-04-010		2,000.00
2. Application of advance RPT for P2,500.	Deferred Real Property Tax	2-05-01-010	2,500.00	
	Real Property Tax-Basic	4-01-02-040		2,500.00

**Section 349. Accruals.** Accruals are revenues earned and expenses incurred in the current accounting period that have not yet been recorded. Adjusting entries for accruals are required to record revenues earned and expenses incurred in the accounting period.

Adjusting entry for accrued revenues is a debit to a receivable account and a credit to an income account. Examples are interest, share from internal revenue collections covered by notice of funding checks issued, etc.

Adjusting entry for accrued expenses is a debit to the appropriate expense account and a credit to a payable account. Examples are accrued salaries, bad debts, etc. For bad debts, the entry is a debit to Bad Debts Expense and a credit to Allowance for Doubtful Accounts.

***Illustrative accounting entries: (include accrual of income)***

Particulars	Account Title	Acct. Code	Debit	Credit
1. Receipt of the Notice of Authority to Debit Account Issued (NADAI) for the December Share from Internal Revenue Collections for P20,000.	Due from NGAs	2-02-01-050	20,000.00	20,000.00
	Share from Internal Revenue Collections	4-01-06-010		
2. Unpaid salaries and wages of employees, at end of accounting period, P50,000.	Salaries and Wages – Regular	5-01-01-010	50,000.00	50,000.00
	Due to Officers & Employees	2-01-01-020		

**Section 350. Other Adjustments.** Adjustments not falling within the accruals and prepayments are classified under other adjustments. (Examples:

- a. Petty Cash Fund
- b. Unreleased Commercial Checks
- c. Allowance for/Accumulated Impairment Losses of asset accounts
- d. Adjustment for reversal of Impairment Losses
- e. Write-down of Inventories
- f. Exchange differences on foreign currency
- g. Others

**Section 351. Petty Cash Fund.** Cash advances granted for the establishment of the petty cash fund are obligated and shall only be used to pay expenses for the particular year. To avoid the use of the cash advance to pay expenses of other years, at the end of the year a list of expenses against the cash advance shall be submitted for the liquidation and shall be recognized as expenses, and the obligated amount shall be adjusted for the unutilized portion of the cash advance.

**Section 352. Adjustments for Unreleased Commercial Checks.** A Schedule of Unreleased Commercial Checks per fund shall be prepared by the Local Treasurer for submission to the Accounting Division/Unit. All unreleased checks at the end of the year shall be reverted back to the cash accounts. A JV per fund shall be prepared to recognize the restoration of the cash equivalent to the unreleased checks and the recognition of the appropriate liability/payable account. The accounting entry for the restoration of the unreleased check to the cash account shall be a debit to “Cash in Bank, Local Currency Current” account with credit to the appropriate liability account. There shall be no physical cancellation of the checks. The JV supporting such restoration shall form part of the supporting document to the financial statements to be submitted to COA at year end. At the start of the ensuing year, another JV shall be drawn to reverse the previous entry made and recognize the availability of the checks for release.

**Section 353. Impairment Loss/Accumulated Impairment Losses of Asset Accounts.** At each reporting date an LGU shall assess whether there is any indication that an asset may be impaired. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss, and it shall be recognized immediately in surplus or deficit.

**Section 354. Adjustment for Reversal of Impairment Losses.** An LGU shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset. An impairment loss recognized in prior periods for an asset shall be reversed if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. The carrying amount of the asset shall be increased to its recoverable service amount, however, it shall not exceed the amount that would have been determined (net of depreciation) if no impairment loss had been recognized for the asset in prior periods. That increase is a reversal of an impairment loss and shall be recognized immediately in surplus or deficit.

**Section 355. Write-down of Inventories.** The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**Section 356. Exchange differences on foreign currency.** Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, shall be recognized in surplus or deficit in the period in which they arise. At each reporting date foreign currency monetary items shall be translated using the closing rate.

**Section 357. Closing Journal Entries.** Closing journal entries are the accounting entries prepared to reduce all balances of the nominal accounts to zero at the end of the accounting period in order to prepare the accounts for the next accounting period. The procedure followed in the reduction of the balances is called the closing process. The closing process is as follows:

- a. Debit all revenue accounts balances and credit the total to the Income and Expense Summary account.
- b. Credit all expense accounts balances and cost of goods sold and debit the total to the Income and Expense Summary account.
- c. Debit the credit balance of the Income and Expense Summary account and credit the amount in the Retained Operating Surplus account, in case of a net income.
- d. Credit the debit balance of the Income and Expense Summary account and debit the amount in the Retained Operating Surplus account, in case of a net loss.
- e. Debit all credit balances of the intermediate accounts and debit the total to the Government Equity account.
- f. Credit all debit balances of the intermediate accounts and credit the total to the Government Equity account.

***Illustrative accounting entries:***

Particulars	Account Title	Acct. Code	Debit	Credit
1. To close the Revenue accounts to the Income and Expense Summary account.	Real Property Tax	4-01-02-040	100	
	Share from Internal Revenue Collections	4-01-06-010	10,000	
	Business Taxes	4-01-03-030	50	
	Registration Fees	4-02-01-020	20	
	Income and Expense Summary	3-02-01-010		10,170
2. To close the Income and Expense Summary to Government Equity account.	Income and Expense Summary	3-02-01-010	5,670	
	Government Equity	3-01-01-010		5,670

**Section 358. Trial Balance.** Trial balance is a list of all the general ledger accounts and their balances at a given time. The accounts are listed in the order in which they appear in the ledger, with the debit balances in the left column and credit balances on the right column.

**Section 359. Purpose of the Trial Balance.** The trial balance is prepared:

- a. To prove the mathematical equality of the debits and credits after posting;
- b. To uncover errors in journalizing and posting; and
- c. As basis for the preparation of the financial statements.

**Section 360. Procedures in the Preparation of the Trial Balance.** The procedures in trial balance preparation shall be:

- a. List the account titles and their debit/credit balances based on the accounts and amount reflected in the general ledger;
- b. Total the debit and credit columns; and
- c. Prove the equality of the two columns.

**Section 361. Pre-Closing Trial Balance.** The pre-closing trial balance is the trial balance prepared from the general ledger accounts after the adjusting journal entries have been journalized and posted. This is also termed as adjusted trial balance.

Monthly pre-closing trial balance for each fund shall be submitted not later than the twentieth day after the end of the month. It shall be supported by the Status of



Appropriations, Allotments and Obligations, for both the current and continuing appropriations.

These reports shall be submitted to the following:

COA Unit Auditor – Original copy  
Local Sanggunian – 1 copy  
Local Treasurer – 1 copy  
Local Accountant – 1 copy

The trial balance at the end of the quarter shall also be supported by a schedule of subsidiary ledger balances of the controlling accounts in the General Ledger and an additional copy shall be submitted to the COA Regional Office thru the Unit Auditor.

**Section 362. Status of Appropriations, Allotments and Obligations.** The status of appropriations, allotments and obligations is a schedule prepared showing the appropriation, allotments and obligations of each function, program project and activity (*Annex 4 and 4-A*). The schedule shall be prepared based on the Registry of Appropriations Allotments and Obligations. The schedule shall be prepared monthly and at the end of the year, two schedules shall be prepared, one before adjusting and closing of the unutilized budgetary items and another one after posting the adjusting and closing of unutilized and reverted budgetary items. Separate schedules shall be prepared for current appropriation and for continuing appropriations using the following column headings:

<i>Function/Program/ Project/ Activity</i>	<i>Appropriations</i>	<i>Allotment</i>	<i>Obligation</i>	<i>Unobligated Balance</i>
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**Section 363. Post-closing Trial Balance.** Post-closing trial balance is the trial balance prepared at the end of the year after the closing entries are journalized and posted in the general ledgers. In the Post-closing Trial Balance, all the nominal accounts (revenue, expense and intermediate) are closed and the real accounts (assets, liability and equity) are shown with balances. It shall be submitted not later than the fourteenth day of February after the end of the calendar year with the following supporting schedules:

- a. Status of Appropriations, Allotments and Obligations; and
- b. Subsidiary Schedule of General Ledger account balances.

The post-closing trial balance with supporting schedules shall be distributed as follows:

COA Central Office thru the Unit Auditor – 1 copy  
COA Regional Office – 1 copy  
COA Unit Auditor – 1 copy  
Local Chief Executive – 1 copy  
Local Sanggunian – 1 copy  
Local Treasurer – 1 copy

**Section 364. Components of the General Purpose Financial Statements.**

Financial statements shall be prepared at least annually. A complete set of financial statements comprises:<sup>144</sup>

- a. Statement of Financial Position
- b. Statement of Financial Performance
- c. Statement of Cash Flows
- d. Statement of Changes in Net Assets/Equity
- e. Statement of Comparison of Budget and Actual Amounts; and
- f. Notes to Financial Statements, comprising a summary of significant accounting policies and other explanatory notes.

The financial statements shall be presented by fund. The General Fund financial statements shall include the financial statements of the economic enterprises and public utilities, and the LGU controlled entities. However, at the end of the year consolidated financial statements for all funds shall also be prepared and submitted.

**Section 365. Interim Financial Statements.**

Financial statements that are required to be prepared at any given period prior to the end of the financial reporting period without closing the books of accounts. The interim financial statements shall be prepared and submitted whenever needed.

The interim financial statements shall be prepared employing the same accounting principles used for preparing the annual financial statements. Adjusting and closing journal entries shall be prepared. However, only the adjusting journal entries are recognized in the books of accounts. To facilitate the preparation of the interim financial statements, the use of the worksheet is recommended.

**Section 366. Statement of Financial Position.**

The Statement of Financial Position is a formal statement which shows the financial condition of the entity as at a certain date. It includes information on the three elements of financial position, namely, assets, liabilities and equity, with the assets and liability presented using the current and non-current classification. The Statement of Financial Position shall be presented in condensed format and with comparative figure of the preceding year. (*Annex 5 and 5A*)

**Section 367. Current/Non-current Distinction.**

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its Statement of Financial Position.

- a. Current /Non-current Assets. Assets shall be classified as current when it satisfies any of the following criteria:
  1. It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;
  2. It is held primarily for the purpose of being traded;

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<sup>144</sup> Par. 21, IPSAS I.

3. It is expected to be realized within twelve months after the reporting date;  
or
4. It 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.

All other assets shall be classified as non-current.<sup>145</sup>

- b. **Current/Non-current Liabilities.** A liability shall be classified as current when it satisfies any of the following criteria:
  1. It is expected to be settled in the entity's normal operating cycle;
  2. It is held primarily for the purpose of being traded;
  3. It is due to be settled within twelve months after the reporting date; or
  4. The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities shall be classified as non-current.<sup>146</sup>

**Section 368. Statement of Financial Performance.** The Statement of Financial Performance shows the results of operation/performance of the entity at the end of a particular period. (*Annex 6 and 6-A* )

- a. All items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period, as follows:
  1. The correction of prior period errors;<sup>147</sup>
  2. The effect of changes in accounting policies<sup>148</sup>; and
  3. Gains or losses on re-measuring available-for-sale financial assets.<sup>149</sup>
- b. The Statement of Financial Performance shall be prepared in comparative format.

**Section 369. Statement of Changes in Net Assets/Equity.** The Statement of Changes in Net Assets/Equity shows the changes in equity between two accounting periods reflecting the increase or decrease in the entity's net assets during the year. The Statement of

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<sup>145</sup> *Par. 76, IPSAS 1.*

<sup>146</sup> *Par. 79, IPSAS 1.*

<sup>147</sup> *IPSAS 3.*

<sup>148</sup> *IPSAS 3.*

<sup>149</sup> *IPSAS 29.*

Changes in Net Assets/Equity shall be prepared in comparative format. An entity shall present a statement of changes in net assets/equity showing on the face of the statement: (*Annex 7* )

- a. Surplus or deficit for the period;
- b. Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items; (Example: unrealized gain/(loss) from changes in the fair value of financial assets available for sale)
- c. Total revenue and expense for the period (calculated as the sum of (a) and (b);
- d. The effects of changes in accounting policies and corrections of errors for each component of net asset/equity disclosed; and
- e. The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period.

**Section 370. Statement of Comparison of Budget and Actual Amount.** A separate additional financial statement for the comparison of budget and actual amounts shall be prepared since the financial statements and budget of the LGUs are not on the same accounting basis. The presentation in the financial statement of the original and final budget amounts and the actual amounts on the comparable basis with the approved budget will complete the accountability cycle and enable the users to identify whether resources were obtained and used in accordance with the approved budget. The Statement of Comparison of Budget and Actual Amount shall not be presented in comparison with the previous year figures. (*Annex 8* )

**Section 371. Original budget.** Refers to the initial approved budget for the budget period, for both the sources of funds and appropriations, and the carry-on continuing appropriations in the previous years.

**Section 372. Final budget.** Refers to the original budget adjusted for supplemental budgets, realignments, reversions, distribution of lump sum appropriations and other authorized legislative actions during the budget year.

**Section 373. Actual Amounts.** Refers to the amounts that result from execution of the budget.

**Section 374. Statement of Cash Flows.** (*Annex 9 and 9A*) The Statement of Cash Flows summarizes the cash flows from operating, investing and financing activities of an entity during a given period. It identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. Cash flows exclude movements between items that constitute cash or cash equivalents, because these components are part of the cash management of an entity rather than part of its

operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.<sup>150</sup>

Cash flow information provides users of financial statements with a basis to assess (a) the ability of the entity to generate cash and cash equivalents, and (b) the needs of the entity to utilize those cash flows.<sup>151</sup>

**Section 375. Cash equivalents.** Refers to the financial instruments which are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Example: short term investments with maturity of three months or less from the date of acquisition.

**Section 376. Presentation of Statement of Cash Flows.** The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities. The direct method of presenting the cash flow from operating activities shall be followed. The following items shall be considered under each activity:

- a. Operating Activities – Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity.
  1. Cash inflows from operating activities include, among others:
    - i. Receipt of IRA
    - ii. Cash receipts from collection of revenues and receipts;
    - iii. Collection of loans and other receivables;
    - iv. Receipt of trust collections and other trust receipts;
    - v. Receipt of inter-entity and intra-entity fund transfers; and
    - vi. Receipt of advance payments, refunds, and other deferred credits.
  2. Cash outflows from operating activities include, among others:
    - i. Cash payments of expenses;
    - ii. Cash payments to suppliers ;
    - iii. Payment of accounts payable;
    - iv. Remittances of personnel benefit contributions and mandatory deductions;
    - v. Release of inter/intra entity fund transfers; and
    - vi. Other cash disbursements included in the computation of surplus/deficit.
- b. Investing Activities – Cash flows from investing activities are those cash flows that result in a recognition/disposal of non-current asset in the statement of financial position. This involves the acquisition and disposal of non-current assets and investments not recognized as cash equivalent.

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<sup>150</sup> Par. 11, IPSAS 2.

<sup>151</sup> Par. 126, IPSAS 1.

1. Cash inflows under investing activities include, among others:
  - i. Cash receipts from proceeds of sales/disposal of PPE, intangibles, investment property and other non-current assets;
  - ii. Cash receipts from sales of stocks, bonds, interests in joint ventures and other non-current investments;
  - iii. Collection of long-term loans granted to other entities; and
  - iv. Proceeds from matured non-current investments.
2. Cash outflows under investing activities include, among others:
  - i. Cash payments to acquire PPE, intangibles and other non-current assets. These payments include those relating to capitalized development costs and self-constructed PPE;
  - ii. Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures; and
  - iii. Cash advances and loans made to other parties (other than advances and loans made by a public financial institution).
- c. Financing Activities – Are activities concerning buildup of equity capital or borrowings of the entity. These include cash transactions involving the equity and non-current liabilities. Examples of cash flows arising from financing activities are:
  1. Proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
  2. Cash repayments of amounts borrowed; and
  3. Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

**Section 377. Foreign Currency Cash Flows.** Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate of the foreign currency at the date of the cash flow.<sup>152</sup>

**Section 378. Unrealized Gains and Losses.** Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and at the end of the period. This amount is presented separately from cash flows from operating, investing, and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.<sup>153</sup>

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<sup>152</sup> *Par. 36, IPSAS 2.*

<sup>153</sup> *Par. 39, Ibid.*

**Section 379. Reconciliation of the amounts of cash balance in the statement of cash flow.** The net increase in cash provided by (used in) operating activities, investing activities and financing activities for the year, and the cash balance at the start of the year, shall equal the cash balance at the end of the year as shown in the Statement of Financial Position.

**Section 380. Notes to Financial Statements.** (*Annex 10*) Notes to financial statements are integral parts of the financial statements. The Notes shall present the following items:

- a. basis of preparation of the financial statements and the specific accounting policies used;
- b. disclose the information required by IPSASs that is not presented on the face of the financial statements; and
- c. provide additional information that is not presented on the face of the financial statement but is relevant to an understanding of any of them.

**Section 381. Structure and Content of the Notes to Financial Statements.** Notes shall, as far as practicable, be presented in a systematic manner. The Notes to Financial Statements shall contain and be presented in the following order:

- a. A statement of compliance with IPSASs;
- b. Summary of significant accounting policies;
  1. The measurement basis (or bases) used in preparing the financial statements; Example: historical cost, fair value and recoverable amount
  2. The extent to which the entity has applied any transitional provisions in any IPSAS; and
  3. The other accounting policies used that are relevant to an understanding of the financial statements.
- c. Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts in the order in which each statements and each line item is presented; and
- d. Other disclosures, including:
  1. Contingent liabilities and unrecognized contractual commitments;
  2. Non-financial disclosures;
  3. Additional information that is not presented on the face of the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and Statement of Cash Flows, but is relevant to the understanding of any of the financial statement;
  4. The budgetary basis and classification basis adopted in the approved budget;<sup>154</sup>

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<sup>154</sup> *Par, 39, IPSAS 24.*

5. Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded or expenses incurred without appropriation/allotment, then details shall be disclosed;<sup>155</sup>
6. Nature and extent of prior period errors;<sup>156</sup>
7. Events after the reporting date that are material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements; nature of the event and estimate of its financial effect or statement that such an estimate cannot be made;<sup>157</sup>
8. Management comments on the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity;<sup>158</sup> and
9. Related party disclosure, examples: related party relationships, where control exists, nature of related party relationships, types of transactions that have occurred, and elements of the transactions necessary to clarify the significance of the transactions.<sup>159</sup>

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<sup>155</sup> *Par. 24(b), IPSAS 1.*

<sup>156</sup> *IPSAS 3.*

<sup>157</sup> *IPSAS 14.*

<sup>158</sup> *Par. 59, IPSAS 2.*

<sup>159</sup> *IPSAS 20.*



# **ANNEXES**

# Report on Utilization of Disaster Risk Reduction and Management Fund

For the Month of \_\_\_\_\_

Province/City/Municipality/Barangay \_\_\_\_\_

Particulars	LDRRMF		NDRRMF	From Other LGUs	From Other Sources	Total
	Quick Response Fund (QRF) 30%	Mitigation Fund 70%				
A. Sources of Funds:						
Current Appropriation	xxxxxx	xxxxxx				xxxxxx
Continuing Approp		xxxxxx				xxxxxx
Prev Year's Approp transferred to the Special Trust Fund		xxxxxx				xxxxxx
Transfers/Grants			xxxxxx	xxxxx	xxxxx	xxxxxx
<b>Total Funds Available</b>	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
B. Utilization:						
Medicines	xxxxxx					xxxxx
Food Supplies	xxxxxx					xxxxx
Repair of Evacuation Center		xxxxxx				xxxxx
Trainings		xxxxxx				xxxxx
Construction of Evacuation Center		xxxxxx	xxxxxx	xxxxxx	xxxxx	xxxxxx
Equipment		xxxxx	xxxxx	xxxxx	xxxxx	Xxxxx
Transfers to Other LGUs	xxxxx					
<b>Total Utilization</b>	xxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx	xxxxxx
<b>Unutilized Balance</b>	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx

Prepared by:

Certified Correct:

\_\_\_\_\_  
(Name and Signature)

\_\_\_\_\_  
(Name and Signature)  
Accountant

**Fund Receipt and Utilization Report**

(Special Account)

For the Quarter Ending \_\_\_\_\_

Province/City/Municipality \_\_\_\_\_

	<u>Amount</u>
<b>Cash Balance Beg.</b>	XXXX
<b>Receipts:</b> (Cite Reference Source Documents)	XXXX
Total Receipts	<u>XXXX</u>
<b>Utilization:</b> (Present detailed charges by project)	XXXX
Total Utilization	<u>XXXX</u>
<b>Fund Balance*</b>	<u>XXXX</u>
* should be reconciled with the registry of the special account	

Prepared by:

\_\_\_\_\_  
(Name and Signature)

Certified Correct:

\_\_\_\_\_  
(Name and Signature)  
Accountant

(SAMPLE)

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR  
FINANCIAL STATEMENTS**

The Management of the \_\_\_\_\_ (name of local government unit) \_\_\_\_\_ is responsible for all the information and representations contained in the accompanying Statement of Financial Position as of or "as at" December 31, \_\_\_\_\_ and the related Statement of Financial Performance, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts, Statement of Changes in Net Assets/Equity and the Notes to the Financial Statements for the year then ended. The financial statements have been prepared in conformity with the International Public Sector Accounting Standards and reflect amounts that are based on best estimates and informed judgement of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

(Signature)

Local Accountant

Date: \_\_\_\_\_

(Signature)

Local Chief Executive

Date: \_\_\_\_\_

## STATUS OF APPROPRIATIONS, ALLOTMENTS AND OBLIGATION

(Current Legislative Appropriations)  
As of \_\_\_\_\_, 20xx

Function/Program/Project/Activity	Appropriations	Allotment	Obligations	Unobligated Balance
Executive Services – Office of the Mayor General Administration Personnel Services MOOE Capital Outlay				
Maintenance of Prisoners Personnel Services MOOE Capital Outlay				

**STATUS OF APPROPRIATIONS, ALLOTMENTS AND OBLIGATION**

(Continuing Legislative Appropriations)

As of \_\_\_\_\_, 20xx

<b>Function/Program/Project/Activity</b>	<b>Appropriations</b>	<b>Allotment</b>	<b>Obligations</b>	<b>Unobligated Balance</b>
Executive Services – Office of the Mayor General Administration Capital Outlay				
Maintenance of Prisoners Capital Outlay				

(City, Municipality, Province)

**Statement of Financial Position**

As at or "as of" December 31, 20xx

(In Thousands of Pesos)

		<u>Note</u>	<u>20xx</u>	<u>20xx</u>
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash and Cash Equivalents			xxx	xxx
Investments			xxx	xxx
Receivables			xxx	xxx
Inventories			xxx	xxx
Prepayments and Deferred Charges			<u>xxx</u>	<u>xxx</u>
<b>Total Current Assets</b>			<u>xxx</u>	<u>xxx</u>
<i>Non-Current Assets</i>				
Investments			xxx	xxx
Receivables			xxx	xxx
Investment Property			xxx	xxx
Property, Plant and Equipment			xxx	xxx
Biological Assets			xxx	xxx
Intangible Assets			<u>xxx</u>	<u>xxx</u>
<b>Total Non-Current Assets</b>			<u>xxx</u>	<u>xxx</u>
<b>TOTAL ASSETS</b>			<u>xxx</u>	<u>xxx</u>
<b>LIABILITIES</b>				
<i>Current Liabilities</i>				
Financial Liabilities			xxx	xxx
Inter-Agency Payables			xxx	xxx
Intra-Agency Payables			xxx	xxx
Trust Liabilities			xxx	xxx
Deferred Credits/Unearned Income			<u>xxx</u>	<u>xxx</u>
<b>Total Current Liabilities</b>			<u>xxx</u>	<u>xxx</u>
<i>Non-Current Liabilities</i>				
Financial Liabilities			xxx	xxx
Deferred Credits/Unearned Income			xxx	xxx
Provisions			xxx	xxx
Other Payables			<u>xxx</u>	<u>xxx</u>
<b>Total Non-Current Liabilities</b>			<u>xxx</u>	<u>xxx</u>
<b>TOTAL LIABILITIES</b>			<u>xxx</u>	<u>xxx</u>
<b>NET ASSETS/EQUITY</b>				
Government Equity			<u>xxx</u>	<u>xxx</u>
<b>Fund Balance</b>	<u>2018</u>	<u>2017</u>		
Unappropriated Surplus	xxx	xxx		
Continuing Allotments	xxx	xxx		
Continuing Appropriations	xxx	xxx		
Commitments	xxx	xxx		
<b>Total Fund Balance</b>	<u>xxx</u>	<u>xxx</u>		
<b>Cash Available for Approp.</b>	xxx	xxx		
<b>Net Current &amp; Non-current</b>				
Assets (Exc. Cash and Invest)	xxx	xxx		
<b>Total</b>	<u>xxx</u>	<u>xxx</u>		
<b>TOTAL LIAB. AND NET ASSETS/EQUITY</b>			<u>xxx</u>	<u>xxx</u>

---

(City, Municipality, Province)

**Statement of Financial Position - Trust Fund**

As at December 31, 20xx

(In Thousands of Pesos)

	<b>Note</b>	<b><u>20xx</u></b>	<b><u>20xx</u></b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Cash Equivalents		xxx	xxx
Investments		xxx	xxx
Receivables		xxx	xxx
Inventories		xxx	xxx
Prepayments and Deferred Charges		<u>xxx</u>	<u>xxx</u>
<b>Total Current Assets</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>
<i>Non-Current Assets</i>			
Investments		xxx	xxx
Receivables		xxx	xxx
Property, Plant and Equipment		<u>xxx</u>	<u>xxx</u>
<b>Total Non-Current Assets</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>
<b>Total Assets</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Financial Liabilities		xxx	xxx
Inter-Agency Payables		xxx	xxx
Intra-Agency Payables		xxx	xxx
Trust Liabilities		<u>xxx</u>	<u>xxx</u>
<b>Total Current Liabilities</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>
<i>Non-Current Liabilities</i>			
Financial Liabilities		xxx	xxx
Other Payables		xxx	<u>xxx</u>
<b>Total Non-Current Liabilities</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>
<b>Total Liabilities</b>		<b><u>xxx</u></b>	<b><u>xxx</u></b>



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(City, Municipality, Province)

**Statement of Financial Performance**

For the Year Ended December 31, 20xx

(In Thousands of Pesos)

	<u>Note</u>	<u>20xx</u>	<u>20xx</u>
<b>Revenue</b>			
Tax Revenue		xxx	xxx
Share from Internal Revenue Collections		xxx	xxx
Other Share from National Taxes			
Service and Business Income		xxx	xxx
Shares, Grants and Donations		xxx	xxx
Gains		xxx	xxx
Other Income		<u>xxx</u>	<u>xxx</u>
<b>Total Revenue</b>		<u>xxx</u>	<u>xxx</u>
<b>Less: Current Operating Expenses</b>			
Personnel Services		xxx	xxx
Maintenance and Other Operating Expenses		xxx	xxx
Non-cash Expenses		xxx	xxx
Financial Expenses		<u>xxx</u>	<u>xxx</u>
<b>Current Operating Expenses</b>		<u>xxx</u>	<u>xxx</u>
<b>Surplus (Deficit) from Current Operation</b>		<b>xxx</b>	<b>xxx</b>
Add (Deduct):			
Transfers and Subsidy From		xxx	xxx
Transfers and Subsidy To		<u>(xxx)</u>	<u>(xxx)</u>
<b>Surplus(Deficit) for the period</b>		<u>xxx</u>	<u>xxx</u>

---

(City, Municipality, Province)

**Statement of Financial Performance- Trust Fund**

For the Year Ended December 31, 20xx

(In Thousands of Pesos)

	Note	20xx	20xx
<b>Revenue</b>			
Grants and Donations		<u>xxx</u>	<u>xxx</u>
<b>Total Revenue</b>		<u>xxx</u>	<u>xxx</u>
<b>Less: Current Operating Expenses</b>		xxx	xxx
Personnel Services		xxx	xxx
Maintenance and Other Operating Expenses		xxx	xxx
Non-Cash expenses		<u>xxx</u>	<u>xxx</u>
<b>Current Operating Expenses</b>		<u>xxx</u>	<u>xxx</u>
<b>Surplus (Deficit) from Current Operation</b>		xxx	xxx
Add(Deduct) Transfers, Assistance and Subsidy		xxx	xxx
Transfers From		xxx	xxx
Transfers To		<u>( xxx)</u>	<u>(xxx)</u>
<b>Surplus(Deficit) for the period</b>		<u>xxx</u>	<u>xxx</u>

---

(City, Municipality, Province)

**Statement of Changes in Net Assets/Equity**

For the Year Ended December 31, 20xx

(In thousands of Pesos)

	<u>Accumulated Surplus/</u>	
	<u>(Deficit)</u>	
	<u>20xx</u>	<u>20xx</u>
<b>Balance at January 1, 20xx</b>	xxx	xxx
Add (Deduct)		
Change in Accounting Policy	xxx	xxx
Prior Period Errors	<u>xxx</u>	<u>xxx</u>
<b>Restated Balance</b>	<u>xxx</u>	<u>xxx</u>
<b>Add (Deduct) Changes in net assets/equity during the year</b>		
Adjustment of net revenue recognized directly in net assets/equity	xxx	xxx
Surplus (Deficit) for the period	<u>xxx</u>	<u>xxx</u>
<b>Total recognized revenue and expenses for the period</b>	<u>xxx</u>	<u>xxx</u>
<b>Balance at December 31, 20xx</b>	<u>xxx</u>	<u>xxx</u>

(City, Municipality, Province)

**Statement of Comparison of Budget and Actual Amounts**

For the Year Ended December 31, 20xx

(In thousands of Pesos)

Particulars	Notes	Budgeted Amounts		Difference Original and Final Budget	Actual Amounts	Difference Final Budget and Actual
		Original	Final			
<b>Revenue</b>						
A. Local Sources						
1. Tax Revenue						
a. Tax Revenue- Property		xxx	xxx	xxx	xxx	xxx
b. Tax Revenue – Goods and Services		xxx	xxx	xxx	xxx	xxx
c. Other Local Taxes		xxx	xxx	xxx	xxx	xxx
Total Tax Revenue		xxx	xxx	xxx	xxx	xxx
2. Non-Tax Revenue						
a. Service Income						
b. Business Income		xxx	xxx	xxx	xxx	xxx
c. Other Income and Receipts		xxx	xxx	xxx	xxx	xxx
Total Non-Tax Revenue		xxx	xxx	xxx	xxx	xxx
B. External Sources						
1. Share from the National Internal Revenue Taxes (IRA)		xxx	xxx	xxx	xxx	xxx
2. Share from GOCCs		xxx	xxx	xxx	xxx	xxx
3. Other Shares from National Tax Collections						
a. Share from Ecozone		xxx	xxx	xxx	xxx	xxx
b. Share from EVAT		xxx	xxx	xxx	xxx	xxx
c. Share from National Wealth		xxx	xxx	xxx	xxx	xxx
d. Share from Tobacco Excise Tax		xxx	xxx	xxx	xxx	xxx
4. Other Receipts						
a. Grants and Donations		xxx	xxx	xxx	xxx	xxx
b. Other Subsidy Income		xxx	xxx	xxx	xxx	xxx
5. Inter-Local Transfer		xxx	xxx	xxx	xxx	xxx
6. Capital /Investment Receipts						
a. Sale of Capital Assets		xxx	xxx	xxx	xxx	xxx
b. Sale of Investments		xxx	xxx	xxx	xxx	xxx
c. Proceeds from Collections of Loans Receivable		xxx	xxx	xxx	xxx	xxx
C. Receipts from Borrowings		xxx	xxx	xxx	xxx	xxx
Total Revenues and Receipts		xxx	xxx	xxx	xxx	xxx
<b>Expenditures</b>						
<b>General Public Services</b>						

Particulars	Notes	Budgeted Amounts		Difference Original and Final Budget		Actual Amounts		Difference Final Budget and Actual
		Original	Final					
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Education</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Health, Nutrition and Population Control</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Labor and Employment</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Housing and Community Development</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Social Services and Social Welfare</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Economic Services</b>								
Personnel Services		xxx	xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>Other Purposes:</b>								
Debt Service		xxx	xxx	xxx		xxx		xxx
Financial Expense		xxx	xxx	xxx		xxx		xxx
Amortization		xxx	xxx	xxx		xxx		xxx
<b>LDRRMF</b>								
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx
<b>20% Development Fund</b>								
Maintenance and Other Operating Expenses		xxx	xxx	xxx		xxx		xxx
Capital Outlay		xxx	xxx	xxx		xxx		xxx

Particulars	Notes	Budgeted Amounts			Difference Original and Final Budget		Actual Amounts		Difference Final Budget and Actual
		Original		Final					
Share from National Wealth									
Maintenance and Other Operating Expenses		xxx		xxx	xxx		xxx		xxx
Capital Outlay		xxx		xxx	xxx		xxx		xxx
Others									
Personnel Services		xxx		xxx	xxx		xxx		xxx
Maintenance and Other Operating Expenses		xxx		xxx	xxx		xxx		xxx
Capital Outlay		xxx		xxx	xxx		xxx		xxx
Continuing Appropriations (Capital Outlay)									
General Public Services		xxx		xxx	xxx		xxx		xxx
Education		xxx		xxx	xxx		xxx		xxx
Health, Nutrition and Population Control		xxx		xxx	xxx		xxx		xxx
Labor and Employment		xxx		xxx	xxx		xxx		xxx
Housing and Community Development		xxx		xxx	xxx		xxx		xxx
Social Services and Social Welfare		xxx		xxx	xxx		xxx		xxx
Economic Services		xxx		xxx	xxx		xxx		xxx
LDRRMF		xxx		xxx	xxx		xxx		xxx
20% Development Fund		xxx		xxx	xxx		xxx		xxx
Share from National Wealth		xxx		xxx	xxx		xxx		xxx
Others		xxx		xxx	xxx		xxx		xxx
<b>Total</b>		<b>xxx</b>		<b>xxx</b>	<b>xxx</b>		<b>xxx</b>		<b>xxx</b>

Presented in the Notes to FS

Reconciliation between actual amounts on a comparable basis as presented in this statement and in the Statement of Financial Performance for the Year Ended December 31, 20xx							
	<b>Income</b>	<b>Personnel Services</b>		<b>MOOE</b>	<b>Financial Expenses</b>		<b>Capital Outlay</b>
Comparison Statement of Budget and Actual	xxx	xxx		xxx	xxx		xxx
Entity Differences	-	-		-	-		-
Basis Differences:							
Income not considered budgetary items							
Non-cash income	xxx	-		-	-		
Gain on Sale of Assets							
Receipts not considered as income							
Sale of capital assets	(xxx)	-		-	-		
Borrowings	(xxx)	-		-	-		
Non-cash expenses:							
Depreciation	-	-		xxx	-		
Amortization – Intangible Assets	-	-		xxx	-		
Impairment Loss	-	-		xxx	-		
Losses		-		xxx	-		
Debt Service (Loan Amortization, Retirement of Debt Instruments)		-		-	(xxx)		
Interest Expenses capitalized					(xxx)		
Capital Expenditures	-	-		-			(xxx)
Timing Differences:							
Prepayments charged to current appropriations	-	-		(xxx)			
Unconsumed Inventories charged to current appropriations	-	-		(xxx)			
Consumed Inventories and deferred charges charged to prior period appropriations				xxx			
<b>Per Statement of Financial Performance</b>	xxx	xxx		xxx	xxx		

(City, Municipality, Province)

**Statement of Cash Flows**

For the Year Ended December 31, 20xx

(In Thousands of Pesos)

	<u>Note</u>	<u>20xx</u>	<u>20xx</u>
<b>Cash Flows from Operating Activities</b>			
<b>Cash Inflows</b>			
Collection from taxpayers		xxx	xxx
Share from Internal Revenue Allotment		xxx	xxx
Receipts from business/service income		xxx	xxx
Interest Income		xxx	xxx
Dividend Income		xxx	xxx
Other Receipts		xxx	xxx
<b>Total Cash Inflows</b>		xxx	xxx
<b>Cash Outflows</b>			
Payment of expenses		xxx	xxx
Payments to suppliers and creditors		xxx	xxx
Payments to employees		xxx	xxx
Interest Expense		xxx	xxx
Other Expenses		xxx	xxx
<b>Total Cash Outflows</b>		xxx	xxx
<b>Net Cash Flows from Operating Activities</b>		xxx	xxx
<b>Cash Flows from Investing Activities</b>			
<b>Cash Inflows</b>			
Proceeds from Sale of Investment Property		xxx	xxx
Proceeds from Sale/Disposal of Property, Plant and Equipment		xxx	xxx
Proceeds from Sale of Non-Current Investments		xxx	xxx
Collection of Principal on loans to other entities		xxx	xxx
<b>Total Cash Inflows</b>		xxx	xxx
<b>Cash Outflows</b>			
Purchase/Construction of Investment Property		xxx	xxx
Purchase/Construction of Property, Plant and Equipment		xxx	xxx
Investment		xxx	xxx
Purchase of Bearer Biological Assets		xxx	xxx
Purchase of Intangible Assets		xxx	xxx
Grant of Loans		xxx	xxx
<b>Total Cash Outflows</b>		xxx	xxx
<b>Net Cash Flows from Investing Activities</b>		xxx	xxx
<b>Cash Flows from Financing Activities</b>			
<b>Cash Inflows</b>			
Proceeds from Issuance of Bonds		xxx	xxx
Proceeds from Loans		xxx	xxx
<b>Total Cash Inflows</b>		xxx	xxx
<b>Cash Outflows</b>			
Payment of Long-Term Liabilities		xxx	xxx
Retirement/Redemption of debt securities		xxx	xxx
Payment of loan amortization		xxx	xxx
<b>Total Cash Outflows</b>		xxx	xxx
<b>Net Cash Flows from Financing Activities</b>		xxx	xxx
<b>Total Cash Provided by Operating, Investing and Financing Activities</b>		xxx	xxx
<b>Add: Cash at the Beginning of the year</b>		xxx	xxx
<b>Cash Balance at the End of the Year</b>		xxx	xxx



**Notes to Cash Flow Statement***a) Cash and Cash Equivalent*

Cash and cash equivalents consist of cash on hand, balances with banks, and investment in time deposits. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of currency units)	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Cash on hand and balances with banks	xxx	xxx
Cash Equivalents	<u>xxx</u>	<u>xxx</u>
	<u>xxx</u>	<u>xxx</u>

The entity has undrawn borrowing facilities of P000, of which P000 must be used in infrastructure projects.

*b) Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

(in thousands of currency units)	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Surplus/(Deficit)	xxx	xxx
Non-cash transactions		
Depreciation	xxx	xxx
Amortization of Intangible Assets	xxx	xxx
Impairment Loss	xxx	xxx
Increase in payables	xxx	xxx
(Gains) Losses on Sale of PPE	xxx	xxx
(Gains) Losses on Sale of Investments	xxx	xxx
Increase in current assets	(xxx)	(xxx)
Increase in investments due to revaluation	(xxx)	(xxx)
Increase in receivables	<u>(xxx)</u>	<u>(xxx)</u>
<b>Net Cash from Operating Activities</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

---

(City, Municipality, Province)

**Statement of Cash Flows - Trust Fund**

For the Year Ended December 31, 20xx

(In Thousands of Pesos)

	<u>Note</u>	<u>20xx</u>	<u>20xx</u>
<b>Cash Flows from Operating Activities</b>			
<i>Cash Inflows</i>			
Other Receipts		<u>xxx</u>	<u>xxx</u>
<b>Total Cash Inflows</b>		<u>xxx</u>	<u>xxx</u>
<i>Cash Outflows</i>			
Payments			
To suppliers and creditors		xxx	xxx
Other Expenses		<u>xxx</u>	<u>xxx</u>
<b>Total Cash Outflows</b>		<u>xxx</u>	<u>xxx</u>
<b>Net Cash Flows from Operating Activities</b>		<u>xxx</u>	<u>xxx</u>
<b>Cash Flows from Investing Activities</b>			
<i>Cash Inflows</i>			
<b>Total Cash Inflows</b>		<u>xxx</u>	<u>xxx</u>
<i>Cash Outflows</i>			
<b>Total Cash Outflows</b>		<u>xxx</u>	<u>xxx</u>
<b>Net Cash Flows from Investing Activities</b>		<u>xxx</u>	<u>xxx</u>
<b>Cash Flows from Financing Activities</b>			
<i>Cash Inflows</i>			
<b>Total Cash Inflows</b>		<u>xxx</u>	<u>xxx</u>
<i>Cash Outflows</i>			
<b>Total Cash Outflows</b>		<u>xxx</u>	<u>xxx</u>
<b>Net Cash Flows from Financing Activities</b>		xxx	xxx
<b>Net Increase in Cash</b>		xxx	xxx
<b>Add: Cash at the Beginning of the period</b>		<u>xxx</u>	<u>xxx</u>
<b>Cash Balance at the End of the period</b>		<u>xxx</u>	<u>xxx</u>

*Notes to Condensed Financial Statements (sample)*  
*(All amounts in Philippine Peso unless otherwise stated)*

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**Note I - Profile**

The LGU was created by virtue of Republic Act No. \_\_\_\_\_ dated \_\_\_\_\_. It is located east of Manila and comprise approximately 3,000 square kilometers of land mostly devoted to commercial establishments and housing communities. Its present population was reported at 1,200,000 at the end of 201X.

The LGU is envisioned to be a model for academic excellence, public health and safety, environmental preservation and good governance, providing equal opportunity for all its constituents in a peaceful, friendly atmosphere through a God-centered leadership of the incumbent elected officials.

The LGU was awarded the most economically dynamic city in the Philippines for the year 201X based on the 201X Cities and Municipalities Competitive Index. This was due to the City's dynamic rise as a bustling entertainment and investment destination partly because of the introduction of a "one-day" system of licensing and issuance of business permits and the implementation of various infrastructure projects by the national government.

**Note 2 -** The consolidated financial statements of the LGU have been prepared in accordance with and comply with the International Public Sector Accounting Standards (IPSAS). The consolidated financial statements are presented in pesos, which is the functional and reporting currency of the LGU and all values are rounded to nearest thousand (P000). The accounting policies have been applied starting the year 201X.

**Note 3 -** Summary of significant accounting policies

**3.1 Basis of accounting**

The [consolidated] financial statements are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS).

**3.2 Consolidation**

The controlled entities (funds) are all those over which the controlling entity has the power to govern the financial and operating policies. Inter-group transaction, balances and unrealized gains and losses on transactions between entities and funds are eliminated in full. The LGU maintains special accounts under the General Fund for the following economic enterprises and public utilities it operates:

- General Hospital
- Children's Hospital
- Pamantasan ng Agham
- Stadium/Sports Center
- Market Administration
- Slaughterhouse
- Youth Training Center
- Operation of Cemetery

**3.3 Interest in Joint Venture**

The LGU has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a binding arrangement that establishes joint control over the economic activities of the entity. The LGU recognizes its interest in the joint venture using the proportionate consolidation method. The LGU combines its proportionate share of each of the assets, liabilities, income and expenses of

the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the [Name of Entity in the Joint Venture]. Adjustments are made where necessary to bring the accounting policies in line with those of the LGU.

The joint venture is proportionately consolidated until the date on which the LGU ceases to have joint control over the joint venture. Upon loss of joint control, and provided that the former jointly controlled entity does not become a subsidiary or an associate, the LGU discontinues proportionate consolidation and recognizes its remaining investment at the carrying amount.

### **3.4 Revenue recognition**

#### **Revenue from non-exchange transactions**

##### *Taxes, fees and fines*

The LGU recognizes revenues from taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, liability is recognized instead of revenue. Other non-exchange revenues are recognized when it is improbable that the future economic benefit or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

##### *Transfers from other government entities*

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the LGU and can be measured reliably.

The LGU availed of the 5 – year transitional provision for the recognition of Tax Revenue- Real Property and Special Education Tax. For the first year, there will be no change in policy for the recognition of the aforementioned tax revenue.

#### **Revenue from exchange transactions**

##### *Rendering of services*

The LGU recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

##### *Sale of goods*

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the LGU.

*Interest income*

Interest income is accrued on a time proportion basis that takes into account the effective yield on the assets. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

*Dividends*

Dividends or similar distributions must be recognized when the LGU's right to receive payments is established.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

**3.5 Investment Property**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over the life of the investment property, in case of building.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition. Transfers are made to or from investment property only when there is a change in use.

**3.6 Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the LGU recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nominal consideration the asset is initially measured at its fair value.

Depreciation on assets is charged on a straight-line basis over the useful life of the asset.

Depreciation is charged at rates calculated to allocate cost or valuation of the asset less any estimated residual value over its remaining useful life:

*(refer to COA issuances on the prescribed useful life of assets)*

Leased assets may consist of vehicles and machinery. The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is

greater than its estimated recoverable amount or recoverable service amount. The LGU derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

Public Infrastructures were not previously recognized in the books. The LGU availed of the 5-year transitional provision for the recognition of the Public Infrastructure. For the first year of implementation of the PPSAS, the LGU will not recognize the Public Infrastructure in the books of accounts.

The LGU availed of the Transitory Provision for Public Infrastructure accounts and adopted the following timetable for the recognition of the Public Infrastructures:

End of 2016 – 25%  
 End of 2017 – 50%  
 End of 2018 – 75%  
 End of 2019 – 100%

### 3.7 Leases

#### *LGU as a lessee*

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the LGU. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The LGU also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the LGU will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the LGU. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

#### *LGU as a lessor*

Leases in which the LGU does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term.

Rent received from an operating lease is recognized as income on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

### 3.8 Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite. An intangible asset with a finite life is amortized over its useful life. Software is amortized for 10-20 years.

Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in surplus or deficit as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

#### *Research and Development Cost*

Research costs when incurred are treated as expenses by the LGU. Development costs on an individual project are recognized as intangible assets when the LGU can demonstrate:

- a) The technical feasibility of completing the asset so that the asset will be available for use or sale;
- b) Its intention to complete and its ability to use or sell the asset;
- c) How the asset will generate future economic benefits or service potential;
- d) The availability of resources to complete the asset; and
- e) The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

### 3.9 Impairment of non-financial assets

#### *Impairment of cash-generating assets*

At each reporting date, the LGU assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the LGU estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less

costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of financial performance in those expense categories consistent with the nature of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the LGU estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

#### *Impairment of non-cash-generating assets*

The LGU assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the LGU estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

In assessing value in use, the LGU has adopted the depreciated replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. In determining fair value less cost to sell, the price of the assets in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the LGU determines fair value less cost to sell based on the best available information.

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the LGU estimates the asset's recoverable service amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its



recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

### **3.10 Financial instruments**

#### **Financial assets**

##### *Initial recognition and measurement*

Financial assets are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The LGU determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the LGU commits to purchase or sell the asset.

The LGU's financial assets include: cash and short-term deposits; trade and other receivables; loans and other receivables and quoted and unquoted financial instruments.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification.

##### *Financial assets at fair value through surplus or deficit*

Financial assets at fair value through surplus or deficit include financial assets held for trading and financial assets designated upon initial recognition at fair value through surplus and deficit. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through surplus or deficit are carried in the statement of financial position at fair value with changes in fair value recognized in surplus or deficit.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

##### *Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the LGU has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

*Derecognition*

The LGU derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when:

- a) The rights to receive cash flows from the asset have expired or is waived;
- b) The LGU has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either: (a) the LGU has transferred substantially all the risks and rewards of the asset; or (b) the LGU has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

*Impairment of financial assets*

The LGU assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- a) The debtors or a group of debtors are experiencing significant financial difficulty;
- b) Default or delinquency in interest or principal payments;
- c) The probability that debtors will enter bankruptcy or other financial reorganization; and
- d) Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

*Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the LGU first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the LGU determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of

an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

## **Financial liabilities**

### *Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The LGU determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value.

The LGU's financial liabilities may include trade and other payables, bank overdrafts, loans and borrowings.

### *Subsequent measurement*

The measurement of financial liabilities depends on their classification.

### *Financial liabilities at fair value through surplus or deficit*

Financial liabilities at fair value through surplus or deficit include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through surplus or deficit.

### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### *Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price

quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

### **3.11 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### **3.12 Inventories**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- a) Raw materials: purchase cost using the weighted average cost method;
- b) Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the LGU.

### **3.13 Provisions**

Provisions are recognized when the LGU has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the LGU expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

#### *Rehabilitation liability*

Rehabilitation costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current rate that reflects the risks specific to the rehabilitation liability. The unwinding of the discount is expensed as incurred and recognized in the statement of financial performance as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted

as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

#### *Contingent liabilities*

The LGU does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

#### *Contingent assets*

The LGU does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the LGU in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

### **3.14 Nature and purpose of reserves**

The LGU creates and maintains reserves in terms of specific requirements.

#### *Sinking Fund*

Is a fund into which the LGU set aside money overtime in order to retire/settle a liability or for capital expenditures.

### **3.15 Changes in accounting policies and estimates**

The LGU recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The LGU recognizes the effects of changes in accounting estimates prospectively by including in surplus or deficit.

### **3.16 Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

### **3.17 Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further, borrowing costs are charged to the statement of financial performance.

### **3.18 Related parties**

The LGU regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the LGU, or

vice versa. Members of key management are regarded as related parties and comprise the Governor, Mayors, Vice-Governors and Vice-Mayors, Sanggunian Members, Committee Officials and Members, Accountants, Treasurers, Budget Officers, General Services and all Chiefs of Departments/Divisions.

### **3.19 Service concession arrangements**

The LGU analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the LGU recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the LGU also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

### **3.20 Budget information**

The annual budget is prepared on the modified cash basis, that is, all planned costs and income are presented in a single statement to determine the needs of the LGU. As a result of the adoption of the modified cash basis for budgeting purposes, there are basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements; first, the reasons for overall growth or decline in the budget are stated, followed by details of overspending or underspending on line items.

### **3.21 Significant judgments and sources of estimation uncertainty**

#### *Judgments*

In the process of applying the LGU's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

#### *Operating lease commitments – LGU as lessor*

The LGU has entered into property leases of some of its properties. The LGU has determined, based on an evaluation of the terms and conditions of the arrangements, (such as the lease term not constituting a substantial portion of the economic life of the commercial property) that it retains all the significant risks and rewards of ownership of the properties and accounts for the contracts as operating leases.

#### *Estimates and assumptions*

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, are described below. The LGU based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the LGU. Such changes are reflected in the assumptions when they occur.

*Useful lives and residual values*

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the LGU;
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes;
- c) The nature of the processes in which the asset is deployed; and
- d) Changes in the market in relation to the asset

*Impairment of financial assets – cash-generating assets*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of tangible assets.

The LGU reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

*Impairment of non-financial assets – non- cash generating assets*

The LGU reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the LGU undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use of estimates and assumptions.

Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

*Fair value estimation – financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*Provisions*

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

*Held-to-maturity investments and loans and receivables*

The LGU assesses its loans and receivables (including trade receivables) and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the LGU evaluates the indicators present in the market to determine if those indicators are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified the impairment for trade receivables, held-to-maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**3.22 Financial instruments - financial risk management**

Exposure to currency, commodity, interest rate, liquidity and credit risks arises in the normal course of the LGU's operations. This note presents information about the LGU's exposure to each of the mentioned risks, policies and processes for measuring and managing risk, and the LGU's management of capital. Further quantitative disclosures are included throughout these financial statements. Fair values set out below, is a comparison by class of the carrying amounts and fair value of the LGU's financial instruments.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

- a) Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- b) Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the LGU based on parameters such as interest rates, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market related interest rates. As at 31 December 2015 the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values;
- c) Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities;
- d) Fair value of financial assets is derived from quoted market prices in active markets, if available;



- e) Fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques

#### *Fair value hierarchy*

The LGU uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices);

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2015, the LGU held the following financial instruments measured at fair value:

	<b>201X</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments	xxx	xxx	xxx	-
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	-

During the reporting period ending December 31, 2015, there were no transfers between levels 1 and 2 fair value measurements

#### *Credit risk*

Credit risk is the risk of financial loss to the LGU if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from the LGU's investments, loans, receivables, and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December was:

	<b>20xx</b>	<b>20xx</b>
Investments	xxx	xxx
Trade receivables and other receivables	xxx	xxx
Cash and cash equivalent	xxx	xxx
Maximum exposure to credit risk	<b>xxx</b>	<b>xxx</b>

#### *Credit quality*

Credit quality is assessed risk of default attached to counterparties to which the LGU extends credit and also those parties with whom the LGU invests. As such, the credit quality assessed extends to the customers, investments and banks servicing the LGU.

For financial statement purposes, the investments and balances with banks are limited to the investments, loans receivable and cash and cash equivalents line items in the statement of financial position. The LGU follows Department Order No. 27-05 of the Department of Finance (DOF) in the maintenance of depository accounts. The policy requires that deposits shall be maintained in at least CAMEL 3 rating banks.

	<b>20xx Rating</b>	<b>20xx Rating</b>
Investments	-	-
Loans receivables	-	-
Cash and cash equivalent	-	-

The customer base of the LGU is diverse and consists of individuals, companies, non-profit organizations and government entities. Credit ratings, from external rating agencies, are not readily available for all customers. Also, it is not financially viable to obtain external credit ratings for all customers due to the nature of the customer base. Furthermore, the LGU, as a local government authority, is mandated under Republic Act No. 7160 or the Local Government Code to provide basic services to all its constituents. For the purpose of determining the credit quality of customers, the LGU applies its past experience with customers in determining the risk of default posed by customers. In line with the methodology applied, customers are classified into the following credit quality groups:

- a) High - Those customers who have no history of defaulting on payments to the Group and only includes customers who settle their accounts in full and within the prescribed minimum period;
- b) Medium - Those customers with a history of late payments only. These customers usually arrange ahead of time with the Group in settling balances in arrears and when payments are made, the outstanding amounts (including interest) are settled in full; and
- c) Low - Those customers with a significant history of defaults. The balances of these customers are rarely settled in full. The recovery of outstanding balances from these customers is problematic.

The credit quality of the balance of receivables and other receivables is made up, as follows:

	20xx	20xx
High	xxx	xxx
Medium	xxx	xxx
Low	xxx	xxx
<b>Total instrument at amortized cost exposed to credit risk</b>	<b>xxx</b>	<b>xxx</b>

#### *Investments*

The LGU limits its exposure to credit risk by investing with only government depository banks with at least a CAMEL 3 rating and approved by the Sangunian.

#### *Receivables*

Receivables are amounts owed by consumers, and are presented net of impairment losses. The LGU has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The LGU is compelled, by its mandate, to provide all of its residents with basic minimum services, without recourse to an assessment of creditworthiness.

The LGU's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial performance. The Group has no significant concentration of credit risk.

The LGU establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables.

#### *Cash and cash equivalents*

The LGU limits its exposure to credit risk by investing cash and cash equivalents with only government financing Institutions that have a CAMEL rating of 3 reputable financial institutions, and within specific guidelines set in the governments'

investment policy. Consequently, the LGU does not consider there to be any significant exposure to credit risk.

#### *Liquidity risk*

Liquidity risk is the risk of the LGU not being able to meet its obligations as they fall due. The LGU's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the LGU's reputation.

The LGU ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts. On average, 94.93% (201x: 93.88%) of receivables are settled within 30 days after the due date, and payables are settled within 30 days of invoice date.

The following are contractual liabilities of which interest is included in borrowings:

<b>20xx</b>	<b>On demand</b>	<b>&gt; 3 mont hs</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Liabilities						
Borrowings	-	-	xxx	-	xxx	xxx
Payables	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	=	=	<u>xxx</u>
<b>Total Liabilities</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>	<b>=</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

#### *Capital management*

The primary objective of managing the LGU's capital is to ensure that there is sufficient cash available to support the LGU's funding requirements, including capital expenditure, to ensure that the LGU remains financially sound.

#### **Note 4. Cash and Cash Equivalents**

	<b>20xx</b>	<b>20xx</b>
Cash on Hand		
Cash- Local Treasury	xxx	xxx
Petty Cash	xxx	xxx
Cash in Bank – Local Currency		
Cash in Bank-Local Currency-Current Account	xxx	xxx
Cash in Bank – Local Currency- Savings Account	xxx	xxx
Cash in Bank – Foreign Currency		
Cash in Bank-Foreign Currency-Current Account	xxx	xxx
Cash in Bank – Foreign Currency- Savings Account	xxx	xxx
Cash Equivalents		
Treasury Bills	xxx	xxx
Cash in Bank-LCCA-Time Deposits	xxx	xxx
Cash in Bank- FC – Time Deposits	xxx	xxx
<b>Total Cash and Cash Equivalent</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

Cash in bank earns interest based on the prevailing bank deposit rates. Short-term deposits are made for varying periods, depending on the immediate cash requirements of the LGU and earn interest at the respective short-term deposit rate. The LGU bank balances amounting to P xxx include an amount of P xxx million which must be used on infrastructure projects.

## Note 5 - Investment

	20xx	20xx
Investments in Time Deposits		
Cash in Bank – Local Currency, Time Deposits	xxx	xxx
Cash in Bank – Foreign currency, Time Deposits	xxx	xxx
Treasury Bills	xxx	xxx
Financial Assets at Fair Value Through Surplus or Deficit		
Financial assets Held for Trading	xxx	xxx
Financial assets Designated at Fair Value Through Surplus or Deficit	xxx	xxx
Financial Assets Held to Maturity		
Investment in Treasury Bills - Local	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Investment in Bonds - Local	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Financial Assets – Available for Sale		
Investment in Stocks	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Investment in Bonds	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Financial Assets - Others		
Deposits on Letters of Credit	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Guarantee Deposits	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Other Investment	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Investment in Joint Venture		
Investment in Joint Venture	xxx	xxx
<i>Allowance for Impairment</i>	(xxx)	(xxx)
Sinking Fund	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

The reconciliation and fair value of current investments as of December 31, 20xx are as follows:

	Carrying amount	Fair Value
Financial Assets at Fair Value Through Surplus or Deficit		
Publicly traded government bonds :		
Balance as of January 1, 20xx	xxx	xxx
Additional investments made	xxx	xxx
Fair value increase	xxx	xxx
Balance as of December 31, 20xx	xxx	xxx
Additional investment made	xxx	xxx
Fair value increase	xxx	xxx
Balance as of December 31, 20xx	xxx	xxx
Held to maturity financial instruments		
Fixed deposits:		
Balance as of January 1, 20xx	xxx	xxx
Additional investments made	xxx	xxx
Interest capitalized	xxx	xxx
Balance as of December 31, 20xx	xxx	xxx
	xxx	xxx
	xxx	xxx
	xxx	xxx
	xxx	xxx

The reconciliation and fair value of non-current investments as of December 31, 20xx are as follows:

	<b>Carrying amount</b>	<b>Fair Value</b>
Financial Assets at Fair Value Through Surplus or Deficit		
Publicly traded government bonds :		
Balance as of January 1, 201X	-	-
Additional investments made	-	-
Fair value increase	-	-
Balance as of December 31, 201X	-	-
Additional investment made	xxx	xxx
Fair value increase	xxx	xxx
Balance as of December 31, 201X	xxx	xxx
Held to maturity financial instruments		
Fixed deposits:		
Balance as of January 1, 201X	-	-
Additional investments made	-	-
Interest capitalized	-	-
Balance as of December 31, 201X	xxx	xxx
Additional investments made	xxx	xxx
Interest capitalized	xxx	xxx
Balance as of December 31, 201X	xxx	xxx
	<b>20xx</b>	<b>20xx</b>
Total current investments	xxx	xxx
Total non-current investments	xxx	xxx
<b>Total investments</b>	<b>xxx</b>	<b>xxx</b>

#### Note 6 - Receivables

<b>Loans and Receivable Accounts</b>	<b>20xx</b>	<b>20xx</b>
Accounts Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Real Property Tax Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Special Education Tax Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Notes Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Loans Receivable-GOCC	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Loans Receivable - LGU	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Interest Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Dividends Receivable	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
Loans Receivable - Others	xxx	xxx
<i>Allowance for Impairment</i>	(xxx) xxx	(xxx) xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

<b>Lease Receivables</b>	<b>20xx</b>		<b>20xx</b>	
Operating Lease Receivable	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Finance Lease Receivable	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
<b>Total</b>	<b>xxx</b>		<b>xxx</b>	

<b>Inter-Agency Receivables</b>	<b>20xx</b>		<b>20xx</b>	
Due from National Government Agencies	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Due from Government Owned and Controlled Corporation	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Due from Local Government Units	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Due from Joint Ventures	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
<b>Total</b>	<b>xxx</b>		<b>xxx</b>	

<b>Intra-Agency Receivables</b>	<b>20xx</b>	<b>20xx</b>
Due from Other Funds	xxx	xxx
Due from Special Accounts	xxx	xxx
Due from Local Economic Enterprise	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

<b>Advances</b>	<b>20xx</b>	<b>20xx</b>
Advances for Operating Expenses	xxx	xxx
Advances for Payroll	xxx	xxx
Advances to Special Disbursing Officer	xxx	xxx
Advances for Officers and Employees	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

<b>Other Receivables</b>	<b>20xx</b>		<b>20xx</b>	
Receivables – Disallowances and Charges	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Due from Officers and Employees	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Due from Non-Government Organizations/ Peoples Organization	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
Other Receivables	xxx		xxx	
<i>Allowance for Impairment</i>	(xxx)	xxx	(xxx)	xxx
<b>Total</b>	<b>xxx</b>		<b>xxx</b>	

As of December 31, 20xx, loans receivables of P xxx was impaired and fully provided for.

Reconciliation of allowance for impairment of receivables:

	<b>Current Receivables</b>	<b>Non- Current Receivables</b>	<b>Total</b>
<b>Balance – January 1, 20xx</b>	xxx	xxx	xxx
Charge for the year	xxx	xxx	xxx
Utilized	(xx)	(xx)	(xx)
Unused amount reversed	xxx	-	xxx
Discount rate adjustment	xxx	-	xxx

	Current Receivables	Non- Current Receivables	Total
<b>Balance – December 31, 20xx</b>	xxx	xxx	xxx
Charge for the year	xxx	-	xxx
Utilized	(xx)	(xx)	(xx)
Unused amount reversed	(xx)	-	(xx)
<b>Balance - December 31, 20xx</b>	xxx	xxx	xxx

As at 31 December 20xx, the ageing analysis of current exchange receivables is as follows:

	Total	Neither past due or impaired	Past due but not impaired			
			<30 days	30-60 days	>60 days	
Accounts Receivable	xxx	xxx	xxx	xxx	xxx	
Real Property Tax Receivable	xxx	xxx	xxx	xxx	xxx	
Special Education Tax Receivable	xxx	xxx	xxx	xxx	xxx	
Notes Receivable	xxx	xxx	xxx	xxx	xxx	
Loans Receivable-GOCC	xxx	xxx	xxx	xxx	xxx	
Loans Receivable-LGU	xxx	xxx	xxx	xxx	xxx	
Interest Receivable	xxx	xxx	xxx	xxx	xxx	
Dividends Receivable	xxx	xxx	xxx	xxx	xxx	
Loans Receivables -Others	xxx	xxx	xxx	xxx	xxx	
Operating Lease Receivables	xxx	xxx	xxx	xxx	xxx	
Finance Lease Receivables	xxx	xxx	xxx	xxx	xxx	
Due from NGAs	xxx	xxx	xxx	xxx	xxx	
Due from GOCCs	xxx	xxx	xxx	xxx	xxx	
Due from LGUs	xxx	xxx	xxx	xxx	xxx	
Due from Joint Venture	xxx	xxx	xxx	xxx	xxx	
Receivables – Disallowances/ Charges	xxx	xxx	xxx	xxx	xxx	
Due from Officers and Employees	xxx	xxx	xxx	xxx	xxx	
Due from NGOs/POs	xxx	xxx	xxx	xxx	xxx	
Other Receivables	xxx	xxx	xxx	xxx	xxx	
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>

As at December 31, 20xx

	Total	Neither past due or impaired	Past due but not impaired			
			<30 days	30-60 days	>60 days	
Accounts Receivable	xxx	xxx	xxx	xxx	xxx	
Real Property Tax Receivable	xxx	xxx	xxx	xxx	xxx	
Special Education Tax Receivable	xxx	xxx	xxx	xxx	xxx	
Notes Receivable	xxx	xxx	xxx	xxx	xxx	
Loans Receivable-GOCC	xxx	xxx	xxx	xxx	xxx	
Loans Receivable-LGU	xxx	xxx	xxx	xxx	xxx	
Interest Receivable	xxx	xxx	xxx	xxx	xxx	
Dividends Receivable	xxx	xxx	xxx	xxx	xxx	
Loans Receivables -Others	xxx	xxx	xxx	xxx	xxx	
Operating Lease Receivables	xxx	xxx	xxx	xxx	xxx	
Finance Lease Receivables	xxx	xxx	xxx	xxx	xxx	
Due from NGAs	xxx	xxx	xxx	xxx	xxx	
Due from GOCCs	xxx	xxx	xxx	xxx	xxx	
Due from LGUs	xxx	xxx	xxx	xxx	xxx	
Due from Joint Venture	xxx	xxx	xxx	xxx	xxx	
Receivables – Disallowances/ Charges	xxx	xxx	xxx	xxx	xxx	
Due from Officers and Employees	xxx	xxx	xxx	xxx	xxx	
Due from NGOs/POs	xxx	xxx	xxx	xxx	xxx	
Other Receivables	xxx	xxx	xxx	xxx	xxx	
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>

**Note 7 – Inventories**

	<b>20xx</b>	<b>20xx</b>
<b><i>Inventory Held for Sale</i></b>		
Merchandise Inventory	xxx	xxx
<b><i>Inventory Held for Distribution</i></b>		
Food Supplies for Distribution	xxx	xxx
Welfare Goods for Distribution	xxx	xxx
Drugs and Medicines for Distribution	xxx	xxx
Medical, Dental and Laboratory Supplies for Distribution	xxx	xxx
Agricultural and Marine Supplies for Distribution	xxx	xxx
Agricultural Produce for Distribution	xxx	xxx
Textbooks and Instructional Materials for Distribution	xxx	xxx
Construction Materials for Distribution	xxx	xxx
Property and Equipment for Distribution	xxx	xxx
Other Supplies and Materials for Distribution	xxx	xxx
<b><i>Inventory Held for Manufacturing</i></b>		
Raw Materials Inventory	xxx	xxx
Work-in-Process Inventory	xxx	xxx
Finished Goods Inventory	xxx	xxx
<b><i>Inventory Held for Consumption</i></b>		
Office Supplies Inventory	xxx	xxx
Accountable Forms, Plates and Stickers	xxx	xxx
Non-Accountable Forms Inventory	xxx	xxx
Animal/Zoological Supplies Inventory	xxx	xxx
Food Supplies Inventory	xxx	xxx
Drugs and Medicines Inventory	xxx	xxx
Medical, Dental and Laboratory Supplies Inventory	xxx	xxx
Fuel, Oil and Lubricants Inventory	xxx	xxx
Agricultural and Marine Supplies Inventory	xxx	xxx
Textbooks and Instructional Materials Inventory	xxx	xxx
Military, Police and Traffic Supplies Inventory	xxx	xxx
Chemical and Filtering Supplies Inventory	xxx	xxx
Construction Materials Inventory	xxx	xxx
Other Supplies and Materials Inventory	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>

At December 31, 20xx, Pxx million (201X: Pxx million) of total inventory was carried at fair value less cost to sell.

The amount of write-down of inventories recognized as an expense is Pxx million (2014: Pxx million), which is recognized in the corresponding inventory expense account.

No inventory items were pledge as security during the current or prior financial year.

**Note 8 - Investment property**

	<b>20xx</b>	<b>20xx</b>
Investment Property -Land	xxx	xxx
Investment Property-Building	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>



## Reconciliation of Investment Property:

	<u>20xx</u>	<u>20xx</u>
Beginning Balance	xxx	xxx
Additions	xxx	xxx
Depreciation	xxx	xxx
<b>Ending Balance</b>	<u>xxx</u>	<u>xxx</u>
Rental revenue from investment property	<u>xxx</u>	<u>xxx</u>
Direct operating expenses including repairs and maintenance arising from investment property that generated rental revenue during the period	<u>xxx</u>	<u>xxx</u>
Direct operating expenses including repairs and maintenance that did not generate rental revenue during the year	<u>xxx</u>	<u>xxx</u>

The fair value of investment properties carried at cost amounted to Pxxx million (201X: P xxx million). The fair values were determined based on valuations performed by Juan dela Cruz Chartered Surveyors and Appraisals, accredited independent appraiser as at December 31, 20xx.

**Note 9 - Property, Plant and Equipment**

(see attached sheet)

The transfer and adjustment column relates to reclassifications between the different classes of assets and also to other categories of assets including inventory and intangible assets.

The LGU measured the residual value of all items of property, plant and equipment, but does not expect a residual value of these assets, because these will be utilized for their entire economic lives and do not have a significant scrap value. During the current financial year, the LGU reviewed the estimated useful lives and residual values of property, plant and equipment, where appropriate.

Fully depreciated assets at an original cost of Pxxx million (201X: P xx million) are still in use and which the LGU plan to donate to non-profit organizations in the ensuing years.

**Note 10 – Biological Assets**

	<u>20xx</u>	<u>20xx</u>
Breeding Stocks	xxx	xxx
Livestock	xxx	xxx
Trees, Plant and Crops	xxx	xxx
Aquaculture	xxx	xxx
Other Bearer Biological Assets	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

The above balances are stated in net recoverable value. Write downs were treated as expense in the current year.

**Note 11 – Liabilities**

<i>Financial Liabilities</i>	<u>20xx</u>	<u>20xx</u>
Accounts Payable	xxx	xxx
Due to Officers and Employees	xxx	xxx
Notes Payable	xxx	xxx

<i>Financial Liabilities</i>	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Interest Payable	xxx	xxx
Operating Lease Payable	xxx	xxx
Finance Lease Payable	xxx	xxx
Awards and Rewards Payable	xxx	xxx
Other Payables	xxx	xxx
Bonds Payable	xxx	xxx
<i>Discount on Bonds Payable- Domestic</i>	(xxx)	(xxx)
<i>Premium on Bonds Payable- Domestic</i>	(xxx)	(xxx)
Bonds Payable - Foreign	xxx	xxx
<i>Discount on Bonds Payable-Foreign</i>	(xxx)	(xxx)
<i>Premium on Bonds Payable- Foreign</i>	(xxx)	(xxx)
Loans Payable - Domestic	xxx	xxx
Loans Payable - Foreign	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

Trade payables are non-interest bearing and are normally settled on 60-day terms. Other payables are non-interest bearing and have an average term of six months. Interest payable is normally settled quarterly throughout the financial year.

<i>Inter-Agency Payables</i>	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Due to BIR	xxx	xxx
Due to GSIS	xxx	xxx
Due to Pag-IBIG	xxx	xxx
Due to PhilHealth	xxx	xxx
Due to NGAs	xxx	xxx
Due to GOCCs	xxx	xxx
Due to LGUs	xxx	xxx
Due to Joint Venture	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

The first four inter-agency accounts represents the amount deducted from the salaries of officials and employees and is remitted to the respective government agencies immediately on the month following deduction. While the remaining accounts represents balances of funds received by the LGU for specific purposes.

Transfers from other government agencies represent those funds received for specific projects undertaken by the LGU for specific purpose. These funds were received on the basis of the project budgets submitted. Accordingly, the LGU is contractually bound to spend these funds only in connection with the projects. Furthermore, the contracts stipulate that the funds received for the project may only be applied to the costs incurred for the project, as and when the phases of the project are certified as complete. The conditions remaining therefore represent phases of the projects that are yet to be certified as complete. Return of the unspent portion of the fund is subject to the conditions stated in the respective Memorandum of Agreements executed between the LGU and the proponent government agencies.

<i>Trust Liabilities</i>	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Trust Liabilities	xxx	xxx
Trust Liabilities- Disaster Risk Reduction and Management Fund	xxx	xxx
Bail Bonds Payable	xxx	xxx
Guarantee/Security/Deposits Payable	xxx	xxx
Customers' Deposits Payable	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

<b><i>Deferred Credits/Unearned Income</i></b>	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Deferred Credits		
Deferred Real Property Tax	xxx	xxx
Deferred Special Education Tax	xxx	xxx
Deferred Finance Lease Revenue	xxx	xxx
Deferred Service Concession Revenue	xxx	xxx
Unearned revenue-Investment Property	xxx	xxx
Other Deferred Credits	xxx	xxx
Unearned Revenue – Investment Property	xxx	xxx
Other Unearned Revenue	xxx	xxx
<b>Total</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

**Note 12 - Provisions**

<b><i>Provisions</i></b>	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Termination Benefits	xxx	xxx
Other Provisions	xxx	xxx
<b>Total</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

<b>Current provision</b>	<b>Leave Benefits</b>		<b>Performance Based-Bonus</b>	<b>Total</b>
	<b>SL</b>	<b>VL</b>		
Balance at the beginning of the year	-	-	-	-
Additional Provisions	xxx	xxx	xxx	xxx
Provisions utilized	xxx	xxx	xxx	xxx
<b>Balance as of December 31, 20xx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>

**Note 13– Other Payables**

	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Other Payables	xxx	xxx
<b>Total</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

**Note 14- Government Equity**

	<b><u>20xx</u></b>	<b><u>20xx</u></b>
<b>Cash Available for Appropriations/(Deficit)</b>		
Cash	xxx	xxx
Investments	xxx	xxx
Total	xxx	xxx
Less: Current Liabilities		
Financial Liabilities	xxx	xxx
Inter-Agency Payables	xxx	xxx
Intra-Agency Payables		
(Net of Due from Other Funds)	xxx	xxx
Trust Liabilities	xxx	xxx
Deferred Credits (Net of		
Deferred RPT/SET Income		
Accounts)/Unearned Income	xxx	xxx
Provisions	xxx	xxx
Other Payables	xxx	xxx
Total current liabilities	xxx	xxx

	<u>20xx</u>	<u>20xx</u>
Cash Balance/(Overdraft)	<u>xxx</u>	<u>xxx</u>
Less: Fund Balance for Cont. Approp & Commitments		
Continuing Appropriations	xxx	xxx
Continuing Allotments	xxx	xxx
Commitments	<u>xxx</u>	<u>xxx</u>
Total	<u>xxx</u>	<u>xxx</u>
<b>Cash Available for Operations (Deficit)</b>	<u>xxx</u>	<u>xxx</u>
<b>Fund Balance:</b>		
Unappropriated Surplus	xxx	xxx
Continuing Appropriations	xxx	xxx
Continuing Allotments	xxx	xxx
Commitments	xxx	xxx
<b>Total Fund Balance</b>	<u>xxx</u>	<u>xxx</u>
<b>Net Other Current Assets</b>		
Receivables (Net of Deferred RPT, SET Income and Due to Other Funds accounts)	xxx	xxx
Inventories	xxx	xxx
Prepayments and Deferred Charges	xxx	xxx
<b>Total Net Current Assets</b>	<u>xxx</u>	<u>xxx</u>
<b>NET NON-CURRENT ASSETS</b>		
Investments and PPE (Net of Accumulated Depreciation and Non-Current Liabilities)		
Investments	xxx	xxx
Property, Plant and Equipment (Net of Acc. Depreciation)	xxx	xxx
Total	xxx	xxx
Less: Non-Current Liabilities	xxx	xxx
Intangible Assets	xxx	xxx
<b>Total Net Non- Current Assets</b>	<u>xxx</u>	<u>xxx</u>
<b>GOVERNMENT EQUITY</b>	<u>xxx</u>	<u>xxx</u>

**Note 15 – Tax Revenue**

	<u>20xx</u>	<u>20xx</u>
<b><i>Tax Revenue – Individual and Corporation</i></b>		
Professional Tax	xxx	xxx
Community tax	xxx	xxx
<b><i>Tax Revenue-Property</i></b>		
Real Property Tax - Basic	xxx	xxx
<i>Discount on Real Property Tax -Basic</i>	xxx	xxx
Special Education Tax	xxx	xxx
<i>Discount on Special Education Tax</i>	xxx	xxx
Special Levy on Idle Lands	xxx	xxx
Special Levy on Lands Benefited by Public Works Projects	xxx	xxx
Real Property Transfer Tax	xxx	xxx
<b><i>Tax Revenue-Goods and Services</i></b>		
Business Tax	xxx	xxx
Tax on Sand, Gravel and Other Quarry	xxx	xxx

	<u>20xx</u>	<u>20xx</u>
Tax on Delivery trucks and Vans	xxx	xxx
Amusement Tax	xxx	xxx
Franchise Tax	xxx	xxx
Printing and Publication Tax	xxx	xxx
<b><i>Tax Revenue-Others</i></b>		
Other Taxes	xxx	xxx
<b><i>Tax Revenue – Fines and Penalties</i></b>		
Tax Revenue – Fines and Penalties Taxes on Individual and Corporations	xxx	xxx
Tax Revenue – Fines and Penalties-Property Taxes	xxx	xxx
Tax Revenue –Fines and Penalties – Taxes on Goods and Services	xxx	xxx
Tax revenue –Fines and Penalties – Other Taxes	xxx	xxx
<b><i>Share from National Taxes</i></b>		
Share Internal Revenue Collection	xxx	xxx
Share from Expanded Value Added Tax	xxx	xxx
Share from National Wealth	xxx	xxx
Share from Tobacco Excise Tax	xxx	xxx
Share from Economic Zone	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

**Note 16– Service and Business Income**

	<u>20xx</u>	<u>20xx</u>
<b><i>Service Income</i></b>		
Permit Fees	xxx	xxx
Registration Fees	xxx	xxx
Registration Plates, Tags and Sticker Fees		
Clearance and Certificate Fees	xxx	xxx
Supervision and Regulation Enforcement Fees	xxx	xxx
Inspection Fees	xxx	xxx
Verification and Authentication Fees	xxx	xxx
Processing Fees	xxx	xxx
Occupation Fees	xxx	xxx
Fishery Rental Fees	xxx	xxx
Fees for Sealing and Licensing of Weights and Measures	xxx	xxx
Fines and Penalties-Service Income	xxx	xxx
Other Service Income	xxx	xxx
<b><i>Business Income</i></b>		
School Fees	xxx	xxx
Affiliation Fees	xxx	xxx
Seminar/Training Fees	xxx	xxx
Rent/Lease Income	xxx	xxx
Communication Network Fees	xxx	xxx
Transportation System Fees	xxx	xxx
Road Network Fees	xxx	xxx
Waterworks System Fees	xxx	xxx
Power Supply System Fees	xxx	xxx
Seaport System Fees	xxx	xxx
Parking Fees	xxx	xxx
Receipts from Operation of Hostels/Dormitories and Other	xxx	xxx
Receipt from Market Operations	xxx	xxx
Receipt from Slaughterhouse Operation	xxx	xxx
Receipt from Cemetery Operations	xxx	xxx
Receipt from Printing and Publication	xxx	xxx
Sales Revenue	xxx	xxx
<i>Sales Discounts</i>	xxx	xxx

	<u>20xx</u>	<u>20xx</u>
Garbage Fees	xxx	xxx
Hospital Fees	xxx	xxx
Dividend Income	xxx	xxx
Interest Income	xxx	xxx
Service Concession Revenue	xxx	xxx
Other Service Concession Revenue	xxx	xxx
Finance Lease Revenue	xxx	xxx
Share in the Profit of Joint Venture	xxx	xxx
Fines and Penalties - Business Income	xxx	xxx
Other Business Income	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 17 – Transfers and Subsidy**

	<u>20xx</u>	<u>20xx</u>
<b><i>Transfers and Subsidy</i></b>		
Subsidy from National Government	xxx	xxx
Subsidy from Local Government Units	xxx	xxx
Subsidy from Government-Owned and/or Controlled Corporations	xxx	xxx
Subsidy from Other Funds	xxx	xxx
Subsidy from General Fund Proper/Other Special Accounts	xxx	xxx
Subsidy from Other Local Economic Enterprise	xxx	xxx
<b><i>Transfers</i></b>		
Transfers from General Fund of LGU Counterpart/Equity Share	xxx	xxx
Transfers from General Fund of Unspent DRRMF	xxx	xxx
Transfers from National Governments	xxx	xxx
Transfers from Other Local Government Units	xxx	xxx
Transfers from Government-Owned and/or Controlled Corporations	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 18– Share, Grants and Donation**

	<u>20xx</u>	<u>20xx</u>
<b><i>Share</i></b>		
Share from PAGCOR	xxx	xxx
Share from PCSO	xxx	xxx
<b><i>Grants and Donation</i></b>		
Grants and Donations in Cash	xxx	xxx
Grants and Donations in Kind	xxx	xxx
Grants from Concessionary Loans	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 19 – Gains**

	<u>20xx</u>	<u>20xx</u>
<b><i>Gains</i></b>		
Gain from Changes in Fair Value of Financial Instruments		
Gain on Foreign Exchange (FOREX)	xxx	xxx
Gain on Sale of Investments	xxx	xxx
Gain on Sale of Investment Property	xxx	xxx
Gain on Sale of Property, Plant and Equipment	xxx	xxx
Gain on Initial Recognition of Biological assets	xxx	xxx
Gain on Sale of Biological Assets	xxx	xxx
Gain from Changes in Fair Value less Cost to Sell of Biological Assets due to Physical Change	xxx	xxx
Gain from Changes in Fair Value less Cost to Sell of	xxx	xxx

	<u>20xx</u>	<u>20xx</u>
Biological Assets due to Price Change		
Gain from Initial Recognition of Agricultural Produce	xxx	xxx
Gain on Sale of Intangible Assets	xxx	xxx
Reversal of Impairment Losses	xxx	xxx
Other Gains	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 20 - Employee Costs**

	<u>20xx</u>	<u>20xx</u>
<b><i>Personnel Services</i></b>		
Salaries and Wages – Regular	xxx	xxx
Salaries and Wages- Casual/Contractual	xxx	xxx
<b><i>Other Compensation</i></b>	xxx	xxx
Personal Economic Relief allowance	xxx	xxx
Representation Allowance	xxx	xxx
Transportation Allowance	xxx	xxx
Clothing/Uniform Allowance	xxx	xxx
Subsistence Allowance	xxx	xxx
Laundry Allowance	xxx	xxx
Quarters Allowance	xxx	xxx
Productivity Incentive Allowance	xxx	xxx
Overseas Allowance	xxx	xxx
Honoraria	xxx	xxx
Hazard Pay	xxx	xxx
Longevity Pay	xxx	xxx
Overtime and Night Pay	xxx	xxx
Year-End Bonus	xxx	xxx
Cash Gift	xxx	xxx
Other Bonuses and Allowances	xxx	xxx
<b><i>Personnel Benefit Contribution</i></b>		
Retirement and Life Insurance Premiums	xxx	xxx
Pag-IBIG Contribution	xxx	xxx
PhilHealth Contribution	xxx	xxx
Employees Compensation Insurance Premiums	xxx	xxx
Provident/Welfare fund Contributions	xxx	xxx
<b><i>Other Personnel Benefit</i></b>		
Pension Benefit	xxx	xxx
Retirement Gratuity	xxx	xxx
Terminal Leave Benefits	xxx	xxx
Other Personnel Benefits	<u>xxx</u>	<u>xxx</u>
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 21 – Remuneration of Key Management Personnel**

The key management personnel are the local elected officials and the department heads. The aggregate remuneration within this category are:

Category	No. of persons	Aggregate Remuneration
Local elected officials	xx	xxx
Department Heads	xx	xxx

**Note 22 - Maintenance and Other Operating expenses**

	<b><u>20xx</u></b>	<b><u>20xx</u></b>
<b><i>Traveling Expenses</i></b>		
Traveling Expenses - Local	xxx	xxx
Traveling Expenses- Foreign	xxx	xxx
<b><i>Training and Scholarship Expenses</i></b>		
Training Expenses	xxx	xxx
Scholarship/Grants/Expenses	xxx	xxx
<b><i>Supplies and Material Expenses</i></b>		
Office Supplies Expense	xxx	xxx
Accountable Forms Expense	xxx	xxx
Non-Accountable Forms Expenses	xxx	xxx
Animal/Zoological Expenses	xxx	xxx
Food Supplies Expense	xxx	xxx
Welfare Goods Expenses	xxx	xxx
Drugs and Medicines Expenses	xxx	xxx
Medical, Dental and Laboratory Supplies Expenses	xxx	xxx
Fuel, Oil and Lubricant Expenses	xxx	xxx
Agriculture and Marine Supplies Expenses	xxx	xxx
Textbooks and Instructional Materials Expenses	xxx	xxx
Military, Police and Traffic Supplies Expenses	xxx	xxx
Chemical and Filtering Supplies Expenses	xxx	xxx
Other Supplies and Material Expenses	xxx	xxx
<b><i>Utility Expenses</i></b>		
Water Expenses	xxx	xxx
Electricity Expenses	xxx	xxx
<b><i>Communication Expenses</i></b>		
Postage and Courier Services	xxx	xxx
Telephone Expenses	xxx	xxx
Internet subscription Expenses	xxx	xxx
Cable, Satellite, Telegraph and Radio Expenses	xxx	xxx
<b><i>Awards/Rewards and Prices</i></b>		
Awards/Rewards Expenses	xxx	xxx
Prizes	xxx	xxx
<b><i>Survey, Research, Exploration and Development Expenses</i></b>		
Survey Expenses	xxx	xxx
Research, Exploration and Development Expenses	xxx	xxx
<b><i>Demolition/Relocation and Desilting/Dredging Expenses</i></b>		
Demolition and Relocation Expenses	xxx	xxx
Desilting and Dredging Expenses	xxx	xxx
<b><i>Generation, Transmission and Distribution Expenses</i></b>		
Generation, Transmission and Distribution Expenses	xxx	xxx
<b><i>Confidential, Intelligence and Extraordinary Expenses</i></b>		
Confidential Expenses	xxx	xxx
Intelligence Expenses	xxx	xxx
Extraordinary and Miscellaneous Expenses	xxx	xxx
<b>Total</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>

**Note 22 – Professional Services**

	<b><u>20xx</u></b>	<b><u>20xx</u></b>
Legal Services	xxx	xxx
Auditing Services	xxx	xxx
Consultancy Services	xxx	xxx
Other Professional Services	xxx	xxx
<b>Total</b>	<b><u>xxx</u></b>	<b><u>xxx</u></b>



**Note 23 – General Services**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Environmental /Sanitary Services	xxx	xxx
Janitorial Services	xxx	xxx
Security Services	xxx	xxx
Other General Services	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 24 – Repairs and Maintenance**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Repairs and Maintenance - Investment Property	xxx	xxx
Repairs and Maintenance - Land Improvements	xxx	xxx
Repairs and Maintenance - Infrastructure Assets	xxx	xxx
Repairs and Maintenance - Buildings and Other Structure	xxx	xxx
Repairs and Maintenance - Machinery and Equipment	xxx	xxx
Repairs and Maintenance - Transportation Equipment	xxx	xxx
Repairs and Maintenance - Furniture and Fixtures	xxx	xxx
Repairs and Maintenance - Leased Assets	xxx	xxx
Repairs and Maintenance - Leased Assets Improvements	xxx	xxx
Repairs and Maintenance - Other Property, Plant and Equipment	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 25 - Financial Assistance/Subsidy**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Subsidy to NGAs	xxx	xxx
Subsidy to Local Government Units	xxx	xxx
Subsidy to Other Funds	xxx	xxx
Subsidy to General Fund Proper/Special Accounts	xxx	xxx
Subsidy to Local Economic Enterprises	xxx	xxx
Subsidies - Others	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 26 - Transfers**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Transfers of Unspent Current Year DRRM Funds to the Trust Funds	xxx	xxx
Transfers for Project Equity Share/LGU Counterpart	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 27 - Taxes, Insurance Premiums and Other Fees**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Taxes, Duties and Licenses	xxx	xxx
Fidelity Bond Premiums	xxx	xxx
Insurance Expenses	xxx	xxx
<b>Total</b>	<u><b>xxx</b></u>	<u><b>xxx</b></u>

**Note 28 – Other Maintenance and Operating Expenses**

	<u><b>20xx</b></u>	<u><b>20xx</b></u>
Advertising Expenses	xxx	xxx
Printing and Publication Expenses	xxx	xxx
Representation Expenses	xxx	xxx
Transportation and Delivery Expenses	xxx	xxx
Rent Expenses	xxx	xxx

	<u>20xx</u>	<u>20xx</u>
Membership Dues and Contributions to Organizations	xxx	xxx
Subscription Expenses	xxx	xxx
Donations	xxx	xxx
Other Maintenance and Operating Expenses	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

**Note 29 - Financial Expenses**

	<u>20xx</u>	<u>20xx</u>
Management Supervision/Trusteeship Fees	xxx	xxx
Interest Expenses		
Guarantee Fees	xxx	xxx
Bank Charges	xxx	xxx
Commitment Fees	xxx	xxx
Other Financial Charges	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>
<i>Cost of Sales</i>		
Cost of Sales	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

**Note 30 – Non-Cash Expenses**

	<u>20xx</u>	<u>20xx</u>
<i>Depreciation and Amortization</i>		
Depreciation - Investment Property	xxx	xxx
Depreciation - Land Improvements	xxx	xxx
Depreciation - Infrastructure Assets	xxx	xxx
Depreciation - Buildings and Other Structure	xxx	xxx
Depreciation - Machinery and Equipment	xxx	xxx
Depreciation - Transportation Equipment	xxx	xxx
Depreciation - Furniture, Fixtures and Book	xxx	xxx
Depreciation - Leased Assets	xxx	xxx
Depreciation - Leased Assets Improvements	xxx	xxx
Depreciation - Service Concession Assets	xxx	xxx
Depreciation - Other Property, Plant and Equipment	xxx	xxx
Amortization - Intangible Assets	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

**Note 31 – Impairment Loss**

	<u>20xx</u>	<u>20xx</u>
Impairment Loss-Financial Assets Held to Maturity	xxx	xxx
Impairment Loss-Loans and Receivables	xxx	xxx
Impairment Loss-Lease Receivable	xxx	xxx
Impairment Loss-Investment in GOCCs	xxx	xxx
Impairment Loss-Investment in Joint Venture	xxx	xxx
Impairment Loss-Other Receivables	xxx	xxx
Impairment Loss-Investment Property	xxx	xxx
Impairment Loss-Property, Plant and Equipment	xxx	xxx
Impairment Loss-Intangible Assets	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

In the determination of the amount of the impairment loss, the LGU considered the following to establish the recoverable amount

**a. Value in use**

The LGU has used the following key assumptions in preparing the cash flow forecast:

	<u>20xx</u>	<u>20xx</u>
Inflation	6%	6%
Growth Rate	6%	6%
Discount Rate	5%	5%

The inflation assumption made was based on forecasted inflation figures prepared by the Department of Finance and the Central Bank of the Philippines. The growth rate was based on the long-term average growth rate for services and the public sector in which the LGU operates.

For cash generating assets the projected cash flow is for a period of three years and was based on the most reliable information available to management at 31 December 2015.

The LGU holds both cash-generating and non-cash-generating assets. The impairments recognized relate only to the cash-generating assets. No impairments were identified on the non-cash-generating assets.

**b. Fair value less cost to sell**

The fair value less cost to sell was based on the trade-in/resale value of the assets in the open market. For the vehicles, land and buildings that were impaired, an active market exists for the resale of these assets. The fair value less cost to sell was based on the values attainable from the resale of the assets in the open market. These values take into consideration the age and condition of the assets and is supported by past experience in the resale of vehicles, land and buildings in the open market.

Due to their nature, there is no active market for infrastructure assets, community assets, plant and equipment. As such, the recoverable amount of these assets is their value in use.

Events that lead to the recognition of impairment losses.

As part of the annual assessment of assets, it was noted that the condition and performance of certain assets deteriorated to such extent that they required greater-than-anticipated maintenance.

**Note 32 - Losses**

	<u>20xx</u>	<u>20xx</u>
Loss on Foreign Exchange (FOREX)	xxx	xxx
Loss on Sale of Investments	xxx	xxx
Loss on Sale of Investment Property	xxx	xxx
Loss on Sale of Property, Plant and Equipment	xxx	xxx
Loss on Sale of Biological Assets	xxx	xxx
Loss on Sale of Intangible Assets	xxx	xxx
Loss on Sale of Assets	xxx	xxx
Loss on Initial Recognition of Biological Assets	xxx	xxx
Loss of Assets	xxx	xxx
Loss on Guaranty	xxx	xxx
Loss from changes in Fair Value of Financial Instruments	xxx	xxx
Other Losses	xxx	xxx
<b>Total</b>	<u>xxx</u>	<u>xxx</u>

**Note 33 - Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)**

(in thousands of currency units)	<u>20xx</u>	<u>20xx</u>
Surplus/(Deficit)	xxx	xxx
Non-cash transactions		
Depreciation	xxx	xxx
Amortization of Intangible Assets	xxx	xxx
Impairment Loss	xxx	xxx
Increase in payables	xxx	xxx
(Gains) Losses on Sale of PPE	xxx	xxx
(Gains) Losses on Sale of Investments	xxx	xxx
Increase in current assets	(xxx)	(xxx)
Increase in investments due to revaluation	(xxx)	(xxx)
Increase in receivables	(xxx)	(xxx)
<b>Net Cash from Operating Activities</b>	<u>xxx</u>	<u>xxx</u>

**Note 34 - Reconciliation between actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual amounts and in the Statement of Financial Performance for the Year Ended December 31, 20xx**

	Income	Personnel Services	MOOE	Financial Expenses	Capital Outlay
Comparison Statement of Budget and Actual	xxx	xxx	xxx	xxx	xxx
Entity Differences	-	-	-	-	-
Basis Differences:					
Income not considered budgetary items					
Non-cash income	xxx	-	-	-	
Gain on Sale of Assets					
Receipts not considered as income		-	-	-	
Sale of capital assets	(xxx)	-	-	-	
Borrowings	(xxx)	-	-	-	
Non-cash expenses:					
Depreciation	-	-	xxx	-	
Amortization – Intangible Assets	-	-	xxx	-	
Impairment Loss	-	-	xxx	-	
Losses		-	xxx	-	
Debt Service (Loan Amortization, Retirement of Debt Instruments)		-		(xxx)	
Interest Expenses capitalized				(xxx)	
Capital Expenditures	-	-	-		(xxx)
Timing Differences:	-	-	-		
Prepayments charged to current appropriations	-	-	(xxx)		
Unconsumed Inventories charged to current appropriations	-	-	(xxx)		
Consumed Inventories and deferred charges charged to prior period appropriations			xxx		
<b>Per Statement of Financial Performance</b>	xxx	xxx	xxx	xxx	-

The allotted budget and actual amounts utilized for Senior Citizens and Persons with Disabilities (PWD) as well as for those related to Gender and Development (GAD) activities are streamlined with the regular programs and activities of the LGU.

**Note 35 – Local Disaster Risk Reduction and Management Fund**

The LDRRMF represents the amount set aside by the LGU to support its disaster risk management activities pursuant to R.A. No. 10121 otherwise known as the Philippine Disaster Risk Reduction and Management Act of 2010. The amount available for utilization totaled to Pxxx, broken down as follows:

<b>Particulars</b>	<b>Available</b>	<b>Utilized</b>	<b>Balance</b>
Current Years' Appropriation:			
Quick Response Fund (QRF)	xxx	xxx	xxx
Mitigation Fund (MF)			
MOOE	xxx	xxx	xxx
CO	xxx	xxx	xxx
	xxx	xxx	xxx
Continuing Appropriation			
Special Trust Fund – 20xx	xxx	xxx	xxx
Special Trust Fund – 20xx	xxx	-	xxx
Special Trust Fund – 20xx	xxx	-	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>

## Note 9- Property, Plant and Equipment

## Depreciation and Impairment

Property, Plant and Equipment	January 1, 20xx					December 31, 20xx						December 31, 20xx		
	Depreciation	Impairment	Depreciation	Impairment	Disposal	Depreciation	Impairment	Net Book Value	Depreciation	Impairment	Disposal	Depreciation	Impairment	Net Book Value
<b>Investment Property, Land and Buildings</b>														
Investment Property, Land		(xxx)		(xxx)			(xxx)	xxx		(xxx)			(xxx)	xxx
Investment Property- Buildings	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Construction in Progress-Investment Property, Buildings	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Land</b>														
Land		(xxx)		(xxx)			(xxx)	xxx		(xxx)			(xxx)	xxx
<b>Land Improvements</b>														
Land Improvements	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Other Land Improvements	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Infrastructure Projects</b>														
Road Networks	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Flood Control Systems	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Sewer Systems	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Water Supply Systems	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Power Supply Systems	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Communications Networks	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Seaport Systems	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Airports System	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Parks, Plaza and Monuments	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Other Infrastructure Assets	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Buildings and other Structures</b>														
Buildings	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
School Buildings	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Hospitals and Health Centers	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	xxx
Markets	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Slaughter Houses	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Hostels and Dormitories	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Other Structures	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Machinery and Equipment</b>														
Machinery	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx

*Note 9- Property, Plant and Equipment*

[illegible]

## Note 9- Property, Plant and Equipment

Property, Plant and Equipment	January 1, 20xx					December 31, 20xx						December 31, 20xx		
	Depreciation	Impairment	Depreciation	Impairment	Disposal	Depreciation	Impairment	Net Book Value	Depreciation	Impairment	Disposal	Depreciation	Impairment	Net Book Value
Leased Assets Improvement-Land	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Leased Assets Improvements-Buildings	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Other Leased Assets Improvements	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Service Concession Assets</b>														
Service Concession Assets	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Other Property, Plant and Equipment</b>														
Work/Zoo Animals	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
Other Property, Plant and Equipment	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Intangible Assets</b>														
Patents/Copyrights	(xxx)*	(xxx)	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx
Computer Software	(xxx)*	(xxx)	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx
Other Intangible Assets	(xxx)*	(xxx)	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx	(xxx)*	(xxx)		(xxx)*	(xxx)	xxx
<b>Service Concession Assets</b>														
Service Concession Assets-Intangible Assets	(xxx)	(xxx)	(xxx)	(xxx)		(xxx)	(xxx)	xxx	(xxx)	(xxx)		(xxx)	(xxx)	xxx
<b>Total</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>(xxx)</b>		<b>(xxx)</b>	<b>(xxx)</b>	<b>xxx</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>(xxx)</b>	<b>xxx</b>

\*Amortization



## Note 9- Property, Plant and Equipment

Property, Plant and Equipment									
Property, Plant and Equipment	January 1, 20xx	Additions	Disposals	Transfers/ Adjustments	December 31, 2014	Additions	Disposals	Transfers/ Adjustments	December 31, 20xx
<b>Investment Property, Land and Buildings</b>									
Investment Property, Land	xxx				xxx			xxx	xxx
Investment Property- Buildings	xxx	xxx		xxx	xxx				xxx
Construction in Progress-Investment Property, Buildings	xxx				xxx				xxx
<b>Land</b>									
Land	xxx				xxx			(xxx)	xxx
<b>Land Improvements</b>									
Land Improvements	xxx				xxx	xxx			xxx
Other Land Improvements	xxx	xxx			xxx				xxx
<b>Infrastructure Projects</b>									
Road Networks	xxx	xxx			xxx				xxx
Flood Control Systems	xxx	xxx			xxx	xxx			xxx
Sewer Systems	xxx				xxx				xxx
Water Supply Systems	xxx				xxx				xxx
Power Supply Systems	xxx				xxx				xxx
Communications Networks	xxx	xxx			xxx				xxx
Seaport Systems	xxx				xxx				xxx
Airports System	xxx				xxx				xxx
Parks, Plaza and Monuments	xxx				xxx				xxx
Other Infrastructure Assets	xxx	xxx			xxx				xxx
<b>Buildings and other Structures</b>									
Buildings	xxx	xxx		(xxx)	xxx				xxx
School Buildings	xxx	xxx	(xxx)		xxx				xxx
Hospitals and Health Centers	xxx				xxx	xxx	(xxx)		xxx
Markets	xxx				xxx				xxx
Slaughter Houses	xxx				xxx				xxx
Hostels and Dormitories	xxx				xxx				xxx
Other Structures	xxx	xxx	(xxx)		xxx	xxx			xxx
<b>Machinery and Equipment</b>									
Machinery	xxx				xxx				xxx
Office Equipment	xxx	xxx	(xxx)		xxx	xxx	(xxx)		xxx
Information and Communication Technology Equipment	xxx	xxx			xxx				xxx
Agriculture and Forestry Equipment	xxx				xxx				xxx
Marine and Fishery Equipment	xxx				xxx				xxx
Airport Equipment	xxx				xxx				xxx
Communications Equipment	xxx	xxx			xxx				xxx
Construction and Heavy Equipment	xxx				xxx				xxx
Disaster Response and Rescue Equipment	xxx	xxx			xxx	xxx			xxx
Military, Police and Security Equipment	xxx	xxx			xxx				xxx
Medical Equipment	xxx		(xxx)		xxx	xxx			xxx

## Note 9- Property, Plant and Equipment

Property, Plant and Equipment									
Property, Plant and Equipment	January 1, 20xx	Additions	Disposals	Transfers/ Adjustments	December 31, 2014	Additions	Disposals	Transfers/ Adjustments	December 31, 20xx
Printing Equipment	xxx				xxx				xxx
Sports Equipment	xxx				xxx				xxx
Technical and Scientific Equipment	xxx	xxx			xxx		(xxx)		xxx
Other Machinery And Equipment	xxx				xxx				xxx
<b>Transportation Equipment</b>									
Motor Vehicles	xxx	xxx			xxx	xxx	(xxx)		xxx
Trains	xxx				xxx				xxx
Aircrafts and Aircrafts Ground Equipment	xxx				xxx				xxx
Watercrafts	xxx	xxx			xxx				xxx
Other Transportation Equipment	xxx	xxx			xxx		(xxx)		xxx
<b>Furniture, Fixtures and Books</b>									
Furniture and Fixtures	xxx				xxx	xxx	(xxx)		xxx
Books	xxx				xxx	xxx			xxx
<b>Leased Assets</b>									
Leased Assets-Land	xxx				xxx				xxx
Leased Assets-Buildings and Structures	xxx	xxx			xxx				xxx
Leased Assets- Machinery and Equipment	xxx				xxx				xxx
Leased Assets- Transportation Equipment	xxx				xxx				xxx
Other Leased Assets	xxx				xxx				xxx
<b>Leased Assets Improvements</b>									
Leased Assets Improvement-Land	xxx				xxx				xxx
Leased Assets Improvements-Buildings	xxx	xxx			xxx				xxx
Other Leased Assets Improvements	xxx				xxx				xxx
<b>Construction in Progress</b>									
Construction in Progress-Land Improvements	xxx	xxx			xxx	xxx		xxx	xxx
Construction in Progress – Infrastructure Assets	xxx	xxx			xxx	xxx		xxx	xxx
Construction in Progress-Buildings and Other Structures	xxx	xxx			xxx	xxx			xxx
Construction in Progress -Leased Assets	xxx	xxx			xxx	xxx			xxx
Construction in Progress- Leased Assets Improvements	xxx	xxx			xxx	xxx			xxx
<b>Service Concession Assets</b>									
Service Concession Assets	xxx				xxx				xxx
<b>Other Property, Plant and Equipment</b>									
Work/Zoo Animals	xxx				xxx				xxx
Other Property, Plant and Equipment	xxx				xxx				xxx
<b>Biological Assets</b>									
Breeding Stocks	xxx		(xxx)		xxx	xxx	(xxx)		xxx
Plants and Trees	xxx		(xxx)		xxx	xxx			xxx
Aquaculture	xxx				xxx				xxx
Other Bearer Biological Assets	xxx				xxx				xxx
<b>Intangible Assets</b>									
Patents/Copyrights	xxx				xxx				xxx

## Note 9- Property, Plant and Equipment

Property, Plant and Equipment									
Property, Plant and Equipment	January 1, 20xx	Additions	Disposals	Transfers/ Adjustments	December 31, 2014	Additions	Disposals	Transfers/ Adjustments	December 31, 20xx
Computer Software	xxx				xxx				xxx
Other Intangible Assets	xxx				xxx				xxx
<b>Service Concession Assets</b>									
Service Concession Assets-Intangible Assets	xxx				xxx				xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>	<b>(xxx)</b>	<b>xxx</b>	<b>xxx</b>	<b>xxx</b>	<b>(xxx)</b>	<b>xxx</b>	<b>xxx</b>