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REVIEW ARTICLE

EVOLUTION, IMPLEMENTATION AND EFFECTS OF INTERNATIONAL ACCOUNTING STANDARDS IN THE PHILIPPINES

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ABSTRACT

This paper discussed the Evolution, Implementation and Effects of International Accounting Standards in the Philippines. Rules and standards governing the accountancy profession in the Philippines is under R.A 9298. Philippines Accounting Standards and Practices were based on the established Generally Accepted Accounting Practices initiated by the United States. In 2005, country decided to shift to European accounting standards better known as International Financial Reporting Standards. The main reason in shifting to the European accounting standards was the inaccurate financial information associated in the Asian crisis, adversely affected entities' business decisions. Implementation of the new accounting standards emphasizes accuracy, transparency in financial reporting. This paper will be useful to underdeveloped and developing countries that are challenged to adapt financial accounting standards, therefore assisting them in analyzing financial statements for better business decisions. Complex market and financial environment can be easier and transparent. Cost effective financial statements will help them to more accurate comprehensive decisions affecting the countries developing economic growth.

KEYWORDS

International Accounting Standards, International Financial Reporting Standards, R.A 9298, financial reporting, financial statements

1. INTRODUCTION

Accounting is a system that measures business activities, processes information into reports and communicates the results to decision makers. Without accounting, businesses could not function optimally; they would not know where they stand financially, whether they are making a profit or not, and they would not even know their financial situation. The evolution of accounting happened in ancient time, dated 8,500 B.C., Mesopotamia now called Iraq, China, Babylonia, Greece and Egypt. They have their own ways of recording wages and taxes that is one of the vital components of our modern accounting. Luca Pacioli, a Franciscan friar and the father of modern accounting, plays a significant role in the development of accounting, He introduced the idea of double entry bookkeeping that is still presently used in modern accounting [1].

Accounting evolves through time and becomes a significant instrument in business world, but like any other professions, accounting profession is governed by its own Implementing Rules and Regulations (IRR). The rule and standards governing the accountancy profession in the Philippines is under Republic Act 9298, or the Accountancy Act of 2004. Historically, Philippine Accounting Standards, rules and practices were based on the established Generally Accepted Accounting Practices (GAAP) initiated by the United States, but in year 2005, the country decided to shift to European accounting standards. In the Philippines, implementation of these standards is under the Philippine Financial Reporting Standards (PFRS) which is the local version of International Financial Reporting Standards (IFRS). Financial crisis in year 1997, which adversely affected entities' decision making is the main reason for shifting to a new standard. Implementation of the new accounting standards emphasizes accuracy, transparency, and error free financial reporting. It will also be easier for foreign investors to analyze the financial reports of companies and gauge their financial standing.

The aims of this paper are the following: to show the world of how the Philippines adopted the accounting system from basically U.S. GAAP to the current international accounting progress and development of SEC Roadmap, to help other countries that are challenged in adopting and executing the accounting practices so they can make their own work plan of accounting standards that will assist them in making comparisons of financial reporting easier, cost effective and efficient, thereby resulting to a well informed and rational business decisions worldwide.

2. THEORETICAL CONCEPT

In the Philippines, adoption of accounting is based on Philippine Financial Reporting Standard (PFRS) which is the local version of International Financial Reporting Standards (IFRS). Philippine accounting principles also adhere with the U.S. Generally Accepted Accounting Principles (GAAP). The practice of accountancy profession in the country is being promulgated and monitored by PRC-BOA or Board of Accountancy. The rules and standards governing the accountancy profession in the Philippines is under Republic Act 9298, or the Accountancy Act of 2004. The IFRS in early 2013 established the Accounting Standards Advisory Forum (ASAF) to improve cooperation among worldwide standard setters and advise the International Accounting Standards Board (IASB) as it develops IFRS. The Financial Accounting Standards Board (FASB) was selected as one of the ASAF's twelve members. The FASB's membership on the ASAF is an opportunity to represent U.S. interests in the IASB's standard-setting process and to continue the process of improving and converging U.S. GAAP and IFRS. The FASB was nominated for membership on the ASAF by the Financial Accounting Foundation (FAF) Board of Trustees, which oversees both the FASB and its sister standard-setting board, the Governmental Accounting Standards Board (GASB).

3. STATEMENT OF THE PROBLEM

The main problem is that different countries use different national accounting practices, policies and standards, which make it hard and high priced to compare financial statements for investment decision-making and other economic activities for the development of countries. Due to globalization that cannot be avoided and grows rapidly, there is growth in interdependence among international businesses and financial market. Movement of capital has increased the pressure and demand for the convergence and harmonization of reporting frameworks and standards. There is a need to have a set of financial accounting standards and improve accounting practices that will allow for greater improvement of transparency, effectiveness and efficiency in financial reporting not just locally but worldwide.

4. METHODOLOGY

This paper is a qualitative data that draws from secondary data to describe the evolution, implementation and effects of the international accounting standards in the Philippines. It determined the rationales for the entity to make more conducive accounting practices than other developing countries or move away from U.S. based accounting standards and to continue the implementation of the international accounting standards that begun in 2005. Government agencies that are responsible for establishing accounting standards and improving the practices in the Philippines will discussed. The benefits, developments and associated challenges with transitions were also addressed.

5. RATIONALES, PROCESSES AND EVOLUTION OF INTERNATIONAL ACCOUNTING STANDARDS IN THE PHILIPPINES

1700s - when Philippine public accounting practices was originated.

1762 to 1763 - The Philippine accounting profession has a long and proud history whose origins can be traced back to pre-Spanish times because of trade with neighboring countries where crude accounting records were needed. Public accountancy practice started after the 1762 to 1763 British occupation of Manila after overseas accountants contracted by the British stayed on to service foreign firms in Manila.

1923 - The profession was formally recognized during the American colonial period with the passing of an all-Filipino legislature of an accountancy law which established the Certified Public Accountant (CPA) title for those who passed a written licensure examination and the creation of the Board of Accountancy (BOA) to regulate the profession. The enactment of the Accountancy Law 1923 gave formal recognition to the accounting profession. This law granted CPA certificates to those who successfully passed the CPA examination and established the Board of Accountancy (BOA) to regulate the profession.

1929 - CPA professionals organized in the Philippine Institute of Certified Public Accountants (PICPA), a private non-stock corporation, which contributed immensely to the development of the profession and by 1973 became the accredited national professional organization.

1967 - The law was revised adding provisions governing the standardization of accounting education and the requirements for the CPA examination and regulating the practice of the profession including limiting local practice to Filipino citizens and to nationals of countries that extended the same privilege to Filipino citizens.

1973 – Professional Regulation Commission (PRC) was created to supervise and regulate professions.

1975 - During martial law, a presidential decree (No. 692) revised the law retaining many of the provisions but placed the Board of Accountancy under the Professional Regulation Commission (PRC). This is also the year when Accountancy Laws provided the legislative and institutional framework for the accountancy profession.

1980 – Corporation Law

1996 - In response to increasing trade with European countries, Philippine accounting standards started to shift gradually from the Generally Accepted Accounting Principles (GAAP) of the United States to International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) adopted from Europe.

1997 to 1998 - Shortly after the East Asian crisis, structural reforms addressing globalization and corporate governance particularly on financial disclosure were introduced. The regulatory powers of the Securities and Exchange Commission (SEC) had been strengthened with the Securities Regulation Code, which became effective in 2000.

1997 - The accounting standard setting body in the Philippines decided to start a program to move fully to International Accounting Standards issued by the International Standards Committee (IASC) and since then has continued its adoption of international accounting standards.

1999 - National Internal Revenue Code (NIRC)

2000 - The General Banking Law tightened the requirements for preparing financial statements by banks and other financial institutions. The country's central bank reissued the Manuals of Regulation in two volumes, one for banks (Jan. 2000) and the other for non-banks (May 1999).

2004 - The Philippine Accounting Standard Council (ASC) approved the adoption of revised IASs called Philippine Accounting Standards (PASs) and the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) called Philippine Financial Accounting Standards (PFRS) with first implementation effective January 2005.

6. NEW ACCOUNTING STANDARDS: 2005

Accounting Standards Council (ASC) started to move towards the adoption of international accounting standards as early as 1996. Prior to this, Philippine Generally Accepted Accounting Principles (GAAP) were based mainly on US-based accounting standards [2,3]. Under its IAS project, the ASC replaced US-based standards and adopted IAS with no local equivalent and updated previously issued IAS-based standards. The adoption of IAS followed the exposure process for accounting standards issued by the ASC. Since the Philippine GAAP was written in English, there were no translation problems as were encountered by other countries. In 2005, ASC completed the adoption of the IFRSs issued by the International Accounting Standards Board (IASB) and the revised versions of previously adopted IASs. It renamed the designation of accounting standards it issues to Philippine Accounting Standard (PAS) and Philippine Financial Reporting Standard (PFRS) to correspond to the adopted IASs and IFRSs, respectively. IAS and IFRS were adopted with very minor modification, such as effective dates.

There are significant numbers of small and medium entities in the Philippines and they were given some relief by ASC from new financial reporting standards. It was in the year 2005 when the new International Accounting Standards became effective, intended to be applicable to all reporting entities and required to file financial statements in accordance to Philippine GAAP. On the same year, the IASB undertook a project to develop accounting standards suitable for entities that do not have public accountability, referred to as non-publicly accountable entities (NPAEs) [4-7]. When preparing their 2005 financial statements, NPAEs are given the option not to apply the new international accounting standards that became effective in 2005 but to apply instead the accounting standards that were effective in 2004.

6.1 Benefits of the New Accounting Standards

Summarized benefits associated with convergence to the international accounting standards perceived are the following [2]:

- For companies: reduced costs of capital and the ease of using a consistent reporting standard from subsidiaries in many different countries,
- For investors: better information for decision-making, leading to broader investment opportunities,
- For national regulatory bodies: better information for market participants in disclosure based-system.

Consistent application of accounting standards that are the same for companies around the world would result to better comparability of financial information and they can have more informed decision-making. For regulators, the confusion associated with the need to understand various accounting standards would be reduced and vagueness will be less. For auditors, a single set of accounting standards would enable international auditing firms to standardize training and better assurance of the quality of their work on a global basis. With these we can clearly identify the weaknesses and strengths of the accounting standards. Continuation of evolving and improving the accounting standards will have a unified aim for more quality financial reports.

6.2 PFRS implementation problems in the Philippines

Challenges and problems in any adoption of standards will not be excluded. The implementing bodies in the Philippines encountered several challenges and problems such as:

(1) difficulty in applying some standards, (2) late issuance of guidance from regulatory bodies, and (3) cost of compliance, and (4) lack of training and education, [8]. The International Accounting Standards Board (IASB) intends to come up with a "stable platform" of IFRS for 2005 and is expected to continue issuing new IFRS or amendments thereto. Given this moving target, preparation for full IFRS conversion in 2005 has become even more complex and challenging.

7. CONCLUSION

The decision of the Philippines to move from U.S. GAAP into new accounting standards was a remarkable move to promote credibility and transparency in the country's businesses' financial reporting practices. New accounting standards promote harmonize reporting practices that is being recognized in a global market also promote the elimination of fraudulent acts in financial reporting. Some of old accounting rules and standards were being replaced, revised, or abolished. It is an abrupt transition with the intention of enhancing financial reporting that is accurate, efficient and effective, free from fraudulent acts and is being recognized globally. Although, Philippines also confronted by its own decision in implementing new accounting standards-imposed problems at every level of society, the government agencies like Securities and Exchange Commission (SEC), able to bounced back to the problems that start with the implementations. Because of the sudden change in standards, SEC and other government agencies failed to issue guidelines right away about the new standards that resulted to other problems faced by businesses and other reporting entities. But through their hard work and determination agencies incorporated for these changes were able to work thing out for the businesses and other reporting entities. Compliance with the new standards became carefully understood and the debate of the new standard that it is costly to revise the old financial reports presented in old accounting standards, ended. Government agencies able to provide trainings and education of the new standards to the personnel of business entities, government agencies and educators. The new accounting standards made it easier for foreign investors to analyze the financial reports of companies and gauge their financial standing.

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APPENDICES

TABLE 1: Philippine Financial Reporting Standards (adopted by SEC as of December 31, 2011)

Philippine Financial Reporting Standards (PFRS)/ Philippine Accounting Standards (PAS)	Title	**Effective Date**
Framework for the Preparation and Presentation of Financial Statements	Conceptual Framework Phase A: Objectives and qualitative characteristics	07/01/11
Improvements to PFRSs 2010	Improvements to PFRSs 2010 (A Collection of Amendments to Seven International Financial Reporting Standards)	01/01/11
PFRSs Practice Statement Management Commentary	PFRSs Practice Statement Management Commentary	06/29/11
PAS 1 (Revised)	Presentation of Financial Statements	01/01/09
	Amendment to PAS 1: Capital Disclosures	01/01/07
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	01/01/09
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	07/01/12
PAS 2	Inventories	01/01/05
PAS 7	Statement of Cash Flows	01/01/05
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	01/01/05
PAS 10	Events after the Balance Sheet Date	01/01/05
PAS 11	Construction Contracts	01/01/05
PAS 12	Income Taxes	01/01/05
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	01/01/12
PAS 16	Property, Plant and Equipment	01/01/05
PAS 17	Leases	01/01/05
PAS 18	Revenue	01/01/05
PAS 19	Employee Benefits	01/01/05
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	01/01/06
PAS 19 (Amended)	Employee Benefits	01/01/13
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	01/01/05

PAS 21	The Effects of Changes in Foreign Exchange Rates	01/01/05
	Amendment: Net Investment in a Foreign Operation	01/01/06
PAS 23 (Revised)	Borrowing Costs	01/01/09
PAS 24 (Revised)	Related Party Disclosures	01/01/11
PAS 26	Accounting and Reporting by Retirement Benefit Plans	01/01/05
PAS 27 (Revised)	Consolidated and Separate Financial Statements	07/01/09
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	01/01/09
PAS 27 (Amended)	Separate Financial Statements	01/01/13
PAS 28	Investments in Associates	01/01/05
PAS 28 (Amended)	Investments in Associates and Joint Ventures	01/01/13
PAS 29	Financial Reporting in Hyperinflationary Economies	01/01/05
PAS 31	Interests in Joint Ventures	01/01/05
PAS 32	Financial Instruments: Disclosure and Presentation	01/01/05
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	01/01/09
	Amendment to PAS 32: Classification of Rights Issues	02/01/10
PAS 33	Earnings per Share	01/01/05
PAS 34	Interim Financial Reporting	01/01/05
PAS 36	Impairment of Assets	01/01/05
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	01/01/05
PAS 38	Intangible Assets	01/01/05
PAS 39	Financial Instruments: Recognition and Measurement	01/01/05
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	01/01/05
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	01/01/06
	Amendments to PAS 39: The Fair Value Option	01/01/06
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	01/01/06
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	07/01/08
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	07/01/08
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	06/30/09
	Amendment to PAS 39: Eligible Hedged Items	07/01/09
PAS 40	Investment Property	01/01/05
PAS 41	Agriculture	01/01/05
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	07/01/09
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	01/01/09
	PFRS 1(revised) Amendments to PFRS 1: Additional Exemptions for First-time Adopters	01/01/10
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	07/01/10
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	07/01/11
PFRS 2	Share-based Payment	01/01/05
	Amendments to PFRS 2: Vesting Conditions and Cancellations	01/01/09
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	01/01/10
PFRS 3 (Revised)	Business Combinations	07/01/09
PFRS 4	Insurance Contracts	01/01/05
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	01/01/06
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	01/01/05
PFRS 6	Exploration for and Evaluation of Mineral Resources	01/01/06
PFRS 7	Financial Instruments: Disclosures	01/01/07
	Amendments to PFRS 7: Transition	01/01/07
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	07/01/08
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	07/01/08
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	01/01/09
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	07/01/11
PFRS 8	Operating Segments	01/01/09
PFRS 9	Financial Instruments	01/01/13
PFRS 10	Consolidated Financial Statements	01/01/13
PFRS 11	Joint Arrangements	01/01/13
PFRS 12	Disclosure of Interests in Other Entities	01/01/13
PFRS 13	Fair Value Measurement	01/01/13

Philippine Interpretations	Title	Effective Date
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	01/01/05
IFRIC 2	Members' Share in Cooperative Entities and Similar Instruments	01/01/05
IFRIC 4	Determining Whether an Arrangement Contains a Lease	01/01/06
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01/01/06
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	12/01/05
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	03/01/06
IFRIC 8	Scope of PFRS 2	05/01/06
IFRIC 9	Reassessment of Embedded Derivatives	06/01/06
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	06/30/09
IFRIC 10	Interim Financial Reporting and Impairment	11/01/06
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	03/01/07
IFRIC 12	Service Concession Arrangements	01/01/08
IFRIC 13	Customer Loyalty Programs	07/01/08
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01/01/08
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	01/01/11
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	10/01/08
IFRIC 17	Distributions of Non-Cash Assets to Owners	07/01/09
IFRIC 18	Transfers of Assets from Customers	07/01/09
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	07/01/10
SIC-7	Introduction of the Euro	01/01/05
SIC-10	Government Assistance - No Specific Relation to Operating Activities	01/01/05
SIC-12	Consolidation – Special Purpose Entities	01/01/05
	Amendment to SIC - 12: Scope of SIC 12	01/01/05
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Ventures	01/01/05
SIC-15	Operating Leases – Incentives	01/01/05
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	01/01/05
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	01/01/05
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01/01/05
SIC-29	Service Concession Arrangements: Disclosures.	01/01/05
SIC-31	Revenue – Barter Transactions Involving Advertising Services	01/01/05
SIC-32	Intangible Assets - Web Site Costs	01/01/05

TABLE 2: Key Differences between IFRS and US GAAP

FACTORS	IFRS	U.S. GAAP
Local and Global Recognition	IFRS is a globally accepted standard for accounting and is used in more than 110 countries.	GAAP is exclusively used within the United States and has a different set of rules for accounting than most of the world. This can make it more complicated when doing business internationally.
Rules and Principles	IFRS looks at the overall patterns and is based on principle. With a principle-based accounting method, such as the IFRS, there's potential for different interpretations of the same tax-related situations.	GAAP focuses on research and is rule-based. With GAAP accounting, there's little room for exceptions or interpretation, as all transactions must abide by a specific set of rules.
Inventory Methods	The LIFO method for inventory is not allowed. The Last In, First Out valuation for inventory does not reflect an accurate flow of inventory in most cases, and thus results in reports of unusually low-income levels.	Under GAAP, a company is allowed to use the Last In, First Out (LIFO) method for inventory estimates.
Inventory Reversal	IFRS specifies that if the market value of the asset increases, the amount of the write-down can be reversed.	GAAP specifies that if the market value of the asset increases, the amount of the write-down cannot be reversed. GAAP is overly cautious of inventory reversal and does not reflect any positive changes in the marketplace.
Development Costs	A company's development costs can be capitalized as long as certain criteria are met. This allows a business to leverage depreciation on fixed assets.	Development costs must be expensed the year they occur and are not allowed to be capitalized.
Intangible Assets	When it comes to intangible assets, such as research and development or advertising costs, IFRS accounting really shines as a principle-based method. It takes into account whether an asset will have a future economic benefit as a way of assessing the value.	Intangible assets measured under GAAP are recognized at the fair market value and nothing more.

Income Statements	Under IFRS, extraordinary or unusual items are included in the income statement and not segregated.	Under GAAP, they are separated and shown below the net income portion of the income statement.
Classification of Liabilities	With IFRS, there is no differentiation made between the classification of liabilities, as all debts are considered noncurrent on the balance sheet.	The classification of debts under GAAP is split between current liabilities, where a company expects to settle a debt within 12 months, and noncurrent liabilities, which are debts that will not be repaid within 12 months.
Fixed Assets	IFRS allows a different model for fixed assets called the revaluation model, which is based on the fair value at the current date minus any accumulated depreciation and impairment losses.	When it comes to fixed assets, such as property, furniture and equipment, companies using GAAP accounting must value these assets using the cost model. The cost model takes into account the historical value of an asset minus any accumulated depreciation.
Quality Characteristics	IFRS also works with the same characteristics used in U.S. GAAP, with the exception that decisions cannot be made on the specific circumstances of an individual.	GAAP works within a hierarchy of characteristics, such as relevance, reliability, comparability and understandability, to make informed decisions based on user-specific circumstances.