PROGRAM TITLE

FINANCIAL REPORTING and accounting

PROCESS TITLE

Financial Statements and Record Keeping

1. SCOPE

This policies and procedures manual establishes policies, systems, procedures and controls on the Financial Statements and Record Keeping. All duties and responsibilities stated in this manual are not exclusive to the personnel’s designated responsibilities in this process title.

1. OBJECTIVES

* To ensure accuracy and completeness of financial and management reports.
* To produce timely financial reports and management reports.
* To ensure that the closing of books of accounts are properly done.
* To make sure that records are properly kept, filed and monitored.
* To ensure that preparation of journal entries are properly documented and approved.
* To clearly define the duties and responsibilities of all personnel involved in this process title.

1. PERSONNEL INVOLVED
   1. Accounting Staff
2. Responsible for the bank reconciliation of all cash accounts.
3. Obtains bank statements/updated passbooks and general ledger of all cash accounts.
4. Prepares monthly bank reconciliation statements (BRS) and journal voucher for the reconciling journal entries, if any.
5. Receives duly verified and approved BRS, journal voucher and supporting documents from Accounting Manager.
6. Files BRS, journal voucher and supporting documents chronologically.
   1. Accounting Supervisor
7. Responsible for the verification of BRS and review of journal voucher for reconciling adjusting journal entries.
8. Reconciles subsidiary ledger with general ledger together with the Accounting Team.
9. Reviews journal voucher for recurring adjusting journal entries.
   1. Accounting Manager
10. Approves:
    * BRS and journal voucher for reconciling adjusting journal entries.
    * Journal voucher for recurring adjusting journal entries.
11. Reviews:
    * JV for nonrecurring adjusting journal entries.
    * And endorses proposed adjusting journal entries (PAJEs) to Senior Vice President.
12. Obtains adjusted trial balance and unaudited financial statements from the system after recording recurring and nonrecurring adjusting journal entries by the Bookkeeper.
13. Signs the unaudited trial balance and financial statements.
14. Forwards signed and unaudited trial balance and financial statements to the external auditors.
15. Receives PAJEs from external auditors.
16. Records duly approved PAJEs and obtains audited trial balance from the system.
17. Reconciles audited trial balance with audited financial statements from external auditors.
18. Gives copy to BIR, SEC, external auditors and other appropriate agencies.
    1. Accountable Form Custodian
       1. Handles/monitors the unused/used accountable forms.
       2. Receives one (1) copy of duly filled-out and approved Accountable Forms Request Slip (AFRS).
       3. Issues requested accountable forms to User based on the duly filled-out and approved AFRS.
       4. Signs “issued by” portion of the Accountable Forms Logbook (AFL).
       5. Sequentially numbered the AFRS and files chronologically.
    2. User
       1. Prepares two (2) copies of AFRS and forwards to Department Manager for approval.
       2. Forwards one (1) copy of duly filled-out and approved AFRS. Keeps another copy of AFRS.
       3. Receives requested accountable forms and signs “received by” portion of the AFL.
    3. Department Manager

Approves two (2) copies of AFRS.

* 1. Senior Vice President

1. Approves journal voucher for nonrecurring adjusting journal entries.
2. Receives, reviews and approves PAJEs.
   1. Bookkeeper

Records recurring and nonrecurring adjusting journal entries based on duly reviewed and approved journal voucher.

* 1. Board of Directors

Reviews and approves audited financial statements and issues approved Board Resolution.

1. KEY TERMS
   1. *Journal –* is a record of financial transactions in order by date and oftentimes defined as the book of original entry.
   2. *Ledger –* accumulates and summarizes individual transactions listed in all the journals.
   3. *Subsidiary Ledger –* is a group of similar accounts whose combined balances equal the balance in a specific general ledger account.
2. POLICIES
   1. **General** 
      1. The audited financial statements should be reviewed and approved by the Board of Directors before it is filed with the appropriate regulatory agencies. Such approval should be duly supported with a Board Resolution.
      2. General ledger maintenance should adhere with the policies and procedures discussed in the process title “*Chart of Accounts”.*
      3. All general and subsidiary ledger balances should be equal at all times and reconciliation is done on a regular basis (i.e. at least monthly).
      4. Only authorized officers should conduct the closing of books.
      5. Financial and management reports should only be provided to authorized and appropriate recipient. Such information should be handled with utmost confidentiality.

* 1. **Application of Accounting Standards** 
     1. The Financial Statements of the Company should be prepared in accordance with the prevailing accounting standards in the Philippines (i.e. Full Philippine Financial Reporting Standards or PFRS for SMEs).
     2. Practical application of standards in preparing the financial statements should be discussed by the Chief Finance Officer with Senior Management for approval.
     3. Any updates on the accounting standards should be studied and implemented, if applicable.
  2. **Books of Accounts**
     1. The following are the different types of books of accounts of the Company:

|  |  |
| --- | --- |
| **Type** | **Description** |
| General Journal | This is used to record transactions (i.e. depreciation, provision for doubtful accounts, liquidation of cash advances, etc.) not under the special journals (i.e. cash receipts, cash disbursements, sales, purchases). |
| General Ledger | This is a set of accounts with account codes. It is designed to summarize all journal entries in order to get ending balances. This pertains to accounts (i.e. cash on hand, cash in bank, trade receivable, cash advances, etc.). |
| Cash Receipts Journal | A special journal used to record transactions pertaining to all cash received. This includes cash received from services rendered, collections from customer’s account, etc. |
| Cash Disbursements Journal | A special journal used to record transactions pertaining to all cash disbursed. This includes payment for purchase of materials or services on account, cash advances, payment of employees’ salaries, taxes, payment for acquisition of fixed assets, reimbursements, etc. |
| Sales Journal | A special journal used to record sales of services that customers have acquired on account. This includes income from services rendered on account. |
| Purchase Journal | A special journal used to record all acquisitions made on account. This includes purchase of materials or services on account. |

* + 1. The Company must register its books of accounts with the Bureau of Internal Revenue (BIR) annually. (the BIR rulings should be checked from time to time for changes on the requirements and deadline)
    2. The books of accounts should be **audited and examined yearly** by a qualified independent Certified Public Accountant accredited with the Board of Accountancy and Securities and Exchange Commission (if necessary).
  1. **Bank Reconciliation** 
     1. Monthly bank reconciliation statements (BRS) should be prepared regularly.
     2. Reconciliation of bank accounts should be done by persons other than those responsible for the handling of cash receipts, deposits and disbursements (Refer to process titles *“Billing, Collection and Cash Handling”, “Check Requests and Disbursements”, and “Revolving/Vessel Operations Fund”).*
     3. In case there are reconciling items which requires adjustments, a journal voucher should be prepared and approved by authorized officers.
  2. **Closing of Books**

1. The books of accounts should be closed regularly (i.e. monthly, quarterly, semiannually, annually) after taking into consideration all adjusting journal entries for a given period.
2. Any discrepancies with the general and subsidiary ledgers should be examined and reconciled immediately.
3. All adjusting journal entries should be duly supported with journal vouchers and its corresponding supporting documents.
4. All adjusting journal entries in the journal voucher should be properly reviewed and approved by authorized officers. The approving matrix for the adjusting journal entries follow:

|  |  |  |
| --- | --- | --- |
| **Adjusting Journal Entries** | **Reviewed by** | **Approved by** |
| Recurring Entries | Accounting Supervisor | Accounting Manager |
| Non-recurring Entries | Accounting Manager | Senior Vice President |

1. Presented below are some of the recurring adjusting journal entries:
   * + - Amortization of prepayments and intangible assets
       - Depreciation of property and equipment
       - Accrual of light, water, communication and other operating expenses
       - Usual (i.e. interest, bank charges, bank transfer/collection, etc.) bank reconciliation adjusting journal entries
       - Advances and liquidations
2. All non-recurring entries, unusual and significant adjustments should have adequate supporting documents and reviewed and approved by authorized officers.
3. Proposed adjusting journal entries (PAJEs) from the external auditors should be properly reviewed and approved.
4. Journal vouchers should be used sequentially and filed chronologically for easy tracing and monitoring.
   1. **File Retention**
      1. The books of accounts, including subsidiary books and other accounting records, shall be preserved for a period of ten (10) years reckoned from the day following the deadline in filing a return, or if filed after the deadline, from the date of the filing of the return, for the taxable year when the last entry was made in the books of accounts as per Revenue Regulation No. 7-2013 (the BIR rulings should be checked from time to time for changes on the requirements and deadline).
      2. Books of accounts and other records should always have backups (Refer to process title *“Hardware and Software Maintenance”)*.
      3. The management should keep and maintain corporate files (i.e. Articles of Incorporation, bylaws, related amendments to the Articles of Incorporation and bylaws, corporate minutes, other similar company records).
      4. Upon disposal of documents, it should be shredded or burnt to ensure confidentiality of the information.
   2. **Components of Financial Statements**

* + 1. *Statement of Financial Position*– is a component of the financial statement that shows the company’s assets, liabilities and equity at a specific period of time.
    2. *Statement of Income*– is a component of the financial statement that shows the company’s financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.
    3. *Statement of Changes in Equity*–is a component of the financial statement that presents a summary of the changes in stockholders’ equity accounts over the reporting period. It reconciles the opening balances of equity accounts with the closing balances.
    4. *Statement of Cash Flows*– is a component of the financial statement that provides an overview of the cash inflows and outflows of the company during a certain period of time. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities.
    5. *Notes to Financial Statements*– is a component of the financial statement to supplement or further explain the information on the face of the financial statements by providing financial information relevant to existing and potential investors, lenders, and other creditors for making decisions about providing resources to the entity.
  1. **Financial Analysis and Ratios**

Financial statements should be analyzed and converted into useful information which management can use for decision making and in assessing the Company’s status. To aid the finance and accounting group on its financial analysis, financial ratios *(see Annex A)* may be used.

The finance and accounting group should ensure that the data upon which the ratios are based are reliable.

* 1. **Accountable Forms**
     1. Issuance of accountable forms to respective users should be properly documented and monitored.
     2. The accountable forms should be secured and retained in a dry and safe place.
     3. Full details of losses or deficiencies of accountable forms are to be reported to the designated officer by the accountable form custodian as soon as the loss or deficiency is detected.
     4. A logbook may be maintained to monitor accountable forms which shall include the following information:
* Name of the form
* Series number
* Number of stubs received, issued and remained

1. PROCEDURES

| Bank Reconciliation Procedures | | | |
| --- | --- | --- | --- |
| Step No. | Activity | Personnel  Involved | Business  Forms |
| 1 | Obtains bank statements/updated passbooks and general ledger of all cash accounts. | Accounting Staff |  |
| 2 | Prepares monthly bank reconciliation statements (BRS) and journal voucher for the reconciling journal entries, if any. | Accounting Staff | Duly filled-out BRS and JV |
| 3 | Forwards BRS, journal voucher and supporting documents to Accounting Supervisor and Accounting Manager for verification and approval, respectively. | Accounting Staff |  |
| 4 | Receives and verifies BRS, journal voucher and supporting documents from Accounting Staff. | Accounting Supervisor | Duly verified BRS and JV |
| 5 | Receives and approves duly verified BRS, journal voucher and supporting documents from Accounting Staff. | Accounting Manager | Duly approved BRS and JV |
| 6 | Receives duly verified and approved BRS, journal voucher and supporting documents from Accounting Manager. | Accounting Staff |  |
| 7 | Files BRS, journal voucher and supporting documents chronologically. | Accounting Staff |  |

| Closing of Books Procedures | | | |
| --- | --- | --- | --- |
| Step No. | Activity | Personnel  Involved | Business  Forms |
| 1 | Reconciles subsidiary ledger with general ledger together with the Accounting Team. | Accounting Supervisor/  Accounting Team |  |
| 2 | Reviews JV for recurring adjusting journal entries. | Accounting Supervisor | Duly reviewed JV |
| 3 | Approves JV for recurring adjusting journal entries. | Accounting Manager | Duly approved JV |
| 4 | Reviews JV for nonrecurring adjusting journal entries. | Accounting Manager | Duly reviewed JV |
| 5 | Approves JV for nonrecurring adjusting journal entries. | Senior Vice President | Duly approved JV |
| 6 | Records recurring and nonrecurring adjusting journal entries based on duly reviewed and approved JV. | Bookkeeper |  |
| 7 | Files duly reviewed and approved JV chronologically. | Accounting Staff |  |
| 8 | Obtains adjusted trial balance and unaudited financial statements from the system after recording recurring and nonrecurring adjusting journal entries by the Bookkeeper. | Accounting Manager |  |
| 9 | Signs the unaudited trial balance and financial statements. | Accounting Manager |  |
| 10 | Forwards signed and unaudited trial balance and financial statements to the external auditors. | Accounting Manager |  |
| 11 | Receives PAJEs from external auditors. | Accounting Manager |  |
| 12 | Reviews and endorses PAJEs to Senior Vice President. | Accounting Manager |  |
| 13 | Receives, reviews and approves PAJEs. | Senior Vice President |  |
| 14 | Records duly approved PAJEs and obtains audited trial balance from the system. | Accounting Manager |  |
| 15 | Reconciles audited trial balance with audited financial statements from external auditors. | Accounting Manager |  |
| 16 | Reviews and approves audited financial statements and issues approved Board Resolution. | Board of Directors |  |
| 17 | Gives copy to BIR, SEC, external auditors and other appropriate agencies. | Accounting Manager |  |
| 18 | Files audited financial statements chronologically. | Accounting Manager |  |

| Monitoring of Accountable Forms | | | |
| --- | --- | --- | --- |
| Step No. | Activity | Personnel  Involved | Business  Forms |
| 1 | Handles / Monitors the unused Accountable Forms. | Accountable Form Custodian |  |
| 2 | Prepares two (2) copies of Accountable Forms Request Slip (AFRS) and forwards duly filled-out AFRS to Department Manager for approval. | User | Duly filled-out AFRS |
| 3 | Receives two (2) copies of duly filled-out AFRS from User and approves the same. | Department Manager | Duly approved AFRS |
| 4 | Forwards one (1) copy of duly filled-out and approved AFRS to Admin Staff for issuance of requested AF.  Keeps another copy of duly filled-out and approved AFRS. | User |  |
| 5 | Receives one (1) copy of duly filled-out and approved AFRS from User. | Accountable Form Custodian |  |
| 6 | Issues requested accountable forms based on the duly filled-out and approved AFRS from User. | Accountable Form Custodian |  |
| 7 | Signs “issued by” portion of the Accountable Forms Logbook for documentation of issuance. | Accountable Form Custodian |  |
| 8 | Signs “received by” portion of the AFL for documentation of receipt. | User |  |
| 9 | Sequentially numbered the AFRS and files chronologically. | Accountable Form Custodian |  |

1. FLOWCHARTS









1. BUSINESS FORMS
   1. Accountable Forms Request Slip



No. of Copies/color - 2 (white)

Prepared by - User

Approved by - Department Manager

Distribution - Copy 1 – Chronologically files by Accountable Form Custodian

* + - * + Copy 2 – Kept by User
  1. Journal Voucher



No. of Copies/color - 1 (white)

Explanation - This is used to support non-cash transactions *(except for bank transfer)* including liquidation of cash advances.

Prepared by - Bookkeeper

Reviewed by - Accounting Supervisor / Accounting Manager

Approved by - Accounting Manager / Vice President /

Senior Vice President / President

Distribution - Accounting Department: chronologically filed

* 1. Pro-forma of Accountable Forms Logbook



* 1. Pro-forma of Financial Statements

1. Statement of Financial Position



1. Statement of Income



1. Statement of Changes in Equity



1. Statement of Cash Flows



1. EFFECTIVITY

This Policies and Procedures Manual shall take effect upon approval and shall supersede any memorandum/SOP inconsistent with this Policies and Procedures Manual. Any changes to the manual shall comply with the policies and procedures indicated in the process title *“Amendment of Manual”.*

**ANNEX**

ANNEX A

FINANCIAL ANALYSIS AND RATIOS

* + 1. **Liquidity Ratios –** is an indicator of whether a company’s current assets will be sufficient to meet the company’s obligations when they become due. The following are two of the most commonly used liquidity ratios:

***Current Ratio –*** *indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in the near future.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Current Ratio** | **=** | Current Assets |
| Current Liabilities |

***Quick Ratio –*** *measures the company’s ability to pay off short-term obligations without relying on the sale of inventories (if any).*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Quick Ratio** | **=** | Current Assets – Inventories |
| Current Liabilities |

* + 1. **Asset Management –** is a set of ratios that measure how effectively a company is managing its assets.

***Inventory Turnover –*** *measures the number of times inventory is sold or used in the time period such as a year.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Inventory Turnover** | **=** | Sales |
| Inventories |

***Days Sales Outstanding (DSO) –*** *indicates the average length of time the firm must wait after making a sale before it receives cash.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Days Sales Outstanding** | **=** | Receivables |
| Annual Revenues / 365 |

***Fixed Assets Turnover –*** *measures how effectively the firm uses its plant and equipment.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Fixed Assets Turnover** | **=** | Revenues |
| Net Fixed Assets |

***Total Assets Turnover – measures the turnover of all of the company’s assets.***

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Total Assets Turnover** | **=** | Revenues |
| Total Assets |

* + 1. **Debt Management –** is a set of ratios that measure how effectively a company manages its debt.

***Debt Ratio –*** *measures the percentage of a company’s assets that are provided through debt.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Debt Ratio** | **=** | Total Debt |
| Total Assets |

***Times Interest Earned –*** *measures the company’s ability to meet its annual interest payments.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Times Interest Earned** | **=** | Earnings Before Interest and Taxes (EBIT) |
| Interest Charges |

* + 1. **Profitability –** a group of ratios that show the combined effects of liquidity, asset management, and debt on operating results.

***Operating Margin*** *– measures what percentage of total revenues is made up by operating income.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Operating Margin** | **=** | Operating Income (EBIT) |
| Revenues |

***Profit Margin –*** *refers to the percentage of revenue remaining after all costs, depreciation, interest, taxes, and other expenses have been deducted.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Profit Margin** | **=** | Net Income |
| Revenues |

***Return on Total Assets (ROA)*** *– indicates how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Return on Total Assets (ROA)** | **=** | Net Income |
| Total Assets |

***Basic Earning Power (BEP) –*** *indicates the ability of the company’s assets to generate operating income.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Basic Earning Power** | **=** | EBIT |
| Total Assets |

***Return on Common Equity –*** *measures the rate of return on common stockholders’ investment.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Return on Common Equity (ROE)** | **=** | Net Income |
| Common Equity |

* + 1. **Market Value –** ratios that relate the company’s stock price to its earnings and book value per share.

***Price/Earnings Ratio –*** *calculates the market value of a stock relative to its earnings by comparing the market price per share by the earnings per share. In other words, the price earnings ratio shows what the market is willing to pay for a stock based on its current earnings.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Price/Earnings Ratio** | **=** | Price per share |
| Earnings per share\* |

*\*Earnings per share is calculated by dividing net income by average outstanding common stocks.*

***Market/Book Ratio –*** *company's market price in relation to its book value.*

FORMULA:

|  |  |  |
| --- | --- | --- |
| **Market/Book Ratio** | **=** | Market price per share |
| Book value per share\*\* |

*\*\*Book value per share is calculated by dividing stockholders’ equity minus preferred stock by average outstanding common stocks.*