



Financial Reporting Standards Council

PFRS for Small Entities

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FRSC PREFACE TO *PFRS FOR SMALL ENTITIES*

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1. The Financial Reporting Standards Council (FRSC) has approved on December 13, 2017 the adoption of PFRS for Small Entities (the “Framework”). This Framework is intended for use by small entities as defined by the Philippine Securities and Exchange Commission.
2. This Framework was developed in response to feedback of small entities that PFRS for Small and Medium-sized Entities (PFRS for SMEs) is too complex to apply. By reducing choices for accounting treatment, eliminating topics that are not generally relevant to small entities, simplifying methods for recognition and measurement, and reducing disclosure requirements, this Framework allows small entities to comply with the financial reporting requirements without undue cost or burden.
3. Some of the key simplifications introduced by the Framework are as follows:
 - Inventories are to be subsequently valued at the lower of cost and market value (i.e., the probable selling price to willing buyers as of reporting date).
 - Investment properties can be carried either at cost or at fair value, depending on the policy choice made by the entity.
 - There is no concept of “finance lease” under the Framework. All lease receipts (payments) are recognized as income (expense) as earned (incurred).
 - There is no accounting for onerous contracts under the Framework.
 - For equity-settled share-based payment transactions, an entity shall measure the goods or services received, and the corresponding increase in equity, with reference to the net asset value of the equity instruments granted. Net asset value is derived by dividing the total assets of the entity less any liabilities, by the number of shares outstanding at measurement date.
 - For defined benefit plans, an entity is required to use the accrual approach in calculating benefit obligations in accordance with Republic Act (RA) 7641, *The Philippine Retirement Pay Law*, or company policy (if superior than RA 7641). Accrual approach is applied by calculating the expected liability as of reporting date using the current salary of the entitled employees and the employees’ years of service, without consideration of future changes in salary rates and service periods.
 - Entities are given a policy choice of not recognizing deferred taxes in the financial statements.

- Biological assets can be carried either at cost or at current market price, depending on the policy choice made by the entity.
 - Prior period adjustments are just captured in the opening balance of the current year, but with appropriate disclosures.
4. A small entity shall adopt this Framework for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

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