

MI ASIA PACIFIC NEWS

BUILDING BETTER BUSINESSES GLOBALLY

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Morison International Asia Pacific & Morison International Africa Joint Conference 2010

For the first time, two of Morison International Regional Group – **Morison International Asia Pacific (MIAP)** and **Morison International Africa (MIA)** will hold a joint conference in Manila, Philippines from 17th to 19th November 2010. About 80 delegates from almost 35 countries in both continents are expected to attend the conference.

With Asia being the engine of growth, it is appropriate that the Board of both regions have chosen the theme

“OPPORTUNITIES BEYOND BORDERS” 



Philippines Today, the current economy, on the new President, changes and reform that have taken place/will be taking place to bring Philippines to the next level.

During the last quarter of 2009, at the European Chamber of Commerce of the Philippines (ECCP) forum dubbed **Economic Outlook 2010: The Philippine Business Environment in the Light of Developments in the World Economy**, the country's industry leaders in electronics, agri-business, tourism, business process outsourcing (BPO), property development and retail presented their respective economic forecasts which made European businessmen, with guarded optimism, see the Philippines to possibly make an economic rebound in 2010.

True to their expectations, in the news published by BusinessWorld on October 7, 2010, the International Monetary Fund (IMF) revised its 2010 growth forecast for the Philippine economy to a higher 7% from 4.4% estimate in July, well above the government's target of 5-6%, as Asia leads in the global economic recovery. The IMF forecast follows recent revisions by multilateral organizations, financial institutions and debt watchers. In September, the Asian Development Bank (ADB) raised its forecast of the Philippine economy from 5% to 6.2%. The improved economic outlook was also affirmed by Standard & Poor's 6.8% and Moody's 6.5% estimates announced in September and August, respectively. British investment bank Barclays Capital said that the Philippine economy will grow 8% this year citing the country's strong economic fundamentals and robust remittances inflows. In the third quarter of 2010, investor confidence remained at record high due mainly to the higher level of trust in the Aquino government based on the periodic survey results the Dutch financial giant ING. The quarterly Investor Dashboard Survey of ING also revealed that investors are confident in the local market despite the external factors such as slowdown in the US economy. The optimism by both local and foreign investors is reflected by pumping more funds into the Philippine stocks wherein the average daily turnover in the local stock market has doubled to over P6billion in September from only P3.9 billion in the previous months.

The upward revisions by various observers show the increased confidence, optimism and trust under the new administration. The Aquino government assumed office on July 1, 2010 after the Filipinos elected the new President on May 10, 2010 through the first-ever automated national elections in the country and the Asian Region. The election was seen as the most peaceful and cleanest election since the restoration of democracy in 1986 through the People Power Revolution. The quick computerized counting of votes left no room for election fraud and gave credible margin of victory for President Benigno C. Aquino III whose platform focused on a strong anti corruption in government. His election to office translates to a clear people's mandate for change and good governance. In his speech marking his 100 days in office, President Aquino reported that the country has saved hundreds of millions of dollars from

Villaruz, Villaruz & Co.
Philippines
Mr. George V. Villaruz



scrutiny of government spending, the savings of which will be used to alleviate poverty through increased allocations for social welfare, education and health services. He said that his anti-poverty program will leave no one behind. During his trip to the US last September 2010, over US\$2 billion in foreign investments were committed that will create more than 43,000 jobs aside from the booming call center that will also create more than 200,000 new jobs.

President Aquino faces a lot of challenges of high unemployment and underemployment rate resulting to migration to secure better paying employment, large fiscal deficit of 3.5% of GDP in 2010, improvement and reforming the tax system, human rights violations, pressing social spending needs, instability in the southern Philippines, land reform and the welfare of millions of overseas workers who help keep the economy afloat with their billions of dollars in remittances. The government is banking on public-private partnerships (PPP) to fund long term infrastructure investments and the key to lure investors according to Neeraj Jain, Asian Development Bank (ADB) Country Director, is credibility, wherein the government must provide a predictable and secure business environment and deter corruption, red tape, procedural hassles and regulatory uncertainties. President Aquino in his speech, committed in simplifying the process of establishing a business by eradicating red tape and improving infrastructure.

Foreign funds are coming in the country in favor of portfolio investments of US\$1.42 billion as of September or an average of \$157 million per month compared to foreign direct investments (FDI) of \$954 million as of July or an average of \$136 million per month. For the same year period

Economic Growth		
Year	% GDP	% GNP
2000	4.5	4.8
2001	3.2	3.4
2002	4.6	5.2
2003	4.7	5.6
2004	6.0	6.2
2005	5.0	5.6
2006	5.4	6.2
2007	7.3	7.8
2008	3.8	6.2
2009	1.1	4.0
2010 ^{Q1}	7.8	8.6
2010 ^{Q2}	7.9	7.9
* Computed at Constant 1985 Prices		
** Source: NEDA		

FDI is lower compared to portfolio investment which is six times more higher. The stock market hit a record high the second week of October and is up by 38% this year. The peso has gained about 7% as against the US dollar and strongest in 2-1/2 years.

"The new administration has set the right tone, is taking the right actions, it has set its sights in the right direction, it is inspiring confidence of the investors... it needs now to take action on the promises that it is taking," the ADB's Jain said.

President Aquino said "that he has given the government back to the people and that backed by a stronger economy, he would even provide more jobs and a better future."

Statistics

- **GDP - purchasing power parity:** \$324.4 billion (2009 est. in US dollars)
- **GDP - real growth rate:** 0.9 % (2009)
- **GDP PPP:** \$320.4 billion (2009 est.)
- **GDP per capita purchasing power parity:** \$3,300 (2009 est.)
- **GDP nominal:** \$161.0 billion (2009 est.)
- **GDP per capita:** \$1,746
- **GDP - composition by sector:** agriculture: 14.9%
industry: 29.9%
services: 55.1% (2009 est.)
- **Inflation rate (consumer prices):** 3.3% (2009 est.), 3.5% (September 2010)
- **Labor force:** 37.89 million (2009 est.)
- **Labor force by occupation:** agriculture 34%
industry 15%
services 51% (2009 est.)
- **Unemployment rate:** 6.9% (July 2010)
- **Industries:** electronics assembly, garments, footwear, pharmaceuticals, chemicals, wood products, food processing, petroleum refining and fishing.
- **Agriculture-products:** sugarcane, coconuts, rice, corn, bananas, cassavas, pineapples, mangoes, pork, eggs, beef; fish
- **Exports:** \$37.51 billion (2009 est.); \$48.25 billion (2008 est.)
- **Exports - commodities:** semiconductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil and fruits.
- **Exports - partners:** United States 15.35%, Japan 14.19%, China 13.19%, Singapore 9.44% Hong Kong 9%, South Korea 5.12%, Germany 4.1% (2009)
- **Imports:** \$45.39 billion (2009 est.)
- **Imports - commodities:** electronic products, mineral fuels, machinery and transport equipment, iron and steel, textile fabrics, grains, chemicals and plastic[1]
- **Imports - partners:** Japan 15.32%, United States 11.47%, Singapore 9.54% China 8.93%, Taiwan 8.27% (2009)
- **Debt - external:** \$53.14 billion (30 September 2009 est.)
- **Currency:** 1 Philippine peso (P) = 100 centavos
- **Exchange rates:** Philippine pesos (PHP) per US dollar – 45.2688 (2010) 47.8 (2009), 44.439 (2008), 46.148 (2007), 51.246 (2006), 55.086 (2005)

The World Economy – Testing Time Ahead

As we moved into the last 2 months of 2010 – The year so far has lived up to ups and downs. 2010 would see itself as a year of recovery of the world's economies and also the stock markets. However moving forward, the recovery could be jolted by trade and currency wars as most countries are trying to grapple with its domestic problems.

There is growing fear of the US economy slipping into a recession in early 2011. The writer is more concern with the structural problems of US.

Forecasted GDP 2010	2.5% to 2.7%
Sovereign Debt	US\$19.00 Trillions
Budget Deficit 2010	US\$ 1.30 Trillions
Budget Deficit 2011	US\$ 1.10 Trillions
Private Debt	US\$ 2.42 Trillions
Current Unemployment	9.5%
Inflation	1.1%

Can the US treasury print more money to keep the economy afloat? The recent announcement made by Mr. Ben Bernanke, Chairman of the US Federal Reserve states that there will be added stimulus plans to keep the economy afloat gives very strong signals that the economy is very fragile.

The writer is of the view that the US will gradually slip into a "Lost Decade" – Just like Japan did in the nineties (and Japan is still not out of the woods). The only major difference between the two is that Japan did not have sovereign debt and the "Lost Decade" was due to huge corporate debt, deficiencies in the banking/financial sectors, low private consumption, high property prices and Japan losing its competitiveness and export market.

It is unimaginable to think how the present or any future US government will be able to wind down its huge sovereign debt. With the fragile economy and corporate America used to a lower workforce during the 2008/2009 financial crisis/recession, companies are profitable and reluctant to go on hiring. With new business set up and not picking up, we could see the unemployment rate hovering around the 9% to 9.5% level at least for the next 5 years!

A weak US dollar, trade tariffs imported from major economies in particular China will not help the consumers – Both companies and individuals will bear the crunch of higher cost of goods. No denying if one look around and see the clothes we wear, shoes we put on, things we use in the household or in the office – We can safely say at least 50% to 60% were "Made in China".


We will see US consumption fall and productivity decreasing and loosing its competitiveness notwithstanding the relatively weak US dollar.

Over in Europe a similar issue – huge sovereign debt, massive austerity drive, budget/spending cuts by European government to rein in spending and to reduce its national debt will reduce jobs and reduce private consumption as less "hand-outs"/subsidies given by government and the imminent unrest/strikes/protests from workers and union. All these will be a common scene – not only now but at least for the next 3 years! The Euroland economies will be tested.

Asia Rising – Yes, that is correct – but for the time being. Asia led by China, India, Taiwan, Hong Kong and Singapore all posted healthy GDP and with strong underlying balance sheets. These countries are able to take advantage of the problems in the US and Europe, to strengthen and to buy companies and assets overseas.

The danger for Asia is the 'hot flow' of money and the rising property prices will create an imminent 'asset bubble'. This will destabilise not only the property sector but the financial sector as well.

With both US and Euroland economies, Asia's major trading partners are in a very 'fragile condition'. Asia will feel the impact from 2011 onwards as less consumption by US and Euroland households would mean less export from Asia and would have an impact on major export countries.

It is not will it happen – but when! Testing times ahead, humps and bumps ahead! 

Paul Wan & Co,
Singapore
Mr. Paul Wan



世界经济 — 面前的测试时间

我们即将迎来2010年的最后两个月 — 这一年到现在为止起起伏伏。2010会是世界经济和股票市场恢复的一年。然而随着时间的推移，恢复将会受到贸易和货币战争的影响因为大多数国家都在试图应付本国问题。

对于美国经济在2011年进入衰退的恐惧越来越多。笔者更担心美国的结构性问题。

2010年GDP预期	2.5% to 2.7%
外债	US19万亿美元
2010年预算赤字	US1.3万亿美元
2011年预算赤字	US1.3万亿美元
个人债务	US2.42万亿美元
近期失业率	9.5%
通货膨胀	1.1%

美国国库能印更多的钱来保持经济平稳吗？最近美联储主席本伯南克的通知中声明将会有更激进的计划来保持经济平稳，这给出了很强的信号 — 经济非常脆弱。

笔者认为美国将会逐渐进入“迷失的十年” — 就像90年代的日本一样（日本仍没脱离险境）。在这两个国家中唯一的最大区别就在于日本没有外债，同时“迷失的十年”是由于大量的公司债券，银行/金融行业的缺陷，低个人消费，高房价以及日本失去的竞争力和出口市场。

不可想象的是现今的或者未来的美国政府将怎样能够削减大量的外债。在脆弱的经济状况下，美国企业在2008/2009年的金融危机/衰退习惯较少的企业员工，企业依然盈利但是不愿意继续招聘。在新的公司建立起来而又不能招聘的情况下，我们可能看到在至少接下来的5年时间里失业率会依旧徘徊在9% 到 9.5%的水平上

弱势美元以及对主要像是中国这样的主要经济体征收贸易关税不会帮到消费者 — 公司和个人都将遭受高价商品的危害。不可否认的是如果看一看我们身上穿的衣服和鞋，我们所用的家用品或者办公用品 — 我们保守的说至少50% 至 60%是中国制造的。

我们将会看到美国消费持续下滑，生产力下降，同时失去竞争力尽管美元相对弱势。

在欧洲也有同样相似的问题 — 大量的外债，大规模的紧缩推动，以及欧洲政府为了减少支出和减少国家债务而采取的预算/支出的削减都会减少工作机会和个人消费因为政府将给予更少的“政府拨款”/补贴，其次将会发生来自工会的骚乱/罢工/游行。

亚洲的崛起 — 是的，没错 — 但是当下，在稳固的优质资产负债下，亚洲会由中国，印度，台湾，香港和新加坡主导以此来贡献可观的国内生产总值。这些国家能够利用美国和欧洲的问题来强大自己，然后购买海外的公司和资产。

亚洲的危险是热钱的流入和持续上涨的房价，这些都极可能造成“资产泡沫”。这不会只会使房地产，也会使金融业不稳定。

就美国和欧洲的经济而言，亚洲的主要贸易伙伴们正处在非常“脆弱的状况中”。亚洲将会从2011年开始受到影响，因为美国和欧洲家庭的消费将会减少，这将意味着亚洲的出口会减少，因此主要的出口国家将会受到影响。

这不是会不会发生的问题 — 而是何时发生！测试时间尚未来临，未来将面临碰撞和颠簸！

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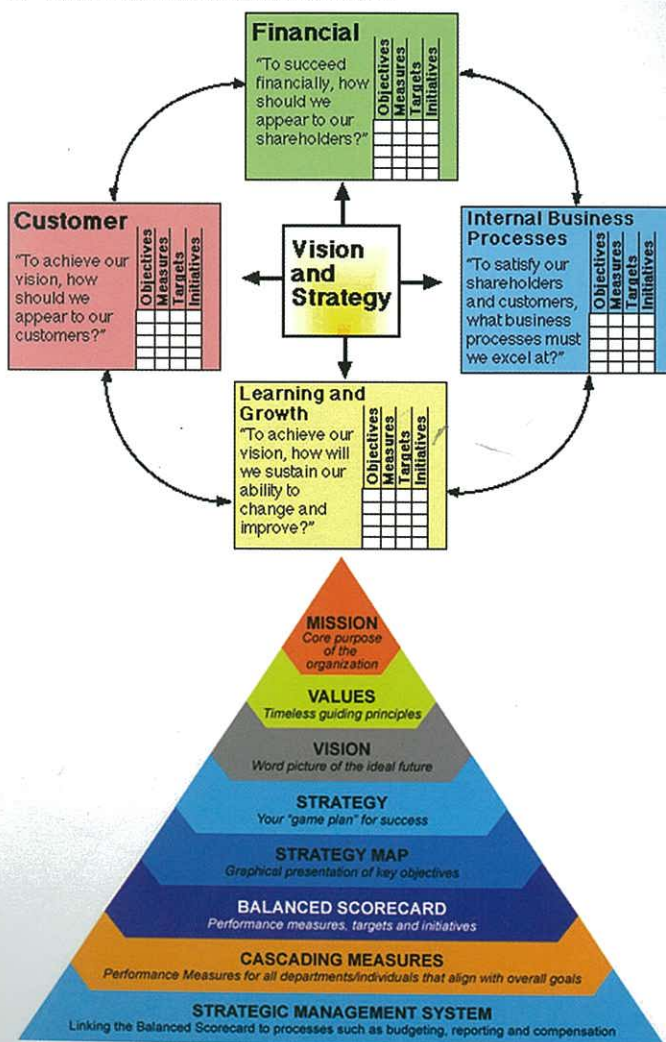


Scorecard in Government and Semi-Government Organizations

Introduction

The Balanced Scorecard¹ is a strategic planning and management system that is used extensively in organizations to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. Balanced Scorecard helps management to accomplish the critical management processes:

- Clarify and translate vision into strategy
- Communicate and link objectives to measures
- Plan, set targets and align strategic initiatives
- Enhance learning at all levels
- Have a system of constant feedback



Perspective

The Balanced Scorecard requires us to view the organization from four perspectives, namely Financial, Customer, Internal Business Process and Learning and Growth:

The Financial perspective: It measures economic consequence of the actions already taken. Financial measures indicate whether strategy, implementation and execution are contributing to bottom line.

The Customer perspective: It helps in measuring customer satisfaction, customer retention, customer profitability, customer acquisition, market share, etc. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and processes for which we are providing a product or service to those customer groups.

The Business Process Perspective: Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission).

The Learning and Growth Perspective: This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In the current climate of rapid technological change, it is becoming necessary for staff to be in a continuous learning mode.

Why Balanced Scorecard?

Majority of the entities have performance metrics incorporated into their management information systems that includes financial and non financial measures. The non financial measures are used by entities for bringing improvement at shop floor level, frontline operations and customer facing operations. The aggregate financial measures are used by the senior management to summarize the results of the operations performed by their employees at mid and lower levels. Such an approach has its limitations and inefficiencies at various levels sometimes don't get reflected in the financial measures. Balanced Scorecard tries to retain the financial measures but at the same time stresses on measuring investment and returns in the areas of customers, suppliers, processes, technology and innovation. The objectives and measures of the Balanced Scorecard are derived from Government's vision and strategy. They view the performance from four perspectives: financial, customer, internal business process, and learning and growth. For a government entity any tool that helps them to aggregate non financial measures into a single dashboard and integrate with financial measures would be a useful option.

¹ Balance Scorecard was developed by Robert S. Kaplan and David P. Norton in the 90's.

Developing the Scorecard

Building a scorecard system the right way is a process of discovery, and involves critical thinking and knowledge about vision, long term objectives, target customer segment and their needs and aspirations, implementation capability, communication tools, etc. A typical entity may take anywhere between 3 – 6 months to develop the Scorecard. The first step of building a Balanced Scorecard is get consensus and support about the programme from senior management. Once the management support is available the next 12 to 16 weeks is used typically to develop the Scorecard and plan its rollout.

Step 1: Choosing an appropriate organizational unit is critical. The best unit to choose for implementation will be one that has its activities spread across entire value chain: innovation, operations, marketing, selling and service.

Step 2: Identify linkages of the chosen unit with other units and with corporate. This will help the unit to develop objectives and measures that in sync and not at conflict with other units or organization objectives.

Step 3: Conduct interviews and discussions to create the necessary documents on vision, mission and strategy. This step will also lead to development of Scorecard.

Step 4: Conduct executive workshop to further develop and refine the metrics and get buy-in from stakeholders.

Step 5: Develop implementation plan.

Step 6: Conduct one more round of workshop and rollout.

Potential benefits by implementing Balance Scorecard

Balance Scorecard as a management system as opposed to measurement system can benefit the management and stakeholders in the following manner:

1. Help management to clarify their strategy to stakeholders.
2. Help communicate strategy to all employees.
3. Align individual and department goals to organizational strategy.
4. Link strategic objectives to long term targets and budgets.
5. Facilitates periodic review of strategy and quick corrective actions.
6. Obtain feedback about implementation of the strategy.
7. For citizens it raises visibility of government activities, facilitates feedback, supports greater accountability and brings transparency.
8. Helps management to monitor performance from a single dashboard.

Challenges in implementation of Balanced Scorecard

1. Requires a high level of organizational commitment and takes sustained effort to implement fully.
2. May create fear amongst employees, since Balanced Scorecard raises visibility and accountability.
3. Adoption rate may be slower because of challenges in training a large workforce on the methodology, lack of data and information to build the scorecard and technological hurdles.

Conclusion

Success of any government initiative cannot be measured only by financial metrics due to very nature of their role. However that does not justify such entities to be devoid of any measurement and monitoring programmes that helps them to implement and obtain feedback about their strategy. The management processes of the government build around the Scorecard should enable these entities to become aligned and focused in implementing the long term strategy. It is an experiment worth trying and learning from such an initiative can be of immense value.

Marison Menon Chartered Accountants, UAE,
Mr. Kiran M. Hedge



Concept of Environmental Accounting

Introduction

There is growing awareness and concern on the impact of human activity on the ecosystem. This concern at global level about the impact of the human activities on the environment and the need for mitigating the effects led to codification of 'soft law' on environment which began with the United Nations Stockholm Conference on Human Environment and the launch of UN environmental programme in 1972. The principles such as Polluter Pays, Absolute Liability, No Fault Liability, Precautionary Principle, Inter-generational equity¹ and 'good neighbourliness' began to take roots into international and national environmental regulations.

Increasing danger to environment, extinction of many species of plants and animals, depletion of the ozone layer and global warming due to indiscriminate use of fossil fuels emitting Green House Gas has become a reality. States which are considered as trustees of the environment for future generations are increasingly adopting the path of sustainable development in their planning process and formulating tougher regulations for industry based on the soft law developed internationally.

The Brundtland Commission report² states "humanity has the ability to make development sustainable -- to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs."

There is an increasing trend to judge an enterprise in relation to the community in which it operates, just as a responsible citizen is judged by his actions in relation to the community in which he lives. The impact of the activities of the organizations on the environment w.r.t to pollution of water, air, land and abuse of natural resources are coming under the scrutiny of governments, shareholders and citizens.

Unless proper accounting work is done either by the individual organization or by the Government itself, it cannot be determined that both have been fulfilling their responsibilities towards environment. Therefore, the need of environmental account accounting has emerged. In the early 90's, the UNEP and the World Bank set out to examine the feasibility of physical and monetary accounting in the area of natural resources and the environment and to develop alternative macro indicators of environmentally adjusted and sustainable income and product. Simultaneously, the statistical division of the United Nations (UNSTAT) also developed methodologies for a system of Integrated Environmental and

Economic Accounting (SEEA) and issued as an SNA handbook on Integrated Environmental and Economic Accounting.

Environmental accounting at organization level, the focus of this article, aims to address the needs of organization to measure the economic efficiency of their environmental conservation and the business activities of the company as a whole.

Forms of Environmental Accounting

a. Environmental Management Accounting (EMA)

In EMA there is a particular focus on material and energy balance aspects and environmental cost information. This type of accounting is further classified into:

- **Segment Environmental Accounting:** This is an internal environmental accounting tool to select an investment activity, or a project, related to environmental conservation from among all processes of operations, and to evaluate environmental effects for a specified period.
- **Eco Balance Environmental Accounting:** This is an internal environmental accounting tool to support PDCA³ for sustainable environmental management activities.
- **Corporate Environmental Accounting:** This is a tool to inform the public of relevant information compiled in accordance with the Environmental Accounting. This could be referred to as Corporate Environmental Reporting. For this purpose the cost and effect (in quantity and monetary value) of its environmental conservation activities are used.

b. Environmental Financial Accounting (EFA):

Environmental Financial accounting concentrates on reporting environmental liability costs and other significant environmental costs.

c. Environmental National Accounting (ENA):

In national level accounting the particular focus is on natural resources stocks & flows, environmental costs & externality costs, etc.



¹ The right of the present generation to use natural resources for their legitimate use is not an absolute right. The present generation is a trustee of the natural resource and has to pass the natural resource to future generation also.

² The World Commission on Environment and Development 1987.

³ Plan, Do, Check & Act

Need for Environmental Accounting at Corporate Level

The environmental accounting at the corporate level helps the management to know whether corporate has been discharging its responsibilities towards sustainable development while meeting business objectives. Environmental accounting addresses the following:

- Meeting regulatory requirements;
- Operate its factory in a way that environmental damages do not occur;
- Promote a culture and attitude of environmentally safe working amongst its employees;
- Disclosure to shareholders the amount and nature of the preventative measures taken by the management;
- Ensures safe handling and disposal of hazardous waste.

Scope of Environment Accounting

The scope of Environmental Accounting (EA) is extensive and includes corporate, national & international level.

The following aspects are included in environmental accounting:

- The direct investments made by a corporate for minimization of losses to environment. It includes investment made into the equipment/devices that help in reducing potential losses to the environment. This can be easily monetized.
- Indirect losses due to business operation. It mainly includes:
 - o Degradation and destruction such as loss of biodiversity, air and water pollution, hazardous waste including bio medical waste, coastal marine pollution etc.
 - o Depletion of non-renewable natural resources
 - o Deforestation and land uses (measuring and monetizing them can be complex).

Challenges in adopting Environmental Accounting

The concept of environmental accounting has its share of challenges unlike conventional accounting. Challenges are:

- Absence of standard accounting method
- Difficulty in benchmarking between two firms due to non uniformity in accounting
- Difficulty in measuring input cost
- Measurements by corporates is mainly restricted to internal costs and excludes societal cost
- Benefit measurements are long-term process
- Integrating environmental accounting with financial accounting
- Environmental accounting would require adequate knowledge of the national rules and regulations related to environmental aspects

Suggested Framework

The attitude towards the environmental accounting has to shift from compliance to performance based system driven by commitment from the top management. To make the environmental accounting an integral part of the overall accounting system at corporate level, the following may be considered:

- Study and analyze the rules and regulations regarding environment applicable to the company.
- Prepare list of environmental aspects that are responsible for pollution to air, water and land. Identify controls that are implemented to mitigate them. These details needs to form integral part of accounting methodology.
- Analyze the various environment impacts due to the working of the organization. Prepare an environmental management plan accordingly.
- Prepare short term as well as long-term environmental budget for both revenue and capital.
- Investment in various equipment and processes that has positive impact on the environment needs to be collated. The accrued benefits from such initiative to be monetized.
- The financial or operational effect of environmental protection measures on the capital expenditures and earnings of the enterprise for the current period and any specific impact on future periods.
- When significant, the actual amount charged to operations in the current period, together with a description of the environmental controls to which they relate. This amount may be sub-divided into the following general ledger accounts:-
 - o Liquid effluent treatment.
 - o Waste gas and air treatment.
 - o Solid waste treatment.
 - o Analysis, control and compliance.
 - o Remediation.
 - o Recycling.
 - o Other such as accident and safety.



- When material, the actual amount capitalized during the current period, the accumulated amount capitalised to date, and the period for amortising, or writing off such amounts, together with a description of the environmental measures to which they relate. This amount might be subdivided into categories. In case where it is not possible to segregate the amount that relates to environmental measures, this fact could be stated.
- Contingent liabilities arise due to environmental related issue should be shown clearly.
- Environmental accounting should be a part of management accounting. Therefore, environmental management accounting information system should be developed.
- Managers Performance indicators should include environmental goals and target.
- Environmental indicators should be calculated for evaluation of environmental aspects and the same should be disclosed properly in annual accounts.
- Government may consider it mandatory for corporates to submit environmental audit report.



Morison Menon Chartered Accountants,
UAE,
Mr. Shajeem Hussain

Conclusion

Environmental accounting can be expected to become the norm rather than choice of the future. Countries and corporates will be forced to adopt environmental accounting as pressure builds on governments that do not have the vision to act as trustees of the environment for future generation as mandated by guiding international environmental principles such as *Polluter Pays*, *Precautionary*,.....

Fortunately for us in the UAE, we have the rulers under whose vision the country has started several green initiatives that adhere to the concept of sustainable development and government taking the role of trustee of environmental assets on behalf of the population in right earnest, on all aspects related to environmental management.

For organizations contemplating to incorporate the best of environmental management principles into their business practices and reap benefits, environmental accounting is a step in the right direction. Environmental accounting⁴ will also help managements to proactively take preventive steps to comply with the federal laws on environment, disclose adequate details of environmental aspects in the annual statements and escape punitive actions. Responsible corporates voluntarily initiate the process to adopt environmental accounting into their financial accounting framework and become trendsetter in the region.



⁴ For more information about environmental accounting and to understand how environmental friendly is your accounting, log on to take the environment accounting survey at www.morisonmenon.com. The findings of survey will be shared with participants.

Green or Environmental Accounting

Introduction

Green or environmental accounting describes an effort to incorporate environmental benefits and costs into economic decision making, corporate environmental accounting is concerned with a business's environmental impact.

The present situation of environmental or green accounting and its most evolved form, sustainability accounting, has been receiving continuous attention in the academic accounting literature beginning with the work of Gray in the early 1990s, through to the release of the Sustainability Accounting Guidelines at the World Summit on Sustainable Development in Johannesburg in August, 2002.

Gray is attributed with much of the conceptual development of sustainability accounting and he identified three different methods (in 1993) of sustainability accounting.

- **Sustainable cost**

Sustainable cost is the (hypothetical) cost of restoring the earth to the state it was in prior to an organisation's impact; i.e... the amount of money an organisation would have to spend at the end of an accounting period in order to place the biosphere back into the position it was at the start of the accounting period.

This accounting concept is of capital maintenance, and applies to the biosphere, in recognising the need to maintain the stock of natural capital for future generations. Sustainable cost is deducted from the accounting profit (calculated using generally accepted accounting principles) to arrive at a notional level of sustainable profit or loss. Where the sustainable cost exceeds the accounting profit the degree of unsustainability is measured in monetary terms.

Unfortunately, the problem with this method is that any damage to critical natural capital would, in theory, be valued at infinite cost because it is irreplaceable, leading to the conclusion that the activities of an organisation which damage critical natural capital are unsustainable.

- **Natural capital inventory accounting.**

Natural capital inventory accounting involves the recording of stocks of natural capital over time, with changes in stock levels used as an indicator of the (declining) quality of the natural environment. Various types of natural capital stocks are distinguished enabling the recording, monitoring and reporting of depletions or enhancements within four distinct categories suggested by Gray.

1. Critical, for example, the ozone layer, tropical hardwood, biodiversity.
2. Non-renewable/non-substitutable, for example, oil, petroleum and mineral products.
3. Non-renewable/substitutable, for example, waste disposal, energy usage.
4. Renewable, for example, plantation timber, fisheries.

- **Input-output analysis**

Input-output analysis accounts for the physical flow of materials and energy inputs and product and waste outputs in physical units. It aims to measure all materials inputs into the process, and outputs of finished goods, emissions, recycled materials and waste for disposal.

Traditional financial accounting vs Green Accounting

Traditional financial accounting only includes the internal stocks and flows of economic (and some social and environmental impacts) on the Balance Sheet and Profit and Loss account respectively – part of the front half of the cube. Sustainability accounting seeks to explore all three dimensions by:

1. disaggregating the internal accounts to show costs and benefits relating to economic, social and environmental performance; and
2. extending the accounting boundary to consider the monetary value of external economic, social and environmental impacts.

Moving from financial accounting to sustainability accounting requires adjustment and extension to the primary statements in the following ways:

- **Restatement of the Profit and Loss Account** to show how sustainability related costs and benefits can directly impact on the bottom line.
- **Extension of the Profit and Loss Account** to encompass the external costs and benefits to the environment, society and the economy which are not traditionally taken into account.
- **Extension of the Balance Sheet** to take a fuller account of the range of assets (including intangible assets such as brands, human capital or reputation as they relate to sustainability); and 'shadow' liabilities (including liabilities relating to sustainability risks) of the organisation.

Taken together these adjustments form the sustainability accounting framework which is illustrated in Figure 1. They provide a route map for the remaining chapters of this guide.

Figure 1: Overview of Sustainability Accounting

The numbers against each part of the overview give the section in this guide where that approach is discussed.

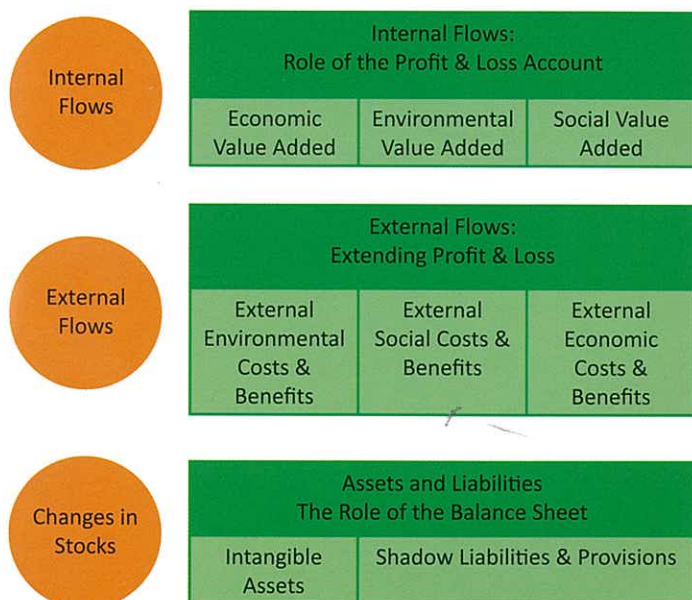


Illustration for Disclosures

As a result of the adoption of Green Accounting, there are additional disclosures in the financial statements:

Example 1: Additional disclosure for Profit & Loss

S\$('000)

Environmental Costs

- Staff costs (apportionment of personnel costs allocated to environmental management)	xx
- Environmentally related operational costs to suppliers	xx
- Waste management licences	xx
- Landfill tax	xx
- Climate change levy	xx
- Local authority charges	xx
- Contributions to environmental groups	xx
- Depreciation	xx

Total Environmental Costs

xx

Environmental Benefits

- Revenue generated from recycled waste	xx
- Revenue from environmental price premium	xx
- Reduced waste disposal costs	xx
- Packaging cost reductions	xx
- Landfill tax savings	xx
- Enhanced capital allowance for energy efficient appliances	xx

Total Environmental Benefits

xx

Net environmental costs/benefits

xx

Example 2: The provision with respect to environmental costs

S\$('000)

Provision for environmental costs

Beginning balance	xx
Exchange adjustments	xx
New or increased in provision	xx
Write-back of unused provision	(xx)
Unwinding of discount	xx
Utilisation	(xx)
Deletions	(xx)
Closing balance	<u>xx</u>

The Advantages

Adopting decisions about the financial performance of the organisation and green accounting, providing useful information for reaching cost minimisation targets (especially environment) and negative impact on environment, presenting data about costs necessary for estimating the financial impact of such initiatives as:

- pollution preventing;
- designing environment and green accounting improvement;
- projection, costs, estimating life cycle in the environment;
- product circulation administration from environmental prospective;
- supply process from environmental perspective;
- the product or producer's liability;
- environment-centered management systems;
- assessing, testing and reporting performances of environmental activities;
- reporting of these performances;
- information source for other routine managerial activities such as: product and process design, cost distribution and control, capital budgeting, supply process, price policies, performance evaluation.


The Disadvantages

The implementation of green accounting doesn't represent a guaranty for obtaining financial performance or environment-related performances.

Green accounting as an enabler to wider sustainable development

Engaging an organisation in the transition to sustainability is difficult. It requires that people engage in a process which builds their understanding of the need to change their behaviour and gives them options and alternatives on how to change. Green accounting can be a vehicle for that process.

Sustainability accounting allows for a justification of sustainable decisions. It uses financial language which decision makers are familiar with and provides opportunities for more sustainable behaviour. As such, it can act as a bridge between the 'old' and the 'new'.

The purpose of green accounting is to be one carrier in a large change process. 



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International Financial Reporting Standards for Small and Medium-Sized Entities

By Dr. Barry Jay Epstein, Ph.D., CPA and Dr. Eva K. Jermakowicz, Ph.D., CPA

On July 9, 2009, the International Accounting Standards Board (IASB) issued *International Financial Reporting Standards (IFRS) for Small and Medium-Sized Entities (SME)*. The stated goal of the standard is to provide a simplified, self-contained set of accounting principles derived from the full IFRS to be used by smaller, non-listed companies.

The perceived need for a stand-alone set of simplified standards has become increasingly manifest in recent years. In the U.S., FASB is also weighing development of such a streamlined group of financial reporting requirements. The advent of this standard follows by about a decade a similar undertaking in the United Kingdom, where *Financial Reporting Standards for Smaller Entities (FRSSE)* have been successfully implemented.

The support for the IASB's project from national accounting standard setters throughout the world stems mostly from the widely perceived complexity of the full IFRS, and from the different statutory requirements for financial reporting in many countries, compared to the United States. The complexity of the full IFRS (or, for that matter, full U.S. GAAP) arguably imposes a high cost on implementing and applying these standards. In addition, in most countries - in contrast with the United States - SMEs are legally required to file statutory financial statements prepared in accordance with national GAAP (or IFRS), and to make them available to all users. For example, in the European Union about 7,000 listed companies were implementing IFRS in 2005, but more than 5 million SMEs have to prepare their financial statements in accordance with national GAAP (resulting in lack of comparability). Additionally, many believe that the IFRS for SMEs would allow companies as well as countries an easier transition to the full IFRS.

Opponents of a separate set of standards for SMEs believe that all entities should follow the same basic accounting principles for the preparation of general purpose financial statements, whether IFRS or U.S. GAAP. Some have noted that complexity in accounting is merely a symptom - the inevitable result of the ever-increasing complexity of transactional structures, such as the widespread use of "engineered" financial products. Based on observations of the difficulties faced by companies implementing and applying the full IFRS, others have concluded that the problem is not that SMEs need simpler accounting, but that all entities need reporting requirements that are less complex and more principles-based.

Because the IASB lacks the power to require any company to use its standards, the adoption of the IFRS for SMEs is a matter for each country to decide. The issue must be resolved by a country's government legislators and regulators, an independent standards setter, or a professional accountancy body. Each country will have to set criteria to determine eligibility as a "small or medium-sized" entity.

Definition of SMEs

IFRS for SMEs is intended for entities that do not have public accountability. An entity has public accountability - and therefore should use the full IFRS - if it meets either of the following conditions: 1) it has issued debt or equity securities in a public market; or 2) it holds assets in a fiduciary capacity, as its primary purpose of business, for a broad group of outsiders. The latter category of entity would include banks, insurance companies, securities broker/dealers, pension funds, mutual funds, and investment banks. The standard does not impose a size test in defining SMEs, notwithstanding the nomenclature used.

Modifications of Full IFRS Reflected in the ED

Compared to the full IFRS, the length of the standards has been reduced by more than 90%. This was achieved by eliminating topics deemed to not be generally relevant to SMEs, by eliminating certain choices of accounting treatments, and by simplifying methods for recognition and measurement. These three sets of modifications to the content of the full IFRS, discussed below, respond to both the needs of users of SMEs' financial statements and to cost-benefit concerns. According to the IASB, the set of standards in the IFRS for SMEs is suitable for a typical enterprise having 50 employees, but is also valid for so-called micro-entities having only a single employee or a few employees.



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Omitted topics. Certain topics covered in the full IFRS were viewed as not relevant to typical SMEs (e.g., pertaining to transactions thought unlikely to occur in an SME context), and have accordingly been omitted from the standard. Previously - when the exposure draft for IFRS for SMEs was released - there were cross-references to the full IFRS that would not preclude SMEs from applying any of the financial reporting standards and methods currently found in IFRS, essentially making the IFRS for SMEs standard optional. Upon issuance of the final IFRS for SMEs standard, all of these cross-references were removed, with the exception of a reference to IAS 39, *Financial Instruments: Recognition and Measurement*, thus making IFRS for SMEs a fully stand-alone document, not to be used in conjunction with the full IFRS.

Topics addressed in the full IFRS that are omitted from the IFRS for SME standard are as follows:

- Earnings per share;
- Interim reporting;
- Segment reporting;
- Special accounting for assets held for sale.

Only the simpler option included. Where full IFRS provide an accounting policy choice, generally only the simpler option is included in IFRS for SMEs. SMEs will no longer be permitted to use the other option(s) provided by the full IFRS as described in the exposure draft, as all cross-references to the full IFRS have been removed.

The simpler options selected for inclusion in IFRS for SMEs are as follows:

- For investment property, measurement is driven by circumstances rather than a choice between the cost and fair value models. If the fair value of investment property can be measured reliably without undue cost or effort, the fair value model must be used. Otherwise, the cost method is allowed.
- Use of the cost-amortization-impairment model for property, plant and equipment and intangibles (the revaluation model in IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets* is not allowed).
- Expensing of borrowing costs (the capitalization model is not deemed appropriate).
- Utilization of the direct or indirect method for reporting operating cash flows.

Recognition and measurement simplifications. The IASB has made significant simplifications to the recognition and measurement principles included in full IFRS. Examples of the simplifications to the recognition and measurement principles found in IFRS are as follows:

• Financial instruments:

- *Classification of financial instruments.* Only two categories of financial assets are provided, rather than the four found in full IFRS. Since available-for-sale and held-to-maturity classifications under IAS 39 would not be available, there would be no need to deal with all of the 'intent-driven' held-to-maturity rules, or related 'tainting' concerns, with no need for an available-for-sale option, among other simplifications.
- *Derecognition.* In general, the principle to be applied is that, if the transferor has any significant continuing involvement, derecognition would not be permitted. The IASB believes that the complex 'passthrough testing' and 'control retention testing' of IAS 39, *Financial Instruments: Recognition and Measurement*, relate to transactions in which SMEs are typically not engaged and thus can be omitted.
- *Simplified hedge accounting.* Much more simplified hedge accounting and less strict requirements for periodic recognition and measurement of hedge effectiveness are specified than those set forth by IAS 39.
- *Embedded Derivatives.* No separate accounting for embedded derivatives is required.

- *Goodwill impairment:* An indicator approach has been adopted to supersede the mandatory annual impairment calculations in IFRS 3, *Business Combinations*. Additionally, goodwill and other indefinite-lived assets are considered to have finite lives, thus reducing the difficulty of assessing impairment.
- *All research and development costs are expensed as incurred* (IAS 38 requires capitalization after commercial viability has been assessed).
- *The cost method or fair value through profit or loss of accounting for associates and joint ventures* may be used (rather than the equity method or proportionate consolidation).
- *Simplified accounting for deferred taxes:* The 'temporary difference approach' for recognition of deferred taxes under IAS 12, *Income Taxes*, is allowed with a minor modification. Current and deferred taxes are required to be measured initially at the rate applicable to undistributed profits, with adjustment in subsequent periods if the profits are distributed.
- *Less use of fair value for agriculture* (required only if fair value is readily determinable without undue cost or effort).
- *Defined benefit plans.* Two of the four options available under IAS 19, *Employee Benefits*, are allowed, i.e., recognize actuarial gains and losses in full in profit and loss when they occur, or recognize these in full directly in other comprehensive income when they occur (the complex 'corridor approach' has been deleted).
- *Share-based payment:* Equity-settled share-based payments should always be recognized as an expense and the expense should be measured on the basis of observable market prices, if

available. When there is a choice of settlement, the entity should account for the transaction as a cash-settled transaction except under certain circumstances.

- *Finance leases*: Simplified measurement of lessee's rights and obligations.
- *First-time adoption*. Less prior period data would have to be restated than under IFRS 1, *First-time Adoption of International Financial Reporting Standards*. An impracticability exemption has also been included.

Because the default measurement of financial instruments would be fair value through profit and loss under the IFRS for SMEs, some SME may actually be required to apply more fair value measurements than do entities reporting under full IFRS.



Maintenance of the IFRS for SMEs

SMEs have expressed concerns not only over the complexity of IFRS, but also about the frequency of changes to standards. To respond to these issues, IASB intends to update the IFRS for SMEs approximately once every two years via an 'omnibus' standard. Users are thus being assured of having a moderately stable platform of requirements.

Implications of the IFRS for SMEs

The IFRS for SMEs is a significant development that may have real impact on the future accounting and auditing standards issued by organizations participating in the standard-setting process.

On March 6, 2007, the FASB and the AICPA announced that the newly established the Private Company Financial Reporting Committee (PCFRC) will address the financial reporting needs of private companies and of the users of their financial statements. The primary objective of PCFRC will be to help the FASB determine whether and where there should be specific differences in prospective and existing accounting standards for private companies.

In many Continental European countries a close link exists between the statutory financial statements and the results reported for income tax purposes. The successful implementation of SME Standards will require breaking the traditional bond between the financial statements and the income tax return, and may well trigger a need to amend company laws.

Since it is imperative that international convergence of accounting standards be accompanied by convergence of audit standards, differential accounting for SMEs will affect regulators such as the Public Company Accounting Oversight Board (PCAOB) and the SEC. IFRS for SMEs may be a welcome relief for auditors as it will decrease the inherent risk that results from the numerous choices and judgment required by management when utilizing the full version of IFRS. The success of the IFRS for SMEs will depend on the extent to which users, preparers and their auditors believe the standards meet their needs. 

Dr. Barry Jay Epstein, Ph.D., CPA, CFF is Partner in the Chicago, Illinois firm Russell Novak & Company, LLP. Drs. Jermakowicz and Epstein are the co-authors of Wiley IFRS 07 and other books. Dr. Eva K. Jermakowicz, Ph.D., CPA, is Professor of Accounting and Chair of the Department of Accounting and Business Law at Tennessee State University, Nashville. Assistance was provided by Nadira Saafir, CPA, also of Russell Novak & Company, LLP.

Avoiding Litigation as Businesses Transition from GAAP to IFRS

By Dr. Barry Jay Epstein, *Ph.D., CPA, CFF* and Ms. Elizabeth A. Kowalski, *CPA, CFE*

The move to International Financial Reporting Standards (IFRS) is accelerating.

Today about 120 nations have prescribed IFRS for publicly-held and, to a lesser degree, private entity reporting. The U.S. FASB has committed to converge U.S. GAAP with IFRS – a process to be completed by mid-2011. The U.S. SEC in 2007 eliminated the requirement for foreign private issuers to reconcile to U.S. GAAP if they report under IFRS, and a move is afoot to simply replace U.S. GAAP with IFRS. A decision is due within the next two years: if in the affirmative, all U.S. public companies could convert to IFRS beginning in 2015.

In mid-2009 IASB issued an all-inclusive, simplified standard for optional use by many privately-held entities. This will appeal to preparers, auditors and users who have objected to the ever-increasing complexity of accounting standards, and may provide the impetus for the wider acceptance of IFRS. U.S. accountants may now opine on financial statements prepared in conformity with U.S. GAAP or under IFRS (including *IFRS for SMEs*). A number of other nations are also currently moving from their respective national GAAP to IFRS, and the very same issues will be pertinent, although other nations do not all share the U.S.'s litigious environment.

There is much to celebrate with the coming of universal financial reporting standards, but there are also risks attendant to these changes. Attorneys can play a key role in advising clients on how to avoid or limit these transactional and litigation risks. The following are suggestions for anticipating difficulties in the adoption of IFRS and for interacting with entities already applying those standards.

Why the Move from GAAP to IFRS is Important for Attorneys

Although the ultimate promise of universal financial reporting standards is undeniably appealing, the road to its achievement will be filled with challenges and surprises. Some of those challenges will involve risks, including the risk of litigation. Inside (house) counsel, legal professionals having corporate practices, litigators, advisors to corporate boards, and others should be alert to these risks as they counsel their clients seeking to navigate, and benefit from, the coming changes in the financial reporting landscape.

Attorneys are in key positions to advise clients making business decisions that involve preparing, using or understanding financial statements. Clients undertaking acquisitions or entering into joint venture arrangements, for example, increasingly will be doing so with counterparties that report under IFRS. Other clients will attempt to raise capital in overseas markets, many of which may require or prefer registration filings on the basis of IFRS, necessitating conversion to,

or supplementation with, IFRS-based financial statements. Yet other clients will choose to be early adopters of IFRS (or will be attracted to *IFRS for SMEs* as a strategy for simplification of the financial reporting process), running the real risk of encountering challenges to the efficacy of their conversion efforts.

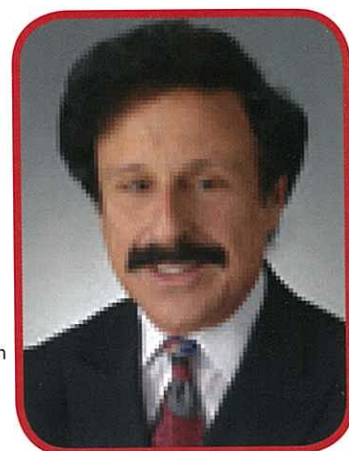
Inappropriate IFRS conversion practices can lead to charges of securities fraud, other white collar crime, or assertions of breach of contract. Allegations could range from investor deception through accounting principles shopping, to manipulation of accounting standards applicable to earn-out calculations or other contractual provisions. Some preventive measures are addressed in the following paragraphs.

Advising corporate clients on adoption of IFRS

1. *Recommend that client entities begin training for all appropriate staff as soon as possible.* All accounting policies and procedures should be reviewed, to learn about the differences in new standards and to update the organization's understanding and use of accounting standards. Transition to IFRS will impact many departments; for example, IT will face systems implementation issues, investor relations must communicate corporate performance to outsiders, employee benefits will need to understand how plan administration is affected, and human resources will need to address the impact on performance metrics.

2. *Establish relationships with experts (e.g., consultants, university professors, international CPA firms).* Accounting experts have been studying IFRS for ten or more years and are may be available to assist. The International Accounting Section of the American Accounting Association, an organization of college professors, is one source for identifying local experts on IFRS. Attorneys should advise their clients to discuss implementation issues as well as technical areas that will affect their respective organizations the most. For companies subject to Sarbanes-Oxley, engagement of experts by the Board audit

Dr. Barry Jay Epstein



committee could prove advisable, to demonstrate a commitment to quality financial reporting, as well as for substantive purposes.

3. *Document all judgments made.* IFRS is indeed a more principles-based system of financial reporting than U.S. GAAP, and accordingly calls for greater use of judgment than in the past. It is important that management and the accounting staff document their understanding of the standards and how they are being complied with. Contemporaneous documentation may serve your clients well should challenges, including litigation, occur.

4. *Encourage and document a healthy discourse between management and the external auditors.* The best defense to an allegation of financial reporting fraud is often the openness of communications between the company and its auditors. In the event of such allegations, documented consultations with the independent auditors, coupled with other evidence from audit working papers, can refute the notion that management intended to conceal its practices, which counters a fraud assertion.

High-Risk Areas in Any Change in Accounting Standards

Any changes to reporting standards can engender disputes that may evolve into contractual or securities litigation. Notwithstanding the progress toward convergence, substantial differences between U.S. GAAP and IFRS still remain. A change from U.S. GAAP to IFRS would – in the near term – create greater risk of misunderstandings, and of improper application of unfamiliar rules by preparers, and even by their auditors. In the authors' opinion, based on extensive experience with securities litigation, the expanded use of IFRS-based reporting will create expanded litigation risk.

The following are five key areas that attorneys could usefully reinforce in their ongoing counsel of corporate clients.

1. *Consider the impact of changes on performance metrics (e.g., bonus plans).* Arrangements for compensation based on a financial statement caption – such as EBITDA – may need adjustment for the possible impact of IFRS. At minimum, affected employees need to be made aware of the changes and given assurances regarding impacts on their compensation. Failure to do so could result in breach of employment contract and other claims.

2. *Anticipate the impact of changes on debt covenants.* Compliance with various affirmative and negative covenants (e.g., EBITDA, debt service coverage ratio) may be affected by new measurement or classification rules under IFRS. Lenders should be educated before changes take effect, and in some cases amendments (e.g., to “freeze”

Ms. Elizabeth A Kowalski



GAAP for covenant calculation purposes) may be negotiated, in order to ameliorate the impact of changes to IFRS.

3. *Weigh the tax accounting implications.* One important issue in the U.S. revolves around the popular use of last-in, first-out (“LIFO”) inventory costing. IFRS does not permit use of LIFO inventory costing, and U.S. tax regulations require when changing from LIFO that any LIFO reserve be absorbed into taxable income. Investors will find most formerly LIFO-using companies reporting higher earnings, larger inventories, but also reduced cash flows (due to higher taxes owed on inflated earnings and on the loss of the LIFO reserve), all of which have the potential to confuse and disappoint investors. Communications ahead of the change will be needed to avoid potential investor suits.

4. *Consider how the implications of fair value reporting rules, including recognition of impairments and recoveries, differ under IFRS.* Already a controversial and complex issue, the application of fair value measurements under IFRS differ from U.S. GAAP. Also, unlike under U.S. GAAP, in many instances previously recognized impairments are reversed under IFRS when values increase, making this a likely area for confusion.

5. *Be aware of the effects on M&A earn-out agreements.* Many business acquisitions involve earn-out arrangements, giving sellers additional compensation based on future performance. This area has long been rife with disputes, since buyers often could alter accounting procedures to depress the amounts (EBITDA, net income, etc.) upon which earn-out obligations were to be computed. A change to IFRS will exacerbate the risk of disputes, which in some cases might be avoided by amending agreements (e.g., to “freeze” GAAP for

measurement purposes, whereby accounting principles employed at the inception of the relationship are preserved, for measurement purposes, throughout the term of the agreement).

An Advisory Checklist for Transactional Attorneys

IASB's stated goal is to develop a single set of high quality global accounting standards that can be uniformly utilized by financial statement issuers in all countries at some time in the future. However, even before that time your clients may wish to enter into transactions with entities that report under full IFRS or one of the several localized versions of IFRS.

Before engaging in transactions with entities employing non-U.S. GAAP, clients should be advised to take certain precautionary steps. The following specific actions can be considered as a 'checklist' of defensive steps to be taken by clients contemplating major transactions with foreign entities, ranging from joint ventures and acquisitions to firm supply agreements.

1. *Obtain several years' financial statements of the intended counter-party enterprise.* Five years' financial statements should be considered a minimum, to avoid being misled by a recent, unsustainable interlude of exceptional performance. Audited financial statements, certified by public accountants (or the equivalent under various foreign regulatory regimes), should be deemed more reliable than unaudited (e.g., reviewed, compiled or assembled) financial statements.

2. *Closely read the financial statements, including the footnotes, and auditors' reports to ascertain which set of financial reporting standards have ostensibly been utilized for their preparation.* For example, the financial statements may purport to be in conformity with IFRS, or with various national standards such as UK GAAP. Be wary of any representation (in either auditors' reports or financial statement footnotes) suggesting that the financial statements simultaneously conform to more than one set of reporting standards, since this is virtually impossible to achieve. Note if and when the entity has recently adopted a new set of financial reporting standards, and if so pay particular attention to any adjustments made in the conversion process. Also, major transactions (such as business combinations) or events (the adoption of new accounting principles) have been used to perpetrate financial reporting schemes, such as provision of 'cookie jar' reserves. In particular, adoption of IFRS has been found to have encouraged a number of entities to embrace restatements of long-lived assets to revalued (fair value) amounts, which have not always been firmly grounded in verifiable values.

3. *If the proposed counter-party prepared its financial statements in accordance with any set of standards other than U.S. GAAP, obtain*


a comprehensive comparison of the foreign standards with U.S. GAAP. Several of the major international CPA firms offer, via their websites, complimentary guides comparing specific foreign GAAP to either U.S. GAAP or IFRS, and various comparison tables also can be found in other publications, such as *Wiley IFRS 2010*. Identify the areas of potential discrepancies that are pertinent to the entity being reviewed and consider how these might distort decision making.

4. *Consider how the differences in financial reporting practices might have an impact on the proposed transaction or commercial relationship.* Users of financial statements commonly select certain data contained therein to construct one or more indicators (e.g., EBITDA, return on investment), and then use those computed criteria to assist in the investing or other decision-making process. Common indicators are those pertaining to cash flows or profitability, those implying a range of transaction values (e.g., multiples of revenues or operating earnings), and those addressing operating characteristics (e.g., operating expense ratios). It is critical that, if any such indicators are to be constructed and utilized, the bases for the financial statement captions upon which these indexes are to be calculated must be fully understood, and that, e.g., GAAP-IFRS differences not be disguised and then incorporated within misleading indicators.

5. *If the differences in accounting principles are more than trivial, consider engaging an accounting expert to recast the target entity's financial statements onto a U.S. GAAP basis.* With the sudden awareness of the growing relevance of IFRS (and the diminishing importance of other national GAAP), many firms are gearing up to develop in-house expertise, and more universities are teaching international accounting courses. It should therefore be possible to obtain the services of a qualified adviser who can explain the impact that non-U.S. GAAP financial reporting might have on the key information elements (e.g., working capital and other solvency indicators) being used as a basis for decisions. Thanks to the Internet, finding qualified help should rarely be difficult – in fact, even simply 'Googling' terms such as 'international accounting expert' reveals the existence of many score such consulting experts.

6. *If the recast financial statements seemingly should affect the client's decision making (e.g., the amount to be paid for an acquisition, or invested in a joint venture), obtain agreement from the proposed counter-party as to the propriety of any adjustments made.* It is not unlikely that the counter-party will lack a detailed (or even any) understanding of U.S. GAAP, and therefore may not be capable of agreeing with the proposed adjustments to bring its financial statements into conformity with these standards. However, unless the prospective business partners reach an understanding, later disputes become much more probable of occurrence. An alternative approach in such situations would be to have qualified

assistance to convert the U.S.-based entity's (the client's) financial statements into foreign GAAP (most likely, into IFRS). The objective of either exercise is to facilitate an 'apples-to-apples' comparison, and it is actually less important which set of standards is used to accomplish this goal. However, there will be more effort required to educate the U.S. client if its financial statements are to be recast, probably further underscoring the need for qualified assistance from accounting experts.

7. *Consider the foregoing in developing proposed representations and warranties to be incorporated into the contractual agreement.* For example, if the foreign counter-party's financial statements were recast, its formal acknowledgment of the propriety of the revisions should be obtained and set forth in the agreement, so that ownership of the restatement is assumed by the counter-party. Doing so should obviate the basis for any later claims regarding misrepresentations made (e.g., the counterparty's assertion as to its net current assets at the transaction date). It is important that no opportunity be left for either party to direct responsibility to the consulting accountants who 'translated' from one set of financial reporting standards to another, whose work must be ratified by the contracting parties, or against the attorneys who advised the process. 

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Villaruz, Villaruz & Co., CPAs

THE FIRM, THEN AND NOW

“*In all thy ways, acknowledge Him,
and He shall direct thy paths - (Proverbs 3:6)*”

It was in this light and inspiration that Villaruz, Villaruz & Co., CPAs (VVC) was founded and formed.

In the 22 years of its existence, VVC has established its market niche in the business assurance, auditing and accounting services to local businesses, multinationals and foreign based organizations. Since 2003, the firm has been an independent affiliate of Morison International not only to serve the cross-border needs of its clients but also to stay at the cutting edge of emerging trends in the business environment affecting accounting and consulting firms globally.

It all started in July 1988, in the midst of the Philippine economic crisis, when Normita Lansang-Villaruz, after her resignation from a company where she worked for nine (9) years was inspired, resolved and decided to pursue her own professional practice as a CPA and formed a general professional partnership with her husband, George V. Villaruz, and her best friend, Sandra R. Chingcuangco. George was then working as a full time Finance and Administration Manager with a group of companies and Sandra just also resigned from the same company with Normita. It was on September 16, 1988 that the firm was officially formed and initially registered with the Securities and Exchange Commission under the firm name, Villaruz, Villaruz, Chingcuangco and Co., CPAs. The three partners designated Normita as the Managing Partner, George as the Senior Partner and Sandra, Partner.

Villaruz, Villaruz, & Co., CPAs (VVC) established its first office in the historic Intramuros, City of Manila. Its first clients were the companies holding offices in the same building where they were situated - from restaurants to brokerage and forwarding companies. Due to the demands of increasing professional practice, additional personnel were hired by the end of the firm's first year of operations. Its unwavering commitment to deliver the best professional services to its clients and to infuse added value in the process, enabled the firm to broaden its client base and assured its steady growth.

By early 1990, Sandra withdrew from the partnership to migrate to the United States. The firm believed that the best promotion would be its excellent performance and sincere commitment in the timely delivery of its professional services plus the continuing word of mouth referrals. True enough, as the years passed, there has been a tremendous increase in the number of clients particularly due to referrals from friends, colleagues and most especially from its existing clients. In 1991, it transferred its main office to Quezon City. In August, 1993, the Securities and Exchange Commission formally approved the withdrawal of Sandra from the partnership and the firm's name was finally amended to Villaruz, Villaruz & Co., CPAs (VVC). In January 1994, with VVC's practice continuously growing, George joined Normita in the active practice of their profession in their own firm. It was during these years that the partners' couple power emerged and developed. By July 2001, it established its first branch at Suite 1628 City & Land Mega Plaza Building, ADB Avenue, Ortigas Center, Pasig City.

By December 4, 2006, the Head Office had moved to Unit 3 9th Floor Galleria Corporate Center, EDSA, Quezon City to accommodate the increasing number of its dedicated and outstanding personnel.

The Partners have also actively participated as Officers in their profession's professional organizations such as the Philippine Institute of Certified Public Accountants (PICPA), the Association of Certified Public Accountants in Public Practice (ACPAPP), Volunteer Member of CHED NCR Quality Assessment Team (NCR QAT), Volunteer Evaluator Members of Philippine Council for NGO Certification (PCNC) and speakers in various seminars. Over the years of its professional existence, VVC continues to excel in its professional practice in partnership with its excellent, dedicated, loyal and hardworking Officers and Staff.

The global business community is an increasingly dynamic and evolving world. There is a tremendous challenge for local businesses to excel and to prosper particularly in the professional services sector. At the same time, boundaries are breaking down giving way to a global business community. But in a world where change is constant, there are values that should stay and remain the same. VVC has made it part of its corporate philosophy to keep up with change but at the same time, maintain good old values such as sterling, responsible and committed professional services at all times hence it has its CIRCLE IT core values.



Villaruz, Villaruz & Co.
Philippines
Mr. George V. Villaruz

Commitment

We are committed to helping clients succeed and will proactively assist our clients in growing and improving their businesses. Likewise, we are committed to developing our people. We encourage and support their involvement in activities aligned with their personal and professional goals.

Integrity

As public accounting practitioners, VVC partners, managers and team members shall bear the unassailable seal of integrity and are expected to abide by our Code of Ethics for Good Governance.

Respect

We foster a leadership style throughout the organization which encourages respect for the individual. We treat people with fairness and dignity and recognize their merit. Our respect for each other's unique arrangement of skills, talents, capabilities, and resources, make us a dynamic team – learning from and sharing with each other, communicating openly and celebrating our mutual and individual successes.

Client care and communication

The client is the focus of all our endeavors. We place a major emphasis on developing an extremely strong relationship with each of our clients through constant communication and coordination with them.

We also believe that open communication lines from among all team members from partners, managers, seniors, semi-seniors, associate auditors, and all administrative staff, is vital to our operations as a professional services firm. Ultimately, our long term success depends on it.

Leadership and Loyalty

We aim to gain recognition as a highly respected CPA firm in both the local and international business circles. As such, profitability and financial strength are essential to our success; they provide opportunities for growth and development.

Our loyalty to the Oath that we have taken in the exercise of our profession is continuously upheld. Loyalty to the firm and to the values that our firm holds so dearly is also sustained.

Excellence


Excellence is the yardstick by which we measure our performance. Exceptional quality pervades all our activities. For everyone at VVC, pursuit of excellence is a journey never completed.

Innovation

We realize the challenge for us to adapt to the ever changing business environment and its requirements. We believe Innovation is the key to stay ahead in the 21st century. We need to be creative and proactive in making changes that will make our lives better and our works easier. We need to embrace change if it is done for the benefit of the common and greater good. We welcome technological advances as the means to help us improve our systems and procedures in accomplishing our goals and in the timely completion of our projects. We are cooperative in welcoming changes for the betterment of our professional practice.

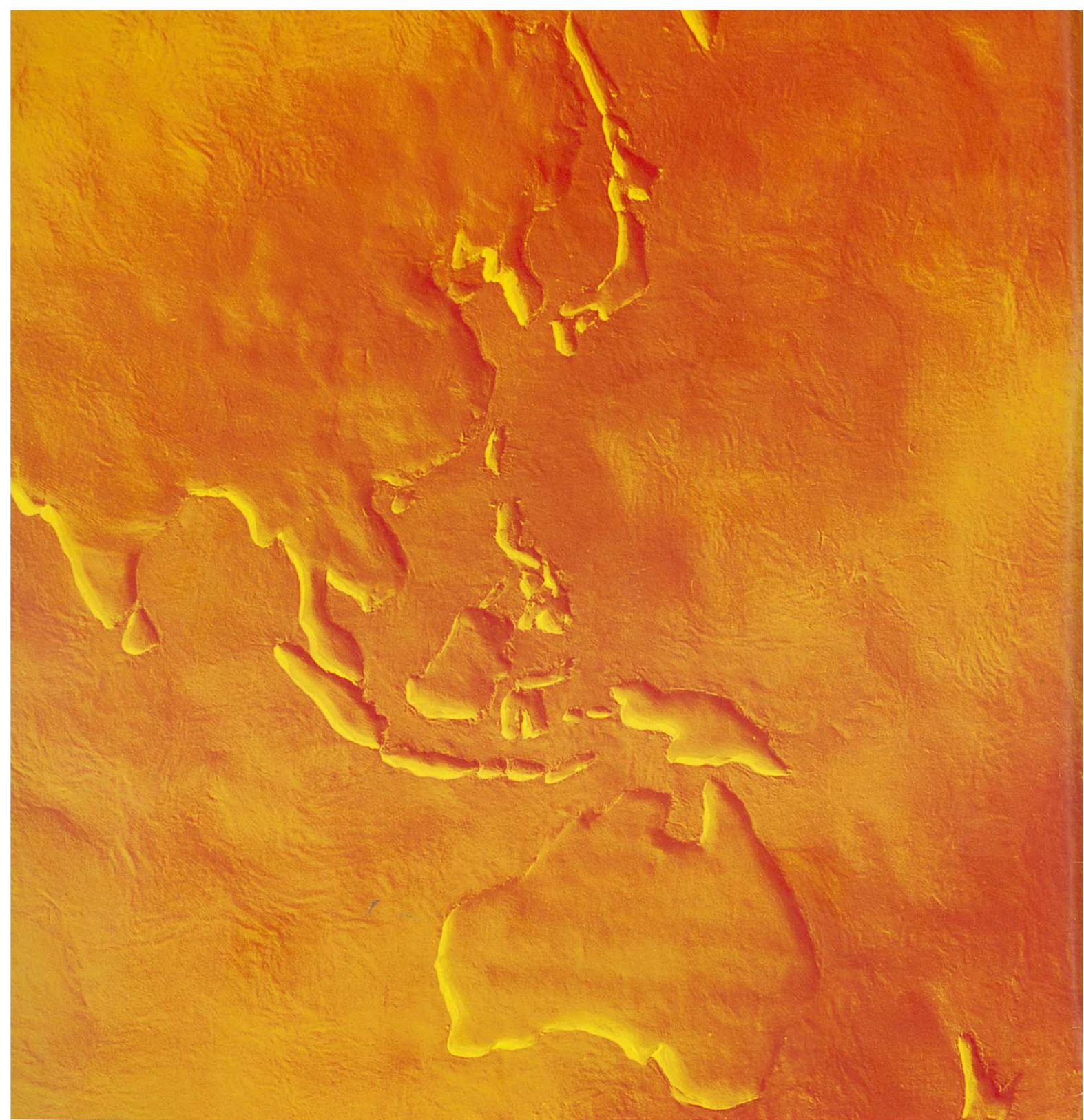
Teamwork

We all work as a TEAM. We understand and appreciate the diversity of each team member's strengths and potentials. Collectively, we act for the unity and efficiency of our team and harmonize our team members' contributions to achieve our common goal.

Once classified as a small firm practitioner in 1988, VVC has gained for itself the rank as a medium size auditing firm with Class A registration with the Securities and Exchange Commission (SEC) and a total manpower complement at present of fifty eight (58) personnel. It has promoted its dedicated and outstanding auditors and accountants to Managerial and Supervisory positions and has developed well rounded responsible professional auditors and accountants over the years and moving forward to promote partners within the firm. 

Villaruz, Villaruz & Co.
Philippines
Ms. Normita L Villaruz





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