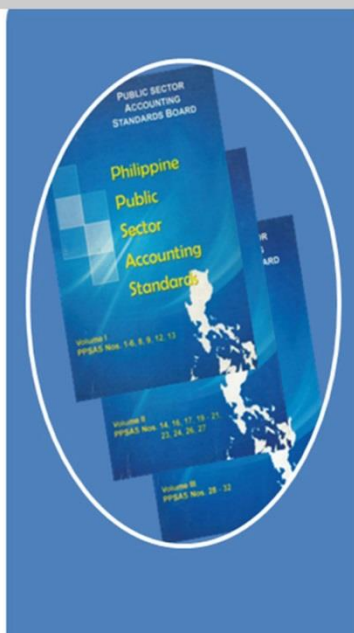
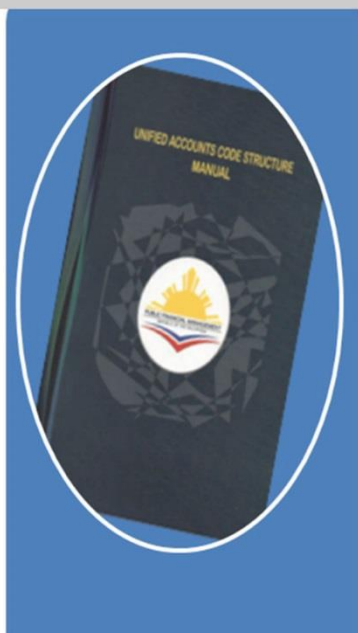




GOVERNMENT ACCOUNTING MANUAL



For National Government Agencies

Volume I

Accounting Policies, Guidelines and Procedures, and
Illustrative Accounting Entries

FOREWORD

The implementation of the Government Accounting Manual (GAM) for National Government Agencies is another milestone in the Philippine Government insofar as public sector accounting is concerned. The GAM will supersede the New Government Accounting System (NGAS) Manual that national government agencies have been using since 2002 when the Commission on Audit (COA), based on the authority granted under Sec. 2 (2), Art. IX-D of the 1987 Constitution, prescribed the use of the NGAS effective 1 January 2002. The revision of the NGAS Manual was prompted by the implementation of the Philippine Public Financial Management Reform Roadmap, which includes the development of the Philippine Public Sector Accounting Standards (PPSAS) that are harmonized with the International Public Sector Accounting Standards (IPSAS).

This GAM consists of three volumes as follows:

Volume I – Accounting Policies, Guidelines and Procedures, and Illustrative Accounting Entries

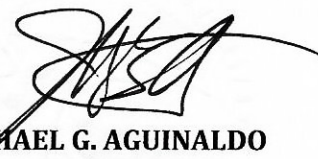
Volume II – Accounting Books, Registries, Records, Forms and Reports

Volume III – The Revised Chart of Accounts

The GAM contains the accounting policies in accordance with the PPSAS as well as the guidelines and procedures to be adopted by the accountants, budget officers, cashiers, property officers, accountable officers and other finance personnel in recording and reporting government financial transactions. It will serve as guide in the preparation of the financial statements and other reports and the accomplishment and/or maintenance of various registries, records and forms. Illustrative accounting entries were also provided for reference of the accounting unit in recording transactions.

To help the accountants and other agency personnel, as well as COA auditors, in determining the particular provisions of the PPSAS applicable to the financial transactions of the agencies, the provisions under the IPSAS were lifted and incorporated in the Manual, as necessary.

This GAM ensures uniformity, accuracy, reliability and timeliness in the preparation of financial statements and other reports in conformity with the requirements of the PPSAS and relevant accounting policies.



MICHAEL G. AGUINALDO
Chairperson

ACKNOWLEDGEMENT

The Government Accounting Manual (GAM) for National Government Agencies (NGAs) is a product of hard work and selfless commitment of the working group composed of the heads of the services and selected personnel of the Government Accountancy Sector (GAS), Commission on Audit (COA) with the proficient guidance and direction of Assistant Commissioner Lourdes M. Castillo, Director Usmin P. Diamel, Director Luzvi Pangan Chatto, Director Maria Fe A. Dinapo, as well as Director Sheila U. Villa and Director Marlon M. Marquina.

The review and evaluation of the various policies in this Manual by the National Government Sector (NGS); the Corporate Government Sector (CGS); the Planning, Finance and Management Sector (PFMS); and the Professional and Institutional Development Sector (PIDS) of this Commission helped in identifying issues and concerns that need to be addressed in the GAM.

The gathering of valuable inputs through the conduct of two (2) batches of Focus Group Discussions (FGDs) was successfully done with the unwavering support of the Assistant Commissioners, Directors, selected auditors and personnel of the NGS, PFMS and PIDS under the able leadership of Assistant Commissioners Susan P. Garcia, Carmela S. Perez and Luz Loreto-Tolentino, respectively. The FGDs were led by Assistant Commissioner Lourdes M. Castillio, GAS, and panelists from the GAS, namely, Director Usmin P. Diamel, Director Luzvi Pangan Chatto, Director Maria Fe A. Dinapo and Director Marlon R. Marquina, and from the NGS, namely, Director Marietta M. Lorenzo and Director Adelina Concepcion L. Ancajas. The FGDs were participated in by the following COA and various government agency personnel, who unselfishly shared their meaningful recommendations on how to make the Manual more useful to its intended users:

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The dream of producing this Manual as guide in the implementation of the Philippine Public Sector Accounting Standards was made a reality with the financial support from the Public Financial Management Committee through the Accounting and Auditing Reform Project Implementation Unit, and the Kreditanstalt für Wiederaufbau (KfW). The release of the funds was facilitated by the International Finance Group of the Department of Finance and the Department of Budget and Management.

The printing of this Manual was carefully done by the Printing and Publication Services, Policy Research and Institutional Development Office, PIDS, this Commission.

More importantly, the painstaking efforts of the working group became more invaluable because of the support and guidance of the top officials of the Commission: the Honorable Members of the Commission Proper composed of Chairperson Michael G. Aguinaldo, Commissioner Heidi L. Mendoza, and Commissioner Jose A. Fabia.

Finally, the Government Accountancy Sector is very grateful to all the aforementioned individuals and entities for all their priceless contributions in this Manual.

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**GOVERNMENT ACCOUNTING MANUAL
(GAM)
For National Government Agencies**

**Volume I
Accounting Policies, Guidelines and Procedures
and Illustrative Accounting Entries**

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Chapter 1

INTRODUCTION

Recent developments brought about by the Philippine Public Financial Management Reforms and significant changes in the field of accounting prompted the harmonization of the existing accounting standards with the international accounting standards. This Commission revised the New Government Accounting System (NGAS) Manual prescribed under Commission on Audit (COA) Circular No. 2002-002 dated June 18, 2002 to make it responsive to dynamic changes and modern technology.

Sec. 1. Legal Basis. The Government Accounting Manual (GAM) is prescribed by COA pursuant to Article IX-D, Section 2 par. (2) of the 1987 Constitution of the Republic of the Philippines which provides that:

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

Sec. 2. Coverage. This Manual presents the basic accounting policies and principles in accordance with the Philippine Public Sector Accounting Standards (PPSAS) adopted thru COA Resolution No. 2014-003 dated January 24, 2014 and other pertinent laws, rules and regulations. It includes the Revised Chart of Accounts (RCA) prescribed under COA Circular No. 2013-002 dated January 30, 2013, as amended; the accounting procedures, books, registries, records, forms, reports, and financial statements; and illustrative accounting entries. It shall be used by all National Government Agencies (NGAs) in the:

- a. preparation of the general purpose financial statements in accordance with the PPSAS and other financial reports as may be required by laws, rules and regulations; and
- b. reporting of budget, revenue and expenditure in accordance with laws, rules and regulations.

Sec. 3. Objective of the Manual. The Manual aims to update the following:

- a. standards, policies, guidelines and procedures in accounting for government funds and property;
- b. coding structure and accounts; and
- c. accounting books, registries, records, forms, reports and financial statements.

Chapter 2

GENERAL PROVISIONS, BASIC STANDARDS AND POLICIES

Sec. 1. Scope. This chapter covers the general provisions from existing laws, rules and regulations; and the basic standards/fundamental accounting principles for financial reporting by national government agencies.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used as stated below shall be construed to mean as follows:

- a. *Accrual basis* – means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recognized in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.
- b. *Assets* – are resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.
- c. *Contributions from owners* – means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:
 1. conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives; and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
 2. can be sold, exchanged, transferred, or redeemed.
- d. *Distributions to owners* – means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.
- e. *Entity* – refers to a government agency, department or operating/field unit. It may be referred to in this GAM as an agency.
- f. *Expenses* – are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.
- g. *Government Accounting* – encompasses the processes of analyzing, recording, classifying, summarizing and communicating all transactions involving the receipt and disposition of government funds and property, and interpreting the results thereof. (*Sec. 109, Presidential Decree (P.D.) No. 1445*)
- h. *Government Budget* – is the financial plan of a government for a given period, usually for a fiscal year, which shows what its resources are, and how they will be generated

and used over the fiscal period. The budget is the government's key instrument for promoting its socio-economic objectives. The government budget also refers to the income, expenditures and sources of borrowings of the National Government (NG) that are used to achieve national objectives, strategies and programs.

- i. *Liabilities* – are firm obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
- j. *Net assets/equity* – is the residual interest in the assets of the entity after deducting all its liabilities.
- k. *Revenue* – is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.
- l. *Revenue funds* – comprise all funds derived from the income of any agency of the government and available for appropriation or expenditure in accordance with law. (*Section 3, P.D. No. 1445*)

Sec. 3. Responsibility, Accountability and Liability over Government Funds and Property

- a. Responsibility over Government Funds and Property
 1. It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with laws and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned. (*Sec. 2, P.D. No. 1445*)
 2. Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency. (*Sec. 4(4), P.D. No. 1445*)
 3. The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency. Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him, without prejudice to the liability of either party to the government. (*Sec. 102, P.D. No. 1445*)
- b. Accountability over Government Funds and Property
 1. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law. Every AO shall be properly bonded in accordance with law. (*Sec. 101, P.D. No. 1445; Section 50, Chapter 9, Subtitle B, Book V, Executive Order (E.O.) No. 292*)
 2. Transfer of government funds from one officer to another shall, except as allowed by law or regulation, be made only upon prior direction or authorization of the Commission or its representative. (*Sec. 75, P.D. No. 1445*)

3. When government funds or property are transferred from one AO to another, or from an outgoing officer to his successor, it shall be done upon properly itemized invoice and receipt which shall invariably support the clearance to be issued to the relieved or outgoing officer, subject to regulations of the Commission. (*Sec. 77, P.D. No. 1445*)
- c. Liability over Government Funds and Property
1. Expenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor. (*Sec. 103, P.D. No. 1445*)
 2. Every officer accountable for government funds shall be liable for all losses resulting from the unlawful deposit, use, or application thereof and for all losses attributable to negligence in the keeping of the funds. (*Sec. 105(2), P.D. No. 1445*)
 3. No AO shall be relieved from liability by reason of his having acted under the direction of a superior officer in paying out, applying, or disposing of the funds or property with which he is chargeable, unless prior to that act, he notified the superior officer in writing of the illegality of the payment, application, or disposition. The officer directing any illegal payment or disposition of the funds or property shall be primarily liable for the loss, while the AO who fails to serve the required notice shall be secondarily liable. (*Sec. 106, P.D. No. 1445*)
 4. When a loss of government funds or property occurs while they are in transit or the loss is caused by fire, theft, or other casualty or force majeure, the officer accountable therefor or having custody thereof shall immediately notify the Commission or the auditor concerned and, within 30 days or such longer period as the Commission or auditor may in the particular case allow, shall present his application for relief, with the available supporting evidence. Whenever warranted by the evidence, credit for the loss shall be allowed. An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts. (*Sec. 73, P.D. No. 1445*)

Sec. 4. Fundamental Principles for Revenue. All revenues accruing to the NGAs shall be governed by the following fundamental principles:

- a. Unless otherwise specifically provided by law, all revenues accruing to an entity by virtue of the provisions of existing law, orders and regulations shall be deposited/remitted in the National Treasury (NT) or in any duly authorized government depository, and shall accrue to the General Fund (GF) of the NG. (*Sec. 65(1), P.D. No. 1445*)
- b. Except as may otherwise be specifically provided by law or competent authority, all moneys and property officially received by a public officer in any capacity or upon any occasion must be accounted for as government funds and government property. (*Sec. 42, Chapter 7, Title I(B), Book V, E.O. No. 292*)
- c. Amounts received in trust and from business-type activities of government may be separately recorded and disbursed in accordance with such rules and regulations as may be determined by a Permanent Committee composed of the Secretary of Finance as Chairman, and the Secretary of Budget and Management and the Chairman, COA, as members. (*Sec. 65(2), P.D. No. 1445*)

- d. Receipts shall be recorded as revenue of Special, Fiduciary or Trust Funds or Funds other than the GF, only when authorized by law as implemented by rules and regulations issued by the Permanent Committee. (*Sec. 66, P.D. No. 1445*)
- e. No payment of any nature shall be received by a collecting officer without immediately issuing an official receipt in acknowledgement thereof. The receipt may be in the form of postage, internal revenue or documentary stamps and the like, officially numbered receipts, subject to proper custody, accountability, and audit. (*Sec. 68(1), P.D. No. 1445*)
- f. Where mechanical devices (e.g. electronic official receipt) are used to acknowledge cash receipts, the COA may approve, upon request, exemption from the use of accountable forms. (*Sec. 68 (2), P.D. No. 1445*)
- g. At no instance shall temporary receipts be issued to acknowledge the receipt of public funds. (*Sec. 72, GAAM Volume I*)
- h. Pre-numbered ORs shall be issued in strict numerical sequence. All copies of each receipt shall be exact copies or carbon reproduction in all respects of the original. (*Sec. 73, GAAM Volume I*)
- i. An officer charged with the collection of revenue or the receiving of moneys payable to the government shall accept payment for taxes, dues or other indebtedness to the government in the form of checks issued in payment of government obligations, upon proper endorsement and identification of the payee or endorsee. Checks drawn in favor of the government in payment of any such indebtedness shall likewise be accepted by the officer concerned.

At no instance should money in the hands of the CO be utilized for the purpose of cashing private checks. (*Sec. 67(1) and (3), P.D. No. 1445*)

- j. Under such rules and regulations as the COA and the Department of Finance (DOF) may prescribe, the Treasurer of the Philippines and all AGDB shall acknowledge receipt of all funds received by them, the acknowledgement bearing the date of actual remittance or deposit and indicating from whom and on what account it was received. (*Sec. 70, P.D. No. 1445*)

Sec. 5. Fundamental Principles for Disbursement of Public Funds. Section 4 of P.D. No. 1445, the Government Auditing Code of the Philippines, provides that all financial transactions and operations of any government entity shall be governed by the following fundamental principles:

- a. No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.
- b. Government funds or property shall be spent or used solely for public purposes.
- c. Trust funds shall be available and may be spent only for the specific purpose for which the trust was created or the funds received.
- d. Fiscal responsibility shall, to the greatest extent, be shared by all those exercising authority over the financial affairs, transactions, and operations of the government agency.

- e. Disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials.
- f. Claims against government funds shall be supported with complete documentation.
- g. All laws and regulations applicable to financial transactions shall be faithfully adhered to.
- h. Generally accepted principles and practices of accounting as well as of sound management and fiscal administration shall be observed, provided that they do not contravene existing laws and regulations.

Sec. 6. Basic Government Accounting and Budget Reporting Principles. Each entity shall recognize and present its financial transactions and operations conformably to the following:

- a. generally accepted government accounting principles in accordance with the PPSAS and pertinent laws, rules and regulations;
- b. accrual basis of accounting in accordance with the PPSAS;
- c. budget basis for presentation of budget information in the financial statements (FSs) in accordance with PPSAS 24;
- d. RCA prescribed by COA;
- e. double entry bookkeeping;
- f. financial statements based on accounting and budgetary records; and
- g. fund cluster accounting.

Sec. 7. Keeping of the General Accounts. The COA shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto, pursuant to Section 2, par. (1), Article IX-D of the 1987 Philippine Constitution.

Sec. 8. Financial Reporting System for the National Government. The financial reporting system of the Philippine government consists of accounting system on accrual basis and budget reporting system on budget basis under the statutory responsibility of the NGAs, Bureau of the Treasury (BTr), Department of Budget and Management (DBM), and the COA, as follows:

- a. Each entity of the National Government (NG) maintains complete set of accounting books by fund cluster which is reconciled with the records of cash transactions maintained by the BTr.
- b. The BTr accounts for the cash, public debt and related transactions of the NG.
- c. Each entity maintains budget registries which are reconciled with the budget records maintained by the DBM and the Government Accountancy Sector (GAS), COA.
- d. The COA, through the GAS:
 - 1. maintains budget records showing the overall approved budget of the NG and its execution/implementation;

2. consolidates the FSs and budget accountability reports of all NGAs and the BTr with COA's records to come up with an Annual Financial Report (AFR) for the NG as required in Section 4, Article IX-D of the 1987 Philippine Constitution; and
3. prepares other financial reports required by law for submission to oversight agencies.

Sec. 9. Objectives of General Purpose Financial Statements. The objectives of general purpose financial statements (GPFSS) are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

Sec. 10. Responsibility for Financial Statements. The responsibility for the preparation of the FSs rests with the following:

- a. for individual entity/department FSs – the head of the entity/department central office (COF) or regional office (RO) or operating unit (OU) or his/her authorized representative jointly with the head of the finance/accounting division/unit; and
- b. for department/entity FSs as a single entity – the head of the entity/department COF jointly with the head of the finance unit.

Sec. 11. Components of General Purpose Financial Statements. The complete set of GPFSS consists of:

- a. Statement of Financial Position (*Annex A*);
- b. Statement of Financial Performance (*Annex B*);
- c. Statement of Changes in Net Assets/Equity (*Annex C*);
- d. Statement of Cash Flows (*Annex D*);
- e. Statement of Comparison of Budget and Actual Amounts (*Annex E*); and
- f. Notes to the Financial Statements, comprising a summary of significant accounting policies and other explanatory notes. (*Annex F*)

Sec. 12. Books of Accounts and Registries. The books of accounts and registries of the NG entities consist of:

- a. Journals
 1. General Journal (*Appendix 1*)
 2. Cash Receipts Journal (*Appendix 2*)
 3. Cash Disbursements Journal (*Appendix 3*)
 4. Check Disbursements Journal (*Appendix 4*)
- b. Ledgers
 1. General Ledgers (*Appendix 5*)
 2. Subsidiary Ledgers (*Appendix 6*)

c. Registries

1. Registries of Revenue and Other Receipts (*Appendices 7, 7A, 7B, 7C and 7D*)
2. Registry of Appropriations and Allotments (*Appendix 8*)
3. Registries of Allotments, Obligations and Disbursements (*Appendices 9A, 9B, 9C and 9D*)
4. Registries of Budget, Utilization and Disbursements (*Appendices 10A, 10B, 10C and 10D*)

Sec. 13. Fund Accounting. The books of accounts shall be maintained by fund cluster as follows:

<u>Code</u>	<u>Description</u>
01	Regular Agency Fund
02	Foreign Assisted Projects Fund
03	Special Account-Locally Funded/Domestic Grants Fund
04	Special Account-Foreign Assisted/Foreign Grants Fund
05	Internally Generated Funds
06	Business Related Funds
07	Trust Receipts

The composition of fund clusters is enumerated in *Annex P*.

Sec. 14. Components of Budget and Financial Accountability Reports. The budget reports consist of the following Budget and Financial Accountability Reports (COA-DBM-DOF Joint Circular No. 2013-1, as amended by COA and DBM Joint Circular No. 2014-1 dated July 2, 2014):

- a. Quarterly Physical Report of Operation (QPRO) – BAR No. 1
- b. Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) – FAR No. 1
- c. Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures (SAAODBOE) – FAR No. 1-A
- d. List of Allotments and Sub-Allotments (LASA) – FAR No. 1-B
- e. Statement of Approved Budget, Utilizations, Disbursements and Balances (SABUDB) – FAR No. 2 (for Off-Budget Fund)
- f. Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures (SABUDBOE) – FAR No. 2-A (for Off-Budget Fund)
- g. Aging of Due and Demandable Obligations (ADDO) – FAR No. 3
- h. Monthly Report of Disbursements (MRD) – FAR No. 4
- i. Quarterly Report of Revenue and Other Receipts (QRROR) – FAR No. 5

Sec. 15. Fair Presentation. The FSs shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and

recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS. The application of PPSAS, with appropriate disclosures, if necessary, would result in fair presentation of the FS.

Sec. 16. Compliance with PPSASs. An entity whose financial statements comply with PPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with PPSASs unless they comply with all the requirements of PPSASs. Inappropriate accounting policies that do not comply with PPSAS are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

Sec. 17. Departure from PPSAS. In the event that Management strongly believes that compliance with the requirement of PPSAS would result in misleading presentation that it would contradict the objective of the FSs set forth in PPSAS, the entity may depart from that requirement if the relevant regulatory framework allows, or otherwise does not prohibit, such a departure.

Sec. 18. Going Concern. The FSs shall be prepared on a going concern basis unless there is an intention to discontinue the entity operation, or if there is no realistic alternative but to do so.

Sec. 19. Consistency of Presentation. The presentation and classification of items in the FSs shall be retained from one period to the next unless laws, rules and regulations, and PPSAS require a change in presentation.

Sec. 20. Materiality and Aggregation. Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial. If a line item is not material, it is aggregated with other items either on the face of FSs or in the Notes to the FSs. A specific disclosure requirement in a PPSAS need not be satisfied if the information is not material.

Sec. 21. Offsetting. Assets and liabilities, and revenue and expenses shall not be allowed to offset unless required or permitted by a PPSAS except when offsetting reflects the substance of the transaction or other event.

Sec. 22. Comparative Information. Comparative information shall be disclosed with respect to the previous period for all amounts reported in the FSs. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's FSs.

Sec. 23. Structure and Content. The FSs and each component shall be identified clearly and distinguished from other information in the same published document.

Sec. 24. Statement of Financial Position. An entity shall present current and non-current assets, as well as current and non-current liabilities, as separate classifications on the face of the Statement of Financial Position (SFP).

Sec. 25. Statement of Financial Performance. The Statement of Financial Performance (SFPer) shall include line items that present the revenue, expenses and net surplus or deficit for the period.

Sec. 26. Statement of Changes in Net Assets/Equity. An entity shall present in the Statement of Changes in Net Assets/Equity (SCNA/E) the following:

- a. Net Income or Deficit for the period;
- b. Each item of revenue and expenses for the period that, as required by Standards, is recognized directly in net assets/equity, and the total of these items;
- c. Total revenue and expenses for the period; and
- d. For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with PPSAS 3-Accounting Policies, Changes in Accounting Estimates and Errors.

Sec. 27. Statement of Cash Flows. The Statement of Cash Flows (SCF) provides information to users of FSs a basis to assess the ability of the entity to generate cash and cash equivalents and to determine the entity's utilization of funds. This also provides information on how the entity generates income authorized to be used in their operation and its utilization.

Sec. 28. Statement of Comparison of Budget and Actual Amounts. A comparison of budget and actual amounts will enhance the transparency of financial reporting in government. This shall be presented by government agencies as a separate additional financial statement referred in this Manual as the Statement of Comparison of Budget and Actual Amounts (SCBAA).

Sec. 29. Notes to Financial Statements. The Notes to FSs contain information in addition to that presented in the SFP, SFPer, SCNA/E, SCF and SCBAA. Notes provide narrative descriptions or disaggregation of items disclosed in those FSs and information about items that do not qualify for recognition in those statements.

Sec. 30. Qualitative Characteristics of Financial Reporting. An entity shall present information including accounting policies in a manner that meets a number of qualitative characteristics such as understandability, relevance, materiality, reliability and comparability. These qualitative characteristics are the attributes that make the information provided in the FSs useful to users.

Sec. 31. Key Features of Assets. The key features of an asset are:

- a. the benefits must be controlled by the entity;
- b. the benefits must have arisen from a past event; and
- c. future economic benefits or service potential must be expected to flow to the entity.

The following are indicators of control of the benefits by the entity:

- a. the ability of an entity to benefit from the asset and to deny or regulate the access of others to that benefit.
- b. an entity can, depending on the nature of the asset, exchange it, use it to provide goods or services, exact a price for others' use of it, use it to settle liabilities, hold it, or perhaps even distribute it to owners.

- c. possession or ownership of an object or right would normally be synonymous with control over the future economic benefits embodied in the right or object.

However, there are instances when an entity may possess an object or right but not expect to enjoy the benefits embodied in it, e.g. under a finance lease agreement, control over the leased property owned by the lessor is transferred to the lessee.

The following are indicators of past event:

- a. the specification of a past event differentiates assets from intentions to acquire assets, which are not to be recognized.
- b. a transaction or event giving rise to control of the future economic benefits must have occurred.

The following are indicators of future economic benefits:

- a. distinguishable from the source of the benefit i.e. the particular physical resource or legal right;
- b. does not imply that assets necessarily generate cash flows, the benefits can also be in the form of 'service potential';
- c. in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration;
- d. capacity to contribute to activities/objectives/programs; and
- e. the fact that an asset cannot be sold does not preclude it from providing future economic benefits.

Sec. 32. Recognition of an Asset. An asset shall be recognized in the financial position when and only when (a) it is probable that the future economic benefits will flow to the entity; and (b) the asset has a cost or value that can be measured reliably.

The following are indicators of probable inflow of future economic benefits:

- a. the chance of benefits arising is more likely rather than less likely (e.g. greater than 50%).
- b. benefits can be expected on the basis of available evidence or logic.

The following are indicators of reliable measurement:

- a. valuation method is free from material error or bias.
- b. faithful representation of the asset's benefits.
- c. reliable information will, without bias or undue error, faithfully represent those transactions and events.

Sec. 33. Accounting Standards for Revenue. The following accounting standards shall apply for revenue and receipts of government entities:

- a. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity in its own account. (PPSAS 9)
- b. Receipts/Collections shall refer to all cash actually received from all sources during a given accounting period.
- c. Fines shall include economic benefits or service potential received or receivable by a public sector agency, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations. Fines and penalties, either on tax revenue or other specific income account, shall be recognized as income of the year these were collected.
- d. Gifts and donations shall consist of voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one agency makes to another, normally free from stipulations. (PPSAS 23)
- e. Goods in-kind are tangible assets transferred to an agency in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind. (PPSAS 23)
- f. Taxes are economic benefits or service potentials compulsory paid or payable to public sector agencies, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law. (PPSAS 23)
- g. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. (PPSAS 23)

Sec. 34. Use of Appropriated Funds. All moneys appropriated for functions, activities, projects and programs shall be available solely for the specific purposes for which these are appropriated.

Sec. 35. Appropriation for Loan Proceeds. Expenditures funded by foreign and domestic borrowings shall be included within the expenditure program of the entity concerned. Loan proceeds, whether in cash or in kind, shall not be used without the corresponding release of funds through a Special Budget.

Sec. 36. Basic Requirements for Disbursements and the Required Certifications. Disbursements of government funds shall comply with the following basic requirements and certifications:

- a. Availability of allotment/budget for obligation/utilization certified by the Budget Officer/Head of Budget Unit;
- b. Obligations/Utilizations properly charged against available allotment/budget by the Chief Accountant/Head of Accounting Unit;
- c. Availability of funds certified by the Chief Accountant. The Head of the Accounting Unit shall certify the availability of funds before an Agency Head or his duly authorized representative enter into any contract that involves the expenditure of public funds based on the copy of budget release documents;

- d. Availability of cash certified by the Chief Accountant. The Head of the Accounting Unit shall certify the availability of cash and completeness of the supporting documents in the disbursement voucher and payroll based on the Registry of Allotments and Notice of Cash Allocation/Registry of Allotment and Notice of Transfer of Allocation;
- e. Legality of the transactions and conformity with existing rules and regulations. The requesting and approving officials shall ensure that the disbursements of government funds are legal and in conformity with applicable rules and regulations;
- f. Submission of proper evidence to establish validity of the claim. The Head of the Requesting Unit shall certify on the necessity and legality of charges to allotments under his/her supervision as well as the validity, propriety and legality of supporting documents. All payments of government obligations and payables shall be covered by Disbursement Vouchers (DV)/Payrolls together with the original copy of the supporting documents which will serve as basis in the evaluation of authenticity and authority of the claim. It should be cleared, however, that the submission of the supporting documents does not preclude reasonable questions on the funding, legality, regularity, necessity and/or economy of the expenditures or transactions; and
- g. Approval of the disbursement by the Head of Agency or by his duly authorized representative. Disbursement or disposition of government funds or property shall invariably bear the approval of the proper officials. The DVs/Payrolls shall be signed and approved by the head of the agencies or his duly authorized representatives.

Sec. 37. Certification of Availability of Funds. No funds shall be disbursed, and no expenditures or obligations chargeable against any authorized allotment shall be incurred or authorized in any department, office or agency without first securing the certification of its Chief Accountant or head of accounting unit as to the availability of funds and the allotment to which the expenditure or obligation may be properly charged.

No obligation shall be certified to accounts payable unless the obligation is founded on a valid claim that is properly supported by sufficient evidence and unless there is proper authority for its incurrence. Any certification for a non-existent or fictitious obligation and/or creditor shall be considered void. The certifying official shall be dismissed from the service, without prejudice to criminal prosecution under the provisions of the Revised Penal Code. Any payment made under such certification shall be illegal and every official authorizing or making such payment, or taking part therein or receiving such payment, shall be jointly and severally liable to the government for the full amount so paid or received. (*Book VI, Section 41 of EO No. 292*)

Sec. 38. Prohibition against the Incurrence of Overdraft. Heads of departments, bureaus, offices and agencies shall not incur nor authorize the incurrence of expenditures or obligations in excess of allotments released by the DBM Secretary for their respective departments, offices and agencies. Parties responsible for the incurrence of overdrafts shall be held personally liable therefor. (*Book VI, Chapter 5, Section 41 of EO No. 292*)

Sec. 39. Mode of Disbursements. Payments/Disbursements by NGAs may be effected through the Treasury Single Account (TSA), by issuing Modified Disbursements System (MDS) check or commercial check, cash through cash advance, Advice to Debit Account (ADA), or Non-Cash Availment Authority (NCAA).

Sec. 40. Authority to Disburse/Pay. NGAs are authorized to disburse/pay based on the Notice of Cash Allocation (NCA), Notice of Transfer of Allocation (NTA), Cash Disbursement Ceiling (CDC) or other authority that may be provided by law.

Sec. 41. Disbursement Voucher/Payroll. Checks/ADA shall be drawn based on duly approved disbursement voucher or payroll.

Sec. 42. Maintenance of Records. All checks/ADA drawn during the day, whether released or unreleased including cancelled checks shall be recognized chronologically in the Checks/ADA Disbursement Record maintained by the Cash/Treasury Unit.

Sec. 43. Reporting of Disbursements. All payments/disbursements shall be reported using the prescribed forms for recording in the books of accounts.

Chapter 3

BUDGET EXECUTION, MONITORING AND REPORTING

Sec. 1. Scope. This Chapter prescribes the guidelines in monitoring, accounting and reporting of the budget in the financial statements. This also prescribes the records to be maintained by the national government agencies, forms to be used and reports to be prepared to effectively monitor the budget as well as the required information disclosure and presentation of budget information in the financial statements in accordance with PPSAS 24.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms stated below shall be construed to mean as follows:

- a. *Allotment* – is an authorization issued by the DBM to NGAs to incur obligations for specified amounts contained in a legislative appropriation in the form of budget release documents. It is also referred to as Obligational Authority.
- b. *Appropriation* – is the authorization made by a legislative body to allocate funds for purposes specified by the legislative or similar authority.
- c. *Approved Budget* – is the expenditure authority derived from appropriation laws, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period. The approved budget consists of the following:

	<u>UACS Code</u>
New General Appropriations	01
Continuing Appropriations	02
Supplemental Appropriations	03
Automatic Appropriations	04
Unprogrammed Funds	05
Retained Income/Funds	06
Revolving Funds	07
Trust Receipts	08

- d. *Automatic Appropriations* – are the authorizations programmed annually or for some other period prescribed by law, by virtue of outstanding legislation which does not require periodic action by Congress.
- e. *Budget Information* – the budgetary information consists of, among others, data on appropriations or the approved budget, allotments, obligations, revenues and other receipts, and disbursements.
- f. *Continuing Appropriations* – are the authorizations to support obligations for a specific purpose or project, such as multi-year construction projects which require the incurrence of obligations even beyond the budget year.
- g. *Disbursements* – are the actual amounts spent or paid out of the budgeted amounts.
- h. *Final Budget* – is the original budget adjusted for all reserves, carry-over amounts, transfers, allocations and other authorized legislative or similar authority changes applicable to the budget period.

- i. *New General Appropriations* – are annual authorizations for incurring obligations during a specified budget year, as listed in the GAA.
- j. *Obligation* – is an act of a duly authorized official which binds the government to the immediate or eventual payment of a sum of money. Obligation may be referred to as a commitment that encompasses possible future liabilities based on current contractual agreement.
- k. *Original Budget* – is the initial approved budget for the budget period usually the General Appropriations Act (GAA). The original budget may include residual appropriated amounts automatically carried over from prior years by law such as prior year commitments or possible future liabilities based on a current contractual agreement.
- l. *Revenues* – are increases in economic benefits or service potential during the accounting period in the form of inflows or increases of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.
- m. *Supplemental Appropriations* – are additional appropriations authorized by law to augment the original appropriations which proved to be insufficient for their intended purpose due to economic, political or social conditions supported by a Certification of Availability of Funds (CAF) from the BTr.

Sec. 3. Fund Release Documents. With the adoption of the UACS and the Performance-Informed Budgeting (PIB), the following are the fund release documents:

- a. **Obligational Authority or Allotment** – the following are the documents which authorize the entity to incur obligations:
 - 1. *General Appropriations Act Release Document (GAARD)* – serves as the obligational authority for the comprehensive release of budgetary items appropriated in the GAA, categorized as For Comprehensive Release (FCR).
 - 2. *Special Allotment Release Order (SARO)* – covers budgetary items under For Later Release (FLR) (negative list) in the entity submitted Budget Execution Documents (BEDs), subject to compliance of required documents/clearances. Releases of allotments for Special Purpose Funds (SPFs) (e.g., Calamity Fund, Contingent Fund, E-Government Fund, Feasibility Studies Fund, International Commitments Fund, Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund) are also covered by SAROs.
 - 3. *General Allotment Release Order (GARO)* – is a comprehensive authority issued to all national government agencies, in general, to incur obligations not exceeding an authorized amount during a specified period for the purpose indicated therein. It covers automatically appropriated expenditures common to most, if not all, agencies without need of special clearance or approval from competent authority, i.e. Retirement and Life Insurance Premium.
- b. **Disbursement Authority** – the following documents authorize the entity to pay obligations and payables:
 - 1. *Notice of Cash Allocation (NCA)* – authority issued by the DBM to central, regional and provincial offices and operating units to cover the cash requirements of the agencies;

2. *Non-Cash Availment Authority (NCAA)* – authority issued by the DBM to agencies to cover the liquidation of their actual obligations incurred against available allotments for availment of proceeds from loans/grants through supplier’s credit/constructive cash;
3. *Cash Disbursement Ceiling (CDC)* – authority issued by DBM to the Department of Foreign Affairs (DFA) and Department of Labor and Employment (DOLE) to utilize their income collected/retained by their Foreign Service Posts (FSPs) to cover their operating requirements, but not to exceed the released allotment to the said post; and
4. *Notice of Transfer of Allocation* – authority issued by the Central Office to its regional and operating units to cover the latter’s cash requirements.

Sec. 4. Classification of Expenditures. Expenditures of NGAs shall be classified into categories as may be determined by the DBM including, but not limited to the following:

- a. Entity incurring the obligation;
- b. Program, Activity and Project (PAP);
- c. Object of expenditures, including personnel services (PS), maintenance and other operating expenditures (MOOE), financial expenses (FE), and capital outlays (CO);
- d. Region or locality of use;
- e. Economic or functional classification of the expenditures;
- f. Obligational authority and cash transactions arising from fund releases; and
- g. Such other classifications as may be necessary for the budget process.

Sec. 5. Monitoring of the Budget. The budget shall be monitored by the Budget Division/Units of NGAs through the maintenance of registries for that purpose.

Sec. 6. Registries of Revenue and Other Receipts. The Registries of Revenue and Other Receipts (*Appendices 7, 7A, 7B, 7C and 7D*) shall be maintained by the Budget Division/Unit of NGAs to monitor the revenue and other receipts estimated/budgeted, collected and remitted/deposited.

Sec. 7. Procedures in Monitoring and Recognizing Revenue and Other Receipts

- a. Recognizing Estimated Revenue/Other Receipts

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives copy of the Estimated Revenue per Approved Budget of the Agency (ERABA). Records the same in the logbook and forwards the ERABA and the supporting documents (SDs) to the Budget Staff.

Area of Responsibility	Seq. No.	Activity
Budget Staff	2	Records the estimated revenue/other receipts in the appropriate column of the RROR. Files the RROR and the copy of ERABA for reference.

b. Recognizing Revenue/Other Receipts Collected and Deposited

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	<p>Receives from the Cash/Treasury Unit or other unit concerned of the entity the copy of the Report of Collections and Deposits (RCD), TRA (<i>Note 1</i>), Cash Receipts Register (CRReg) (<i>Note 2</i>) and Credit Memo/Abstract of Deposits (<i>Note 3</i>). Records the same in the logbook and forwards the documents to the Budget Staff.</p> <p><i>Note 1</i> – The TRA is used by the Bureau of Internal Revenue (BIR) to recognize the income from taxes withheld by various NGAs.</p> <p><i>Note 2</i> – The CRReg is used by operating units of NGAs without complete set of books of accounts such as foreign-based government agencies, etc.</p> <p><i>Note 3</i> – The Credit Memo/Abstract of Deposits from the bank is used to recognize revenue deposited with the National Treasury through the AGDBs or Authorized Agent Banks (AABs).</p>
Budget Staff	2	Records the collections of revenue/other receipts/constructive receipts of revenue under the appropriate column of the RROR. Files the RROR and the copy of RCD and supporting documents for reference.

Sec. 8. Registry of Appropriations and Allotments. The Registry of Appropriations and Allotments (RAPAL) (*Appendix 8*) shall be maintained by NGAs to monitor appropriations and allotments charged thereto. It shall show the original, supplemental and final budget for the year and all allotments received charged against the corresponding appropriation. The balance is extracted every time an entry is made to prevent incurrence of overdraft in appropriations. Separate RAPAL shall be maintained by fund cluster and by Major Final Output (MFO)/PAP/Appropriation Acts.

Sec. 9. Procedures in Recording Appropriations and Allotments. The procedures for recording appropriations and allotments are as follows:

Area of Responsibility	Seq. No.	Activity
Staff Concerned	1	Receives the GAA and the allotment release documents from the DBM. Records the same in the logbook and forwards these documents to the Budget Staff for recording in the RAPAL and RAOD.
Budget Staff	2	Records the appropriations and allotments in the appropriate columns of the RAPAL and the RAOD. Forwards a copy of the allotment release documents to the Accounting Division/Unit for reference.

Note – The amount of allotment should not exceed the authorized appropriations in the GAA. If the allotment exceeds the appropriation, appropriate actions should be taken.

Sec. 10. Registries of Allotments, Obligations and Disbursements. The Registries of Allotments, Obligations and Disbursements (RAOD) shall be maintained by the Budget Division/Unit of agencies to record allotments, obligations and disbursements. It shall show the allotments received for the year, obligations incurred against the corresponding allotment and the actual disbursements made. The balance is extracted every time an entry is made to prevent incurrence of obligations in excess of allotment and overdraft in disbursements against obligations incurred. The RAODs shall be maintained by appropriation act, fund cluster, MFO/PAP, and allotment class.

- a. Registry of Allotments, Obligations and Disbursements-Personnel Services (RAOD-PS) (*Appendix 9A*) shall be used to record the allotments received, obligations incurred and disbursements classified under PS.
- b. Registry of Allotments, Obligations and Disbursements-Maintenance and Other Operating Expenses (RAOD-MOOE) (*Appendix 9B*) shall be used to record the allotments received, obligations incurred and disbursements classified under MOOE.
- c. Registry of Allotments, Obligations and Disbursements-Financial Expenses (RAOD-FE) (*Appendix 9C*) shall be used to record the allotments received, obligations incurred and disbursements classified under FE.
- d. Registry of Allotments, Obligations and Disbursements-Capital Outlays (RAOD-CO) (*Appendix 9D*) shall be used to record the allotments received, obligations incurred and disbursements classified under CO.

Sec. 11. Obligation Request and Status. The incurrence of obligations shall be made through the issuance of Obligation Request and Status (ORS) (*Appendix 11*). The ORS shall be prepared by the Requesting/Originating Office supported by valid claim documents like DVs, payrolls, purchase/job orders, itinerary of travel, etc. The Head of the Requesting/Originating Office or his/her authorized representative shall certify in the Section A of the ORS as to the necessity and legality of charges to the budget under his/her supervision, and validity, propriety and legality of SDs. The Head of the Budget Division/Unit shall certify to the availability of allotment and such is duly obligated by signing in Section B of the ORS.

Sec. 12. Subsidiary Record for Obligation. A subsidiary record to monitor a particular obligation shall be maintained by the Budget Division/Unit in Section C of the ORS. It shall contain the original amount of obligation, payable (goods delivered and services rendered) and the actual amount paid.

Sec. 13. Adjustment of Obligation. Adjustment of obligation incurred after the processing of the claim by the Accounting Division/Unit shall be made through the use of Notice of Obligation Request and Status Adjustment (NORSA) (*Appendix 12*). The adjustment shall be effected through a positive entry (if additional obligation is necessary) or a negative entry (if reduction is necessary) in the ‘Obligation’ column of the ORS and RAOD.

Sec. 14. Notice of Obligation Request and Status Adjustment. The NORSA shall be prepared by the Accounting Division/Unit after the processing of the claim which shall be used in adjusting the original amount obligated to the actual obligations incurred in the RAOD. It shall be forwarded by the Accounting Division/Unit to the Budget Division/Unit to take up the adjustments of obligation in the RAOD. The following transactions shall also need adjustments of obligations:

Transactions	Supporting Documents
a. Refund of cash advance granted during the year	Certified copies of official receipts and other SDs
b. Over/Underpayment of expenditures during the year	Certified copies of official receipts and bills and other SDs
c. Disallowances pertaining to expenses incurred during the validity period of the budget that became final and executory during the same period	Certified copies of official receipts and bills, notice that the disallowances are final and executory, and other SDs

Sec. 15. Procedures in Recording Obligation. Obligation shall be recorded in the appropriate RAOD through ORS with the following procedures:

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives the ORS, duly signed by the Head of the Requesting Office, including copies of DV/Payroll, Contract/Purchase Order (PO) and other SDs from office/personnel concerned. Verifies completeness of the documents. If complete, records the same in the logbook maintained for the purpose and forwards the documents to the Budget Staff for processing. If incomplete, returns the documents to the Requesting Office for completion.
Budget Staff	2	Receives the ORS and its SDs from the Staff concerned. Verifies availability of allotment based on the appropriate RAOD. If allotment is not available, returns the documents to the office/personnel concerned.
	3	If allotment is available, assigns number on the ORS based on the Control Logbook maintained for the purpose. Records the amount obligated based on the ORS in the ‘Obligation’ column of the RAOD. Initials

Area of Responsibility	Seq. No.	Activity
		in Section B of the ORS and forward all copies of the documents to the Head of the Budget Division/Unit for signature.
Head of Budget Division/Unit	4	Reviews the ORS and SDs. If in order, signs the certification in Section B of the ORS. Forwards the ORS and SDs to the Budget Staff.
Budget Staff	5	Forwards the ORS and SDs to the Accounting Division/Unit for processing of the claim. Retains original copy of the ORS for maintenance/monitoring of obligation status.

Note – For the succeeding activities, refer to Chapter 6-Disbursements.

Sec. 16. Recording of Disbursement in the RAOD. The disbursements shall be posted under the ‘Payment’ column of Section C of the ORS based on the Reports of Checks Issued (RCI)/Report of ADA Issued (RADAI) (*Appendix 13*)/TRA and JEV and recorded in the appropriate RAOD by the Budget Division/Unit.

Sec. 17. Procedures for the Recording of Disbursements and Adjustment of Obligation. The procedures for the recording of disbursements and adjustment of obligation are as follows:

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Staff Concerned	1	Receives copies of RCI, RADAI, TRA, JEV and NORSA from the Accounting Division/Unit as basis for posting in Section C of the ORS and recording to RAOD. Records in the Logbook and forwards the RCI, RADAI, TRA, JEV and NORSA to Budget Staff concerned for recording in the RAOD and updating Section C of the ORS.
Budget Staff	2	<p><u>Recording of Disbursements</u></p> Posts the RCI/RADAI/TRA/JEV and pertinent Check/ADA/TRA numbers in Section C, ‘Payment’ column of the ORS and ‘Disbursements’ column of the RAOD.
	3	In Section C of the ORS, determines the balance of unpaid obligations by subtracting the amount of disbursements from obligations. Files the RCI, RADAI, TRA, JEV and other documents for reference.
	4	<p><u>Adjustment of Obligation</u></p> Posts the NORSA in the ‘Obligation’ column of Section C of the ORS. If the original amount is lesser than the actual obligation after the processing of the claim, a

Area of Responsibility	Seq. No.	Activity
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positive entry corresponding to additional obligation shall be recorded in the RAOD based on the NORSA. If the original obligation is greater, a negative entry representing the excess shall be recorded in the RAOD.

Sec. 18. Registries of Budget, Utilization and Disbursements. The Registries of Budget, Utilization and Disbursements (RBUD) shall be used to record the approved special budget and the corresponding utilizations and disbursements charged to retained income authorized under R.A. 8292 for SUCs and other retained income collection of a national government agency with similar authority, Revolving Funds and Trust Receipts/Custodial Funds. It shall be maintained by legal/authority, fund cluster, MFO/PAP and budget classification.

- a. Registry of Budget, Utilization and Disbursements-Personnel Services (RBUD-PS) (*Appendix 10A*) shall be used to record the budget utilizations and disbursements classified under PS.
- b. Registry of Budget, Utilization and Disbursements-Maintenance and Other Operating Expenses (RBUD-MOOE) (*Appendix 10B*) shall be used to record the budget utilizations and disbursements classified under MOOE.
- c. Registry of Budget, Utilization and Disbursements-Financial Expenses (RBUD-FE) (*Appendix 10C*) shall be used to record the budget utilizations and disbursements classified under FE.
- d. Registry of Budget, Utilization and Disbursements-Capital Outlays (RBUD-CO) (*Appendix 10D*) shall be used to record the budget utilizations and disbursements classified under CO.

Sec. 19. Budget Utilization Request and Status. The incurrence of budget utilization shall be made through the issuance of Budget Utilization Request and Status (BURS) (*Appendix 14*). The BURS shall be prepared by the Requesting/Originating Office supported by valid claim documents like DV, payroll, purchase/job order, itinerary of travel, etc. The Head of Requesting/Originating Office or his/her authorized representative shall certify in Section A of the BURS as to the necessity and legality of charges to the budget under his/her supervision, and validity and propriety of SDs. The Head of Budget Division/Unit shall certify to the availability of budget and its utilization in accordance with its purpose by signing in Section B of the BURS.

Sec. 20. Subsidiary Record for Budget Utilization. The Section C of the BURS shall serve as the subsidiary record to monitor budget utilization to be maintained by the Budget Division/Unit. It shall contain the original amount of utilization, payable (goods delivered and services rendered) and the actual amount paid after the processing of the claim.

Sec. 21. Adjustment of Budget Utilization. Adjustment of budget utilization after the processing of the claim by the Accounting Division/Unit shall be made through the use of Notice of Budget Utilization Request and Status Adjustment (NBURSA) (*Appendix 15*). The adjustment shall be effected thru a positive entry (if additional utilization is necessary) or a negative entry (if reduction is necessary) in the 'Utilization' column of the BURS and RBUD.

Sec. 22. Notice of Budget Utilization Request and Status Adjustment. The NBURSA shall be prepared by the Accounting Division/Unit after the processing of the claim which shall be used in adjusting the original amount utilized to the actual utilizations in the RBUD. It shall be forwarded by the Accounting Division/Unit to Budget Division/Unit to take up

the adjustments of utilization in the RBUD. The following transactions shall also need adjustments of budget utilizations:

Transactions	Supporting Documents
a. Refund of cash advance granted during the year	Certified copies of official receipts and other SDs
b. Over/Underpayment of expenditures during the year	Certified copies of official receipts and bills and other SDs
c. Disallowances pertaining to expenses incurred during the validity period of the budget that became final and executory during the same period	Certified copies of official receipts and bills, notice that the disallowances are final and executory, and other SDs

Sec. 23. Recording of Disbursement in the RBUD. The disbursement shall be posted in Section C of the BURS and recorded in the appropriate RBUD based on the RCI, RADAI, TRA and JEV furnished by the Cashier/Accounting Units to Budget Division/Unit.

Sec. 24. Procedures in Monitoring Budget, Utilizations and Disbursements charged to Retained Income, Revolving Funds and Trust Receipts/Custodial Funds. The procedures are as follows:

Area of Responsibility	Seq. No.	Activity
<u>Posting of Approved Budget</u>		
Budget Division/Unit		
Receiving/Releasing Staff	1	Receives the approved budget (AB) from the concerned entity official. Records the same in the logbook and forwards the AB to the Staff Concerned for recording in the appropriate RBUD.
Staff Concerned	2	Records the AB in the 'Budgeted Amount' column of the RBUD and forwards copies of the budget documents to the Accounting Division/Unit for reference.
<u>Posting of Utilization</u>		
Receiving/Releasing Staff	3	Receives the BURS, duly signed by the head of the Requesting Office including copies of DV/Payroll, Contract/PO and other SDs from concerned office/personnel. Verifies completeness of the documents. If complete, records the same in the logbook maintained for the purpose and forwards the documents to Staff Concerned for recording of utilizations in the appropriate RBUD. If incomplete, returns the documents to Requesting Office for completion.
Staff Concerned	4	Receives the BURS and its SDs from Receiving/Releasing Staff. Verifies availability of budget based on the appropriate RBUD.
	5	If budget is available, assigns number on the BURS based on the Control Logbook maintained for the purpose. Records the amount utilized based on the BURS in the 'Utilization' column of the RBUD. Initials in Section B of the BURS and forward all copies of the documents to the Head of the Budget Division/Unit for signature. If budget

Area of Responsibility	Seq. No.	Activity
		is not available, returns the documents to the office/personnel concerned.
Head of Budget Division/Unit	6	Reviews the BURS and SDs. Signs the certification in Section B of the BURS. Forwards to the Staff Concerned the BURS and SDs.
Staff Concerned	7	Records in the logbook the release of the BURS and SDs to the Accounting Division/Unit for processing of the claim. Retains original copy of the BURS for maintenance/monitoring of utilization status.
		<i>Note</i> – For the succeeding activities, refer to Chapter 6- Disbursements.
Receiving/Releasing Staff	8	<u>Posting of Disbursement</u> Records in the logbook the receipt of the RCI and RADAI from the Cash Unit, and TRA, JEV and NBURSA from the Accounting Division/Unit. Forwards the same to Staff Concerned.
Staff Concerned	9	Posts the RCI/RADAI/TRA/JEV in Section C, Payment column of the BURS and to the Disbursement column of the RBUD.
	10	In Section C of the BURS, determines the balance of unpaid utilizations. Files the RCI, RADAI, TRA, JEV and other documents for reference.
Staff Concerned	11	<u>Adjustment of Utilization</u> Posts the NBURSA in the ‘Utilization’ column of Section C of the BURS. For any excess of the actual budget utilization over the original amount, a positive entry corresponding to additional utilization shall be recorded in the RBUD based on the NBURSA. If the original utilization is greater, a negative entry representing the excess shall be recorded in the RBUD.

Sec. 25. Presentation of Budget Information in the Financial Statements on a Comparable Basis. An entity shall prepare a comparison of the budget and actual amounts spent as a separate statement since the budget and the financial statements are not prepared on a comparable basis in accordance with PPSAS (*Par. 23, PPSAS 24*).

Sec. 26. Statement of Comparison of Budget and Actual Amounts. This shall be prepared based on the various registries maintained by the Budget Division/Unit such as the RRORs, RAPAL, RAOD/RBUD and other SDs. The data on Actual Amounts shall be verified by the Accounting Division/Unit in the Statement of Cash Flows (SCF). The statement shall present the following:

- a. The original (approved appropriations, prior year’s not yet due and demandable obligations) and final budget (continuing appropriations, transfers, realignments and withdrawals) amounts;
- b. The actual amounts on a comparable basis; and

- c. By way of note disclosure, an explanation of the material differences between the budget and actual amounts, which are not included in the financial statements.

(NAME OF THE ENTITY) STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT (ALL FUNDS OR NAME OF FUND) FOR THE YEAR ENDED DECEMBER 31, 2015 (in thousand pesos)					
Particulars		Budgeted Amounts		Actual Amounts on Comparable Basis	Difference Final Budget and Actual
		Original	Final		
Notes					
RECEIPTS					
Tax Revenue	3.13 & 3.15	xxx	xxx	xxx	xxx
Services and Business Income	3.14 & 3.15	xxx	xxx	xxx	xxx
Assistance and Subsidy	3.13 & 3.15	xxx	xxx	xxx	xxx
Shares, Grants and Donations	3.13 & 3.15	xxx	xxx	xxx	xxx
Gains	3.14 & 3.15	xxx	xxx	xxx	xxx
Others	3.15	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Receipts		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
PAYMENTS					
Personnel Services	3.15	xxx	xxx	xxx	xxx
Maintenance and Other Operating Expenses	3.15	xxx	xxx	xxx	xxx
Capital Outlay	3.15	xxx	xxx	xxx	xxx
Financial Expenses	3.15	xxx	xxx	xxx	xxx
Others	3.15	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
Total Payments		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
NET RECEIPTS/PAYMENTS		<u>xxx</u>	<u>xxx</u>	<u>xxx</u>	<u>xxx</u>
<i>The above statement should be read in conjunction with the accompanying notes.</i>					

Sec. 27. Changes from Original to Final Budget. An entity shall present an explanation of whether the changes between the original and final budget are a consequence of reallocations within the budget by way of note disclosure in the FSs.

Sec. 28. Reconciliation of Actual Amounts on a Comparable Basis (Budget) and Actual Amounts in the Financial Statements. The actual amounts presented on a comparable basis to the budget shall be reconciled with the actual amounts presented in the FSs identifying separately the differences classified as follows:

- a. Basis Differences, which occur when the approved budget is prepared on a basis other than the accounting basis;
- b. Timing Differences, which occur when the budget period differs from the reporting period reflected in the FSs; and
- c. Entity Differences, which occur when the budget omits program or entities that are part of the entity for which the FSs are prepared.

The reconciliation shall be disclosed as part of the Notes to the FSs.

Sec. 29. Disclosures of Budgetary Basis, Period and Scope. An entity shall explain in the notes to the FSs the budgetary basis (cash or accrual, or some modification thereof) used in the preparation and presentation of the budget and the accounting basis used in the financial

statements. The period and the entities included in the approved budget shall also be identified in the notes to financial statements.

Sec. 30. Procedures for the Preparation of the Statement of Comparison of Budget and Actual Amounts

Area of Responsibility	Seq. No.	Activity
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Budget Division/Unit
Staff Concerned

1

Based on the RRORs, RAPAL, RAODs/RBUDs and SDs, obtain the data on budgeted and actual revenue, appropriations, allotments, obligations/utilizations and disbursements and post these in the appropriate column of the SCBAA.

Note 1 – The number in the ‘Notes’ column shall correspond to those shown in the Notes to FS prepared by the agency.

Note 2 – The Receipts portion of the statement shall contain the various revenue and other receipts of the agency showing the following:

a. Budgeted Amount:

Original – the approved estimated revenue of the entity per major account based on the RROR maintained by the agency

Final – the approved estimated revenue of the entity after effecting the adjustments as reflected in the RROR.

In cases where the estimated revenue was not reflected on the approved budget, the actual collections shall be considered as the estimated revenue (final). The same shall be disclosed in the notes to the FSs.

b. Actual Amounts on Comparable Basis – refer to collections received from revenue transaction based on the RCD, CRRReg (for OU without complete set of books) and CM/Abstract of Deposit as posted in the RROR

The NCA received for funding requirements of the agency shall not be considered as receipts for the purpose of this statement.

Note 3 – The Payments portion of the SCBAA shall contain the expenditures of the agency classified into PS, MOOE, CO, FE and Other Disbursements showing the following:

a. Budgeted Amount:

Area of Responsibility	Seq. No.	Activity
		<p><i>Original</i> – the approved appropriations of the agency as reflected in the GAA and other appropriations law.</p> <p><i>Final</i> – the approved appropriations of the agency after effecting the adjustments (transfers, realignments and withdrawals) as reflected in the RAPAL.</p> <p>b. Actual Amounts on Comparable Basis – refer to actual payments/disbursements posted in the RAOD based on the RCI, RADAI, TRA and JEV for disbursements not recorded in the RCI and RADAI. For Operating Units without complete set of books, the source documents are the CReg, CDReg and the JEV.</p> <p><i>Note 4</i> – This statement shall be prepared by fund cluster based on the UACS.</p> <p><i>Note 5</i> – In addition to Note 4, a consolidated/combined statement of all fund clusters shall be prepared.</p>
Budget Staff	2	<p>Prepares the SCBAA in two (2) copies and forwards to the Accounting Division/Unit for verification of the actual amounts with the accounting records and the SCF.</p> <p><i>Note 6</i> – The difference between the Final Budget and the Actual Amounts in the SCBAA shall be reconciled with the balances of unreleased appropriations/budget, unobligated allotments/unutilized budget, and unpaid obligations/utilizations reflected in the SAAODB/SABUDB.</p>
Head of Budget Division/Unit/ Budget Officer	3	Signs the “Certified Correct” portion of the SCBAA.
Accounting Division/Unit Accounting Staff Concerned	4	<p>Receives the 2 copies of the SCBAA from the Budget Division/Unit and retrieves the copy of the SCF. Verifies the receipts and payments on the Actual Amount columns of the SCBAA with the inflows and outflows in the SCF. Coordinate with the Budget Division/Unit discrepancy discovered, if any. Once verified, forwards the 2 copies of the SCBAA and SCF to the Head of Accounting Unit/Chief Accountant.</p>

Area of Responsibility	Seq. No.	Activity
Head of Accounting Division/Unit/Chief Accountant	5	Signs the Certified Correct portion of the SCBAA.
Concerned Accounting Staff	6	Submits the signed SCBAA to the Audit Team Leader, together with other FSs. Furnish one signed copy of the SCBAA to Budget Division/Unit for file.

Sec. 31. Preparation of the Budget Reports. The following budget reports/documents as required by DBM and COA shall be submitted:

- a. Quarterly Physical Report of Operation (QPRO) – Budget Accountability Report (BAR) No. 1 (*Appendix 16*). This report shall reflect the Department’s/Agency’s actual physical accomplishments as at a given quarter, in terms of the performance measures indicated in its Physical Plan.
- b. Statement of Appropriations, Allotments, Obligations, Disbursements and Balances – Financial Accountability Report (FAR) No. 1 (SAAODB) (*Appendix 17*). This report shall reflect the authorized appropriations and adjustments, total allotments received including transfers, total obligations, total disbursements and the balances of unreleased appropriations, unobligated allotments, and unpaid obligations of a department/office/entity by source and by allotment class. It shall be presented by:
 1. Fund Authorization;
 2. Major Final Output;
 3. Program/Activity/Project; and
 4. Major Programs/Projects - identified by Key Result area (KRA)
- c. Summary of Appropriations, Allotments, Obligations, Disbursements and Balances by Object of Expenditures – FAR No. 1.A (SAAODBOE) (*Appendix 18*). This report shall be prepared by Funding Source Code (FSC) as clustered and shall reflect the summary of appropriations, allotments, obligations, disbursements and balances detailed by object of expenditures consistent with the COA Revised Chart of Accounts per COA Circular No. 2013-002 dated January 30, 2013 and the Adoption of the PPSAS per COA Resolution No. 2014-003 dated January 24, 2014.
- d. List of Allotments and Sub-Allotments – FAR No. 1.B (*Appendix 19*). This report shall reflect the allotments released by the DBM and the sub-allotments issued by the Entity Central Office/RO, their corresponding numbers, date of issuance, and amounts by allotment class and FSC. The total allotments per this report should be equal to the total allotments appearing in the SAAODB (FAR No. 1).
- e. Statement of Approved Budget, Utilizations, Disbursements and Balances – FAR No. 2 (*Appendix 20*). This report shall reflect the approved budget, the utilizations, disbursements and balance of the entity’s income authorized by law to use, such as OWWA/SUCs, duly approved by their Board of Trustee/Regents and shall be prepared by FSC as clustered.
- f. Summary of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures – FAR No. 2.A (*Appendix 21*). This report shall reflect the details of the approved budget, utilizations, disbursements and balance of the entity’s income authorized by law to use presented by object of expenditures consistent with the COA

Revised Chart of Accounts and shall be prepared by Funding Source Code as clustered.

- g. Aging of Due and Demandable Obligations – FAR No. 3 (*Appendix 22*). This report shall be prepared by FSC as clustered and shall reflect the balance of unpaid obligations as indicated in the Obligation Request (ObR) and the ADDOs as at year-end.
- h. Monthly Report of Disbursements – FAR No. 4 (*Appendix 23*). The report shall reflect the total disbursements made by department, office or entity and operating unit from the following disbursement authorities:
 - 1. Notice of Cash Allocation;
 - 2. NCA for Working Fund issued to BTr as an advance funding from loan/grant proceeds in favor of an entity;
 - 3. Tax Remittance Advice issued;
 - 4. CDC issued by departments with foreign-based agencies or units;
 - 5. Non-Cash Availment Authority; and
 - 6. Others, e.g. Customs, Duties and Taxes (CDT), BTr Documentary Stamps.

The report shall track the actual disbursement of the departments/agencies against their Disbursement Program. The reasons for over or under spending shall be indicated.

- i. Quarterly Report of Revenue and Other Receipts – FAR No. 5 (*Appendix 24*). This report shall reflect the actual revenue and other receipts/collections from all sources remitted with the BTr and deposited in other AGDB for the current year presented by quarter, and by specific sources consistent with the COA Revised Chart of Accounts.

Sec. 32. Submission of Budget and Financial Accountability Reports. All departments/agencies shall observe the following timelines in submitting the required FARs to COA-GAS and DBM:

- a. Within thirty (30) days after the end of each quarter –
 - 1. SAAODB – FAR No. 1
 - 2. SAAODBOE – FAR No. 1.A
 - 3. List of Allotments/Sub-Allotments - FAR No. 1.B
 - 4. SABUDB – FAR No. 2
 - 5. SABUDBOE – FAR No. 2.A
 - 6. QRROR – FAR No. 5
- b. On or before 30th day following the end of the year – ADDO – FAR No. 3
- c. On or before 30th day of the following month covered – MRD – FAR No. 4
- d. On or before February 14 of the following calendar year – Consolidated Statement of Allotments, Obligations, and Balances per Summary of Appropriations under FCR under GAA, GARO, and SARO.

Chapter 4

RESPONSIBILITY ACCOUNTING

Sec. 1. Scope. This Chapter covers the definition of terms, objectives, concepts, presentation of costs and revenue in the financial statements, and the responsibility center code structure.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used in this chapter shall be construed to mean as follows:

- a. *Responsibility Accounting* – provides access to cost and revenue information under the supervision of a manager having a direct responsibility for its performance. It is a system that measures the plans (by budgets) and actions (by actual results) of each responsibility center.
- b. *Responsibility Center* – is a part, segment, unit or function of a government agency, headed by a manager, who is accountable for a specified set of activities. Except for some, which derive most of their income from collection of taxes and fees, NGAs are basically cost centers which primary purpose is to render service to the public at the lowest possible cost. Cost centers are established to provide each government agency's accessibility to cost information and to facilitate cost monitoring at any given period.

Sec. 3. Objectives of Responsibility Accounting. Responsibility accounting aims to: a) ensure that all costs and revenues are properly charged/credited to the correct responsibility center so that deviations from the budget can be readily attributed to managers accountable therefor; b) provide a basis for making decisions for future operations; and c) facilitate review activities, monitoring the performance of each responsibility center and evaluation of the effectiveness of agency's operations.

Sec. 4. Concepts of Responsibility Accounting. The following are the concepts of responsibility accounting:

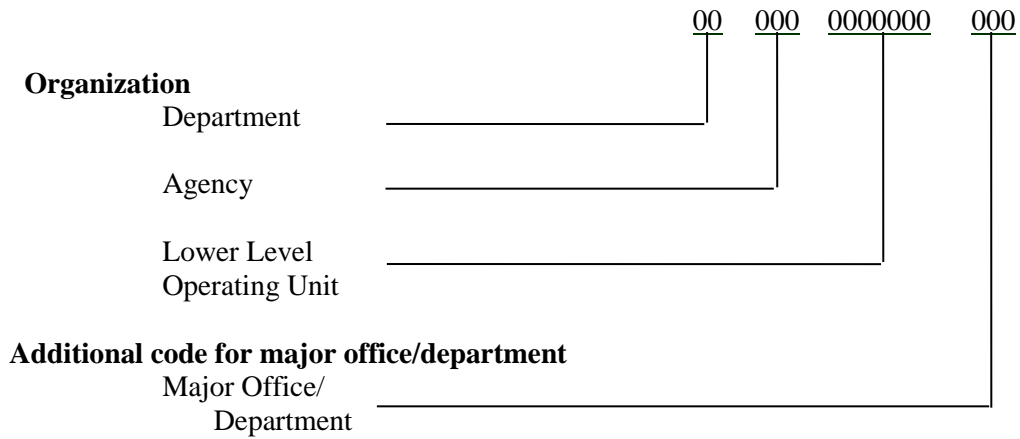
- a. Responsibility accounting involves accumulating and reporting data on revenues and costs on the basis of the manager's action who has authority to make the day-to-day decisions about the items;
- b. Evaluation of a manager's performance is based on the matters directly under his control;
- c. Responsibility accounting can be used at every level of management in which the following conditions exist:
 1. Cost and revenues can be directly associated with the specific level of management responsibility;
 2. Costs and revenues are controllable at the level of responsibility with which they are associated; and
 3. Budget data can be developed for evaluating the manager's effectiveness in controlling the costs and revenues.

- d. The reporting of costs and revenues under responsibility accounting differs from budgeting in two respects:
 - 1. A distinction is made between controllable and non-controllable costs.
 - i. A cost is considered controllable at a given level of managerial responsibility if the manager has the power to incur it within a given period of time. It follows that (1) all costs are controllable by top management because of the broad range of its activity; and (2) fewer costs are controllable as one moves down to lower level of managerial responsibility because of the manager's decreasing authority.
 - ii. Non-controllable costs are costs incurred indirectly and allocated to a responsibility level.
 - 2. Performance reports either emphasize or include only items controllable by individual manager.
- e. A responsibility reporting system involves the preparation of a report for each level of responsibility. Responsibility reports usually compare actual costs with flexible budget data. The reports show only controllable costs and no distinction is made between variable and fixed costs.
- f. Evaluation of a manager's performance for cost centers is based on his ability to meet budgeted goals for controllable costs.

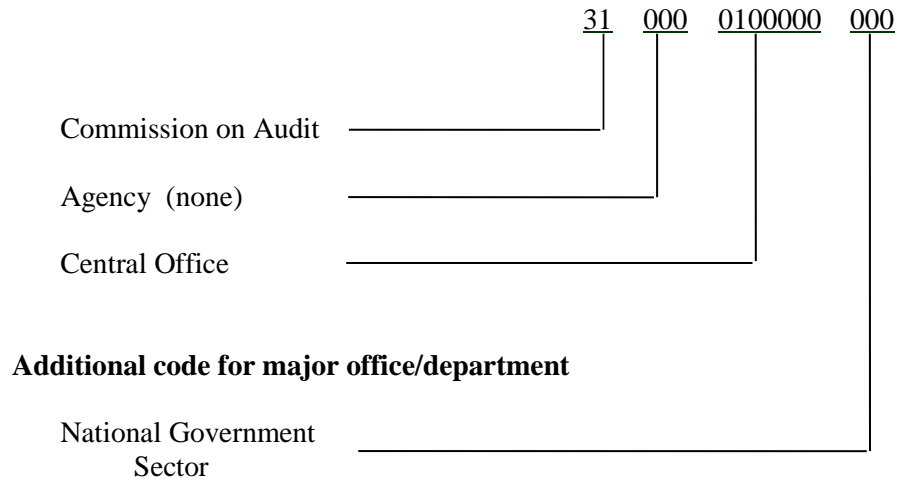
Sec. 5. Presentation of Revenue in the Financial Statements. An agency shall present, in the notes of the SFPer the total revenue, classified by MFO/PAP and by major classification of the nature of revenue attributed to the major offices/organizational unit of the agency.

Sec. 6. Presentation of Costs in the Financial Statements. An agency shall present, in the notes of the SFPer, an analysis of expenses using a classification based on the MFO/PAP and by major classification of the nature of revenue attributed to the major offices/organizational unit of the agency. The analysis of expense by MFO/PAP classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users although allocating costs to functions may require arbitrary allocations and involves considerable judgment.

Sec. 7. Responsibility Center Code Structure. Each NGA shall be assigned a responsibility center code defined as organization code in the UACS Manual. For monitoring revenue and expenses, additional three digit codes for the agency's major offices/departments shall be appended to the organization code. The organization code and the agency's major offices/departments' code shall consist of 15 digits as follows:



Example: National Government of the Commission on Audit



Chapter 5

REVENUE AND OTHER RECEIPTS

Sec. 1. Scope. This Chapter provides the standards, policies, guidelines and procedures in accounting for revenue and other receipts including those collections through authorized agent banks, remittance of collections to the NT through AGDB and deposits with the AGDB in accordance with PPSAS 9-Revenue from Exchange Transactions and PPSAS 23-Revenue from Non-exchange Transactions.

Sec. 2. Definition of Terms. For the purpose of this Manual, the following terms shall be construed to mean as follows:

- a. *Bequest* – is a transfer made according to the provisions of a deceased person’s will. The past event giving rise to the control of resources embodying future economic benefits or service potential for a bequest occurs when the entity has an enforceable claim, for example on the death of the testator, or the granting of probate, depending on the laws of the jurisdiction. (*Par. 90, PPSAS 23*)
- b. *Concessionary loans* – are loans received by an entity at below market terms.
- c. *Exchange transactions* – are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. (*Par. 11, PPSAS 9*)
- d. *Fair value* – is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction
- e. *Fines* – are economic benefits or service potential received or receivable by NGAs, from an individual or other entity, as determined by a court or other law enforcement body, as a consequence of the individual or other entity breaching the requirements of laws or regulations. (*Par. 88, PPSAS 23*)
- f. *Gifts, Donations and Goods In-kind* – are voluntary transfers of assets, including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. (*Par. 93, PPSAS 23*)
- g. *Non-exchange transactions* – are transactions in which an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. (*Par. 11, PPSAS 9*)
- h. *Pledges* – are unenforceable undertakings to transfer assets to the recipient entity.
- i. *Revenue* – is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

- j. *Services in-kind* – are services provided by individuals to public sector agencies in a non-exchange transaction.

Sec. 3. Accrual of Revenue to the General Fund. Unless otherwise specifically provided by law, all revenue (income) accruing to the departments, offices and agencies by virtue of the provisions of existing laws, orders and regulations shall be deposited in the NT or in the duly authorized depository of the Government and shall accrue to the xxx General Fund of the Government: Provided, that amounts received in trust and from business-type activities of government may be separately recorded and disbursed in accordance with such rules and regulations as may be determined by the Permanent Committee. (*Sec. 44, Chapter V, Book VI, E.O. No. 292*)

Sec. 4. Special, Fiduciary and Trust Funds. Receipts shall be recorded as revenue of Special, Fiduciary or Trust Funds (TF) or Funds other than the GF, only when authorized by law and following such rules and regulations as may be issued by the Permanent Committee consisting of the Secretary of Finance as Chairman, and the Secretary of the Budget and the Chairman, Commission on Audit, as members. The same Committee shall likewise monitor and evaluate the activities and balances of all Funds of the NG other than the GF and may recommend for the consideration and approval of the President, the reversion to the GF of such amounts as are: (1) no longer necessary for the attainment of the purposes for which said Funds were established, (2) needed by the GF in times of emergency, or (3) violative of the rules and regulations adopted by the Committee: provided, that the conditions originally agreed upon at the time the funds were received shall be observed in case of gifts or donations or other payments made by private parties for specific purposes. (*Sec. 45, Chapter V, Book VI, EO 292*).

Sec. 5. Sources of Revenue and Other Receipts. Revenues received by NGAs may arise from exchange and non-exchange transactions.

In a transaction where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received, the entity determines whether there is a combination of exchange and non-exchange transactions. Each component of which is recognized separately. (*Par. 10, PPSAS 23*)

There are transactions where it is not immediately clear whether they are an exchange or a non-exchange transaction. In these cases, an examination of the substance of the transaction will determine if they are on exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction.

Agencies may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction. (*Par. 11, PPSAS 23*)

Sec. 6. Revenue from Exchange Transactions. Revenues received by the NGAs from exchange transactions are derived from the following:

- a. Sale of goods or provisions of services to third parties or to other NGAs. Examples are:
 - 1. *Service Income* – Permit Fees, Registration Fees, Registration Plates, Tags and Stickers Fee, Clearance and Certification Fees, Franchising Fees, Licensing Fees, Supervision and Regulation Enforcement Fees, Spectrum Usage Fees, Legal

Fees, Inspection Fees, Verification and Authentication Fees, Passport and Visa Fees, Processing Fees and Other Service Income; and

2. *Business Income* – School Fees, Affiliation Fees, Examination Fees, Seminar/Training Fees, Rent/Lease Income, Communication Network Fees, Transportation System Fees, Road Network Fees, Waterworks System Fees, Power Supply System Fees, Seaport System Fees, Landing and Parking Fees, Income from Hostels/Dormitories and Other Like Facilities, Slaughterhouse Operation, Income from Printing and Publication, Sales Revenue, Hospital Fees, Share in the Profit of Joint Venture and Other Business Income.
- b. Use by other entity of assets yielding interest, royalties and dividends or similar distributions. Examples are:
1. *Interest income* – charges for the use of cash or cash equivalents, or amounts due to the entity;
 2. *Royalties* – fees paid for the use of entity’s assets such as trademarks, patents, software, and copyrights; and
 3. *Dividends* – share of the National Government from the earnings of its capital/equity investments in Government-Owned or Controlled Corporations (GOCCs) and other entities.

Sec. 7. Recognition and Measurement of Revenue from Exchange Transactions.

Revenue from exchange transaction shall be measured at fair value of the consideration received or receivable.

- a. Revenue shall be recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.
1. Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied:
 - i. The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods; (*Par. 28, PPSAS 9*)
 - ii. The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
 - iii. The amount of revenue can be measured reliably;
 - iv. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
 - v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.
 2. Revenue from the supply of services shall be recognized on a straight line basis over the specified period of the services unless an alternative method better represents the stage of completion of the transaction.

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

- i. The amount of revenue can be measured reliably;
- ii. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- iii. The stage of completion of the transaction at the reporting date can be measured reliably; and
- iv. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably. (*Par. 19, PPSAS 9*)

For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. (*Par. 24, PPSAS 9*)

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable. (*Par. 25, PPSAS 9*).

3. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions shall be recognized when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and the amount of the revenue can be measured reliably. (*Pars. 33 and 34, PPSAS 9*)
 - i. Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;
 - ii. Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; and
 - iii. Dividends or similar distributions shall be recognized when the shareholder's or the entity's right to receive payment is established.

Examples:

<u>Revenue</u>	<u>Revenue Recognition Point</u>
Service Income	
Permit Fees, Registration Fees, Registration Plates, Tags and Stickers Fee, Clearance and Certification Fees, Franchising Fees and Licensing Fees,	When services are rendered or if not practicable, when fees are collected upon issuance of the respective permits, certificates of registration, plates, stickers, clearance, certification, franchises and

<u>Revenue</u>	<u>Revenue Recognition Point</u>
	licenses
Supervision and Regulation Enforcement Fees	When services are rendered or when tickets or relevant document representing violation are issued or if not practicable, when fees are collected
Spectrum Usage Fees	When bills are rendered for the use, allocation and assignment of radio frequency wave lengths or if not practicable, when fees are collected
Inspection Fees	When bills are rendered for the conduct of inspection by authorized government official or if not practicable, when fees are collected
Legal Fees, Verification and Authentication Fees,	When filing fees are billed or if not practicable, when fees are collected
Passport and Visa Fees,	When fees are billed upon issuance of the passport and visa or if not practicable, when fees are collected
Processing Fees	When fees are billed or collected for the processing of documents for securing permits/applications.
Other Service Income	When fees are billed or if not practicable, when fees are collected
Business Income	
School Fees, Affiliation Fees, Examination Fees, Seminar/ Training Fees	When fees are billed or if not practicable, when fees are collected
Rent/Lease Income, Communication Network Fees, Transportation System Fees, Road Network Fees, Waterworks System Fees, Power Supply System Fees, Seaport System Fees, Landing and Parking Fees, Income from Hostels/ Dormitories and Other Like Facilities, Slaughterhouse, and Other Service Income	When fees are billed for earned revenue from use of government property/facilities or if not practicable, when fees are collected
Sales Revenue	When the significant risks and rewards of ownership have been transferred to the buyer as indicated in the sales invoice
Hospital Fees	When fees are billed for hospital and related services rendered, or if not practicable, when fees are collected

<u>Revenue</u>	<u>Revenue Recognition Point</u>
Share in the Profit of Joint Venture	When share in the profit is earned
Other Business Income	When earned or if not practicable, when fees are collected

- b. Revenue shall be measured at the fair value of the consideration received or receivable. Any amount of trade discounts and volume rebates allowed by the entity shall be taken into account. (*Par. 14-15, IPSAS 9*)

Example: Entity A is authorized to print accounting manuals for sale to other NGAs. Assume that on July 16, 2014, Entity A sold accounting manuals on account with a list price of ₱100,000 less trade discounts of 10%, 10% and 5%. The invoice price of the merchandise is computed as follows:

List price	₱100,000
Less: 10% x 100,000	<u>10,000</u>
	90,000
Less: 10% x 90,000	<u>9,000</u>
	81,000
Less: 5% x 81,000	<u>4,050</u>
Total	<u>₱ 76,950</u>

The journal entry shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	10301010	₱ 76,950	
Sales Revenue	40202160		₱ 76,950
To recognize the sale of the accounting manuals			

When the inflow of cash or cash equivalents received or receivable is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue. (*Par. 16, IPSAS 9*)

Example: Assume that on August 5, 2015, Entity A received a 60-day, 9%, ₱12,000 promissory note from X entity for accounting manuals sold. On October 4, 2015, Entity X paid cash in settlement of its note.

The accounting entries shall be as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>August 5</u>			
Notes Receivable	10301020	₱12,000	
Sales Revenue	40202160		₱12,000
To recognize the sale			
<u>October 4</u>			
Cash-Collecting Officers	10101010	₱12,180	
Notes Receivable	10301020		₱12,000
Interest Income	40202210		180
To recognize the collection of notes receivable			
Interest = ₱12,000 x 9% x 60/360 = ₱180			

Sec. 8. Exchanges of Goods or Services for Similar/Dissimilar Good or Services.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. However, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred. (*Par. 17, PPSAS 9*)

Sec. 9. Impairment Losses and Allowance for Impairment Losses. When an uncertainty arises about the collectibility of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense (impairment losses), rather than as an adjustment of the amount of revenue originally recognized.

Entities shall evaluate the collectibility of accounts receivable on an ongoing basis based on historical bad debts, customer/recipient credit-worthiness, current economic trends and changes in payment activity. An allowance is provided for known and estimated bad debts.

Sec. 10. Disclosure. An entity shall disclose:

- a. The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
- b. The amount of each significant category of revenue recognized during the period, including revenue arising from:
 1. Rendering of services;
 2. Sale of goods;
 3. Interest;
 4. Royalties;
 5. Dividends or similar distributions; and
 6. Amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Sec. 11. Revenue from Non-Exchange Transactions. Revenue of the NGAs from non-exchange transactions are derived mostly from taxes, gifts and donations, goods in kind and fines and penalties. Most NGAs derive revenues from transactions where they receive resources and provide no or nominal consideration directly in return. These are as follows:

- a. Tax Revenue
 1. Tax Revenue-Individual and Corporation
 2. Tax Revenue-Property
 3. Tax Revenue-Goods and Services
 4. Tax Revenue-Others
- b. Fines and Penalties
 1. Tax Revenue
 2. Service Income
 3. Business Income
- c. Shares, Grants and Donations
 1. Share from National Wealth
 2. Share from Philippine Amusement and Gaming Corporation (PAGCOR)/ Philippine Charity Sweepstakes Office (PCSO)
 3. Share from Earnings of GOCCs
 4. Income from Grants and Donations in Cash
 5. Income from Grants and Donations in Kind
- d. Revenue from non-exchange transactions may also arise when, in respect of an inflow of resources from a non-exchange transaction, the entity satisfies a present obligation recognized as a liability which may be as follows:
 1. Trust Liabilities – Customers’ Deposits Payable and Guaranty/Security Deposits Payable
 2. Deferred Credits – Deferred Finance Lease Revenue and Other Deferred Credits
 3. Unearned Revenue – Investment Property and Other Unearned Revenue

Sec. 12. Recognition of Revenue from Non-Exchange Transactions. The cash basis of accounting shall be applied by all government agencies in the recognition of revenue from non-exchange transaction until a reliable model of measurement of this revenue is developed. Therefore, asset and the corresponding revenue or liability that arises from non-exchange transaction shall be recognized when collected or when these are measurable and legally collectible.

- a. Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system.
- b. Gifts and donations, other than services in kind shall be recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and shall be measured at fair value.
- c. Goods in-kind received without conditions shall be recognized as revenue immediately.
- d. Donation in cash or in kind shall be recognized as revenue.

Sec. 13. Measurement of Revenue from Non-Exchange Transactions. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity, unless it is also required to recognize a liability. Where a liability is recognized and subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue. (*Pars. 48 and 49, PPSAS 23*)

Sec. 14. Measurement of Assets on Initial Recognition from Non-Exchange Transactions. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition. (*Par. 42, PPSAS 33*)

Sec. 15. Measurement of Liabilities on Initial Recognition. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. (*Par. 58, PPSAS 23*)

Sec. 16. Tax Revenue. Taxes are economic benefits or service potential compulsory paid or payable to public sector agencies, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law. Unless otherwise specified in laws and regulations, the taxable event for:

- a. Income tax is the earning of assessable income during the taxation period by the taxpayer;
- b. Value added tax is the undertaking of taxable activity during the taxation period by the taxpayer;
- c. Goods and services tax is the purchase or sale of taxable goods and services during the taxation period;
- d. Customs duty is the movement of dutiable goods or services across the customs boundary;
- e. Death duty is the death of a person owning taxable property; and
- f. Property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Sec. 17. Illustrative Accounting Entries. Refer to Annexes H to N for illustrative accounting entries.

Sec. 18. Transfer of Internal Revenue Allotment. Where an NG imposes a tax, the entire proceeds of which is collected by NGAs and transferred to LGUs through an appropriation, the NGAs recognize assets and revenue for the tax, and a decrease in assets and an expense for the transfer to LGUs. The LGUs will recognize the assets and revenue for the transfer. The following is the accounting entry at the books of accounts of the DBM:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Financial Assistance to LGUs Cash-Modified Disbursement System (MDS), Regular To recognize transfer of IRA to LGUs	50214030 10104040	₱10,000	₱10,000

Sec. 19. Expenses Paid Through the Tax System and Tax Expenditures. Taxation revenue shall be determined at gross amount. It shall not be reduced for expenses paid through the tax system. Expenses of the government paid through the tax system or as reduction from tax revenue received should not be offset or deducted from that tax revenue. Therefore, taxation revenue shall be recognized at the gross amount and the expenses deducted shall be recognized and shall form part of the statement of financial performance. Expenses paid through the tax system are those expenses which should be paid irrespective of whether the taxpayer pay taxes, or use a particular mechanism to pay taxes. (*Par. 71, PPSAS 23*)

Sec. 20. Taxation Revenue Shall Not Be Grossed Up For the Amount of Tax Expenditures. Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others. Tax expenditures are foregone revenue, not expenses, and do not give rise to inflows or outflows of resources that is, they do not give rise to assets, liabilities, revenue, or expenses of the government. (*Pars. 73 and 74, IPSAS 23*)

Examples are the tax expenditure fund, which is a subsidy released by the DBM to government-owned or controlled corporations and government financial institutions to settle customs duties and other taxes arising from the importation of goods; and benefits granted to taxpayers like the tax credits.

Sec. 21. Recognition of Asset through Transfers. An entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. (*Par. 76, PPSAS 23*)

- a. Transfers meet the definition of an asset when the entity controls the resources as a result of a past event (the transfer), and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur, and their fair value can be reliably measured. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability. (*Par. 78, PPSAS 23*)
- b. Transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind. All of these transactions transfer resources without approximate equal value in exchange and are not taxes but some are with conditions.
- c. Transfers are established by a binding arrangement that includes conditions, such as inter-entity and intra-entity fund transfers:
 1. From an NGA to another NGA;
 2. From the NGA's Central Office to its Regional/Bureau Offices and Operating/Field Units;
 3. From an NGA to an LGU and vice-versa;
 4. From an NGA to a GOCC and vice-versa;

- 5. From an entity that is created by law or regulation to perform specific functions with operational autonomy; and
 - 6. From donor entity to NGAs.
- d. An entity shall recognize an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.
 - e. An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place. (*Par. 79, PPSAS 23*)
 - f. Transfers of resources that satisfy the definition of contributions from owners will not give rise to revenue. Agreements that specify that the entity providing resources (a) is entitled to distributions of future economic benefits or service potential during the recipient entity's life, or distribution of any excess of assets over liabilities in the event that the recipient entity is wound up, or (b) acquires a financial interest in the recipient entity that can be sold, exchanged, transferred or redeemed, are, in substance, agreements to make a contribution from owners. (*Par. 80, PPSAS 23*)

Sec. 22. Measurement of Transferred Assets. Transferred assets are measured at their fair value as at the date of acquisition. (*Par. 83, PPSAS 23*)

Sec. 23. Debt Forgiveness and Assumption of Liabilities

- a. Lenders will sometimes waive their right to collect a debt owed by a public sector entity, effectively cancelling the debt. For example, an NGA may cancel a loan owed by an LGU. In such circumstance, the LGU concerned recognizes an increase in net assets because a liability it previously recognized is extinguished. (*Par. 84, PPSAS 23*)
- b. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners. (*Par. 85, PPSAS 23*)
- c. Where a controlling entity forgives debt owed by a wholly owned controlled entity, or assumes its liabilities, the transaction may be a contribution from owners. (*Par. 86, PPSAS 23*)
- d. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven. (*Par. 87, PPSAS 23*)

Sec. 24. Recognition and Measurement of Fines

- a. Fines are recognized as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. (*Par. 89, PPSAS 23*)
- b. Where an entity collects fines in the capacity of an agent, the fine will not be recognized as revenue of the collecting entity. (*Par. 89, PPSAS 23*)
- c. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity. (*Par. 89, PPSAS 23*)

Sec. 25. Recognition and Measurement of Bequests

- a. Bequests which satisfy the definition of an asset are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Determining the probability of an inflow of future economic benefits or service potential may be problematic if a period of time elapses between the death of the testator and the entity receiving any asset. The entity will need to determine if the deceased person's estate is sufficient to meet all claims on it, and satisfy all bequests. If the will is disputed, this will also affect the probability of assets flowing to the entity. (*Par. 91, PPSAS 23*)
- b. The fair value of bequeathed assets is determined in the same manner as for gifts and donations. Where deceased estates are subject to taxation, the tax authority may already have determined the fair value of the asset bequeathed to the entity, and this amount may be available to the entity. Bequests are measured at the fair value of the resources received or receivable. (*Par. 92, PPSAS 23*)

Sec. 26. Recognition and Measurement of Gifts, Donations and Goods In-kind

- a. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity. (*Par. 95, PPSAS 23*)
- b. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind. (*Par. 94, PPSAS 23*)
- c. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. (*Par. 96, PPSAS 23*)
- d. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment. (*Par. 97, PPSAS 23*)

Sec. 27. Grant with Condition. If conditions are attached to a grant, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purposes, it does not recognize revenue until the condition is satisfied and the liability is reduced. As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction

recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Example: The NG received a foreign grant amounting to ₱10 million for the construction of a railroad system. Under the terms of the grant, the construction project shall be completed within a period of two years from the receipt of the grant, otherwise, the money shall be returned to the grantor. The money can only be used as stipulated and the NG is required to include a note in the financial statement detailing how the money was spent. The Department of Public Works and Highways (DPWH) will be the implementing entity. The transactions shall be recognized as follows:

a. Receipt of the Grant

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Books of the NG - BTr</u>			
Cash in Bank-Local Currency,			
Bangko Sentral ng Pilipinas	10102010	₱10,000,000	
Other Deferred Credits	20501990		₱10,000,000
To recognize receipt of grant directly credited to the account of the NG maintained by the BSP			
<u>Books of the Implementing NGA – DPWH</u>			
Cash-Modified Disbursement			
System (MDS), Special Account	10104050	₱10,000,000	
Subsidy from National Government	40301010		₱10,000,000
To recognize receipt of the NCA for the construction of a railroad system			

b. Purchase of construction materials and payment for labor for the construction of a railroad system amounting to ₱10,000,000.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Books of the Implementing NGA-DPWH</u>			
Construction in Progress-			
Infrastructure Assets	10699020	₱10,000,000	
Cash-Modified Disbursement			
System (MDS), Special Account	10104050		₱10,000,000
To recognize payment for the materials and labor for the construction of a railroad system			
<u>Books of the NG-BTr</u>			
Subsidy from National Government	40301010	₱10,000,000	
Cash in Bank-Local Currency,			
Bangko Sentral ng Pilipinas	10102010		₱10,000,000
To recognize replenishment of MDS checks issued for payment of the materials and labor for the construction of a railroad system			

c. Receipt of the report from DPWH for the completion of the construction of a railroad system amounting to ₱10,000,000.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Books of the NG - BTr</u>			
Other Deferred Credits	20501990	₱10,000,000	
Income from Grants and	40402010		₱10,000,000

Donations in Cash

To recognize the income from grants and donations representing payment for expenses in connection with the grant agreement.

d. Turnover and Acceptance of Completed Infrastructure Asset

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Books of the Implementing NGA - DPWH</u>			
Railway Systems	10603100	₱10,000,000	
Construction in Progress- Infrastructure Assets	10699020		₱10,000,000

To recognize the turnover and acceptance of completed railway system

Sec. 28. Recognition and Measurement of Services In-kind. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognized to reflect the consumption of these services in-kind. (*Par. 98, PPSAS 23*)

- a. Public sector entities may be recipients of services in-kind under voluntary or involuntary schemes operated in the public interest. For example:
 1. Technical assistance from other governments or international organizations;
 2. Persons convicted of offenses may be required to perform community service for public sector entity;
 3. Public hospitals may receive the services of volunteers; and
 4. Public schools may receive voluntary services from parents as teachers' aides or as board members. (*Par.100, PPSAS 23*)
- b. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, the entity is not required to recognize services in-kind as revenue and as an asset but is encouraged to disclose the nature and type of services in-kind received during the reporting period. (*Par.102, PPSAS 23*)

Sec. 29. Recognition and Disclosure of Pledges. Pledges do not meet the definition of an asset because the recipient entity is unable to control the access of the transferor to the future economic benefits or service potential embodied in the item pledged. Agencies do not recognize pledged items as assets or revenue. If the pledged item is subsequently transferred to the recipient entity, it is recognized as a gift or donation. Pledges may warrant disclosure as contingent assets. (*Par. 104, PPSAS 23*)

Sec. 30. Advance Receipts of Revenue. When an entity receives resources before a transfer arrangement becomes binding, the resources are recognized as an asset when they meet the definition and satisfy the criteria for recognition as an asset and recognized as a liability until the event that makes the transfer arrangement binding occurs, and all other conditions under the agreement are fulfilled. When that event occurs and all other conditions under the agreement are fulfilled, the liability is discharged and revenue is recognized. (*Par.105, PPSAS 23*)

Sec. 31. Recognition and Measurement of Concessionary Loans

- a. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with PPSAS 29, Financial Instruments: Recognition and Measurement, Chapter 7 of this Manual.

- b. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange transaction. When an entity determines that the difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue, an entity recognizes the difference as revenue, except if a present obligation exists, e.g., where specific conditions imposed on the transferred assets by the recipient result in a present obligation. Where a present obligation exists, it is recognized as a liability. As the entity satisfies the present obligation, the liability is reduced and an equal amount of revenue is recognized. (*Par. 105A and B, PPSAS 23*)

Sec. 32. Dishonored Checks. A check is dishonored either by non-payment or non-acceptance. Dishonor by non-payment occurs when (a) the check is duly presented for payment and payment is refused or cannot be obtained; or (b) presentment is excused and the check is overdue and unpaid (*Sec. 83, RA No. 2031, Negotiable Instruments Law*). Dishonor by non-acceptance happens when (a) the check is duly presented for acceptance, and such an acceptance as is prescribed by law is refused or cannot be obtained; or (b) presentment for acceptance is excused and the check is not accepted (*Sec. 149, RA No. 2031, Negotiable Instruments Law*). A dishonored check may also be defined as a check paid to the agency that was dishonored by the AGDB due to “Drawn Against Insufficient Fund (DAIF)” or “Drawn Against Uncleared Deposits (DAUD).”

When a check drawn in favor of the government is not accepted by the drawee for any reason, the drawer shall continue to be liable for the sum due and all penalties resulting from delayed payments. Where the reason for non-acceptance by the drawee bank is insufficiency of funds, the drawer shall be criminally liable therefor.

Responsibility over dishonored checks:

- a. When a check is dishonored by non-payment or non-acceptance, the Collecting Officer should issue a Notice of Dishonored Checks (NDC) (*Appendix 25*) to the drawer and to each endorser, and any drawer or endorser to whom such notice is not given is discharged from liability. The NDC shall be furnished to the Agency Head, Accountant, Auditor and a copy thereof retained by the Collecting Officer. The Collecting Officer shall cancel the OR covering the dishonored check. If necessary, the head of the agency shall promptly institute the corresponding action for the collection of the amount involved.
- b. The Collecting Officer neglecting or failing to give the required NDC to the drawer (or to the endorser-payor of the government check), who, as a result thereof, is discharged from liability, shall be personally answerable for the resulting loss suffered by the government.
- c. The making, drawing and issuance of a check payment of which is refused by the drawee because of insufficient funds in or credit with such bank, when presented within ninety (90) days from the date of the check, shall be *prima facie* evidence of knowledge of such insufficiency of funds or credit unless such maker or drawer pays the holder thereof the amount due thereon, or makes arrangements for payment in full by the drawee of such check within five (5) banking days after receiving notice that such check has not been paid by the drawee.
- d. A dishonored check shall be settled by tendering payment in cash or by certified check to the Collecting Officer concerned. No other mode of payment shall be accepted.
- e. Upon settlement of the dishonored check in the manner herein prescribed, the Collecting Officer shall not return the check to the payor concerned unless the latter

first surrenders the previous OR therefor. If the previous receipt is no longer available, sworn statement to the effect that it has been lost or misplaced should be submitted by the payor.

- f. Dishonored checks shall remain in the custody of the Collecting Officer, pending their redemption, unless the agency head or the court shall direct otherwise, in which case appropriate receipts should be secured from the officer authorized to take custody of the checks. The Collecting Officer shall immediately advise the transfer of custody of the check.

Sec. 33. Procedures in Recording Dishonored Checks

Area of Responsibility	Seq. No.	Activity
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Cash/Treasury
Division/Unit

Collecting Officer/
Designated Staff

- | | |
|---|--|
| 1 | Receives from AGDB the Debit Memo (DM) and copies of dishonored checks. |
| 2 | Verifies the dishonored checks against previous months' RCD/CRRec maintained on file to ascertain that the checks were included in the previous months' collections. If not included, verifies from AGDB the details of the dishonored checks. |
| 3 | If dishonored checks are included in the RCDs, prepares NDC to inform the drawers/endorsers/payors that the checks were dishonored by the AGDB. |

Note 1 – The NDC shall be prepared in five copies and distributed as follows:

- Original* – Drawer/Endorser (To be delivered personally or thru registered mail)
- Copy 2* – Accounting Division/Unit file
- Copy 3* – Agency Head's file
- Copy 4* – COA Auditor's file
- Copy 5* – Cash/Treasury Unit file

- | | |
|---|--|
| 4 | Retrieves from file Copy 3 of the OR covering the dishonored check and cancels the OR indicating the following notation: |
|---|--|

“Cancelled (date of Notice of Dishonored Checks) per Bank Debit Memo/Voucher No. _____ dated _____”

- | | |
|---|--|
| 5 | Retrieves RCD/CRRec on file covering the dishonored checks and stamps the following notation on the face of the report/record: |
|---|--|

“Cancelled OR No. _____ dated _____ amounting to ₱ _____ due to dishonored Check No. _____ per Bank's Debit Memo No. _____ dated _____.”

Area of Responsibility	Seq. No.	Activity
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Note 2 – In case of collections of OUs without complete set of books, CRReg will be used instead of RCD/CRRec.

Accounting Division/Unit	Accounting Staff	6	Prepares list of dishonored checks in two copies. Forwards Copy 2 of the list of dishonored checks together with originals of dishonored checks, AGDB’s Debit Memo and Copy 2 of NDC to the Accounting Division/Unit for preparation of the JEV.
		7	Receives Copy 2 of the list of dishonored checks, originals of dishonored checks, AGDB’s Debit Memo and Copy 2 of NDC from the Cash/Treasury Unit and records the same in the logbook maintained for the purpose.
		8	Based on the list of dishonored checks, prepares the JEV in two copies. Signs the “Prepared by” portion of the JEV and forwards the same to the Head of Accounting Division/Unit for review and signature.
Head of Accounting Division/Unit		9	Reviews and signs the “Certified Correct by” portion of the JEV. Forwards the JEV supported by Copy 2 of the list of dishonored checks, originals of dishonored checks, AGDB’s Debit Memo and Copy 2 of NDC to the Bookkeeper for recording in the CRJ.

Note 3 – For the succeeding activities, refer to Chapter 19 of this Manual for the Preparation and Submission of Trial Balances, Financial Statements and Other Reports.

Sec. 34. Illustrative Accounting Entries for Dishonored Checks

a. Collections remitted to BTr

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Cancellation of OR due to Dishonored Checks			
Other Receivables	10305990	xxx	
Cash-Treasury/Agency Deposit,			
Regular	10104010		xxx
To recognize the cancellation of current year’s deposited collections due to dishonored checks			
Other Receivables	10305990	xxx	
Accumulated Surplus/(Deficit)	30101010		xxx
To recognize the cancellation of prior year’s deposited collections due to dishonored checks			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
2. Redemption of Dishonored Check			
Cash-Collecting Officers	10101010	xxx	
Other Receivables	10305990		xxx
To recognize replacement of dishonored check			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of the replacement of dishonored check			

b. Collections deposited to AGDB

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Cancellation of OR due to Dishonored Checks			
Other Receivables	10305990	xxx	
Cash in Bank-Local Currency, Current			
Account	10102020		xxx
To recognize the cancellation of deposited collections due to dishonored checks			
2. Redemption of Dishonored Check			
Cash-Collecting Officers	10101010	xxx	
Other Receivables	10305990		xxx
To recognize replacement of dishonored check			
Cash in Bank-Local Currency, Current			
Account	10102020	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of the replacement of dishonored check			

Sec. 35. Accounting for Cash Overage/Shortage of Collecting Officer. Cash overage discovered by the Auditor that cannot be satisfactorily explained by the Collecting Officer shall be forfeited in favor of the government and an official receipt shall be issued by the Collecting Officer/Cashier. The cash overage shall be taken up as Miscellaneous Income.

Cash shortage which is not restituted by the Collecting Officer despite demand in writing by the Auditor shall be taken up as receivable from the Collecting Officer.

Sec. 36. Illustrative Accounting Entries for Cash Overage/Shortage of Collecting Officer

a. Cash Overage

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	xxx	
Miscellaneous Income	40609990		xxx
To recognize forfeiture of cash overage of the Collecting Officer			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of forfeited cash overage to the BTr			

b. Cash Shortage

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due from Officers and Employees	10305020	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize cash shortage of Collecting Officer			
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize restitution of cash shortage			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the remittance of restituted cash shortage to the BTr			

Sec. 37. Disclosures. An entity shall disclose pertinent revenue transactions as follows: either on the face of, or in the notes to, the GPFS:

a. Disclosure on the face of, or in the notes to, the GPFS (Par. 106, IPSAS 26)

1. The amount of revenue from non-exchange transactions recognized during the period:
 - i. Taxes, showing separately major classes of taxes; and
 - ii. Transfers, showing separately major classes of transfer revenue.
2. The amount of receivables recognized in respect of non-exchange revenue;
3. The amount of liabilities recognized in respect of transferred assets subject to conditions;
4. The amount of liabilities recognized in respect of concessionary loans that are subject to conditions on transferred assets;
5. The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
6. The existence and amounts of any advance receipts in respect of non-exchange transactions; and
7. The amount of any liabilities forgiven.

b. Disclosure in the notes to the GPFS (*Par. 107, IPSAS 26*)

1. The accounting policies adopted for the recognition of revenue from non-exchange transactions;
2. For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
3. For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

4. The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received.
- c. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. Such disclosures may assist users to make informed judgment about:
1. the contribution made by such services to the achievement of the entity's objectives during the reporting period; and
 2. the entity's dependence on such services for the achievement of its objectives in the future.

Sec. 38. Other Receipts. Other receipts of NGAs shall be composed of, but not limited to, the following:

- a. Receipt of NCA. The NCA specifies the maximum amount of withdrawal that an entity can make from a government bank for the period indicated. The Collecting Officer shall not issue an OR for the receipt of NCA. The accounting entries to recognize receipt of NCA are as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Regular</u>			
Cash-Modified Disbursement			
System (MDS), Regular	10104040	₱100,000	
Subsidy from National			
Government	40301010		₱100,000
To recognize receipt of NCA for Regular Agency Fund			
<u>Special Account</u>			
Cash-Modified Disbursement			
System (MDS), Special Account	10104050	₱100,000	
Cash-Treasury/Agency Deposit,			
Special Account	10104020		₱100,000
To recognize receipt of NCA for Special Account in the General Fund			
Cash-Modified Disbursement			
System (MDS), Trust	10104060	₱100,000	
Cash-Treasury/Agency Deposit,			
Trust	10104030		₱100,000
To recognize the receipt of NCA for Trust Receipts Fund			

- b. Non-Cash Availment Authority. The accounting entry to recognize the receipt of NCAA is as follows:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable	20101010	₱950,000	
Subsidy from National			
Government	40301010		₱950,000
To recognize the receipt of NCAA			

- c. Cash Disbursement Ceiling. The accounting entries for the collection of revenue of, and the constructive receipt of disbursement authority to, Foreign Service Posts (FSPs) of DFA and DOLE are as follows:

1. DFA and DOLE's Books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱100,000	
Passport and Visa Fees	40201120		₱100,000
To recognize collection of revenue of FSPs			
Cash in Bank-Foreign Currency,			
Current Account	10103020	₱100,000	
Cash-Collecting Officers	10101010		₱100,000
To recognize deposit of collections to authorized servicing bank of the FSPs			
Cash-Constructive Income			
Remittance	10104080	₱80,000	
Subsidy from National			
Government	40301010		₱80,000
To recognize receipt of CDC from DBM			
Quarters Allowance-Civilian	50102070	₱50,000	
Rents-Buildings and Structures	50299050	30,000	
Cash in Bank-Foreign			
Currency, Current Account	10103020		₱80,000
To recognize payment of expenses charged to CDC			

2. BTr Books:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Subsidy to NGAs	50214010	₱80,000	
Cash-Constructive Income			
Remittance	10104080		₱80,000
To recognize constructive receipt of remitted collections by FSPs and disbursements charged to the issued CDCs to FSPs			

- d. Tax Remittance Advice. This shall be used to recognize: (1) in the books of national government agencies, the constructive remittance to BIR and BOC of taxes and customs' duties withheld, and the constructive receipt of NCA for those taxes and customs duties; (2) in the books of the BIR and BOC, the constructive receipt of tax revenue and customs duties; and (3) in the books of the BTr, the constructive receipt of the taxes and customs duties remitted.

1. Tax Withheld by NGAs

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>NGAs' (withholding agency) Books</u>			
Cash-Tax Remittance Advice	10104070	₱100,000	
Subsidy from National			
Government	40301010		₱100,000
To recognize constructive receipt of NCA for TRA			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due to BIR	20201010	₱100,000	
Cash-Tax Remittance			
Advice	10104070		₱100,000
To recognize constructive remittance to BIR of taxes withheld through TRA			

BIR Books

Cash-Tax Remittance Advice	10104070	₱100,000	
Income Tax	40101010		₱100,000
To recognize constructive receipt of taxes remitted by NGAs through TRA			

BTr Books

Subsidy to NGAs	50214010	₱100,000	
Cash-Tax Remittance			
Advice	10104070		₱100,000
To recognize constructive receipt of remittance of taxes by NGAs through TRA			

2. BOC Customs Duties charged to TEF

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>NGAs' (withholding agency) Books</u>			
Military, Police and Security			
Equipment	10605100	₱1,000,000	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₱990,000
Due to NGAs	20201050		10,000
To recognize the purchase of patrol boat by Philippine Navy (Cost=₱990,000; Customs Duties = ₱10,000)			
Cash-Tax Remittance Advice	10104070	₱10,000	
Subsidy from National			
Government	40301010		₱10,000
To recognize constructive receipt of NCA for customs duties charged against TEF			
Due to NGAs	20201050	₱10,000	
Cash-Tax Remittance Advice	10104070		₱10,000
To recognize constructive remittance to BOC of custom duties through TRA			
<u>BOC Books</u>			
Cash-Tax Remittance Advice	10104070	₱10,000	
Import Duties	40103010		₱10,000
To recognize constructive receipt of import duties remitted by NGAs through TRA			
<u>BTr Books</u>			
Subsidy to NGAs	50214010	₱10,000	
Cash-Tax Remittance Advice	10104070		₱10,000
To recognize constructive receipt of the remittance of import duties by NGAs through TRA			

- e. Receipt of Subsidy/Assistance from other NGAs, LGUs, GOCCs and Other Funds. The Collecting Officer shall issue OR upon receipt of cash subsidy/assistance.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱100,000	
Subsidy from Other NGAs	40301020		₱50,000
Assistance from LGUs	40301030		25,000
Assistance from GOCCs	40301040		25,000
To recognize receipt of subsidy/assistance from other government agencies			
Cash-Treasury/Agency Deposit, Trust	10104030	₱100,000	
Cash-Collecting Officers	10101010		₱100,000
To recognize remittance of collections to BTr			

- f. Refund of excess cash advances granted to officers and employees. Cash advances may be classified into:

1. Advances to Officers and Employees – for official travels;
2. Advances for Operating Expenses – granted to regular disbursing officer for operating expenses of operating/field units and foreign post not maintaining complete set of books;
3. Advances for Payroll – for payment of salaries, wages and other personnel benefits; and
4. Advances to Special Disbursing Officer (SDO) – for special purpose/time-bound undertakings.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱100,000	
Advances for Operating Expenses	19901010		₱50,000
Advances for Payroll	19901020		25,000
Advances to Special Disbursing Officer	19901030		25,000
or			
Advances to Officers and Employees	19901040		
To recognize collection of refund of excess cash advances			
Cash-Treasury/Agency Deposit, Regular	10104010		
or			
Cash-Treasury/Agency Deposit, Special Account	10104020	₱100,000	
or			
Cash-Treasury/Agency Deposit, Trust	10104030		
Cash-Collecting Officers	10101010		₱100,000
To recognize remittance of collections to BTr			

- g. Performance bond/security deposits. Receipts of performance bond posted by contractor or supplier to guaranty full and faithful performance of their contract. It may be in the form of cash or certified checks.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱10,000	
Guaranty/Security Deposits Payable	19901010		₱10,000
To recognize collection of performance bond/security deposits			
Cash-Treasury/Agency Deposit, Trust	10104010	₱10,000	
Cash-Collecting Officers	10101010		₱10,000
To recognize remittance of collections to BTr			

- h. Refund of overpayment of expenses. Receipts of refunds from officers, employees and suppliers/creditors resulting from overpayment of expenses.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱10,000	
Specific Expense account			₱10,000
To recognize collection of refund of overpayment of expenses.			
Cash-Treasury/Agency Deposit, Regular	10104010		
or			
Cash-Treasury/Agency Deposit, Special Account	10104020	₱10,000	
or			
Cash-Treasury/Agency Deposit, Trust	10104030		
Cash-Collecting Officers	10101010		₱10,000
To recognize remittance of collections of refund of overpayment of expenses to BTr			

- i. Collections made on behalf of another entity or non-government/private organizations. Receipts of income, receivables or trust funds for the account of other NGAs, LGUs, GOCCs or non-government/private organizations. These collections are later remitted to the government agencies or non-government/private organizations concerned.

1. NGAs (other than University of the Philippines-Legal Research Fund (UP-LRF))
Books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	₱5,000	
Due to NGAs	20201050		₱5,000
To recognize collection of fees accruing to the UP-LRF			
Due to NGAs	20201050	₱5,000	
Cash-Collecting Officers	10101010		₱5,000
To recognize remittance of collections to BTr for the account of UP-LRF			

2. BTr Books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash in Bank-Local Currency, Savings Account	10102030	₱5,000	
Cash-Treasury/Agency Deposit, Trust	10104030		₱5,000
To recognize receipt of remitted collections for UP-LRF			

3. UP-LRF Books

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Trust Liabilities	20401010		₱5,000
To recognize remitted collections for UP-LRF by other NGAs			

- j. Intra-agency and inter-agency fund transfers. Cash received from central office/regional office/operating units of an entity and from another entity for the purpose of implementing specific projects.

1. Intra-entity Fund Transfer

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers Due to Central Office	10101010	₱5,000	
or	20301010		
Due to Bureaus	20301020		
or			
Due to Regional Offices	20301030		₱5,000
or			
Due to Operating Units	20301040		
or			
Due to Other Funds	20301050		
To recognize receipt of intra-entity fund transfer			
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Cash-Collecting Officers	10101010		₱5,000
To recognize remittance of collections to BTr			

2. Inter-agency Fund Transfer

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers Due to NGAs	10101010	₱5,000	
or	20201050		
Due to LGUs	20201070		₱5,000
or			
Due to GOCCs	20201060		
To recognize receipt of inter-entity fund transfer			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Treasury/Agency Deposit, Trust	10104030	₱5,000	
Cash-Collecting Officers To recognize remittance of collections to BTr	10101010		₱5,000

Sec. 39. Reporting of Collections and Deposits. Receipts and deposits shall be reported as follows:

- a. At the close of the business day, the Collecting Officers shall prepare the Report of Collections and Deposits (RCD) (*Appendix 26*) for submission to Accounting Office/Unit. The report lists all the ORs issued in numerical sequence including cancelled ones.
- b. The RCD shall be supported by documentary evidence such as duplicate copies of ORs and validated deposit slips.
- c. The Collecting government entity issuing electronic Official Receipt (eOR) should generate and submit daily to the Auditor a copy of the RCD. In case the collection system is not integrated with the accounting system, the Accounting Division/Unit shall recognize the collections and deposits based on the generated reports duly certified by the Collecting Officer/Cashier/Head of Cash/Treasury Unit.
- d. Field Offices (FOs)/Operating Units (OUs) without complete set of books shall record their collections of income chronologically in the Cash Receipts Register (CRReg) (*Appendix 27*). The certified copy of the CRReg together with the required supporting documents, duplicate copies of ORs and Deposit Slip (DSs) shall be submitted within five (5) days after the end of each month to the concerned mother unit (central/regional/division office) by the FOs (a unit under the central/regional/division office) for review and recording of the transactions in the CRJ by the Chief Accountant.

Sec. 40. Detailed Procedures for Collections and Deposits through the Collecting Officer

Area of Responsibility	Seq. No.	Activity
Cash/Treasury Unit Collecting Officer	<u>Daily</u>	
	1	Receives cash/check from payor representing collection based on the Order of Payment (OP) (<i>Appendix 28</i>) prepared by the Accounting Division/Unit.
	2	Issues OR to acknowledge receipt of cash/check.
		<i>Note 1</i> – The OR shall be prepared in three copies and distributed as follows:
		<i>Original</i> – Payor <i>Copy 2</i> – To be attached to the RCD/CRReg <i>Copy 3</i> – Cash/Treasury Unit file
	3	Records collections in the Cash Receipts Record (CRRec) (<i>Appendix 29</i>).

Area of Responsibility	Seq. No.	Activity
	4	Prepares DSs in three copies.
		<i>Note 2</i> – The DSs shall be distributed as follows:
		<i>Original</i> – AGDB <i>Copy 2</i> – To be attached to RCD/CRRec <i>Copy 3</i> – Cash/Treasury Unit file
	5	Deposits collections through AGDB for the account of the National Treasurer.
		<i>Note 3</i> – As prescribed in Treasury Circular No. 03-2014 dated June 16, 2014, amended by Treasury Circular No. 05-2014 dated September 26, 2014, a List of Deposited Collections (LDC) shall accompany the validated deposit slips upon deposit. Refer to the aforesaid Treasury Circulars for the format of LDC.
	6	Based on the duplicate copies of ORs on file and validated DSs from the AGDB, prepares the RCD in four copies. Initials on the RCD and forwards the same together with Copy 2 of the ORs and validated DSs to the Head of the Cash/Treasury Unit for review and signature.
Head of Cash/Treasury Unit	7	Reviews and signs the RCD. Forwards original of RCD, Copy 2 of the ORs and validated DSs to the Collecting Officer/Designated Staff for submission to the Accounting Division/Unit.
Designated Staff	8	Records the RCD in the logbook maintained by the Cash/Treasury Unit and forwards the same with the copy 2 of the ORs and validated DSs to the Accounting Division/Unit for recording in the books of accounts.
Accounting Division/Unit		
Accounting Staff	9	Receives original of RCD with Copy 2 of the ORs and validated DSs from the Cash/Treasury Unit. Records receipt in the logbook maintained for the purpose and forwards the same to the Bookkeeper for review and preparation of the JEV.
Bookkeeper	10	Based on the RCD, prepares JEV in two copies and signs "Prepared by" portion of the JEV. Forwards the JEV and documents to the Head of the Accounting Unit for review and signature.

Area of Responsibility	Seq. No.	Activity
Head/Chief Accountant	11	Reviews and signs "Certified Correct by" portion of the JEV. Forwards the JEV and documents to the Bookkeeper for recording in the CRJ.

Note 4 – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 41. Procedures for Collections through AAB/AGDB

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit		
Receiving/Releasing Staff	1	Receives the Consolidated Report of Daily Collections (CRDC) from the AAB/AGDB. Records receipt in the logbook maintained for the purpose. Forwards the same to the Bookkeeper for preparation of the JEV.
Bookkeeper	2	Based on the CRDC, prepares JEV in two copies to recognize the collections and deposits, and signs "Prepared by" portion of the JEV. Forwards the JEV and supporting documents to the Accounting Division/Unit Head/Chief Accountant for review and signature.
Head/Chief Accountant	3	Reviews and signs "Certified Correct by" portion of the JEV. Forwards the JEV and supporting documents to the Bookkeeper for recording in the GJ.

Note – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 42. Submission of the Quarterly Report of Revenue and Other Receipts. The Chief Accountant shall prepare the Quarterly Report of Revenue and Other Receipts (QRROR) (*Appendix 24*) and submit the report to the GAS, COA, the DBM and the BTr within 30 days after the end of each quarter. A separate report shall be prepared and submitted for income of the GF and for income and receipts for Special Account and Trust Fund.

Chapter 6

DISBURSEMENTS

Sec. 1. Scope. This Chapter covers the rules and regulations to be followed in the disbursement of public funds, the monitoring of receipt and utilization of NCA/NTA, preparation and processing of DV/Payroll; preparation and issue of checks; payment by cash; granting, utilization and liquidation/replenishment of cash advances; payment through ADA; remittance of taxes withheld through TRA; availment of foreign loans through suppliers credit/constructive cash; and payment of operating requirements on FSPs through CDC.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms used shall be construed to mean as follows:

- a. *Accounts Payable* – refers to valid and legal obligations of NGAs/OU, for which, goods/services/projects have been delivered/rendered/completed and accepted, regardless of the year when these obligations were incurred.
- b. *Advice to Debit Account* – refers to an authorization issued by the NGA/OU appearing in the lower portion of the List of Due and Demandable Accounts Payable-Advice to Debit Account (LDDAP-ADA). It serves as instruction to the Modified Disbursement System, Government Servicing Banks (MDS-GSBs) to debit a specified amount from its available NCA balance under regular MDS sub-account for payment of creditors/payees through the Expanded Modified Direct Payment Scheme (ExMDPS).
- c. *Agency* – refers to any department, bureau or office of the national government, or any of its branches and instrumentalities, or any political subdivision, as well as any GOCCs, including its subsidiaries, or other self-governing board or commission of the government.
- d. *Authorized Card Holder* – refers to a responsible official to whom a Purchase Card is issued for purposes of making official purchases within specific categories enumerated in Annex A of Joint Memorandum No. 2014-01 dated May 15, 2014.
- e. *Billing Entity* – refers to the accounting unit of the concerned participating agency responsible in the consolidation of the billing statement from the Credit Card Company (CCC) and payment of the said billing agency.
- f. *Credit Card Company* – refers to Citibank as the authorized credit card service provider for the Cashless Purchase Card (CPC) System.
- g. *Commercial Check* – refers to a check issued by government agencies chargeable against the agency's checking account with AGDBs. These are covered by income/receipts authorized to be deposited with AGDBs; and funding checks received by Operating Units from Central/Regional/Division Offices, respectively.
- h. *Direct Payment System* – refers to the payment procedure whereby the MDS-GSB shall, upon receipt of NCA an LDDAP-ADA from DBM pay the CCC not earlier than 24 hours but not later than 48 hours, through direct credit to the CCC current account.

- i. *Disbursements* – constitute all cash paid out during a given period in currency (cash) or by check/ADA. It may also mean the settlement of government payables/obligations by cash, check or ADA. It shall be covered by DV/Petty Cash Voucher (PCV)/Payroll.
- j. *Expanded Modified Direct Payment Scheme* – refers to the payment procedures whereby the MDS-GSB shall pay the creditors/payees listed in the LDDAP-ADA not later than 48 hours but not earlier than 24 hours upon receipt of the said document from the NGA/OU:
 - 1. Direct credit to the creditor’s current/savings/ATM account (CA/SA/ATM) maintained with MDS-GSB; or
 - 2. Bank transfer, if creditor’s account is maintained outside the agency’s MDS-GSB, where corresponding bank charges shall be borne/paid by the creditor/payee concerned.
- k. *Implementing Agency* – refers to the agency to which the funds are transferred for the purpose of prosecuting/implementing the project.
- l. *Inter-Agency Transferred Fund* – refers to cash or money transferred to an Implementing Agency (IA) for the undertaking of a project by a Source Agency (SA) in which the allotment was released.
- m. *Letter of Introduction* – refers to a letter addressed to the MDS-GSB, issued by the NGA/OU to its creditors/payees for the purpose of opening an account or validation of an existing account.
- n. *List of Due and Demandable Accounts Payable-Advice to Debit Account* – refers to an accountable form integrating the Advice to Debit Account (ADA) with the LDDAP, which is a list reflecting the names of creditors/payees to be paid by the NGA/OU and the corresponding amounts of the unpaid claims.
- o. *Merchants* – refers to those authorized by the CCC to be the sellers/suppliers under the CPC System.
- p. *Modified Disbursement System (MDS) Check* – refers to a check issued by government agencies chargeable against the account of the Treasurer of the Philippines, which are maintained with different MDS AGDBs. MDS checks are covered by NCA.
- q. *Modified Disbursement System, Government Servicing Banks* – refers to the authorized government servicing banks, such as Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), and Philippine Veterans Bank (PVB), to which DBM issues the NCAs for crediting to the MDS sub-accounts of NGAs.
- r. *Petty Cash Fund* – refers to the amount granted to duly designated Petty Cash Fund Custodian for payment of authorized petty or miscellaneous expenses which cannot be conveniently paid through checks/LDDAP-ADA.
- s. *Program Administrator* – refers to the designated by the head of the agency who are tasked to implement and administer the Cashless Purchase Card System.

- t. *Project* – refers to the undertaking, whether construction work, research or training program, computer engagement or other authorized activities which an agency shall prosecute or implement in favor or in behalf of another agency.
- u. *Purchase Limit*:
 1. *Cardholder Monthly Purchase Limit* – refers to the limit established by the Program Administrator and approved by the Steering Committee for the total value of purchases that a cardholder can make in one month.
 2. *Cardholder Single Purchase Limit* – refers to the maximum amount allowed the cardholder for each transaction.
 3. *Maximum Purchase Card Limit* – refers to the maximum amount that the unit/office is authorized to utilize as stated in the Purchase Card application
- v. *Regular Cash Advance* – refers to the amount granted to cashiers, disbursing officers, paymasters, and/or other accountable officers for the payment of expenses such as salaries and wages, commutable allowances, honoraria and other similar payments to officials and employees.
- w. *Steering Committee* – refers to the advisory committee composed of representatives from DND and the DBM which shall provide the guidance on key issues such as policy and objectives, control, procedures, individual card limits, individuals authorized to use the cards, amendments, and decisions involving large expenditures.
- x. *Special Cash Advance* – refers to the amount granted on the explicit authority of the Head of the Agency only to duly designated disbursing officers or employees for other legally authorized purposes, such as payment of current operating expenditures, including salaries, wages and allowances, travel expenditures, and maintenance and other operating expenses, of the agency field office or for special purpose/time-bound undertaking of the agency when it is impractical to pay the same by check.
- y. *Source Agency* – refers to the agency to which the allotment has been originally released and in whose behalf or benefit the project will be prosecuted/implemented.
- z. *Tax Remittance Advice* – refers to a serially-numbered document prescribed by the DBM that should be used by the NGAs in the remittance of withheld taxes on funds coming from DBM. This form is being distributed by the BIR to be accomplished by the NGAs. The same shall be duly certified by the Chief Accountant and approved by the Head of the concerned NGA or his duly authorized representative, and attached to every withholding tax return filed as payment for taxes withheld. This shall be the basis for the BIR and the Bureau of the Treasury (BTr) to record the tax collection in their respective books of accounts. (BIR RR No. 1-2013).
- aa. *Withdrawal Application* – is a written request from the borrower to the development partner to pay funds against to borrower’s loan account.

Sec. 3. Notice of Cash Allocation. The NCA shall be the authority of an agency to pay operating expenses, purchases of supplies and materials, acquisition of PPE, accounts payable, and other authorized disbursements through the issue of MDS checks, ADA or other modes of disbursements.

- a. No MDS check/ADA shall be issued without the covering NCA. Hence, the total MDS checks/ADA issued shall not exceed the total NCA received. To maximize the available NCAs of the agency, the Common Fund System policy shall be adopted whereby cash allocation balances of agencies under the Regular MDS Account may be used to cover payment of current year's accounts payable i.e., goods and services which have been delivered and accepted during the year charged against appropriations of prior year/s, after satisfying their regular operating requirements as reflected in their Monthly Cash Program.
- b. NCA issued and credited to the Special MDS Accounts of agencies for payment of retirement gratuity/terminal leave benefits as well as prior years' accounts payable shall be valid within the period prescribed under existing rules and regulations. The NCA shall be monitored through the maintenance of the Registry of Allotments and Notice of Cash Allocation (RANCA) (*Appendix 30*) by the Accounting Division/Unit.
- c. NCA issued and credited to the Special MDS Accounts for Trust to cover payments of authorized claims shall be valid within the period prescribed under existing regulations.
- d. For NCA issued for foreign assisted projects such as grants from foreign country with a separate MDS account maintained by the spending agency with Government Servicing Banks (GSBs), MDS check/ADA shall be issued only for specific purpose until full implementation of the project, subject to pertinent DBM issuances prescribing the validity of the NCA.

Sec. 4. Notice of Transfer of Allocation. The NTA shall be the authority of the regional and operating units to pay their operating expenses, purchases of supplies and materials, acquisition of PPE, accounts payable, and other authorized disbursements through the issue of MDS checks, ADA or other modes of disbursements.

- a. No MDS check/ADA shall be issued by the ROs/OU's without the covering NTA. Hence, the total MDS checks issued shall not exceed the total NTA received. NTA issued and credited to the Regular MDS Accounts of ROs/OU's for their regular operations which are programmed for a specific month shall be valid within the period prescribed under existing rules and regulations. To maximize the available NTAs of the agency, the Common Fund System policy shall be adopted whereby cash allocation balances of agencies under the Regular MDS Account may be used to cover payment of current year's accounts payable i.e., goods and services which have been delivered and accepted during the year charged against appropriations of prior year/s, after satisfying their regular operating requirements as reflected in their Monthly Cash Program.
- b. NTA issued by the Central Office and credited to the Special MDS Accounts of ROs/OU's for payment of retirement gratuity/terminal leave benefits as well as prior years' accounts payable shall be valid within the period prescribed under existing rules and regulations. The NTA shall be monitored through the maintenance of the Registry of Allotment and Notice of Transfer of Allocation (RANTA) (*Appendix 31*) by the ROs/OU's.

Sec. 5. Recording of the Receipt of NCA/NTA. The CO/ROs/OU's shall record in the RANCA/RANTA all NCAs/NTAs received and the amount disbursed to control and monitor unfunded allotments and the balance of disbursement authorities.

Sec. 6. Procedures for Recording of Receipt and Utilization of NCAs/NTAs

Area of Responsibility	Seq. No.	Activity
CO/RO/OU Accounting Division/Unit		
Designated Staff	1	Receives copy of the GAARD, SARO, and GARO, and posts the allotment in the 'Allotment Received' column of the RANCA/RANTA.
Receiving/ Releasing Staff	2	Receives copy of NCA/NTA from DBM/Agency's Central Office and records in the logbook. Forwards NCA/NTA to the Designated Staff for recording in the RANCA/RANTA.
Designated Personnel	3	Records the receipt of NCA/NTA in the RANCA/RANTA.
	4	Records the amount disbursed/utilized in the RANCA/RANTA based on processed DVs/Payroll.
	5	Indicates the balance of the Unutilized NCA/NTA and Unfunded Allotment.

Sec. 7. Modes of Disbursements. The different modes of disbursements are as follows: (a) checks (MDS or commercial checks), (b) cash (out of cash advance granted to authorized Disbursing Officer), (c) advice to debit the account, (d) tax remittance advice, (e) working Fund/CDC, and (f) direct payment method.

Sec. 8. Disbursements by Check. Checks shall be drawn only on duly approved Disbursement Voucher (DV) (*Appendix 32*) or Payroll (*Appendix 33*). These shall be used for payment of regular expenses which cannot be conveniently nor practically paid using the ADA or not authorized to be paid using the Petty Cash Fund or advances for operating expenses. Checks issued shall be reported and recorded in the books of accounts whether released or unreleased to the respective payees. There are two types of checks being issued by government agencies as follows:

- a. **Modified Disbursement System Checks** – are checks issued by government agencies chargeable against the account of the Treasurer of the Philippines, which are maintained with different MDS-GSBs.
- b. **Commercial Checks** – are checks issued by NGAs chargeable against the Agency Checking Account with GSBs. These shall be covered by income/receipts authorized to be deposited with AGDBs.

Sec. 9. Documentary Requirements. The documentary requirements for common government transactions depending on the nature of expenses to be paid by checks shall be complied with as prescribed in COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 10. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. All checks drawn during the day, whether released or unreleased including

cancelled checks shall be recorded chronologically in the Checks and ADA Disbursements Record (CkADADRec) (*Appendix 34*) maintained by the Cash/Treasury Unit. The dates the checks were actually released shall be indicated in the appropriate column provided for in the CkADADRec. All checks/ADA drawn whether released or unreleased shall be included in the Report of Checks Issued (RCI) (*Appendix 35*) or Report of ADA Issued (RADAI) (*Appendix 13*), which shall be prepared daily by the Cashier. The RCI/RADAI together with the original copies of the supporting documents (SDs) shall be submitted to the Accounting Division/Unit for the preparation of JEV (*Appendix 36*). At the end of the year, a Schedule of Unreleased Commercial Checks shall be prepared by the Cashier for submission to the Accounting Division/Unit. The adjusting accounting entries for unreleased commercial checks are presented in Sec. 56 of Chapter 19-Financial Reporting of this Manual.

Sec. 11. Recording of Check Disbursements by Field Offices without Complete Set of Books. Field Offices (FOs) without complete set of books shall record chronologically in the Cash in Bank Register (CBReg) (*Appendix 37*) all checks issued/charged to deposits with the AGDB. The certified copy of the CBReg together with the required SDs shall be submitted within five days after the end of each month to the concerned mother unit (central/regional/division office) by the FOs (a unit under the central/regional/ division office) for review and recording of the transactions in the books of accounts.

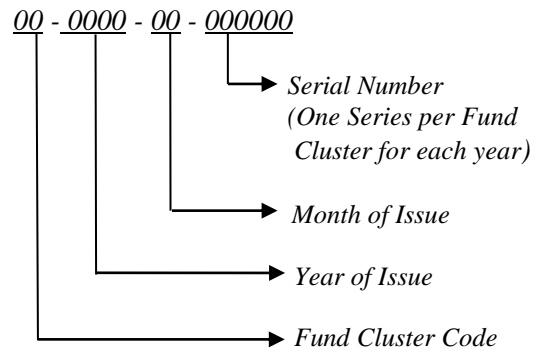
Sec. 12. Procedures for Disbursements by Checks

Area of Responsibility	Seq. No.	Activity
<u>Preparation of DV</u>		
Requesting Office/Unit Designated Staff	1	Prepares the DV in four copies in accordance with the instructions on the preparation of the DV (<i>Appendix 32</i>) to initiate the payment of claims. Forwards the DVs, SDs and ORS to the Budget Division/Unit for processing.
<i>Note 1</i> – The procedures on processing/approval of ORS are discussed in Sec. 15, Chapter 3 of this Manual.		
<u>Processing of DV</u>		
Accounting Division/Unit Receiving/ Releasing Staff	2	Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS from the Budget Division/Unit. Checks completeness of SDs based on the checklist. If incomplete, returns to the party concerned for compliance.
If complete, stamps “Received” and indicates date of receipt and initials on the stamped “Received” portion of the DV.		
<i>Note 2</i> – Copy 1 of the ORS shall be retained by the Budget Unit which shall serve as the subsidiary ledger of obligations.		
	3	Assigns DV number and records in the logbook the DV number and date, creditor/payee, particular and amount.

Area of Responsibility	Seq. No.	Activity
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Forwards Copies 1-4 of DV, SDs and Copies 2-3 of ORS to the designated Staff for processing.

Note 3 – The numbering structure for DV shall be as follows:



Note 4 – DV number shall also be indicated on every sheet of the SDs.

Designated Staff/
Processing Staff

4 Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS from the Receiving/Releasing Staff. Reviews DV for completeness and propriety of SDs.

5 Retrieves Index of Payments (IoP) (*Appendix 38*) from file and determines if claim is in order. If with prior payment on the same claim, returns the DV, SDs and ORS informing the requesting office/party of prior payment made. If in order, verifies ORS against DV. If the amounts in the ORS and DV are the same, records the following in the IP: DV date and number, particulars and amount and proceeds to Activity No. 9. For first-time claimant, prepares IP and records the name, address, employee number and/or TIN, DV date, particulars and amount. If the amounts in the ORS and DV differ, prepares NORSA in three copies and signs the “Prepared by” portion. Forwards Copies 1-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Head of Accounting Division/Unit for approval of the NORSA.

Head of Accounting Division/Unit/
Authorized Officer

6 Signs the “Approved by” portion of the NORSA.

Receiving/
Releasing Staff

7 Records in the logbook the return of Copies 1-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Budget Unit for correction of obligation.

Area of Responsibility	Seq. No.	Activity
Budget Division/Unit Designated Staff	8	Posts the NORSA in the 'Obligation' column of Section C of the ORS. If the original amount is lesser than the actual obligation, a positive entry corresponding to additional obligation shall be recorded in the RAOD based on the NORSA. If the original obligation is greater, a negative entry representing the excess shall be recorded in the RAOD. Returns Copies 2-3 of NORSA, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Accounting Division/Unit for processing. Files Copy 2 of NORSA together with the original copy of the ORS.
Accounting Division/Unit Designated Staff	9	Initials in Box B of DV and forwards Copies 1-4 of DV and SDs, Copies 2-3 of ORS to the Head of Accounting Division/Unit/Authorized Officer for review.
		<i>Note 5 – In case there is NORSA attached to the DV, it shall be included among the SDs of the DV.</i>
Head of the Accounting Division/Unit/ Authorized Officer	10	Retrieves the RANCA/RANTA from file and determines availability of NCA. If NCA is sufficient to cover the disbursement, records in the RANCA/RANTA the DV date and number, and amount under the 'Utilized' column and indicates NCA balance. Otherwise, notes that cash is not yet available and returns the DV and SDs to the Designated Staff for safekeeping.
	11	Checks the "Cash available" portion in Box B of the DV.
	12	Reviews DV and SDs. Signs Box B of DV. Forwards the documents to the Receiving/Releasing Staff.
Receiving/ Releasing Staff	13	Records in the logbook the release of Copies 1-4 of DV and SDs and Copies 2-3 of ORS to the Head of Agency or Authorized Representative for approval of the DV.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	14	Receives Copies 1-4 of DV, SDs and Copies 2-3 of ORS and records in the logbook the date of receipt. Forwards the set of documents to the Approving Officer for review and approval.
Approving Officer	15	Reviews DV and signs in Box C "Approved for Payment" portion. Forwards Copies 1-4 of DV, Copies 2-3 of the ORS and SDs.

Area of Responsibility	Seq. No.	Activity
		<i>Note 6</i> – Depending on the set up/procedures of agencies, review of the claims may be done by authorized personnel/staff prior to the approval of the Head of the Agency or his/her Authorized Representative.
Receiving/ Releasing Staff	16	Records in logbook the approved DV and all SDs and forwards the documents to the Cash/Treasury Unit.
		<u>Preparation and Approval of Checks</u>
Cash/Treasury Unit		
Receiving/ Releasing Staff	17	Receives Copies 1-4 of approved DV, Copies 2-3 of ORS and SDs. Records in the logbook the date of receipt, DV number, payee, particulars and amount.
Designated Staff	18	Checks completeness of signatories on the DV. Prepares check in three copies.
	19	Retrieves from file the CkADADRec maintained per bank account and records the date, check number, name of payee, nature of payment and amount of the DV and indicates the new balance of the NCA/bank account. Forwards Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Cashier/Head of Cash/Treasury Unit for review and signature.
		<i>Note 7</i> – For field offices without complete set of books, the CBReg shall be maintained.
Cashier or Head of Cash/ Treasury Unit	20	Verifies completeness of signature on the DV. Reviews the amount of the check against the DV and SDs. Signs the check.
Receiving/ Releasing Staff	21	Records in the logbook the date of submission to the approving authority of Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	22	Records in the logbook the date of receipt of Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs. Forwards the set of documents to the Authorized Countersigning Official.
Authorized Official	23	Countersigns the check. Forwards Copies 1-3 of check, Copies 1-4 of DV, Copies 2-3 of ORS and SDs to the Receiving/Releasing Staff for return to the Cashier/Head of Cash/Treasury Unit.

Area of Responsibility	Seq. No.	Activity
Cash/Treasury Unit		
Cashier	25	Receives Copies 1-3 of check, Copies 1-4 of DV, Copy 2-3 of ORS and SDs and checks completeness of signatures in the check. Retrieves the CkADADRec and notes the return of the signed and countersigned check.
Cashier	26	Releases the original of check and Copy 4 of DV to the payee. Attaches OR/Invoice issued by payee/claimant, if any on Copy 1 of DV and requires payee/claimant to sign on Box D of the DV and the Check Registry/Logbook. Files temporarily Copies 2-3 of check, Copies 1-3 of DV, Copies 2-3 of ORS and SDs for preparation of reports. Posts in the 'Date Released' column of the CkADADRec the date of release of the check to the claimant.
		<u>Preparation of Reports</u>
		<u>Daily</u>
Cashier/ Designated Staff	27	Prepares Advice of Checks Issued and Cancelled (ACIC) (<i>Appendix 39</i>) in accordance with existing rules and regulations and forwards to the GSB.
	28	Retrieves Copies 2-3 of checks, Copies 1-3 of DV, Copies 2-3 of ORS and SDs and prepares the RCI in four copies.
		<i>Note 8</i> – The RCI shall include all checks drawn during the day whether released or unreleased to the payees including cancelled ones.
		<i>Note 9</i> – For field offices without complete set of books of accounts, the Disbursing Officer submits the certified true copies of the CBReg together with the SDs to the Accounting Division/Units of their respective CO/RO/Division Office (DO) for recording in the books of accounts.
	29	Initials in “Certification” portion of the RCI.
Cashier/Head of the Cash/ Treasury Unit	30	Reviews RCI and signs in “Certification” portion.
Designated Staff	31	Distributes the RCI as follows:
		<i>Original</i> – COA Auditor, through the Accounting Division/Unit, together with the original copy of the paid DVs/payroll, copy of the check and SDs
		<i>Copy 2</i> – Accounting Division/Unit

Area of Responsibility	Seq. No.	Activity
		<p><i>Copy 3</i> – Budget Unit</p> <p><i>Copy 4</i> – Cash/Treasury Unit</p>
		<p><u>Preparation of JEV</u></p>
Accounting Division/Unit		<p><u>Daily</u></p>
Receiving/Releasing Staff	32	Receives Copies 1-2 of RCI with Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs from Cash/Treasury Unit. Forwards the documents to the Designated Staff for JEV preparation.
Designated Staff	33	Examines DVs and checks against RCI. Verifies if the serial number of all checks drawn whether released or unreleased, including spoiled and cancelled ones, are all accounted for.
	34	Prepares JEV in two copies and signs in the “Prepared by” portion. Forwards Copies 1-2 of JEV supported with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs to the Chief Accountant/Head of Accounting Division/Unit.
		<p><i>Note 10</i> – For Regional Offices with field offices without complete set of books, the Designated Staff shall prepare the JEV based on the certified copy of CBReg submitted by the Disbursing Officer concerned. The said JEV shall be recorded in the CkDJ.</p>
Head of the Accounting Division/Unit/Authorized Signatory	35	Reviews correctness of the journal entries and signs on “Certified Correct by” portion of the JEV. Forwards Copies 1-2 of JEV supported with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs to Designated Staff for recording in the CkDJ.
		<p><u>Recording in the CkDJ</u></p>
Designated Staff	36	Receives Copies 1-2 of JEV with Copies 1-2 of RCI, Copy 2 of the Check, Copies 1 and 3 of DVs, Copies 2-3 of ORS and other SDs. Records the JEV in the CkDJ.
		<p><i>Note 11</i> – For Central Office with field offices without complete set of books, the JEV shall be recorded in the GJ.</p>
Receiving/Releasing Staff	37	Records in the logbook submission of documents to COA and Budget Division/Unit. Retains Copy 2 of JEV and RCI and Copy 3 of ORS for file.
		<p><i>Note 12</i></p> <p>To COA – Copy 1 of JEV, RCI, DV and NORSA (if there is any), Copy 2 of</p>

Area of Responsibility	Seq. No.	Activity
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checks, Copy 2 of ORS and SDs to the Receiving/ Releasing Staff

To Budget Division/ Unit – Copy 3 RCI with Copy 3 of DV for posting of payments in Box C of ORS

Note 13 – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 13. Illustrative Accounting Entries for Disbursements By Check

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Payment of the following utility bills:			
Meralco Bill		₱ 1,200	
PLDT Bill		500	
Maynilad Bill		<u>200</u>	
Total			<u>₱ 1,900</u>
Water Expenses	50204010	₱ 200	
Electricity Expenses	50204020	1,200	
Telephone Expenses	50205020	500	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₱ 1,900
To recognize payment of bills from utility companies based on individual checks issued			
2. Grant of cash advance for travel			
Advances to Officers and Employees	19901040	₱ 1,000	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₱ 1,000
To recognize granting of travel allowance to employees			
3. Advance payment to Procurement Service			
Due from NGAs	10303010	₱ 2,500	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₱ 2,500
To recognize advance payment to Procurement Service for the purchase of Office Equipment			
4. Establishment of Petty Cash Fund (PCF) – ₱ 20,000			
Petty Cash Fund	10101020	₱ 20,000	
Cash-Modified Disbursement			
System (MDS), Regular	10104040		₱ 20,000
To recognize establishment of PCF to cover petty expenses			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
5. Replenishment of PCF			
Expenses charged to the PCF:			
Bond paper		₱ 14,000	
Postage stamps		<u>2,000</u>	
Total			<u>₱ 16,000</u>
Office Supplies Expenses	50203010	₱ 14,000	
Postage and Courier Expenses	50205010	2,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 16,000
To recognize replenishment of PCF based on the Report on Paid Petty Cash Vouchers (RPPCV) and SDs			
6. Remittance of Government's share Retirement and Life Insurance			
Premium		₱ 3,300	
Pag-IBIG Contributions		500	
PhilHealth Contributions		<u>300</u>	
Total			<u>₱ 4,100</u>
Retirement and Life Insurance Premiums	50103010	₱ 3,300	
Pag-IBIG Contributions	50103020	500	
PhilHealth Contributions	50103030	300	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 4,100
To recognize remittance of government's share based on individual checks issued to GSIS, HDMF and PHIC			
7. Remittance of salary deductions			
Retirement and Life Insurance			
Premium		₱ 3,300	
Pag-IBIG Contributions		500	
PhilHealth Contributions		300	
GSIS-Salary Loan		200	
Employees' Association		<u>100</u>	
Total			<u>₱ 4,400</u>
Due to GSIS	20201020	₱ 3,500	
Due to Pag-IBIG	20201030	500	
Due to PhilHealth	20201040	300	
Other Payables	29999990	100	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 4,400
To recognize remittance of salary deductions based on individual checks issued to Government Service Insurance System (GSIS), Philippine Health Insurance Corporation (PHIC), Home Development Mutual Fund (HDMF) and Employees' Association			

Sec. 14. Disbursements by Cash. Cash disbursements constitute payments out of cash advances granted to the regular and special disbursing officers for personal services, petty expenses and MOOE for field operating requirements. All cash payments shall be covered by duly approved DVs/payrolls/petty cash vouchers (PCVs). The cash advances may be granted to the cashiers/dispersing officers/officials and employees to cover the following: salaries and wages, travels, special time-bound undertakings and petty operating expenses. The granting and liquidation of cash advances shall be governed by the following existing COA rules and regulations and other pertinent issuances:

- a. No cash advance shall be given unless for a legally authorized specific purpose;
- b. A cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served;
- c. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him/her is first settled/liquidated or a proper accounting thereof is made;
- d. Except for cash advance for official travel, no officer or employee shall be granted cash advance unless he/she is properly bonded in accordance with existing laws or regulations. The amount of cash advance which may be granted shall not exceed the maximum cash accountability covered by his/her bond;
- e. Only permanently appointed officials shall be designated as disbursing officers;
- f. Only duly appointed or designated disbursing officer may perform disbursing functions. Officers and employees who are given cash advances for official travel need not be designated as Disbursing Officers;
- g. Transfer of cash advance from one accountable officer to another shall not be allowed; and
- h. The cash advance shall be used solely for specific legal purpose for which it was granted. Under no circumstance shall it be used for encashment of checks or for liquidation of a previous cash advance.

The specific rules and regulations on the granting, utilization and liquidation of cash advances are provided for under COA Circular No. 97-002 dated February 10, 1997, as amended by COA Circular No. 2006-005 dated July 13, 2006.

Sec. 15. Cash Advance for Payroll. Advances for Payroll shall be granted to Regular Disbursing Officers for payment of salaries, wages, honoraria, allowances and other personnel benefits of officials and employees. The Advances for Payroll shall not be used for encashment of checks or for liquidation of previous or other types of cash advances. It shall be equal to the net amount of the processed payroll corresponding to the pay period. Liquidation of the advances shall be made within five (5) days after the end of the pay period. Any unclaimed salaries/allowances shall be refunded and issued official receipt to close the account.

Sec. 16. Documentary Requirements. The documentary requirements for Payroll Fund for salaries, wages, allowances, honoraria and other similar expenses are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 17. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The Disbursing Officer shall maintain the Cash Disbursements Record (CDRec) (*Appendix 40*) to monitor the cash advances/payroll, current operating expenses, and special purpose/time-bound undertakings and prepare the Report of Cash Disbursements (RCDisb) (*Appendix 41*) to report its utilization. Payments shall be based on duly approved Payroll and shall be posted by the Designated Staff to the IP. The JEV shall be prepared based on the RD and shall be recorded in the CDJ.

Sec. 18. Procedures for Disbursements out of Advances for Payroll

Area of Responsibility	Seq. No.	Activity
<u>Granting of Advances for Payroll through ADA</u>		
Cash/Treasury Unit Disbursing Officer/ Cashier	1	Receives the validated List of Due and Demandable Accounts Payable-Advice to Debit Account (LDDAP-ADA) (<i>Appendix 42</i>) from the authorized Accountable Officer. Records in the CDRec the date, reference, name of payee, particulars and the amount of ADA in the ‘Cash Advance Received’ column.
Disbursing Officer/ Cashier	2	Withdraws the amount of cash advance from the GSB and keeps cash in a safety vault.
<i>Note 1</i> – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/misappropriations.		
<u>Utilization of Advances for Payroll</u>		
	3	Pays officials and employees/other payees.
<i>Note 2</i> – Employees/Payees shall sign on the ‘Signature of Recipient’ column of the Payroll to acknowledge receipt of payment.		
<i>Note 3</i> – If there are unclaimed salaries, the Disbursing Officer should refund the same within the time prescribed by law/regulations. OR representing the refund shall be issued by the Cashier/Designated Collecting Officer.		
	4	Records the refund for unclaimed salary in the ‘Cash Advance Received/(Refunded)’ column of the CDRec in parenthesis.
<u>Liquidation of Advances for Payroll</u>		
	5	Based on the paid payroll and SDs, prepares RCDisb in three copies. Signs the “Certification” portion of the RCDisb and submits to the Accounting Division/Unit.
<i>Note 4</i> – The RCDisb shall serve as the liquidation report of the Payroll Fund granted to the Disbursing Officer.		

Area of Responsibility	Seq. No.	Activity
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Note 5 - The RCDIsb shall be distributed as follows:

- Original* – COA Auditor, through the Accounting Division/Unit together with the paid Payrolls and SDs for JEV preparation
- Copy 2* – Accounting Division/Unit
- Copy 3* – Disbursing Officer’s file

Recording of Liquidation

Accounting Division/Unit Releasing/ Receiving Clerk	6	Records the receipt of the RCDIsb in the logbook, indicates “Received” and signs on all copies, forwards the RCDIsb to the Designated Staff for JEV preparation, and returns Copy 2 to the Cash/Treasury Unit.
Designated Staff	7	Verifies completeness of data in the RCDIsb as against the SDs received. Prepares JEV and signs in the “Prepared by” portion.
Head of the Accounting Division/Unit/ Authorized Signatory	8	Reviews correctness of the journal entries and signs on “Certified Correct by” portion of the JEV.
Designated Staff	9	Records the JEV in the CDJ.

Note 6 – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

- 10 Records in the individual IP of officials and employees the date of payment based on paid payroll. Reconciles and adjusts, if necessary, the amount of payment posted in the IP after the processing of claim with the actual amount paid based on paid payroll. Posts any refund of cash advances made by the Disbursing Officer for unclaimed salaries, wages, allowances, etc. based on the RCDIsb.

Sec. 19. Illustrative Accounting Entries for Granting and Liquidation of Advances for Payroll and the Set-up of Salary Deductions and Due to Officers and Employees

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Set-up of Due to Officers and Employees and Salary Deductions			
Assumptions:			
Salaries and Wages		₱35,000	
PERA		<u>15,000</u>	
Total		<u>50,000</u>	
Less: Salary Deductions			
Withholding Tax	5,000		
Life and Retirement			
Premiums	3,000		
Pag-IBIG premiums	500		
PhilHealth premiums	600		
GSIS Salary loan	200		
Employees' Association	<u>100</u>	<u>9,400</u>	
Net Amount		<u>₱ 40,600</u>	
Salaries and Wages-Regular	50101010	₱ 35,000	
PERA	50102010	15,000	
Due to BIR	20201010		₱ 5,000
Due to GSIS	20201020		3,200
01 Life and Retirement			
Premiums	3,000		
02 Salary Loan	200		
Due to Pag-IBIG	20201030		500
Due to PhilHealth	20201040		600
Other Payables	29999990		100
Due to Officers and			
Employees	20101020		40,600
To recognize payable to Officers and employees and to set up salary deductions			
2. Granting of Advances for Payroll			
Advances for Payroll	19901020	₱ 40,600	
Cash-Modified			
Disbursement System			
(MDS), Regular	10104040		₱ 40,600
To record grant of advances to cover payment of salaries and wages of employees			
3. Liquidation of Payroll Fund			
Due to Officers and	20101020	₱ 40,600	
Employees			
Advances for Payroll	19901020		₱ 40,600
To recognize liquidation of Advances for Payroll based on the RCDisb and SDs			

Sec. 20. Cash Advances for Operating Expenses of Government Units without Complete Set of Books of Accounts. Field/Extension/Satellite Offices are some of the government units under the central/regional/district offices without complete set of books of accounts. Those offices may be granted cash advances covering two months requirements for

MOOE/authorized expenses to finance their operations. The cash advance shall be granted to the duly designated or appointed Disbursing Officers.

Sec. 21. Documentary Requirements. The documentary requirements for the granting and liquidation of Cash Advances for Operating Expenses of Government Units without Complete Set of Books of Accounts are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 22. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. A Cash Disbursements Register (CDReg) (*Appendix 43*) shall be maintained to record, monitor and report transactions involving the grant, utilization and liquidation of the cash advance. The Disbursing Officer shall submit within five days after month-end the certified copies of the CDReg with supporting paid DVs and other documents to the accounting units of their respective Central/Regional/Division Offices and Operating Units for JEV preparation or whenever a request for replenishment is made. The JEV shall be recorded in the books of accounts.

Sec. 23. Procedures for Disbursements of Cash Advance for Operating Expenses of Government Units without Complete Set of Books of Accounts

Area of Responsibility	Seq. No.	Activity
<u>Granting of Cash Advance for Operating Expenses of Field/Extension/Satellite Offices/Operating Units</u>		
Cash/Treasury Unit Disbursing Officer/Cashier	1	Receives the approved check from the Cashier of the Central/Regional/Division Office or Operating Unit. Accomplishes the CDReg (<i>Appendix 43</i>) in accordance with the instructions at the back of the form.
Disbursing Officer/Cashier	2	Encashes check in GSB and keeps cash in a safety vault. <i>Note 1</i> – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/misappropriations.
<u>Utilization of Cash Advances for Operating Expenses</u>		
	3	Pays the MOOE/authorized expenses requirements of the field/extension/ satellite offices/operating units based on duly approved DVs with the required SDs. <i>Note 2</i> – Refer to the instructions at the back of DV (<i>Appendix 32</i>) on how to prepare the DV and Seq. No. 1-16, Sec. 12 of this Chapter for the procedures in processing and approval of DV.
	4	Records in the CDReg the date, reference, name of payee, particulars and the amount disbursed under the ‘Payments’ column. Enters the nature of payments made under the appropriate columns under the ‘Breakdown of Payments’.

Area of Responsibility	Seq. No.	Activity
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Note 3 – The total of the ‘Advances for Operating Expenses-Payments’ column must always be equal to the sum of the totals of the ‘Breakdown of Payments’ columns.

5 Indicates the running balance of the cash advance in the ‘Balance’ column after posting each transaction.

Liquidation of Cash Advances for Operating Expenses

Disbursing Officer/Cashier	6	Submits to the Accounting Division/Unit of Central/Regional/Division Office or Operating Unit concerned a certified photocopy of the CDReg with complete SDs every time the cash advance is liquidated.
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Note 4 – Refer to Seq. No. 5-10, Section 18 of this Chapter for the procedures in recording the liquidation of cash advance. Instead of paid payroll, paid DVs shall be used as basis of liquidation. Instead of officials and employees, use creditors/payee in maintaining the IP.

Sec. 24. Illustrative Accounting Entries to be recorded in the Central/Regional/Division Office or OU Books for Advances for MOOE/Authorized Expenses Granted to Government Units without Complete Set of Books of Account

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Central/Regional/Division Office or OU Books</u>			
Assumptions:			
Estimated Expenses for 2 months requirements:			
Office Supplies Expenses		₱ 10,000	
Traveling Expenses		15,000	
Water Expenses		8,000	
Telephone Expenses		5,000	
Electricity Expenses		<u>12,000</u>	
Total		₱ <u>50,000</u>	
Advances for Operating Expenses	19901010	₱50,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱50,000
To recognize granting of cash advance to field units without books of accounts			
Office Supplies Expenses	50203010	₱ 10,000	
Traveling Expenses-Local	50201010	15,000	

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Water Expenses	50204010	8,000	
Electricity Expenses	50204020	5,000	
Telephone Expenses	50205020	12,000	
Advances for Operating Expenses	19901010		₱ 50,000

To recognize liquidation of cash advance upon receipt of the certified copies of CDRReg with paid DVs and other supporting documents from field/extension/satellite offices/operating units

Sec. 25. Cash Advances for Travel. Section 2 of Executive Order (EO) No. 248 dated May 29, 1995, as amended by EO No. 248A and EO No. 298 dated August 14, 1995 and March 23, 2004, respectively, provide that travels shall cover only those that are urgent and extremely necessary, will involve the minimum expenditure and are beneficial to the agency concerned and/or the country.

- a. No government fund shall be utilized to defray foreign travel expenses of any government official or employee, except in the case of training, seminar or conference abroad when the officials or other personnel of the foreign mission cannot effectively represent the country therein, and travels necessitated by international commitments; provided that no official or employee, including uniformed personnel of the Department of the Interior and Local Government (DILG) and Department of National Defense (DND) will be sent to foreign training, conferences or attend international commitments when they are due to retire within one year after the said foreign travel [Section 16(c) of Fiscal Year (FY) 2012 GAA or pertinent provisions of the GAA for the Year]. Under Memorandum Circular No. 52 dated October 2, 2003 of the Office of the President, the grant of clothing allowance in all categories of trips is suspended indefinitely.
- b. Officials and employees authorized to travel shall be granted cash advance to cover traveling expenses. The amount to be granted shall be accounted as “Advances to Officers and Employees”. No additional cash advance shall be granted to any official or employee unless the previous cash advance given to him/her for travel is first liquidated and accounted for in the books. For local travel, liquidation shall be done within a period of 30 days upon return to the personnel’s workstation. On the other hand, cash advance for foreign travel shall be liquidated within 60 days upon return to the Philippines. The Liquidation Report (LR) (*Appendix 44*) shall be prepared by the officers/employees concerned and submitted to the Accounting Division/Unit with appropriate SDs as basis for JEV preparation. The excess cash advance shall be refunded and an OR shall be issued to acknowledge receipt thereof. In case the amount of cash advance is less than the travel expenses incurred, the LR shall be submitted to liquidate the cash advance previously granted and a DV shall be prepared to claim reimbursement of the deficiency in amount.

Sec. 26. Documentary Requirements. The documentary requirements for cash advance for travel as provided under 1.1.4 of COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013, are as follows:

- a. Granting of Cash Advance
 1. Local Travel
 - i. Office Order/Travel Order approved in accordance with Section 3 of EO No. 298;

- ii. Duly approved Itinerary of Travel (IoT) (*Appendix 45*) and
- iii. Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.

2. Foreign Travel

- i. Office Order/Travel Order approved in accordance with the provisions of Sections 1 and 2 of EO 459 dated September 1, 2005;
 - o As approved by the Office of the President in the case of the following officials:
 - Members of the cabinet and officials of equivalent rank
 - Heads of agencies under or attached to the Office of the President

The Chief Justice and Associate Justices of the Supreme Court were exempted under Memorandum Order No. 26 dated July 31, 1986. Under E.O. No. 477 dated August 21, 1991, the Chairmen and Commissioners of the Constitutional Commissions, Chairman and Members of the Commission on Human Rights, Ombudsman and Deputy Ombudsmen were also exempted from securing prior approval from the OP in connection with travels abroad.

- o As approved by the respective heads of agencies in the case of other government officials and employees regardless of the length of travel:
 - NGAs – Department Secretaries or their equivalent
 - State Universities and Colleges (SUCs) – Chairman of Commission on Higher Education (CHED) in the case of heads of the SUCs and respective heads in the case of all other officials and employees
 - Technical and Vocational Schools – Chairman of Technical Education and Skills Development Authority (TESDA) in the case of technical and vocational schools and respective heads in the case of all other officials and employees
- ii. Duly approved IT;
- iii. Letter of invitation of host/sponsoring country/agency/organization;
- iv. For plane fare, quotations of three travel agencies or its equivalent;
- v. Flight itinerary issued by the airline/ticketing office/travel agency;
- vi. Copy of the United Nations Development Programme (UNDP) rate for the daily subsistence allowance (DSA) for the country of destination for the computation of DSA to be claimed;
- vii. Document to show the dollar to peso exchange rate at the date of grant of cash advance;
- viii. Where applicable, authority from the OP to claim representation expenses; and
- ix. In case of seminars/trainings:
 - o Invitation addressed to the agency inviting participants (issued by the foreign country)
 - o Acceptance of the nominee as participants (issued by the foreign country)
 - o Programme Agenda and Logistics Information
- x. Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.

b. Liquidation of Cash Advance

1. For Local Travel

- i. Paper/Electronic plane, boat or bus tickets, boarding pass, terminal fee;
- ii. Certificate of Appearance/Attendance;
- iii. Copy of previously approved IT;
- iv. Revised or supplemental Office Order or any proof supporting the change of schedule;
- v. Revised IT, if the previous approved itinerary was not followed;
- vi. Certification by the Head of Agency as to the absolute necessity of the expenses together with the corresponding bills or receipts, if the expenses incurred for official travel exceeded the prescribed rate per day (certification or affidavit of loss shall not be considered as an appropriate replacement for the required hotel/lodging bills and receipts);
- vii. LR (*Appendix 44*);
- viii. Reimbursement Expense Receipt (RER) (*Appendix 46*);
- ix. OR in case of refund of excess cash advance;
- x. Certificate of Travel Completed (CTC) (*Appendix 47*); and
- xi. Hotel room/lodging bills with official receipts in the case of official travel to places within 50-kilometer radius from the last city or municipality covered by the Metro Manila Area, or the city or municipality where their permanent official station is located in the case of those outside the Metro Manila Area, if the travel allowances being claimed include the hotel room/lodging rate.

2. For Foreign Travel

- i. Paper/Electronic plane, boarding pass, boat or bus ticket, terminal fee;
- ii. Certificate of Appearance/Attendance for training/seminar participation;
- iii. Bill/Receipts for non-commutable representation expenses approved by the President under Section 13 of EO No. 248;
- iv. For reimbursement of actual travel expenses in excess of the prescribed rate (EO No. 298):
 - o Approval of the President
 - o Certification from the Head of Agency that it is absolutely necessary
 - o Hotel room bills with official receipts (certification or affidavit of loss shall not be considered as an appropriate replacement for the required hotel/lodging bills and receipts)
- v. Revised IT, if applicable;
- vi. Narrative report on trip undertaken/Report on Participation;
- vii. OR in case of refund of excess cash advance;
- viii. CTC; and
- ix. LR.

Sec. 27. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The officers/employees who made the travel shall prepare the LR which shall be the basis for the preparation of the JEV. The Accounting Division/Unit shall record the JEV in the GJ and maintain SL/IP for officers and employees where the granting and liquidation of travel allowances shall be posted for monitoring purposes.

Sec. 28. Procedures for Disbursements of Advances to Officers and Employees

Area of Responsibility	Seq. No.	Activity
<u>Receipt and Liquidation of Cash Advance for Travel</u>		
Various Units Officers/Employees Concerned	1	Receives the approved check and Copy 4 of DV from Cash/Treasury Unit. <i>Note 1</i> – Officers/Employees shall sign on the received portion of the original copy of the DV to acknowledge receipt of traveling allowance.
	2	Upon return to the official station, prepares the LR in two copies and signs in Box A or “Certification” portion. Attaches appropriate SDs such as IT, CTC, Certificate of Appearance, Travel Report, Plane/Boat Ticket, and RER. <i>Note 2</i> – The LR together with the appropriate SDs shall be submitted to the Accounting Division/Unit upon return to the official station as follows: <ul style="list-style-type: none"> • Local travel – within 30 days • Foreign travel – within 60 days <i>Note 3</i> – If there is unused/excess traveling allowance, the amount shall be refunded to the Cashier/ Collecting Officer who shall in turn issue the OR to acknowledge receipt of amount refunded. <i>Note 4</i> – The DV and ORS shall be prepared by the official/ employee concerned for the reimbursement of allowable traveling expenses incurred in excess of the cash advance.
Supervisor of Official/Employee Concerned	3	Signs in Box B “Certified: Purpose of travel/cash advance duly accomplished” portion of the LR.
Official/Employee Concerned	4	Submits Copies 1-2 of the LR, SDs to Accounting Division/Unit for processing and certification of Box C “Certified: SDs complete and proper” and recording of the actual traveling expenses.
Accounting Division/Unit Releasing/Receiving Clerk	5	Checks completeness of SDs. If complete, acknowledges receipt of the LR, returns Copy 2 to the claimant and records the same in the logbook.

Area of Responsibility	Seq. No.	Activity
		Otherwise, returns the documents to the claimant for appropriate action.
Chief Accountant/Head of Accounting Division/Unit	6	Verifies completeness and propriety of the SDs. If complete and proper, signs in Box C, "Certified: SDs complete and proper" portion of the LR. Otherwise, prepares letter informing the claimant of the deficiencies. <i>Note 5</i> – Upon compliance of the deficiencies, refer to Sequence No. 4.
		<u>Recording of Liquidation of Advances to Officers and Employees</u>
Designated Staff	7	Prepares JEV based on the LR and SDs received. Signs in the "Prepared by" portion of the JEV.
Chief Accountant/Head of Accounting Division/Unit	8	Reviews the JEV and signs in the "Certified Correct" portion.
Designated Staff	9	Records the JEV in the GJ. Files the documents temporarily.
	10	Submits to the COA Auditor Copy 1 of JEVs, LRs and SDs at the end of the month. <i>Note 6</i> – For the succeeding activities, refer to the Chapter in Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 29. Illustrative Accounting Entries for the Granting and Liquidation of Advances to Officers and Employees covering Official Travel

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Advances to Officers and Employees	19901040	₱2,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱2,000
To recognize granting of cash advance for local travel to officers and employees based on duly approved and paid DV, Authority to Travel and IT			
Traveling Expenses-Local	50201010	₱ 2,000	
Advances to Officers and Employees	19901040		₱ 2,000
To recognize liquidation of cash advance for local travel upon receipt of LR and supporting documents			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Advances to Officers and Employees	19901040	₱ 200,000	
Training Expenses	50202010	80,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 280,000
To recognize granting of cash advance for training abroad			
Traveling Expenses-Foreign	50201020	₱ 200,000	
Advances to Officers and Employees	19901040		₱ 200,000
To recognize liquidation of cash advance for training abroad upon receipt of LR and supporting documents.			

Sec. 30. Cash Advance for Specific Purpose/Time-Bound Undertaking. Cash advance for special purpose/time-bound undertaking shall be granted only to duly authorized accountable officer/special disbursing officer. It shall be accounted for in the books of accounts as “Advances to Special Disbursing Officer.” It shall be liquidated by the accountable officer within a specified period. Any unutilized cash advance shall be refunded and an OR shall be issued to acknowledge collection thereof.

Sec. 31. Documentary Requirements. The documentary requirements for cash advance for specific purpose/time-bound undertaking are provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 32. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The accountable officer/special disbursing officer shall prepare the RCDisb and maintain the CDRec to monitor and control the granting and utilization of cash advance. The RCDisb shall be the basis in the preparation of the JEV which shall be recorded by the designated staff in the CDJ. The SL and IP shall also be maintained by the Accounting Division/Unit.

Sec. 33. Procedures for Disbursements of Advances to Special Disbursing Officers

Area of Responsibility	Seq. No.	Activity
<u>Granting of Cash Advance for Specific Purpose/Time-Bound Undertaking</u>		
Cash/Treasury Unit Accountable Officer/Special Disbursing Officer	1	Receives the approved check and Copy 4 of DV from Cash/Treasury Unit. Records in the CDRec the date, reference, name of payee, particulars and the amount of check in the ‘Cash Advance Received’ column.
Designated Accountable Officer/Special Disbursing Officer	2	Encashes check in GSB and keeps cash in a safety vault.

Note 1 – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/misappropriations.

Area of Responsibility	Seq. No.	Activity
		<u>Utilization of Cash Advance for Specific Purpose/Time-Bound Undertaking</u>
	3	Pays the authorized expenses based on duly approved DV and SDs.
	4	Records payments made in the 'Disbursements' column of the CDRec.
		<u>Liquidation of Cash Advance for Special Purpose/Time-Bound Undertaking</u>
	5	Prepares RCDisb in three copies based on the CDRec. Signs the "Certification" portion of the RCDisb. Forwards the RCDisb and SDs to the Accounting Division/Unit.
		<i>Note 2</i> – The RCDisb shall be distributed as follows: <i>Original</i> – COA Auditor, through the Accounting Division/Unit together with the paid Payrolls and SDs for JEV preparation <i>Copy 2</i> – Accounting Division/Unit <i>Copy 3</i> – Disbursing Officer's file
		<i>Note 3</i> – If there are unused cash advances, refund the amount to the Cashier who shall in turn issue the OR to acknowledge receipt of the refund. The OR shall be attached to the RCDisb.
		<u>Recording of Liquidation of Cash Advance for Special Purpose/Time-Bound Undertaking</u>
Accounting Division/Unit Receiving/Releasing Clerk	6	Checks completeness of SDs. If complete, acknowledges receipt of the RCDisb, returns Copy 2 to the Accountable/Special Disbursing Officer and records the same in the logbook. Otherwise, returns the documents to the Accountable/Special Disbursing Officer for appropriate action.
Designated Staff	7	Verifies completeness and propriety of the RCDisb and SDs. If complete and proper, prepares JEV in two copies and signs in the "Prepared by" portion. Otherwise, prepares letter informing the Accountable/Special Disbursing Officer of the deficiencies.
Chief Accountant/Head of Accounting Division/ Unit	8	Reviews the JEV and signs in the "Certified Correct" portion.
Designated Staff	9	Records the JEV in the CDJ.

Area of Responsibility	Seq. No.	Activity
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Note 4 – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 34. Illustrative Accounting Entries for Advances to Special Disbursing Officers

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Assumptions:			
Estimated Expenses for the celebration of agency anniversary:			
Office Supplies Expenses		₱ 10,000	
Traveling Expenses		15,000	
Printing and Publication Expenses		<u>5,000</u>	
Total			<u>₱ 30,000</u>
Advances to Special Disbursing Officer	19901030	₱ 30,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 30,000
To recognize the granting of cash advance for the anniversary celebration			
Traveling Expenses-Local	50201010	₱ 15,000	
Office Supplies Expenses	50203010	10,000	
Printing and Publication Expenses	50299020	5,000	
Advances to Special Disbursing Officer	19901030		₱ 30,000
To recognize the liquidation of cash advance after the anniversary celebration based on the RCDIsb and supporting documents submitted by the Special Disbursing Officer			

Sec. 35. Cash Advance for Petty Operating Expenses. The Petty Cash Fund (PCF) to be set up shall be sufficient for the recurring petty operating expenses of the agency for one month. It shall be maintained using the Imprest System. All replenishments shall be directly charged to the expense account and at all times, the PCF shall be equal to the total cash on hand and the unreplenished expenses. The PCF shall be replenished as soon as disbursements reach at least 75% or as needed. The following are the accounting policies regarding cash advance for PCF:

- a. The fund shall be kept separately from the regular cash advances/collections and shall not be used for payment of regular expenses such as rentals, subscriptions, light and water bills, purchase of supplies and materials for stock purposes, and the like. Payments out of PCF, which shall be made through a Petty Cash Voucher (PCV) (*Appendix 48*), should be allowed only for amounts not exceeding ₱15,000 for each transaction, except when a higher amount is allowed by law and/or specific authority by the COA. Splitting of transactions to avoid exceeding the ceiling shall not be allowed. All disbursements out of PCF shall be covered by duly accomplished and approved PCV supported by cash invoices, ORs or other evidence of disbursements;

- b. The unused balance of the PCF shall not be closed/refunded at the end of the year. The fund shall be closed only upon termination, separation, retirement or dismissal of the Petty Cash Fund Custodian (PCFC), who in turn shall refund any balance to close his/her cash accountability; and
- c. At the end of the year, the PCFC shall submit to the Accounting Division/Unit all unreplenished Petty Cash Vouchers (PCVs) for recording in the books of accounts.

Sec. 36. Documentary Requirements. The documentary requirements for PCF as provided under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013, and under this Chapter, are as follows:

- a. Granting of Petty Cash Advance
 - 1. Authority of an accountable officer issued by the Head of the Agency or his/her duly authorized representatives indicating the maximum accountability and purpose of cash advance (for initial cash advance);
 - 2. Certification from the Accountant that previous cash advances have been liquidated and accounted for in the books; and
 - 3. Approved application for bond and/or Fidelity Bond for the year for cash accountability of ₱5,001 or more as provided under Treasury Circular No. 02-2009 dated August 6, 2009.
- b. Additional Documentary Requirements for initial cash advances
 - 1. Approved estimates of petty expenses for one month; and
 - 2. Copy of policy for maintaining PCF under the imprest system
- c. Liquidation of PCF
 - 1. Report on Paid Petty Cash Vouchers (RPPCV) (*Appendix 49*);
 - 2. Approved purchase request with certificate of Emergency Purchase if necessary;
 - 3. Bill, receipts, sales invoices
 - 4. Inspection and Acceptance Report (IAR) (*Appendix 62*);
 - 5. Waste Materials Report (WMR) (*Appendix 65*) in case of replacement/repair;
 - 6. Approved Trip Ticket, for gasoline/fuel expenses;
 - 7. Canvass from at least three suppliers for purchases involving P1,000 and above, except for purchases made while on official travel;
 - 8. Summary/Abstract of Canvass;
 - 9. PCVs duly accomplished and signed;
 - 10. OR in case of refund;

11. For reimbursement of toll receipts; and
 - i. Toll Receipts
 - ii. Trip Tickets
12. Such other supporting document that may be required.

Sec. 37. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. The PCFC shall prepare the RPPCV and maintain the Petty Cash Fund Record (PCFR) (*Appendix 50*) to monitor and control the granting and utilization of the fund. The RPPCVs shall be the basis in the preparation of the DV to replenish the PCF. The Accounting Division/Unit shall record the replenishment of PCF in the CkDJ through a JEV and shall maintain SL to monitor and control accountability.

Sec. 38. Procedures for Disbursements through Petty Cash

Area of Responsibility	Seq. No.	Activity
<u>Establishment of PCF</u>		
Various Units		
Petty Cash Fund Custodian	1	Receives the approved check from the Cashier for the establishment of PCF. Records in the PCFR the date, particulars, reference and the amount of check in the ‘Cash Advance’ column.
	2	Encashes check in GSB and keeps cash in a safety vault.
		<i>Note 1</i> – Agencies are enjoined to institute adequate internal control to safeguard government funds against possible losses/ misappropriations.
<u>Utilization of Cash Advance from PCF</u>		
Requesting Personnel	3	Accomplishes Box I columns ‘Particulars’ and ‘Amount’ and Box A “Requested by” portion of the PCV.
Immediate Supervisor	4	Signs Box A “Approved by” portion of the PCV and returns to Requesting Personnel.
Requesting Personnel	5	Submits the required documents to the PCFC for the release of fund.
Petty Cash Custodian	6	Receives from the Requesting Personnel the PCV duly approved by the Immediate Supervisor of the Requestor.
	7	Upon release of the petty cash, signs in Box B “Paid by” portion of the PCV.
Requesting Personnel	8	Receives petty cash and signs in Box B “Cash Received by” portion of the PCV.
Petty Cash Custodian	9	Issues Copy 2 of the PCV to the Requesting Personnel.
	10	Files the original of PCV awaiting liquidation.

Area of Responsibility	Seq. No.	Activity
		<u>Liquidation of Cash Advance from PCF</u>
	11	Receives from Requesting Personnel Copy 2 of the PCV together with SDs. Checks and reviews completeness of documents such as the date, amount and nature of expenses paid as shown in the SDs. If incomplete, returns to Requesting Personnel for completion of needed SDs.
	12	If complete, retrieves the original of PCV from file and fills up Box II "Total Amount Granted", "Total Amount Paid per OR/Invoice No.", and "Amount Refunded/ Reimbursed" portion of the original and Copy 2 of PCVs.
	13	Checks the appropriate boxes for "Received Refund" or "Reimbursement Paid" portion and signs Box C of the PCV.
Requesting Personnel	14	Checks and fills up the appropriate boxes for "Liquidation Submitted by" and "Reimbursement Received by" upon submission of necessary SDs and receipt or reimbursement of cash, if any, and signs Box D of the PCV.
Petty Cash Fund Custodian	15	Returns Copy 2 of the PCV to the Requesting Personnel.
	16	Retrieves PCFR from file and records paid PCVs. Fills up the following columns: date, PCV No., name of payee, nature of payment and the amount in the 'Disbursements' and 'Cash Advance Balance' columns.
	17	Files the original PCV together with the SDs.
		<u>Replenishment of PCF</u>
	18	Retrieves from file the original of the PCV together with the SDs. Checks the completeness of all PCVs for replenishment.
	19	Based on the paid PCVs and SDs, prepares the RPPCVs in two copies. Signs the "Certification" portion of the RPPCV. <i>Note 1</i> – The RPPCVs shall serve as the basis in the preparation of the DV to replenish the PCF. <i>Note 2</i> – In case of retirement, separation, termination or dismissal of the PCFC, any unused balance shall be refunded to close the accountability. The incoming Custodian shall be granted a new PCF.
	21	Based on the RPPCVs, prepares DV in four copies and ORS in three copies. Forwards Copies 1-4 of the DV, original of the RPPCVs and PCV, and SDs to Authorized Official for review and signature.

Area of Responsibility	Seq. No.	Activity
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Authorized Official	22	Signs in Box A portion of the ORS and DV.
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Petty Cash Fund Custodian	23	Forwards Copies 1-4 of the DV, Copies 1-3 of ORS, originals of RPPCVs and PCVs and SDs to Budget Division for recording of obligation.
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Note 3 – For the processing of ORS and check, refer to Sec. 15 of Chapter 3 and Sec. 12 of this Chapter, respectively.

Note 4 – For the recording of replenishment of PCF, refer to Seq. 32 to 37 of Sec. 12 of this Chapter.

Note 5 – The RPPCVs shall be distributed as follows:

Original – COA Auditor, through the Accounting Division/Unit, together with the original copies of the paid PCVs and SDs
Copy 2 – Treasury/Cash Unit

Sec. 39. Illustrative Accounting Entries for Disbursements Out of Petty Cash

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Assumptions:			
Estimated Expenses:			
Traveling Expenses		₱10,000	
Office Supplies Expenses		8,000	
Postage and Courier Expenses		5,000	
Fuel, Oil and Lubricants Expenses		2,000	
Other MOOE		<u>5,000</u>	
Total		<u>₱ 30,000</u>	
Petty Cash	10101020	₱ 30,000	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 30,000
To record the establishment of PCF			
Traveling Expense-Local	50201010	₱ 10,000	
Office Supplies Expenses	50203010	8,000	
Fuel, Oil and Lubricants	50203090	2,000	
Postage and Courier Expenses	50205010	5,000	
Other Maintenance and Operating Expenses	50299990	4,800	
Cash-Modified Disbursement System (MDS), Regular	10104040		₱ 29,800
To record the replenishment of Petty Cash based on the DV, RPPCVs and SDs			
Cash-Collecting Officer Petty Cash	10101010 10101020	₱ 200	₱ 200
To record return of unused PCF upon retirement, resignation, separation and termination of the Petty Cash Custodian based on the OR			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Assume the following are the unreplenished PCVs as at December 31:			
Office Supplies		₱ 300	
Traveling Expenses-Local		400	
		<u>₱ 700</u>	
Traveling Expenses-Local	50201010	₱ 300	
Office Supplies Expenses	50203010	400	
Petty Cash	10101020		₱ 700
To record the unreplenished petty cash at the end of the year			

Sec. 40. Cash Advances for Petty Cash Fund of Government Units without Complete Set of Books of Accounts. Government Units without complete set of books of accounts may be granted cash advance covering two months operating requirements for authorized petty and other miscellaneous expenses to finance their operations. The cash advance shall be granted to the duly designated or appointed Disbursing Officer.

Sec. 41. Accounting Records, Forms and Reports to be Prepared and Maintained. The PCFC shall maintain the Petty Cash Fund Register (PCFReg) (*Appendix 51*) to monitor/summarize the PCF established/replenished and the disbursements charged thereto. A photocopy of this Register together with original PCV and its SDs shall be submitted to the Accounting Division/Unit of the agency's respective Central/Regional/Division Office to serve as basis in the preparation of the DV to replenish the payments made or the JEV, at year-end, if no replenishment is made.

Sec. 42. Accounting for Cash Shortage/Overage of Disbursing Officer. Cash overage discovered by the Auditor that cannot be satisfactorily explained by the Disbursing Officer shall be forfeited in favor of the government and an official receipt shall be issued by the Collecting Officer/Cashier. The cash overage shall be taken up as Miscellaneous Income. Cash shortage which is not restituted by the Disbursing Officer despite demand in writing by the Auditor shall be taken up as receivable from the Disbursing Officer.

Sec. 43. Illustrative Accounting Entries for Cash Overage/Shortage of Disbursing Officer

a. Cash Overage

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	xxx	
Miscellaneous Income	40609990		xxx
To recognize forfeiture of cash overage of the Disbursing Officer			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the remittance of forfeited cash overage to the BTr			

b. Cash Shortage

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due from Officers and Employees	10305020	xxx	
Advances for Operating Expenses/	19901010/		
Advances for Payroll/	19901020/		
Advances to Special Disbursing Officer	19901030		xxx
To recognize cash shortage of Disbursing Officer			

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize restitution of cash shortage.			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the remittance of restituted cash shortage to the BTr			

Sec. 44. Accounting for Cancelled Checks. Checks may be cancelled when they become stale, voided or spoiled. The depository bank considers a check stale, if it has been outstanding for over six months from date of issue or as prescribed.

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

- a. Voided, spoiled or unclaimed stale checks with the Cashier shall be reported as cancelled in the List of Unreleased Checks that will be attached to the RCI.
- b. New checks may be issued for the replacement of stale/spoiled checks in the hands of the payees or holders in due course, upon submission of the stale/spoiled checks to the Accounting Division/Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement. A JEV shall be prepared to take up the cancellation. The replacement check shall be reported in the RCI.

Sec. 45. Illustrative Accounting Entries for Cancelled Checks

- a. Cancellation and Replacement of Stale/Voided/Spoiled MDS check issued in the current year

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Modified Disbursement System			
(MDS), Regular	10104040	xxx	
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks			
Accounts Payable	20101010	xxx	
Cash-Modified Disbursement System			
(MDS), Regular	10104040		xxx
To recognize the replacement of stale/voided/spoiled MDS checks.			
Cash-Modified Disbursement System			
(MDS), Regular	10104040	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voided/spoiled MDS checks without replacement			

- b. Cancellation and Replacement of Stale/Voiced/Spoiled MDS check issued in the prior year

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Accumulated Surplus/(Deficit)	30101010	xxx	
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voiced/spoiled MDS checks			
Accounts Payable	20101010	xxx	
Cash-Modified Disbursement System			xxx
(MDS), Regular	10104040		
To recognize the replacement of stale/voiced/spoiled MDS checks			
Accumulated Surplus/(Deficit)	30101010	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voiced/spoiled MDS checks without replacement			

- c. Cancellation and Replacement of Stale/Voiced/Spoiled commercial check issued in the current and prior year

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash in Bank-Local Currency, Current		xxx	
Account	10102020		
Accounts Payable	20101010		xxx
To recognize the cancellation of stale/voiced/spoiled commercial checks			
Accounts Payable	20101010	xxx	
Cash in Bank-Local Currency, Current			xxx
Account	10102020		
To recognize the replacement of stale/voiced/spoiled commercial checks			
Accumulated Surplus/(Deficit)	30101010	xxx	
Appropriate Account	xxxxxxxx		xxx
To recognize the cancellation of stale/voiced/spoiled commercial checks without replacement.			

Sec. 46. Accounting for Disallowances. Disallowances shall be taken up in the books of accounts only when they become final and executory. The Accountant shall prepare the JEV to take up the Receivable-Disallowances/Charges and credit the appropriate account for the current year or Accumulated Surplus/(Deficit) account if pertaining to expenses of previous years.

Cash settlement of disallowances shall be acknowledged through the issue of an official receipt and reported by the Cashier in the RCD.

Sec. 47. Illustrative Accounting Entries for Disallowances

- a. Recording of disallowances for current year's transaction

Assume that the entity incurred overpayment of Office Supplies:

Amount paid	₱ 100,000
Should be	<u>90,000</u>
Difference	<u>₱ 10,000</u>

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Receivables-Disallowances/Charges	10305010	₱10,000	
Office Supplies Expense	50203010		₱10,000
To recognize the overpayment of purchased office supplies directly issued to end-user			
Cash-Collecting Officers	10101010	₱10,000	
Receivables-Disallowances/Charges	10305010		₱10,000
To recognize the settlement of disallowance			
Cash-Treasury/Agency Deposit, Regular	10104010	₱10,000	
Cash-Collecting Officers	10101010		₱10,000
To recognize the deposit of collection			

b. Recording of disallowance for prior year's transaction

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Receivables-Disallowances/Charges	10305010	₱ 10,000	
Accumulated Surplus/(Deficit)	30101010		₱ 10,000
To recognize the overpayment of office supplies purchased during the prior year			
Cash-Collecting Officers	10101010	₱ 10,000	
Receivables-Disallowances/Charges	10305010		₱ 10,000
To recognize the settlement of disallowance			
Cash-Treasury/Agency Deposit, Regular	10104010	₱ 10	
Cash-Collecting Officers	10101010		₱ 10
To recognize the deposit of collection			

Sec. 48. Accounting for Overpayments. Sometimes overpayments or even double payment of expenditures do happen in agencies. These could be avoided with the institution of proper controls but some could not be avoided because of built-in procedures. One example is the payment of payrolls. Payrolls are prepared in advance and some agencies pay their employees through the banking system. All these are done before reports of attendance are submitted, making it impossible to know the exact amount to be paid in case there are absences without pay during the pay periods. In case of overpayments, refunds shall be demanded of the employees concerned.

Sec. 49. Illustrative Accounting Entries for Overpayments

a. Overpayment taken up as receivable

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Due from Officers and Employees	10305020	xxx	
Salaries and Wages-Regular	50101010		xxx
To recognize overpayment of salaries and wages (When overpayment is ascertained)			
Cash-Collecting Officers	10101010	xxx	
Due from Officers and Employees	10305020		xxx
To recognize receipt of refund			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of collection			

b. Refund of overpayment not taken up as receivable

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Cash-Collecting Officers	10101010	xxx	
Salaries and Wages-Regular	50101010		xxx
To recognize receipt of refund of Salaries and Wages-Regular during the current year			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officers	10101010		xxx
To recognize the deposit of collection			
Cash-Collecting Officers	10101010	xxx	
Accumulated Surplus/(Deficit)	30101010		xxx
To recognize receipt of refund of overpayment in the ensuing year			
Cash-Treasury/Agency Deposit, Regular	10104010	xxx	
Cash-Collecting Officer	10101010		xxx
To recognize the deposit of collection			

Sec. 50. Disbursements through List of Due and Demandable Accounts Payable-Advice to Debit Account. The use of LDDAP-ADA as a mode of settlement of accounts payable due the creditors/payees of all NGAs and their OUs was prescribed under DBM Circular Letter No. 2013-16 dated December 23, 2013 which implemented the ExMDPS, amended by DBM Circular Letter Nos. 2013-16A and 2013-16B dated February 6, 2014 and February 25, 2014, respectively. The following are excluded from the implementation of ExMDPS:

- a. Payment of Terminal Leave and Retirement Gratuity (TL/RG) benefits which is governed by Republic Act No. 10154 as implemented by CSC Resolution No.1300237 and Budget Circular No. 2013-1;
- b. Remittance of social insurance premium contributions to government corporations, such as GSIS, PHILHEALTH, and HDMF;
- c. Payment of Accounts Payable to utility companies, such as: supplier of petroleum, oil and lubricants, water, illumination and power services, telephone, internet and other communication services; and
- d. Other payables which cannot be conveniently nor practicably paid using the ADA.

Sec. 51. Signatories in the List of Due and Demandable Accounts Payable-Advice to Debit Account. The LDDAP (Box I) shall be certified correct by the Chief Accountant/Head of Accounting Division/Unit and approved by the Head of Agency/Authorized Official. The ADA (Box II) shall be signed by the Cash/Treasury Unit Authorized Signatory and countersigned by the Head of Agency/Authorized Signatory. The signatories in Box II shall be bonded.

Sec. 52. Accounting Books, Records, Forms and Reports to be Prepared and Maintained. All LDDAP-ADA prepared/issued during the day shall be recorded chronologically in the CkADADRec (*Appendix 34*) maintained by the Cash/Treasury Unit. The dates the LDDAP-ADAs were actually delivered to the MDS-GSB shall be indicated in the appropriate column provided for in the CkADADRec. The RADAI shall be prepared by the Cash/Treasury Unit daily. All approved LDDAP-ADA including those not yet delivered to the MDS-GSB shall be included in the RADAI. The RADAI together with the original copies of the DVs and other SDs shall be submitted to the Accounting Division/Unit for the preparation of JEV.

Sec. 53. Monitoring of Receipt of Validated LDDAP-ADA and Official Receipt or other Acceptable Evidence of Receipt of Payment. The Cash/Treasury Unit shall monitor the receipt of the validated LDDAP-ADA from the MDS-GSB and the issue of Official Receipt (OR) or other acceptable evidence of receipt of payments by the creditors/payees.

Sec. 54. Recording of LDDAP-ADA Issued/Invalidated. The Head of the Accounting Division/Unit shall prepare a JEV and credit the “Cash-Modified Disbursement System (MDS), Regular” account upon receipt from the Cash/Treasury Unit of the RADAI supported with DV and SDs. The JEV shall be recorded in the ADA Disbursements Journal (ADADJ) (*Appendix 52*).

LLDAP-ADA may be invalidated due to any inconsistency of information (i.e., bank branch, account name/number) between the bank records and LDDAP-ADA or errors stated in item 8.0 of DBM Circular Letter 2013-16 dated December 23, 2014. An invalidated ADA shall be reported as follows:

- a. New LDDAP-ADA may be issued for the replacement of invalidated LDDAP-ADA, upon submission of the validated LDDAP-ADA indicating non-payment to creditors/payees due to any inconsistency of information (i.e., bank branch, account name/number) to the Accounting Division/Unit by the Cash/Treasury Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement.
- b. A JEV shall be prepared to take up the cancellation of the invalidated LDDAP-ADA. The replacement LDDAP-ADA shall be reported in the RADAI.

Sec. 55. Documentary Requirements. The documentary requirements for common government transactions depending on the nature of expenses shall be complied with as prescribed under COA Circular No. 2012-001 dated June 14, 2012, amended by COA Circular No. 2013-001 dated January 10, 2013.

Sec. 56. Procedures for Disbursements through LDDAP-ADA

Area of Responsibility	Seq. No.	Activity
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Preparation of LDDAP-ADA

Accounting
Division/Unit
Bookkeeper

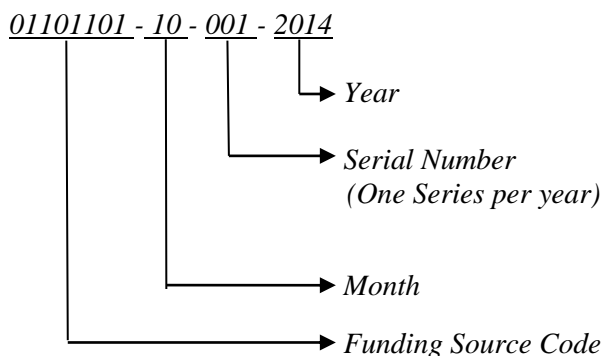
1 Prepares in 5 copies the LDDAP-ADA for approved DVs pertaining to the current and prior years’ accounts payable.

Note 1 – Prepare separate LDDAP-ADA for creditors/ payees with Current/Savings/ATM Account maintained with other banks outside the MDS-GSB of the NGAs and OUs (receiving NCAs directly from DBM).

Example: The MDS-GSB of the NGAs and OUs (receiving NCAs directly from DBM) is LBP, but some of the creditors are maintaining accounts with DBP, PVB and private banks. One LDDAP-ADA shall be prepared for creditors with LBP accounts, while separate LDDAP-ADA shall be prepared for those with accounts outside LBP.

Area of Responsibility	Seq. No.	Activity
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Note 2 – The numbering structure for LDDAP-ADA shall be as follows:



Chief Accountant/ Head of Accounting Division/Unit	2	Reviews and signs in Box I “Certified Correct” portion of LDDAP-ADA and forwards the documents to the Receiving/Releasing Staff.
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Receiving/ Releasing Staff	3	Records in the logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs to the Head of Agency or Authorized Representative for approval of the LDDAP-ADA.
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Approval of the “LDDAP” Portion

Office of the Agency Head/ Authorized Representative Receiving/ Releasing Staff	4	Receives Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs and records in the logbook the date of receipt thereof.
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Head of the Agency/ Authorized Representative/ Approving Officer	5	Reviews LDDAP-ADA and signs in Box I “Approved” portion of the LDDAP. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs, and SDs.
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Receiving/ Releasing Staff	6	Records in logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and all SDs and forwards the documents to the Cash/Treasury Unit.
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Approval of “ADA” Portion

Cash/Treasury Unit Receiving/ Releasing Staff	7	Receives Copies 1-5 of approved LDDAP-ADA, Copies 1-4 of DVs, and SDs. Records in the logbook the date of receipt of LDDAP-ADA, covering DV numbers, payees, particulars and amounts.
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Area of Responsibility	Seq. No.	Activity
Designated Staff	8	Checks completeness of signatories on the LDDAP-ADA and in the DVs and amount.
	9	Retrieves from file the CkADADRec maintained per bank account and records the date and number, name of payee, nature of payment and amount of the covering DVs, date and number of LDDAP-ADA, and indicates the new balance of the NCA/bank account. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs to Cashier for review and signature.
Cashier	10	Verifies completeness of signature on the LDDAP-ADA and DVs. Reviews the amount of the LDDAP-ADA against the total amount of the DVs and SDs. Signs the “ADA” portion.
Receiving/ Releasing Staff	11	Records in the logbook the release of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs and SDs.
Office of the Agency Head/Authorized Representative		
Receiving/ Releasing Staff	12	Records in the logbook the receipt of Copies 1-5 of LDDAP-ADA, Copies 1-4 of DV and SDs.
Head of Agency/ Authorized Representative/ Approving Officer	13	Countersigns the “ADA” portion. Forwards Copies 1-5 of LDDAP-ADA, Copies 1-4 of DVs, and SDs to the Receiving/Releasing Staff for return to the Cashier.
Receiving/ Releasing Staff	14	Records in the logbook the release of Copies 1-5 of approved LDDAP-ADA, Copies 1-4 of DVs and SDs.
Cash/Treasury Unit		
Designated Staff	15	Receives Copies 1-5 of LDDAP-ADA, Copies 1-4 of DV, and SDs. Retrieves the CkADADRec and checks completeness of documents. Files documents temporarily for the preparation of the Summary of LDDAP-ADAs Issued and Invalidated ADA Entries (SLIIAE) (<i>Appendix 53</i>).
	16	Stamps “PAID” on all LDDAP-ADA, DVs, and SDs.
		<u>Preparation of Summary of LDDAP-ADAs Issued and Invalidated ADA Entries</u>
Cash/Treasury Unit		
Designated Staff	17	Retrieves Copies 1-5 of all LDDAP-ADA for delivery to the MDS-GSB together with Copies 1-4 of DV and SDs and prepares the SLIIAE in four copies. Assigns control number in the SLIIAE. Records in the logbook the SLIIAE number and date, covering LDDAP-ADA number, date and amount and total amount of the SLIIAE and forwards the document to the Cashier/Head of Cash/ Treasury Unit.

Area of Responsibility	Seq. No.	Activity
Cashier/Head of Cash Treasury Unit	18	Verifies completeness of signature on the LDDAP-ADA. Checks the correctness of the amounts. Signs the “Certified Correct by” portion of the SLIIAE and endorses to the Head of Agency/Authorized Official. Files temporarily the covering DVs and SDs.
Receiving/ Releasing Staff	19	Records in the logbook the release of Copies 1-4 of SLIIAE and copies of the LDDAP-ADA issued to the Head of Agency/ Authorized Official.
Receiving/ Releasing Staff	20	Receives Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued and records in the logbook the date of receipt.
Head of Agency/ Authorized Official	21	Signs the “Approved by” portion of the SLIIAE. Forwards Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued to the Receiving/ Releasing Staff for return to the Cashier/Head of Cash/Treasury Unit.
Cash/Treasury Unit Receiving/ Releasing Clerk	22	Receives Copies 1-4 of SLIIAE and copies of LDDAP-ADA issued. Records in the logbook the date of receipt and forwards to the Cashier/Head of Cash/Treasury Unit.
Cashier/Head of Cash/ Treasury Unit	23	Checks completeness of the SLIIAE and LDDAP-ADA and SDs. Forwards Copies 1-3 of the SLIIAE and Copies 1-4 of the LDDAP-ADA to the Designated Staff. Files Copy 4 of SLIIAE and Copy 5 of LDDAP-ADA temporarily.

Note 3 – The MDS-GSB shall retain the original SLIIAE together with the Copy 1 of LDDAP-ADA issued as well as the Copy 2 of the SLIIAE and LDDAP-ADA for submission to the BTr on the same day of receipt of said document from the agency. This will serve as the advisory to the BTr on the magnitude of expected disbursements through LDDAP-ADA and replenishment of the MDS Seed Fund. The remaining copies of the SLIIAE and LDDAP-ADA shall be distributed as follows:

- Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA* – Receiving Copy
- Copy 4 of SLIIAE* – COA (attached to the RADAI)
- Copy 5 of LDDAP-ADA* – To the designated staff of Cash/Treasury Unit for the preparation of RADAI.

Area of Responsibility	Seq. No.	Activity
Designated Staff	24	<p>Releases Copies 1-2 of SLIIAE and Copies 1-3 of LDDAP-ADA immediately to MDS-GSB which shall pay the creditors/payees listed in the LDDAP-ADA not later than 48 hours but not earlier than 24 hours upon receipt of the said document from the NGA and OUs (receiving NCAs directly from DBM).</p> <p><i>Note 4 – Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA which shall be the copy of the Cash/Treasury Unit shall be stamped “Received” by the MDS-GSB upon receipt of Copies 1-2 of SLIIAE and Copies 1-3 of the LDDAP-ADA. Copy 5 of LDDAP-ADA shall be given to the Designated Staff of the Cash/Treasury Unit for the preparation of the RADAI.</i></p>
Designated Staff	25	<p>Furnishes creditors/payees with copy of the LDDAP-ADA or informs them of the LDDAP-ADA number for the purpose of updating them on the status of their claims and for the issue of provisional receipt once they are included in the LDDAP-ADA, subject to replacement of provisional receipt with an OR other acceptable evidence of receipt of payment of disbursements consistent with COA Circular No. 2004-006 dated September 9, 2004, immediately after actual receipt of payment.</p> <p><i>Note 5 – Copy 4 of the DV shall be given to the payee upon issue of OR.</i></p>
Designated Staff	26	<p><u>Daily</u></p> <p>Obtains validated Copy 3 of the LDDAP-ADA and submits to the Cashier.</p>
Cashier/ Designated Staff	27	<p>Receives the validated Copy 3 of LDDAP-ADA and reproduces three copies thereof to be attached to Copies 2-4 of the DVs. Retrieves Copies 1-4 of DVs and SDs and attaches the validated Copy 3 of the LDDAP-ADA to the original DV and SDs and the photocopies of the validated Copy 3 of LDDAP-ADA to Copies 2-4 of the DVs. Files the documents temporarily.</p>
	28	<p>Monitors return and completeness of submission of the duly validated LDDAP-ADA from the MDS-GSB and receipt of OR other acceptable evidence of receipt of payment.</p>
Cash/Treasury Unit Designated Staff	29	<p><u>Preparation of Report of Advice to Debit Account Issued</u></p> <p><u>Daily</u></p> <p>Retrieves Copies 3-4 of SLIIAE, copies of LDDAP-ADA and Copies 1-4 of DVs and SDs and prepares the RADAI in four copies.</p>
	30	<p>Initials in “Certification” portion of the RADAI.</p>

Area of Responsibility	Seq. No.	Activity
Disbursing Officer/Cashier/ Head of Cash/Treasury Unit	31	Reviews RADAI and signs in “Certification” portion.
Designated Staff	32	Distributes the RADAI as follows: <i>Copies 1-3</i> – Accounting Division/Unit for submission to the following: <i>Copy 1</i> – COA Auditor (with Copy 3 of LDDAP-ADA, originals of DVs and SDs and Copy 4 of SLIIAE) <i>Copy 2</i> – Accounting Division/Unit file <i>Copy 3</i> – Budget Division/Unit <i>Copy 4</i> – Cash/Treasury Unit file copy (with Copy 3 of SLIIAE and Copy 4 of LDDAP-ADA, Copy 2 of DV and SDs)
Designated Personnel	33	Furnishes assigned Unit/Office with copy of RADAI for posting in the agency’s website.
Accounting Division/Unit Receiving/ Releasing Staff		<u>Preparation of JEV</u> <u>Daily</u>
	34	Receives Copies 1-3 of RADAI supported with Copy 4 of SLIIAE, copies of the validated LDDAP-ADA and Copy 1 and 3 of DVs and SDs.
Designated Staff	35	Examines DVs and copies of validated LDDAP-ADA against RADAI. Verifies if the serial number of all the LDDAP-ADA issued are all accounted for.
Head of the Accounting Division/Unit/ Authorized Signatory	36	Prepares JEV in two copies and signs in the “Prepared” portion.
	37	Reviews and signs the JEV. Forwards Copies 1-2 of JEV and Copies 1-3 of RADAI supported with Copy 4 of SLIIAE, copies of LDDAP-ADA, Copy 1 and 3 of DVs and SDs to the bookkeeper for recording in the ADADJ.
Designated Staff		<u>Recording in ADADJ</u>
	38	Receives Copies 1-2 of JEV, Copies 1-3 of RADAI, Copy 4 of SLIIAE, copies of LDDAP-ADA, Copies 1 and 3 of DVs and SDs. Records the JEV in the ADADJ.
	39	Records in the logbook submission of documents to COA and Budget Unit. Retains Copy 2 of JEV and RADAI, copy of LDDAP-ADA, Copy 3 of DVs and SDSs for file.
		<i>Note 6</i> – The distribution shall be as follows:
		<i>To COA</i> – Copy 1 of JEV and RADAI, Copy 4 of SLIIAE, validated Copy 3 of LDDAP-

Area of Responsibility	Seq. No.	Activity
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ADA and Copy 1 of DV and SDs
To Budget Unit – Copy 3 of RADAI for posting of
payments in Box C of ORS

Sec. 57. Illustrative Accounting Entries for Disbursements through LDDAP-ADA

<u>Particulars</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
1. Upon set up of payables to Suppliers and Contractors			
Buildings	10604010	₱ 80,000	
Accounts Payable	20101010		₱ 80,000
To set up payables to contractors and suppliers based on approved DVs			
2. Payment through ADA			
Accounts Payable	20101010	₱ 80,000	
Cash-Modified Disbursement System (MDS), Regular			
	10104040		₱ 80,000
To recognize payment of payables to suppliers or contractors through ADA			
3. Payment of salaries through ATM			
a. Salaries and Wages			
PERA	50101010	₱ 35,000	
	50102010	15,000	
Due to BIR			
	20201010		₱ 5,000
Due to GSIS			
	20201020		3,200
Due to Pag-IBIG			
	20201030		500
Due to PhilHealth			
	20201040		600
Other Payables			
	29999990		100
Due to Officers and Employees			
	20101020		40,600
To recognize expenses for salaries and wages to be paid through ATM			
b. Cash in Bank-Local Currency, Current			
Account	10102020	₱ 40,600	
Cash-Modified Disbursement System (MDS), Regular			
	10104040		₱ 40,600
To recognize deposit for salaries and wages to be paid through ATM			
c. Due to Officers and Employees			
	20101020	P 40,600	
Cash in Bank-Local Currency, Current Account			
	10102020		P 40,600
To recognize payment of salaries and wages through ATM			
4. Granting of Payroll Fund			
Assumptions:			
Salaries and Wages		₱ 35,000	
PERA		<u>15,000</u>	
Total		₱ 50,000	
Less: Salary Deductions			
Withholding Tax		5,000	
Life and Retirement Premiums		3,000	
Pag-IBIG premiums		500	
PhilHealth premiums		600	
GSIS Salary loan		200	

<u>Particulars</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Employees' Association		100	
Net Amount		<u>₱ 40,600</u>	
Advances for Payroll	19901020	₱ 40,600	
Cash-Modified Disbursement System			
(MDS), Regular	10104040		₱ 40,600
To recognize granting of cash advance for payroll based on duly approved payroll through ADA			
5. Payment for delivery of supplies and materials for consumption			
Office Supplies Inventory	10404010	P 2,500	
Cash-Modified Disbursement System			
(MDS), Regular	10104040		P 2,500
To recognize payment for the delivery of supplies and materials based on Delivery Receipt No. 12451			
6. Payment of rent			
Prepaid Rent	19902020	P 1,300	
Cash-Modified Disbursement System			
(MDS), Regular	10104040		P 1,300
To recognize payment of one year rent of photocopying machine (July, 2015– June, 2016)			
7. Advances to Contractors			
Advances to Contractors	19902010	₱ 8,000	
Cash-Modified Disbursement System			
(MDS), Regular	10104040		₱ 8,000
To recognize 15% mobilization fees to contractors to be recouped from progress billings			
8. Payment of Accounts Payable			
Gross		₱ 40,000	
Less: Withholding Tax (VAT)		<u>3,600</u>	
Net		<u>₱ 36,400</u>	
Accounts Payable	20101010	P40,000	
Due to BIR	20201010		P 3,600
Cash-Modified Disbursement System			
(MDS), Regular	10104040		36,400
To recognize payment of payables based on duly approved DV and SDs			

Sec. 58. Disbursements Through electronic Modified Disbursement System as part of the Modified Disbursement Scheme. As part of the implementation of the Treasury Single Account (TSA) system for government disbursement, the electronic Modified Disbursement System (eMDS) has been adopted as one of the modes of disbursement under Joint Administrative Order (JAO) No. 2015-1 dated March 12, 2015 of the DBM and DOF. This is to facilitate an efficient and prompt reconciliation of spending agencies' disbursements vis-à-vis the accounts of the BTr maintained at the LBP as Authorized Government Servicing Bank (AGSB).

This JAO shall apply to all spending agencies, offices and instrumentalities under the Executive Branch, including SUCs, together with other Executive Offices using LBP as GSB. The Judicial Branch, the Legislative Branch, Constitutional Offices, and all other Agencies, Offices and Instrumentalities banking with LBP and therefore maintaining MDS sub-accounts with said bank are likewise covered by the JAO for NG to have a holistic view of the budgetary transactions of all spending agencies.

The policy guidelines are as follows:

- a. Heads of Departments, Bureaus, Offices and other instrumentalities under the Executive Branch, maintaining MDS sub-accounts with LBP, including SUCs, together with other Executive Offices, are enjoined to enroll and subscribe to the eMDS to perform selected MDS transactions online; and to monitor disbursements and generate MDS reports under the Government's MDS;
- b. Enrolment in the eMDS shall be free of charge; and
- c. All other spending agencies, offices, and instrumentalities of government maintaining MDS sub-accounts with GSBs other than LBP shall continue to observe the current procedure of the MDS System, unless they voluntarily transfer their accounts with LBP to avail of the latter's eMDS facility or until after enrolment and subscription to the eMDS upon amendment or repeal of Memorandum Order Nos. 276 (s. 1990) and/or (s. 1994).

Sec. 59. Disbursements through Cashless Purchase Card System. The CPC System was prescribed as an alternative mode of payment for goods and services under Joint Memorandum Circular (JMC) No. 2014-1 dated May 15, 2014 of the Department of National Defense (DND), Armed Forces of the Philippines (AFP) and the DBM.

The general guidelines on the implementation of the CPC System are as follows:

- a. The CPC System to be implemented by participating agencies is a mode to procure specific eligible items through the use of an electronic card. The CPC functions similarly to a credit card and shall only be used for pre-identified items within body limits mutually agreed upon by members of the Steering Committee. It shall also be used only with specific merchant groups already enumerated under agreement with the credit card company.
- b. Only individuals recommended by the Program Administrator and authorized by the Steering Committee shall be allowed to use the CPC and pre-identified items within monthly limits set at levels mutually agreed upon by members of the Steering Committee. The CPC shall likewise be used only with specific merchant groups already enumerated under agreement with the credit card company.
- c. Only individuals recommended by the Program Administrator and authorized by the Steering Committee shall be allowed to use the CPC at predetermined monthly purchase limits. Authorized individuals shall be permanent employees of the participating agencies and shall, as much as possible be involved in the procurement of goods and services of their unit/office.
 1. Individual credit limits which have been approved by the Steering Committee may only be increased and/or amended by the Steering Committee.

2. Approvals or increased individual credit limits as well as additional personnel of participating agencies to be entitled to the CPC shall only be granted after three (3) months pilot testing of implementation of the CPCS.
 3. In the event the participating agencies determine that additional personnel should be entitled to the CPC or in case its existing cardholders need to be replaced, the Program Administrator shall inform the Steering Committee in the writing about the changes proposed. The Program Administrator must support these changes with a written explanation on why the changes are being sought.
- d. Chief of Offices of the Participating Agencies who approved CPC are jointly accountable with their Special Disbursing Officers.
 - e. The CPC System shall not, in any way, supplant, replace or revise the procurement policies and procedures prescribed under RA No. 9184 otherwise known as the Procurement Law.
 - f. The total amount authorized to be covered by the CPC shall form part of the cash advance levels of the participating agencies. The CPC shall not be used nor intended to allow or justify the increase in cash advance levels for the participating agencies.
 - g. The CPC shall initially be used for purchase of small value non-common use items which are not available with the Procurement Service.
 - h. The cost of purchasing unauthorized items using the CPC shall be for the personal account of the individual who undertook the transaction. This is without prejudice to the suspension of the cardholder's privilege to use the issued CPC and other penalties which the participating agencies may impose.
 - i. In case the participating agencies find specific items which it disputes as having been procured (based on the receipts the individual CPC holder has), they shall immediately inform CCC of this discrepancy.
 - j. The participating agencies shall ensure the timely payment of the CPC billing received from the CCC. In the event that delays in payment of the CPC billings occur, any additional charges such as late payment charges/penalties shall be charged against the personal account of the employee directly responsible for the cause of such delays. In no case shall the NCA issued be used to settle late payment charges.
 - k. The existing disbursement policies and procedures on the use of NCA and the Common Fund System shall continue to apply where the CPC System is concerned.
 - l. Payment to the CCC for legitimate purchases made out of the CPC shall be consistent with the existing MDS disbursement procedures pursuant to DMB Circular Letter No. 2013-16.

The specific guidelines on the implementation of the CPC System are provided under Item 5.0 of DND-AFP-DBM JMC No. 2014-1 dated May 15, 2014, are as follows:

- a. Once the allotment is made available to the participating agencies, the latter shall obligate an amount under supplies, materials and other services corresponding to the amount allocated for the CPC system.
- b. The CPC holder shall be entitled to purchase goods from accredited merchants once the obligation for the CPC has been made.

- c. The CPC holder shall secure the charge slips/receipts issued by the accredited merchant and file the same for the purposes of submission to the agency accounting units. These documents shall also be used for inspection of actual goods purchased and payments to the CCC.
- d. Inspection and acceptance of the procured items shall comply with the existing procedures adopted by the agency for the purpose.
- e. The accounting offices/units shall ensure that procured items are within the items enumerated in Annex A of the above-mentioned JMC and consistent with the limitations under Annex B of the same JMC.
- f. Upon receipt of the CCC billing statement, the agency accounting units shall compare the totals of the charge slips against the amounts reflected in the billing statement and confirm the correctness of the same.
- g. The Finance Service Unit of the agency concerned shall ensure that payments are made on or before the dates specified in the CCC billing statement.
- h. The cost of items being disputed shall likewise be included in the payment to be made. Adjustments in payments, if required, shall be made in the subsequent billing cycle.
- i. In the event the CPC is lost or stolen the cardholder must immediately notify the Program Administrator. He must likewise be responsible in reporting to the CCC via phone or electronic modes, the loss of the card to prevent unauthorized utilization of the same.
 - 1. The privilege of the CPC holder to procure goods through a CPC shall temporarily be suspended in case his card is stolen or lost.
 - 2. The Program Administrator shall determine whether the CPC holder was negligent and/or culpable in the loss of his CPC. He shall recommend remedial steps in case of notes procedural gaps; permanent suspension of the privilege or restoration of the same. In all instances, the Program Administrator shall inform the Steering Committee on the measures taken.
 - 3. The CPC person shall be held accountable in terms of payment for the purchases made against the card during the period it was lost or stolen.

Sec. 60. Disbursements through Tax Remittance Advice. The Tax Remittance Advice (TRA) refers to a serially-numbered document prescribed by the DBM that should be used by the NGAs in the remittance of withheld taxes on funds coming from DBM. With the inclusion of all NGAs among the taxpayers who are mandated to use the Electronic Filing and Payment System (*eFPS*) under the Bureau of Internal Revenue Regulations No. 1-2013 dated January 23, 2013, the TRA is accomplished on-line which is called the Electronic TRA (*eTRA*). The *eTRA* is certified correct by the Chief Accountant/Head of Accounting Division/Unit and approved by the Head of Agency/Authorized Official, and used to record the remittance of taxes withheld to the BIR. The same document shall be the basis for the BIR and the BTr to draw a JEV to record the tax collection and deposit in their respective books of accounts. The JEV shall be recorded in the GJ.

The *eTRA* shall be supported with the Summary of Taxes Withheld (STW) certified by the Chief Accountant. The STW is the document which summarizes the type and amount of taxes withheld. The Accounting Division/Unit shall maintain SL to monitor remittances of taxes withheld from individual employees, suppliers and contractors.

Sec. 61. Procedures for Disbursements through TRA

Area of Responsibility	Seq. No.	Activity
Accounting Division/Unit Chief Accountant/ Head of Accounting Division/Unit/ Bookkeeper	1	Complies with the registration requirements of the BIR as withholding agent pursuant to Sec. 26 of the National Internal Revenue Code.
Cash/Treasury Unit Disbursing Officer/ Cashier	2	Pays employees/suppliers/contractor for services rendered/goods delivered net of withholding taxes. <i>Note 1</i> – Refer to Sec.13 for the procedures for disbursement by checks and Sec. 19 for the procedures on the disbursements through Payroll Fund.
Accounting Division/Unit Bookkeeper	3	Prepares STW which will serve as basis for the remittance to the BIR. <i>Note 2</i> – STW is prescribed in Annex A of DOF-DBM-COA Joint Circular No. 1-2000 dated January 3, 2000.
	4	Forwards the STW to the Chief Accountant for signature.
Chief Accountant/Head of Accounting Division/Unit	5	Reviews the STW and prepares the TRA and forwards to the Agency Head for approval.
Office of the Head of Agency/Authorized Official Receiving/Releasing Clerk	6	Records in the logbook the receipt of the STW. Forwards the same to the Head of Agency/Authorized Official for approval.
Head of Agency/ Authorized Official	7	Reviews the STW and approves.
Receiving/Releasing Clerk	8	Upon receipt from the Head of Agency/Authorized Official of the approved STW, forwards the same to the designated personnel of Accounting Division/Unit.
Accounting Division/Unit Designated Personnel	9	Receives from the Receiving/Releasing Clerk the STW. Based on the STW, files tax returns and submits through the eFPS, then proceed to payment menu, selecting TRA as type of payment and fills out the amount intended for TRA.
	10	Prints the validated eTRA and the required tax returns for all taxes withheld for compensation, expanded, final and government money payments (BIR Form 1601-C, 1601-E,

Area of Responsibility	Seq. No.	Activity
		1601-F and 1600, respectively) and forwards the documents with the STW to the Chief Accountant/Head of Accounting Division/Unit.
Chief Accountant/ Head of Accounting Division/Unit	11	Reviews the eTRA and signs on the “Certified by” portion. Forwards the eTRA, STW and required tax returns to the Head of Agency/Authorized Official for approval.
Office of the Head of Agency/Authorized Official		
Receiving/Releasing Clerk	12	Records in the logbook the receipt of the eTRA, STW and required tax returns. Forwards the same to the Head of Agency/Authorized Official.
Head of Agency/ Authorized Official	13	Reviews and approves the eTRA.
Accounting Division/Unit		
Receiving/Releasing Clerk	14	Upon receipt from the Head of Agency /Authorized Official of the approved eTRA, STW and required tax returns, forwards the same to the designated personnel of Accounting Division/Unit for the preparation of the JEV.
Designated Personnel	15	Prepares the JEV and records in the GJ the constructive receipt of NCA for TRA and remittance of all taxes withheld thru TRA.
Designated Personnel	16	Reproduces four copies of eTRA, STW and required tax returns and submits three copies to the concerned BIR Office. Files the received copy.
		<i>Note 3</i> – Under DOF-DBM Joint Circular No. 1-2000A dated July 31, 2001 which prescribes the procedure for the remittance of all taxes withheld by NGAs to the BIR, an NGA shall file before the BIR a TRA supported by withholding tax returns on or before the 10 th day of the following month after the said taxes had been withheld.
		<i>Note 4</i> – For the succeeding activities, refer to Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 62. Illustrative Accounting Entries for Remittance of Taxes Withheld through TRA

<u>Particulars</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
a. Agency Books			
1. Constructive Receipt of NCA for TRA			
Cash-Tax Remittance Advice	10104070	₱ 5,000	
Subsidy from National Government	40301010		₱ 5,000
To recognize constructive receipt of NCA for TRA			
2. Remittance of taxes withheld through TRA			
Due to BIR	20201010	₱ 5,000	
Cash-Tax Remittance Advice	10104070		₱ 5,000
To recognize remittance of taxes withheld through TRA			
b. BIR Books			
1. Constructive Receipt of Tax Revenue through TRA from the NGAs			
Cash-Tax Remittance Advice	10104070	₱ 5,000	
Income Tax	40101010		₱ 5,000
To recognize constructive receipt of tax revenue based on the TRA received from the agency			
c. BTr Books			
1. Constructive Utilization of NCA for TRA by the remitting NGAs			
Subsidy to NGAs	50214010	₱ 5,000	
Cash-Tax Remittance Advice	10104070		₱ 5,000
To recognize remittance of taxes withheld by the agency based on the TRA received			

Sec. 63. Disbursement for Inter-Agency Transferred Funds (IATF). The following are the accounting policies for the transfer of funds:

- a. A Memorandum of Agreement (MOA) shall be entered into by the SA and the IA for the undertaking by the latter of the project of the former. The MOA shall provide for the requirements for project implementation and reporting.
- b. The fund to be transferred or sub-allotted to the IA shall be a) in an amount sufficient for three months operation subject to replenishment upon submission of the reports of disbursements by the IA, or b) the total project cost, as may be determined by the Heads of the two agencies in either case.
- c. The check shall be issued in the name of the IA for deposit to its trust account in its authorized government depository bank. The IA shall issue its official receipt in acknowledgment.
- d. Depending on the MOA, the fund transfers may be treated as a) If the MOA provides a condition that the fund shall be spent as specified and any excess shall be returned to the SA, the IA shall recognize the receipt of the fund as asset at its fair value with a corresponding liability, while the SA shall recognize a receivable corresponding to the fund transfer; or b) If the MOA provides stipulations or no condition, the IA shall recognize the receipt of the fund as asset at its fair value with a corresponding revenue, while the SA shall recognize an expense corresponding to the fund transfer.

- e. A separate subsidiary record for each account shall be maintained by the IA whether or not a separate bank account is opened.
- f. Within ten (10) days after the end of each month/end of the agreed period for the Project, the IA shall submit the RCI and the RCDIsb to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the IA.
- g. The IA shall return to the SA any unused balance upon completion of the project, if stipulated in the MOA.
- h. The SA shall draw a JEV to take up the reports. The amount to take up the liquidation in the RCI shall be net of the cash advances granted by the IA to its accountable officers.
- i. The IA Auditor shall audit the disbursements out of the trust accounts in accordance with existing COA Regulations
- j. The Chief Accountant/Head of the Accounting Division/Unit of the IA shall, on the basis of the Notice of Finality of Decision (NFD), record in the books of accounts any audit disallowance as receivable.
- k. When the IA is a Bureau/Regional Office of the SA, the procedures for centrally managed projects shall be followed in accordance with entries herein provided.
- l. The illustrative accounting entries are presented in Annex E.

Sec. 64. Disbursements by Foreign-based Government Agencies. CDC is an authorization issued by the DBM to DFA and other agencies with foreign posts to utilize their collections retained by their Foreign Service Posts (FSPs) to cover operating requirements, but not to exceed the released allotment to the said post. (National Budget Circular No. 535 dated December 29, 2011). The following are the accounting policies regarding disbursements by Foreign-based Government Agencies (FBGAs):

- a. Based on the proposed budget of FSP/Foreign Attaché, a Working Fund shall be established to cover payment of PS and MOOE. The Finance Officer shall be required to maintain CReg and CDReg to monitor and control the Working Fund.
- b. All disbursements from the Working Fund shall be covered by duly approved DV/Payroll with the required SDs. At the end of the month, the Finance Officer of FSPs/Foreign Attachés shall prepare and submit RCDIsb together with the SDs to the Central Office concerned for preparation of JEV to record the liquidation made by the accountable officer. The JEV shall be recorded in the CkDJ and CDJ based on the CReg and CDReg, respectively.

Sec. 65. Illustrative Accounting Entries for Disbursements of FBGAs. The illustrative accounting entries for disbursements of FBGAs charged to CDC are shown in Sec. 38 (c), Chapter 5 of this Manual.

Sec. 66. Disbursements through Direct Payment Method. This type of disbursement should be covered by an NCAA. This mode of disbursement is made through the JEV issued by the BTr to the availing/implementing agency to record payment of goods and services made directly by the lending institution to the supplier or contractor. The JEV shall be recorded in the GJ.

Sec. 67. Procedures for Disbursements through Direct Payment Scheme of Foreign Loans Availment

Area of Responsibility	Seq. No.	Activity
<u>Recording of Goods/Property/Services Procured abroad through Direct Payment Method by NGA Concerned</u>		
NGA		
Accounting Division/Unit Designated Personnel	1	Receives Inspection and Acceptance Report (IAR) from Property Officer/Supply Officer/Official Concerned, shipping documents and certified copy of the approved billing from supplier/contractor and prepares JEV to record goods/property in the books of accounts. The cost shall be based on the certified copy of the duly approved billing.
Head of Accounting Division/Unit/ Authorized Signatory	2	Reviews correctness of the journal entries and signs on “Certified Correct by” portion of the JEV.
Designated Personnel	3	Records the JEV in the GJ.
	4	Prepares the Withdrawal Application (WA) from the loan account to pay for the goods and services and submits to the head of the agency for approval.
Head of Agency	5	Approves the WA and submits to the foreign lending institution (FLI)/development partner (DP).
<u>Recording of Foreign Loans Payable in the BTr’s Books of Accounts</u>		
Bureau of the Treasury		
Accounting Division/Unit Designated Personnel	6	Receives the WA/advice of payment or any proof of disbursement from the FLI/DP and prepares the JEV in three copies to record the amount paid by the supplier/contractor/consultant as proceeds from borrowings.
Head of Accounting Division/Unit/ Authorized Signatory	7	Reviews correctness of the journal entries and signs on “Certified Correct by” portion of the JEV. Forwards Copies 1 of JEV and WA/advice of payment or any proof of disbursement from the FLI/DP to Designated Staff for recording in the GJ and Copies 2-3 to the NGA concerned together with the WA/advice of payment or any proof of disbursement received from the FLI/DP.
Designated Personnel	8	Records the JEV in the GJ.
NGA		
Accounting Division/Unit Designated Personnel	9	Receives from the BTr Copy 2-3 of JEV together with copy of WA/advice of payment or any proof of

Area of Responsibility	Seq. No.	Activity
		disbursement from the FLI/DP and records in the logbook.
	10	Submits to the DBM Copy 2 of JEV together with copy of WA/advice of payment or any proof of disbursement, list of suppliers/contractors/consultants directly paid by the FLI/DP for the issuance of NCAA.
	11	Receives NCAA from the DBM, records in the logbook.
	12	Reconciles NCAA with the JEV to record receipt of goods/property paid by FLI/DP.
	13	Prepares JEV to record receipt of NCAA and settlement of accounts payable.
Head of Accounting Unit/Authorized Signatory	14	Reviews correctness of the journal entries and signs on "Certified Correct by" portion of the JEV.
Designated Personnel	15	Records the JEV in the GJ.

Note – For the succeeding activities, refer to the Chapter on Financial Reporting for the preparation and submission of Trial Balances, Financial Statements and Other Reports.

Sec. 68. Illustrative Accounting Entries for Disbursements through Direct Payment Scheme of Loan Availment

<u>Particulars</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
<u>Agency Books</u>			
Communication Equipment	10605070	₱500,000	
Accounts Payable	20101010		₱ 500,000
To recognize receipt of PPE procured through the direct payment scheme			
Accounts Payable	20101010	₱ 500,000	
Subsidy from National Government	40301010		₱ 500,000
To recognize receipt of NCAA and payment of payables based on the WA/advice of payment or any proof of disbursement received from the FLI/DP			
<u>BTR Books</u>			
Subsidy to NGAs	50214010	₱ 500,000	
Loans Payable-Foreign	20102050		₱ 500,000
To recognize the replenishments made to AGSB negotiated MDS- checks and payments on account of the NGA			

Sec. 69. Financial Statements Presentation. The Financial Statement presentation of the accounts related to disbursements shall be in accordance with Chapter 19-Financial Reporting of this Manual.

Chapter 7

FINANCIAL INSTRUMENTS

Sec. 1. Scope. This Chapter provides principles for: (a) presenting financial instruments as liabilities or net assets/equity and for offsetting financial assets and financial liabilities; (b) recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items; and (c) disclosure in the entity's financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risk.

Sec. 2. Definition of Terms. For the purpose of this Manual, the terms stated below shall be construed to mean as follows:

- a. *Equity instrument* – is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- b. *Derivative* – is a financial instrument that derives its value from the movement in commodity price, foreign exchange rate and interest rate of an underlying asset or financial instrument.
- c. *Financial instrument* – is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. (*Par. 9, PPSAS 28*)
- d. *Financial asset* – is any asset that is:
 1. Cash;
 2. An equity instrument of another entity;
 3. A contractual right to receive cash or another financial asset from another entity;
 4. A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or
 5. A contract that will or may be settled in the entity's own equity instruments.
- e. *Financial liability* – is any liability that is:
 1. A contractual obligation:
 - i. To deliver cash or another financial asset to another entity; or
 - ii. To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity.
 2. A contract that will or may be settled in the entity's own equity instruments.

Sec. 3. Financial Instruments. The following are the characteristics of a financial instrument:

- a. There must be a contract;
- b. There are at least two parties to the contract; and

- c. The contract shall give rise to both a financial asset of one party and a financial liability or equity instrument of another party.

A specific example is NG holdings in the capital stock of Philippine Airlines (PAL) through the BTr. In the books of the BTr, this is a financial asset because it represents resources from which future economic benefits are expected to flow to the entity in the form of dividends or similar distributions. On the other hand, PAL considers the NG holdings as a financial liability because it gives rise to an obligation to return the amount on due date and to pay dividends in the future. Financial instruments could also be cash in the form of bills, coins, and checks; cash in bank; trade accounts; notes and loans; debt securities and equity securities.

Sec. 4. Cash and other Financial Assets. Cash is the most basic financial instrument because it is the medium of exchange and is the basis on which all transactions are measured and recognized in the financial statements. Cash deposited with a bank or similar financial institution is a financial asset because it represents the contractual right of the depositor to withdraw money from the bank or to draw a check or similar instrument against the balance in favor of a creditor in payment of a financial liability. The bank, on the other hand, views this deposit as a financial liability because of its obligation to deliver the money upon demand from the depositor.

Common examples of financial assets representing a contractual right to receive cash in the future are: Accounts Receivable, Notes Receivable, Loans Receivable-GOCCs, Loans Receivable-LGUs, and Loans Receivable-Others.

Sec. 5. Initial Recognition of Financial Asset. An entity shall recognize a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. (*Par. 16, PPSAS 29*)

Sec. 6. Initial Measurement of Financial Assets. When a financial asset at fair value through surplus or deficit is recognized initially, an entity shall measure it at its fair value. In the case of a financial asset not at fair value through surplus or deficit, the financial asset is recognized at fair value plus transaction costs that are directly attributable to the acquisition, issue or disposal of the financial asset. (*Par. 45, PPSAS 29*)

If the financial asset is measured at fair value through surplus or deficit, transaction costs are expensed outright. In the example below, assume that there is ₱10,000 transaction cost.

Example for Financial Asset at Fair Value through surplus or deficit:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Financial Assets Held for Trading	10201010	₱ 500,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas			₱ 500,000
To recognize the acquired financial asset held for trading			
Other Financial Charges	50301990	₱ 10,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas			₱ 10,000
To recognize the transaction cost incurred			

Example for Financial Asset not at Fair Value through surplus or deficit:

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Investments in Treasury Bonds-Foreign	10202040	₱ 510,000	
Cash in Bank-Local Currency, Bangko Sentral ng Pilipinas			₱ 510,000
To recognize investment in foreign treasury bonds			

Sec. 7. Categories of Financial Assets. For the purpose of measuring a financial asset after initial recognition, the financial assets are classified into four categories, namely: (*Par. 47, PPSAS 29*)

- a. Financial asset at fair value through surplus or deficit. A financial asset at fair value through surplus or deficit is one that is either:
 1. A held-for-trading asset, or
 2. An asset designated as at fair value through surplus or deficit on initial recognition. Any financial asset can be classified in this category if its fair value can be reliably estimated.
- b. Held-to-maturity investments. These are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.
- c. Loans and receivables. These are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Examples of financial assets to be recognized in this category are loans, investments in debt instruments, trade receivables and bank deposits.
- d. Available-for-sale financial assets. Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through surplus or deficit.

The initial measurement for financial asset at fair value through surplus or deficit and financial asset classified as available for sale are the same, only that the changes in fair value of financial asset measured at fair value through surplus or deficit are reported in surplus or deficit while the changes in fair value of available for sale financial asset are reported in the net asset.

Sec. 8. Subsequent Measurement of Financial Assets. After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

- a. Loans and receivables and Held-to-maturity investments, which shall be measured at amortized cost using the effective interest method; and
- b. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost. (*Par. 48, PPSAS 29*)

Example:

On December 31, 2014, the fair value of the Financial Assets Held for Trading with a carrying amount of ₱500,000 is ₱600,000. The changes in fair value shall be reported in surplus/deficit. The following entry shall be made on December 31, 2014 to reflect the changes in fair value.

<u>Account Title</u>	<u>Account Code</u>	<u>Debit</u>	<u>Credit</u>
Financial Assets Held for Trading	10201010	₱ 100,000	
Gain from Changes in Fair Value of Financial Instruments	40501110		₱ 100,000
To recognize the changes in fair value of the Financial Assets Held for Trading			