# RAROCO INSURANCE BROKERS, INC.

## STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019



| | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash | 4,6 | ₱ | 1,170,015 | ₱ | 1,012,476 |
| Commission and other receivables | 4,7 | | 275,128 | | 324,904 |
| Prepayments and other current assets | 4,8 | | 1,139,088 | | 1,489,185 |
| Prepaid income tax | 4,5,21 | | 16,640,748 | | 14,801,092 |
| **Total Current Assets** | | | 19,224,979 | | 17,627,657 |
| **Non-current Assets** | | | | | |
| Property and equipment, net | 4,5,9 | | 1,490,656 | | 1,312,102 |
| Computer software, net | 4,10 | | 136,460 | | 163,835 |
| **Total Non-Current Assets** | | | 1,627,116 | | 1,475,937 |
| **TOTAL ASSETS** | | | 20,852,095 | | 19,103,594 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 4,11 | ₱ | 3,612,308 | ₱ | 2,601,000 |
| Loans payable - current | 4,12 | | 3,224,622 | | 3,506,068 |
| Retirement benefit liability | 4,19 | | 492,528 | | 902,969 |
| **Total Current Liabilities** | | | 7,329,458 | | 7,010,037 |
| **Non-current Liabilities** | | | | | |
| Loans payable - non-current | 4,12 | | 962,920 | | 1,061,935 |
| **Total Liabilities** | | | 8,292,378 | | 8,071,972 |
| **Equity** | | | | | |
| Share capital | 4,13 | | 5,050,000 | | 5,050,000 |
| Retained earnings | 4,13 | | 7,509,717 | | 5,981,622 |
| **Total Equity** | | | 12,559,717 | | 11,031,622 |
| **TOTAL LIABILITIES AND EQUITY** | | ₱ | 20,852,095 | ₱ | 19,103,594 |

*(See accompanying Notes to Financial Statements)*

# RAROCO INSURANCE BROKERS, INC.

## STATEMENTS OF COMPREHENSIVE INCOME

For The Years Ended December 31, 2020 and 2019

| | *Notes* | 2020 | 2019 |
|---|---|---|---|
| **REVENUES** | *4,14* | **₱ 21,438,070** | ₱ 23,126,601 |
| **DIRECT COSTS** | *4,16* | **14,682,078** | 16,513,411 |
| **GROSS INCOME** | | **6,755,992** | 6,613,190 |
| **OPERATING EXPENSES** | *4,17* | **4,288,419** | 5,124,298 |
| **NET OPERATING INCOME** | | **2,467,573** | 1,488,892 |
| **OTHER INCOME** | *4,15* | **24,213** | 61,501 |
| **INTEREST INCOME** | *4,6* | **7,448** | 1,481 |
| **FINANCE COST** | *4,12* | **(266,844)** | (253,783) |
| **NET INCOME BEFORE TAX** | | **2,232,390** | 1,298,091 |
| **INCOME TAX EXPENSE** | *4,21* | | |
| Current | | **704,295** | 389,166 |
| Deferred | | **-** | - |
| | | **704,295** | 389,166 |
| **NET INCOME FOR THE YEAR** | | **1,528,095** | 908,925 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME** | | **₱ 1,528,095** | ₱ 908,925 |

*(See accompanying Notes to Financial Statements)*

**RAROCO INSURANCE BROKERS, INC.**

**STATEMENTS OF CHANGES IN EQUITY**

For The Years Ended December 31, 2020 and 2019

| | *Notes* | **2020** | 2019 |
|---|---|---|---|
| **SHARE CAPITAL** | *4,13* | **₱ 5,050,000** | ₱ 5,050,000 |
| **RETAINED EARNINGS** | *4,13* | | |
| **Appropriated** | | | |
| Balance at beginning of the year | | **200,000** | - |
| Appropriation | | **3,374,247** | 200,000 |
| Balance at end of the year | | **3,574,247** | 200,000 |
| **Unappropriated** | | | |
| Balance at beginning of the year | | **5,781,622** | 5,941,457 |
| Net income for the year | | **1,528,095** | 908,925 |
| Prior period adjustment | | **-** | 22,697 |
| Appropriation | | **(3,374,247)** | (200,000) |
| Dividends declaration | | **-** | (891,457) |
| Balance at end of the year | | **3,935,470** | 5,781,622 |
| **Total Retained Earnings** | | **7,509,717** | 5,981,622 |
| **TOTAL EQUITY** | | **₱ 12,559,717** | ₱ 11,031,622 |

*(See accompanying Notes to Financial Statements)*

# RAROCO INSURANCE BROKERS, INC.

## STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2020 and 2019

| | *Notes* | **2020** | 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net income before income tax** | | **₱ 2,232,390** | ₱ 1,298,091 |
| Adjustment to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | *4,9,10,16,17* | **496,321** | 444,034 |
| Interest expense | *4,12* | **266,844** | 253,783 |
| Interest income | *4,6* | **(7,448)** | (1,481) |
| **Operating income before changes in working capital** | | **2,988,107** | 1,994,427 |
| Changes in operating assets and liabilities: | | | |
| Decrease (Increase) in: | | | |
| Commission and other receivables | *4,7* | **49,776** | 411,360 |
| Prepayments and other current assets | *4,8* | **350,094** | 1,875,467 |
| Increase (Decrease) in: | | | |
| Trade and other payables | *4,11* | **1,011,310** | 749,854 |
| Retirement benefit liability | *4,19* | **(410,441)** | 902,969 |
| **Cash provided by operation** | | **3,988,846** | 5,934,077 |
| Income tax paid | *4,21* | **(2,543,950)** | (3,441,654) |
| Interest received | *4,6* | **7,448** | 1,481 |
| Interest paid | *4,12* | **(266,844)** | (253,783) |
| **Net cash provided by operating activities** | | **1,185,500** | 2,240,121 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of property and equipment | *4,9* | **(647,500)** | (805,717) |
| Acquisition of computer software | *4,10* | **-** | (27,789) |
| **Net cash used in investing activities** | | **(647,500)** | (833,506) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from loan | *4,12* | **592,200** | 706,400 |
| Payments of loan | *4,12* | **(972,661)** | (905,414) |
| Dividends paid | *4,13* | **-** | (891,457) |
| **Net cash used in financing activities activities** | | **(380,461)** | (1,090,471) |
| **NET INCREASE IN CASH** | | **157,539** | 316,144 |
| **CASH AT BEGINNING OF YEAR** | | **1,012,476** | 696,332 |
| **CASH AT END OF YEAR** | | **₱ 1,170,015** | ₱ 1,012,476 |

*(See accompanying Notes to Financial Statements)*

**RAROCO INSURANCE BROKERS, INC.**
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2020 and 2019**

## NOTE 1 - GENERAL INFORMATION

**RAROCO INSURANCE BROKERS, INC.** (the Company) is a corporation registered with the Philippine Securities and Exchange Commission under registration number CS200341908 dated December 1, 2003. The Company is established primarily to engage in business as insurance broker.

The Company's registered office, which is also its principal place of business, is located at 608 Ferros Bel-Air Tower, No. 30 Polaris Street, Makati City.

***Approval of the Financial Statement***

The financial statements of the Company as of and for the year ended December 31, 2020 were approved and authorized for issue by the Board of Directors on May 12, 2021.

## NOTE 2 - BASIS OF PRESENTATION

***Statement of Compliance***

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standard (PFRS) issued by the Philippine Financial Reporting Standards Council. They are presented in Philippine Peso which is the Company's functional and presentation currency. All amounts are rounded to the nearest peso.

***Basis of Preparation***

The financial statements have been prepared on historical cost basis, unless stated otherwise.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## NOTE 3 - ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2020.

Unless otherwise indicated, the adoption of the new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

- Amendments to References to the *Conceptual Framework in PFRS* – The amendments include new concepts affecting measurement, presentation and disclosure and derecognition; improved definitions and guidance-in particular the definition of an asset and a liability; and clarifications in important areas, such as the roles of stewardship, prudence, measurement uncertainty and substance over form in financial reporting.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides an improved definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, 'an integrated set of activities and assets must include, at a minimum, 'an input and a substantive process that together significantly contribute to the ability to create an output'. The clarification is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases – Covid-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.

<u>**New and Amended PFRS Issued But Not Yet Effective**</u>

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2020 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, Provisions, Contingent Liabilities and Contingent Assets, or IFRIC 21, Levies, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are fist applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

  Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Subsidiary as a First-time Adopter* – The amendments permit a subsidiary that becomes a first-time adopter later than its parent and measures its assets and liabilities in accordance with paragraph D16 (a) of PFRS 1 to measure cumulative translation differences for all foreign operations using the amounts reported by its parent, based on the parent's date of transition to PFRS. Earlier application of the amendments is permitted.

  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.

  - Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

  - Amendments to PAS 41, *Agriculture - Taxation in Fair Value Measurements* – The amendment removes the requirement for entities to exclude cash flows for taxation when measuring the fair value of a biological asset using a present value technique to ensure consistency with the requirements in PFRS 13, Fair Value Measurement. The amendment should be applied prospectively.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted

Effective for annual periods beginning on or after January 1, 2025:

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, Insurance Contracts. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

  In response to the challenges brought by the Covid-19 pandemic, the Insurance Commission issued Circular Letter 2020-062, Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation, which provides a two-year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28 - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

The adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company.

## NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Financial Instruments**

***Initial recognition and measurement***

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Classification***

The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial assets largely depends on the Company's business model and its contractual cash flow characteristics.

***Financial Assets and Liabilities at FVPL***

Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL.

This category includes equity instruments which the Company had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not "solely for payment of principal and interest" assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Company may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2020 and 2019, the Company does not have financial assets or liabilities classified as FVPL.

***Financial Assets at Amortized Cost***

Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As at December 31, 2020 and 2019, the Company's cash, and commission and other receivables are classified under this category. (Notes 6 and 7)

***Financial Assets at FVOCI.***

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Company may irrevocably designate the financial asset to be measured at FVOCI as long as these are not held for trading purposes.

After initial recognition, Financial assets at FVOCI are presented in the financial statements at fair value with changes in fair value are recognized in OCI.

Interest income on debt instruments is calculated using the effective interest method while credit losses on debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established. Cumulative changes in fair value of FVOCI equity instruments are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2020 and 2019, the Company does not have financial assets classified as FVOCI.

***Financial Liabilities at Amortized Cost***

Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2020 and 2019, the Company's trade and other payables (except government payables) and loans payable accounts are classified under this category. (Notes 11 and 12)

**Reclassification**

The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI shall be recognize in profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

**Impairment of Financial Assets**

The Company records an allowance for "expected credit loss" (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Company has applied the simplified approach and has calculated ECL based on the lifetime expected credit losses. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

**Derecognition of Financial Assets and Liabilities**

***Financial Assets***

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to repay.

***Financial Liabilities***

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

**Offsetting of Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

**Prepayments and Other Current Asset**

Prepayments represent advance payments insurance which the Company expects to consume within one year. Other current asset includes creditable withholding taxes and advances for liquidation. Prepayments and other current asset is stated in the statement of financial position at cost less any portion that has already been consumed or that has already expired.

**Property and Equipment**

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Items of property and equipment are initially measured at cost. Such cost includes purchase price and all incidental costs necessary to bring the asset to its location and condition. Subsequent to initial recognition, items of property and equipment are measured in the statement of financial position at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation, which is computed on a straight-line basis, is recognized so as to allocate the cost of assets less their residual values over their estimated useful lives.

If there is an indication that there has been a significant change in useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

When assets are sold, retired or otherwise disposed of, their costs and related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

**Intangible Assets**

Intangible asset represents purchased computer software. This is initially measured at cost and is presented in the statement of financial position at cost less accumulated amortization and any accumulated impairment losses. Computer software is amortized over its estimated useful life of three (3) years using the straight-line method. If there is an indication that there has been a significant change in the useful life or residual value of an intangible asset, the amortization is revised prospectively to reflect the new expectations.

When assets are sold, retired or otherwise disposed of, their cost and related accumulated amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

**Impairment of Non- Financial Assets**

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not to exceed the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit and loss.

**Loans payable**

Loans payable account represents borrowed funds from various financial institutions and shareholders.

Loans payable is classified as current liability unless the Company has an unconditional right to defer settlement of the liability beyond 12 months from the reporting date.

**Share Capital**

Share capital represents the total par value of the ordinary shares issued.

Equity instruments are measured at the fair value of the cash or other consideration received or receivable, net of the direct costs of issuing the equity instruments.

The difference between the consideration received and the par value of the shares issued is credited to share premium.

**Retained Earnings**

Retained earnings include income earned in current and prior periods net of any dividend declaration, effects of changes in accounting policy and prior period adjustments.

**Revenue**

***Revenue recognition***

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured by reference to the fair value of consideration received or receivable excluding discounts, returns and sales taxes. Revenue is recognized either at a point in time or over a period of time.

Revenue is recognized as follows:

***Commission Income***

Revenue is recognized at a point in time which coincide with the policy's effectivity date, at which point control over the services provided by the Company has transferred to the client and the client has accepted the services.

***Finance income***

Finance income comprises interest income on bank deposits. Interest income is recognized in profit and loss as it accrues, using the effective interest method.

***Other income***

Other income is recognized when earned.

**Expenses**

Expenses are decreases in economic benefits in the form of decreases in assets or increase in liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are received or when the expenses are incurred.

***Direct costs***

Direct costs are recognized in profit or loss in the period the services have been rendered.

***Operating expense***

Operating expenses are cost attributable to general & administrative expenses other business activities of the Company. This includes salaries and wages, retirement benefit, rent expense and other costs that cannot be associated directly to the services rendered.

***Borrowing cost***

Borrowing costs include interest and other charges related to borrowing arrangements.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale,

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Income Tax**

Income tax expense includes current tax expense and deferred tax expense. The current tax expense is based on taxable profit for the year. Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases.

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any net operating loss carry over (NOLCO) or excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT). The net carrying amount of deferred tax asset is reviewed at each reporting date and any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

**Employee Benefits**

***Short-term benefits***

Short-term benefits given by the Company to its employees include salaries and wages, compensated absences, 13th month pay, employer share contributions and other de minimis benefits, among others.

These are recognized as expense in the period the employees render services to the Company.

### *Retirement Benefits*

The Company does not have a formal retirement benefit plan. However, the Company provides retirement benefits in compliance with RA 7641. The retirement benefit liability recognized in the Company's statements of financial position represents the actual amount due to employees as of the end of the reporting dates.

### Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its major shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

### Leases

A lease is a contract that conveys the right to use an identified asset for a period of time in exchange for a consideration.

Determination as to whether a contract is, or contains, a lease is made at the inception of the lease. Accordingly, the Company assesses whether the contract meets three key evaluations which are:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the lessee;
- the lessee has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the lessee has the right to direct the use of the identified asset throughout the period of use. The lessee assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

### *Company as Lessee*

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed), variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability is increased for interest incurred and reduced for lease payments made.

The right-of-use asset is initially measured at the amount of lease liability adjusted for any initial direct costs incurred by the lessee, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

**Provisions and contingencies**

Provisions are recognized only when the Company has a present obligation as a result of past event and it is probable that the Company will be required to transfer economic benefits in settlement; and the amount of provision can be estimated reliably.

Contingent assets and liabilities are not recognized in the financial statements.

**Changes in accounting policies, change in accounting estimates and correction of prior period errors**

The Company applies changes in accounting policy if the change is required by the accounting standards or in order to provide reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial statements. Changes in accounting policy brought about by new accounting standards are accounted for in accordance with the specific transitional provision of the standards. All other changes in accounting policy are accounted for retrospectively.

Changes in accounting estimates is recognized prospectively by reflecting it in the profit and loss in the period of the change if the change affects that period only or the period of the change and future periods if the change affects both.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when financial statements for those periods were authorized for issue and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

To the extent practicable, the Company corrects a material prior period error retrospectively in the first financial statements authorized for issue after its discovery by restating the comparative amounts for the prior periods(s) presented in which the error occurred, or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the Company restates the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable.

**Subsequent events**

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

## NOTE 5 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

**Judgment**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

***Assessment of Impairment of Nonfinancial Assets***

The Company determines whether there are indicators of impairment of the Company's non-financial assets. Indicators of impairment include significant change in usage, decline in the asset's fair value or underperformance relative to expected historical or projected future results. Determining the fair value requires the determination of future cash flows and future economic benefits expected to be generated from the continued use and ultimate disposition of such assets. It requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could be used by management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows and economic benefits involves significant judgments and estimation.

No impairment loss was recognized in the Company's financial statements in either 2020 or 2019.

**Estimates**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

***Estimating useful lives of property and equipment***

The Company estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

| Description | Useful Lives |
|---|---|
| Leasehold improvement | 5 years |
| Transportation equipment | 5 years |
| Furniture and fixtures | 3 years |
| Office equipment | 3 years |

***Determination of Realizable Amount of Deferred Tax Assets***

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized. (Note 21)

## NOTE 6 - CASH

This account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Petty cash fund | ₱ | **8,000** | ₱ | 8,000 |
| Cash in bank | | **1,162,015** | | 1,004,476 |
| | ₱ | **1,170,015** | ₱ | 1,012,476 |

Cash in bank generally earns interest at rates based on daily bank deposit rates. Interest income recognized in the Statement of Comprehensive Income amounted to ₱7,448 and ₱1,481 in 2020 and 2019, respectively.

## NOTE 7 - COMMISSION AND OTHER RECEIVABLES

This account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Commission receivables | ₱ | **64,319** | ₱ | 126,438 |
| Advances to employees | | **147,637** | | 165,113 |
| Other receivable | | **63,172** | | 33,353 |
| | ₱ | **275,128** | ₱ | 324,904 |

The average credit term on commission receivables is 60-90 days. No interest is charged on the receivables.

As at December 31, 2020 and 2019, management believes that there are no expected credit losses in relation to these financial assets, accordingly, no loss allowance was recognized for the year. Details about the ECL on the Company's financial assets are disclosed in Note 24.

## NOTE 8 - PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Prepaid expenses | ₱ | **699,226** | ₱ | 616,923 |
| Creditable withholding tax | | **413,862** | | 846,262 |
| Security deposit | | **26,000** | | 26,000 |
| | ₱ | **1,139,088** | ₱ | 1,489,185 |

Prepaid expenses pertain to unamortized portion of insurance and other company expenses to be realized on the next accounting period.

Security deposits are made for the faithful performance of the provisions of the lease agreements and shall cover possible damages to the leased premises. These are refundable at the end of the service agreement. (Note 20)

## NOTE 9 - PROPERTY AND EQUIPMENT, NET

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019 of property and equipment is shown below:

**2020**

| | Transportation Equipment | Office Equipment | Leasehold Improvement | Furniture & Fixtures | Total |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| Beginning | ₱3,077,007 | ₱2,370,605 | ₱937,867 | ₱545,227 | ₱6,930,706 |
| Additions | 590,000 | 57,500 | - | - | 647,500 |
| Disposal | - | - | - | - | - |
| | 3,667,007 | 2,428,105 | 937,369 | 545,227 | 7,578,206 |
| **Accumulated depreciation** | | | | | |
| Beginning | 2,057,515 | 2,200,580 | 820,764 | 539,745 | 5,618,604 |
| Depreciation | 352,320 | 74,164 | 36,980 | 5,482 | 468,946 |
| Disposal | - | - | - | - | - |
| | 2,409,835 | 2,274,744 | 857,744 | 545,227 | 6,087,550 |
| Carrying amount-12/31/2019 | ₱1,019,492 | ₱170,024 | ₱117,103 | ₱5,483 | ₱1,312,102 |
| **Carrying amount-12/31/2020** | **₱1,257,172** | **₱153,361** | **₱80,123** | **-** | **₱1,490,656** |

**2019**

| | Transportation Equipment | Office Equipment | Leasehold Improvement | Furniture & Fixtures | Total |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| Beginning | ₱2,385,557 | ₱2,272,409 | ₱937,867 | ₱529,155 | ₱6,124,988 |
| Additions | 691,450 | 98,195 | - | 16,071 | 805,717 |
| Disposal | - | - | - | - | - |
| | 3,077,007 | 2,370,605 | 937,867 | 545,227 | 6,930,705 |
| **Accumulated depreciation** | | | | | |
| Beginning | 1,787,608 | 2,112,418 | 783,784 | 518,134 | 5,201,944 |
| Depreciation | 269,907 | 88,162 | 36,980 | 21,610 | 416,659 |
| Disposal | - | - | - | - | - |
| | 2,057,515 | 2,200,580 | 820,764 | 539,744 | 5,618,603 |
| Carrying amount-12/31/2018 | ₱597,949 | ₱159,991 | ₱154,083 | ₱11,021 | ₱923,044 |
| **Carrying amount-12/31/2019** | **₱1,019,492** | **₱170,024** | **₱117,103** | **₱5,483** | **₱1,312,102** |

The Company had not entered into contractual commitments for the acquisition of property and equipment as at December 31, 2020 and 2019.

The amount of depreciation is allocated and presented in the statements of comprehensive income under the following accounts (Notes 16 and 17):

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Direct Costs | ₱ | **383,707** | ₱ | 326,519 |
| Operating Expenses | | **85,239** | | 90,140 |
| | ₱ | **468,946** | ₱ | 416,659 |

The Company has pledged transportation equipment having a carrying amount of ₱1,257,172 and ₱1,019,492 as at December 31, 2020 and 2019, respectively, to secure bank loans (Note 12).

## NOTE 10 - COMPUTER SOFTWARE, NET

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019 of computer software is shown below:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1 | ₱ | **278,016** | ₱ | 250,227 |
| Additions | | **-** | | 27,789 |
| December 31 | | **278,016** | | 278,016 |
| **Accumulated amortization** | | | | |
| January 1 | | **114,181** | | 109,503 |
| Amortization expense | | **27,375** | | 27,375 |
| Prior period adjustment | | **-** | | (22,697) |
| December 31 | | **141,556** | | 114,181 |
| **Carrying amount, December 31** | ₱ | **136,460** | ₱ | 163,835 |

## NOTE 11 - TRADE AND OTHER PAYABLES

This account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Trade payables | ₱ | **3,161,155** | ₱ | 2,276,946 |
| Statutory payables | | | | |
| VAT payable | | **166,425** | | 158,370 |
| SSS,PHIC and HDMF payables | | **112,789** | | 100,030 |
| Withholding tax payable | | **171,939** | | 65,654 |
| | ₱ | **3,612,308** | ₱ | 2,601,000 |

The payment term on purchases of certain goods and services from suppliers range from 60 – 90 days and do not bears interest. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Statutory payables pertain to statutory obligation to government agencies such as Bureau of Internal Revenue, Social Security System, Philippine Health Insurance Corporation and Home Development Mutual Fund.

## NOTE 12 - LOANS PAYABLE

Outstanding balances of the Company's loans payable are summarized as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **Current** | | | | |
| Bank loans | ₱ | 701,247 | ₱ | 982,693 |
| Personal loans | | 2,523,375 | | 2,523,375 |
| | | 3,224,622 | | 3,506,068 |
| **Non-current** | | | | |
| Bank loans | | 962,920 | | 1,061,935 |
| Total | ₱ | 4,187,542 | ₱ | 4,568,003 |

Bank Loans

This represents peso-denominated bank loans amounting to ₱1,664,167 and ₱2,044,628 as at December 31, 2020 and 2019, respectively and bears annual interest rates ranging from 6% to 9.68%. The loans are secured by a shareholder's property and the Company's transportation equipment with a carrying amounts of ₱1,257,172 and ₱1,019,492 as at December 31, 2020 and 2019 (see Note 9). The terms of the loans range from 3 to 5 years.

Personal Loans

This represents personal loans from a shareholder amounting to ₱2,523,375 as at December 31, 2020 and 2019. These loans are unsecured and non-interest bearing with no fixed repayments term. (See Note 23)

Movement of loans payable is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Beginning balance | ₱ | 4,568,003 | ₱ | 4,767,016 |
| Proceeds from additional loan | | 592,200 | | 706,400 |
| Payments | | (972,661) | | (905,413) |
| Ending balance | ₱ | 4,187,542 | ₱ | 4,568,003 |

Total interest expense charged to operation, presented under finance cost in the statements of comprehensive income from these loans amounted to ₱-nil- and ₱253,783, in 2020 and 2019, respectively.

## NOTE 13 - EQUITY

***Capital Stock***

The Company is authorized to issue fifty thousand five hundred (50,500) ordinary shares with a par value of one hundred pesos (₱ 100) per share.

As at December 31, 2020 and 2019, the Company's total subscribed and issued and outstanding capital stock is owned by six (6) stockholders. All stockholders owned more than 100 shares.

A reconciliation of the outstanding share capital at the beginning and end of 2020 and 2019 is shown below:

**2020**

| | Number of Shares | | Amount |
|---|---|---|---|
| Outstanding 12/31/2019 | 50,500 | ₱ | 5,050,000 |
| Issuance | - | | - |
| Reacquisition | - | | - |
| Outstanding 12/31/2020 | 50,500 | ₱ | 5,050,000 |

**2019**

| | Number of Shares | | Amount |
|---|---|---|---|
| Outstanding 12/31/2018 | 50,500 | ₱ | 5,050,000 |
| Issuance | - | | - |
| Reacquisition | - | | - |
| Outstanding 12/31/2019 | 50,500 | ₱ | 5,050,000 |

***Retained Earnings***

Appropriation

On January 10, 2019, the Board of Directors approved the appropriation of two hundred thousand pesos (₱200,000) for contingency, expansion, and employee's retirement.

On July 7, 2020, the Board of Directors approved the appropriation of additional three million three hundred seventy-four thousand two hundred forty seven pesos (₱3,374,247) for contingency, expansion, and employee's retirement.

Dividends Declared and Paid

On August 14, 2019, the Board of Directors and Stockholders approved the declaration of cash dividend amounting to Eight Hundred Ninety-One Thousand Four Hundred Fifty-Seven Pesos (₱891,457) to all stockholders of records as of August 14, 2019. The dividends were paid in year 2019.

## NOTE 14 - REVENUES

Details of the Company's revenues is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Commission income | ₱ | 20,762,442 | ₱ | 22,274,882 |
| Miscellaneous income | | 677,628 | | 851,719 |
| | ₱ | 21,438,070 | ₱ | 23,126,601 |

Miscellaneous income consists of administrative charges to Victory Christian Fellowship and delivery charges to sub-agents.

## NOTE 15 - OTHER INCOME

The Company's other income amounting to ₱24,213 and ₱61,501 in 2020 and 2019, respectively, pertains to the interest earned by the Company from the advances to employees.

## NOTE 16 - DIRECT COSTS

Details of the Company's direct costs is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Salaries, wages, and benefits | ₱ | **7,075,556** | ₱ | 7,819,127 |
| Professional fees | | **2,513,250** | | 2,433,658 |
| Commission expense | | **1,439,469** | | 1,511,482 |
| Insurance expense | | **695,713** | | 1,201,253 |
| Communications, light, and water | | **572,191** | | 720,076 |
| Depreciation expense (Note 9) | | **383,707** | | 326,519 |
| Rent expense (Note 20) | | **383,328** | | 386,065 |
| SSS, PHIC and HDMF | | **367,773** | | 422,706 |
| Dues and subscription | | **366,195** | | 301,506 |
| Marketing expenses | | **173,489** | | 410,725 |
| Repair and maintenance | | **122,704** | | 279,393 |
| Transportation and travel | | **96,748** | | 259,667 |
| Office supplies | | **77,252** | | 112,508 |
| Representation expense | | **48,359** | | 110,713 |
| Taxes and licenses | | **30,107** | | 39,619 |
| Miscellaneous expense | | **336,237** | | 178,394 |
| | ₱ | **14,682,078** | ₱ | 16,513,411 |

## NOTE 17 - OPERATING EXPENSES

Details of the Company's operating expenses is as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Salaries, wages, and benefits | ₱ | **1,880,514** | ₱ | 1,938,574 |
| Retirement benefit | | **1,001,142** | | 1,395,497 |
| Rent expense (Note 20) | | **277,411** | | 265,200 |
| Taxes and licenses | | **273,426** | | 215,408 |
| Professional fees | | **216,734** | | 468,749 |
| Communications, light and water | | **192,952** | | 257,550 |
| Dues and subscription | | **99,383** | | 103,478 |
| Depreciation expense (Note 9) | | **85,239** | | 90,140 |
| SSS, PHIC and HDMF | | **80,445** | | 88,592 |
| Insurance expense | | **46,081** | | 127,908 |
| Office supplies | | **57,540** | | 102,595 |
| Amortization expense | | **27,375** | | 27,375 |
| Marketing expenses | | **24,919** | | 3,199 |
| Representation expense | | **7,154** | | 13,064 |
| Transportation and travel | | **2,582** | | 7,682 |
| Repair and maintenance | | **-** | | 5,772 |
| Miscellaneous expense | | **15,522** | | 13,515 |
| | ₱ | **4,288,419** | ₱ | 5,124,298 |

## NOTE 18 - DEPRECIATION, EMPLOYEE BENEFITS, AND RENT

**2020**

| | | Direct Costs | | Operating Expenses | | Total |
|---|---|---|---|---|---|---|
| Depreciation | ₱ | 383,707 | ₱ | 85,239 | ₱ | 468,946 |
| Employee benefits* | | 7,443,329 | | 2,962,101 | | 10,405,430 |
| Rent | | 383,328 | | 277,411 | | 660,739 |

**Employee benefits includes compensation and other employee benefits, statutory contributions, and retirement benefit.*

**2019**

| | | Direct Costs | | Operating Expenses | | Total |
|---|---|---|---|---|---|---|
| Depreciation | ₱ | 326,519 | ₱ | 90,140 | ₱ | 416,659 |
| Employee benefits* | | 8,241,833 | | 3,422,663 | | 11,664,496 |
| Rent | | 386,065 | | 265,200 | | 651,265 |

**Employee benefits includes compensation and other employee benefits, statutory contributions, and retirement benefit.*

## NOTE 19 - EMPLOYEE'S COMPENSATION AND BENEFITS

***Salaries and Employee Benefits Expense***

Details of salaries and employee benefits are presented below (See Note 16, 17 and 18).

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Salaries, wages, benefits and statutory contributions | ₱ | **9,404,288** | ₱ | 10,268,999 |
| Retirement benefit | | **1,001,142** | | 1,395,497 |
| | ₱ | **10,405,430** | ₱ | 11,664,496 |

***Retirement Obligation***

Accrued retirement liability of the Company as at December 31, 2020 and 2019 amounted to ₱492,528 and ₱902,969, respectively.

Movement of retirement benefit liability follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance, January 1 | ₱ | **902,969** | ₱ | - |
| Retirement benefit expense for the year | | **1,001,142** | | 1,395,497 |
| Retirement benefits paid | | **(1,411,583)** | | (492,528) |
| Balance, December 31 | ₱ | **492,528** | ₱ | 902,969 |

## NOTE 20 - LEASE AGREEMENTS

The Company entered into lease agreements as lessee covering the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of this property remain with the lessor. The term of the lease agreements is for period of one year and renewable under terms and conditions as may be mutually agreed upon by lessee and lessor.

With the exception of short-term leases, no right-of-use asset and lease liability were recognized in the statement of financial position in relation to the lease agreement.

The lease agreement requires security deposits amounting to ₱26,000 as at December 31, 2020 and 2019 which is presented under prepayments and other currents assets in the statements of financial position. (Note 8)

***Lease Payments Not Recognized as Liabilities***

The Company has elected not to recognize a lease liability for short-term lease of office spaces. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to short-term lease amounted to ₱660,739 and ₱651,265 in 2020 and 2019, respectively. These are presented as rent expense under Direct Costs and Operating Expenses in the 2020 and 2019 statement of comprehensive income (Note 16,17, and18).

## NOTE 21 - INCOME TAXES

Income tax expense for the years ended December 31 consists of:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Current | ₱ | **704,295** | ₱ | 389,166 |
| Deferred | | **-** | | - |
| | ₱ | **704,295** | ₱ | 389,166 |

Reconciliation between statutory tax and effective tax follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Income tax at statutory rate | ₱ | **558,027** | ₱ | 389,427 |
| Tax effect income subject to final tax | | **(1,862)** | | (444) |
| Tax effect of non-deductible interest expense | | **384** | | 183 |
| Non-deductible retirement expense | | **147,676** | | - |
| Income tax at effective rate | ₱ | **704,295** | ₱ | 389,166 |

Analysis of income tax payable (prepaid income tax) follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| **Regular Corporate Income Tax:** | | | | |
| Income before tax | ₱ | **2,232,390** | ₱ | 1,298,091 |
| Permanent Differences: | | | | |
| Interest Income Subjected to Final Tax | | **(7,448)** | | (1,481) |
| Interest arbitrage | | **1,536** | | 611 |
| Non-deductible retirement expense | | **590,702** | | - |
| Taxable income | ₱ | **2,817,180** | ₱ | 1,297,221 |
| Tax rate | | **25%** | | 30% |
| | | **704,295** | | 389,166 |
| **Minimum Corporate Income Tax:** | | | | |
| Taxable gross income | | **6,755,092** | | 6,674,691 |
| Tax rate | | **1.5%** | | 2% |
| | | **101,340** | | 133,494 |

| | | | | |
|---|---|---|---|---|
| Tax due (Higher of RCIT or MCIT) | | **704,295** | | 389,166 |
| Less: Tax credits | | | | |
| Prior Year's Excess Credit | | **(14,801,092)** | | (11,748,604) |
| Creditable taxes | | **(2,543,951)** | | (3,441,654) |
| Quarterly payments | | **-** | | - |
| Prepaid income tax | **₱** | **(16,640,748)** | ₱ | (14,801,092) |

## NOTE 22 - CORPORATE RECOVERY AND TAX INCENTIVES FOR ENTERPRISES ACT (CREATE LAW)

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises Act "RA 11534" was signed into law by the President of the Philippines. The law will take effect 15 days after its publication in the Official Gazette or in a newspaper of general circulation. Some of the provisions that may have an impact on the Company's operations are as follows:

1. Reduction of the Corporate Income Tax from 30% to 20% starting July 1, 2020.
2. Reduction of the Minimum Corporate Income Tax from 2% to 1% starting July 1, 2020 to June 30, 2023
3. Reduction of the non-deductible interest expense from 33% to 20% of the gross interest income
4. Imposition of the Improperly Accumulated Earning Tax has been repealed.

The company adopted the provisions of CREATE LAW which was already approved prior to the issuance and approval of the Company's financial statements.

## NOTE 23 - RELATED PARTY TRANSACTIONS

A summary of the transactions and account balances with related parties follows:

**2020**

| Nature of Relationship | Nature of Transaction | Amount (current transaction) | Outstanding balance | Terms | Conditions |
|---|---|---|---|---|---|
| Major Shareholder | Proceeds on Loans | ₱ - | ₱ 2,523,375 | (1) | (2) |
| | Payment of Loans | - | | | |

**2019**

| Nature of Relationship | Nature of Transaction | Amount (current transaction) | Outstanding balance | Terms | Conditions |
|---|---|---|---|---|---|
| Major Shareholder | Proceeds on Loans | ₱ - | ₱ 2,523,375 | (1) | (2) |
| | Payment of Loans | - | | | |

(1) *Non-interest bearing, payable in cash, no scheduled repayment terms.*
(2) *Unsecured*

The company obtain loan from its shareholder for business operation. These loans are non-interest bearing, payable in cash and on demand. (Note 12)

*Key Management Compensation*

No compensation was paid to key management personnel in year 2020 and 2019.

**NOTE 24 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

***Interest Rate Risk***

The Company's exposure to risk for changes in interest rates relates primarily to the Company's bank accounts. As at December 31, 2020 and 2019, these amounted to ₱1,162,015 and ₱1,004,477, respectively (Note 6). The Company's exposure to changes in interest rates is not significant.

***Credit Risk***

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to credit risk primarily through its cash in banks and commission and other receivables.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

With respect to credit risk arising from other financial assets of the Company, which comprise cash in banks and other receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company limits its exposure to credit risks by depositing its cash only with financial institutions duly evaluated and approved by the BOD.

All of the Company's financial assets are neither past due nor impaired and high grade, except for commission receivables which are standard grade.

The credit quality of the financial assets is managed by the Company using the internal credit quality ratings. High grade accounts consist of receivables from debtors with good financial condition and with relatively low defaults. Financial assets having risks of default but are still collectible are considered standard grade accounts. Receivables that are still collectible but require persistent effort from the Company to collect are considered substandard grade accounts.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown gross, without taking into account collateral and other credit enhancement.

| | **2020** | 2019 |
|---|---|---|
| Cash in banks | **₱ 1,162,015** | ₱ 1,004,476 |
| Commission and other receivables | **275,128** | 324,904 |
| Security deposit | **26,000** | 26,000 |
| | **₱ 1,463,143** | ₱ 1,355,380 |

*Cash excludes cash on hand amounting to ₱8,000 as at December 31, 2020 and 2019.*

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents and advances to contractors as described below.

*(a) Cash*

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱500,000 for every depositor per banking institution.

*(b) Commission and Other Receivables*

Commission receivables

The Company applies the PFRS 9 simplified approach in measuring ECL which uses lifetime expected credit loss allowance for all commission receivables. To measure expected credit losses, commission receivables are grouped based on shared credit risk characteristics and the days past due (age buckets). The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2020 and December 31, 2019, respectively, and the corresponding historical credit losses experienced within such period. The historical rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting ability of the customers to settle the receivables.
The Company subsequently collected all its commission receivables before the audit report date and therefore concluded that no expected credit loss needs to be recognized on its commission receivables for the period.

Advances to employees and other receivables

The amount of ECL is not significant due to the fact that the collectability of contractual cash flows expected from these financial instruments is reasonably assured.

*(c) Security deposit*

The amount of ECL is not significant due to the fact that the collectability of contractual cash flows expected from these financial instruments is reasonably assured.

***Liquidity Risk***

The Company's exposure to liquidity risk is minimal. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of loans. In addition, the Company regularly evaluates its projected and actual cash flows. Fund raising activities may include bank loans.

The following table presents the maturity profile of the Company's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted payments.

| | December 31, 2020 | | |
|---|---|---|---|
| | **Within 1 Year** | **1 to 3 years** | **Total** |
| **Trade payables** | **₱ 3,161,155** | **₱ -** | **₱ 3,161,155** |
| **Loans payable** | **3,224,622** | **962,920** | **4,187,542** |
| | **₱ 6,385,777** | **₱ 962,920** | **₱ 7,348,697** |

| | December 31, 2019 | | |
|---|---|---|---|
| | Within 1 Year | 1 to 3 years | Total |
| Trade payables | ₱ 2,276,946 | ₱ - | ₱ 2,276,946 |
| Loans payable | 3,506,068 | 1,061,935 | 4,568,003 |
| | ₱ 5,783,014 | ₱ 1,061,935 | ₱ 6,844,949 |

**Capital Management**

The primary objective of the Company's capital management is to ensure that it maintains strong and healthy financial position to support its current business operations and drive its expansion and growth in the future.

The Company considers its capital stock, additional paid-in capital and retained earnings totaling ₱12,559,717 and ₱11,031,622 as at December 31, 2020 and 2019, respectively as its capital employed. The Company maintains its current capital structure, and will make adjustments, if necessary, in order to generate a reasonable level of returns to shareholders over the long term. No changes were made in the objectives, policies or processes during the years ended December 31, 2020 and 2019.

**Fair Value Measurement**

The following table presents the carrying amounts and fair values of the Company's assets and liabilities measured at fair value and for which fair values are disclosed, and the corresponding fair value hierarchy:

| | | 2020 | | | |
|---|---|---|---|---|---|
| | | | Fair Value | | |
| | **Note** | **Carrying Amount** | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| **Assets for which fair values are disclosed:** | | | | | |
| **Cash** | **6** | **₱ 1,170,015** | | **₱ 1,170,015** | |
| **Commission and other receivables** | **7** | **1,652,186** | | **1,652,186** | |
| **Security deposit** | **8** | **26,000** | | **26,000** | |
| | | **₱ 2,848,201** | | **₱ 2,848,201** | |
| **Liabilities for which fair values are disclosed:** | | | | | |
| **Financial liabilities at amortized cost:** | | | | | |
| **Trade payables** | **11** | **₱ 3,161,155** | | **₱ 3,161,155** | |
| **Loans payable** | **12** | **4,187,542** | | **4,187,542** | |
| | | **₱ 7,348,697 8** | | **₱ 7,348,697** | **–** |

| | | 2019 | | | |
|---|---|---|---|---|---|
| | | | Fair Value | | |
| | Note | Carrying Amount | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets for which fair values are disclosed: | | | | | |
| Cash | 6 | ₱ 1,012,476 | – | ₱ 1,012,476 | |
| Commission and other receivables | 7 | 1,171,166 | – | 1,171,166 | – |
| Security deposit | 8 | 26,000 | | 26,000 | |

| | | 2019 | | | |
|---|---|---|---|---|---|
| | | | Fair Value | | |
| | Note | Carrying Amount | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | | ₱ 2,209,642 | | ₱ 2,209,642 | |
| Liabilities for which fair values are disclosed: | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Trade payables | 11 | ₱ 2,276,946 | | ₱ 2,276,946 | |
| Loans payable | 12 | 4,568,003 | | 4,568,003 | |
| | | ₱ 6,844,949 | | ₱ 6,844,949 | |

## NOTE 25 - EFFECT OF COVID 19

In December 2019, novel strain of corona virus (COVID 19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern.' COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by the implementation of an enhanced community quarantine and social distancing measures and restrictions within the island of Luzon area, with other cities and provinces in the country enacting similar measures thereafter.

The coronavirus outbreak and government responses are creating disruption in global supply chains and adversely impacting many industries. The virus outbreak, which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets.

The Company was able to maintain its position amidst the threat of Covid-19. Business continuity plan and measures were put in place at the onset of threatening corona virus and were proven effective. This Pandemic is not expected to materially affect the Company's operations.

## NOTE 26 - SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under Revenue Regulation (RR) No. 15-2010 and 34-2020 to disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding pages.

*(a) Output VAT*

| | Tax Base | Amount |
|---|---|---|
| Vatable sales | ₱ 8,842,500 | ₱ 1,061,100 |
| Zero-rated sales | 11,878,147 | - |
| Total | ₱ 20,720,647 | ₱ 1,325,922 |

The Company's zero-rated sales were determined pursuant to Section 106 of the 1997 National Internal Revenue Code.

The tax bases are included as part of Revenues in the 2020 statements of comprehensive income. The tax bases for are based on the Company's gross receipts for the year, hence, may not be the same as the amounts of revenues reported in the 2020 statement of comprehensive income.

The outstanding vat payable amounting to ₱166,425 as of December 31, 2020 is presented as part of trade and other payables account in the statement of financial position (see Note 11).

*(b) Input VAT*

| | | Amount |
|---|---|---|
| Balance at beginning of year | ₱ | - |
| Domestic purchases of services | | 184,147 |
| Applied against output VAT | | (184,147) |
| Total | ₱ | - |

*(c) Taxes and Licenses for 2020*

Taxes and licenses for 2020 consist of:

| | | Amount |
|---|---|---|
| Local taxes | ₱ | 209,650 |
| Insurance commission license fee | | 62,846 |
| Real property tax | | 23,137 |
| Business permit | | 7,400 |
| Annual registration fee | | 500 |
| Total | ₱ | 303,533 |

The amounts of taxes and licenses shown above were presented in the statements of comprehensive income as follows:

| | | Amount |
|---|---|---|
| Direct costs (Note 16) | ₱ | 30,107 |
| Operating expenses (Note 17) | | 273,426 |
| Total | ₱ | 303,533 |

*(d) Withholding Taxes for 2020*

Withholding taxes paid and accrued during the year is as follows:

| | | Amount |
|---|---|---|
| Withholding tax on compensation | ₱ | 429,335 |
| Withholding tax at source (expanded) | | 439,865 |
| Total | ₱ | 869,200 |

*(e) Tax Assessments and Cases*

The Company did not receive any Letter of Authority or Tax Verification Notice from the Bureau of Internal Revenue (BIR) during the period. It has no pending examination of prior years.

*(f) Related party transaction*

The Company is not covered under Section 2 of the Revenue Regulation 34-2020 requirements and procedures for related party transaction, including filing of BIR Form 1709, Information Return on its Transactions with Related Party.