



# Visayas State University

Visca, Baybay, Leyte 6521-A, Philippines  
Tel: +63 53 335 2600; Fax: +63 53 335 2601  
website: [www.vsu-visca.edu.ph](http://www.vsu-visca.edu.ph)

## Office of the President

21 March 2012

**MEMORANDUM No. 128**

Series of 2012

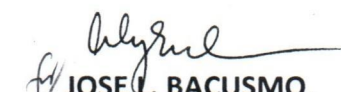
**TO: Ms. Erlinda S. Esguerra**  
OIC-Accounting Unit

**RE: COA Audit Observation Memorandum No. VSU 101-12-007 (11)**

In compliance to the recommendation of the Audit Observation Memorandum No. VSU 101-12-007 (11) from Commission on Audit-Leyte Audit Group E dated February 28, 2012, your office is directed to correct and make adjustments in the journal entries of the Cash in Bank, Foreign Currency accounts on both savings and Time Deposit accounts. Herewith is a copy of the AOM for your reference.

Submit a reply to COA confirming your compliance to the AOM and furnish the Office of the President a copy.

For your guidance and action.

  
**JOSE L. BACUSMO**  
President *orc 3/21/12*

cc:

COA-VSU  
OVPAF  
ODF





Republic of the Philippines  
**COMMISSION ON AUDIT**  
Visayas State University  
VISCA, Baybay, Leyte

**Office of the Auditor**  
Audit Team 17 – Audit Group E, Leyte Audit Group

AOM NO: VSU 101-12-007(11)  
February 28, 2012

**AUDIT OBSERVATION MEMORANDUM (AOM)**

**Dr. Jose L. Bacusmo**  
President  
Visayas State University  
VISCA, Baybay, Leyte

**Attention: Ms. Erlinda S. Esguerra**  
OIC – Accounting Unit

We have audited the Cash in Bank, Foreign Currency account on both Savings and Time Deposit accounts and observed the following deficiencies/errors:

**Interest income earned and Foreign Exchange gains and losses incurred during conversion to Philippine peso, for both Cash in Bank, Foreign Currency Savings and Time Deposit accounts, were all accounted as Other Payables-Dollar Account contrary to the provisions of Sec. 112 of PD 1445, the NGAS - Chart of Accounts and the Philippine Accounting Standard (PAS) 21, resulting in the understatement of both the income and Other Payables accounts.**

Section 112 of PD 1445, provides the following:

*"Each government agency shall record its financial transactions and operation in conformity with generally accepted accounting principles and in accordance with pertinent laws and regulations."*

Also, the Philippine Accounting Standard (PAS) 21 provides the application of accounting for foreign currency transactions and determination of balances in foreign currency transactions, as follows:

*"Foreign currency transactions at each subsequent balance sheet date should be reported using the closing rate (PAS 21.23). Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period. (PAS 21.28)"*



Furthermore, Sections 197 and 370 of the NGAS – Chart of Accounts provides for the proper accounts to be used to record interest income earned on bank deposits and gains and loss in the conversion of foreign currencies to the Philippine peso, as follows:

*Section 197. Foreign Exchange (Forex) Gain. This account is used to record gains in the conversion of foreign currencies to Philippine Peso. In the case of revaluation of the outstanding foreign loans, it is the resulting difference when the prevailing exchange rate is lower than the exchange rate at the time of the transactions or last adjustment.*

*Section 370. Foreign Exchange (Forex) Loss. This account is used to record losses incurred in the conversion of foreign currencies to the Philippine peso, involving any of the following transactions:*

*Conversion of foreign currency deposits- It is the resulting difference when the prevailing exchange rate is lower than the exchange at the time of transactions or last adjustment.*

*Remittances or repayments of foreign loans by the National Government- It is the resulting difference when the prevailing exchange rate is higher than the rate of exchange at the time of receipt of loan proceeds or last adjustment.*

Management has a US Dollar currency deposit with Land Bank of the Philippines, Baybay City Branch under Savings Account No. 3574-0001-30. It has also two (2) Time Deposits in US Dollar currency with the same bank, with terms of 91 days. These were evidenced by Certificates of Time Deposit with the following information:

<u>Date</u>	<u>Account No.</u>	<u>CTC No.</u>	<u>Interest rate</u>
May 12, 2010	3579-0001-62	826830	0.5625%
May 31, 2010	3579-0001-70	826831	0.5000%

Examination of these accounts disclosed that interest income earned were credited to Other Payables-Dollar account and the net loss on the conversion of foreign currency to Philippine Peso as of December 31, 2011 was debited to the same account. This resulted in the understatement of interest income during the year and Other Payables account as of year-end.

We recommend that the University President should direct the Accountant to make the following journal entries:

To correct the erroneous entries previously made (Please see attached schedule for the breakdown of amount):

<u>Account Title</u>	<u>Account Code</u>		<u>Debit</u>		<u>Credit</u>
Other Payables-Dollar	439	P	3,983.97		
Prior Years' Adjustments	684			P	3,983.97
<i>To take up the correcting entry on interest income earned for Cash in Bank, Foreign Currency for both Savings Account and Time Deposits that was previously credited</i>					



<i>to Other Payables-Dollar account.</i>					
Prior Years' Adjustments	439	P	10,569.63		
Other Payables-Dollar	684			P	10,569.63
<i>To take up correcting entry for foreign exchange loss on the conversion of Cash in Bank, Foreign Currency Savings and Time Deposit accounts to Philippine peso which was previously debited to Other Payables-Dollar account.</i>					

To adjust the non-recording of Interest Income earned on Cash in Bank Foreign Currency on Savings Account for the quarter ended December 31, 2011:

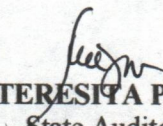
<u>Account Title</u>	<u>Account Code</u>		<u>Debit</u>		<u>Credit</u>
Cash in Bank, FCSA	116	P	115.21		
Prior Years' Adjustments	689			P	115.21
<i>To take up the adjusting entry for interest income earned for Cash in Bank, Foreign Currency Savings Account for the quarter ending December 31, 2011.</i>					


To subsequently record the interest income earned for Cash in Bank -Foreign Currency - Savings Account and Time Deposits and its gains and losses during conversion of foreign currency to Philippine peso:

<u>Account Title</u>	<u>Account Code</u>		<u>Debit</u>		<u>Credit</u>
Cash in Bank, Foreign Currency SA	116	P	XXXX		
Cash in Bank, Foreign Currency TD	117		XXXX		
Interest Income	664			P	XXXX
<i>To record quarterly Interest Income earned for Cash in Bank, Foreign Currency Savings and Time deposit accounts.</i>					
Cash in Bank, Foreign Currency SA	116	P	XXXX		
Cash in Bank, Foreign Currency TD	117		XXXX		
Foreign exchange (FOREX) gain	628			P	XXXX
<i>To record gain on the conversion of Cash in Bank, Foreign Currency Savings Account and time deposits to Philippine Peso.</i>					
Foreign exchange (FOREX) Loss	956	P	XXXX		
Cash in Bank, Foreign Currency SA	116			P	XXXX
Cash in Bank, Foreign Currency TD	117				XXXX
<i>To record loss incurred on the conversion of Cash in Bank- foreign currency Savings Account and time deposits to Philippine Peso.</i>					



May we have your comments on the foregoing audit observations within three (3) calendar days from receipt hereof.

  
**REINA TERESITA P. JUNTILLA**  
State Auditor II

  
**EVA U. FULACHE**  
Supervising Auditor

**PROOF OF SERVICE OF COPIES OF AOM TO PERSONS RESPONSIBLE**

<u>Name of Persons Responsible</u>	<u>Position</u>	<u>Received by:</u>	<u>Date</u>
Dr. Jose L. Bacusmo	President	_____	_____
Ms. Erlinda Esguerra	Head, Accounting Office	_____	_____
	_____		




Working papers on Cash in Bank, Foreign Currency on  
Savings Account (116) and Time Deposits (117)

Date	JEV	Particulars	Month	US Dollar Amount	Exchange Rate*	Philippine Peso Amount	Interest Income	Foreign Exchange Gain (loss)
<b>1 . Savings Account LBP 3574-0001-30</b>								
Nov 2011	GJ 11-11-1194	Interest income	03/31/11	\$ 2.57	P 43.640	P 112.15		
Nov 2011	GJ 11-11-1194	Interest income	06/30/11	2.61	43.640	113.90		
Nov 2011	GJ 11-11-1194	Interest income	09/31/11	2.63	43.640	114.77	P 340.83	
		Beg Balance	01/01/11	7,524.92	43.865	330,080.62		
		Sub-total				330,421.44		
Nov 2011	GJ 11-11-1195	Less: End Balance	09/31/11	7,532.73	43.640	328,728.34		P (1,693.11)
<b>2 . Time Deposits LBP 3579-0001-62</b>								
May 2011	GJ 11-05-0571	Interest income	02/29/11	\$ 14.58	P 43.370	P 632.33		
May 2011	GJ 11-05-0571	Interest income	03/11/11	14.61	43.370	633.64	P 1,265.97	
		Beg Balance	01/01/11	11,086.75	44.180	489,812.62		
		Sub-total				489,812.62		
May 2011	GJ 11-05-0572	Less: End Balance	05/11/11	11,115.94	43.370	482,098.32		P (8,980.27)
Nov 2011	GJ 11-11-1197	Interest income	08/10/11	14.61	43.640	637.58		
Nov 2011	GJ 11-11-1197	Interest income	11/09/11	14.64	43.640	638.89	P 1,276.47	
		Beg Balance	05/11/11	11,115.94	43.370	482,098.32		
		Sub-total				482,098.32		
Nov 2011	GJ 11-11-1197	Less: End Balance	11/09/11	11,145.19	43.640	486,376.09		P 3,001.30
<b>3 . Time Deposits LBP-3579-0001-70</b>								
May 2011	GJ 11-05-0571	Interest income	03/01/11	\$ 6.28	P 43.370	P 272.36		
May 2011	GJ 11-05-0571	Interest income	05/31/11	6.29	43.370	272.80	P 545.16	
		Beg Balance	01/01/11	5,372.13	44.180	237,340.70		
		Sub-total				237,340.70		
May 2011	GJ 11-05-0572	Less: End Balance		5,384.70	43.370	233,534.44		P (4,351.43)
Nov 2011	GJ 11-11-1197	Interest income	08/31/11	6.36	43.640	277.55		
Nov 2011	GJ 11-11-1197	Interest income	11/30/11	6.37	43.640	277.99	P 555.54	
		Beg Balance	05/31/11	5,384.70	43.370	233,534.44		
		Sub-total				233,534.44		
Nov 2011	GJ 11-11-1197	Less: End Balance	11/30/11	5,397.43	43.640	235,543.85		P 1,453.87
<b>GRAND TOTAL</b>						<b>P 3,983.97</b>	<b>P (10,569.63)</b>	

**\*Exchange rates**

43.865 Dec 31, 2010 per Financial Report's disclosure  
44.180 Dec 31, 2010 per Financial Report's disclosure  
43.370 May 31, 2011 per Manila Bulletin  
43.640 Dec 31, 2011 per Philippine Daily Inquirer

Prepared by:

  
SUZETTE VICELLE C. GERONA  
SAE II