**7ELEMENTS WELLNESS CORPORATION**

**Green Field City, Sta. Rosa, laguna**

**NOTES TO FINANCIAL STATEMENTS**

**As of December 31, 2015**

(Amounts in Philippine Peso)

1. ORGANIZATION

7ELEMENTS WELLNESS CORPORATION ( 7ELEMENTS ) was established in accordance with the Corporation Code of the Philippines and registered under the Securities and Exchange Commission with Company Reg. No CS2015512114 in June 22, 2015.

The primary purpose of 7ELEMENTS is to operate and manage spa and to franchise the same with adherence to standards paralleled by result-oriented leadership, thus promoting wellness in a cost effective manner.

The corporation has its principal office in case 2- Second Floor, Unit. No.9, Green Field City, Sta. Rosa, Laguna.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Financial Statement Presentation**

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the Philippines and with the general practices of SMEs as prescribed by authority under the historical cost convention.

**Adoption of New Accounting Standards**

New accounting standards based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) referred to as Philippines Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS) for SMEs respectively are already in effect. The entity will adopt the following relevant new accounting standards to the extent applicable.

* PAS 1 *Presentation of Financial Statements* sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction.  The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.
* PAS 7 *Statement of Cash Flows* requires an entity to present a statement of cash flows as an integral part of its primary financial statements. Cash flows are classified and presented into operating activities (either using the 'direct' or 'indirect' method), investing activities or financing activities, with the latter two categories generally presented on a gross basis.
* PAS 10 *Events After The Reporting Period* contains requirements for when events after the end of the end of the reporting period should be adjusted in the financial statements. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, whereas non-adjusting events are indicative of conditions arising after the reporting period (the latter being disclosed where material).
* PAS 12 *Income Taxes* implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.
* PAS 16 *Property, Plant and Equipment* outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.
* PAS 18 *Revenue* outlines the accounting requirements for when to recognize revenue from the sale of goods, rendering of services, and for interest, royalties and dividends. Revenue is measured at the fair value of the consideration received or receivable and recognized when prescribed conditions are met, which depend on the nature of the revenue.
* PAS 36 *Impairment of Assets* seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). With the exception of goodwill and certain intangible assets for which an annual impairment test is required, entities are required to conduct impairment tests where there is an indication of impairment of an asset, and the test may be conducted for a 'cash-generating unit' where an asset does not generate cash inflows that are largely independent of those from other assets.

**Functional and Presentation Currency**

Items included in the Entity’s financial statements are measured using the currency of the primary economic environment in which the Entity operates (the functional currency). The financial statements are presented in Philippine Peso, which is Entity’s functional presentation currency.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured. The following specific criteria must be met before revenues are recognized:

*Services*. Revenue from services is recognized when the performance of contractually agreed tasks has been substantially rendered.

**Cash**

Cash of the Entity includes cash on hand and in bank.

**Property and Equipment**

Property and equipment are stated at historical cost less accumulated depreciation and provision for impairment.

The initial cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Entity and the cost of item can be measured reliably. Major renovations are depreciated over the remaining useful life of the related asset or the date of the next major renovation, whichever is sooner. All other repairs and maintenance are charged to the consolidated statements of operations during the financial period in which they are incurred. Costs of restoration are charged to statements of operations as incurred based on policy stated above.

Depreciation is computed using the straight line method over the lease period or lives of the asset whichever is shorter.

The asset’s residual value and useful life are reviewed, and adjusted, if appropriate, at each reporting date.

**Impairment of Property and Equipment**

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset’s net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction less the costs of disposals while value in use is the present value of estimated future cash flows expected to rise from the continuing use of an asset from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of operations.

Recovery and impairment losses recognized in prior years are recorded when there is indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statements of operations. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

**Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Entity and the amount of revenue can be reliably measured.

**Cost and Expenses**

Cost and expenses, not directly attributable to capitalize assets or projects, are recognized and charged to operations as incurred.

**Events after Balance Sheet Date**

The Entity identifies events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Entity’s financial position at the balance sheet date are reflected in the financial statements.

Events that are not adjusting events are disclosed in the notes to the financial statements when material.

1. MANAGEMENT’S SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES
   1. **Judgments**

The preparation of the Entity’s financial statements in conformity with Financial Reporting Framework (in reference to the General Accepted Accounting Principles of the Philippines) requires management to make estimates and assumptions that affect the amounts reported in the Entity’s financial statements and accompanying notes. The estimates and assumptions used in the Entity’s financial statements are based upon management’s evaluation of relevant facts and circumstances as of the date of the Entity’s financial statements. Actual results could differ from such estimates. Judgments and estimates are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

* 1. **Estimates**

In the application of the Entity’s policies, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Estimating Useful Lives of Property and Equipment***

Estimated useful lives of property and equipment are determined based on the remaining lease term of the business. The Entity estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of assets. In addition, the estimation of useful lives of property and equipment is based on collective assessment of internal evaluation and expectation experience with similar assets.

It is possible, however, that the future results of operations could be materially affected by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

***Estimating Impairment Losses on Property and Equipment***

The Entity assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Entity considers important which could trigger an impairment review include the following:

* Significant underperformance relative to expected historical or project future operating results;
* Significant changes in the manner or use of the acquired assets or the strategy for overall business; and
* Significant negative industry or economic trends

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Entity is required to make estimates and assumptions that can materially affect the financial statements.

These assets are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate levels and for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to the consolidated statements of operations if the recoverable amount is less than the carrying amount. The recoverable amount of the asset is incurred as the higher of its fair value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When the value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

1. CASH

This account is consists of:

|  |  |
| --- | --- |
|  | 2015 |
| Cash on Hand | 89,913 |
| **Total** | = B2 \# ",0" \\* MERGEFORMAT89,913 |

1. LEASEHOLD IMPROVEMENT

This account is consists of

|  |  |  |  |
| --- | --- | --- | --- |
| 2015 | COST | ACCUMULATED DEPRECIATION | NET BOOK VALUE |
| LEASEHOLD IMPROVEMENTS | 1,463,930 | = B3/2\*2/12 \# ",0" \\* MERGEFORMAT121,994 | = B3-C3 \# ",0" \\* MERGEFORMAT1,341,936 |
| EQUIPMENT | 165,200 | = B4/5\*2/12 \# ",0" \\* MERGEFORMAT5,507 | = B4-C4 \# ",0" \\* MERGEFORMAT159,693 |
| FRANCHISE FEE | 750,000 | = B5/5\*2/12 \# ",0" \\* MERGEFORMAT25,000 | = B5-C5 \# ",0" \\* MERGEFORMAT725,000 |
| TOTAL | = B3+B4+B5 \# ",0" \\* MERGEFORMAT2,379,130 | = C3+C4+C5 \# ",0" \\* MERGEFORMAT152,501 | = D3+D4+D5 \# ",0" \\* MERGEFORMAT2,226,629 |

1. RECEIPTS

7ELEMENTS receipts are from provision of spa activities. These are recognized when collected.

|  | 2015 |
| --- | --- |
| RECEIPTS | = 73855+68015 \# ",0" \\* MERGEFORMAT141,870 |
| TOTAL | = B2 \# ",0" \\* MERGEFORMAT141,870 |
|  |  |

1. COST OF SERVICES

7LEMENTS cost of services are the following:

|  | 2015 |
| --- | --- |
| Laundry Expense | = 8780+24155 \# ",0" \\* MERGEFORMAT32,935 |
| SPA Supplies | = 20480+25202.59 \# ",0" \\* MERGEFORMAT45,683 |
| Training and Seminars | 100,000 |
| Rental | = 91224.96000000001+91224.96000000001 \# ",0" \\* MERGEFORMAT182,450 |
| TOTAL | = B2+B3+B4+B5 \# ",0" \\* MERGEFORMAT361,068 |

1. EXPENSES

This account includes:

|  |  |
| --- | --- |
|  | 2015 |
| Advertising and promotions | = 6000+3120 \# ",0" \\* MERGEFORMAT9,120 |
| Cleaning Supplies | = 820.5 \# ",0" \\* MERGEFORMAT821 |
| Communication | = 1400+500 \# ",0" \\* MERGEFORMAT1,900 |
| Allowances | 48,000 |
| Transportation Expense | = 2153+107 \# ",0" \\* MERGEFORMAT2,260 |
| Uniforms | 111,560 |
| Taxes and Licenses | 38,098 |
| Depreciation Expense |  |
| **Total** | = B2+B3+B4+B5+B6+B7+B8+B9 \# ",0" \\* MERGEFORMAT**211,759** |

9. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company’s capital management objectives are to ensure that the company’s ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services and commensurate with the level of risk. Furthermore, its objective is to ensure that 7ELEMENTS WELLNESS CORPORATION has sufficient funds to support their business, pay existing obligations, and maximize shareholder value.

It monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarized as follows:

|  |  |
| --- | --- |
|  | 2015 |
| Total Liabilities | 1,800,000 |
| Total Equity | 516,542 |
| Total Liabilities & Equity | = B2+B3 \# ",0" \\* MERGEFORMAT**2,316,542** |
| **Debt to Equity Ratio** | = (B2/B3)\*100 \# ",0.00%" \\* MERGEFORMAT348.47% |

10. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance sheet date that would require a disclosure or adjustment on the financial statements of the Entity.

11. SHARE CAPITAL

|  |  |  |
| --- | --- | --- |
|  | **Share Capital** |  |
|  | This account consists of the following: |  |
|  |  | **2015** |
|  |  |  |
|  | Authorized Ordinary Share of 1,000,000 at P1.00 par value |  |
|  | Issued and Outstanding Shares - 1,000,000 |  |
|  | Ordinary Share |  |
|  | Balance, beginning | 1,000,000 |
|  | Changes in capital, net |  |
|  | Balance, end | = C8 \# ",0" \\* MERGEFORMAT1,000,000 |
|  | **Total Share Capital** | **1,000,000** |