

**Statement of  
Financial Accounting Standards  
No. 23**

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Translated by

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**Statement of Financial Accounting Standards No.23**

**Interim Financial Reporting**

**I Introduction**

- (1) This Statement establishes the accounting standards for interim financial reporting and disclosures.
- (2) Interim financial statements, as defined in this Statement, are those prepared on a basis of a period of less than a full year (e.g. month, quarter, or half year) starting from the beginning date of the fiscal year and ending at the balance sheet date of interim financial statements. The content of aforementioned interim financial statements is prescribed in Paragraph 65 of Statements of Financial Accounting Standards No. 1 *Conceptual Framework for Financial Accounting and Preparation of Financial Statements*.

**II Explanation**

- (3) Interim financial statements cover a period of less than a full year. The revenue of some businesses may fluctuate widely among interim periods because of seasonal effects, or larger fixed operating costs incurred in one specific interim period, or random period costs and expenses relating to annual activities that may benefit other interim periods. In such situations, if interim financial statements are prepared on the same basis as annual financial statements, they will be less useful.
- (4) Each interim period must be considered as an integral part of the annual period. Thus, in determining the deferrals, accruals, and estimates for each interim period, the operating results of the rest of

the year should be considered. Therefore, the costs and expenses incurred within an annual accounting period should be allocated among interim periods based upon the estimated beneficial period, sales volume, production volume, or other applicable basis.

- (5) The operating results of an interim period should be measured using the same accounting principles as those adopted for its most recent annual financial statements; however, this is not applicable to a period which involves a change in accounting principle. To improve the relationship between the results of operations for the interim periods and those for the same annual period, modifications of the accounting principles may be required when interim financial statements are prepared.

In preparing interim financial statements, it is appropriate for an enterprise to take into account costs, benefits, and the timeliness in providing such information. In contrast to the preparation of annual financial statements, the use of certain optional accounting methods or relatively more estimations are allowed in the preparation of interim financial statements according to requirements.

- (6) For preparation of interim financial statements, costs and expenses incurred in an interim period may be classified into two types:
- (a) costs and expense directly associated with periodic revenues: costs and expenses that can be directly associated with the products sold or services rendered; and
  - (b) other costs and expenses: all other costs and expenses that do not have direct association with the products sold or services rendered.

### III Accounting standards

#### Revenues

- (7) Revenue from products sold or services rendered during an interim period should be recognized on the same basis as those used for the

annual financial statements. For example, in preparing the interim financial statements, revenue from long-term construction contracts should be recognized on the same basis as those used for the annual financial statements. Expected losses from such contracts should be recognized in full in the financial statements for the current interim period.

#### Costs and expenses

##### *Cost and expenses associated with revenues*

- (8) In preparing interim financial statements, costs and expenses directly associated with products sold or services rendered (e.g. material costs, direct labor costs, manufacturing overhead, and product after-sales service warranty costs), should be recognized in the interim period in which the related revenue is recognized.
- (9) In preparing the interim financial statements, an enterprise should use the same basis of accounting for inventory costs and inventory valuation as that used in the annual financial statements, except for the following situations:
- (a) An enterprise may use the gross profit method or other applicable method different from those used in the annual financial statements for determining the cost of goods sold and ending inventory when interim statements are prepared; however, the method used should be disclosed in the footnotes to financial statements.
  - (b) When the lower-of-cost-or-net-realizable-value method is used for inventory valuation, any loss resulting from a temporary decline in the net realizable value of inventories need not be recognized if it is reasonable to expect that the net realizable value will recover in the same fiscal year. However, if such loss is recognized, then in the subsequent interim period when the inventory net realizable value recovers, then the recovery gain should be recognized to the extent of the credit balance of the provision for value decline.

- (c) When the standard costing system is used, if the material purchase price variance, labor cost variance, quantity variance or efficiency variance, etc. at interim reporting date can reasonably be expected to be offset at the end of the accounting fiscal year end, then such variances should be deferred for interim financial reporting purposes.
- (d) Fixed manufacturing overhead should be evenly allocated over the estimated production for the year. If production fluctuates over interim periods, the cost variances resulting from such fluctuation should be considered as a deferral in the interim statements.

*All other costs and expenses*

- (10) In preparing the interim financial statements, the accounting standards for treating all other costs and expenses are as follows:
  - (a) Costs and expenses can be recognized as incurred, or allocated over interim periods according to estimated period of benefit, actual benefit received, or related activities. Such allocation procedure should follow the same basis as that adopted in the annual statements. However, a specified cost or expense reported in the annual financial statements but which benefits more than one interim period should be allocated to those beneficial interim periods accordingly.
  - (b) The costs and expenses which cannot be specifically associated with other interim period activities or benefits should be recognized as incurred, and the nature and amount of such expenditures should be disclosed. In preparing comparative financial statements for the counterpart interim periods of two consecutive years, if such costs and expenses exist in both interim periods, then no additional disclosure is required.
  - (c) If a gain or loss cannot be deferred for reporting purposes in the annual financial statements, then such gain or loss when

incurred during the interim period cannot be deferred to any subsequent interim reporting periods within the same accounting year.

- (11) Based on the above principles, the costs and expenses for interim financial reporting purposes should be treated as follows.
  - (a) A periodic cost (expense) reported in the annual financial statements and whose period of benefit covers more than two interim periods (e.g. major annual repairs), should be allocated based upon an appropriate ratio.
  - (b) A quantity discount calculated based on annual sales volume (or purchase quantity), should be recognized in each interim period according to the ratio of interim period sales volume (or purchase quantity) to total estimated annual sales (or purchase quantity).
  - (c) Expenses which have been accumulated over time, such as interest, rent, property taxes, etc., should be estimated and accrued at the interim financial reporting date based upon the same principles adopted in preparing the annual financial statements.
  - (d) Advertising expenses may be deferred, depending upon whether or not the related benefits extend to future interim periods. In principle, estimated advertising expenses for the entire year cannot be equally allocated to each interim period. However, if the advertising plan is clearly associated with a specific sales arrangement, the advertising costs may be accrued to each respective interim period relating to the sales in accordance with the matching principle, and should also be disclosed in the accounting policies footnote. The difference between the estimated and actual advertising costs should be recognized as accrued or prepaid advertising expenses at the interim reporting date. At the end of the accounting year, the balance in accrual or prepaid advertising expenses, if any, should be offset against the advertising expenses.

- (12) The periodic costs and expenses subject to year-end adjustments, such as losses on inventory shortages, year-end bonuses, etc., should be estimated and adjusted at the interim reporting date. Such estimated adjustments should be allocated to each interim period on an appropriate basis.

#### **Seasonal revenue, costs, or expenses**

- (13) For those enterprises with revenues being subject to significant seasonal effects, in order to avoid using the interim period operating results as a basis for estimating the operating results for the entire year, the interim financial statements should disclose the nature of the seasonal factors, and if necessary, also disclose relevant information cumulatively for the twelve months prior to the interim reporting date for the current and prior years.

#### **Income tax provisions**

- (14) In preparing interim financial statements, the computation of income tax expenses or benefits should follow the provisions set forth in the Statements of Financial Accounting Standards No.22 *Income Taxes*.
- (15) Deleted
- (16) Deleted
- (17) Deleted

#### **Discontinued gains or losses, extraordinary items, and contingencies**

- (18) Discontinued gains or losses and extraordinary items should be recognized in the interim period when they occur and be disclosed separately in the financial statements. In assessing the materiality of an extraordinary item, the estimated pre-tax income for the full fiscal year should be used as the basis for consideration. In addition, the effects resulting from unusual seasonal factors, business combinations using pooling of interest method, and acquisition of a significant business segment should be properly disclosed.

Discontinued gains or losses and extraordinary items should not be prorated over the subsequent interim periods of the fiscal year.

- (19) Contingencies and other uncertainties that may affect the fair presentation of an interim financial report should be properly disclosed in the interim financial statements for which the accounting treatment should be the same as the one applied when preparing annual reports. Such disclosures must continue to be reported in subsequent interim and annual financial statements until the uncertainties have been removed, or have become immaterial.

#### **Accounting changes and prior period adjustments**

- (20) If the accounting principles or methods used are different from those applied in the same interim period of the preceding year or the preceding interim period of the current year, such changes should be accounted for in accordance with the Statement of Financial Accounting Standards No. 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, and properly disclosed in the interim financial statements when incurred.
- (21) If it is difficult to determine the cumulative effect of a change in accounting principle, such cumulative effect can be ignored. However, disclosure is required of the effects on net income resulting from such a change in accounting principle for the same interim period of the preceding year and for the current period up to the interim report date, and the reasons for such difficulties.
- (22) The effect of a change in an accounting estimate should be accounted for in the period in which the change is made, and the previous interim financial reports need not be restated. If such an effect is material and significantly affects the earnings of subsequent interim periods, then the effect of such a change on 'Income (loss) from continuing operations' and 'Current net income (loss)', and related amounts per share must be disclosed in the current and subsequent interim reports.
- (23) If an event occurs during the interim period that involves a prior

period adjustment, then an adjustment to the beginning balance of retained earnings is required and the nature of the adjustment should be disclosed. In addition, the financial statements for each of the prior interim period should be restated if comparative interim financial reports are prepared. If the prior period adjustment relates to an error, the effects on earnings of the interim period during which the error occurred should be disclosed. If the prior period adjustment relates to a change in the reporting entity or a change in an accounting principle as defined in Paragraph 18 of the Statement of Financial Accounting Standards No.8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the effects on earnings of each interim period should be disclosed.

#### **Long-term equity investments under the equity method**

(24) When an investor company holds between 20% to 50% of the voting shares of an investee company (with significant influence), then the equity method is not required in preparing its first and third quarter interim financial statements. However, it is required to disclose its nature in the footnotes to the financial statements. The equity method must be applied for an investment with more than 50% (considered controlling interest) of the investee company's outstanding voting common shares are held by the investor company.

#### **Pension and segment reporting**

(25) In preparing the interim financial statements, an enterprise is not required to follow the principles outlined in the Statements of Financial Accounting Standards No. 18, *Accounting for Pensions* and the Statement of Financial Standards No. 20, *Segment Reporting*. However, when there is a significant change in the segment revenue composition, the enterprise should disclose the revenues and operating results for each segment in the footnotes to the interim financial statements.

#### **Interim financial statements for each separate quarter**

(26) Interim financial statements required for each separate quarter

should follow the provisions prescribed by this Statement, except for the following conditions:

- (a) An event that relates to the first item of paragraph 9 of this Statement, of which the differences must be disclosed in the annual or semi-annual financial statements, respectively.
- (b) (deleted)
- (c) The cumulative effect from a change in an accounting principle which occurred in the first quarter, is required to be recognized in the first quarter. If such accounting change occurs after the first quarter, it should be considered as an accounting change occurring at the beginning of the first quarter; thus, the interim financial statements prior to the quarter in which the change occurred are required to be restated using the new accounting principle. If the cumulative effect of a change in accounting principle cannot be determined, and if the change occurs in a quarter other than the first quarter, then the interim financial statements for prior quarters of the current year should be restated. The nature of the accounting change should be disclosed in the interim financial statements for the first quarter of the current year.
- (d) If a change in an accounting principle occurs other than within the first quarter and whose cumulative effect should be recognized, then the interim financial statements for the period when such change occurs should disclose the following:
  - (i) The effect of the accounting change on 'Income (loss) from continuing operations' and 'Net income (loss)', and related per share amounts for each interim period in the same fiscal year prior to the change.
  - (ii) The pro forma 'Income (loss) from continuing operations', 'Net income (loss)' and related per share

amounts for each interim period of the preceding fiscal year. But if the interim financial statements to which an accounting change relates do not include the financial information for the interim periods of the preceding fiscal year, then the actual and pro forma information regarding 'Income (loss) from continuing operations' and 'Net income (loss)' and related per share amounts should be disclosed for the counterpart interim period of the preceding fiscal year.

- (e) The comparative interim financial statements shall include the statements of this interim period and those of the same interim period in the preceding fiscal year. In addition, disclosure is required of the 'Income (loss) from continuing operations' and 'Net income (loss)' and related per share amounts for the period from the beginning of this fiscal year to the end of the interim reporting period.

#### **IV Notes**

- (27) This Statement was issued on February 23, 1995, and was revised on July 29, 1999. The revised Statement shall be effective for financial statements with fiscal years ending on or after December 31, 2000. Early adoption is encouraged.

Upon adoption of the revised provisions of this Statement, the financial statements previously prepared under the original provisions of this Statement need not be restated.

The provisions of this Statement need not be applied to immaterial items.
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