

**Statement of
Financial Accounting Standards
No. 19**

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Financial Accounting Standards Committee

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Development Stage Accounting

I Introduction

- (1) This Statement establishes the accounting standards to be followed by development stage businesses.

II Explanation

- (2) The term development stage refers to an enterprise that is devoting its efforts to establishing a new business and either of the following conditions exists:
- (a) Planned principal operations have not commenced.
 - (b) Planned principal operations have commenced, but there has been no significant revenue generated.
- (3) In addition to engaging in establishing a new business, a development stage enterprise typically devotes its efforts to activities such as financial planning, capital raising, exploring and developing natural resources, research and development, expanding sources of supply, acquiring property, plant and equipment, or other operating assets, such as mineral rights, employee recruiting and training, market surveys and development, and start-up production.
- (4) Organization costs are costs incurred during the development stage that are required to establish the enterprise, which include such

items as compensation provided to promoters, fees paid to attorneys and CPAs, registration fees paid to the government, costs of promoters' or founders' meetings, and other costs directly related to establishing the enterprise.

Costs incurred during the development stage that are unrelated to the establishment of the enterprise, such as those related to employee recruiting and training, market surveys, expanding sources of supply, and consulting service are not organization costs. Similarly, costs incurred to establish branch offices are not considered organization costs.

- (5) The incurrence of organization costs makes possible the establishment and operating activities of an enterprise. However, the future economic benefits to the enterprise cannot be clearly identified. Therefore, organization costs are recognized as expenses when they are incurred.
- (6) When generally accepted accounting principles are not followed during the development stage and the enterprise capitalizes expenditures that should not have been capitalized, a misunderstanding is likely to result on the part of financial statement users with respect to the nature of the development stage costs incurred. To minimize such misunderstanding, the same generally accepted accounting principles that are used by an established enterprise should be used by a development stage enterprise when preparing financial statements. However, in order to provide useful financial information, full disclosure of the related costs on a current and cumulative basis is necessary.

III Accounting standards

- (7) Organization costs should be expensed as incurred. They should not be deferred and amortized.
- (8) The accounting principles used by an enterprise to account for transactions taking place during its development stage shall be the

same as those applicable to an established enterprise.

- (9) The following financial statements and supplementary information should be provided by development stage enterprise:
 - (a) Balance sheet: In the event of cumulative net losses, the cumulative losses should be reported under the caption of *Deficit accumulated during the development stage* in the stockholders' equity section.
 - (b) Income statement: The income statement should report on the current period revenue and expenses, and the revenue and expenses on a cumulative basis since the enterprise's inception.
 - (c) Statement of cash flows: The statement shows cash flows resulting from operating, investment, and financing activities for the current period and on a cumulative basis from the enterprise's inception.
 - (d) Statement of stockholders' equity: The statement shows the following information from the enterprise's inception:
 - (i) for each issuance, explanation as to the number of shares and issuance terms relating to stock, stock rights, warrants, or other equity securities issued;
 - (ii) for each issuance, the dollar amounts of cash or non-cash assets received for issuing equity securities (including total issue price and per share issue price); and
 - (iii) in the event that stock is issued for non-cash assets, the nature and valuation basis of the assets received.

When comparative financial statements are presented, the foregoing supplementary financial information can be omitted for the prior years' financial statements contained therein.

- (10) The financial statements issued during the development stage should be labeled as such in the headings of the financial statements. In addition, the nature of the developmental activities should be stated in a footnote.
- (11) If the development stage ends sometime during an accounting period, the supplementary information mentioned in paragraph 9(a) need not be disclosed in the current period's financial statements. It is, however, necessary to describe the nature of the developmental activities, to disclose the portion of the current period's revenue and expenses that should be treated as development stage revenue and expenses, and to disclose the revenue and expenses on a cumulative basis from the enterprise's inception. Except for the balance sheet, the financial statements should show the date of the development stage period within the statement headings.
- (12) Following the conclusion of the development stage, when comparative financial statements are prepared for the next accounting year, the supplementary information mentioned in paragraphs 9 or 11 need not be provided for the prior years' financial statements included therein.
- (13) The standards formulated here should be followed for parent companies in the development stage that prepare consolidated financial statements. However, if it is the subsidiary that is in the development stage and its cumulative deficit is material, the nature of the developmental activities, the portion of the current period's revenue and expenses that should be treated as development stage revenue and expenses, and revenue and expenses on a cumulative basis from the enterprise's inception should all be disclosed in the footnotes.

IV Notes

- (14) This Statement was first issued on June 11, 1992, and was revised on March 21, 2002. The revised Statement will apply to financial statements prepared for accounting periods ending December 31,

2002 and thereafter. Earlier adoption of this Statement is permitted.

For enterprises having adopted this Statement, the unamortized balance of the organization costs recorded on the books should be expensed when applying this revised Statement.

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