Statement of
Financial Accounting Standards
No. 1

Revised on 20 July 2006

Translated by

Chung- Yuan Hsu, Professor
(National Chengchi University)

Financial Accounting Standards Committee

Statement of Financial Accounting Standards No.1

Conceptual Framework for Financial Accounting and Preparation of Financial Statements

Introduction

Accounting is a service-providing activity. It arises out of economic needs, improves with the development of business and is influenced by the economic environment. Accounting theories have been updated and expanded at an impressive speed for recent decades, demonstrating the dynamic and ever-changing nature of accounting.

Recognizing that the fulfillment of the function of accounting depends on well-developed accounting principles, the Financial Accounting Standards Committee in 1982 decided to revise "The Generally Accepted Accounting Principles" previously published by the Review Committee for Accounting Issues. After incorporating the most recent accounting theories and practices, the Committee completed the first statement of financial accounting standards and believes that this new statement will improve accounting practice and enhance the accounting function.

After this Statement was first published in 1982, accounting theory continues to mature and international accounting principles increasingly converge. Therefore, we must now review this Statement, and refer to the conceptual framework and International Financial Reporting Standards issued by the International Standards Board as a guideline for our Committee's development and interpretation of the accounting principles, and to facilitate the users of financial statements in understanding and applying the accounting principles. In addition, this Statement has been renamed "Conceptual Framework for Financial Accounting and Preparation of Financial

Statements", in order to be consistent with its contents.

This Statement contains the conceptual framework for financial accounting and the preparation of financial statements, including:

Ⅰ Purpose of financial statements.

Ⅱ Basic assumptions of financial statements.

Ⅲ Qualitative characteristics of financial statements.

Ⅳ Definition, recognition, and measurement of the elements of financial statements.

Ⅴ Concepts of capital and capital maintenance.

Ⅵ Preparation of Financial statements.

I Purpose of Financial Statements

(1) Business accounting should provide factual reporting of a business' financial position, performance and changes in financial position in order to achieve the following objectives:

(a) to assist the users of financial statements to make investment, lending and other economic decisions;

(b) to assist the users of financial statements to evaluate the amount, timing, and risk of future cash flows that will be received from their investment and lending decisions;

(c) to report on the economic resources of a business, claims against economic resources, and changes in such economic resources and claims;

(d) to report on the performance of a business;

(e) to report on the liquidity, solvency and cash flows of a business;

(f) to assist the users of financial statements to evaluate business management's resource utilization responsibility and performance results;

II Basic Assumptions of Financial Statements

Accrual Basis

(2) In order to achieve the purposes of financial reporting, an enterprise should prepare its financial statements under the accrual basis. Under this basis, transactions and other events are recognized when they occur (and not as cash or its equivalents is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transaction involving the payment and receipt of cash, but also of obligation to pay cash and of right to receive cash in the future. Accordingly, the information is most useful in assisting the users to make economic decisions.

(3) Under the accrual basis of accounting, the expenses and the revenue of a specific item should be recognized in the income statement at the same period according to the matching principle.

Going Concern

(4) Financial statements are normally prepared on the assumption that an enterprise is a going concern; if it has the intention to or must liquidate its operation, then the financial statements should be prepared on a different basis (e.g., valuation based on the liquidated value). When management is aware of material uncertainties that may cast significant doubt upon the enterprise's ability to continue as a going concern, those

uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which it is prepared on and the reason why the enterprise is not considered to be a going concern.

(5) In assessing whether the going concern assumption is appropriate, management should take into account all available information at least twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an enterprise has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases management may need to consider a wide range of factors surrounding current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

III Qualitative Characteristics of Financial Statements

(6) Qualitative characteristics are the attributes that make the information provided in financial statements useful to users in making economic decisions. The principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

(7) An essential quality of information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business, economic activities and accounting, they are also assumed to be willing to study the information with reasonable diligence. However, information concerning complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users

should not be excluded merely on the ground that it may be too difficult for certain users to understand.

Relevance

(8) Information must be relevant to the decision-making needs of users. Information with the quality of relevance can help the users in evaluating past, present, or future events or confirming or correcting past evaluations and thus affects their economic decisions.

(9) The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of assets has value to users when they endeavor to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situations. The same information plays a confirmatory role in respect of past predictions about the way in which the enterprise would be structured or the outcome of planned operations.

(10) Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payment, security price movements and the ability of the enterprise to meet its commitment as they fall due. To have predictive value information needs not be in form of an explicit forecast. The ability to make predictions from financial statements is enhanced, also, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.

Materiality

(11) The relevance of information is affected by its nature and

materiality. In some cases, the nature of information is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the enterprise irrespective of the materiality of the result achieved by the new segment in reporting period. In other cases, both the nature and materiality are important, for example, the amounts of inventories held in each of the main categories that are appropriate to the business.

(12) If the absence or misstatement of the information can affect the basis on which users of the financial statement make economic decisions, then the information is material. The level of materiality depends on the impact it has if the information is absent or misstated. The materiality of information is only a threshold or cut-off point, and not the primary quality characteristic for the information to be useful.

(13) Financial statements result from grouping large quantities of transaction according to their nature or function. Each material item should be presented separately in the financial statements. Immaterial items of similar nature or function may be aggregated when presented, but should still be disclosed separately in the footnotes based upon their relative importance.

Reliability

(14) Information must be reliable to be useful. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to faithfully represent what it is expected to represent. For example, a balance sheet should faithfully represent the assets, liabilities and owner's equity that result from transactions and events.

(15) Information may be relevant but unreliable, which can cause its recognition to be misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the enterprise to recognize the full

amount of the claim in the balance sheet; instead, it may be appropriate to disclose the amount in the footnotes.

Faithful Representation

(16) Faithful representation is when financial reporting fully corresponds with the actual transactions and events.

(17) Financial information is subject to some risk of being not a completely faithful representation. This is not due to bias, but rather to inherent difficulties either in identifying or measuring the transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that enterprises generally would not recognize them in financial statements. For example, although an enterprise generates goodwill internally over time, it is difficult to reliably measure the amount, thus it would not be recognized in the financial statement. In other cases, however, it may be relevant to recognize items and to disclose the risk of error surrounding their recognition and measurement.

Substance Over Form

(18) When the economic substance of a transaction deviates from its legal form, the accounting treatment should be based on the economic substance.

Neutrality

(19) In order for information to be reliable, the information should be neutral, i.e. free from bias. Financial statements are not neutral if, by selected presentation, they influence the decision-making or judgment of users in order to achieve a predetermined outcome.

Prudence

(20) The preparers of financial statements have to deal with the

uncertainties that surround transactions or events, such as the collect ability of accounts receivable, the useful life of plant and equipment, and the number of warranty claims that may occur. Such uncertainties should be recognized in the financial statements by the disclosure of its nature and extent, and by prudent measurement. Prudence is the degree of caution that is needed in different conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. The exercise of prudence, however, does not allow creating excessive provisions, deliberately understating assets or income, or deliberately overstating liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Completeness

(21) To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. Omission of information may cause the information to be false or misleading to users, and thus lose its reliability and relevance.

Comparability

(22) The financial effects of similar transactions and events of an enterprise should be measured and presented in a consistent way through time, in order to facilitate users in comparing the financial statement of the enterprise over time and in identifying trends in its financial position and performance. Different enterprises should also have consistency in the measurement and presentation of transactions and events, in order for users to be able to compare their financial statements, evaluate their relative financial position, performance and changes in financial position.

(23) An important implication of the qualitative characteristic of comparability is that users be informed of the accounting policies employed in the preparation of the financial statements,

any changes in those policies and the effects of such changes. Therefore, users are able to identify the difference between the accounting policies applied for similar transactions and events used by the same enterprises from period to period and by different enterprises. Preparing financial statements in compliance with Financial Accounting Standards, including disclosing the accounting policies used by the enterprise, helps to achieve comparability.

(24) The consistency for financial statements of an enterprise over time should not be confused with inability to change. If the original accounting policy lacks the quality of reliability or relevance, then consistent and continued application of this policy cannot improve comparability. When more relevant and reliable alternatives of accounting policy exist, the need for comparability should not become an impediment to the introduction of improved accounting standards.

(25) In order for users to compare the financial positions, performances and changes in financial positions, an enterprise is required to prepare comparative financial statements and their footnotes for two consecutive periods, with the exception of a newly formed enterprise.

Constraints on Relevant and Reliable Information

Timeliness

(26) Delay in the reporting of financial information may cause it to lose its relevance. Therefore management should balance the relative merits of timely reporting and the provision of reliable information. Information provided on a timely basis is often reported before all aspects of a transaction are clear, thus impairing reliability. Conversely, if reporting is delayed until all aspects are clear, the information may be highly reliable but of little relevance to the users who have had to make decisions in the interim. In order to achieve a balance between reliability and

timeliness, the overriding consideration is how best to satisfy the need of the economic decision-making users.

Balance Between Benefit and Cost

(27) The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. The benefit derived from the information should exceed the cost of providing it. The evaluation of benefits and costs is actually a judgmental process. The costs do not necessarily fall on those users who enjoy the benefits, and users other than those for whom the information is prepared may also enjoy the benefits. For these reasons, it is difficult to apply a cost-benefit test in any particular case. Nevertheless, standard-setters in particular, as well as the preparers and users of the financial statements, should be aware of this constraint.

Balance Between Qualitative Characteristics

(28) The tradeoff between qualitative characteristics is often necessary to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

IV Definition, Recognition, and Measurement of the Elements of Financial Statements

(29) Financial statements portray the financial effects of transactions and events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the balance sheet are assets, liabilities and equity. The elements directly related to the measurement of performance in the income statement are income and expenses. The statement of cash flows and the statement of changes in owners' equity usually reflect the changes in elements of the income statement and the balance

sheet; therefore, this Statement will not identify elements that are unique to those statements.

(30) The presentation of these elements in the balance sheet and in the income statement needs a process of sub-classification, in order to assist the users in making economic decisions.

Financial Position

(31) The elements directly related to the measurement of financial position are assets, liabilities and owners' equity. These are defined as follows:

(a) An asset is a resource controlled by the enterprise as a result of past transactions and events and from which future economic benefits are expected to flow to the enterprise.

(b) A liability is a present obligation of the enterprise arising from past transactions and events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

(c) Owners' equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

(32) In assessing whether an item meets the definition of asset, liability, or owners' equity, attention needs to be given to its underlying substance not merely its legal form. For example, in the case of finance leases, the substance and economic reality are that the lessee acquires the economic benefits of the use of the leased asset for the major part of its useful life in return for entering into an obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge. Hence, the financial lease gives rise to items that satisfy the definition of an asset and a liability and are recognized as such in the lessee's balance sheet.

Assets

(33) The future economic benefit of an asset is the potential to contribute directly or indirectly to the flow of cash and cash equivalents to the enterprise. The potential may be a productive resource for the operating activities of the enterprise, or a capability to convert into cash or cash equivalents or to reduce cash outflows.

(34) An enterprise usually employs its assets to produce goods or services capable of satisfying the customers' wants or needs, for which the customers are willing to pay cash or cash equivalents.

(35) The future economic benefits of an asset may flow to the enterprise in a number of ways. For example, an asset may be:

(a) used singly or in cooperation with other assets to produce goods or services for sale;

(b) exchange for other assets;

(c) used to settle a liability;

(d) distributed to the owners of the enterprise.

(36) Many assets have a physical form, for example, property, plant and equipment. However it is not necessary for an asset to have a physical form. For example, patents and copyrights are assets if future economic benefits are expected to flow from them to the enterprise and if they are controlled by the enterprise.

(37) Many assets such as receivables, land, and property are associated with legal rights, including the right of ownership. However ownership rights are not essential to the determination of an asset. For example, properties held on capital lease are the assets of the lessee.

(38) The assets of an enterprise result from past transactions. Assets are usually purchased or produced by an enterprise, but other transactions may generate assets. For example, assets could be received from the government for encouraging economic growth. Transactions or events expected to occur in the future do not give rise to assets, for example, an intention to purchase inventory does not, in itself, meet the definition of an asset.

(39) There is a close relationship between recognizing assets and incurring expenditure, but the two do not necessarily coincide. When an enterprise incurs expenditure, this may provide evidence that future economic benefits are sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, recognizing an asset does not necessarily require incurring expenditure; for example, an enterprise may receive an asset from donation.

Liabilities

(40) A liability is a present obligation that should be performed in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement, such as the obligation to pay for goods and services received. Obligations may also arise, however, from normal business practice, custom and a desire to maintain good business relation or act in an equitable manner. For example, if an enterprise decides to rectify faults in its products for no charge even when the warranty period has expired, the amount in respect of rectification that is expected to incur beyond the warranty period is a liability.

(41) A distinction needs to be drawn between a present obligation and a future commitment. An obligation is usually created when an asset is received and not when the enterprise only intends to acquire an asset in the future. An obligation may be caused by an irrevocable contract to acquire an asset. The irrevocable

nature of a contract means that the economic consequence of failing to honor the obligation is significant. For example, the penalty included in the contract is so substantial that the enterprise has little discretion, if any, to avoid the outflow of economic resources flow to another party.

(42) The settlement of an obligation usually occurs in the following ways:

(a) payment of cash;

(b) transfer of other assets;

(c) provision of services;

(d) replacement of that obligation with another obligation; or

(e) conversion of the obligation into equity.

An obligation can also be extinguished by other means, such as a creditor waiving or forfeiting its rights.

(43) Liabilities include affirmative liabilities and estimated liabilities. Examples of estimated liabilities include provisions for warranty payments and pension liability under defined pension plan.

Owners' Equity

(44) Owners' equity includes capital (stock capital), additional capital in excess of par, retained earnings (accumulated deficit), and other items required to be directly recognized under owners' equity according to the Statements of Financial Accounting Standards (including the Interpretations). Such classifications can be relevant to the decision-making needs of the users of financial statements since they indicate legal or other restrictions on the ability of the enterprise to distribute or otherwise apply

its equity. They may also reflect the differing rights of owners to receive dividends or return of capital.

Operating Results

(45) Profit is usually used as the measure of performance or as the basis for other measures (such as the rate of return on investment or earnings per share). The structural elements of profit include income and expenses. The recognition and measurement of income and expenses is related to the adoption of capital and capital maintenance concept discussed in paragraph 63 of this standard.

(46) Distinguishing between items of income and expenses and combining them in different ways also permit several measures of enterprise performance to be presented. For example, the income statement could present gross margin, profit from continuing operation before taxation, profit from continuing operation after taxation, and net profit.

Income

(47) Income refers to increases in economic benefits during the accounting period in the form of inflow of assets, increases in asset value, or decreases in liabilities that result in increases in equity, other than those relating to investment by owners. Income includes revenue and gains. Revenue includes sales, interest, dividends, royalties and rent. Gains include those arising on the disposal of non-current assets, unrealized foreign exchange gains and unrealized gains arising on financial instruments. Gains represent increases in economic benefits and as such are no different in nature from revenue. When gains are recognized in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Gains are often reported net of related expenses.

Expenses

(48) Expenses refer to decreases in economic benefits during the accounting period in the form of outflow of assets, depletion of assets, or increases in liabilities that result in decreases in equity, other than those relating to distributions to owners. Expenses include expenses and losses. Expenses include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow of assets (such as cash and inventory) or depletion of assets (such as plant and equipment). Losses include those resulting from typhoon or fire disasters, disposal of noncurrent assets, unrealized foreign exchange loss and unrealized losses arising on financial instruments. Losses represent decreases in economic benefits and as such are no different in nature from other expenses. When losses are recognized in the income statement, they are usually displayed separately because knowledge of them is useful for the purpose of making economic decisions. Losses are often reported net of related income.

Recognition of the Elements of Financial Statements

(49) Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition. It involves the depiction of the item in words and by a monetary amount. Items that satisfy the recognition criteria should be recognized in the balance sheet or income statement and should not be rectified or replaced by footnotes or other disclosure methods.

(50) An item that meets both of the following criteria should be recognized if:

(a) it is probable that future economic benefit associated with the item will flow to or from the enterprise; and

(b) the cost or value of the item can be reliably measured.

(51) When deciding whether a certain item matches the definition and recognition criteria of elements of financial statements, the materiality defined in paragraph 11 to paragraph13 of this Statement should be taken into consideration.

(52) Items in the financial statements are related to each other, thus, when a certain item is recognized, another item will be recognized at the same time. For example, when an asset is recognized, a revenue or liability will be recognized.

The Probability of Future Economic Benefits

(53) The concept of probability refers to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the enterprise. Assessments of the degree of uncertainty are made on the basis of all evidences available when the financial statements are prepared. For example, it is rational to recognize a receivable as an asset, when it is probable that the receivable will be collected. After recognition, if the receivable is partially uncollectible, the decrease in the expected economic benefits should be recognized as an expense.

Reliability of Measurement

(54) In some cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. The item should not be recognized in the balance sheet or income statement if it cannot be reasonably estimated. For example, the expected proceeds from a lawsuit may meet the definitions of both an asset and income as well as the probability criterion; however, if the claim cannot be measured reliably, it should not be recognized as an asset or as income, but should be disclosed in the footnotes.

(55) An item that possesses the essential characteristics of an element but fails to meet the criteria for recognition may nonetheless

warrant disclosure in the footnotes, when knowledge of the item is considered by the users of financial statements to be relevant to the evaluation of the financial position, performance, and changes in financial position.

Recognition of Assets

(56) Assets should be recognized on the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be reliably measured. If expenditure has been incurred for which it is considered improbable that future economic benefits will flow to the enterprise, then it should not be recognized on the balance sheet as an asset but should be recognized in the income statement as an expense.

Recognition of Liabilities

(57) A liability is recognized in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be reliably measured. In practice, an obligation that has to be performed by both parties concurrently is not recognized as a liability prior to its performance; for example, a future inventory purchase contract. However, such obligations may meet the recognition criteria in particular circumstances and need to be recognized as liabilities. In such circumstances, recognition of liabilities entails the recognition of related assets or expenses. Recognition of liabilities should be based upon reasonable estimation of the amount.

Recognition of Income

(58) Income is recognized in the income statement when an increase in future economic benefits can be measured reliably. The recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities. For

example, the sale of goods or provision of services will result in net increase in assets or decrease in liabilities.

Recognition of Expenses

(59) Expenses are recognized in the income statement when a decrease in future economic benefits can be measured reliably. The recognition of expenses occurs simultaneously with the recognition of decrease in assets or increase in liabilities. For example, the accrual of salary expense results in an increase in liabilities, and the depreciation of equipment results in a decrease in assets.

(60) Expenses are usually recognized at the same time with the directly related income. When economic benefits are expected to arise over several accounting periods and the association with income can be only broadly or indirectly determined, expenses are recognized in the income statement on the basis of systematic and rational allocation procedures. The using up of assets should be recognized as expense, such as property, plant, and equipment, patents and trademarks, and is referred to as depreciation or amortization.

If expenditure does not produce future economic benefit, or its future economic benefit does not meet the asset recognition criteria, it should be recognized in the income statement as expense.

Measurement of the Elements of Financial Statement

(61) Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement, including selection of the particular basis of measurement. The basis of measurement of the elements of financial statements includes:

(a) Historical Cost: The historical cost of an asset is the amount of cash or cash equivalents paid or the fair value of the consideration given at the time of its acquisition. The history cost of a liability is the amount of proceeds received in exchange for the obligation, or in some circumstances (e.g., income taxes) at the amount of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.

(b) Current Cost (replacement or reproduction cost): The current cost of an asset is the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. The current cost of a liability is the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

(c) Realizable Value: The realizable value of an asset is the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. The realizable value of a liability is the undiscounted amount of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.

(d) Discounted Present Value: The discounted present value of an asset is the amount of future net cash inflows that the asset is expected to generate in the normal course of business. The discounted present value of a liability is the amount of future net cash outflows that is expected to be required to settle the liabilities in the normal course of business.

(62) When an enterprise prepares its financial statements, it usually uses the historical cost as the basis of measurement. However, it may also be combined with other measurement bases. For example, inventories are usually measured at the lower of cost and net realizable value, and pension liabilities are measured at

their discounted present value.

V Concepts of Capital and Capital Maintenance

(63) An enterprise should prepare financial statements on a concept of financial capital basis; the financial capital is the invested amount measured in monetary unit, which is the owners' equity. Under this concept a profit is earned only if the financial amount of the net assets at the end of the period exceeded the financial amount of net assets at the beginning of the period, after adjusting for any distributions to and contributions from owners, and other direct charges to owners' equity during the period. Otherwise a net loss is occurred for the period.

(64) The holding gains resulting from increases in the prices of assets held over the period are conceptually profits. But they should not be recognized until the profit recognition criteria are met.

VI Preparation of Financial Statements

(65) The contents of financial statements include the following statements and related footnotes:

(a) Balance Sheet;

(b) Income Statement;

(c) Statement of Changes in Owners' (Stockholders') Equity;

(d) Statement of Cash Flows.

(66) The reporting entity and the name of the financial statements should be clearly presented. The following items should be clearly displayed to give users a clear understanding of the information:

(a) the name of the reporting entity;

(b) whether the financial statements cover an individual enterprise or a group of enterprises;

(c) the balance sheet date or other reporting period covered by the financial statements;

(d) the reporting currency of the financial statements;

(e) the numerical units presented in the financial statements.

(67) Financial statements should be presented at least annually. When, in exceptional circumstances, an enterprise's balance sheet date changes and the annual financial statement are longer or shorter than a one-year period, the enterprise should disclose, in addition to the period covered by the financial statements, the following items:

(a) the reason for change in balance sheet date for a period other than one year being used;

(b) the fact that comparative amounts for the income statement, statement of changes in equity, statement of cash flows, and related footnotes are not directly comparable.

The Balance sheet

The Distinction between Current and Non-current

(68) Assets and liabilities should be properly classified on the balance sheet. Current or noncurrent assets and current liabilities or noncurrent liabilities should be clearly separated except for special industry when such classification is inappropriate. When the assets and liabilities are not separated into current and noncurrent, they should be reported in the order of their relative liquidity.

(69) Regardless of whether the distinction of current and noncurrent assets and liabilities is made or what classification criteria for such distinction is adopted, an enterprise should present on the financial statements or disclose in the footnotes for each asset and liability item that combines amounts expected to be recovered or settled during twelve months after the balance sheet date and the amounts expected to be recovered or settled after more than twelve months.

Current Asset

(70) An asset should be classified as a current asset, when it:

(a) is expected to be realized in, or is intended for sale or consumption in, the enterprise's normal operating cycle;

(b) is held primarily for the purpose of trading;

(c) is expected to be realized within twelve months after the balance sheet date; or

(d) is cash or a cash equivalent (as defined in SFAS 17 " Cash Flow Statements") unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.

All other assets should be classified as non-current assets.

(71) The operating cycle of an enterprise is the time period that starts from the acquisition of assets, entering into the production process, and ending with the realization in cash. When the enterprise's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Assets such as inventory and accounts receivable are classified as current assets, if their sale, consumption and realization is part of the normal operating cycle even when they are not expected to be realized

within twelve months of the balance sheet date. Assets such as available-for-sale financial assets are classified as current assets if they are expected to be realized within twelve months of the balance sheet date; otherwise they are classified as non-current assets.

Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with SFAS 34 "Financial Instruments: Recognition and Measurement") and the current portion of non-current financial assets.

(72) When the use of cash and cash equivalent is restricted for any reason, the restrictions should be properly disclosed in the footnotes to the financial statements. The cash contained in a fund should not be classified as a current asset unless it is exchanged or used to settle a liability within twelve months of the balance sheet date.

Accounts and notes receivable should be valued at an amount net of estimated allowance for uncollectible accounts. Accounts and notes receivable resulting from operating activities should be separated from other receivables and notes that result from non-operating activities. Receivables and notes due from related parties should be separately disclosed.

Inventories should be measured at the lower of cost and net realizable value and the cost computation method should also be disclosed. Losses due to a decline in the market value of inventories should be included in current earnings.

Current Liability

(73) A liability should be classified as a current liability when it:

(a) is expected to be settled in the enterprise's normal operating cycle;

(b) is held primarily for the purpose of trading;

(c) is due to be settled within twelve months after the balance sheet date; or

(d) the enterprise does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities should be classified as non-current liabilities.

(73-1) An enterprise classifies its financial liabilities as current when they are due to be settled within twelve months after the balance sheet date, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

(74) Accounts and notes payable resulting from operating activities should be separated from other accounts and notes payable that result from non-operating activities. Accounts and notes payable to related parties should be appropriately disclosed.

Non-Current Asset

(75) Fixed assets are assets used in operations that are long-term in nature. Those assets not used in operations should be classified as long-term investments or other assets based on their respective nature.

Within the fixed asset classification, land, depreciable assets and depletable natural resources should be presented separately.

With few exceptions, fixed assets should be recorded at either their acquisition costs or construction costs. Construction costs include direct costs, allocated indirect costs, taxes and other necessary costs to complete the construction process.

One or more items of fixed assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of fixed assets is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an enterprise cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Donated assets should be recorded at their fair values at the time of the acquisition.

(75-1) An enterprise determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(b) the entity-specific value of the portion of the enterprise's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the enterprise's operations affected by the transaction shall reflect post-tax cash flows.

SFAS 1

(75-2) The fair value of an asset for which comparable market transactions do not exist is reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If an entity is only able to determine reliably the fair value of the asset given up, then the fair value of the asset given up is used to measure cost. Similarly, if an entity is only able to determine reliably the fair value of the asset received, then the fair value of the asset received is used to measure cost. If an enterprise is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

(76) The accumulated depreciation of depreciable assets and the accumulated depletion of natural resources should be presented as deductions to their respective asset accounts.

(77) Deleted

(78) For those assets that are pledged or collateralized, the footnotes to the financial statements should include descriptions of the nature, scope, and amount of the assets.

(79) Fixed assets and intangible assets may be revalued according to government laws and regulations. The incremental value from such revaluation should be reflected as unrealized appreciation from asset revaluation. After the revaluation measurement date, the depreciation, depletion, amortization or impairment of revalued assets should be calculated based on the adjusted

basis.

(80) Fixed assets that become idle or will no longer be used in operations should be reclassified to a designated account.

Non-current Liability

(81) An enterprise should continue to classify its financial liabilities as a non-current, even when they are due to be settled within twelve months of the balance sheet date if:

(a) the original loan term was for a period of over twelve months;

(b) the enterprise intends to refinance the obligation on a long-term basis; and

(c) refinance or reschedule is completed before the balance sheet date or has the discretion to refinance or roll over an obligation for at least twelve months after the balance sheet date under an existing loan facility.

For those liabilities that meet the above-listed criteria and are not included in current liabilities, the amounts and facts should be disclosed in the footnotes to the financial statements.

(82) For financial liabilities that are payable on demand when certain conditions of the borrowing agreements have been breached, they should be classified as current liabilities. Such liabilities can still be classified as non-current only when:

(a) the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date; and

(b) within which the enterprise can rectify the breach and during which the lender cannot demand immediate repayment.

(83) The terms of long-term liabilities including the nature of the obligation, maturity dates, interest rates, and other important constraints should be disclosed in the footnotes to the financial statements.

The premium or discount on corporate bonds payable should be reported as an addition to or a deduction from the face value of the corporate bond, and amortized based on the effective interest rate over the period that the bonds are outstanding.

(84) Deferred income should be classified as a deduction of the related assets (e.g., unrealized interest revenue of financial lease receivables), current liabilities or noncurrent liabilities in accordance with the nature of the deferral.

Owners' Equity

(85) The owners' equity of a corporation is called stockholders' equity and should be categorized as capital (capital stock), capital surplus and retained earnings (or accumulated deficit) and other.

Capital (capital stock) is the par value of stock registered with competent authorities and fully paid by stockholders. It is also classified as capital (capital stock), if the stock has been issued according to law or regulations, and the late registration for capital change will follow.

Capital surplus is the premium resulting from capital stock transactions between the corporation and its stockholders, including premium on stock, donated capital from stockholders, and other as defined by the financial accounting standards. For example, additional paid-in capital in excess of par from the issuance of common stock or preferred stock, additional paid-in capital from issuing shares in exchange for the shares or net assets of the acquired firm during a business merger and acquisition, gains from treasury stock transactions, donated capital from stockholders, additional paid-in capital from long-term investments.

Retained earnings consist of legal reserve stipulated by law or regulations, special reserve appropriated by law, contracts, articles, or resolutions of stockholders' meeting, and undistributed earnings not yet appropriated (or accumulated deficit).

Other items consist of unrealized appreciation from asset revaluation, unrealized gains and losses arising on available-for-sale financial assets, net loss not yet recognized as net pension cost, translation adjustments and treasury stock.

(86) A company limited by shares should disclose common stock and various preferred stocks in the balance sheet, including disclosure of the face value per share, number of shares authorized, and number of shares issued in the balance sheet or footnotes. The stockholders' rights and restrictions of various stocks, preferred dividends in arrear, the priorities of dividend distributions and claims to the remaining assets should be properly disclosed in the footnotes to the financial statements.

(87) The earnings distributions of a company should not be recognized until approved by the stockholders' meeting. However, when an earnings distribution or deficit offset has been proposed prior to the issuance date of the financial statements, it should be disclosed in the footnotes to financial statements.

(88) The balance sheet should at least include the following items:

(a) cash and cash equivalents;

(b) trade and other receivables;

(c) inventories;

(d) investments accounted for using the equity method;

(e) other financial assets (excluding items (a), (b), and (d));

(f) fixed assets;

(g) intangible assets;

(h) deferred tax assets or liabilities;

(i) liabilities and assets for current tax;

(j) trade and other payables;

(k) estimated liabilities;

(l) financial liabilities (excluding amounts shown under (j) and (k));

(m) minority interest;

(n) capital (capital stock), capital surplus, and retained earnings (or accumulated deficit).

(89) In addition to the line items listed in paragraph 88, additional items, headings, and sub-totals should be presented on the balance sheet if the financial accounting standards require it, or when such presentation is necessary to fairly present the enterprise's financial position. The judgment on whether additional items should be separately presented is based on an assessment of:

(a) the nature, liquidity and materiality of the asset;

(b) the function of the asset; and

(c) the nature, due date, and materiality of the liability.

(90) The assets and liabilities items should be presented separately and should not be offset against each other, unless there is a legal right to offset them or such offset is required by the financial accounting standards.

(91) Unless the offsetting can reflect the substance of transactions and events, it will diminish users' ability to understand the transactions and to evaluate the future cash flows of an enterprise. Assets should be presented net of their valuation allowance account and not offset. (For example, the reported amount of inventories is net of allowance for price decline and accounts receivables net of allowance for doubtful receivables.)

Income Statement

(92) The income statement should at least include following items:

(a) operating revenues

(b) operating costs

(c) operating expenses

(d) net operating income

(e) interest expense

(f) gain or loss on investment accounted for using the equity method

(g) income tax expense

(h) net income from continuing operation

(i) extraordinary gain or loss

(j) minority interest

(k) net income

In addition to the line items listed above, additional items, headings, and sub-totals should be presented on the income statement if the financial accounting standards require it, or when such presentation is necessary to fairly present the enterprise's performance.

Cost of goods sold and operating expenses may be combined if they cannot be clearly separated.

A contra account to revenue cannot be classified as an expense. Similarly, a contra account to expense cannot be reported as revenue.

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Examples of gain or loss on extraordinary items include material loss from a prohibition under a new law or an expropriation of assets by foreign governments.

(93) Unless specifically stated in the financial accounting standards, expenses should be presented by its function, but expenses such as staff costs, depreciation, depletion and amortization expense should be disclosed.

(94) The dividends per share announced or proposed by the enterprise during the financial statement period should be presented in the income statement or disclosed in the footnotes to financial statements.

(95) Income and expenses should be offset only when one of the

following conditions is met:

(a) as required by the Statements of Financial Accounting Standards; or

(b) when gain, loss and related expenses result from similar transactions or events, and the amount is not material.

(96) An enterprise should separately recognize in the Statement of Changes in Owners' Equity the following items:

(a) Net income;

(b) Items that are directly charged to owners' equity according to the Statements of Financial Accounting Standards and its sub-total;

(c) Prior period adjustments in accordance with the Statement of Financial Accounting Standards No. 8 "Accounting Changes and Prior Period Adjustments";

(d) Changes in paid-in capital and distribution to owners;

(e) Retained earnings or accumulated deficit at the beginning and the end of the period, and its changes for the period; and

(f) Reconciliation of the beginning and ending balance in capital (capital stock), capital surplus, legal reserve, special reserve, undistributed earnings (or accumulated deficit), and other items directly charged to equity in accordance with the Statements of Financial Accounting Standards.

Statement of Cash Flows

(97) The statement of cash flows shall provide relevant information

about the operating, investing, and financing activities of an enterprise during a specific period by reporting their effects on inflows and outflows of cash and cash equivalents. Preparation of the statement of cash flows should be in accordance with the Statement of Financial Accounting Standards No. 17 "Statement of Cash Flows".

Footnotes to Financial Statements

(98) The footnotes to financial statements should disclose the following:

(a) principal accounting policies;

(b) information required by the Statements of Financial Accounting Standards; and

(c) additional information that is necessary for a fair presentation.

Accounting Policies

(99) Accounting policies are the basic assumptions, principles, detailed standards, procedures and methods that are used in the preparation of financial statements by business enterprises. When different accounting policies are available for a given accounting item, an enterprise should choose the most suitable accounting policy such that the financial statements could fairly present the financial position, the performance, and the changes in financial position.

(100) Management should adopt accounting policies in accordance with the requirements of the Statements of Financial Accounting Standards. In the absence of a specific Standard, management should develop accounting policies to provide relevant and reliable information. In the development of accounting policies, management should consider the following in sequential order:

(a) the requirements under the Statements of Financial Accounting Standards dealing with similar or related issues;

(b) the definitions, recognition, and measurement criteria for assets, liabilities, income and expenses contained in this Statement; and

(c) the financial accounting standards or accounting pronouncements issued by the International Financial Accounting Standards Committee and by other competent authorities, but only to the extent, that these are consistent with (a) and (b) above.

(101) Footnotes to financial statements should be disclosed in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in owners' equity, and statement of cash flows should be cross-referenced to related information in the footnotes. Footnotes to financial statements include descriptions or analyses of amount shown on the face of the balance sheet, income statement, statement of changes in owners' equity, and statement of cash flows (such as contingent liabilities and commitments). They include information required and encouraged to be disclosed by the Financial Accounting Standards, and other disclosures necessary to achieve a fair presentation.

(102) In order to help users understand the financial statements and make it easy to compare them with that of other enterprises, the footnotes to financial statements should be disclosed in the following order:

(a) assertion that financial statements are prepared in accordance with generally accepted accounting principles;

(b) illustration on the adoption of accounting policies and

measurement bases;

(c) supplemental information on the various financial statement accounts;

(d) other disclosures, including:

(i) contingencies, commitments and other financial information; and

(ii) non financial information.

Footnotes are usually disclosed in the order of the financial statements and accounts, and if necessary, the order can be revised but a systematic structure should be maintained.

(103) If the following information is not included in the information provided by the enterprise, it should be disclosed:

(a) the name and address of the enterprise, such as the principal business address if it is different from the registered address;

(b) a description of the nature of business and principal activities;

(c) the name of the parent company and its ultimate parent company; and

(d) either the number of employees at the end of the period or the average for the period.

VII Notes

(104) This statement was issued on July 1, 1982, with the first revision on October 18, 1984, the second revision on October 31, 2002, the third revision on December 30, 2004, the fourth revision on

December 22, 2005, and the fifth revision on July 20, 2006.

The fourth revision of this Statement shall be effective for financial statements of fiscal years beginning on or after January 1, 2006. Earlier application is not permitted. Those financial statements that had been originally prepared in accordance with the provisions of this Statement need not be restated retroactively to follow the fourth revision of this Statement. It means that the amortized amount of the goodwill and the losses of assets that became idle or no longer were used in operations recognized before those amendments are applied shall not be reversed.

The fifth revision of this Statement shall be effective for financial statements of fiscal years beginning on or after January 1, 2007. Earlier application is permitted. Those financial statements that had been originally prepared in accordance with the provisions of this Statement need not be restated retroactively to follow the fifth revision of this Statement.

(105) Deleted

(106) After the second revision of this Statement is effective, item 2 of Paragraph (2) of the Statement of Financial Accounting Standards No. 23 "Interim Financial Reporting" should be revised as follows:
"(2) ……the content of aforementioned interim financial statements is prescribed in Paragraph 65 of the Statement of Financial Accounting Standards No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements."

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