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## Accounting Profession in Taiwan, Republic of China; Professional Accounting in Foreign Country Series

T.N. Soong & Co.

Steven F. Moliterno

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# The Accounting Profession in Taiwan, Republic of China

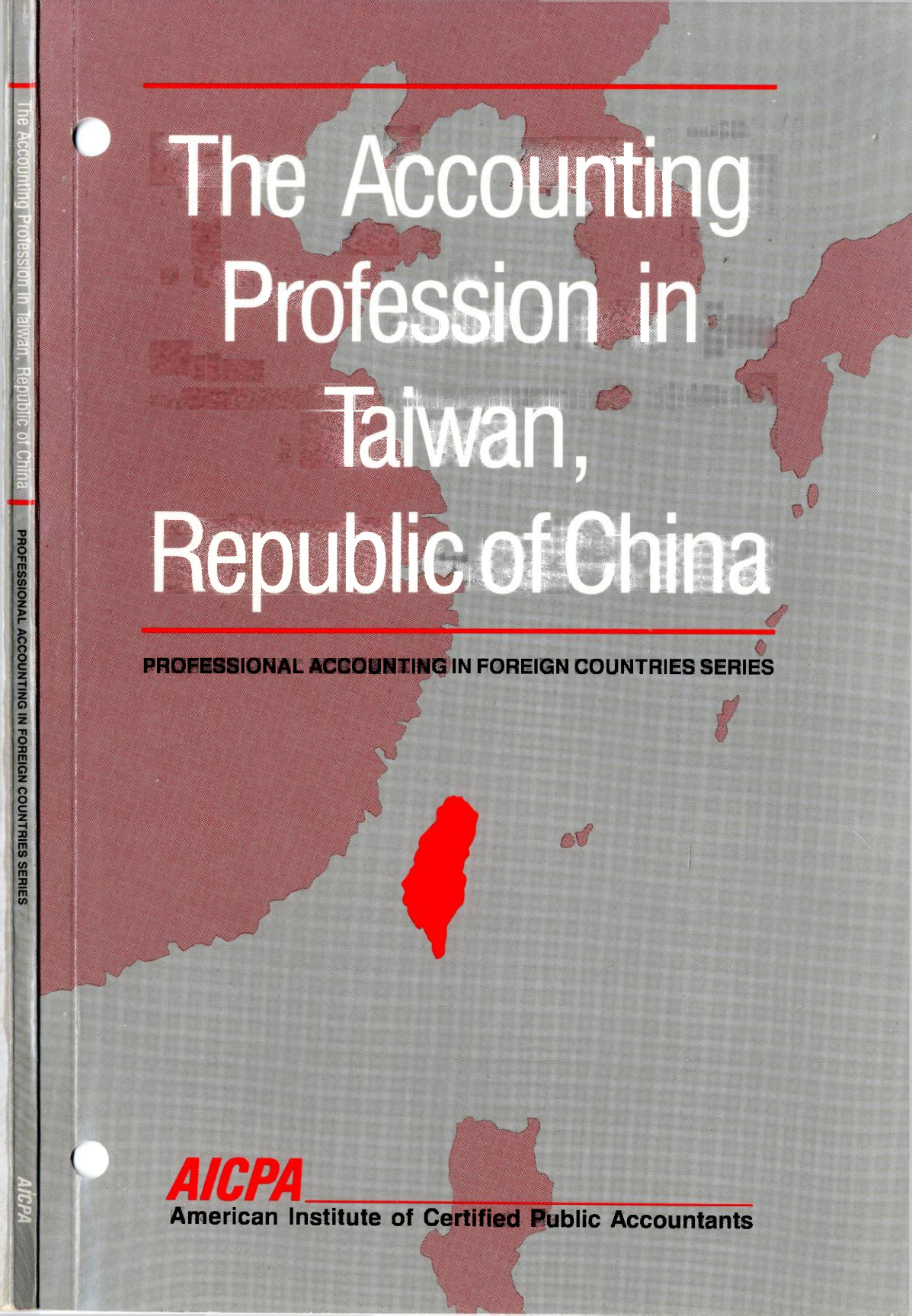
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PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

**AICPA**

American Institute of Certified Public Accountants





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# The Accounting Profession in Taiwan, Republic of China

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**PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES**

***AICPA***

**American Institute of Certified Public Accountants**

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The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The International Booklets Task Force gratefully acknowledges the contributions made to the development of this series by Howard Keefe and Harvey Moskowitz, by former staff aides James Flynn and Susan Sgromo, and by the accounting firms of Arthur Andersen & Co. and Coopers and Lybrand. The task force would also like to acknowledge the fine editorial efforts of Carrie Vaccaro and Gina Goldstein and the production work of Robert DiCorcia, Jeanmarie Brusati, and Joyce Kehl.

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# The Accounting Profession in Taiwan, Republic of China

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PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

*Prepared by*  
**T.N. Soong & Co., CPAs,**  
**a member of**  
**Arthur Andersen Worldwide Organization**

**STEVEN F. MOLITERNO, CPA**  
*Series Editor*

***AICPA***  

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**American Institute of Certified Public Accountants**

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1211 Avenue of the Americas, New York, N.Y. 10036-8775

1 2 3 4 5 6 7 8 9 0 T I 9 9 8 7 6 5 4 3 2

**Library of Congress Cataloging-in-Publication Data**  
(Revised for vol. 17)

The Accounting profession in Taiwan, Republic of China

Includes rev. editions of some vols.

Includes bibliographies.

Contents: [1] Canada / prepared by Fuller Jenks  
Landau — [2] Netherlands / prepared by Ernst & Whinney—  
[etc.]— [17] Taiwan, Republic of China / prepared by  
T.N. Soong & Co., a member of Arthur Andersen  
Worldwide Organization.

1. Accounting. 2. Comparative accounting.

I. American Institute of Certified Public Accountants.

II. Professional accounting in foreign countries series.

HF5611.A34 1987 657 87-150526

ISBN 0-87051-109-2

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# Preface

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This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1991. Changes after this date in the standards of either the United States or the Republic of China may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in the Republic of China. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Taiwanese auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in the Republic of China but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson  
Vice President,  
Technical Standards and Services





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# 1

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## The Accounting Profession

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### REQUIREMENTS FOR ENTRY INTO THE PROFESSION

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#### Domestic Functions and Licensing Requirements

1. The functions of a certified public accountant (CPA) in the Republic of China (R.O.C.) under the Revised Accountancy Law of 1983 are as follows:

- a.* To perform—upon assignment by government agencies or judicial authorities or upon engagement by a client—services with regard to the planning, management, auditing, verification, liquidation, appraisal, financial statement analysis, and evaluation of assets as may be required in connection with accounting
- b.* To examine and certify financial reports
- c.* To serve as an inspector, liquidator, receiver in bankruptcy, executor of a will, or in any other fiduciary capacity
- d.* To serve as an agent in taxation cases by assisting clients in tax planning, preparing and filing income tax returns, and handling tax disputes
- e.* To assist clients in filing applications for the registration of business firms or trademarks and in handling registration-related cases
- f.* To perform other accounting-related services

2. The licensing requirements for a CPA are as follows:

- a.* R.O.C. citizenship
- b.* A passing score in either—
  - The regular R.O.C. CPA examination or

## 2 The Accounting Profession in Taiwan, Republic of China

- A simplified CPA examination for those meeting certain requirements regarding academic training, government work experience, teaching experience, and/or licensing as a CPA in another country.

### **Foreign Reciprocity**

3. The Accountancy Law recognizes foreign reciprocity. Any foreigner whose country's law or laws permit R.O.C. nationals to practice as CPAs within its territory may take the R.O.C. CPA examination. A foreigner who receives an R.O.C. CPA license should obtain permission from the R.O.C. Ministry of Finance (MOF) before beginning to practice as a CPA in the Republic of China.

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## **ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES**

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### **Professional Standards Promulgated by Each Body**

4. The Taipei Metropolitan CPA Association, Taiwan Province CPA Association, and Kaohsiung Metropolitan CPA Association jointly established the Multiprofession Committees in 1981, one of which was the Financial Accounting Committee. Later, the Financial Accounting Committee became a committee of the R.O.C. National Federation of CPA Associations, whose major task is to establish and update certain general accounting principles. The federation can be reached at the following address:

National Federation of Certified Public Accountants  
Associations of the Republic of China  
9th Floor  
1 Nan-Hai Road  
Taipei, Taiwan  
Republic of China

5. With the increasing development of the economy, the business need for accounting services has risen significantly. This development has necessitated a better quality of accounting services. For this reason, domestic CPAs established the Accounting

Research and Development (R&D) Foundation of the Republic of China, a body similar to the Financial Accounting Standards Board (FASB).

6. The foundation promotes the academic or research aspect of accounting practices to encourage the continued development of accounting standards and to help business improve its accounting systems.

7. With the establishment of the Accounting R&D Foundation, the Financial Accounting Committee was subordinated to the foundation instead of to the R.O.C. National Federation of CPA Associations. It then changed its name to the Financial Accounting Standards Committee (FASC). Members of the FASC include practicing CPAs, representatives of government and civic organizations, scholars, and specialists. At present, it comprises fifteen members and six consultants.

8. The FASC does research on and formulates Generally Accepted Accounting Principles (GAAP). As of January 1991, it had published seventeen issues of the Statements of Financial Accounting Standards (SFAS) and two issues of the Financial Accounting Standard Interpretations (see appendix B). With the strong support of government agencies, including the MOF through the Securities and Exchange Commission (SEC) and the Ministry of Economic Affairs (MOEA), and of many local CPAs, these published accounting standards have been widely followed.

9. Generally Accepted Auditing Standards (GAAS) were issued by the Accounting Problem Evaluation Committee of the Taiwan Province/Taipei Metropolitan CPA Association in 1970.

10. In 1983, the Auditing Standards Committee (ASC) of the R.O.C. National Federation of CPA Associations modified the GAAS and named the modification Auditing Standard No. 1. The ASC then issued Auditing Standards Nos. 2 through 4. In 1985, the ASC of the Accounting R&D Foundation was established to issue Statements of Auditing Standards (SAS). Since it was established, the committee has modified SAS Nos. 1 through 4 and has issued a new series, SAS Nos. 5 through 20 (see appendix A).

11. The Accounting R&D Foundation issues the monthly *Accounting Research Journal*, which contains articles and information on



accounting, auditing, tax, and management consulting services. The foundation also offers periodic accounting and auditing seminars.

### **Ethics Requirements**

12. The Code of Professional Ethics for CPAs was promulgated by the Professional Ethics Committee of the R.O.C. National Federation of CPA Associations in 1983. (This committee has also issued a series of related standards.) The code applies to CPAs in public practice. The code provides rules on independence with respect to a CPA's financial interest in a client, loans made to or accepted from a client, and services provided as trustee, director, or officer of a client during the period covered by the audit.

13. Also defined by the code are the role and importance of professional knowledge and techniques, guidelines for reporting forecasts and observing the confidentiality of client matters, and limitations on a CPA's acceptance of contingent fees and commissions and on advertising.

14. Advertising by CPAs or their firms is not permitted. In addition, CPAs in public practice are prohibited from seeking clients by solicitation.

15. Payment to CPAs for the referral of products or services to a client or another CPA firm is prohibited. Such action is considered a conflict of independence.

16. A CPA cannot become involved in the management decisions of clients. A CPA may not express an opinion on financial statements, forecasts, or other accounting data without performing appropriate audit or review procedures. In addition, a CPA may not express an opinion on the achievability of a financial forecast.

17. A CPA may establish an office to perform professional services individually or may establish a partnership and practice jointly with other CPAs.

18. A CPA should establish and maintain an office only within the province (municipality) in which he or she is registered. A branch office must be set up if professional services are to be performed within another province (municipality); however, this provision need not apply if the other province (municipality) is near the CPA's practice area.

19. If a branch office is set up, it should be managed by a CPA. New engagements must not be solicited in the name of the CPAs assistants.

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## PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

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20. The R.O.C. National Federation of CPA Associations is currently organized by representatives of the Taipei Metropolitan CPA Association, Taiwan Province CPA Association, and Kaohsiung Metropolitan CPA Association.

### Requirements for Membership

21. A CPA may become a member of a CPA association only after being duly registered. No CPA association should then deny his or her application for membership.

### Rights of Membership

22. Upon registration, a member acquires the right to perform professional services. The R.O.C. National Federation of CPA Associations publishes the monthly *CPA News* jointly in the name of the Taipei Metropolitan CPA Association, Taiwan Province CPA Association, and Kaohsiung Metropolitan CPA Association. *CPA News* contains articles and information on accounting, tax, and SEC regulations, as well as the minutes of the board of directors' meetings of the three CPA associations. In addition, the federation conducts various seminars for the members of each CPA association and their assistants.

### Number of Members

23. As of January 1991, there were about 2,100 qualified CPAs, approximately 43 percent of whom were registered public accounting practitioners. Of the registered practitioners, 401 were members of 75 CPA partnership firms and 508 were individual CPAs.

### CPE Requirements

24. The requirements for continuing education (CE) are as follows:

*CPAs Engaged as Auditors of*

	<u>Public Companies</u>	<u>Nonpublic Companies</u>
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Minimum hours of acceptable  
CE credit to be completed:

Within any three consecutive CE years	90	60
Within any one CE year	15	10

25. A CE year begins on July 1 and ends on June 30 of the following year. In addition to teaching or participating in programs conducted by the R.O.C. National Federation of CPA Associations, the following also qualify as acceptable CE credits:

- a. Teaching or participating in courses related to the accounting profession at universities or colleges accredited by the Professional Education Committee
- b. Teaching or participating in programs conducted by a CPA firm
- c. Participating in meetings on subjects related to the practice of accounting
- d. Publishing articles on subjects related to the practice of accounting in recognized publications

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## **Auditing Requirements**

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### **STATUTORY AUDITING AND REPORTING REQUIREMENTS**

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#### **Purpose of the Statutory Audit**

26. Financial statements must be audited to ensure their compliance with the reporting requirements of shareholders and government regulatory authorities such as the SEC, the Central Bank of China (Central Bank), the Bank Credit Center, and the MOEA.

#### **Entities Required to Be Audited**

27. All companies should submit their balance sheets, income statements, statements of changes in shareholders' equity, statements of cash flows, proposals for distributing retained earnings or covering losses, operation reports, and schedules of major fixed assets for approval at the shareholders' meeting, which should be held within six months after year end. The government agency in charge of companies may examine these financial statements at any time.

28. Companies with capital of new Taiwan dollars (NT)\$30 million and above must have their financial statements audited.

29. Companies whose bank credit facilities reach NT\$30 million must submit audited financial statements to the Credit Center of the Taipei Bankers' Association.

30. Financial institutions must submit their annual financial statements to the MOF and the Central Bank, and insurance

companies must submit their financial statements to the MOF, within fifteen days after approval at the shareholders' meeting. Some of the financial statements, usually the balance sheet and income statement, must be published in newspapers.

31. Financial institutions, insurance companies, leasing companies, and companies with revenues of at least NT\$100 million must have their income tax returns certified by a CPA. Other companies may voluntarily have their income tax returns certified by a CPA. Certification of such income tax returns reduces the likelihood of investigation by the tax authorities.

32. All public companies and stockbrokers must file the following financial statements with the SEC and have them published in newspapers:

- a. Within four months after year end, audited annual financial statements approved by the board of directors and supervisors
- b. Within two months after the end of the first half of the fiscal year, audited semiannual financial statements approved by the board of directors and supervisors
- c. Within one month after the end of the first and third quarter, the quarterly financial statements reviewed by CPAs

Companies that have complied with the prescribed procedures may offer their shares to the public without first having the shares listed on the stock exchange.

33. All listed companies must have their income tax returns certified by independent CPAs.

### **Appointment and Qualifications of Auditors**

34. All public companies must have their financial statements audited. The audit report on the financial statements of a public company must be countersigned by two CPAs who practice jointly in a firm that meets certain requirements promulgated by the MOF.

35. Only a CPA may do auditing work for companies. Independence rules are prescribed in the Accountancy Law.

36. An auditor is often selected by a company's management, and the selection may require the approval of the board of directors or the shareholders.



## Auditing and Reporting Responsibilities

37. A company's management has the primary responsibility for maintaining proper financial records, as well as for preparing annual financial statements. Thus, ensuring the fairness of presentation of the financial statements is an integral part of management's responsibility.

38. For most companies, auditors use a short-form report. However, some clients and the regulations of some government agencies in charge of examining companies (e.g., publicly held companies) may require the preparation of long-form auditors' reports, including supplementary information such as a description of examination procedures for each account, schedules and analyses, and recommendations.

39. The auditor's report must be attached to the financial statements filed with the government agency. The report may be addressed to the corporation, to its board of directors, or to the shareholders.

## Filing of Reports

40. A public company's annual report to the SEC may include information other than the financial statements and auditor's report. Providing the SEC with additional information—such as the letter to shareholders, the company's general situation, its overall operating plan and condition, and its general investment situation—is management's responsibility. The auditor's responsibility does not extend beyond the financial statements identified in the auditor's report.

41. The annual, semiannual, and quarterly financial statements for listed and over-the-counter companies should also be sent to the Stock Exchange and Securities Dealers' Association and the Institute of Securities Market Development.

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## SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

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### Standards Issued

42. Audit pronouncements consist of Statements of Auditing Standards (SAS) either issued or modified by the ASC of the R.O.C. Accounting R&D Foundation.

43. The SASs in the Republic of China are similar to those in the United States, and U.S. auditing standards and publications are used for reference in developing the Republic of China's statements.

44. Most of the significant auditing standards in the United States are also promulgated in the Republic of China, except for auditing guidelines and procedures relating to special reports and some disclosure requirements and information deemed necessary only in the United States. When literature on an auditing issue is not available in the Republic of China, many of the larger accounting firms refer to current U.S. auditing standards and literature in developing and implementing their standards.

### **General Standards**

45. The general standards in the Republic of China are as follows:

- a.* The examination must be performed by a person or persons with professional knowledge, experience, and adequate training.
- b.* In performing the examination and preparing the report, an auditor should maintain an attitude of strict fairness and independence and exercise due professional care.

### **Standards of Fieldwork**

46. Audit fieldwork standards require the following:

- a.* The work should be adequately planned, and any assistants should be properly supervised.
- b.* The existing internal control should be studied and evaluated to provide a basis for reliance and for determining the nature and extent of auditing procedures.
- c.* Through inspection, observation, confirmation, analysis, and comparison, the CPA should obtain sufficient evidence on which to base an opinion on the financial statements under examination.
- d.* Working papers should be prepared during an examination.

### **Standards of Reporting**

47. The standards of reporting require that—

- a.* The accompanying report should clearly identify the nature, scope, and result of the auditor's examination.

- b. The report should state whether the financial statements are presented in accordance with GAAP and whether those principles were applied consistently.
- c. Information disclosed in the financial statements should be regarded as reasonably adequate unless otherwise stated in the report.
- d. The report should contain either an opinion on the fairness of financial statements taken as a whole or a qualification — a qualified opinion, adverse opinion, or disclaimer of opinion — and the reason for the qualification.

Qualified opinions are required under the following circumstances:

- a. The financial statements are not prepared in conformity with GAAP.
- b. The financial statements are not consistently prepared.
- c. Information disclosed in the financial statements is not adequate.
- d. Auditors cannot perform the necessary auditing procedures because of a scope limitation.
- e. The effects of significant uncertainties and subsequent events are not known.

An adverse opinion is required if circumstance *a* or *c* is material and when a qualified opinion is not appropriate. A disclaimer of opinion is required when circumstance *d* or *e* is material and a qualified opinion is not appropriate.

#### *Differences Between R.O.C. and U.S. Auditing Standards*

48. In general, there is less audit literature in the Republic of China than in the United States. In practice, there are few differences between the two sets of auditing standards.

49. Auditing standards of the Republic of China compare with those of the United States in the following ways:

- a. No specific standard requires auditors in the Republic of China to receive written representation from a company's legal counsel. In practice, however, auditors do request such information directly from the company's attorney.
- b. Except for R.O.C. SAS No. 11, *Standards for the Review of Quarterly Financial Reports of Listed Companies*, no special standard governs special reports such as financial statements prepared in conformity to a comprehensive basis of accounting other than GAAP, and no special standard governs specified elements, accounts, or items of financial statements.

- c. The wording of the standard auditor's report in the Republic of China is identical to the pre-1988, two-paragraph, standard U.S. short-form report. Reporting guidelines in the Republic of China on the possible consequences of departing from the standard report, and on the type of report that will then be required, are similar to those provided in the U.S. standards issued before the 1988 revision.
- d. Under SAS No. 4, *Audit Evidence*, auditors must perform procedures to verify that significant accounting estimates are appropriate. However, there are no specific guidelines on obtaining or evaluating evidence regarding estimates.
- e. No specific standard requires auditors in the Republic of China to consider audit risk and materiality in conducting an audit. However, under SAS No. 10, *Audit Planning*, an auditor must consider such factors as the client's business accounting policies, existence of significant errors, transactions with related parties, and the reliability of internal control and the internal auditor.
- f. A CPA in the Republic of China may audit financial statements and certify income tax returns for a client. According to the *Regulations Governing the Examination and Certification of Financial Statements by CPAs*, issued jointly by the MOEA and the MOF, the financial audit must be based on these regulations. The tax audit, however, must be based on tax regulations. For tax purposes, specific documents or records are generally required as evidence of transactions, and certain limits are set on expenses such as entertainment and donations.

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## Accounting Principles and Practices

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### SOURCES OF ACCOUNTING PRINCIPLES

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50. GAAP in the Republic of China are contained in the SFAS and Interpretations issued by the FASC of the R.O.C. Accounting R&D Foundation. See appendix B for a list of these accounting pronouncements.

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### FORM AND CONTENT OF FINANCIAL STATEMENTS

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#### **Presentation of Statements**

51. No specific format is prescribed for the presentation of financial statements. The content and related disclosures should conform to the requirements of GAAP.

52. Under GAAP, financial statements must be presented in comparative form, except in the case of new companies. Income statements filed with tax authorities for income tax purposes should also be in comparative form.

53. A publicly held investor company must prepare consolidated financial statements in either of the following circumstances:

- a.* The investor owns more than 50 percent of the investee company's voting common stock
- b.* The investor alone owns less than 50 percent, but together with its subsidiaries owns more than 50 percent of the investee company's voting common stock



### **Types of Statements Prepared**

54. Financial statements prepared in conformity with R.O.C. GAAP consist of a balance sheet, a statement of income, a statement of changes in shareholders' equity (or statement of retained earnings), and a statement of cash flows and related footnotes.

55. Public companies must also submit to the SEC supplementary schedules. For each account balance presented in the balance sheet or income statement, a supplementary schedule showing itemized contents is generally required. A receivable or payable item representing 5 percent or more of the account balance must be reported separately. In addition, information such as the market value of inventories, securities, or equity investments; interest rates, maturity dates, and other terms of loans or borrowings; changes in long-term investments, fixed assets, capital surplus, and retained earnings must also be included in the supplementary schedules.

56. Companies filing financial statements with the tax authorities for income tax purposes must also file, as applicable, supplementary schedules pertaining to property, plant, and equipment; ending inventory; unit-cost analysis; cost of goods sold; and direct materials.

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### **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

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57. The development of GAAP in the Republic of China is significantly influenced by U.S. accounting pronouncements and by R.O.C. laws. Thus, accounting principles in the two countries are very similar. In certain cases, however, alternative accounting principles not acceptable in the United States have been adopted in the Republic of China because of its distinct economic environment. In other instances, accounting principles required in the United States have not yet become mandatory in the Republic of China.

#### *Revaluation of Property, Plant, and Equipment*

58. Property, plant, and equipment are generally carried at cost. Because of inflation, revaluation of these assets is also permitted in the Republic of China. The incremental value of assets resulting

from revaluation is not considered to be income and therefore is not subject to taxation.

59. Under statutory rules and regulations and Article 25 of SFAS No. 1, *Summary of GAAP*, revalued assets may include fixed assets (including land and natural resources) and intangible assets.

60. Provisions for depreciation, depletion, and amortization of revalued fixed and intangible assets must be based on the appreciated value resulting from revaluation.

#### *Property, Plant, and Equipment*

61. Upon the sale or disposal of properties, the related cost, appreciation, and accumulated depreciation must be removed from the accounts, and any gain or loss must be credited or charged to income. For publicly held companies, the gain less applicable income tax must be transferred from unappropriated earnings to capital surplus in the current year. For nonpublicly held companies, this same amount must be transferred to capital surplus in the following year.

#### *Consolidation*

62. As discussed in paragraph 53, when a publicly held company has control over another company, consolidated financial statements are required for fair presentation in conformity with GAAP.

63. The following subsidiaries are excluded from consolidated financial statements:

- a. A company (e.g., a manufacturing enterprise) whose business activities are so dissimilar from those of other companies (e.g., financial institutions) within the group that consolidation would not be proper (in the United States, such a subsidiary would be included in the consolidated financial statements)
- b. A company in legal reorganization or in bankruptcy
- c. A foreign subsidiary whose declared dividends are not remittable under foreign government regulations

64. The following subsidiaries may be excluded from consolidated financial statements:

- a. A company with a capital deficiency, that is, whose shareholders' equity is less than zero; however, the subsidiary should

still be included in the consolidated financial statements if either—

- The parent company provides a guarantee or issues other financial commitments to the subsidiary or
  - The subsidiary's deficiency is considered temporary and there is sufficient evidence that its operations will soon become profitable.
- b. A company whose total assets or total revenues are less than 10 percent of the respective totals of the parent company

#### *Deferred Income Tax*

65. There is no specific accounting pronouncement on deferred income taxes. These taxes are generally provided for all timing differences and are determined on the basis of tax rates in effect at the time a difference arises.

66. R.O.C. tax laws allow tax loss carryforwards under certain circumstances, but not loss carrybacks.

#### *Pension Cost and Severance Benefit*

67. There is no specific pronouncement in the Republic of China on pension cost. Because of the need for a fair presentation of this liability, the FASC of the R.O.C. Accounting R&D Foundation is now discussing a draft on the matter.

68. In practice, an enterprise generally accrues 2 percent to 15 percent of total salaries as pension liability based on the Labor Standards Law. For severance payments, a company may use the accrual or pay-as-you-go basis.

#### *Accounting for Lease*

69. A lease meeting any one of four criteria should be accounted for as a capital lease. Thus, the present value of the minimum lease payments should be shown on the balance sheet as an asset and a liability, with the related amortization and interest expense charged to operations. The criteria are the following:

- a. The lease transfers ownership of the property to the lessee by the end of the lease term.

- b. The lease contains a bargain purchase option.
- c. The lease term is more than 75 percent of the estimated economic life of the leased property.
- d. The present value of the rental and bargain purchase price (or guaranteed residual value) at the beginning of the lease term equals or exceeds 90 percent of the fair value of the leased property to the lessor. The interest rate used in computing the present value should be the lesser of the maximum rate (max rate) prescribed by the MOF for borrowings from nonfinancial institutions at the start of the lease and the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be determined, the max rate will be used.

70. Neither *c* nor *d* applies if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

71. If none of these criteria is met, the lease should be treated as an operating lease with rental payments charged to expense over the lease term.

72. The lessor should treat a lease as a sales-type lease (which causes immediate recognition of manufacturer's or dealer's profit) or a direct financing lease (which does not give rise to manufacturer's or dealer's profit) if:

- a. Any one of the four criteria in paragraph 69 for a lessee is met.
- b. The collectibility of the lease receivables is reasonably predictable.
- c. No important uncertainties surround the amount of unreimbursable costs yet to be incurred by the lessor (e.g., if the lessor guarantees that the lease equipment will not become obsolete within a certain period).

73. A lease not meeting these criteria should be accounted for as an operating lease, with rental income recorded over the lease term.

#### *Accounting for Long-Term Construction Contracts*

74. Under SFAS No. 11, *Accounting for Long-Term Construction Contracts*, whenever income or loss arising from the execution of a contract longer than one year in duration can be reasonably estimated, the percentage-of-completion method should be used.

75. Under the fixed-price contract, the term *reasonably estimated* applies if all the following conditions are met:

- a. Total contract receivable is reasonably estimated.
- b. Costs to be incurred and extent of progress to be achieved can be reasonably estimated.
- c. The costs attributable to the contract can be reasonably identified.

76. Under the cost-plus contract, the term *reasonably estimated* applies if all the following conditions are met:

- a. The costs attributable to the contract can be reasonably identified.
- b. The costs other than those reimbursable can be reasonably estimated.

#### *Capital Surplus*

77. The following items are treated as capital surplus:

- a. Any premium on capital stock
- b. The net appraisal surplus of each fiscal year
- c. Any gain on disposal of assets (see paragraph 61)
- d. The value of assets received from a merged company in excess of assumed liabilities and payment for shares held by shareholders of the merged company
- e. Any donated surplus

#### *Other Matters*

78. Current accounting pronouncements in the Republic of China do not address certain areas covered by U.S. accounting pronouncements. These include the following:

- a. Deferred income tax
- b. Pension costs
- c. Accounting and reporting by development-stage enterprises
- d. Earnings per share
- e. Disclosure of business segments
- f. Futures contracts
- g. Insurance enterprises
- h. Financial reporting and changing prices



# 4

## Business Environment

### FORMS OF BUSINESS ORGANIZATION

79. The Republic of China has three forms of business organization: company, partnership, and single proprietorship. Any person, whether Chinese or alien, may engage in business as a member of a partnership or as a shareholder of a company. But only a Chinese may be a sole proprietor.

#### Entities With Company Attributes

80. The term *company*, as defined in the R.O.C. Company Law, means a corporate legal entity incorporated for profit-seeking purposes. The Company Law is the general law providing for the formation, organization, and registration of a private corporation.

81. There are four categories of company: an unlimited company, a limited company, an unlimited company with limited-liability shareholders, and a company limited by shares. The differences among these types of companies arise mainly from the extent to which shareholders are liable for obligations that the organization might incur.

#### *Type of Company by Shareholder and Liability*

<i>Type of Company</i>	<i>Number of Shareholders</i>	<i>Shareholders' Liability</i>
Unlimited company	Two or more	Joint and several liability of each shareholder for all company obligations

*(cont.)*

<i>Type of Company</i>	<i>Number of Shareholders</i>	<i>Shareholders' Liability</i>
Limited company	No fewer than five but no more than twenty-one	Liability of shareholders limited to their capital contributions
Unlimited company with limited-liability shareholders	One or more shareholders with unlimited liability; one or more with limited liability	Joint and several unlimited liability of unlimited-liability shareholders; liability of limited-liability shareholders restricted to their capital contributions
Company limited by shares*	Seven or more shareholders; capital divided into shares	Liability of each shareholder limited to the number of subscribed shares

82. A company organized under the Company Law must file an application to register its incorporation. It must also submit all material facts, including the articles of incorporation and other required documents depending on the type of company. A company acquires a legal personality only after it has been granted a certificate by the central authority, which is the MOEA. There is a required minimum for the paid-in capital of a limited company or a company limited by shares. Except for special enterprises such as car manufacturers and tourist hotels, the minimum capital must be NT\$500 thousand for a limited company and NT\$1 million for a company limited by shares. The capital stock of a company limited by shares may be issued in installments, but the first issue must not be less than 25 percent of the total capital.

#### *Company Limited by Shares*

83. A shareholders' meeting should be convened by the board of directors. A regular shareholders' meeting should be called at least

\*A company limited by shares is similar to a U.S. corporation. Most of the important commercial and industrial companies in the Republic of China are companies limited by shares.

once a year within six months of the close of the fiscal year. The board of directors should require the submission of financial and related statements at the regular meeting of shareholders for their acceptance. The statements must include an operation report, balance sheet, schedule of major fixed assets, income statement, statement of changes in shareholders' equity, statement of cash flows, and a proposal for distributing retained earnings or for covering losses.

84. After paying all taxes and duties, and before declaring any part of its net profits as dividends and/or bonuses, the company should set aside at least 10 percent of those net profits as the legal reserve until the legal reserve equals the total authorized capital stock.

85. No shares may be redeemed or bought by the company. However, if special circumstances require the company to redeem or buy shares, the company must sell them at the prevailing market price within six months of the redemption or purchase. Such shares should be deemed unissued if not sold within this period.

### **Partnership Entities**

86. Two types of partnership are provided for in the R.O.C. Civil Code: the general partnership and the partnership with dormant partners.

87. A general partnership is an association of two or more persons who contribute capital to a business enterprise and manage it jointly. A partnership with dormant partners is an association whose business affairs are managed exclusively by the active partner; the dormant partners contribute capital to the enterprise and share in its profits but do not participate in its management. A partnership must register with the local authority.

88. Like a company, a partnership has a legal personality separate and distinct from that of each of the partners. Unlike companies, however, the active partners are jointly and severally liable for the partnership's obligations, but the dormant partners are liable only for their own capital contribution.

### **Sole Proprietor**

89. A person with full disposing capacity, defined in the R.O.C. Civil Code as the ability to manage his or her own affairs, may set up

a single proprietorship to engage in business. A single proprietorship must register with the local authority the name of the business and its address, organization, scope, and investment amount. Only after acquiring a registration certificate may an individual conduct business.

*Foreign Companies*

90. Foreign companies may establish operations in any of the following forms:

- a. As a company organized under the R.O.C. Company Law and the Statute for Investments by Foreign Nationals
- b. As an ordinary domestic company
- c. As a branch
- d. As a representative office
- e. As a liaison office
- f. By appointing an agent

The majority of foreign investors establish their operations in the Republic of China as a company organized under the Company Law and the Statute for Investment by Foreign Nationals. This type of company is normally referred to as a foreign-investment-approved (FIA) company. Foreign investors who fail to qualify for investment under the Statute for Investment by Foreign Nationals may join with R.O.C. nationals in organizing an ordinary domestic company under the Company Law.

The investors in an FIA company enjoy the following privileges:

- a. Free repatriation of the invested capital and free remittance of net profits
- b. 100 percent ownership in the invested company, with domicile and nationality requirements for shareholders and officers waived
- c. Reduced withholding tax rate (from 35 percent to 20 percent) on dividends paid
- d. Exemption from the requirement to offer the invested company's capital for public subscription if foreign shareholders own at least 45 percent of the company's capital
- e. Exemption from the requirement to set aside a certain percentage of new shares to be issued for purchase by the invested company's employees if foreign shareholders hold at least 45 percent of the company's capital

### Branch of a Foreign Company

91. A foreign company that wants to set up a branch office must file an application with the MOEA to obtain recognition and a license to do business in the Republic of China.

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## REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND FOR LISTING SECURITIES ON THE STOCK EXCHANGE

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### Registration Requirements for Public Sale

92. Public offering and issuance of securities must be approved by the SEC. The procedures for this include:

- a. The resolution by the board of directors and shareholders to make the public offering and to issue the securities
- b. Choosing a CPA firm to audit the financial statements of the last three years and choosing an underwriter to assist the company in going public
- c. Filing with the SEC an application containing the information required under the Company Law and a prospectus
- d. Obtaining SEC approval of the application
- e. Printing a public notice in a government bulletin and in a local newspaper

The application must include audited financial statements and auditors' reports for the last three years, a copy of the CPA's comments on internal control, reconciliations between book income and income based on the tax return—certified by independent CPAs—for the last three years and tax expenses determined by the tax authorities, among other required documents.

93. According to the Company Law, companies whose paid-in capital equals or exceeds a certain amount prescribed by the responsible authority (at present, NT\$200 million) are generally required to offer their shares to the public. However, whether a state-owned enterprise should go public is determined by the appropriate government authority.

94. Public offering means that a company goes through the required review procedures and has its operational and financial

data published as prescribed by the Company Law and the Securities and Exchange Law.

*Requirements for Securities Traded Over the Counter*

95. The company should file with the Taipei Securities Dealers' Association (TSDA) an application and all supporting documents, depending on the kind of securities to be traded over the counter (OTC). If the association believes the securities to be traded OTC are in order, it will execute a contract with the company. OTC transactions are permitted only after approval by the SEC. An association of securities firms may be organized either on a regional basis or according to the type of business (e.g., underwriting, dealing, or brokering) it operates. Currently, TSDA is the only association of securities firms designated by the SEC to handle OTC trading.

**Requirements for Listing Securities on the Stock Exchange**

96. Only one stock exchange – the Taiwan Stock Exchange Company Limited (TSECL) – operates in Taiwan. The TSECL is located in Taipei and is organized as a company limited by shares.

97. The following are the procedures for listing securities on the stock exchange:

- a. Executing the underwriting contract with an underwriter
- b. Filing an application with the stock exchange
- c. Executing the listing contract with the stock exchange (if it approves listing of the securities)
- d. Submitting to the SEC for approval the contract and the report written by the stock exchange
- e. Selling of stocks to the public by the underwriter chosen by the issuing company (after the SEC has approved the listing)
- f. Sending of the stockholder register (by the underwriter) to the SEC, the stock exchange, and the issuing company
- g. Discussing with the stock exchange the date trading of the stock shall commence

98. The listing application must be accompanied by certain documents, including company license, a letter showing the SEC's approval of the company's going public, audited financial statements for the last three years, the accounting system manual, and if

necessary, the auditing working papers and permanent files for the last three years.

*Impact on Accounting Requirements*

99. Financial statements submitted to the SEC, the TSECL, or the TSDA for approval of OTC trading or listing on the stock exchange must be prepared according to SEC regulations. In general, the requirements are similar to the disclosure requirements prescribed under GAAP. However, in addition to the basic financial statements, supplementary schedules as described in paragraph 55 must be prepared.

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## SELECTED ECONOMIC DATA

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100. Key demographic, social, and economic indicators for the Republic of China, based on 1990 year-end data, are as follows:

Area (in thousands of square miles)	36
Population (in millions)	20
Birthrate (per population of 1,000)	15.0
Annual population increase	1.2%
Population under age 19	37%
Labor force (in millions)	8.4
Unemployment rate	1.7%
Gross national product (GNP billions)	US\$162
Per capita GNP	US\$7,900
Consumer price index	4.1%
Literacy rate	93%

101. The major R.O.C. trading partners, as of 1990, are as follows:

	<i>Exports</i> <i>(US\$ billions)</i>	<i>Imports</i> <i>(US\$ billions)</i>
United States	21.594	12.552
Hong Kong	8.514	1.441
Japan	8.276	15.947
Germany	3.165	2.654

102. The Republic of China's primary export and import products in 1990 were as follows:

	<i>Exports (US\$ billions)</i>	
	<u>1990</u>	<u>1989</u>
Textile, footwear, and sports goods	15.322	15.740
Machinery	7.984	6.851
Metal, steel, and related products	7.773	7.755
Electronics	7.726	8.128
Transportation vehicles	3.450	3.018
Plastics	2.456	2.498

	<i>Imports (US\$ billions)</i>	
	<u>1990</u>	<u>1989</u>
Machinery	7.282	6.829
Metal goods	5.998	6.777
Chemicals	5.838	5.800
Electronics	5.756	5.300
Transportation vehicles	3.883	3.955
Crude oil	3.180	2.605
Corn, lumber, and cotton	1.776	1.797
Food, beverage, and tobacco	1.100	1.066

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## TAXES

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### Principal Types

103. Each tax in the Republic of China is under the jurisdiction of a specific tax law. The tax classifications are national, provincial, and *hsien* (county) or city taxes, as follows:

<u>National Tax</u>	<u>Provincial Tax</u>	<u>Hsien (County)/ City Tax</u>
Income tax	Business tax	Land tax
Estate and gift tax	Stamp tax	Building tax
Import duty	Vehicle license tax	Title deed tax
Commodity tax		Amusement tax
Stock transfer tax		



*Income Tax*

104. Domestic profit-seeking enterprises incorporated under the R.O.C. Company Law, including subsidiaries of foreign companies, are taxed on their entire income, regardless of source. A domestic profit-seeking enterprise may take a credit for any taxes paid to foreign governments on foreign income against its total income tax liability. The tax credited is limited to the tax on foreign income computed at the following R.O.C. income tax rates:

- a. No tax due on taxable income of NT\$50,000 or less
- b. 15 percent on taxable income from NT\$50,000 to NT\$100,000
- c. 25 percent on taxable income over NT\$100,000

The income from interest on short-term commercial paper is subject to a final withholding tax of 20 percent.

105. For tax purposes, a branch or a fixed place of business of a foreign profit-seeking enterprise operating in the Republic of China is considered a profit-seeking enterprise. Tax is levied on the portion of income that is generated in the Republic of China.

106. The net earnings after tax that are remitted as dividends by a subsidiary to its parent are taxed at 35 percent, or at 20 percent if the net earnings are from an FIA company. Normally, the remittance of a branch is not subject to taxation.

107. Personal income tax is levied by calendar year on the R.O.C.-source income of both resident and nonresident individuals. The gross income of a resident individual is the total of the R.O.C.-source income—business profits, income from professional practice, salaries and wages, interest income, rental income, and royalties. The taxable income is the gross income less personal exemptions and deductions. The income tax is levied at progressive rates. In 1990, the tax rates were from 6 percent to 40 percent of taxable income.

108. Single proprietorships, business partnerships, and corporations are all subject to business income tax. Furthermore, the net profits of a single proprietorship or business partnership, after payment of the business income tax, are subject to personal income tax to be paid by the proprietor or by the partners on their share of the net profits.

*Business Taxes*

109. Business tax is levied on the sale of goods or services within the Republic of China and on the import of goods. Under the current law, there are two systems: the gross business receipts tax (GBRT) system and the value-added tax (VAT) system.

110. The GBRT system applies to financial institutions, certain restaurants, and small-scale businesses (enterprises whose monthly average sales are below NT\$200,000; their business tax amount should be determined and assessed by the tax authorities). Tax on sales is calculated at 5 percent for banks, 15 percent for nightclubs and restaurants with entertainment programs, 25 percent for restaurants with hostesses, and 1 percent for small-scale businesses. In addition, a credit is not allowed for any tax paid on goods or services bought.

111. The VAT system applies to all businesses that do not fall under the GBRT system. Currently, a uniform tax rate of 5 percent applies to businesses under the VAT system, except for those that conduct zero-rated and exempt transactions. The net tax payable or refundable for any period is determined by subtracting the tax on goods or services bought from the tax on goods or services sold. Zero-rated goods or services, such as export sales, are technically taxable at a nil rate, and any tax paid on such goods or services bought is refundable. In selling tax-exempt goods or services such as land, a business person does not have to charge the value-added tax to customers, but credit cannot be taken for any tax paid on purchases relating to such goods or services.

*Commodity Tax*

112. The commodity tax is an excise tax levied ad valorem on specific commodities both domestically produced and imported.

113. For domestically manufactured commodities, the tax is levied at the source and is payable upon removal of the commodities from the manufacturer's premises. For imported commodities, the tax is levied when the import duty is paid. Commodities will be exempt from tax if they are exported or are used as raw materials for export commodities. Commodity tax rates vary depending on the article.

*Land Value, Land-Value Increment, and Building Taxes*

114. Land value tax is levied on both rural and urban land on the basis of the valuation recorded in the local land register.

115. The land-value increment tax is applied to the unearned increase in the value of land and is payable by the seller at the time ownership is transferred. The unearned increment is the difference between the official assessed value of the land at the time of sale and its official assessed value at the time of purchase. The increment is subject to tax at progressive rates ranging from 40 percent to 60 percent, depending on the land-value increment.

116. The building tax is paid by the owner of a building. It should be calculated on the assessed value at the rate of 3 percent for business buildings; 1.38 percent for residential buildings; 1.5 percent for factory buildings used by the owner for his or her own manufacturing purposes; and 2 percent for buildings used as offices by private hospitals, professional practitioners, public organizations, and institutes.

**Tax Returns**

117. A profit-seeking enterprise must file an interim return in the seventh month of each fiscal year and pay a provisional tax equivalent to one half of the tax payable shown on the tax return for the preceding year. A calendar-year enterprise must also file an annual business income tax return between February 20 and March 31 of the following year. An enterprise whose fiscal year is different from the calendar year must file the return on or before the last day of the third month after the close of the fiscal year. With prior approval from the tax authorities, a profit-seeking enterprise may delay filing the return for up to one and a half months after the last day of filing. The enterprise may delay filing for up to two months after the last day of filing if it is a company or a branch and if it hires a CPA to certify and file its return.

118. Individual citizens and resident aliens must file an annual income tax return with the tax authorities between February 20 and March 31 for the preceding year. With the permission of the local tax bureau, the deadline may be extended to April 30.

119. The base period for computing the liability for corporate tax is the company's accounting period. A company's accounting period is the calendar year, unless it chooses a fiscal year. Individuals are required to use the calendar year for reporting income. Generally, a taxable period should cover twelve months. However, shorter periods may be allowed in certain circumstances, such as when a corporation has been dissolved or recently established, or when there has been a change in the accounting period.

*Use of Forms and Related Schedules*

120. For the preparation of income tax returns, forms are provided by the tax authorities. There are three kinds of income tax returns: ordinary returns, blue returns used by profit-seeking enterprises duly authorized by the tax authorities, and simplified returns used by small-scale businesses. In the case of blue returns or if returns are reviewed and certified by a CPA, the taxpayer receives the following tax privileges: more liberal allowances for entertainment expenses and carryforward of losses for five years. Income reported and expenses claimed must be disclosed in detail. The related schedules – including schedules of fixed assets, cost of goods sold, and direct materials, as well as an analysis of unit cost and a copy of approved documents demonstrating the taxpayer's tax-exempt status – must be attached to the return, as applicable.

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# APPENDIX A

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## Outstanding Auditing Pronouncements

The following is a list of translated outstanding auditing pronouncements as of January 1991.

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### Statements of Auditing Standards

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- 1 *Summary of Generally Accepted Auditing Standards*
- 2 *Audit Report*
- 3 *Audit Work Papers*
- 4 *Audit Evidences*
- 5 *Investigation and Evaluation of Internal Accounting Control*
- 6 *Auditing of Related Party Transactions*
- 7 *Representation Letter*
- 8 *Confirmation*
- 9 *Observation of Physical Inventory Taking*
- 10 *Audit Planning*
- 11 *Standards of Review of Quarterly Financial Statements of Listed Companies*
- 12 *Analytical Review*
- 13 *Audit of Subsequent Events*
- 14 *Fraud and Error*
- 15 *Using the Work of Other CPAs*
- 16 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
- 17 *Communication Between Successor CPAs and Predecessor CPAs*
- 18 *Audit Quality Control*
- 19 *Standards of Review of Financial Forecast Information*
- 20 *Using the Report of a Specialist*



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## APPENDIX B

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# Outstanding Accounting Pronouncements

The following is a list of translated outstanding accounting pronouncements as of January 1991.

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### Statements of Financial Accounting Standards

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- 1 *Summary of Generally Accepted Accounting Principles*
- 2 *Accounting for Leases*
- 3 *Accounting for Capitalization of Interest Cost*
- 4 *Statement of Changes in Financial Position (superseded by SFAS No. 17)*
- 5 *Accounting for Long-Term Investment in Equity Securities*
- 6 *Disclosure of Related Party Transactions*
- 7 *Consolidated Financial Statements*
- 8 *Accounting for Accounting Changes and Prior Period Adjustments*
- 9 *Accounting for Contingencies and Subsequent Events*
- 10 *Valuation and Presentation of Inventory*
- 11 *Accounting for Long-Term Construction Contracts*
- 12 *Accounting for Income Tax Credits*
- 13 *Accounting for Debtors and Creditors for Troubled Debt Restructuring*
- 14 *Accounting for Foreign Currency Translation*
- 15 *Disclosure of Accounting Policy*
- 16 *Financial Forecasting*
- 17 *Statement of Cash Flows*

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### Financial Accounting Interpretations

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- 1 *Revenue Recognition of Installment Sales*
- 2 *Accounting for Eliminating Unrealized Intercompany Profit or Loss for Equity Security Investment Accounted for Under the Equity Method*





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## APPENDIX C

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# Illustrative Auditor's Report and Financial Statements

*The following financial statements are for illustrative purposes only. They are not intended to include all information that R.O.C. law requires.*

### Report of Independent Public Accountants

The Board of Directors and Shareholders  
ABC Corporation

We have examined the balance sheets of ABC Corporation as of December 31, 19CY and 19LY, and the related statements of income, retained earnings, and cash flows for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the regulations governing such examinations and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of ABC Corporation as of December 31, 19CY and 19LY, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*[Auditor's signature]*

February 28, 19NY

**ABC CORPORATION**  
**BALANCE SHEET**  
**December 31, 19CY and 19LY**  
**(expressed in new Taiwan dollars)**

	<i>19CY</i>		<i>19LY</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<u>Assets</u>				
Current Assets				
Cash	\$ 2,787,179	1	\$ 594,318	—
Notes and accounts receivable—net (note 3)	74,219,613	19	56,546,404	20
Due from affiliated companies (note 9)	17,375,026	4	14,906,736	5
Inventories (notes 2 and 4)	100,124,017	26	56,976,487	20
Prepayments	6,091,682	1	2,181,587	1
Other current assets	2,363,130	1	3,105,619	1
Total current assets	<u>202,960,647</u>	<u>52</u>	<u>134,311,151</u>	<u>47</u>
Property, Plant and Equipment (notes 2 and 6)				
Land	21,338,244	5	21,338,244	7
Buildings and improvements	42,785,111	11	36,490,097	13
Machinery and equipment	205,649,714	53	158,657,929	55
Furniture, fixtures, and equipment	2,277,353	1	2,145,601	1
Transportation equipment	875,000	—	875,000	—
Equipment in transit	3,377,122	1	320,000	—
	<u>276,302,544</u>	<u>71</u>	<u>219,826,871</u>	<u>76</u>
Less accumulated depreciation	<u>93,641,796</u>	<u>24</u>	<u>67,658,092</u>	<u>23</u>
Net property, plant, and equipment	182,660,748	47	152,168,779	53
Refundable Deposits	<u>2,995,992</u>	<u>1</u>	<u>1,352,792</u>	<u>—</u>
Total Assets	<u>\$388,617,387</u>	<u>100</u>	<u>\$287,832,722</u>	<u>100</u>

	<i>19CY</i>		<i>19LY</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Liabilities and Shareholders' Equity</i>				
<b>Current Liabilities</b>				
Accounts payable	\$ 4,864,150	1	\$ 6,349,107	2
Accrued liabilities	47,218,945	12	34,179,339	12
Due to affiliated companies (note 9)	45,147,906	12	13,625,936	5
Income tax payable (notes 2 and 5)	2,966,408	1	5,314,946	2
<b>Total current liabilities</b>	<b>100,197,409</b>	<b>26</b>	<b>59,469,328</b>	<b>21</b>
Long-Term Debt (note 6)	130,500,000	34	105,000,000	36
Other Liabilities	500,000	—	—	—
<b>Total Liabilities</b>	<b>231,197,409</b>	<b>60</b>	<b>164,469,328</b>	<b>57</b>
<b>Shareholders' Equity</b>				
Capital stock, authorized and issued—225,000 at NT\$400 par value	90,000,000	23	90,000,000	31
Retained earnings	67,419,978	17	33,363,394	12
<b>Total shareholders' equity</b>	<b>157,419,978</b>	<b>40</b>	<b>123,363,394</b>	<b>43</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$388,617,387</b>	<b>100</b>	<b>\$287,832,722</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.

**ABC CORPORATION**  
**STATEMENT OF INCOME**  
**For the Years Ended December 31, 19CY and 19LY**  
**(expressed in new Taiwan dollars)**

	<i>19CY</i>		<i>19LY</i>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Net Sales	\$423,566,764	100	\$346,828,305	100
Cost of Sales	286,551,583	68	242,442,887	70
Gross Profit	<u>137,015,181</u>	<u>32</u>	<u>104,385,418</u>	<u>30</u>
Operating Expenses				
Marketing expenses	62,736,670	15	49,117,969	14
Administrative expenses	19,326,417	4	15,425,775	4
Total operating expenses	<u>82,063,087</u>	<u>19</u>	<u>64,543,744</u>	<u>18</u>
Operating Income	<u>54,952,094</u>	<u>13</u>	<u>39,841,674</u>	<u>12</u>
Nonoperating Income				
(Expenses)				
Interest income	208,579	—	230,821	—
Interest expense	(9,878,770)	(2)	(10,170,443)	(3)
Exchange gain (loss) — net	(867,433)	—	111,619	—
Other — net	1,932,946	—	(402,098)	—
Net Nonoperating Expenses	<u>(8,604,678)</u>	<u>(2)</u>	<u>(10,230,101)</u>	<u>(3)</u>
Income Before Income Tax	46,347,416	11	29,611,573	9
Income Tax (notes 2 and 5)	<u>12,103,031</u>	<u>3</u>	<u>8,744,784</u>	<u>3</u>
Net Income	<u>\$ 34,244,385</u>	<u>8</u>	<u>\$ 20,866,789</u>	<u>6</u>

The accompanying notes are an integral part of the financial statements.

*Note:* Information on net income per share is required for public companies.

**ABC CORPORATION**  
**STATEMENT OF RETAINED EARNINGS**  
**For the Years Ended December 31, 19CY and 19LY**  
**(expressed in new Taiwan dollars)**

	<u>19CY</u>	<u>19LY</u>
Legal Reserve (note 7)		
Balance at beginning of year	\$ 1,261,010	\$ 695,495
Appropriation from prior year's earnings	<u>2,086,679</u>	<u>565,515</u>
Balance at end of year	<u>3,347,689</u>	<u>1,261,010</u>
Unappropriated Earnings (note 7)		
Balance at beginning of year	32,102,384	11,852,006
Appropriations of prior year's earnings:		
Legal reserve	(2,086,679)	(565,515)
Bonus to employees	(187,801)	(50,896)
Net income	<u>34,244,385</u>	<u>20,866,789</u>
Balance at end of year	<u>64,072,289</u>	<u>32,102,384</u>
Retained Earnings at End of Year	<u>\$67,419,978</u>	<u>\$33,363,394</u>

The accompanying notes are an integral part of the financial statements.

**ABC CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended December 31, 19CY and 19LY**  
**(expressed in new Taiwan dollars)**

	<u>19CY</u>	<u>19LY</u>
Cash Flows From Operating Activities		
Net income	\$34,244,385	\$20,866,789
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	26,087,045	27,256,348
Loss on disposal of property and equipment	153,562	—
Net changes in assets and liabilities:		
Notes and accounts receivable	(17,673,209)	(7,041,685)
Due from affiliated companies	(2,468,290)	(199,130)
Inventories	(43,147,530)	2,980,955
Prepayments	(3,910,095)	2,821,258
Other current assets	742,489	1,877,553
Accounts payable	(1,484,957)	3,738,964
Accrued liabilities	13,039,606	15,011,979
Due to affiliated companies	31,521,970	(5,851,490)
Income tax payable	(2,348,538)	5,237,637
Net cash provided by operating activities	<u>34,756,438</u>	<u>66,699,178</u>
Cash Flows From Investing Activities		
Acquisitions of property and equipment	(56,733,823)	(6,703,554)
Proceeds from disposal of property and equipment	1,247	—
Changes in refundable deposits	(1,643,200)	2,232,180
Net cash provided by investing activities	<u>(58,375,776)</u>	<u>(4,471,374)</u>
Cash Flows From Financing Activities		
Payment of bonus to employees	(187,801)	(50,896)
Changes in long-term liabilities	25,500,000	(73,000,000)
Increase in other liabilities	500,000	—
Net cash provided by financing activities	<u>25,812,199</u>	<u>(73,050,896)</u>
Increase (Decrease) in Cash	2,192,861	(10,823,092)
Cash Balance at Beginning of Year	594,318	11,417,410
Cash Balance at End of Year	<u>\$ 2,787,179</u>	<u>\$ 594,318</u>

	<u>19CY</u>	<u>19LY</u>
Cash Paid During the Year for:		
Interest	\$ 9,214,179	\$ 8,740,140
Income tax	14,434,942	3,491,102

The accompanying notes are an integral part of the financial statements.

ABC CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 19CY and 19LY  
(amounts are expressed in new Taiwan dollars, except as otherwise stated)

**1. General**

The Corporation mainly manufactures and sells high-pressure decorative laminates.

**2. Significant Accounting Policies**

The significant accounting policies of the Corporation, which conform to accounting principles generally accepted in the Republic of China, are summarized below.

*Inventories*

Inventories are stated at the lower of standard cost (which approximates weighted average cost) or market.

*Property, Plant, and Equipment*

Property, plant, and equipment are stated at cost less accumulated depreciation. Major improvements and renewals that extend the lives of facilities are capitalized, and maintenance and repairs are expensed currently.

Depreciation is provided on the straight-line method over estimated service lives, which range as follows: buildings and improvements—3 to 45 years; machinery and equipment—3 to 15 years; furniture, fixtures, and equipment—4 to 12 years; and transportation equipment—5 years.

Upon sale or disposal of assets, the cost and related accumulated depreciation are removed from the accounts and resulting gain or loss is credited or charged to income.

*Retirement Benefits*

Contributions to the retirement fund are charged to expense when accrued or paid. Any actual retirement benefits exceeding the accumulated fund are charged to expense when paid.

*Income Tax*

Income tax is provided on the basis of estimated income tax currently payable. Adjustments of tax liabilities of prior periods are included in the current year's provision.

*Foreign-Currency Transactions*

Foreign-currency transactions are recorded in new Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses



resulting from the application of different foreign exchange rates in effect when foreign-currency assets and liabilities are settled are credited or charged to income in the year of actual settlement. At year end, the balances of foreign-currency assets and liabilities are restated on the basis of year-end exchange rates, and resulting exchange gains or losses are credited or charged to current income.

### *Reclassifications*

Certain reclassifications have been made in the 19LY financial statements to conform to classifications adopted in 19CY.

### **3. Notes and Accounts Receivable**

	<u>19CY</u>	<u>19LY</u>
Notes receivable	\$ 13,524,202	\$ 8,530,024
Accounts receivable	63,725,237	51,520,118
	<u>77,249,439</u>	<u>60,050,142</u>
Less allowance for doubtful accounts	3,029,826	3,503,738
	<u>\$ 74,219,613</u>	<u>\$ 56,546,404</u>

### **4. Inventories**

	<u>19CY</u>	<u>19LY</u>
Finished products	\$ 31,838,698	\$ 18,335,972
Work in process	11,804,074	7,803,445
Raw materials and supplies	47,621,046	29,944,285
Materials in transit	12,733,396	6,006,687
	<u>103,997,214</u>	<u>62,090,389</u>
Less allowance for decline in value	3,873,197	5,113,902
	<u>\$100,124,017</u>	<u>\$ 56,976,487</u>

### **5. Income Tax**

Income taxes payable as of December 31, 19CY and 19LY are net of prepayments aggregating \$9,349,592 and \$3,501,873, respectively.

The Corporation's income tax returns through the year ended December 31, 19LY, have been assessed by the tax authorities.

### **6. Long-Term Debt and Credit Lines**

Long-term debts represent bank acceptances and commercial paper with annual discount rates of 7.13%–10.48% in 19CY and 4.10%–6.10% in 19LY. These debt instruments were issued under a long-term revolving bank loan

agreement expiring in 19FY, which is secured by the following assets of the Corporation:

Land	\$21,338,244
Buildings – net	38,160,910
	<u>\$59,499,154</u>

The loan agreement restricts the Corporation from mortgaging its machinery and equipment for other financing.

### 7. Retained Earnings

The corporation's Articles of Incorporation provide that the following should be appropriated from annual net income:

- a. 10% legal reserve
- b. Bonus to employees equal to 1% of the net income less legal reserve

These appropriations and other distributions of earnings should be resolved by the shareholders in the following year and take effect in the financial statements of that year.

Under the Company Law, the appropriation for legal reserve should be made until the reserve equals the Corporation's capital. The reserve should be used only to reduce or offset a deficit; when the reserve has reached 50% of the capital, up to 50% of the reserve may be transferred to capital.

### 8. Retirement Benefits

The Corporation has a retirement plan covering all regular employees. Benefits under this plan are based on length of service and average salary or wage of the last six months before retirement.

The Corporation monthly contributes 5.8% of salaries and wages to a retirement fund. The fund is administered by the employee retirement plan committee and is deposited in the Central Trust of China.

Contributions to the retirement fund totaled \$2,303,278 in 19CY and \$1,892,076 in 19LY. The balance of the retirement fund as of December 31, 19CY and 19LY amounted to \$14,047,803 and \$11,103,411, respectively.

### 9. Related-Party Transactions

<u>As of December 31</u>	<u>19CY</u>	<u>19LY</u>
Due from affiliated companies		
· ABC (Asia) Ltd.	\$17,308,511	\$14,853,240
· Others	66,515	53,496
	<u>\$17,375,026</u>	<u>\$14,906,736</u>

<u>As of December 31</u>	<u>19CY</u>	<u>19LY</u>
Due to affiliated companies		
CDF Corporation	\$40,479,976	\$11,324,747
ABC Limited (UK)	2,228,010	1,129,598
ABC (Asia) Ltd.	1,389,681	455,803
ABC Société Anonyme	800,507	658,350
ABC Espanola, S.A.	249,732	57,438
	<u>\$45,147,906</u>	<u>\$13,625,936</u>
<u>For the Year</u>	<u>19CY</u>	<u>19LY</u>
Sales		
ABC (Asia) Ltd.	<u>\$58,472,911</u>	<u>\$55,359,151</u>
Purchases of materials and supplies		
CDF Corporation	\$48,900,753	\$28,609,714
ABC Limited (UK)	13,343,496	13,053,275
ABC Société Anonyme	4,867,996	7,756,910
Others	2,671,992	123,267
	<u>\$69,784,237</u>	<u>\$49,543,166</u>
Purchases of machinery		
CDF Corporation	\$19,260,000	\$ —
Others	2,433,051	—
	<u>\$21,693,051</u>	<u>\$ —</u>
Export commission expense		
ABC (Asia) Ltd.	<u>\$ 1,657,264</u>	<u>\$ 1,724,435</u>
Royalty expense		
CDF Corporation	<u>\$17,793,900</u>	<u>\$14,292,445</u>
Guarantee fee		
CDF Corporation	<u>\$ 617,005</u>	<u>\$ 2,315,957</u>

Under an agreement expiring November 30, 19FY, the Corporation pays royalty to CDF Corporation for technical assistance and the use of licensed patent and trademark. The royalty is a certain percentage of net sales of licensed products.

## APPENDIX D

# Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Taiwan

<u>General Information</u>	<u>Answer</u>	<u>Comments</u>
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been published in <i>Codification of Statements on Auditing Standards</i> . Do generally accepted auditing standards exist in the Republic of China?	Yes. SAS No. 1	
B. If so, are they published?		Yes. SAS No. 1
C. If auditing standards exist in the Republic of China, are they similar to U.S. Standards?		Yes. SAS No. 1
D. If not, what are they?		

3. The Auditing Standards Committee of the ROC, Accounting Research and Development Foundation.

3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)? See Comment

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. SAS No. 8	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. SAS No. 9	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. SAS No. 7	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	No	✓			7. See paragraph 49 of text.
8. A. Do auditors prepare and maintain working papers? (AU 339) B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. SAS No. 1, par. 6; SAS No. 3 Yes. SAS No. 3	✓ ✓			
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. SAS No. 1, par. 4	✓			

Notes:

Checklist was completed from the perspective of performing a local audit, not a referral audit. AU section numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted. This checklist does not include the latest GAAS pronouncements issued in the United States.

<u>U.S. Generally Accepted Auditing Standards</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325) B. If so, is the communication documented? (AU 325)	No	✓			10A,B. Auditors usually communicate to management material weaknesses in internal controls, together with suggestions for improvement. These comments are usually communicated through a letter.
11. In obtaining evidence, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	No	✓			11. In general, nonstatistical procedures are used.
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. SAS No. 14, par. 9	✓			
13. A. Does the auditor perform procedures to identify related-party transactions and their effects on the financial statements? (AU 334) B. If so, list the procedures.	Yes. SAS No. 6	✓			13Ba. Determining whether related parties exist b. Performing procedures to ascertain if the transaction party is related c. Determining whether there are related-party transactions

<p>14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)</p>	<p>Yes. SAS No. 9</p>	<p>✓</p>
<p>15. A. Are specific auditing procedures applied to transactions occurring after the balance-sheet date? (AU 560)</p>	<p>Yes. SAS No. 13</p>	<p>✓</p>
<p>B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)</p>	<p>Yes. SAS No. 13</p>	<p>✓</p>
<p>16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in the Republic of China?</p>	<p>No</p>	<p>✓</p>
<p>17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)</p>		

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
<p>A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?</p>	No	✓	✓		
<p>B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?</p>	Yes. SAS No. 15, par. 9	✓			
<p>18. A. Is there a standard form of auditor's report? (AU 508)</p>	Yes. SAS No. 2	✓			18B. See paragraphs 47 and 49 of text.
<p>B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)</p>					
<p>19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)</p>	Yes. SAS No. 2, par. 13	✓			
<p>B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?</p>					
<p>20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)</p>	Yes. SAS No. 2, par. 20	✓			



B. If not, what date is used?

21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (Code of Professional Conduct, Rule 101 and its interpretations)
22. Please describe any R.O.C. standards for which there are no corresponding U.S. standards.

Yes. Code of Professional Ethics

22. None

## APPENDIX E

# Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Taiwan

<u>General Information</u>	<u>Answer</u>	<u>Comments</u>	
1. Are there generally accepted accounting principles in the Republic of China? If so, are they codified?	Yes		
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	See Comment	2. The Financial Accounting Standards Committee of the R.O.C. Accounting Research and Development Foundation.	
<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u> <u>Minority Practice</u> <u>Not Done</u> <u>Comments</u>	
3. Are assets and liabilities recorded on the historical cost basis?	Yes. SEAS No. 1, par. 6	✓	3. If prices rise by 25%, the fixed assets, depletion assets, and intangible assets may be revalued.
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset?	Yes. SEAS No. 3, par. 2	✓	

5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. SFAS No. 1, par. 25	✓	5B. See comment for question 3.
B. If so, define the basis.			
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	Yes. SFAS No. 1, par. 21	✓	
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. SFAS No. 1, pars. 14 and 43	✓	
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. SFAS No. 1, pars. 14 and 44	✓	

*Notes:*

References in the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text*, unless otherwise noted. This checklist does not include the latest GAAP pronouncements issued in the United States.

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
9. A. Are consolidated financial statements required when one company has control over another company? (C51) B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. SFAS No. 7, par. 11  Yes. SFAS No. 7, sec. 5, par. 3	✓	✓		9A. See paragraph 53 of text.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51) B. If so, list them.	Yes. SFAS No. 7, pars. 12 and 13	✓			10A, B. See paragraphs 63 and 64 of text.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. SFAS No. 1, par. 20	✓			
12. Are there two methods of accounting for business combinations – the pooling-of-interests method and the purchase method? (B50)	No			✓	12. There is no specific pronouncement on business combinations but the Company Law must be followed. In practice, assets and liabilities obtained from an acquired company are generally recorded at their book value. Negative goodwill must be taken directly to shareholders' equity.

13. Is the method used to account for a business combination disclosed? (B50)	No	✓	13. See comment for question 12.
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50) B. If so, list the criteria.	No	✓	14A. See comment for question 12.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60) B. If so, is it amortized as a charge to income over the period estimated to be benefited?	No	✓	15A, B. See paragraph 77 of text.
16. Are the following disclosures made for related-party transactions: (R36)			
a. the nature of the relationship?	Yes. SFAS No. 6, par. 4	✓	
b. a description of the transactions for the periods presented?	Yes. SFAS No. 6, par. 4	✓	
c. the amounts of the transactions for the periods presented?	Yes. SFAS No. 6, par. 4	✓	
d. the amounts due to or from related parties at the balance-sheet date?	Yes. SFAS No. 6, par. 4	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. SFAS No. 9, par. 15	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. SFAS No. 9, par. 16	✓			
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. SFAS No. 1, par. 55	✓			19. SFAS No. 1, par. 55 requires the disclosure of guarantees of indebtedness of others. Under SFAS No. 9, par. 17, loss contingencies need not be accrued and a note to the financial statements is permitted but not required.
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (\$20)					20. Disclosure of segment information is not required.
a. sales to outsiders and inter-segment sales?	No			✓	
b. operating profit or loss?	No			✓	
c. identifiable assets and related depreciation, depletion, and amortization expense?	No			✓	
d. capital expenditures?	No			✓	
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No			✓	

<i>f.</i> effect of a change in accounting principle?	No		✓
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28) B. If so, list the disclosures required.	No		✓
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. SFAS No. 1, par. 18	✓	
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05) B. If not, how are noncurrent assets defined?	Yes. SFAS No. 1, par. 19	✓	
24. A. Is an allowance established for uncollectible receivables? (C59) B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	Yes. SFAS No. 1, par. 19	✓	24B. There is no specific pronouncement on this item. In practice, the percentage of total sales and aging of accounts receivable are used.
25. Are receivables and payables not arising in the normal course of business or subject to normal trade terms recorded at an amount that takes imputed interest into account? (I69)	No	✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. SFAS No. 1, par. 19; SFAS No. 10, par. 13	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, how is inventory stated?					
C. Is the basis disclosed?	Yes. SFAS No. 10, par. 25	✓			
27. Does cost for inventory purposes include: (178)					
<i>a.</i> materials?	Yes. SFAS No. 10, pars. 3 and 24	✓			
<i>b.</i> direct labor?	Yes. SFAS No. 10, par. 3	✓			
<i>c.</i> factory overhead?	Yes. SFAS No. 10, par. 3	✓			
<i>d.</i> if the answer to <i>c</i> is yes, is an allocable share of all factory overhead included?	Yes. SFAS No. 10, par. 5	✓			
28. A. Are the following cost methods permitted for reporting purposes: (178)					
<i>a.</i> first-in, first-out (FIFO)?	Yes. SFAS No. 10, par. 17		✓		
<i>b.</i> last-in, first-out (LIFO)?	Yes. SFAS No. 10, par. 17		✓		
<i>c.</i> average cost?	Yes. SFAS No. 10, par. 17	✓			
B. Are the same methods permitted for tax purposes?	Yes. Income Tax Law, Article 44	✓			
29. Is the inventory costing method used disclosed? (178)	Yes. SFAS No. 10, par. 25	✓			



30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40) ✓ Yes. SFAS No. 1, par. 45
- B. If so, is an accumulated depreciation account used? ✓
31. Are disclosures made of: (D40) ✓
- a. depreciation expense for the period? ✓ Yes
- b. balances of major classes of depreciable assets? ✓ Yes. SFAS No. 1, par. 22
- c. the methods used to compute depreciation for the major asset classes? ✓ Yes. SFAS No. 15, par. 6
- d. accumulated depreciation, either by major class of assets or in total? ✓ Yes. SFAS No. 1, par. 22
32. A. Do criteria exist for classifying leases as operating leases? (L10) ✓ No. SFAS No. 2, par. 5
- 32A. There are no specific criteria for operating leases. However, SFAS No. 2, Sec. 5 states: "Any lease that does not meet the criteria for capital lease should be treated as operating lease."
- B. If so, list the criteria and disclosure requirements.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10) ✓ Yes. SFAS No. 2, par. 6
- 33A,B. See paragraphs 69 through 73 of text.
- B. If so, list the criteria, type of lease, and disclosure requirements.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes	✓			
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05) B. If not, how are noncurrent liabilities defined?	Yes. SFAS No. 1, par. 31	✓			
36. For notes payable, is disclosure made of:					
a. interest rates?	Yes. SFAS No. 1, pars. 31 and 55	✓			
b. maturities? (C32)	Yes	✓			
c. assets pledged as collateral?	Yes	✓			
d. covenants to reduce debt?	Yes	✓			
e. minimum working capital requirements?	Yes	✓			
f. dividend restrictions?	Yes	✓			
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4) B. If so, what are the criteria for determining the method to be used?	Yes. SFAS No. 11, par. 5	✓			

37B. See paragraphs 74 through 76 of text.

38. A. Are research costs charged to expense when incurred? (R50) Yes. SFAS No. 1, par. 23 ✓
- B. Are such costs disclosed? No ✓
39. A. Are development costs charged to expense when incurred? (R50) Yes. SFAS No. 1, par. 23 ✓
- B. Are such costs disclosed? No ✓
40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in the Republic of China? (I17) Yes. SFAS No. 1, par. 41 ✓
- B. If not, what are the criteria?
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22) No ✓
42. A. Are disclosures required for:
- a. extraordinary items? (I17) Yes. SFAS No. 1, par. 41 ✓
  - b. material events or transactions not classified as extraordinary items? (I22) Yes. SFAS No. 1, par. 55 ✓
  - c. disposal of a segment of a business? (I13) No ✓
41. There is no specific pronouncement on this item. In practice, any material amount will be shown as a separate component of income or expense.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. Indicate the financial statement presentation of these items.					
43. A. Are pension costs provided for covered employees over the term of employment? (P16) B. If so, do they include charges for costs assigned under the actuarial method used in years prior to the plan's inception?	No		✓		42B. Extraordinary items should be presented after income before income tax and before net income in the income statement. 43. See paragraph 67 of text.
44. A. Are specific disclosures required relating to pension plans? (P16) B. If so, list them.	No		✓		
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25) B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	No		✓		45. See paragraph 65 of text.
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	No		✓		46A,B. There is no specific pronouncement on determining deferred income tax. In practice, current tax rates are used.

- B. If not, on what basis? ✓
47. A. Is specific information related to income taxes required to be disclosed? (125) Yes. SFAS No. 12, pars. 6 and 11
- B. If so, list the requirements. 47B. The tax credit to current income (under the immediate-reduction method) or the amortization of the deferred income tax credit (under the deferral method) should be either presented separately in the income statement or disclosed in the notes to financial statements. The balance of deferred income tax credit and the year when this tax credit will expire should be disclosed in the notes to financial statements.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (125) No
- B. If so, are the tax effects of a loss carryback included in the income in the period? ✓
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (125) Yes
- B. If so, are the tax effects of a loss carryforward included in the income in the period realized? 49B. See paragraph 66 of text.
50. Are financial statements of a foreign entity prepared for Yes. SFAS No. 14, par. 12

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)					
51. Are all elements of financial statements translated at current exchange rates? (F60)	Yes. SFAS No. 14, par. 13	✓			
52. A. Are translation adjustments reported separately? (F60)	Yes. SFAS No. 14, par. 29	✓			
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. SFAS No. 14, par. 22	✓			
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Yes. SFAS No. 14, par. 32	✓			
53. A. Are gains and losses resulting from transactions denominated in a currency other than that of the environment in which the entity operates included in determining net income for the period in which the exchange rate changes? (F60)	Yes. SFAS No. 14, par. 7	✓			
B. Is the aggregate transactions gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. SFAS No. 14, par. 31	✓			

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|--|---|--|
| 54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60) | Yes. SEAS No. 14, par. 16   | ✓  |
| 55. What information is disclosed about foreign currency restrictions? (F60)   | 55. Although not required, in practice, the nature of the restriction is usually disclosed. | ✓  |
| 56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)                                      | Yes. SEAS No. 9, pars. 10, 19, and 20   | ✓  |
| 57. Please list any R.O.C. standards for which there are no corresponding U.S. standards.  | See Comment   | 57. Primarily, the revaluation of fixed assets and the transfer to capital surplus of gains on sale of fixed assets. |





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