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## **Guide to Accounting and Auditing Requirements in Taiwan**

### **1. Introduction**

In accordance with the prevailing laws and regulation, businesses registered in Taiwan are required to maintain accounting records and prepare annual financial statements in accordance with Taiwan Generally Accepted Accounting Principles (GAAP), which largely follow International Financial Reporting Standards (IFRS) and US GAAP. In addition, Taiwan's income tax law requires that a profit-seeking enterprise keeps sufficient and accurate account records and supporting documents for calculation of its taxable income.

### **2. Accounting Books and Records**

#### **(1) Accounting Period**

Businesses generally use the 1 January to 31 December calendar year as their accounting year, which is the same as the fiscal year for tax purposes. However, a company may, with permission, adopt a non-calendar year-end.

#### **(2) Bookkeeping Currency**

Accounting books must be denominated in the local currency (New Taiwan dollar, NTD). If accounts are kept in a foreign currency due to business needs, such currency must be translated into the local currency in the company's closing financial statements.

(3) Bookkeeping Language

All accounting books, documents and financial statements prepared by a company should be in Chinese, but may also be written concurrently in a foreign language.

(4) Accounting Basis

Business entities must follow the accrual basis of accounting in performing recognition, measurement and reporting for accounting purposes. All income realised and expenses incurred or attributable to the current period should be recognised as income or expenses in the current period regardless of when the income is received or expenses are paid.

(5) Accounting Books

Companies are required to maintain accounting records and prepare annual financial statements in accordance with Taiwan GAAP. They must keep journals, a general ledger and subsidiary ledgers, as well as appropriate memorandum records. Computerised accounting systems, if utilised, can be regarded as the company's accounting records. However, when a profit-seeking enterprise intends to computerize its accounting records, it must apply for an approval from the tax authority before it uses a computer to maintain accounting records.

(6) Financial Statements

A profit-seeking enterprise must prepare the following reports and financial statements:

- (a) Business reports
- (b) Balance sheet
- (c) Income statement (profit and loss account)
- (d) Cash flow statement
- (e) Statement of changes in owners' equity and notes to financial statements.

(7) Reporting Format

The format of financial statements is set forth in the Statements of Financial Accounting Standards issued by Taiwan's accounting standard-setting body, the Accounting Research and Development Foundation (ARDF). Public companies are also required to follow the format and guidance prescribed by the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission (FSC).

(8) Accounting Supporting Documents

All the accounting entries must have supporting documents. The primarily supporting documents are government uniform invoices (GUIs) issued by the sellers. GUIs not only are strictly controlled by the tax authorities but are also printed and pre-numbered. Enterprises must purchase blank GUIs from the authorities at the beginning of each month. Unused invoices must be accounted for periodically. Other supporting documents are receipts, certificates, and ordinary invoices.

(9) Preservation of Books and Records

All accounting records must be kept for at least five years, and all accounting books and financial statements must be kept for at least ten years after the completion of annual closing procedures.

### 3. Audit Requirements

Private companies are required to have their annual financial statements audited and certified by a Taiwan-licensed certified public accountant (CPA) if their paid-in capital is NT\$30 million or more. Public companies and financial institutions must also have their financial statements audited and certified by a CPA, as well as meet other reporting requirements.

Public companies are required to have their annual financial statements audited and certified by a CPA within four months following the close of each fiscal year. They must also have their semi-annual financial statements audited and certified by a CPA within two months after the close of each fiscal half year. In addition, their first and third quarter financial reports must be reviewed by a CPA within one month after the end of the first and third fiscal quarters.

#### 4. Accounting Standards

The Financial Accounting Standards Committee under the Accounting Research and Development Foundation of the ROC established standards of financial accounting and reporting. Generally, the standards are similar to the International Accounting Standards and those of the United States. When the differences appear, the ROC standards precede any other accounting standards. Besides the accounting standards established by the private sector, additional accounting practices are prescribed by the Business Accounting Law and by certain regulatory agencies such the SEC, the MOF, and the MOEA.

However, for the following purposes, the Financial Supervisory Commission (FSC) planned to adopt the International Financial Reporting Standards (IFRS):

- (1) Strengthening the comparability of financial statements between domestic enterprises and international enterprises.
- (2) Enhancing our international competitiveness of capital markets.
- (3) Attracting foreign capital investment in domestic capital market.
- (4) Reducing the cost of raising funds overseas of domestic enterprises.

According to the FSC timetable for IFRS adoption, all listed companies, OTC companies, emerging companies and financial institutions under the commission's supervisory, except grass-root credit cooperatives, credit card firms and insurance agents, must adopt IFRS no later than 2013; all public companies, grass-root credit cooperatives, credit card firms, must adopt IFRS no later than 2015.

## 5. Auditor Independence and Auditing Standards

The ‘Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants,’ cover independence matters, reporting and disclosure requirements, suggested audit procedures, and other general requirements related to the review of internal control systems. Independent auditors must examine the financial statements in accordance with current auditing and certification rules, as well as the Statements of Auditing Standards issued by the ARDF. In general, auditing standards and procedures in Taiwan are similar to the International Standards on Auditing and US Statements on Auditing Standard.

