

**STATEMENT OF
FINANCIAL ACCOUNTING STANDARD**

SFAS No.

6

INDONESIAN INSTITUTE OF ACCOUNTANTS

**ACCOUNTING AND REPORTING BY DEVELOPMENT
STAGE ENTERPRISES**

Statement of Financial Accounting Standard (SFAS) No. 6, Accounting and Reporting by Development Stage Enterprises, was adopted by a meeting of the Indonesian Accounting Principles Committee on August 24, 1994 and was ratified by the Executive Committee of the Association of Indonesian Accountants on September 7, 1994.

Compliance with the policies contained in this Statement is not obligatory in the case of immaterial items.

Jakarta, September 7, 1994

Executive Committee
Association of Indonesian Accountants

Indonesian Accounting Principles Committee

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INTRODUCTION

In the past, many development stage enterprises often followed accounting practices and financial reporting that differed from established companies. This practice included capitalization or deferral of charges on all expenses without considering the probability of recovery or subtracting the expenses from revenues. Development stage enterprises should present financial statements in accordance with generally accepted accounting principles like established companies.

Objective

This Statement prescribes the accounting treatment and reporting for development stage enterprises.

Scope

01 This Statement should be applied in all financial statements presented either by a new company or subsidiary of an established operating company, including other investment units still in the development stage. This Statement does not alter or amend generally accepted accounting principles with respect to an established business in expansion phases, extractive industries in exploration or development stages, or real estate firms developing properties.

EXPLANATION

Identification of Development Stage Enterprises

02 A company is recognized as a development stage enterprise in this Statement if it fulfills these two requirements:

- (a) the enterprise devotes efforts to establishing the new company; and
- (b) it fulfills one of the two requirements explained in paragraph 4.

03 Establishing a new company generally includes activities such as financial budgeting, funding, research and development, searching for suppliers, purchasing fixed assets and other operational assets such as the right to explore for natural resources, recruitment and employee training, developing markets and production experiments.

04 One of these two requirements must be fulfilled:

- (a) principal operations must not have commenced; or
- (b) principal operations must have generated only an insignificant amount of revenue.

STATEMENT OF FINANCIAL ACCOUNTING STANDARD NUMBER 6**ACCOUNTING AND REPORTING BY DEVELOPMENT STAGE ENTERPRISES**

Statement of Financial Accounting Standard No. 6 consists of paragraphs 5-10. This Statement should be read in the context of paragraphs 1-4.

Accounting and Financial Reporting

05 Financial statements issued by development stage enterprises present:

- (a) financial position, cash flows, and results of pre-operations in accordance with general accepted accounting principles applied to established operating companies; and
- (b) the information required in paragraph 6.

Generally accepted accounting principles are applied to every development stage enterprise, either in recognizing revenue or in determining whether operating costs should be expensed, or is to be capitalized or deferred for amortization in future periods. Costs, including initial costs, may only be capitalized which provide a benefit to future periods.

06 Other information in primary financial statements should include:

- (a) a balance sheet, including accumulated losses that should be described as “deficit accumulated during the development stage” in the equity section;
- (b) an income statement showing revenues and expenses for each period being presented, including a running cumulative total of both amounts from the company’s inception;
- (c) a cash flow statement reflecting sources and uses of cash and cash equivalents for each period, including a cumulative total from the company’s inception; and
- (d) a separate statement of stockholders’ equity showing from the enterprise’s inception:
 - i for each issuance, the date and number of shares or other equity instruments;
 - ii for each issuance, amount of money (per share and in total) either in cash or non-cash consideration received in exchange for stocks or other equity instruments issued by the company; and
 - iii a description of the nature of the consideration for each issuance of capital stock involving non cash consideration and the basis for its valuation.

07 The financial statements should be identified as those of a development stage enterprise and contain a description of the proposed business activities.

08 The financial statements for the first fiscal year in which an enterprise is no longer considered to be in the development stage shall disclose that in prior years it had been in the development stage. If financial statements for prior years are presented for comparative purposes, the cumulative amounts and other additional disclosures required by paragraphs 6 and 7 need not be shown.

Transition

09 A company that has capitalized pre-operating expenses before the implementation of this Statement can charge to expense the remaining balance of the pre-operating expenses in the current year or may amortize the remaining balance over a period of not more than 3 years. This change in accounting policy should be applied prospectively.

Effective Date

10 This Statement becomes effective for financial statements covering periods beginning on or after January 1, 1995. Earlier application is encouraged.