

Statutory Issue Paper No. 105

Reporting on the Costs of Start-Up Activities

STATUS

Finalized September 12, 2000

Original SSAP and Current Authoritative Guidance: SSAP No. 76

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. This issue paper addresses start-up costs. In practice, various terms are used to refer to start-up costs, such as preopening, preoperating, and organization costs. For purpose of this issue paper, these costs are referred to as start-up costs. Current statutory accounting guidance is provided in *SSAP No. 17—Preoperating and Research and Development Costs* (SSAP No. 17). American Institute of Certified Public Accountants (AICPA) Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*, (SOP 98-5) specifically addresses the reporting of start-up costs.

2. The purpose of this issue paper is to adopt SOP 98-5 with modification to add certain disclosure requirements, which is consistent with SSAP No. 17 and the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

3. Cost of start-up activities, including organization costs, shall be expensed as incurred. Start-up activities are defined broadly as those one-time activities related to: (1) opening a new facility; (2) introducing a new product or service; (3) conducting business in a new territory; (4) conducting business with a new class of customer or beneficiary; (5) initiating a new process in an existing facility; or (6) commencing some new operation. Start-up activities include activities related to organizing a new entity (commonly referred to as organization costs).

4. Cost of start-up activities incurred in an accounting period shall be disclosed in the annual audited statutory financial report only.

DISCUSSION

5. This issue paper adopts SOP 98-5, which requires costs of start-up activities and organization costs to be expensed as incurred. This is consistent with SSAP No. 17 and the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy.

6. *SSAP No. 4—Assets and Nonadmitted Assets* (SSAP No. 4) defines an asset as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” Although in some instances start-up and organization costs may appear to comply with the definition of an asset established by SSAP No. 4, it is not consistent with the “Conservatism” concept included in the Statement of Concepts to presume that it is “probable” that an entity in a start-up phase will generate future economic benefits. Start-up and organization costs, therefore, do not meet the definition of an asset for statutory accounting purposes and as such should be expensed as incurred. To expense rather than to capitalize such costs is also consistent with the Recognition concept included in the Statement of Concepts, which states that a reporting entity’s “ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due.”

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE**Statutory Accounting**

7. SSAP No. 17, paragraph 2 states:

Preoperating, including organization and start up costs, and research and development costs shall be expensed as incurred. Preoperating and research and development costs are incurred for such new projects as: (a) arranging operations for a new company (e.g., legal, actuarial and accounting costs associated with regulatory approval and licensing and issuance of stock); (b) establishing production, sales or service facilities at a new site; (c) changing operations or production significantly; or (d) developing and producing a new product, adopting a new process or offering a new service.

Generally Accepted Accounting Principles

8. SOP 98-5, paragraph 12 states:

Conclusions**Accounting for Start-Up Costs**

.12 Costs of start-up activities, including organization costs, should be expensed as incurred.

Drafting Notes/Comments

- SOP 98-5 contains illustrations that provide examples. These illustrations should not be interpreted to be all-inclusive.

RELEVANT LITERATURE**Statutory Accounting**

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *SSAP No. 17—Preoperating and Research and Development Costs*
- *SSAP No. 4—Assets and Nonadmitted Assets*

Generally Accepted Accounting Principles

- *AICPA Statement of Position 98-5, Reporting on the Costs of Start-Up Activities*

State Regulations

- No additional guidance obtained from state statutes or regulations.