Accounting Standards for Business Enterprises No. 28 - Changes in Accounting Policies and Estimates, and Corrections of Errors

Chapter 1: General Provisions

Article 1

This Standard is formulated in accordance with the *Accounting Standards for Business Enterprises - Basic Standards* to regulate the application of accounting policies by enterprises, and the recognition, measurement and disclosure of information relating to changes in accounting policies and estimates, and corrections of prior period errors.

Article 2

The income tax effects of changes in accounting policies and corrections of prior period errors shall be accounted for in accordance with *Accounting Standards for Business Enterprises No. 18 - Income Taxes*.

Chapter 2: Accounting Policies

Article 3

An enterprise shall apply the same accounting policy to similar transactions and events unless another accounting standard requires otherwise.

Accounting policies are the specific principles, bases and accounting treatment methods adopted by an enterprise in accounting recognition, measurement and reporting.

Article 4

The accounting policies adopted by an enterprise shall be consistent from one accounting period to the next and shall not be changed arbitrarily. However, an accounting policy may be changed if:

1. The change is required by laws, administrative regulations or the national uniform accounting system; or
2. The change will result in the financial statements providing more reliable and relevant information.

Article 5

The following are not changes in accounting policies:

1. The adoption of a new accounting policy for transactions or events that differ in substance from those occurring previously;
2. The adoption of a new accounting policy for transactions or events that did not occur previously or that were immaterial.

Article 6

When an enterprise changes an accounting policy as required by laws, administrative regulations or the national uniform accounting system, it shall follow the relevant national accounting provisions.

When an accounting policy is changed to provide more reliable and relevant information, the change shall be accounted for retrospectively. The cumulative effect of the change shall be adjusted against the opening balance of retained earnings for the earliest prior period presented, and the opening balances of other related items and other comparative amounts disclosed for prior periods shall also be adjusted, unless it is impracticable to determine the cumulative effect of the change.

The retrospective application method refers to the method whereby the new accounting policy is applied to transactions and events as if the policy had always been in use, with corresponding adjustments made to the related items in the financial statements.

The cumulative effect of an accounting policy change is the difference between the amount of retained earnings at the beginning of the earliest prior period presented that would have been reported if the new accounting policy had always been applied and the amount actually reported.

Article 7

If it is impracticable to determine the effect of an accounting policy change on prior periods, the new policy shall be

applied from the beginning of the earliest period for which retrospective application is practicable.
If it is impracticable to determine the cumulative effect of an accounting policy change on all prior periods at the beginning of the current period, the prospective application method shall be used.
The prospective application method refers to the method whereby the new accounting policy is applied to transactions and events occurring on or after the date of the change, or whereby the effect of a change in accounting estimate is recognized in the current and future periods.
Chapter 3: Changes in Accounting Estimates
Article 8
An enterprise may need to revise an accounting estimate if the basis for the estimate changes or as a result of new information, more experience or subsequent developments. The basis for a change in accounting estimate shall be truthful and reliable.
A change in accounting estimate is an adjustment to the carrying amount of an asset or liability, or the periodic consumption of an asset, that results from changes in the current status and expected future economic benefits and obligations associated with the asset or liability.
Article 9
An enterprise shall account for a change in accounting estimate using the prospective application method.
If the change affects only the current period, its effect shall be recognized in the current period. If the change affects both the current and future periods, its effect shall be recognized in the current and future periods.
Article 10
If it is difficult for an enterprise to distinguish a change as either a change in accounting policy or a change in accounting estimate, the change shall be treated as a change in accounting estimate.
Chapter 4: Corrections of Prior Period Errors
Article 11
A prior period error is an omission or misstatement in prior period financial statements resulting from the failure to use, or misuse of, reliable information that:

1. Was available when the prior period financial statements were authorized for issue; and
2. Could reasonably be expected to have been obtained and taken into account in the preparation of those financial statements.

Prior period errors include calculation mistakes, misapplication of accounting policies, oversights or misinterpretations of facts, effects of fraud, and inventory or fixed asset overages.
Article 12
An enterprise shall correct a material prior period error retrospectively by restating the comparative amounts for the prior periods presented, unless it is impracticable to determine the cumulative effect of the error.
The retrospective restatement method refers to the method whereby prior period financial statements are corrected as if the error had never occurred.
Article 13
If it is impracticable to determine the effect of a prior period error, the enterprise shall adjust the opening balance of retained earnings for the earliest period for which retrospective restatement is practicable, with corresponding adjustments to the opening balances of other related items in the financial statements, or shall use the prospective application method.
Article 14
An enterprise shall adjust the comparative amounts for prior periods in the financial statements for the period in which a material prior period error is discovered.
Chapter 5: Disclosure

Article 15

An enterprise shall disclose the following information about changes in accounting policies in the notes:

1. The nature, content and reason for the change;
2. The amounts of adjustments for each affected item in the current and prior periods presented;
3. If retrospective application is impracticable, the fact and reason, and the date from which the new policy was applied and how it was applied.

Article 16

An enterprise shall disclose the following information about changes in accounting estimates in the notes:

1. The content and reason for the change;
2. The effect of the change on the current and future periods;
3. If the effect on the current or future periods cannot be determined, the fact and reason.

Article 17

An enterprise shall disclose the following information about corrections of prior period errors in the notes:

1. The nature of the error;
2. The amounts of corrections for each affected item in the prior periods presented;
3. If retrospective restatement is impracticable, the fact and reason, and the date from which the correction was made and how it was made.

Article 18

In financial statements for subsequent periods, there is no need to repeat the disclosures about changes in accounting policies and corrections of prior period errors that have already been disclosed in the notes to prior period financial statements.

Release Date: March 9, 2006