Accounting Standard for Business Enterprises No. 38 - First-time Adoption of Enterprise Accounting Standards

Chapter I General Provisions

Article 1 This Standard is formulated in accordance with the *Accounting Standard for Business Enterprises - Basic Standard* to prescribe the recognition, measurement, and financial statement presentation of accounting elements upon first-time adoption of the Accounting Standards for Business Enterprises.

Article 2 First-time adoption of the Accounting Standards for Business Enterprises refers to an enterprise applying the system of Accounting Standards for Business Enterprises for the first time, including the Basic Standard, Specific Standards, and Accounting Standards Application Guidance.

Article 3 Changes in accounting policies that occur *after* the first-time adoption of the Accounting Standards for Business Enterprises shall be dealt with under *Accounting Standard for Business Enterprises No. 28 - Changes in Accounting Policies and Accounting Estimates, and Correction of Errors*.

Chapter II Recognition and Measurement

Article 4 On the transition date to the Accounting Standards for Business Enterprises, an enterprise shall reclassify, recognize, and measure all assets, liabilities, and owners' equity according to the Accounting Standards for Business Enterprises and prepare an opening balance sheet.

When preparing the opening balance sheet, items shall not be adjusted retrospectively except for those requiring retrospective adjustment according to the provisions of Articles 5 to 19 of this Standard.

Article 5 For long-term equity investments on the transition date, the following treatments shall apply:

(一) For long-term equity investments arising from business combinations under common control according to *ASBE No. 20 - Business Combinations*, any unamortized balance of the investment difference shall be fully written off and adjusted against retained earnings. The carrying amount of the long-term equity investment after writing off the investment difference shall be deemed its deemed cost on the transition date.

(二) For other long-term equity investments accounted for under the equity method not covered in (一) above: if there is a credit balance of the investment difference, it shall be written off and adjusted against retained earnings, and the carrying amount after writing off the credit difference shall be deemed its deemed cost on the transition date; if there is a debit balance of the investment difference, the carrying amount of the long-term equity investment shall be deemed its deemed cost on the transition date.

Article 6 For investment properties for which there is conclusive evidence that they can be measured at fair value, they may be measured at fair value on the transition date. The difference between the carrying amount and the fair value shall be adjusted in retained earnings.

Article 7 On the transition date, for decommissioning obligations that meet the recognition criteria for provisions and that were not included in the cost of the related asset before that date, the cost of the asset shall be increased and a corresponding liability recognized. Additionally, any catch-up depreciation (or depletion) shall be adjusted against retained earnings.

Article 8 For plans to terminate the employment of employees existing on the transition date that meet the recognition criteria for provisions under *ASBE No. 9 - Employee Compensation*, a liability for termination benefits shall be recognized and retained earnings adjusted.

Article 9 For investments held by an enterprise annuity fund, they shall be measured at fair value on the transition date. The difference between the carrying amount and the fair value shall be adjusted in retained earnings.

Article 10 For share-based payment transactions with vesting dates on or after the transition date, the amount of cost or expense attributable to the pre-transition date vesting period shall be adjusted against retained earnings, with a corresponding increase in owners' equity or liabilities, based on the fair value of the equity instruments, services received from other parties, or liabilities calculated based on equity instruments, according to the provisions of *ASBE

No. 11 - Share-based Payment*.
Share-based payment transactions that vested *before* the transition date shall not be adjusted retrospectively.
Article 11 On the transition date, an enterprise shall recognize restructuring obligations that meet the recognition criteria for provisions as liabilities according to *ASBE No. 13 - Contingencies*, and adjust retained earnings.
Article 12 An enterprise shall retrospectively adjust the tax effect of temporary differences arising from differences between the carrying amounts and tax bases of assets and liabilities on the transition date according to *ASBE No. 18 - Income Taxes*, and adjust the affected amount in retained earnings.
Article 13 Except for the following items, business combinations occurring before the transition date shall not be adjusted retrospectively:
(一) For business combinations classified as under common control according to *ASBE No. 20 - Business Combinations*, the amortized carrying amount of any previously recognized goodwill shall be fully written off and adjusted against retained earnings.
For business combinations classified as under non-common control according to that Standard, the amortized carrying amount of goodwill on the transition date shall be deemed its deemed cost and shall not be amortized further.
(二) For business combinations occurring before the transition date where the combination agreement provides for adjustments to the combination consideration contingent on future events, if it is probable on the transition date that the future events will occur and the amount of the effect can be measured reliably, the carrying amount of the recognized goodwill shall be adjusted by that amount.
(三) An enterprise shall test goodwill for impairment on the transition date according to *ASBE No. 8 - Impairment of Assets*. If impaired, it shall be recognized at the amount after provision for impairment, and retained earnings shall be adjusted.
Article 14 On the transition date, an enterprise shall classify its financial assets (excluding investments covered by *ASBE No. 2 - Long-term Equity Investments*) into financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets.
(一) Those classified as at fair value through profit or loss or as available-for-sale shall be measured at fair value on the transition date, and the difference between the carrying amount and fair value shall be adjusted in retained earnings.
(二) Those classified as held-to-maturity investments, loans and receivables shall be measured at amortized cost using the effective interest method starting from the transition date and in subsequent accounting periods.
Article 15 For financial liabilities designated as at fair value through profit or loss on the transition date, they shall be measured at fair value on the transition date, and the difference between the carrying amount and the fair value shall be adjusted in retained earnings.
Article 16 For derivative financial instruments (excluding hedging instruments) not recognized on the balance sheet or previously measured at cost, they shall be measured at fair value on the transition date, with a corresponding adjustment to retained earnings.
Article 17 For embedded derivative financial instruments that are required to be separated from hybrid contracts according to *ASBE No. 22 - Recognition and Measurement of Financial Instruments*, they shall be separated and accounted for separately on the transition date, unless the fair value of the embedded derivative cannot be determined reasonably.
For non-derivative financial instruments issued by an enterprise that contain both liability and equity components, the liability and equity components shall be separated on the transition date according to *ASBE No. 37 - Presentation of Financial Instruments*, unless the fair value of the liability component cannot be determined reasonably.
Article 18 On the transition date, for hedging relationships that do not meet the criteria for applying hedge accounting

as stipulated in *ASBE No. 24 - Hedging*, the previous hedge accounting method shall be discontinued and treatment shall follow *ASBE No. 24 - Hedging*.

Article 19 An enterprise with reinsurance ceded business shall, on the transition date, recognize the corresponding reserves recoverable from reinsurers as assets and adjust the carrying amounts of the various insurance reserves according to *ASBE No. 26 - Reinsurance Contracts*.

Chapter III Presentation

Article 20 In the first annual financial statements (hereinafter referred to as the first ASBE annual financial statements) prepared under the Accounting Standards for Business Enterprises after the first-time adoption, an enterprise shall prepare a balance sheet, income statement, cash flow statement, statement of changes in owners' equity, and notes in accordance with *ASBE No. 30 - Presentation of Financial Statements* and *ASBE No. 31 - Cash Flow Statements*. Enterprises providing consolidated financial statements shall follow the provisions of *ASBE No. 33 - Consolidated Financial Statements*.

If interim financial reports are provided for periods covered by the first ASBE annual financial statements, they shall follow the provisions of *ASBE No. 32 - Interim Financial Reporting*.

The enterprise shall disclose in the notes the changes in the amounts of financial statement items resulting from the first-time adoption of the Accounting Standards for Business Enterprises.

Article 21 The first ASBE annual financial statements shall include at least comparative information for the immediately preceding period presented according to the Accounting Standards for Business Enterprises. If the presentation of financial statement items changes, the comparative data for the prior period shall be adjusted to conform to the presentation requirements of the Accounting Standards for Business Enterprises, unless it is impracticable to do so.

For subsidiaries that were not previously consolidated but should be consolidated according to *ASBE No. 33 - Consolidated Financial Statements*, the enterprise shall include those subsidiaries in the comparative consolidated financial statements for the prior period. For subsidiaries that were previously consolidated but should not be consolidated according to that Standard, the enterprise shall not include those subsidiaries in the comparative consolidated financial statements for the prior period. Minority interests presented in the comparative consolidated financial statements for the prior period shall be presented within owners' equity in accordance with that Standard.

For enterprises required to present earnings per share, the earnings per share for the prior period in the comparative financial statements shall be calculated and presented in accordance with *ASBE No. 34 - Earnings per Share*.

For enterprises required to disclose segment information, information concerning segments for the prior period in the comparative financial statements shall be disclosed in accordance with *ASBE No. 35 - Segment Reporting*.

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