Accounting Standard for Business Enterprises No.4 – Fixed Assets

Chapter I General Provisions

Article 1 In order to regulate the recognition and measurement of the fixed assets, and disclosure of the relevant information, these Standards are formulated in the light of the Accounting Standards for Enterprises – Basic Standards.

Article 2 Other relevant accounting standards shall apply to the items as follows:

(1) The Accounting Standards No. 3 – Investment Real Estates, shall apply tobthe buildings as investment real estates; and

(2)The Accounting Standards No. 5 – Biological Assets, shall apply to the productive biological assets.

Chapter II Recognition

Article 3 The term "fixed assets" refers to the tangible assets that simultaneously possess the features as follows:

(1)They are held for the sake of producing commodities, rendering labor service, renting or business management; and

(2)Their useful life is in excess of one fiscal year.The term "useful life" refers to the period of time over which a fixed asset is expected to use, or the quantity of products expected to produce or services expected to render through the fixed asset.

Article 4 No fixed asset may be recognized unless it simultaneously meets the conditions as follows:

(1)The economic benefits pertinent to the fixed asset are likely to flow into the enterprise; and

(2)The cost of the fixed asset can be measured reliably.

Article 5 The components of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways and to which different depreciation rates or depreciation methods apply, and they shall be recognized as fixed assets on an individual component basis.

Article 6 If the subsequent expenses related to a fixed asset meet the recognition conditions as described in Article 4 of these Standards, they shall be included in the cost of fixed asset; otherwise, they shall be included in the current profits and losses.

Chapter III Initial Measurement

Article 7 The initial measurement of a fixed asset shall be made at its cost.

Article 8 The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, professional service fees and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the fixed asset.

If a certain payment is made for purchasing several fixed assets not priced separately, the cost of each fixed asset shall be ascertained by allocating the payment according to the proportion of fair value of each fixed asset to the total cost of all assets acquired.

If the payment for a fixed asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the fixed asset shall be ascertained based on the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be included in the current profits and losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards No. 17–Borrowing Costs.

Article 9 The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.

Article 10 The borrowing costs, which shall be included in the cost of a fixed asset, shall be disposed in the light of the Accounting Standards No. 17 –Borrowing Costs.

Article 11 The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.

Article 12 The costs of fixed assets acquired through the exchange of non-monetary assets, recombination of liabilities, merger of enterprises, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards No. 7 – Exchange of Non-monetary Assets, Accounting Standards for Enterprises No. 12 – Debt Restructuring, Accounting Standards for Enterprises No. 20 – Merger of Enterprises and Accounting Standards for Enterprises No. 21 –Leases.

Article 13 The expected discard expenses should be taken into consideration in the ascertainment of the cost of a fixed asset.

Chapter III Subsequent Measurement

Article 14 An enterprise shall make depreciation for all its fixed assets. However, the fixed assets that have been fully depreciated but are still in use and the land that is separately measured and included shall be excluded.

The term "depreciation" refers to the systematic amortization of the depreciable amount through a definite method during the useful life of the fixed asset.

The term "depreciable amount" refers to the amount of deducting its expected net salvage value from the original price of the fixed asset to be depreciated. For a fixed asset , the provision for depreciation has been made, it shall deduct the accumulative amount of the provision for impairment of the depreciated fixed asset that has been already made shall be deducted.

The "expected net salvage value" refers to the expected amount that an enterprise may obtain from the current disposal of a fixed asset after deducting the expected disposal expenses at the expiration of its expected useful life.

Article 15 An enterprise shall, in accordance with the nature and use of a fixed asset, reasonably ascertain its useful life and expected net salvage value.

Once an enterprise decides the useful life or expected net salvage value of the fixed asset, it shall not change it randomly except that the provisions of Article 19 of these Standards are meet.

Article 16 When the useful life of a fixed asset is ascertained, the enterprise shall take into consideration the factors as follows:

(1) The expected production capacity or output of physical objects;

(2) The expected tangible and intangible loss of the asset; and

(3) Limits of statutory or similar provisions on the use of asset.

Article 17 An enterprise shall reasonably select a depreciation method for a fixed asset in accordance with the expected form for the realization of the economic benefits concerning the fixed asset.

The available depreciation methods consist of the straight-line method, unit of production method, double declining balance method, sum of the years digits method, etc.

Once an enterprise ascertains the method of depreciation of the fixed asset, it shall not change it randomly, except that the provisions of Article 19 of these Standards are meet.

Article 18 Depreciation shall be made for the fixed assets on a monthly basis and shall, in accordance with the purposes of the fixed assets, be included in the cost of the relevant assets or in the current profits and losses.

Article 19 An enterprise shall, at least at the end of each year, have a check on the useful life, expected net salvage value, and the depreciation method of the fixed assets.

If there is any difference between the expected useful life and the previously estimated useful life of a fixed asset, the expected useful life of the fixed asset shall be adjusted.

If there is any difference between the amount of expected net salvage value and the previously estimated amount of the net salvage value, the expected net salvage value shall be adjusted.

If any significant change is made on the form of the realization of the expected economic benefits concerning a fixed asset, the method for the depreciation of the fixed asset shall be changed.

If any change is made to the useful life, expected net salvage value or the depreciation method of a fixed asset, it shall be regarded as a change of the accounting estimates.

Article 20 The impairment of a fixed asset shall be disposed in the light of the Accounting Standards for Enterprises No. 8 – Asset Impairment.

Chapter V Disposal

Article 21 Where a fixed asset meets either of the conditions as follows, the recognition of it as a fixed asset shall be terminated:

(1)The fixed asset is in a state of disposal; or

(2The fixed asset is unable to generate any economic benefits through use or disposal as expected.

Article 22 An enterprise shall adjust its expected net salvage value of the fixed assets it holds for sale.

Article 23 When an enterprise sells, transfers or discards any fixed asset, or when any fixed asset of an enterprise is damaged or destroyed, the enterprise shall deduct the book value and relevant taxes from the disposal income, and include the amount in the current profits and losses. The book value of the fixed assets is the amount after deducting the accumulative depreciation and accumulative impairment provision from the cost of the fixed assets.

The losses of inventories of the fixed assets shall be included in the current profits and losses.

Article 24 Where an enterprise includes the subsequent disbursements for a fixed asset in the cost of the fixed asset in accordance with Article 6 of these Standards, the book value of the substituted part shall be terminated the recognition as the cost of the fixed asset.

Chapter VI Disclosure

Article 25 An enterprise shall, in the notes, disclose the information concerning fixed assets as follows:

(1)The conditions of recognition, classifications, measurement basis and depreciation methods for the fixed assets;

(2) The useful lives, expected net salvage values, and depreciation rates of the various fixed assets;

(3) The original prices at the beginning and the end, the amount of accumulative depreciation, and accumulative amount of the impairment provisions for fixed assets.

(4)The current recognition of the depreciation disbursements;

(5)The limits on the ownership of the fixed assets, the amount of the fixed assets, and the book value of fixed assets used for guaranties; and

(6)The name, book value, fair value, expected disposal expenses, and expected disposal costs and the expected time for disposal, etc.