**Accounting Standards for Enterprises No. 13 - Contingencies**

**Cai Kuai [2006] No.3**

Chapter I General Provisions

Article 1These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the recognition and measurement of Contingencies, and the disclosure of relevant information.

Article 2The term " Contingencies" refers to the conditions that formed by past transactions or events, and the outcome of which will be confirmed only by the occurrence or non-occurrence of future events.

Article 3Other accounting standards shall apply to the Contingencies formed by events such as employee wages and salaries, construction contracts, income taxes, business combination, leases, original insurance contracts, and re-insurance contracts.

Chapter II Recognition and Measurement

Article 4The obligation pertinent to a Contingencies shall be recognized as an estimated debts when the following conditions are satisfied simultaneously:

(1)That obligation is a current obligation of the enterprise;

(2)It is likely to cause any economic benefit to flow out of the enterprise as a result of performance of the obligation; and

(3)The amount of the obligation can be measured in a reliable way.

Article 5The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation.

If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range.

In other cases, the best estimate shall be conducted in accordance with the following situations, respectively:

(1)If the Contingencies concern a single item, it shall be determined in the light of the most likely outcome.

(2)If the Contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

Article 6To determine the best estimate, an enterprise shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies.

If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash.

Article 7When all or some of the expenses necessary for the liquidation of an estimated debts of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained.

The amount recognized for the reimbursement should not exceed the book value of the estimated debts.

Article 8Where an executory contract turns to be a loss contract, the obligation generated from the loss contract which meets the provisions of Article 4 of these Standards shall be recognized as an estimated debts.

The term "executory contract" refers to a contract, the contractual obligations of which fail to be performed by the relevant contracting parties, or some of the equal obligations have been performed.

The term "loss contract" refers to a contract whose performance of the contractual obligations will inevitably incur costs in excess of the expected economic benefits.

Article 9The future operating losses of an enterprise shall not be recognized as estimated debts.

Article 10If a restructuring obligations undertaken by an enterprise meets the provisions of Article 4 of these Standards, it shall be recognized as an estimated debts. The simultaneous existence of the following situations indicates that the enterprise has undertaken the restructuring obligation:

(1)Having a detailed and formal restructuring plan, which consists of the businesses concerning restructuring, the main places, the number of employees to be compensated and the nature of their posts, the expected expenditure for the recombination, the execution time of the plan; and

(2)The restructuring plan has been proclaimed to the general public.

The term "restructuring" refers to the act of implementing a plan made and controlled by an enterprise, which may substantially change the organizational form, business scope or operating manner of the enterprise.

Article 11The enterprise shall determine the amount of estimated debts in the light of the direct expenditure pertinent to the restructuring.

The direct expenditure exclude the expenses for the pre-post training of the employees who stay on to work, market promotion, new systems, marketing network, etc.

Article 12An enterprise shall check the book value of the estimated debts on the balance sheet date.

If there is any exact evidence indicating that the book value cannot really reflect the current best estimate, the enterprise shall adjust the book value in accordance with the current best estimate.

Article 13Any enterprise may not recognize any contingent debts or contingent asset.

The term "contingent debts " refers to a potential obligation caused by past transactions or events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events; or refers to a current obligation caused by a past transaction or event but is not recognized because the performance of the obligation is not likely to incur an outflow of economic benefits from the enterprise or because the amount of the obligation cannot be measured in a reliable way.

The term "contingent asset" refers to a potential asset caused by a past transaction or event and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events.

## Chapter III Disclosure

Article 14An enterprise shall, in its notes, disclose the information pertinent to the Contingencies

as follows:
(1)Estimated debts
(a)The types and causes of the estimated debts, as well as an explanation for the uncertainty of the outflow of economic benefits;
(b)The changes at the beginning and the end of the period, and the current changes in the estimated debts;
(c)The amount of expected compensations pertinent to the estimated debts, and the amount of excepted compensation that has been recognized in the current period.
(2)Contingent debts (excluding those contingent liabilities that caused little possibility of any outflow of economic benefits).
(a)The types and causes of the contingent debts , consisting of the contingent debts arising from discounted commercial acceptance bills of exchange, pending litigations, pending arbitrations, and guarantees provided for the debts of other enterprises;
(b)An explanation for the uncertainty of the outflow of the economic benefits;
(c)An estimate of the expected financial effect of the contingent debts and the possibility of any expenditure. If it is unable to make an estimate, the reasons shall be explained.
(3)In general, no enterprise may disclose the contingent assets. However, if a contingent asset will probably give rise to an inflow of economic benefits to the enterprise, the enterprise shall disclose the cause, the expected financial effect, etc.
Article 15In the case of a pending litigation or arbitration, if the disclosure of some or all information in accordance with the provisions as prescribed in Article 14 of these Standards can be expected to produce great unfavorable impact upon the enterprise, the enterprise shall not need to disclose the information, but shall disclose the nature of the pending litigation or arbitration as well as the truth and reasons for the failure to disclose the information.