Accounting Standards for Enterprises No. 28 - Changes of Accounting Policies and Accounting Estimates and Error Correction

Cai Kuai [2006] No. 3

Chapter I General Provisions

Article 1These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basis Standards for the purpose of regulating the application of enterprise accounting policies, the changes of accounting policies and accounting estimates, the recognition and measurement of the error correction. in the prior periods, as well as the disclosure of relevant information.

Article 2The effects on income tax by the changes of accounting policies and the error correction in the prior periods shall be governed by the Accounting Standards for Enterprises No. 18 - Income Tax.

Chapter II Accounting Policies

Article 3With regard to identical or similar transactions or events, an enterprise shall adopt the same accounting policies, unless it is otherwise prescribed by other accounting standards.

The term "accounting policies" refers to the specific principles, basis and accounting treatment methods adopted by an enterprise for accounting recognition, measurement and reporting.

Article 4The accounting policies adopted by an enterprise shall be consistent for each accounting period and the prior and subsequent accounting periods, and shall not be changed randomly. However, if one of the following conditions is satisfied, accounting policy may be changed:

(1)The requirement by any law, administrative regulation, or national uniform accounting system changes; or

(2)More reliable and more relevant accounting information shall be provided through changing the accounting policy. Article 5The following items shall not belong to the changes of accounting policies:

(1)A new accounting policy is adopted for transactions or events occurred in the current period which are different essentially from those occurred in the prior periods; and

(2)A new accounting policy is adopted for transactions or events which occur for the first time or are unimportant.

Article 6Where an enterprise changes an accounting policy according to the requirement of any law, administrative regulation or the national uniform accounting system, it shall implement it pursuant to the relevant accounting provisions of the state.

If a change in accounting policy can provide more reliable and more relevant accounting information, the retrospective adjustment method shall be adopted for handling. The amount of cumulative effect by the change in accounting policy shall be adjusted and presented as the retained earnings at the beginning of the earliest prior period, and the beginning balance of other relevant items as well as to other comparative data disclosed in the prior period presented shall be adjusted along with, unless the cumulative effect of a change in accounting policy is not feasible essentially.

The retrospective adjustment method refers to a method whereby, for a change in accounting policy in respect of particular transactions or events, the changed accounting policy is adopted as if it had been in use from the day when such transactions or events first occurred, and the relevant items in the financial statements are adjusted accordingly.

The cumulative effect of a change in accounting policy refers to the difference between the adjusted beginning balance of retained gain of the earliest prior period presented if the adjusted accounting policy had been applied retrospectively for all prior periods and the present amount of the retained earnings.

Article 7If it is impracticable to determine the effect of a change in accounting policy for the prior period presented, the new accounting policy shall be applied from the beginning of the earliest period for which retrospective application is practicable.

If, at the beginning of the current period, it is impracticable to determine the cumulative effect of the change in accounting policy for all prior periods, the prospective application method shall be adopted.

The term "prospective application method" refers to a method whereby for a change in accounting policy, the new accounting policy is applied to the transactions or events occurring on the date of change and in subsequent periods; or refers to a method whereby, for a change in accounting estimate, the effects of the change of the accounting estimate are recognized during the current period of the change of accounting estimate and in future periods.

Chapter III Changes in Accounting Estimates

Article 8An enterprise may need to revise its accounting estimates due to a change in the basis for estimates, or due to the obtainment of new information, accumulation of more experiences as well as the subsequent development and changes. The basis for the changes in accounting estimates shall be genuine and reliable.

A change in accounting estimate refers to an adjustment to the book value of an asset or liability or to the amount of expense of an asset during a certain period, resulting from the changes in the current situation of the asset or liability and the expected economic benefits and obligations.

Article 9The prospective application method shall be adopted by an enterprise for treating the changes in accounting estimates.

If a change in accounting estimate affects only the current period of the change, the effect of the change shall be recognized in the period of the change. If any change in an accounting estimate affects both the period of the current change and future periods, the effects of the change shall be recognized in the period of the change and in future periods.

Article 10Where it is difficult for an enterprise to determine a change as one in accounting policy or as one in an accounting estimate, it shall treat it as a change in an accounting estimate.

Chapter IV Corrections of Prior Period Errors

Article 11Prior period errors refer to the failure to use or misuse of the following two kinds of information and result in the omissions from or mis-presentation in financial statements for the prior periods :

(1)The reliable information that was available and could reasonably be expected to be obtained and taken into account when preparing the financial statements for the prior periods;
(2)The reliable information that was available when the financial reports of prior periods are authorized for issue;
Generally prior period errors include calculation mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, consequences of fraud, inventory overage, fixed asset overage, etc.
Article 12An enterprise shall adopt the retrospective restatement method to correct any important errors of prior period, however, unless it is impractical to recognize the amount of cumulative effects of the prior period error.
The term "retrospective restatement method" refers to a method whereby, when a prior period error is discovered, the relevant items of the financial statements are corrected as if the prior period error had never occurred.
Article 13If it is impracticable to recognize the effect of a prior period error, the enterprise may begin to adjust the beginning balance of the retained earnings of the earliest prior period for which the retrospective restatement is practical, and in the meanwhile, adjust the beginning balances of other relevant items in the financial statements, or may adopt the prospective application method.
Article 14An enterprise shall, in the financial statements of the current period where it discovers any important prior period error, adjust the comparative data of the prior period.

Chapter V Disclosure
Article 15An enterprise shall, in its notes, disclose the following information related to the changes in accounting polices:
(1)The character, contents and reasons for the changes of accounting policies;
(2)The names of the affected items and the adjusted amounts in the financial statements for the current period and all the prior periods presented; and
(3)If it is unable to make retrospective adjustments, it shall state the facts, reasons, date of beginning of the application of the new accounting policies as well as the information about the concrete application thereof.
Article 16An enterprise shall, in its notes, disclose the following information related to the changes in accounting estimates:
(1)The contents of and reasons for the changes in accounting estimates;
(2)The effects amount in the current period and future periods by changes in accounting estimates; and
(3)If it is unable to recognize the effect amount of a change in the accounting estimate, it shall disclose the facts and reasons.
Article 17An enterprise shall, in its notes, disclose the following information related to the corrections in prior period errors:
(1)The nature of the prior period errors;
(2)The names of the affected items and the corrected amounts in the financial statements for all prior periods presented.

China Business Engine
Tel +86 21 52289730
Fax +86 21 5228-9730

Website
China site：www.cbize.com
Globe site：www.cbize.net

(3)If it is unable to make a retrospective restatement, it shall state the facts, reasons, time point of beginning the correction of the prior period error, as well as the information about the concrete correction.

Article 18In the financial statements of subsequent periods, it is not required to repeatedly disclose any information about the changes of accounting policies and corrections of prior period errors which have been disclosed in the notes of prior periods.

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