Accounting Standard for Business Enterprises No. 7 - Exchange of Non-monetary Assets

Cai Kuai [2006] No. 3

Chapter I General Provisions

Article 1 To standardize the confirmation and measurement of non-monetary assets transaction, and disclosure of relevant information, these standards are formulated according to the Accounting Standard for Business Enterprises - Basic Standards.

Article 2 The non-monetary assets transaction is an exchange of non-monetary assets between transacting parties, mainly including the transactions of inventories, fixed assets, intangible assets and long-term equity investments. This kind of exchange involves little or no monetary assets (namely, monetary assets are referred to as a "boot").

The term "monetary assets" refers to the monetary capital held by enterprises, the assets to be received in fixed or determined amounts of currency, including cash, bank deposits, accounts and notes receivable, and bond investments to be held to maturity.

The term "non-monetary assets" refers to the assets other than monetary assets.

Article 3 Where a non-monetary assets transaction satisfies the following conditions at the same time, the fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the profit or loss of the current period:

(1)The transaction is commercial in nature; and

(2)The fair value of the assets received or surrendered can be measured reliably.

If the fair values of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.

Chapter II Confirmation and Measurement

Article 4 A non-monetary assets transaction, meeting any of the following conditions, is commercial in nature:

(1)The future cash flow of the assets received is different from that of the surrendered assets in the aspects of risk, time and amount notably; and

(2)The current values of the expected future cash flow of the assets received and surrendered is different, and the difference between them is more significant than the fair values of the assets received and surrendered.

Article 5 When determining whether or not a non-monetary assets transaction is commercial in nature, an enterprise shall pay attention to whether or not the transacting parties are connected ones.

The existence of the relationship between connected parties is likely to cause the loss of commercial nature of non-monetary assets transaction.

Article 6 Where any non-monetary assets transaction does not meet the conditions as prescribed in Article 3 of these Standards at the same time, the carrying value and relevant payable taxes of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

Article 7 Where a boot is caused when an enterprise treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively:

(1)The enterprise, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the profit or loss of the current period;

(2)The enterprise, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the profit or loss of the current period.

Article 8 Where a boot is caused when an enterprise treat the carrying value of the surrendered assets and the relevant payable taxes as the cost of the received assets, the boot shall be accounted for according to the following circumstances, respectively:

(1)The enterprise, which pays the boot, shall treat the result of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes as the cost of the assets received, and no profit or loss may be recognized; or

(2)The business enterprise, which receives the boot, shall treat the result of the carrying value of the assets surrendered minus the received boot and plus relevant payable taxes as the cost of the assets received, and no profit or loss may be recognized.

Article 9 Where several assets received in a non-monetary assets transaction simultaneously, the cost of each received assets shall be determined according to the following circumstances, respectively:

(1)If the non-monetary assets transaction is commercial in nature and the fair value of the assets received can be reliably measured, the cost of each received asset shall be determined by applying the proportion of the fair value of each asset received to the total fair value of the assets received to allocate the total cost of the assets received; or

(2)If the non-monetary assets transaction is not commercial in nature, or it is commercial in nature, but the fair value of the assets received can not be reliably measured, the cost of each received assets shall be determined by applying the proportion of the original carrying value of each asset received to the total original carrying value of the assets received to allocate the total cost of the assets received.

Chapter III Disclosure

Article 10 An enterprise shall disclose the following information relating to non-monetary transactions in the annotation:

(1)Types of the assets received and surrendered;

(2)Determination method for the assets received;

(3)Fair values of the assets received and surrendered, as well as the carrying value of the surrendered assets; and

(4)Profit or loss of a non-monetary assets transaction.

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