Accounting Standard for Business Enterprises No. 8 - Impairment of Assets

Cai Kuai [2006] No. 3

Chapter I General Provisions

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

Article 2 The term "impairment of assets" refers to that the recoverable amount of assets is lower than its carrying value.

The assets as mentioned in these standards shall include single item assets and group assets.

The term "group assets " refers to a minimum combination of assets that may be recognized by an enterprise, by which the flow-in cash generated shall be generally independent of those by other assets or group assets.

Article 3 The following items shall be subject to other relevant accounting standards:

(1)The impairment of inventories shall be subject to the Accounting Standard for Business Enterprises No. 1 - Inventories;

(2)The impairment of investment properties measured through the fair value method shall be g subject to the Accounting Standard for Business Enterprises No. 3 - Investment Properties;

(3) The impairment of consumptive biological assets shall be subject to the Accounting Standard for Business Enterprises No. 5 - Biological Assets;

(4)The impairment of assets formed by construction contracts shall be subject to the Accounting Standard for Business Enterprises No. 15 - Construction Contracts;

(5)The impairment of deferred income tax assets shall be subject to the Accounting Standard for Business Enterprises No. 18 - Income Taxes;

(6)The impairment of the unsecured residual value of the lessor in a financial leasing shall be subject to the Accounting Standard for Business Enterprises No. 21 - Leases;

(7)The impairment of financial assets regulated by the Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments shall be subject to the Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments; and

(8)The impairment of the rights and interests of unverified petroleum and natural gas mining areas shall be subject to the Accounting Standard for Business Enterprises No. 27 -Extraction of Petroleum and Natural Gas.

Chapter II Recognition of Assets with Potential Impairment

Article 4 An enterprise shall, on the day of balance sheet, make a judgment on whether there is any sign of possible assets impairment.

No matter whether there is any sign of possible assets impairment, the business reputation formed by the merger of enterprises and intangible assets with uncertain service lives shall be subject to impairment test every year.

Article 5 There may be an impairment of assets when one of the following signs occurs:

(1)The current market price of assets falls, and its decrease is obviously higher than the expected drop over time or due to the normal use;
(2)The economic, technological or legal environment in which the enterprise operates, or the market where the assets is situated will have any significant change in the current period or in the near future, which will cause adverse impact on the enterprise;
(3)The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the enterprise for calculating the expected future cash flow of the assets will be affected, which will result in great decline of the recoverable amount of the assets;
(4) Any evidence shows that the assets have become obsolete or have been damaged substantially;
(5)The assets have been or will be left unused, or terminated for use, or disposed ahead of schedule;
(6)Any evidence in the internal report of the enterprise shows that the economic performance of the assets have been or will be lower than the expected performance, for example, the net cash flow created by assets or the operating profit (or loss) realized is lower (higher) than the excepted amount, etc.; and
(7)Other evidence indicates that the impairment of assets has probably occurred.

Chapter III Measurement of Recoverable Amount of Assets

Article 6 Where any evidence shows that there is possible assets impairment, the recoverable amount of the assets shall be estimated.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the assets minus the disposal expenses and the current value of the expected future cash flow of the assets.

The disposal expenses shall include the relevant legal expenses, relevant taxes, truckage as well as the direct expenses for bringing the assets into a marketable state.

Article 7 When either of the net amount of the fair value of an asset minus the disposal expenses or the current value of the expected future cash flow of the asset exceeds the carrying value of the asset, it shows that no asset impairment has occurred, and it does not need to estimate another amount of the asset.

Article 8 The net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the basis of the price as stipulated in the sales agreement in the fair transaction minus the disposal expenses directly attributable to the asset.

Where there is no sales agreement but there is an active market of assets, the net amount of the fair value of an asset minus the disposal expenses shall be determined in light of the amount of the market price of the asset minus the disposal expenses. Generally the market price of the asset shall be determined according to the price bidden by the buyer of the asset.

Where there is no sales agreement and no active market of assets, the net amount of estimated fair value of an asset minus the disposal expenses shall be estimated in light of the best information available. The said net amount may be estimated by reference to the latest transaction prices or results of similar assets among the counterparts.

Where the net amount of the fair value of an asset minus the disposal expenses cannot be estimated reliably according to the provisions as described above, the enterprise shall regard the current value of the expected future cash flow of the asset as the recoverable amount of the asset.

Article 9 The current value of the expected future cash flow of an asset shall be determined by the discounted cash with an appropriate discount rate, on the basis of the expected future cash flow generated during the continuous use or final disposal of an asset.

To predict the current value of the future cash flow, the enterprise shall take into comprehensive consideration the expected future cash flow, service life, discount rate, and other factors.

Article 10 The expected future cash flow of an asset shall include the following items:

(1)The cash inflow generated during the continuous use of the asset.

(2)The necessary expected cash outflow for realizing cash inflow generated during the continuous use of the asset (including the cash outflow for bring the asset to the expected conditions for use). The outflow of cash shall be the outflow cash that is directly attributable to, or that may be distributed to the asset on reasonable and consistent basis.

(3)At the end of the service life of an asset, the net cash flow received or paid for the disposal of the asset. The cash flow shall be, during the process of fair transaction between parties that are familiar with the situation on their own free will, the amount expected to obtain from or pay for the disposal of the asset minus the expected disposal expenses.

Article 11 When making an estimate of the future cash flow of an asset, the managers of the enterprise shall make a best estimate of the entire economic status of the asset in its remaining service life in a reasonable and well-grounded manner.

The expected future cash flow of an asset shall base on the latest financial budget or forecast data as well as the stable or regressive growth rates after the year of the aforesaid budget or forecast.

Where the managers can prove that the progressive growth rates are reasonable, the expected future cash flow of the asset may base on the progressive growth rates.

The expected cash flow set forth on the basis of the budget or forecast can cover 5 years at most. Where the managers can prove that a longer period is reasonable, it may cover longer time.

When making estimate of the cash flow after the year of the budget or forecast, the growth rates adopted shall not, unless the enterprise can prove that it is reasonable to adopt higher growth rates, exceed the long-term average growth rate of the products, or the market, or the industrial field which the enterprise belongs to, or the country or region where the enterprise is located, or the long-term average growth rate of the market where the asset is situated.

Article 12 The expected future cash flow of an asset shall base on the current status of the asset. It shall not include any possible and uncommitted recombination items or any expected future cash flow related to the asset improvement.

The expected future cash flow of an asset shall not include the cash inflow or outflow generated by financing activities, or the cash flow related to the receipt or payment of income taxes.

Where an enterprise has made a commitment of recombination, when determining the current value of the future cash flow of assets, the amounts of the expected future cash inflow and outflow shall reflect the expenses that can be saved in the recombination, other benefits to be brought about by the recombination, and the estimated amount of the future cash outflow that may result

from the recombination.
Generally, the expenses that can be saved in the recombination and other benefits that could be brought about by the recombination shall be estimated on the basis of the latest financial budget or forecast data as approved by the management of the enterprise.
The amount of future cash outflow that may result from the recombination shall be estimated according to the expected amount of liabilities incurred due to the recombination as described in the Accounting Standard for Business Enterprises - Contingencies.
Article 13 The discount rate is the pre-tax interest rate, which can reflect the time value of money in the present market and the specific risks of the asset.
The discount rate is the necessary return rate as required by an enterprise when it purchases or invests in the asset.
Where an adjustment has been made to the specific risks of the asset when an estimate of the future cash flow of an asset is made, it does not need to take into consideration these specific risks when making an estimate of the discount rate.
Where the estimate of the discount rate is based on the post-tax factors, it shall be adjusted to the pre-tax discount rate.
Article 14 Where the expected future cash flow of an asset involves any foreign currency, the current value of the asset shall, on the basis of the settlement currency of the future cash flow to be generated by the asset, be calculated with a discount rate applicable to this currency.
Then the current value of the foreign currency shall be converted at the spot exchange rate of the current day when the future cash flow of the asset is calculated.

Chapter IV Determination of Losses of Asset Impairment
Article 15 Where the measurement result of the recoverable amount indicates that an asset's recoverable amount is lower than its carrying value, the carrying value of the asset shall be recorded down to the recoverable amount, and the reduced amount shall be recognized as the loss of asset impairment and be recorded as the profit or loss for the current period. Simultaneously, a provision for the asset impairment shall be made accordingly.
Article 16 After the loss of asset impairment has been recognized, the depreciation or amortization expenses of the impaired asset shall be adjusted accordingly in the future periods so as to amortize the post-adjustment carrying value of the asset systematically (deducting the expected net salvage value) within the residual service life of the asset.
Article 17 Once any loss of asset impairment is recognized, it shall not be switched back in the future accounting periods.

Chapter V Recognition of Group Assets and Treatments of Impairment
Article 18 Where there is any evidence indicating a possible impairment of assets, the enterprise shall, on the basis of single item assets, estimate the recoverable amount.
Where it is difficult to do so, it shall determine the recoverable amount of the group assets on the basis of the asset group to which the asset belongs.
The recognition of an asset group shall base on whether the main cash inflow generated by the

asset group is independent of those generated by other assets or other group assets.
Simultaneously, when recognizing an asset group, the enterprise shall take into consideration how its managers manage the production and business activities (for example, according to the production lines, business varieties or according to the regions or areas), and the ways of decision-making for the continuous use or disposal of the assets, etc.
Where there is an active market for the products manufactured by (or other outputs of) a combination of several assets, even if some or all of these products (or other outputs) are provided for the internal use, the enterprise shall also recognize this combination of assets as an asset group on the condition that the provisions of the preceding paragraph are accorded with.
Where the cash inflow of the asset group is affected by the internal transfer price, the future cash flow of the asset group shall be determined on the basis of the best available estimate made by the managers of the enterprise for the future price in the fair transaction.
Once an asset group is recognized, it shall be kept consistent during different accounting periods, and not be changed at will.
Where it is necessary to make any change, the managers of the enterprise shall prove that this change is reasonable, and shall make an explanation pursuant to Article 27 of these Standards in its annotation.
Article 19 The basis for the determination of the carrying value of an asset group shall be the same as that for the determination of the recoverable amount.
The carrying value of an asset group shall include the carrying value that may be directly attributed to or may be reasonably and consistently distributed to the asset group. Generally it shall not include the carrying value of liability that has already been recognized, unless it is unable to determine the recoverable amount of the asset group if not considering the amount of liability.
The recoverable amount of an asset group shall be determined on the basis of the higher one of the net amount of the fair value of the asset minus the disposal expenses and the current value of the expected future cash flow of the asset.
Where the purchaser is required to bear a liability (such as environment resumption liability, etc.) when an asset group is disposed of, the amount of liability has been recognized and has been recorded in the carrying value of the relevant assets, and the enterprise can only obtain the net amount of the unitary fair value of the assets and liability aforesaid minus the disposal expenses, the amount of liability that has been recognized shall be deducted from the liability when determining the carrying value and the current value of expected future cash flow of the asset group, so as to compare the carrying value with the recoverable amount of the asset group.
Article 20 The assets of the headquarter of an enterprise shall include the office buildings, electronic data processing equipments of the enterprise group or its business departments.
A conspicuous character of the assets of the headquarters is that it is difficult to generate independent cash inflow when it is separated from other assets or asset group and difficult to attribute its carrying value completely to a certain group.
Where any evidence shows any possible impairment of a particular asset of the headquarter, the enterprise shall calculate and determine the recoverable amount of the asset group to which the asset group or the combination of group assets belongs to, then compare it with the corresponding

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

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

carrying value of the asset so as to decide whether it is necessary to confirm the impairment loss.

The term "combination of group assets" refers to the minimum combination of group assets formed by several asset groups, including the asset groups or combination of group assets, and the proportion of the assets of the headquarter allocated by a reasonable method.

Article 21 When an enterprise conducts an impairment test on a certain asset group, it shall first determine all the assets of the headquarter which are related to the asset group, then treat it according to the following circumstances respectively by taking into consideration whether the assets of the headquarter can be apportioned to this asset group on a reasonable and consistent basis:

(1)For the part of the relevant assets of the headquarter that can be apportioned to this asset group on a reasonable and consistent basis, the enterprise shall apportion the carrying value of this proportion to this asset group, then compare the carrying value of the asset (including the carrying value of the headquarters' assets which have been apportioned to) with its recoverable amount and treat it in pursuance of Article 22 of these Standards.

(2)Where it is difficult to apportion some assets of the related assets of the headquarter to this asset group on a reasonable and consistent basis, the enterprise shall take the following steps to treat these assets:

First, without taking into consideration the relevant assets of the headquarter, estimating and comparing the carrying value with its recoverable amount of the asset group, and treating it in accordance with Article 22 of these Standards.

Second, deciding the minimum combination of asset groups formed by several asset groups. This combination of asset groups shall include the asset groups that have been tested, and the proportion of the carrying value of the headquarters' assets that can be apportioned to this combination on a reasonable and consistent basis.

Finally, comparing the carrying value of the combination of asset groups it has determined (including the proportion of the headquarter' assets that have been apportioned to) with the recoverable amount of the combination, and treats it according to Article 22 of these Standards.

Article 22 Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter' assets and business reputation are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and business reputation that have been apportioned to), it shall be recognized as the corresponding impairment loss.

The amount of the impairment loss shall first charge against the carrying value of the headquarter' assets and business reputation which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the business reputation excluded.

The charges against the carrying value of the assets above shall be treated as the impairment loss of the assets (including the business reputation) and recorded as profit or loss for the current period.

The carrying value of each asset after charging against shall not be lower than the highest one of

the following three: the net amount of the fair value of the asset minus the disposal expenses (if determinable), the current value of the expected future cash flow of the asset (if determinable), and zero.
The amount of impairment loss that cannot be apportioned incurred thereby shall be apportioned on the basis of the weight of the carrying value of other assets in the relevant asset group or combination of the asset groups.

Chapter VI Treatment of Impairment of Business Reputation
Article 23 The business reputation formed by merger of enterprises shall be subject to an impairment test at least at the end of each year. The business reputation shall, together with the related asset group or combination of asset group, be subject to the impairment test.
The related asset group or combination of asset groups shall be the asset group or combination of asset groups that can benefit from the synergy effect of enterprise merger, and shall be smaller than the reporting segments as determined according to Accounting Standard for Business Enterprises No. 35 - Segment Reporting.
Article 24 When an enterprise makes an impairment test of assets, it shall, as of the purchasing day, apportion the carrying value of the business reputation formed by merger of enterprises to the relevant asset groups by a reasonable method. Where it is difficult to do so, it shall be apportioned to the relevant combinations of asset groups.
When apportioning the carrying value of the business reputation to the relevant asset groups or combinations of asset groups, it shall be apportioned on the basis of the proportion of the fair value of each asset group or combination of asset groups to the total fair value of the relevant asset groups or combinations of asset groups.
Where it is difficult to measure the fair value reliably, it shall be apportioned on the basis of the proportion of the carrying value of each asset group or combination of asset groups to the total carrying value of the relevant asset groups or combinations of asset groups.
Where the report structure is changed due to enterprise recombination or for any other reason, which thus has affected the structure of one or several asset group(s) or combination(s) of asset groups to which the business reputation has already been apportioned, the business reputation shall be reapportioned to the affected asset group(s) or combinations of the asset group(s), with the apportion method similar to that as provided for in the preceding paragraph of this Article.
Article 25 When making an impairment test on the relevant asset groups or combination of asset groups containing business reputation, if any evidence shows that the impairment of asset groups or combinations of asset groups is possible, the enterprise shall first make an impairment test on the asset groups or combinations of asset groups not containing business reputation, calculate the recoverable amount, compare it with the relevant carrying value and recognize the corresponding impairment loss.
Then the enterprise shall make an impairment test of the asset groups or combinations of asset groups containing business reputation, and compare the carrying value of these asset groups or combinations of asset groups (including the carrying value of the business reputation apportioned thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or

combinations of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the business reputation, and treat them according to Article 22 of these Standards.

Chapter VII Disclosure

Article 26 An enterprise shall disclose the following information relevant to the impairment of assets in its annotation:

(1)The amount of impairment loss of each asset recognized at the current period;

(2)The accumulative amount of provision for the impairment of each asset; and

(3)The amount of impairment loss recognized in each reporting segment of the current period, if segment reporting information is provided.

Article 27 Where any serious asset impairment loss has been incurred, the enterprise shall, in its annotation, disclose the reasons why each of the serious asset impairment losses has occurred, and the amount of serious asset impairment losses recognized in the current period.

(1)Where a serious impairment loss has been incurred for a single item asset, the enterprise shall disclose the nature of the single item asset. Where any segment of the reporting information is provided, the enterprise shall also disclose the segment of the main reporting to which this asset belongs to.

(2)Where a serious impairment loss has been incurred to an asset group (or combination of asset groups, the same below), it shall disclose:

(a)The basic information of the asset group;

(b)The amounts of impairment loss of each asset of the asset group as recognized in the current period; and

(c)Where the formation of the asset group is deferent from those in the previous period, the enterprise shall disclose the reasons for the change, as well as the constitution of the asset group in the previous period and the current period.

Article 28 With regard to any serious impairment of assets, the enterprise shall disclose the method for the determination of the recoverable amount of the assets (or asset group, the same below) in its annotation:

(1)Where the recoverable amount is determined on the basis of the net amount of the fair value of the asset minus the disposal expenses, the enterprise shall disclose the basis for the estimate of the net amount of the fair value minus the disposal expenses.

(2)Where the recoverable amount is determined on the basis of the expected future cash flow of the assets, the enterprise shall disclose the discount rate it adopts for estimating the current value of the assets, as well as the discount rate it adopted in the previous period when the recoverable amount of the asset in the previous period was also determined on the basis of the expected future cash flow of the asset.

Article 29 The information as described in Paragraph 1,2 of Article 26 and Item 2 of Paragraph 2 of Article 27 shall be disclosed according to different sorts of the assets. The sorts of assets shall be determined by considering whether the nature or function of the assets in production and business operation are identical or similar.

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

Website
China site：www.cbize.com
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Article 30 Where the carrying value of the business reputation apportioned to a particular asset group (or intangible asset with uncertain service life, the same below) accounts for a large portion of the total carrying value of the business reputation, the enterprise shall disclose the following information in its annotation:

(1)The carrying value of the business reputation apportioned to the asset group;

(2)The method for the determination of the recoverable amount of the asset group.

(a)Where the recoverable amount is determined on the basis of the net amount of the fair value of the asset group minus the disposal expenses, the enterprise shall disclose the method for the determination of the net amount of the fair value minus the disposal expenses. Where the net amount of the fair value of the asset group minus the disposal expenses is not determined on the basis of the market price, the enterprise shall disclose:

(i)the crucial assumptions adopted by the managers of the enterprise for the determination of the net amount of the fair value minus the disposal expenses, and the basis for these assumptions;

(ii)whether or not the values of the crucial assumptions as determined by the managers of the enterprise are consistent with the experiences of the enterprise or its external information; if not, the reasons shall be accounted for.

(b)Where the recoverable amount is determined according to the current value of future cash flows as predicted by the asset group, the enterprise shall also disclose:

(i)the assumptions for predicting the cash flows in the future and the grounds thereof made by the managers of the enterprise;

(ii)when the managers of the enterprise determine the values relating to the relevant assumptions, whether they are in consistence with the experiences of the enterprise or the external information; if not, the reasons shall be accounted for;

(iii)the discount rate adopted for the estimate of the current value.

Article 31 Where the total or partial carrying value of the business reputation is apportioned to several asset groups, and the proportion apportioned to each asset group to the total carrying value of the business reputation is not large, the enterprise shall describe it and offer the aggregate amount of the business reputation apportioned to the above-mentioned asset groups in its annotation.

Where the carrying value of the business reputation is apportioned to the above-mentioned asset groups according to the same crucial assumptions, and the amount of business reputation apportioned to each assets group accounts for a large proportion of the total carrying value of the business reputation, the enterprise shall describe it and disclose the following information in its annotation:

(1)The aggregate carrying value of the business reputation apportioned to the above-mentioned asset groups;

(2)The crucial assumptions adopted, and the grounds thereof; and

(3)Whether or not the values of the crucial assumptions as determined by the managers of the enterprise are consistent with the experiences of the enterprise or the source of its external information; if not, the reasons shall be accounted for.