Chapter 2
ASBE's Main Features and General Differences of New China GAAP Versus US GAAP and IFRS

At first glance, the major changes introduced by new principles embrace a set of basic standards which are now more in line with IFRSs. First, in accordance with international standards, new ASBEs reintroduce the generally agreed definition of assets and liabilities. In all cases, accounting elements shall be recognized only when their definition is made and the established recognition conditions are satisfied. Some other main features have been introduced: first the definition of "gains" and "losses" and second the method of historical cost as general requirement when measuring accounting elements. Deviations from the latter provision are replacement cost, net realizable value, and fair value, which can be adopted in the case of reliable determination.

A great extent of intervention refers to guidelines to draw financial statement. The principle of "substance over form" still finds application. At the same time, a minor difference with IFRSs involves the exercise of prudence in the presentation of financial reports. Prudence means that assets and income items might not be overstated and liabilities and expenses not understated. Specifically, while new ASBEs prescribe to follow a prudential approach in the recognition, measurement, and reporting of transaction, IASB's Framework for the Preparation and Presentation of Financial Statements considers prudence as a simple qualitative characteristic in terms of a not biased evaluation.

The cornerstones of the last version of the ASBEs can be summarized with the following key features:

- First and most importantly, new ASBEs introduce for Chinese companies the generally agreed concept of fair value measurement for all categories of Assets. ASBEs No. 3 (Inventory Property), 11 (Share-Based Payments), 20 (Business Combination), and 22 (Recognition and Measurement of Financial Assets) apply this subject.
- A consistent intervention has involved business combinations and form of consolidated financial statements. ASBEs No. 20 (Business Combination) and 30 (Presentation of Financial Statements) carry on accounting standards and detailed guidelines addressing these purposes.

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- ASBE No. 22 (Recognition and Measurement of Financial Assets) makes some previously off-balance-sheet items, compulsory to be recorded in the balance sheet.
- Specialized industries, mainly in financial and insurance sectors, face new dedicated regulation. ASBEs No. 5 (Biological Assets), 10 (Enterprise Annuity Fund), 25 (Direct insurance contracts), 26 (Reinsurance contracts), 36 (Related party disclosures), and 37 (Presentation of financial instruments) introduce new standards for those companies falling within these industries.
- According to the ASBE No. 8 (Impairment of assets), impairment loss cannot be reversed in future financial periods.
- The compliance with IFRS finds highest and strictest level of application in ASBEs No. 28 (Changes in accounting policies and estimates, and correction of errors), 30 (Presentation of financial statements), 34 (Earnings per share), 35 (Segment reporting), 36 (Related party disclosure), and 37 (Presentation of financial instruments).
- Finally, ASBE No. 38 (First time adoption of Accounting Standards for Business Enterprises) allows transitional provisions for first time adoption of new standards.

The new ASBE do not simply extend the disclosure requirements. As they operate meaningful and profound changes to the previous Mainland China General Agreed Accounting Procedures (GAAPs), they could result in significant differences of end-year results or Asset valuation in financial statements. The major changes occurred are listed in Table 2.1.

This stage shows evidence of the increasing parallelism of Chinese systems with international standards. The process started in 1993 with the very first adoption of the ASBEs; this represents an important step in an increasing integration of China with the world economy. However, despite the fundamental convergence of the new ASBEs with IFRS, there are a few exceptions that are still recognized in certain subjects, notably due to Chinese particular economic circumstances.

First of all, Chinese Accounting Standards prescribe the generally established requirement of fair value in many cases. However, when accounting for Assets, some exceptions are allowed. In particular, ASBEs No. 4 (Fixed Assets) and 6 (Intangible Assets) permit only the cost model for the measurement of reported categories of assets. This provision is clearly in contrast to IFRSs where revaluation model is allowed.

Biological assets (ASBE No. 5) remark just a lighter difference with IFRS. In this case, the fair value is the exception to the cost method. On the contrary, IAS 41 envisages the general approach of fair value unless for the single case, it is clearly unreliable. Another major difference refers to the record of land use. Under the ASBEs, this right is classified as intangible asset instead of operating lease. In case land-use rights meet a set of criteria in order to be recognized as an investment property, the cost model should be the most appropriate principle.

ASBE No. 2 (Long-Term Equity Investments) disposes the equity method as the only accepted way to manage jointly controlled entities, whereas IFRSs allow both

Table 2.1 Introductions under the new ASBEs in details

Item	Provision under new ASBE
Share-based transactions	Their settlement must be measured at the fair value as expenses in the income statement.
Business combination	For entities that are not under common control it is disposed the acquisition method. Assets and liabilities of acquired enterprise should be carried at the fair value.
Goodwill	Its treatment is not different from indefinite life intangible assets. Likewise, it is not amortized, but the value is annually scrutinized for the impairment test.
Discount on business acquisition	It is treated similarly to the "credit balance of equity investment difference." The discount value should be immediately recorded as a profit.
Minority interests	They should be presented within equity.
Non-monetary assets	A grant related to this kind of assets should be presented as deferred income and split evenly over the useful life of the asset.
Reversal of impairment loss	This category is prohibited to a large extent both for tangible and intangible assets.
Development costs	Following trends in international standards, now this category of costs should be capitalized.
Borrowing costs	The expenses incurred for general borrowing should be presented as deferred income and recognized as income along the useful life of the underlying asset.
Derivative instruments	They must be recognized on the balance sheet with changes in fair value taken to income statement. This provision is applied unless these financial instruments are proved to be effective hedging instruments.
Investment property	The fair value is the criteria to be followed in the evaluation of this item.
Non-monetary transactions	Should be carried according to fair value if the commercial substance can be substantiated.
Debt restructuring	Gains from debt restructuring operations should be recognized in profit or loss.
Financial lease assets	Financial lease assets should be recognized by the lessee at the lower of fair value and the present value of minimum lease payments.
Taxes	The tax payable method is prohibited. Instead, the tax effect accounting method should be adopted to record the tax effect of temporary differences.
Hybrid instruments	A financial instrument featuring both debt and equity components needs to be split and the two components accounted separately.

Source RSA Asia

proportionate consolidation and equity method. At the same time, state-controlled entities are exempted from the regulation of related parties due to their state-owned stake. As a matter of facts, this special provision is not met under the IFRS.

In accordance with ASBE No. 8 (Impairment of Assets), the reversal of impairment losses is generally prohibited (excluding inventories and trade receivables), whereas IAS 36 forbids this practice only for the reversal of impairment of goodwill. Capitalization method should be applied to those borrowing costs, which meet certain criteria. On the contrary, IFRSs leave the option to measure borrowing costs as expenses. ASBE No. 20 (Business Combination) includes and addresses in the same scope all business combinations involving entities under common control. The same *Article* does not embrace reverse acquisition.

Specific accounting treatments refer to "Reinsurance contracts" and "Extraction of Petroleum and natural Gas" (respectively ASBEs No. and), whereas no counterpart is disposed under IFRSs. To the same extend, IFRSs specifically refer to "Non-current assets held for sale and discontinued operation." No equal treatment is adopted in new ASBEs.

Finally, ASBEs as a general principle restrict the options available for the measurement of several expenses. Some cost items should be analyzed by function for income statement presentation purposes. In this case, the direct method is required for cash flow statements and only the gross presentation is allowed for government grants related to assets.

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