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Analysis of the new "Accounting Standards for Business Enterprises No. 7-Non-Monetary Asset Exchange"

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Abstract

On May 9, 2019, the Ministry of Finance issued the "Notice on Printing and Distributing the [Enterprise Accounting Standards No. 7-Non-Monetary Assets Exchange]" (Cai Hui [2019] No. 8), which is CAS 7. The new standard applies to all companies that implement corporate accounting standards and will be implemented as of June 10, 2019. The main changes in the old and new non-monetary standards are discussed, and analysis is conducted in combination with cases, so that accountants can understand and apply the revised non-monetary asset exchange standards as soon as possible in the practical processing.

Keywords

New accounting standards; non-monetary asset exchange; case interpretation; CAS 7.

1. Revision Background

CAS 7 was released in 2006. In the implementation of the code before the amendment, it provided some theoretical guidance for the practical handling of such non-monetary asset exchange transactions. However, with the development of accounting practice, the problems in the implementation of CAS 7 (2006) have gradually become apparent. In order to ensure the accuracy of accounting information, a series of practical operating procedures such as the recognition, measurement and disclosure of non-monetary asset exchanges have been further standardized to reduce problems related to accounting practice of Chinese enterprises. Based on the actual situation of China's economic market, the Ministry of Finance drafted an Exposure Draft to amend CAS 7 on January 24, 2019, while maintaining no conflict with IFRS.

In 2017, the Ministry of Finance issued new and revised revenue standards, which will be gradually implemented from January 1, 2018 to further standardize revenue-related businesses. In terms of accounting treatment, in order to be consistent with the new income standard, to avoid the divergence of theory and practice, and to ensure the effective implementation of the new standard, it is necessary to make corresponding adjustments to some parts of CAS 7 (2006).

2. Comparison of Changes Between the Old and New Standards

2.1. The Scope of Application of the Guidelines Is Clearer

CAS 7 (2006) does not have a clear scope of application of the standard. Some business processes may cross with other standards. When the accounting treatment specifications provided by CAS 7 (2006) conflict with the accounting treatment specifications provided by other relevant standards, Due to the ambiguity of the scope of application of the guidelines, differences in practical treatment have occurred. CAS 7 (2019) made it clear that the standard no longer applies to transactions in which inventory is exchanged for customers' non-monetary assets. CAS 7 (2019) also clarifies the scope of application of non-monetary asset exchanges,

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with the exception of individual cases, which can be applied to all such transactions. The addition of the scope above CAS 7 (2019) makes the exchange scope of such transactions clearer.

2.2. Added Handling When the Confirmation Time Point of the Exchanged in and Out Assets Is Inconsistent

This revision adds the content of asset "recognition", which clearly stipulates that asset recognition and derecognition should be considered separately according to relevant standards. The treatment specifications of the assets of the two parties are given at different times. When the swap-in asset meets the asset recognition conditions, the swap-in asset is recognized; when the swap-out asset does not meet the derecognition conditions, the delivered swap-out asset is recognized as a liability as a buffer; when the swap-out asset meets the asset de-recognition conditions, it shall be terminated immediately. When confirming the swapped out asset and the swapped in asset does not meet the asset recognition conditions, the right to the acquired swapped asset is recognized as an asset first, and the asset is accounted for when all the conditions necessary for asset recognition are met. The above additions make the new standard match the current concepts of asset recognition and derecognition.

2.3. More Standardized Asset Measurement Principles and Accounting Treatment

CAS 7 (2019) divides the asset measurement principles into "measured on the basis of fair value" and "measured on the basis of book value", which exists in CAS 7 (2006), and the new non-monetary standard has been made clear Specifications. In order to be consistent with the newly revised revenue standards, and under the prerequisite of having commercial substance, the measurement principles of both parties should be based on fair value as the preferred measurement basis; when the fair value cannot be accurately measured, the book value is selected as the measurement basis for accounting treatment. If there is a premium in the transaction process, the new standard provides detailed accounting methods for both parties to the transaction. When the book value is used as the measurement basis, CAS 7 (2019) has increased the allocation basis other than the book value, including the relative proportion of the fair value of the assets transferred, and other reasonable relative proportions.

2.4. The Measurement Principle Is Clearer When Changing in and Out Multiple Assets at the Same Time

CAS 7 (2019) revised the company's handling principles involving the exchange of multiple assets, stipulating that when exchanging multiple assets, both parties to the exchange must deduct financial assets, and use the relative proportion of the fair value of the assets as the basis for the allocation. The net fair value of the assets is apportioned, plus the relevant taxes and fees payable, as the initial measurement cost of the assets transferred. CAS 7 (2019) clearly specifies that financial assets do not participate in the allocation calculation when calculating the allocation ratio of the assets transferred in, and provides detailed accounting treatment specifications for the asset swapper and swapper.

2.5. Be More Coordinated with the Accounting Standards System

The scope of CAS 7 (2006) and the new income standard have overlapped, but the measurement principles are inconsistent, and there are contradictions between the standard systems, making accounting treatment inconvenient. In order to maintain the internal coordination of the accounting standards system and better integration with the new standards system, CAS 7 (2019) clarified the timing of asset recognition and derecognition. However, the new standard does not use the preferred accounting treatment measurement basis in the revised draft, which is inconsistent with the new income standard treatment. CAS 7 (2019)

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further clarifies that transactions involving financial assets should be handled in accordance with the principles of their relevant guidelines. The amendments to the non-monetary asset exchange standards have reduced the differences in practical treatment caused by the unclear scope of application of the standards and maintained the inherent consistency of the accounting standards system.

3. Analysis of Accounting Treatment Cases

Example 1: Company A plans to exchange products produced by its own company with Company B for a fixed asset exchange, and reach an agreement and sign related contracts on March 1, 2019. The book value of Company A's goods was 80, and the fair value was 100; the net book value of Company B's fixed assets was 75, and the fair value was 90. On March 1, Company A and Company B issued assets to be exchanged and arrived simultaneously on March 7. (Unit: 10,000 yuan, the same below)

Prior to the exchange of inventory for customers' non-monetary assets, CAS 7 (2006) was also applicable. The revised CAS 7 (2019) clearly no longer applies to this situation, and the new income standard is directly applicable. CAS 7 (2006) 's definition of non-monetary asset exchange includes transactions in which inventory is exchanged. This has caused CAS 7 (2006) to cross the new income standard, and the accounting treatment of inventory is not clear. CAS 7 (2019) clearly stipulates the scope of such transactions. In exchange for inventory for non-monetary assets of customers, the new income standard applies. The revenue recognition point in this standard is different from CAS 7 (2006). The confirmation time will be delayed. The financial treatment of company A is as follows:

(1) On March 1, The fair value of fixed assets paid by company B is 100, and the tax is 17, so the transaction price is 117. The entry is as follows:

Borrowing: Contract Assets 117

Loan: Contract Liabilities-Enterprise B 117

(2) On March 7, Company B received the goods in stock, and the entries are as follows:

Borrow: Contract Liabilities-Enterprise B 117

Loan: Main business income 100

Taxes payable-VAT payable 17

Borrow: cost of main business 80

Loan: Stock Items 80

(3) On March 7,Company received fixed assets and entered the following entries:

① Company A used fixed assets for production

Borrow: Fixed assets 100

Taxes payable-VAT payable 17

Loan: Contract Assets 117

② Company A used fixed assets for non-real estate such as factory buildings

Borrow: Fixed Assets 117

Loan: Contract Assets 117

Example 2: Moutai Distillery plans to exchange a batch of Moutai for 28% equity of a company, but the fair value of the company's equity cannot be reasonably estimated. This batch of Moutai liquor has a total weight of 4,000 kg, a fair value of 1,400, an ex-factory price of 800, and a cost price of 450. Assuming the transaction only considers VAT, the applicable tax rate is 13%.

CAS 7 (2019) stipulates that if an enterprise exchanges inventories for non-monetary assets, it shall be dealt with in accordance with the income standard. The new income standard provides a clear processing standard: if the non-cash consideration is paid, the income company shall be

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recognized as the fair value of the non-cash consideration Revenue is recognized at transaction prices. When the fair value cannot be reasonably estimated, the individual selling price of the product is used as the transaction price. The specific account processing is as follows:

(1) The accounting entries before the modification of non-monetary standards are as follows:

Borrow: Long-term equity investment 1582

Loan: Main business income 1400

Taxes payable-VAT payable 182

Borrow: Main business cost 450

Loan: Goods in stock 450

(2) The accounting records of the revised non-monetary standards are as follows:

Borrow: Long-term equity investment 904

Loan: Main business income 800

Taxes payable-VAT payable 104

Borrow: Main business cost 450

Loan: Goods in stock 450

Example 3: Company A plans to exchange the patents it holds for the machinery and equipment of Enterprise B. The book value of Enterprise A's patent rights is 1,000, which has been accumulatively amortized by 150, and the fair value is 880. The book value of Enterprise B's equipment is 1200. The depreciation is 400, and the fair value is 850. Enterprise B paid another 300,000 yuan to Enterprise A. Assume that the applicable tax rates for the sales of fixed assets and intangible assets of enterprise A and enterprise B are 17% and 6%, respectively. The VAT input tax involved in the above transaction process is deductible in accordance with the tax law and has been certified, assuming that no other related taxes have occurred during the transaction.

Judgment revealed that the transaction was a non-monetary asset exchange for both Enterprise A and Enterprise B. In this example, the economic benefits that the patent right can generate for Enterprise A in the future are all significantly different from fixed assets. It can be judged from this that the exchange behavior of Enterprise A and Company B is of commercial substance. According to CAS 7 (2019), Enterprise A and Enterprise B should use the fair value of the assets they exchanged out as the initial cost of the assets exchanged in, and confirm the profit or loss incurred.

According to the processing method given by CAS 7 (2019): If the premium is paid, the cost of the asset being replaced is equal to the fair value of the asset that is exchanged out plus the fair value of the premium paid and the relevant taxes and fees payable; the premium received The cost of the asset being exchanged is equal to the fair value of the asset being exchanged minus the fair value of the premium received, plus the relevant taxes payable.

(1) The accounting treatment received by Company A is as follows:

Borrow: Fixed assets 850

Txes payable-VAT payable 144.5

Bank deposit 30

Accumulated amortization 450

Loan: Intangible assets 1200

Taxes payable-VAT payable 52.8

Gains and losses from asset disposal 221.7

(2) Company B is the party that pays the premium. The accounting treatment is as follows:

Borrow: liquidation of fixed assets 800

Accumulated depreciation 400

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Loan: Fixed assets 1200
Borrow: Intangible Assets 880
Taxes payable-VAT payable 52.8
Gains and losses from asset disposal 41.7
Loan: liquidation of fixed assets 800
Bank deposit 30
Water charges payable-VAT payable 144.5

It is added that when the fair value of patent rights and machinery and equipment cannot be reliably measured, it is difficult to compare the effects they have had on the changes in the economic conditions of enterprises after the exchange. Therefore, the transaction in this case has no commercial substance. At this time, accounting treatment is based on the patent rights and the book value of machinery and equipment, and no profit or loss is recognized.

Example 4: In May 2019, Enterprise A and Enterprise B agreed that Company A used a machine and equipment and a special truck used by the enterprise and Enterprise B used the same cars and passenger cars. The original book value of the machinery and equipment of Enterprise A was 1850, with a cumulative depreciation of 600 and a fair value of 1370; the truck's book value of 680 and a cumulative depreciation of 580, the fair value at the exchange date was 105. The book value of enterprise B's car is 1,450, with a cumulative depreciation of 840, and a fair value of 759; the passenger car's book value is 1,150, with a cumulative depreciation of 530, and a fair value of 710. Company B also paid Company A a bank deposit of RMB 541,800, of which RMB 460,000 was the difference between the fair value of cars, passenger cars and machinery and special trains, and RMB 81,800 was due to the difference in value added tax. It is assumed that the value-added tax on input VAT of the transactions mentioned above between Enterprise A and Enterprise B are deductible and certified, and no other taxes are considered. (Applicable tax rate of 17%)

The exchange in this example does not involve monetary assets, and the assets exchanged can play a greater role for both Enterprise A and Enterprise B. Therefore, the exchange has commercial substance. Therefore, both Company A and Company B should use the fair value as the measurement basis to confirm the relevant profit and loss. According to CAS 7 (2019), it is necessary to allocate the exchanged assets to each exchanged asset based on the relative proportion of the exchanged assets other than financial assets, plus the relevant taxes and fees payable, that is, the cost of the exchanged assets.

(1) The accounting treatment of enterprise A is as follows:

① Fair value of equipment and trucks exchanged = 1370 + 145 = 1515 yuan
Fair value of cars and passenger cars = 759 + 710 = 1469 million
Total cost of assets transferred = 1515-46 + 0 = 1469 million

② Calculate the proportion of cars and passenger cars to the assets transferred:
Percentage of cars = 759/1469 = 51.67%
Percentage of passenger cars = 710/1469 = 48.33%

③Calculate the cost of cars and passenger cars:
The cost of a car = 1469 * 51.67% = 7.59 million yuan
The cost of passenger cars = 1469 * 48.33% = 7.1 million yuan

④ Accounting entries:
Borrow: Liquidation of fixed assets 1450
Accumulated depreciation 1080
Loan: Fixed Assets--Equipment 1850
--Truck 680

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Borrow: Fixed Assets--Car 759
--Passenger Car 710
Taxes payable--VAT payable 249.73
Bank deposits 54.18
Loan: liquidation of fixed assets 1450
Taxes payable-VAT payable 257.55
Gains and losses from asset disposal 65.36

(2) The accounting of Enterprise B is as follows:

① The fair value of the equipment and trucks = 1370 + 145 = 15.15 million yuan

Fair value of exchanged cars and passenger cars = 759 + 710 = 1469 million

Total cost of assets transferred = 1469 + 46 = 1515 yuan

② The ratio of computing equipment and trucks to the assets transferred:

Proportion of equipment = 1370/1515 = 90.43%

Proportion of trucks = 145/1515 = 9.57%

③Calculate the cost of equipment and trucks:

Equipment cost = 1515 * 90.43% = 13.7 million yuan

Cost of trucks = 1515 * 9.57% = 1.45 million yuan

④ Accounting entries:

Borrow: liquidation of fixed assets 1230
Accumulated depreciation 1370
Loan: Fixed Assets--Car 1450
-- Passenger car 1150
Borrow: Fixed Assets--Equipment 1370
--Truck 145
Taxes payable-VAT payable 257.55
Loan: liquidation of fixed assets 1230
Taxes payable-VAT payable 249.73
Bank deposits 54.18
Gains and losses on asset disposal 238.64

Supplementary note: CAS 7 (2019) stipulates that when the exchange has commercial substance and the fair value of the assets being exchanged can be reliably measured, the fair value of the assets being exchanged is selected as the basis for measurement, otherwise the fair value of the assets being exchanged as the basis for measurement; 2. When the fair value of the assets to be exchanged cannot be reliably measured, the total book value of the assets to be exchanged is selected as the measurement basis.

4. Conclusion

The main changes of CAS 7 (2019) include: the scope of application of non-monetary standards is more clear and clear; increased handling of inconsistent time points for swap-in and swap-out assets; more standardized asset measurement principles and accounting treatment; and swap-in and swap-out The measurement principles for multiple assets are clearer; they are more consistent with the accounting standards system. CAS 7 (2019) is gradually in line with international accounting standards as a whole, and is closer to the actual situation of China's economic market in details. With the rapid changes of the international environment, the revision and improvement of the standards has gradually developed towards practicality.

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