
# China Accounting Alert

June 2026

*China Accounting Alert* provides an overview of new accounting standards for business enterprises and regulatory rules in the Chinese mainland, updates on IFRS and EY publications.

## Mainland news and updates

- **The MOF releases the *Accounting Standard for Business Enterprises Interpretation No. 20***

  On 4 June 2026, the MOF released the *Accounting Standard for Business Enterprises Interpretation No. 20* (Cai Kuai [2026] No. 7, "Interpretation No. 20"), which became effective from the date of release. For new engagements within the scope of Interpretation No. 20 from 1 January 2026 to the effective date of the interpretation, adjustments shall be made in accordance with Interpretation No. 20. Interpretation No. 20 clarifies the following issues:

  - Assessment of contractual cash flow characteristics of financial assets
  - Accounting treatment when a currency lacks exchangeability and related disclosures

  For further details, please refer to EY WeChat: *MOF Releases New Interpretation for Updates on Requirements for Financial Instruments*.

- **The Accounting Regulatory Department of the MOF releases implementation Q&As and an application example for Accounting Standard for Business Enterprises (second batch in 2026)**

  On 18 June 2026, to further provide guidance on the implementation of the Accounting Standards for Business Enterprises and the *Accounting Standard for Business Enterprises Interpretation No.19*, the Accounting Regulatory Department of the MOF issued eight sets of implementation Q&As and one application example, including:

  - Q: In business combinations not involving entities under common control, what is the difference between indemnification assets and contingent consideration?

- Q: Company B is a non-listed insurance company in China. Company A holds 30% equity interest in Company B, and accounts for the investment using the equity method. Company A and its subsidiaries, associates and joint ventures are not involved in insurance business, and Company A does have its own accounting policies for insurance business. Company B adopts the *Accounting Standard for Business Enterprises No. 25 – Insurance Contracts* (hereinafter referred to as the "New Insurance Contract Standard") from 1 January 2026. In accordance with the provisions in Article 34 of the New Insurance Contract Standard regarding the accounting policy option, Company B chooses, at the contract group level, to "disaggregate the financial changes of the insurance contract into the current period's profit or loss and other comprehensive income". When Company A uses the equity method to account for its long-term equity investment in Company B in 2026, can Company A adopt an accounting policy inconsistent with that of Company B, i.e., choosing to "recognize the financial changes of the insurance contracts in full in the current period's profit or loss and other comprehensive income", thus leading to a restatement of the financial statements of Company B?
- Q: When the investor's associate operates as the acquirer in a business combination under common control, in accordance with the accounting principles for business combinations under common control, the associate shall (i) adjust, at the combination date, the difference between the carrying amount of the net assets acquired from the acquiree and the carrying amount of the consideration of combination against items such as capital reserves; (ii) be deemed to control the acquiree when the ultimate controlling party begins to control the acquiree; and (iii) in the associate's consolidated financial statements, transfer from capital reserves the share of the acquiree attributable to the acquirer before the date of combination, such as retained earnings and other comprehensive income, to retained earnings, other comprehensive income, etc. How should investors account for their long-term equity investments in associates using the equity method under the above-mentioned circumstances?
- Q: Company A is primarily engaged in the production of a certain material. On 1 September 2×25, Company A invested in the construction of a project in Economic Development Zone B, and entered into a project investment agreement with the Management Committee of Economic Development Zone B. According to the agreement, to accelerate the project construction, the Management Committee of Economic Development Zone B offers Company A construction progress rewards totaling RMB12 million, or RMB6 million respectively, for two milestones including the completion of the project groundwork and the topping-out of all factory buildings. If Company A fails to complete the topping-out of all factory buildings by 1 September 2×26, 10% of the outstanding construction progress rewards will be deducted for each month of delay until the whole amount is completely deducted. The incentive policy does not impose any restrictions on the purpose or allocation of the rewards received. Should Company A classify the above-mentioned construction progress rewards received as government grants related to assets or government grants related to income?
- Capitalization of borrowing costs for exploration rights under the New Mineral Resources Law
- Q: Company A engages equipment manufacturer B to construct some large customized specialized equipment. The construction period is more than one year, and the installation and commissioning period at the venue of Company A is less than one year. Company A is required to make advance payments to Company B at the time of signing the commission contract, and thus incurs special borrowings. Do the interest expenses on the borrowings meet the criteria for capitalization of borrowing costs under the Accounting Standard for Business Enterprises No. 17 – Borrowing Costs (hereinafter referred to as the "Borrowing Costs Standard")? If so, how should Company A determine the start and end dates for the capitalization of borrowing costs?

- Q: Company A disposes of its sole subsidiary and loses control of such subsidiary. In the period when such disposal occurs, Company A is still required to prepare consolidated financial statements. In the next year following the disposal and in subsequent accounting periods, should Company A prepare the financial statements based on the original individual financial statements or the original consolidated financial statements?
- Q: After the implementation of the *Value-Added Tax Law of the People's Republic of China* (hereinafter referred to as the "VAT Law") on 1 January 2026, should the expenditure related to "Government funds and surcharges" separately listed on the electricity VAT invoices obtained by general electricity-consuming enterprises be included in "Taxes and surcharges"?
- Application example of accounting standard related to business combinations – Accounting treatment of indemnification assets

- **The Shanghai Stock Exchange (SSE) issues the *Guidelines of the Shanghai Stock Exchange on the Application of the Rules for Issuance and Listing Review No. 10 – Applicability of the Fifth Set of STAR Market Listing Standards to AI Large Model Enterprises***

  To further standardize the application of the fifth set of STAR Market listing standards to technology enterprises, and support the high-quality AI large model enterprises in listing on the STAR Market prior to having a certain size of revenue generated, the SSE formulated the *Guidelines of the Shanghai Stock Exchange on the Application of the Rules for Issuance and Listing Review No. 10 – Applicability of the Fifth Set of STAR Market Listing Standards to AI Large Model Enterprises* (Shang Zheng Fa [2026] No. 65), which became effective upon release on 17 June 2026.

## International Accounting Standards Board (IASB) news and updates

| *IASB Update May 2026* | |
|---|---|
| ***Research and standard setting*** | ▪ Risk mitigation accounting<br>▪ Rate-regulated activities<br>▪ Equity method<br>▪ Intangible assets<br>▪ Business combinations – disclosures, goodwill and impairment<br>▪ Statement of cash flows and related matters |
| ***Maintenance and consistent application*** | ▪ Maintenance and consistent application activities<br>▪ Presentation of taxes or other charges that are not tax expenses or tax income applying IAS 12 *Income taxes* (IFRS 18 *Presentation and disclosure in financial statements*)<br>▪ Amendments to the fair value option (IAS 28 *Investments in associates and joint ventures*)<br>▪ Provisions – targeted improvements |

| *ISSB Update May 2026* | |
|---|---|
| ***Research and standard setting*** | ▪ Nature-related disclosures<br>▪ Enhancing the Sustainability Accounting Standards Board's (SASB) standards |

## EY publications

- ***IFRS Developments*** **Issue 250: The IASB issues IFRS 20 Regulatory assets and regulatory liabilities**

  This publication summarizes the key requirements of IFRS 20 *Regulatory assets and regulatory liabilities* (IFRS 20).

  IFRS 20 was issued on 27 May 2026 and becomes effective for reporting periods beginning on or after 1 January 2029. IFRS 20 sets out requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense. In addition, there are consequential amendments to other accounting standards.

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