



## Key Focus for Implementing Standards in the 2025 Annual Report

The annual audit is a critical milestone in ensuring the accuracy and credibility of a company's financial reporting. On 15 December 2025, China's Ministry of Finance issued Document Cai Kuai [2025] No. 33, outlining the key regulatory focus areas for the preparation of 2025 annual financial statements.

ECOVIS has carefully analyzed the document and summarized 17 essential accounting and audit focus areas to help enterprises strengthen compliance, reduce audit risks, and ensure high-quality financial reporting.

No.	Standard Area	Regulatory “Red Lines” / Core Reminders
1	Long-term Equity Investments	Switching between the equity method and financial-instrument accounting solely on the basis of “changes in board seats” is prohibited; “significant influence” must be comprehensively judged.
2	Fixed Assets	Assets ready for intended use must be temporarily capitalized and depreciated; transferring to fixed assets cannot be delayed merely because “final completion settlement is unfinished”.
3	Intangible Assets	Capitalization of R&D expenditure is allowed only after genuine “technical feasibility” is achieved; salaries of administrative staff may not be included in R&D costs.
4	Data Resources	Previously expensed data-related outlays may not be re-capitalized; internally generated or purchased data resources must be measured at cost—valuation amounts may not be used directly as the basis for recording or adjusting accounts.

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5	Asset Impairment	Suspended or idle assets must be assessed for impairment; goodwill must be tested for impairment annually regardless of whether any impairment indicators exist.
6	Contingencies	If disclosure of details about provisions or contingent liabilities would be significantly prejudicial, such details may be omitted, but the nature of the pending litigation or arbitration and the fact (and reasons) for non-disclosure must still be stated.
7	Revenue Recognition	Recognizing revenue before shipment or delaying recognition after control has transferred is strictly forbidden; the gross-/net-revenue and over-time / point-in-time methods must not be switched arbitrarily.
8	Government Grants	Grants related to ordinary activities must not be presented as non-operating income; grants unrelated to ordinary activities must not be presented as other income. Summarized information must be disclosed by category: “asset-related” or “income-related”.
9	Business Combinations	Contingent consideration must be included in acquisition-date cost at fair value; new evidence obtained within 12 months may adjust the combination cost and the originally recognized goodwill, while other changes are accounted for according to their nature.
10	Leases	At lease inception, contracts must be assessed for “economic substance” to identify leases; the legal form alone is insufficient. Lessees must simultaneously recognize a right-of-use asset and a lease liability.
11	Financial Instruments	Expected credit losses may not be understated merely because “the related party has good credit”; risks and rewards must be

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		judged by economic substance, and derecognition of transferred financial assets must be assessed holistically.
12	Standard Warrants	Contracts involving frequent purchase-and-sale of warrants for profit are treated as financial instruments; no sales revenue is recognized, and the difference is recorded in investment income.
13	Insurance Contracts	Whether main and supplementary policies can be unbundled depends on “separate pricing/sale, independent lapse, and separately measurable risk”.
14	Changes in Accounting Policies / Estimates	If neither business model nor contract terms have changed, a change in revenue-recognition method is usually defined as a “prior-period error correction” rather than a policy change; profit manipulation through such changes is prohibited.
15	Scope of Consolidation	The three elements of “control” must be reassessed continuously; adjusting the consolidation scope based solely on “voluntary bankruptcy or shutdown of a subsidiary” or “changes in board seats” is forbidden.
16	Related Parties and Transactions	Related-party relationships and transactions must be fully disclosed.
17	Financial Statement Presentation	The unified Ministry of Finance format must be used strictly; notes must be sufficiently detailed—“missing statements or notes” are prohibited.

### Why These Audit Focus Areas Are Particularly Critical in China in 2025

In 2025, certain audit focus areas in China are especially critical, as regulatory authorities are increasingly emphasizing economic substance over formal presentation. Greater attention is being paid to the consistent application of accounting standards, complete and transparent

disclosures in the notes, and the prevention of earnings management through accounting policy choices.

For companies, this means that the 2025 China annual financial statements are far more than a formal compliance exercise—they represent a key compliance and risk management factor.

### **Impact on Taxation, Audits, and Group Reporting**

Errors or inconsistencies in the financial statements can have direct and far-reaching consequences, including:

impacts on annual tax assessments in China, potentially resulting in additional tax payments or refunds, complications in the consolidation process for multinational groups, adverse audit findings by external auditors, changes in risk assessments by investors and regulatory authorities.

By contrast, a high-quality, fully compliant financial statement strengthens financial compliance, reduces audit risks, and enhances the reliability and transparency of financial reporting.

### **Recommendations for Companies**

To prepare effectively for the 2025 annual audit in China, companies should:

- ✓ Document and professionally substantiate key accounting judgments
- ✓ Review and strengthen internal accounting controls
- ✓ Identify and analyze audit-sensitive areas at an early stage
- ✓ Ensure completeness and consistency of disclosures in the notes
- ✓ Coordinate early with external auditors and professional advisors

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**Richard Hoffmann - Ecovis Deutschland (Ladenburg)**