3. Significant accounting judgments, estimates and assumptions (cont'd)

3.2 Estimates and assumptions (cont'd)

Useful lives of plant and machinery

The costs of plant and machinery of the Group are depreciated on a straight-line basis over the useful lives of the plant and machinery. Management estimates the useful lives of the plant and machinery to be within 3 to 20 years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery as of December 31, 2013 is disclosed in Note 11. A 5% decrease in the expected useful life of the plant and machinery from management's estimate would decrease the Group's profit before tax approximately Rmb 15,564 (US$2,543) (2012: Rmb 13,629).

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets as of December 31, 2012 and 2013 are Rmb 353,382 and Rmb 389,077 (US$63,574) respectively.

The Group has unrecognized tax loss carried forward amounting to Rmb 400,326 and Rmb 354,606 (US$57,941) as of December 31, 2012 and 2013 respectively. These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiary has no temporary taxable differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group was able to recognize all unrecognized deferred tax assets, profit would increase by Rmb 60,690 (US$9,917) for year ended December 31, 2013 (2012: Rmb 68,238).

Derecognition of bills receivable

The Group sells bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are derecognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 19.

Provision for product warranty

The Group recognizes a provision for product warranty in accordance with the accounting policy stated on Note 2.3(r). The Group has made assumptions in relation to historical warranty cost per unit of engines sold. The carrying amounts of the provision of product warranty as at December 31, 2012 and 2013 were Rmb 268,006 and Rmb 305,938 (US$49,989) respectively.