



This article is an excerpt of the book “**Financial, Administrative and Trade Management in China: A crash course for executives for a successful and compliant business operation**”, available e.g. on [Amazon Kindle](#), [Google Play](#) and [Apple Books](#).

5.1. General Chinese Accounting Principles

The Chinese accounting system is based on the accrual principle and focuses on being useful for decisions. The general intention is to recognize expenses and revenues by period.

Accounting principles cannot be changed at will. If changes are being made, they should be done at the beginning of a calendar year and shall be disclosed in the notes of the accounts of the year of the change.

ASBE vs. CAS 2006

Currently there are two accounting standards in place in China: The Accounting System for Business Enterprises (企业会计制度, 2001) and the Chinese Accounting System (企业会计准则, 2006) which is more similar to IFRS.

While listed companies have to adopt to CAS, smaller businesses can still voluntarily use the ASBE accounting system.

At some point there will probably be a forced transition from ASBE to CAS but the transition date has not yet been determined by the Ministry of Finance.

Basic Important Principles

Business continuity and consistence

In the financial statements, continuity of the business operation is to be assumed; the valuation cannot be done using liquidation values. Methods should be used in a consistent manner.

Historical cost

For the valuation in the balance sheet and profit & loss calculation, the initial valuation is to be done using the historical cost of the goods or fixed assets, which includes the goods itself and all related direct costs, e.g. freight, insurance and import duties (if applicable).

Accrual principle

All transactions shall be measured under the accrual principle, which attributes profits and losses to a single period. All transactions that do not lead to a profit or loss in a period shall not be considered in this period.

Economic benefit and measurability

Only items may be recognized, of which the economic benefit is likely to flow into the company and can be measured reliably

Prudence principle

For single items, e.g. especially in the area of current assets, the initial valuation is based on historical cost. At the balance sheet date, the lower value of the historical cost and the net realizable value has to be taken.

Language and documentation requirements

All relevant accounting documentation must be retained in Chinese language even while a second language is allowed.

The accounting records, financial statements and supplementary documents have to be kept for 15 years.

Fiscal year

The fiscal year always equals the calendar year and the tax year. Annual income tax statements and audited financial statements have to be filed within 5 months after the end of the tax year.

Stock-taking

At least once a year an annual stock-taking has to take place and, if deviations are identified, adjustments to the inventories and fixed assets have to be made before the annual closing of the accounts and be reflected in the profit and loss.

The reasons must be analyzed.

Cost of goods manufactured

The cost of the manufactured goods has to be calculated according to the actual cost. While in other countries inventory movements and contribution margin can be calculated on standard prices that have been calculated in the beginning of the year and then the difference between the standard price and the actual price will be handled in the year-end as additional profit or loss, this is not the case in China. For every bookkeeping period the actual costs for the manufactured products have to be measured and used.

Local reporting vs. group reporting

Accounting for a Chinese company requires you to follow the local GAAP while your group for consolidation reasons might require a reporting according to their GAAP.

In these constellations, a company usually prepares localized financial statements (local GAAP) and in parallel statements according to the group policy (foreign GAAP, e.g. HGB/IFRS).



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Offsetting is not allowed

While the GAAP in some countries require the offsetting of accounts, it is forbidden according to Chinese GAAP. Every transaction has to be handled as a single transaction.

For example, while in some countries, the total of receivables vs. payables versus one company would have to be recognized, in Chinese GAAP the total receivables and total payables would have to be recognized:

Chinese GAAP:

Receivables vs. company X	50 RMB
Payables vs. company X	100 RMB

e.g. German GAAP:

Payables vs. company X $(100 - 50 =)$	50 RMB
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Currency and exchange gains/losses

While the recording currency might be different in special cases, the financial statements have to be in Chinese Renminbi. To reflect this, the following rules apply for monetary transactions:

- Foreign currency transactions have to be recorded with the spot exchange rate on the date of transaction or
- Spot exchange rate of the end of the period (ASBE) or an approximate spot exchange rate on the date of transactions

The differentiation between monetary and non-monetary transactions is also handled differently:

- ASBE does not address monetary or non-monetary transactions
- CAS 2006 distinguishes in
 - Foreign currency monetary items:
 - Exchange rate at balance sheet date
 - Foreign currency non-monetary items:
 - Spot exchange rate on the date of transaction
 - Foreign currency non-monetary items that are measured on fair value use the spot exchange rate when the fair value was determined

Because most foreign-invested companies generate their main business within China, they mostly also opt for Renminbi as bookkeeping currency in their accounting systems.

Other noteworthy principles

Accounting should:

- Be carried out timely and should neither be in advance nor postponed;
- Create clear and easy-to-understand reports;
- Be done on the principle of importance and be consistent;
- Every transaction must be supported by (verified) evidence;
- Journal, General Ledger, Subsidiary Ledger have to be kept; auxiliary books of accounts can be used, and
- Accounting Software is allowed but they must meet requirements of safety, secrecy and confidentiality.

The data must be backed up and hard copies have to be printed out on a regular basis to which the original documents, e.g. invoices, are attached by Glue.