

Accounting Standards for Enterprises No. 19 - Foreign Currency Translation**Cai Kuai [2006] No. 3****Chapter I General Provisions**

Article 1 With a view to regulating the accounting treatment for the foreign currency transactions, conversion of foreign currency financial statements and disclosure of relevant information, the present Standards are formulated according to the Accounting Standards for Enterprises - Basic Standards.

Article 2 The "foreign currency transaction" refers to transactions which are valued and settled in foreign currency. The "foreign currency" refers to a currency other than the functional currency of an enterprise. The foreign currency transactions include:

- (1) the purchase or sale of goods or services valued in foreign currency;
- (2) foreign currency funds that are borrowed or lent; and
- (3) other transactions which are valued or settled in foreign currency.

Article 3 The following items shall be subjected to other relevant accounting standards:

(1) The balance of exchange arising from foreign currency borrowings for the purchase and construction or production of qualified assets shall be subject to the Accounting Standards for Business Enterprises No. 17 - Borrowing Costs;

(2) The hedge of foreign currency items shall be subject to the Accounting Standards for Enterprise No. 24 - Hedging; and

(3) The translation of foreign currency in the cash flow statement shall be subject to the Accounting Standards for Business Enterprises No. 31 - Cash Flow Statement.

Chapter II Determination of Functional Currency

Article 4 The "functional currency" refers to the currency of the primary economic environment in which the enterprise is operated.

An enterprise shall, in general, choose RMB as its functional currency. For an enterprise of which the incomes and expenses are mainly valued in the currency other than RMB, it may choose a currency as its functional currency according to Article 5 of the present Standards. However, the financial statements shall be translated into the ones RMB.

Article 5 When an enterprise chooses a functional currency, it shall take account of the following factors:

- (1) This currency mainly affects the selling prices of goods and services, and generally the goods and services are valued and settled in this currency;
- (2) This currency mainly affects the labor, materials and other costs for the goods and services, and generally the goods and services are valued and settled in this currency; and
- (3) The currency acquired in financing activities as well as the currency utilized to preserve the money charged in the business operation.

Article 6 When an enterprise chooses the functional currency for its overseas business, it shall taking account of the following factors as well:

- (1) Whether or not the overseas businesses are quite independent from the activities in which it is

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engaged;

(2) Whether or not the transactions with the enterprise in overseas business operations account for a relatively large proportion in overseas business operations;

(3) Whether or not the cash flow incurred in overseas business operations directly affect the cash flow of the enterprise, and whether or not the cash may be remitted back at any time;

(4) Whether or not the cash flow incurred in overseas business operations is sufficient to settle its current liabilities and predictable liabilities.

Article 7 The "overseas business operation" refers to the enterprise' overseas subsidiary companies, joint ventures, associated enterprises and branches.

Where the domestic subsidiary company, joint enterprise, associated enterprise or branch of an enterprise adopts a functional currency which is difference from that of the enterprise, it shall be deemed as overseas business.

Article 8 Once the functional currency of an enterprise is determined, it shall not be modified at will, unless the main economic environment in which the enterprise is operated has greatly changed.

Where it is really necessary to modify the functional currency because the primary economic environment in which the enterprise is operated has greatly changed, the enterprise shall translate all items into the post-change functional currency at the spot exchange rate of the current date of the change.

Chapter III Accounting Treatment for Foreign Currency Transactions

Article 9 As for a foreign currency transaction, the enterprise shall translate the amount in a foreign currency into amount in its functional currency.

Article 10 At the time of initial recognition of a foreign currency transaction, the amount in the foreign currency shall be translated into the amount in the functional currency at the spot exchange rate of the transaction date, or at an exchange rate which is determined through a systematic and reasonable method and is approximate to the spot exchange rate of the transaction date.

Article 11 An enterprise shall, on the balance sheet date, treat the foreign currency monetary items and foreign currency non-monetary items in accordance with the following provisions:

(1) The foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date shall be recorded into the profits and losses at the current period.

(2) The foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate on the transaction date, of which the amount of functional currency shall not be changed.

The "monetary item" shall refer to the money held by an enterprise and the assets and liabilities to be received or paid in fixed or determinable amounts of money.

The "non-monetary item" shall refer to the items other than the monetary ones.

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Chapter IV Translation of Foreign Currency Financial Statements

Article 12 When translating the financial statements on the overseas businesses, an enterprise shall comply with the following provisions:

(1) The asset and liability items in the balance sheets shall be translated at a spot exchange rate on the balance sheet date. Among the owner's equity items, except the ones as "undistributed profits", others shall be translated at the spot exchange rate at the time when they are incurred.

(2) The income and expense items in the profit statements shall be translated at the spot exchange rate of the transaction date, or at a spot exchange rate which is determined through a systematic and reasonable method and is approximate to the spot exchange rate of the transaction date.

The balance arisen from the translation of foreign currency financial statements in compliance with the aforesaid Items (1) and (2) shall be presented separately under the owner's equity item of the balance sheets.

The translation of comparable financial statements shall be subject to the aforesaid provisions.

Article 13 An enterprise shall translate the financial statements of overseas business as situated in a hyperinflationary economy in accordance with the following provisions:

It shall restate the balance sheet items by adopting the general price index, restate the items of the profit statement by adopting the changes of the general price index, and then translate them at the spot exchange rate on the recent balance sheet date.

If an overseas business is no longer situated in the hyperinflationary economy, it shall stop the restatement, and shall translate the restated financial statements at the price of the cessation date.

Article 14 When disposing an overseas business, an enterprise shall shift the balance, which is presented under the items of the owner's equities in the balance sheet and arises from the translation of foreign currency financial statements related to this overseas business, into the disposal profits and losses of the current period.

If the overseas business is disposed of partially, the enterprise shall calculate the balance arising from the translation of foreign currency statements of the part of disposal based on the disposal rate and shall shift them into the profits and losses of the current period.

Article 15 Where an enterprise does not choose RMB as its functional currency, it shall translate its financial statements into RMB financial statements according to Article 12 of the present Standard.

Chapter V Disclosure

Article 16 An enterprise shall, in its notes, disclose the following information related to the translation of foreign currencies:

(1) The functional currency chosen by an enterprise and its overseas businesses and the reasons for such choice; if the functional currency is changed, the grounds for the change shall be given;

(2) If an approximate exchange rate is adopted, the method for the determination of the approximate exchange rate shall be given;

(3) The balance of exchange which shall be recorded into the profits and losses of the current period; and

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(4)The effects of disposal of any overseas business on the balance arising from the translation of foreign currency financial statements.



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