Accounting Standard for Business Enterprises- Basic Standard

Chapter 1 General Provisions

Article 1 In accordance with The Accounting Law of the People's Republic of China and other relevant laws and regulations, this Standard is formulated to prescribe the recognition, measurement and reporting activities of enterprises for accounting purposes and to ensure the quality of accounting information.

Article 2 This Standard shall apply to enterprises (including companies) established within the People's Republic of China.

Article 3 Accounting Standards for Business Enterprises include the Basic Standard and Specific Standards. Specific Standards shall be formulated in accordance with this Standard.

Article 4 An enterprise shall prepare financial reports. The objective of financial reports is to provide accounting information about the financial position, operating results and cash flows, etc. of the enterprise to the users of the financial reports, in order to show results of the management's stewardship, and assist users of financial reports to make economic decisions.

Users of financial reports include investors, creditors, government and its relevant departments as well as the public.

Article 5 An enterprise shall recognise, measure and report transactions or events that the enterprise itself have occurred.

Article 6 In performing recognition, measurement and reporting for accounting purposes, an enterprise shall be assumed to be a going concern.

Article 7 An enterprise shall close the accounts and prepare financial reports for each separate accounting period.

Accounting periods are divided into annual periods (yearly) and interim periods. An interim period is a reporting period shorter than a full accounting year.

Article 8 Accounting measurement shall be based on unit of currency.

Article 9 Recognition, measurement and reporting for accounting purposes shall be on an accrual basis.

Article 10 An enterprise shall determine the accounting elements based on the economic characteristics of the transactions or events. Accounting elements include assets, liabilities, owners' equity, revenue, expenses and profit.

Article 11 An enterprise shall apply the double entry method (i.e. debit and credit) for bookkeeping purposes.

Chapter 2 Qualitative Requirements of Accounting Information

Article 12 An enterprise shall recognise, measure and report for accounting purposes transactions or events that have actually occurred, to faithfully represent the accounting elements which satisfy recognition and measurement requirements and other relevant information, and ensure the accounting information is true, reliable and complete.

Article 13 Accounting information provided by an enterprise shall be relevant to the needs of the users of financial reports in making economic decisions, by helping them evaluate or forecast the past, present or future events of the enterprise.

Article 14 Accounting information provided by an enterprise shall be clear and explicable, so that it is readily understandable and useable to the users of financial reports.

Article 15 Accounting information provided by enterprises shall be comparable.

An enterprise shall adopt consistent accounting policies for same or similar transactions or events that occurred in different periods and shall not change the policies arbitrarily. If a change is required or needed, details of the change shall be explained in the notes.

Different enterprises shall adopt prescribed accounting policies to account for same or similar transactions or events to ensure accounting information is comparable and prepared on a consistent basis.

Article 16 An enterprise shall recognise, measure and report transactions or events based on their substance, and not merely based on their legal form.

Article 17 Accounting information provided by an enterprise shall reflect all important transactions or events that relate to its financial position, operating results and cash flows.

Article 18 An enterprise shall exercise prudence in recognition, measurement and reporting of transactions or events. It shall not overstate assets or income nor understate liabilities or expenses.

Article 19 An enterprise shall recognise, measure and report transactions or events occurred in a timely manner and shall neither bring forward nor defer the accounting.

Chapter 3 Assets

Article 20 An asset is a resource that is owned or controlled by an enterprise as a result of past transactions or events and is expected to generate economic benefits to
the enterprise.

"Past transactions or events" mentioned in preceding paragraph include acquisition, production, construction or other transactions or events. Transactions or events expected to occur in the future do not give rise to assets.

"Owned or controlled by an enterprise" is the right to enjoy the ownership of a particular resource or, although the enterprise may not have the ownership of a particular resource, it can control the resource.

"Expected to generate economic benefits to the enterprise" is the potential to bring inflows of cash and cash equivalents, directly or indirectly, to the enterprise.

Article 21 A resource that satisfies the definition of an asset set out in Article 20 in this standard shall be recognised as an asset when both of the following conditions are met:

(a) it is probable that the economic benefits associated with that resource will flow to the enterprise; and

(b) the cost or value of that resource can be measured reliably.

Article 22 An item that satisfies the definition and recognition criteria of an asset shall be included in the balance sheet. An item that satisfies the definition of an asset but fails to meet the recognition criteria shall not be included in the balance sheet.

Chapter 4 Liabilities

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Article 23 A liability is a present obligation arising from past transactions or events which are expected to give rise to an outflow of economic benefits from the enterprise.

A present obligation is a duty committed by the enterprise under current circumstances. Obligations that will result from the occurrence of future transactions or events are not present obligations and shall not be recognised as liabilities.

Article 24 An obligation that satisfies the definition of a liability set out in Article 23 in this standard shall be recognised as a liability when both of the following conditions are met:

(a) it is probable there will be an outflow of economic benefits associated with that obligation from the enterprise; and

(b) the amount of the outflow of economic benefits in the future can be measured reliably.

Article 25 An item that satisfies the definition and recognition criteria of a liability shall be included in the balance sheet. An item that satisfies the definition of a liability but fails to meet the recognition criteria shall not be included in the balance sheet.

Chapter 5 Owners' Equity

Article 26 Owners' equity is the residual interest in the assets of an enterprise after deducting all its liabilities.

Owners' equity of a company is also known as shareholders' equity.

Article 27 Owners' equity comprises capital contributed by owners, gains and losses directly recognised in owners' equity, retained earnings etc.

Gains and losses directly recognised in owners' equity are those gains or losses that shall not be recognised in profit or loss of the current period but will result in changes (increases or decreases) in owners' equity, other than those relating to contributions from, or appropriations of profit to, equity participants.

Gains are inflows of economic benefits that do not arise in the course of ordinary activities resulting in increases in owners' equity, other than those relating to contributions from owners.

Losses are outflows of economic benefits that do not arise in the course of ordinary activities resulting in decreases in owners' equity, other than those relating to appropriations of profit to owners.

Article 28 The amount of owners' equity is determined by the measurement of assets and liabilities.

Article 29 An item of owners' equity shall be included in the balance sheet.

Chapter 6 Revenue

Article 30 Revenue is the gross inflow of economic benefits derived from the course of ordinary activities that result in increases in equity, other than those relating to contributions from owners.

Article 31 Revenue is recognised only when it is probable that economic benefits will flow to the enterprise, which will result in an increase in assets or decrease in liabilities and the amount of the inflow of economic benefits can be measured reliably.

Article 32 An item that satisfies the definition and recognition criteria of revenue shall be included in the income statement.

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Chapter 7 Expenses

Article 33 Expenses are the gross outflow of economic benefits resulted from the course of ordinary activities that result in decreases in owners' equity, other than those relating to appropriations of profits to owners.

Article 34 Expenses are recognised only when it is probable there will be outflow of economic benefits from the enterprise which result in a reduction of its assets or an increase in liabilities and the amount of the outflow of economic benefits can be measured reliably.

Article 35 Directly attributable costs, such as product costs, labour costs, etc. incurred by an enterprise in the process of production of goods or rendering of services shall be recognised as cost of goods sold or services provided and are charged to profit or loss in the period in which the revenue generated from the related products or services are recognised.

Where an expenditure incurred does not generate economic benefits, or where the economic benefits derived from an expenditure do not satisfy, or cease to satisfy, the recognition criteria of an asset, the expenditure shall be expensed when incurred and included in profit or loss of the current period.

Transactions or events occurred which lead to the assumption of a liability without recognition of an asset shall be expensed when incurred and included in profit or loss of the current period.

Article 36 An item that satisfies the definition and recognition criteria of expenses shall be included in the income statement.

Chapter 8 Profit

Article 37 Profit is the operating result of an enterprise over a specific accounting period. Profit includes the net amount of revenue after deducting expenses, gains and losses directly recognised in profit of the current period, etc.

Article 38 Gains and losses directly recognised in profit of the current period are those gains and losses that shall be recognised in profit or loss directly which result in changes (increases or decreases) to owners' equity, other than those relating to contributions from, or appropriations of profit to, owners.

Article 39 The amount of profit is determined by the measurement of the amounts of revenue and expenses, gains and losses directly recognised in profit or loss in the current period.

Article 40 An item of profit shall be included in the income statement.

Chapter 9 Accounting Measurement

Article 41 In recording accounting elements that meet the recognition criteria in the accounting books and records and presenting them in the accounting statements and the notes (hereinafter together known as "financial statements"), an enterprise shall measure the accounting elements in accordance with the prescribed accounting measurement bases.

Article 42 Accounting measurement bases mainly comprise:

(a) Historical cost: Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are

recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
(b) Replacement cost: Assets are carried at the amount of cash or cash equivalents that would have to be paid if a same or similar asset was acquired currently. Liabilities are carried at the amount of cash or cash equivalents that would be currently required to settle the obligation.
(c) Net realisable value: Assets are carried at the amount of cash or cash equivalents that could be obtained by selling the asset in the ordinary course of business, less the estimated costs of completion, the estimated selling costs and related tax payments.
(d) Present value: Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate from its continuing use and ultimate disposal. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities within the expected settlement period.
(e) Fair value: Assets and liabilities are carried at the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Article 43 An enterprise shall generally adopt historical cost as the measurement basis for accounting elements. If the accounting elements are measured at replacement cost, net realisable value, present value or fair value, the enterprise shall ensure such amounts can be obtained and reliably measured.

Chapter 10 Financial Reports

Article 44 A financial report is a document published by an enterprise to provide accounting information to reflect its financial position on a specific date and its operating results and cash flows for a particular accounting period, etc.
A financial report includes accounting statements and notes and other information or data that shall be disclosed in financial reports. Accounting statements shall at least comprise a balance sheet, an income statement and a cash flow statement.
A small enterprise need not include a cash flow statement when it prepares financial statements.
Article 45 A balance sheet is an accounting statement that reflects the financial position of an enterprise at a specific date.
Article 46 An income statement is an accounting statement that reflects the operating results of an enterprise for a certain accounting period.
Article 47 A cash flow statement is an accounting statement that reflects the inflows and outflows of cash and cash equivalents of an enterprise for a certain accounting period.
Article 48 Notes to the accounting statements are further explanations of items presented in the accounting statements, and explanations of items not presented in the accounting statements, etc.

Chapter 11 Supplementary Provisions

Article 49 The Ministry of Finance is responsible for the interpretation of this Standard.
Article 50 This Standard becomes effective as from 1 January 2007.

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