

Regulations on Enterprise Financial Accounting Reports of the PRC

Dan Young Business Consultancy — www.danyoungcpa.com
Unofficial English translation prepared for reference only. The official Chinese text prevails.

Contents

Table of Contents	1
Chapter I — General Provisions	1
Chapter II — Composition of Financial Accounting Reports	2
Chapter III — Preparation of Financial Accounting Reports	3
Chapter IV — Provision of Financial Accounting Reports to External Parties	5
Chapter V — Legal Liability	6
Chapter VI — Supplementary Provisions	7

Promulgated by Order No. 287 of the State Council of the People's Republic of China on June 21, 2000
Effective: January 1, 2001

Table of Contents

- Chapter I — General Provisions
- Chapter II — Composition of Financial Accounting Reports
- Chapter III — Preparation of Financial Accounting Reports
- Chapter IV — Provision of Financial Accounting Reports to External Parties
- Chapter V — Legal Liability
- Chapter VI — Supplementary Provisions

Chapter I — General Provisions

Article 1 — These Regulations are formulated in accordance with the Accounting Law of the People's Republic of China for the purpose of regulating enterprise financial accounting reports and ensuring the truthfulness and completeness of financial accounting reports.

Article 2 — Enterprises (including companies; the same hereinafter) shall comply with these Regulations in preparing and providing financial accounting reports to external parties. For the purposes of these Regulations, "financial accounting reports" means the documents provided by an enterprise to external parties that reflect its financial position on a specific date and its operating results and cash flows for a certain accounting period.

Article 3 — An enterprise shall not prepare or provide to external parties any financial accounting report that is false or that conceals material facts. The person in charge of an enterprise shall be responsible for the truthfulness and completeness of the enterprise's financial accounting reports.

Article 4 — No organization or individual may instigate, direct, or compel an enterprise to prepare or provide to external parties any financial accounting report that is false or that conceals material facts.

Article 5 — Certified public accountants and accounting firms that audit an enterprise's financial accounting reports shall do so in accordance with the provisions of relevant laws and administrative regulations and the professional practice rules for certified public accountants, and shall be responsible for the audit reports issued by them.

Chapter II — Composition of Financial Accounting Reports

Article 6 — Financial accounting reports shall be classified into annual, semi-annual, quarterly, and monthly financial accounting reports.

Article 7 — Annual and semi-annual financial accounting reports shall include:(1) accounting statements;(2) notes to the accounting statements; and(3) a statement of financial affairs.The accounting statements shall include a balance sheet, an income statement, a cash flow statement, and relevant supporting schedules.

Article 8 — Quarterly and monthly financial accounting reports shall normally consist only of accounting statements, and the accounting statements shall at least include a balance sheet and an income statement. Where the State's unified accounting system provides that notes to the accounting statements must be prepared for quarterly and monthly financial accounting reports, such provisions shall prevail.

Article 9 — A balance sheet is a statement reflecting the financial position of an enterprise on a specific date. A balance sheet shall present, by category and by item, assets, liabilities, and owners' equity (or shareholders' equity; the same hereinafter). The definitions and presentation of assets, liabilities, and owners' equity shall comply with the following provisions:(1) "Assets" means resources formed from past transactions or events, owned or controlled by an enterprise, which are expected to bring economic benefits to the enterprise. In the balance sheet, assets shall be presented by category and by item according to their liquidity, including current assets, long-term investments, fixed assets, intangible assets, and other assets. Where the various assets of banks, insurance companies, and non-bank financial institutions have special characteristics, they shall be presented by category and by item according to their nature.(2) "Liabilities" means present obligations formed from past transactions or events, the performance of which is expected to result in an outflow of economic benefits from the enterprise. In the balance sheet, liabilities shall be presented by category and by item according to their liquidity, including current liabilities and long-term liabilities, among others. Where the various liabilities of banks, insurance companies, and non-bank financial institutions have special characteristics, they shall be presented by category and by item according to their nature.(3) "Owners' equity" means the economic benefits enjoyed by the owners in the assets of the enterprise, the amount of which is the balance remaining after deducting liabilities from assets. In the balance sheet, owners' equity shall be presented by item under paid-in capital (or share capital), capital reserves, surplus reserves, undistributed profits, and other items.

Article 10 — An income statement is a statement reflecting the operating results of an enterprise for a certain accounting period. An income statement shall present, by category and by item, the various items of revenue, expenses, and profit. The definitions and presentation of revenue, expenses, and profit shall comply with the following provisions:(1) "Revenue" means the total inflow of economic benefits arising in the ordinary course of an enterprise's activities of selling goods, providing labor services, and transferring the right to use assets. Revenue shall not include amounts collected on behalf of third parties or customers. In the income statement, revenue shall be presented by item according to its materiality.(2) "Expenses" means the outflow of economic benefits incurred by an enterprise in the ordinary course of its activities such as selling goods and providing labor services. In the income statement, expenses shall be presented by item according to their nature.(3) "Profit" means the operating results of an enterprise for a certain accounting period. In the income statement, profit shall be presented by category and by item according to its components, such as operating profit, total profit, and net profit.

Article 11 — A cash flow statement is a statement reflecting the inflows and outflows of cash and cash equivalents (hereinafter referred to as "cash") of an enterprise for a certain accounting period. A cash flow statement shall present, by category and by item, cash flows from operating activities, investing activities, and financing activities. The definitions and presentation of operating activities, investing activities, and financing activities shall comply with the following provisions:(1) "Operating activities" means all transactions and events of an enterprise other than its investing activities and financing activities. In the cash flow statement, cash flows from operating activities shall be presented by item according to the nature of the cash inflows and outflows from its operating activities; the operating activities of banks, insurance companies, and non-bank financial institutions shall be presented by item according to the characteristics of their operating activities.(2) "Investing activities" means the acquisition and construction of long-term assets of an enterprise and the investment and disposal activities of investments not falling within the scope of cash equivalents. In the cash flow statement, cash flows from investing activities shall be presented by item according to the nature of the cash inflows and outflows from its investing activities.(3) "Financing activities" means activities that result in changes in the scale and composition of an enterprise's capital and debt. In the cash flow statement, cash flows from financing activities shall be presented by item according to the nature of the cash inflows and outflows from its financing activities.

Article 12 — Relevant supporting schedules are supplementary statements reflecting an enterprise's financial position, operating results, and cash flows, mainly including a statement of profit distribution and other supporting schedules provided for by the State's unified accounting system.A statement of profit distribution is a statement reflecting the distribution of net profit realized during a certain accounting period and of the undistributed profits of previous years, or the recovery of losses. The statement of profit distribution shall present, by category and by item, the various items of profit distribution.

Article 13 — Annual and semi-annual accounting statements shall at least reflect comparative data for two years or for two relevant periods.

Article 14 — Notes to the accounting statements are explanations made, for the convenience of users of the accounting statements in understanding their content, of the basis, grounds, principles, and methods of preparation of the accounting statements and of the principal items thereof. Notes to the accounting statements shall at least include the following:(1) explanations of matters inconsistent with the basic accounting assumptions;(2) material accounting policies and accounting estimates, and the circumstances of, and reasons for, any changes thereto and their effects on the financial position and operating results;(3) explanations of contingencies and of events occurring after the balance sheet date;(4) explanations of related-party relationships and transactions;(5) transfers and sales of material assets;(6) mergers and divisions of enterprises;(7) material investment and financing activities;(8) detailed information on material items in the accounting statements; and(9) other matters that need to be explained in order to facilitate understanding and analysis of the accounting statements.

Article 15 — A statement of financial affairs shall at least explain the following:(1) the basic circumstances of the enterprise's production and operation;(2) the realization and distribution of profits;(3) the increase, decrease, and turnover of funds; and(4) other matters that have a material effect on the enterprise's financial position, operating results, and cash flows.

Chapter III — Preparation of Financial Accounting Reports

Article 16 — An enterprise shall prepare an annual financial accounting report at the end of the year. Where the State's unified accounting system provides that an enterprise shall prepare semi-annual, quarterly, and monthly financial accounting reports, such provisions shall prevail.

Article 17 — In preparing financial accounting reports, an enterprise shall base them on true transactions and events and on complete and accurate accounting book records and other materials, and shall comply with the preparation basis, preparation grounds, preparation principles, and methods prescribed by the

State's unified accounting system. An enterprise shall not, in violation of these Regulations and the State's unified accounting system, arbitrarily alter the basis, grounds, principles, and methods of preparation of financial accounting reports. No organization or individual may instigate, direct, or compel an enterprise to alter, in violation of these Regulations and the State's unified accounting system, the basis, grounds, principles, and methods of preparation of financial accounting reports.

Article 18 — An enterprise shall, in accordance with these Regulations and the State's unified accounting system, reasonably recognize and measure the various accounting elements in its accounting statements, and shall not arbitrarily alter the standards for the recognition and measurement of accounting elements.

Article 19 — An enterprise shall close its accounts on the closing date prescribed by the relevant laws and administrative regulations and by these Regulations, and shall not close them earlier or later. The annual closing date shall be December 31 of each Gregorian calendar year; the semi-annual, quarterly, and monthly closing dates shall be respectively the last day of each half-year, each quarter, and each month of the Gregorian calendar year.

Article 20 — Before preparing an annual financial accounting report, an enterprise shall comprehensively check its assets and verify its liabilities in accordance with the following provisions: (1) whether settlement items, including receivables, payables, and taxes payable, exist, and whether the amounts of the corresponding debts and claims are consistent with those of the debtor and creditor entities; (2) whether the actual quantities of raw materials, work in progress, self-manufactured semi-finished products, inventory goods, and other inventories are consistent with their book quantities, and whether there are any scrapped losses or overstocked materials; (3) whether the various investments exist, and whether investment income has been recognized and measured in accordance with the State's unified accounting system; (4) whether the actual quantities of houses and buildings, machinery and equipment, means of transport, and other fixed assets are consistent with their book quantities; (5) whether the actual amounts incurred for construction in progress are consistent with the book records; and (6) other matters that need to be checked and verified. Through the checking and verification referred to in the preceding paragraph, an enterprise shall ascertain whether the actual quantities of its property and materials are consistent with their book quantities, the circumstances of, and reasons for, any arrears in the various settlement items, the actual reserve conditions of its materials, whether the various investments have achieved their intended purposes, and the conditions of use and degree of soundness of its fixed assets. After checking and verifying, the enterprise shall report the results of such checking and verification and the methods of dealing therewith to its board of directors or the corresponding body of the enterprise, and shall carry out the corresponding accounting treatment in accordance with the State's unified accounting system. An enterprise shall, in the middle of the year and according to the specific circumstances, carry out key spot checks, rotational checks, or periodic checks on its various property, materials, and settlement items.

Article 21 — Before preparing a financial accounting report, in addition to comprehensively checking its assets and verifying its liabilities, an enterprise shall also complete the following work: (1) verify whether the contents and amounts of the records in the various accounting books are consistent with the accounting vouchers, and whether the directions of the entries correspond; (2) close the accounts on the closing date prescribed by these Regulations, arrive at the balances and amounts incurred in the relevant accounting books, and verify the balances among the various accounting books; (3) check whether the relevant accounting treatment has been carried out in accordance with the State's unified accounting system; (4) with respect to transactions and events for which the State's unified accounting system does not prescribe a unified method of accounting treatment, check whether they have been recognized and measured in accordance with the general principles of accounting treatment and whether the relevant bookkeeping treatment is reasonable; and (5) check whether there are any relevant items of the current or prior period that need to be adjusted on account of accounting errors, changes in accounting policies, or other reasons. Where problems are discovered in the work referred to in the preceding paragraph, they shall be

dealt with in accordance with the State's unified accounting system.

Article 22 — Where, in preparing annual and semi-annual financial accounting reports, there are changes in the assets and liabilities that have been verified, the enterprise shall recognize and measure them in accordance with the standards for the recognition and measurement of assets and liabilities, and shall carry out the corresponding accounting treatment in accordance with the State's unified accounting system.

Article 23 — An enterprise shall, in accordance with the format and content of accounting statements prescribed by the State's unified accounting system and on the basis of complete, registered, and verified accounting book records and other relevant materials, prepare accounting statements that are complete in content, true in figures, and accurate in computation, and shall not omit any item or make arbitrary selections.

Article 24 — Where corresponding relationships exist among accounting statements or among the various items of accounting statements, the relevant figures shall be consistent with one another; the relevant figures of the current period and of the preceding period in the accounting statements shall be connected with one another.

Article 25 — Notes to the accounting statements and the statement of financial affairs shall, in accordance with these Regulations and the State's unified accounting system, provide true, complete, and clear explanations of the matters requiring explanation in the accounting statements.

Article 26 — Where an enterprise undergoes a merger or division, it shall prepare the corresponding financial accounting reports in accordance with the State's unified accounting system.

Article 27 — Where an enterprise terminates its business, it shall, at the time of termination, comprehensively check its assets, verify its liabilities, close its accounts, and prepare financial accounting reports in accordance with the requirements for preparing annual financial accounting reports; during the liquidation period, it shall prepare financial accounting reports for the liquidation period in accordance with the State's unified accounting system.

Article 28 — Where, in accordance with the State's unified accounting system, a consolidated accounting statement is required to be prepared by an enterprise group, the parent company shall, in addition to preparing its own individual accounting statements, prepare the consolidated accounting statements of the enterprise group. Consolidated accounting statements of an enterprise group mean accounting statements reflecting the overall financial position, operating results, and cash flows of the enterprise group.

Chapter IV — Provision of Financial Accounting Reports to External Parties

Article 29 — The accounting information reflected in financial accounting reports provided to external parties shall be true and complete.

Article 30 — An enterprise shall, in accordance with the provisions of laws and administrative regulations and the State's unified accounting system on the time limits for providing financial accounting reports, provide its financial accounting reports to external parties in a timely manner.

Article 31 — The financial accounting reports provided by an enterprise to external parties shall be consecutively numbered, provided with a cover, bound into volumes, and affixed with the enterprise's official seal. The cover shall indicate the enterprise's name, its unified code, its form of organization, its address, the year or month to which the statements relate, and the date of submission, and shall be signed and sealed by the person in charge of the enterprise, the person in charge of accounting work, and the person in charge of the accounting body (or the accountant in charge); where an enterprise has a chief accountant, the chief accountant shall also sign and seal it.

Article 32 — An enterprise shall provide financial accounting reports to investors in accordance with its articles of association. Key large state-owned enterprises and key state-owned financial institutions with

boards of supervisors dispatched by the State Council, and state-owned enterprises with boards of supervisors dispatched by the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government, shall provide financial accounting reports to the boards of supervisors periodically in accordance with the law.

Article 33 — Where relevant departments or bodies, in accordance with laws and administrative regulations or provisions of the State Council, require an enterprise to provide part or all of its financial accounting reports and the relevant data, they shall show the enterprise the basis for such requirement, and shall not require the enterprise to alter the accounting treatment standards for the relevant data in the financial accounting reports.

Article 34 — Except in accordance with laws and administrative regulations or provisions of the State Council, no organization or individual may require an enterprise to provide part or all of its financial accounting reports and the relevant data. Where, in violation of these Regulations, an enterprise is required to provide part or all of its financial accounting reports and the relevant data, the enterprise shall have the right to refuse.

Article 35 — State-owned enterprises and enterprises that are state-controlled or in which the State occupies a dominant position shall make public their financial accounting reports to the workers' congress of the enterprise at least once a year, and shall give priority to explaining the following matters: (1) information closely related to the interests of employees, including: the composition of administrative expenses; the payment, use, and balance of the wages and benefits of enterprise management personnel and of the wages and benefits of employees; the appropriation and use of public welfare funds; the distribution of profits; and other information related to the interests of employees; (2) problems discovered by internal audits and the circumstances of their rectification; (3) the circumstances of audits by certified public accountants; (4) problems discovered by state audit institutions and the circumstances of their rectification; (5) explanations of material decisions on investment, financing, and disposal of assets and the reasons therefor; and (6) other material matters requiring explanation.

Article 36 — Where an enterprise provides financial accounting reports to the various relevant parties in accordance with these Regulations, the basis, grounds, principles, and methods of preparation of such reports shall be consistent, and the enterprise shall not provide financial accounting reports prepared on different bases, grounds, principles, or methods.

Article 37 — Where a financial accounting report is required to be audited by a certified public accountant, the enterprise shall provide the audit report issued by the certified public accountant and the accounting firm together with the financial accounting report to external parties.

Article 38 — Organizations or individuals that receive an enterprise's financial accounting reports shall keep their contents confidential before the financial accounting reports are formally disclosed to the public.

Chapter V — Legal Liability

Article 39 — Where an enterprise commits any of the following acts in violation of these Regulations, the finance department of the people's government at or above the county level shall order it to make corrections within a prescribed time limit, may impose on the enterprise a fine of not less than RMB 3,000 but not more than RMB 50,000, and may impose on the persons directly in charge and other persons directly responsible a fine of not less than RMB 2,000 but not more than RMB 20,000; where such persons are state functionaries, administrative or disciplinary sanctions shall also be imposed on them in accordance with the law: (1) arbitrarily altering the standards for the recognition and measurement of accounting elements; (2) arbitrarily altering the basis, grounds, principles, and methods of preparation of financial accounting reports; (3) closing accounts earlier or later than the closing date; (4) failing to comprehensively check assets and verify liabilities in accordance with these Regulations before preparing an annual financial accounting

report; or(5) refusing the lawful supervision and inspection of financial accounting reports by the finance department and other relevant departments, or failing to truthfully provide the relevant information. Where accounting personnel commit any of the acts listed in the preceding paragraph and the circumstances are serious, the finance department of the people's government at or above the county level shall revoke their qualification certificates for the practice of accounting.

Article 40 — Where an enterprise prepares or provides to external parties financial accounting reports that are false or that conceal material facts, and such conduct constitutes a crime, criminal liability shall be pursued in accordance with the law. Where the conduct referred to in the preceding paragraph does not constitute a crime, the finance department of the people's government at or above the county level shall circulate a notice of criticism, and may impose on the enterprise a fine of not less than RMB 5,000 but not more than RMB 100,000; may impose on the persons directly in charge and other persons directly responsible a fine of not less than RMB 3,000 but not more than RMB 50,000; where such persons are state functionaries, administrative or disciplinary sanctions ranging from dismissal from office to discharge from public employment shall also be imposed in accordance with the law; and where the accounting personnel among them are involved in serious circumstances, the finance department of the people's government at or above the county level shall also revoke their qualification certificates for the practice of accounting.

Article 41 — Where any person instigates, directs, or compels the accounting body, accounting personnel, or other persons to prepare or provide to external parties financial accounting reports that are false or that conceal material facts, or conceals or deliberately destroys financial accounting reports that should be preserved in accordance with the law, and such conduct constitutes a crime, criminal liability shall be pursued in accordance with the law; where such conduct does not constitute a crime, a fine of not less than RMB 5,000 but not more than RMB 50,000 may be imposed; and where such person is a state functionary, administrative or disciplinary sanctions ranging from demotion or dismissal from office to discharge from public employment shall also be imposed in accordance with the law.

Article 42 — Where, in violation of these Regulations, an enterprise is required to provide part or all of its financial accounting reports and the relevant data, the people's government at or above the county level shall order the offender to make corrections.

Article 43 — Where an act in violation of these Regulations also violates other laws or administrative regulations, the relevant departments shall, within the scope of their respective functions and powers, impose punishment in accordance with the law.

Chapter VI — Supplementary Provisions

Article 44 — The finance department of the State Council may, in accordance with these Regulations, formulate specific measures for the preparation and submission of financial accounting reports.

Article 45 — The measures for the preparation and provision to external parties of financial accounting reports by enterprises that do not raise funds from external sources and are relatively small in scale of operation shall be separately formulated by the finance department of the State Council in accordance with the principles of these Regulations.

Article 46 — These Regulations shall become effective as of January 1, 2001.

Disclaimer: This is an unofficial English translation of the Regulations on Enterprise Financial Accounting Reports of the People's Republic of China (State Council Order No. 287 of 2000), prepared for general informational and reference purposes only. The official Chinese text remains the sole authoritative version. This translation is not legal advice and should not be relied upon as a substitute for professional legal or accounting counsel. For matters concerning the application of these Regulations to specific circumstances, please consult a qualified professional. Dan Young Business Consultancy makes no warranty as to the accuracy or completeness of this translation and accepts no liability arising from its use.