Accounting Standard for Business Enterprises No. 14 — Revenue (China)

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 — Recognition 2

Chapter III — Measurement 5

Chapter IV — Contract Costs 7

Chapter V — Accounting for Specific Transactions 8

Chapter VI — Presentation 11

Chapter VII — Transitional Provisions 12

Chapter VIII — Supplementary Provisions 13

Issued by the Ministry of Finance of the People's Republic of China on July 5, 2017 (Cai Kuai [2017] No. 22), revising Accounting Standard for Business Enterprises No. 14 — Revenue originally issued on February 15, 2006

Effective: January 1, 2018

Table of Contents

- Chapter I — General Provisions
- Chapter II — Recognition
- Chapter III — Measurement
- Chapter IV — Contract Costs
- Chapter V — Accounting for Specific Transactions
- Chapter VI — Presentation
- Chapter VII — Transitional Provisions
- Chapter VIII — Supplementary Provisions

Chapter I — General Provisions

Article 1 — For the purpose of regulating the recognition, measurement and disclosure of information related to revenue, this Standard is formulated in accordance with the Accounting Standards for Business

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

Enterprises — Basic Standard.

Article 2 — For the purposes of this Standard, "revenue" refers to the total inflow of economic benefits arising in the course of an enterprise's ordinary activities that results in an increase in owners' equity and that is unrelated to the capital contributed by owners.

Article 3 — This Standard applies to all contracts with customers, except for the following:

(1) Financial instruments and other contractual rights and obligations governed by Accounting Standards for Business Enterprises No. 2 — Long-Term Equity Investments, No. 22 — Recognition and Measurement of Financial Instruments, No. 23 — Transfer of Financial Assets, No. 24 — Hedge Accounting, No. 33 — Consolidated Financial Statements and No. 40 — Joint Arrangements, shall respectively be subject to Accounting Standards for Business Enterprises No. 2 — Long-Term Equity Investments, No. 22 — Recognition and Measurement of Financial Instruments, No. 23 — Transfer of Financial Assets, No. 24 — Hedge Accounting, No. 33 — Consolidated Financial Statements and No. 40 — Joint Arrangements.

(2) Lease contracts governed by Accounting Standards for Business Enterprises No. 21 — Leases shall be subject to Accounting Standards for Business Enterprises No. 21 — Leases.

(3) Insurance contracts governed by the accounting standards related to insurance contracts shall be subject to those accounting standards.

For the purposes of this Standard, a "customer" refers to a party that has entered into a contract with an enterprise to purchase goods or services (hereinafter referred to as "goods") produced by the enterprise's ordinary activities and to pay consideration therefor.

For the purposes of this Standard, a "contract" refers to an agreement creating legally enforceable rights and obligations between two or more parties. A contract may be in written form, oral form or any other form.

Chapter II — Recognition

Article 4 — An enterprise shall recognize revenue when it has satisfied a performance obligation in the contract, that is, when the customer obtains control of the relevant goods.

Obtaining control of the relevant goods means having the ability to direct the use of, and obtain substantially all of the remaining economic benefits from, the goods.

Article 5 — When a contract between an enterprise and a customer satisfies all of the following conditions, the enterprise shall recognize revenue when the customer obtains control of the relevant goods:

(1) The parties to the contract have approved the contract and have committed to perform their respective obligations;

(2) The contract identifies the rights and obligations of the parties with respect to the goods to be transferred or the services to be provided (hereinafter referred to as "transfer of goods");

(3) The contract has identifiable payment terms with respect to the goods to be transferred;

(4) The contract has commercial substance, that is, performance of the contract is expected to change the risk, timing or amount of the enterprise's future cash flows; and

(5) It is probable that the consideration to which the enterprise will be entitled in exchange for transferring the goods to the customer will be collected.

For a contract that satisfies the conditions in the preceding paragraph at contract inception, the enterprise is not required to reassess it in subsequent periods unless there is an indication of a significant change in the relevant facts and circumstances. The inception date of a contract is generally the date on which the contract becomes effective.

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

Article 6 — For a contract that does not satisfy the conditions in Article 5 at contract inception, the enterprise shall continually assess it, and shall apply the accounting treatment in accordance with that article once it satisfies the conditions in Article 5.

For a contract that does not satisfy the conditions in Article 5, the enterprise may recognize the consideration received as revenue only when it no longer has any remaining obligation to transfer goods to the customer and the consideration already received from the customer is non-refundable; otherwise, the consideration received shall be accounted for as a liability. No revenue shall be recognized for an exchange of non-monetary assets that lacks commercial substance.

Article 7 — Where an enterprise enters into two or more contracts with the same customer (or a related party of that customer) at or near the same time, the contracts shall be combined and accounted for as a single contract when any of the following conditions is met:

(1) The two or more contracts are entered into for a single commercial purpose and constitute a package deal.

(2) The amount of consideration in one of the two or more contracts depends on the pricing or performance of the other contracts.

(3) The goods promised in the two or more contracts (or some of the goods promised in each contract) constitute a single performance obligation as specified in Article 9 of this Standard.

Article 8 — An enterprise shall account for contract modifications separately by distinguishing among the following three circumstances:

(1) Where a contract modification adds distinct goods and contract price, and the additional contract price reflects the stand-alone selling price of the additional goods, the contract modification shall be accounted for as a separate contract.

(2) Where a contract modification is not within the circumstance in paragraph (1) of this Article, and the goods or services already transferred (hereinafter referred to as "transferred goods") are distinct from the goods or services not yet transferred (hereinafter referred to as "untransferred goods") as of the date of the contract modification, the original contract shall be deemed terminated and, at the same time, the unperformed portion of the original contract and the contract modification shall be combined into a new contract for accounting treatment.

(3) Where a contract modification is not within the circumstance in paragraph (1) of this Article, and the transferred goods are not distinct from the untransferred goods as of the date of the contract modification, the contract modification shall be accounted for as part of the original contract, and the resulting effect on revenue already recognized shall be adjusted against revenue of the current period as of the date of the contract modification.

For the purposes of this Standard, a "contract modification" refers to a change in the scope or price of a contract that is approved by the parties to the contract.

Article 9 — At contract inception, an enterprise shall assess the contract, identify each performance obligation contained in the contract, and determine whether each performance obligation is satisfied over time or at a point in time, and then recognize revenue separately when each performance obligation is satisfied.

A "performance obligation" refers to a promise in a contract to transfer distinct goods to a customer. Performance obligations include both explicit promises in the contract and promises that, as a result of the enterprise's publicly announced policies, specific statements or customary business practices, the customer can reasonably expect the enterprise to perform at contract inception. Initial activities that an enterprise undertakes to fulfill a contract generally do not constitute performance obligations unless those activities

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

transfer promised goods to the customer.

A promise by an enterprise to transfer a series of distinct goods that are substantially the same and that have the same pattern of transfer shall also be accounted for as a single performance obligation.

Having the same pattern of transfer means that each distinct good satisfies the conditions for satisfying a performance obligation over time as specified in Article 11 of this Standard, and that the same method is used to determine the progress toward complete satisfaction of the performance obligation.

Article 10 — Goods promised by an enterprise to a customer shall be accounted for as distinct goods when both of the following conditions are met:

(1) The customer can benefit from the goods either on their own or together with other resources that are readily available to the customer;

(2) The enterprise's promise to transfer the goods to the customer is separately identifiable from other promises in the contract.

The following circumstances generally indicate that the enterprise's promise to transfer the goods to the customer is not separately identifiable from other promises in the contract:

1. The enterprise is required to provide a significant service to integrate the goods with other goods promised in the contract into a combined output specified in the contract for transfer to the customer.

2. The goods significantly modify or customize other goods promised in the contract.

3. The goods are highly interdependent with, or highly interrelated to, other goods promised in the contract.

Article 11 — A performance obligation is satisfied over time if any one of the following conditions is met; otherwise, it is satisfied at a point in time:

(1) The customer simultaneously receives and consumes the economic benefits provided by the enterprise's performance as the enterprise performs.

(2) The customer can control the goods created or enhanced during the enterprise's performance.

(3) The goods produced by the enterprise's performance have no alternative use to the enterprise, and the enterprise has an enforceable right to payment for performance completed to date throughout the duration of the contract.

Having no alternative use means that, due to contractual restrictions or practical feasibility limitations, the enterprise cannot readily use the goods for another purpose.

Having an enforceable right to payment for performance completed to date means that, in the event the contract is terminated for reasons attributable to the customer or other parties, the enterprise is entitled to payment for performance completed to date that compensates it for the costs incurred and a reasonable profit, and that this right is legally enforceable.

Article 12 — For a performance obligation satisfied over time, the enterprise shall recognize revenue over that period according to the progress toward complete satisfaction of the performance obligation, unless the progress cannot be reasonably determined. The enterprise shall consider the nature of the goods and use an output method or an input method to determine the appropriate progress toward satisfaction of the performance obligation. An output method determines progress based on the value of the goods transferred to the customer; an input method determines progress based on the enterprise's inputs to satisfy the performance obligation. For similar performance obligations in similar circumstances, the enterprise shall use the same method to determine progress.

When the progress toward complete satisfaction of a performance obligation cannot be reasonably determined, if the costs incurred by the enterprise are expected to be recoverable, the enterprise shall

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

recognize revenue up to the amount of costs incurred, until the progress can be reasonably determined.

Article 13 — For a performance obligation satisfied at a point in time, the enterprise shall recognize revenue at the point in time when the customer obtains control of the relevant goods. In determining whether the customer has obtained control of the goods, the enterprise shall consider the following indicators:

(1) The enterprise has a present right to payment for the goods, that is, the customer has a present obligation to pay for the goods.

(2) The enterprise has transferred legal title to the goods to the customer, that is, the customer has obtained legal title to the goods.

(3) The enterprise has transferred physical possession of the goods to the customer, that is, the customer has physical possession of the goods.

(4) The enterprise has transferred the significant risks and rewards of ownership of the goods to the customer, that is, the customer has obtained the significant risks and rewards of ownership of the goods.

(5) The customer has accepted the goods.

(6) Other indicators that the customer has obtained control of the goods.

Chapter III — Measurement

Article 14 — An enterprise shall measure revenue at the transaction price allocated to each performance obligation.

The "transaction price" refers to the amount of consideration to which an enterprise expects to be entitled in exchange for transferring goods to a customer. Amounts collected by the enterprise on behalf of third parties, and amounts that the enterprise expects to refund to the customer, shall be accounted for as liabilities and shall not be included in the transaction price.

Article 15 — An enterprise shall determine the transaction price in accordance with the contract terms and taking into account its customary business practices. In determining the transaction price, the enterprise shall consider the effects of variable consideration, any significant financing component in the contract, non-cash consideration, consideration payable to the customer, and other factors.

Article 16 — Where a contract contains variable consideration, the enterprise shall determine the best estimate of the variable consideration using either the expected value or the most likely amount, but the transaction price including variable consideration shall not exceed the amount for which it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the relevant uncertainty is subsequently resolved. In assessing whether it is highly probable that a significant reversal of cumulative revenue recognized will not occur, the enterprise shall consider both the likelihood and the magnitude of the revenue reversal.

At each balance sheet date, the enterprise shall re-estimate the amount of variable consideration to be included in the transaction price. Any change in the amount of variable consideration shall be accounted for in accordance with Articles 24 and 25 of this Standard.

Article 17 — Where a contract contains a significant financing component, the enterprise shall determine the transaction price at the amount that would be payable by the customer in cash when the customer obtains control of the goods. The difference between this transaction price and the consideration in the contract shall be amortized using the effective interest method over the contract period.

At contract inception, if the enterprise expects that the interval between the customer's obtaining control of the goods and the customer's payment of the price will not exceed one year, the enterprise may disregard any significant financing component in the contract.

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

Article 18 — Where a customer pays non-cash consideration, the enterprise shall determine the transaction price at the fair value of the non-cash consideration. Where the fair value of the non-cash consideration cannot be reasonably estimated, the enterprise shall determine the transaction price indirectly by reference to the stand-alone selling price of the goods it promises to transfer to the customer. Where the fair value of non-cash consideration changes for reasons other than the form of the consideration, the change shall be treated as variable consideration and accounted for in accordance with Article 16 of this Standard.

The "stand-alone selling price" refers to the price at which the enterprise would sell a good separately to a customer.

Article 19 — Where an enterprise pays consideration to a customer (or to a third party that purchases the enterprise's goods from the customer; hereinafter the same in this Article), the enterprise shall reduce the transaction price by the consideration payable, and shall reduce revenue for the current period at the later of the time when the relevant revenue is recognized and the time when the enterprise pays (or promises to pay) the consideration to the customer, unless the consideration payable to the customer is for the purpose of obtaining other distinct goods from the customer.

Where the consideration payable to the customer is for the purpose of obtaining other distinct goods from the customer, the enterprise shall recognize the goods purchased in a manner consistent with its other purchases. Where the consideration payable to the customer exceeds the fair value of the distinct goods obtained from the customer, the excess shall reduce the transaction price. Where the fair value of the distinct goods obtained from the customer cannot be reasonably estimated, the enterprise shall reduce the transaction price by the full amount of the consideration payable to the customer.

Article 20 — Where a contract contains two or more performance obligations, the enterprise shall allocate the transaction price to each performance obligation at contract inception based on the relative proportion of the stand-alone selling price of the goods promised under each performance obligation. The enterprise shall not reallocate the transaction price merely because of a change in stand-alone selling prices after contract inception.

Article 21 — The price at which an enterprise sells a good separately to similar customers in similar circumstances shall be the best evidence of the stand-alone selling price of that good. Where the stand-alone selling price is not directly observable, the enterprise shall consider all information that can be reasonably obtained and estimate the stand-alone selling price using an appropriate method such as the market assessment approach, the expected cost plus a margin approach or the residual approach. In estimating the stand-alone selling price, the enterprise shall maximize the use of observable inputs and apply estimation methods consistently to similar circumstances.

The market assessment approach refers to a method whereby an enterprise determines the stand-alone selling price of a good based on the market selling price of the good or a similar good, with appropriate adjustments for the enterprise's costs and margins.

The expected cost plus a margin approach refers to a method whereby an enterprise determines the stand-alone selling price of a good based on the expected cost of the good plus a reasonable margin.

The residual approach refers to a method whereby an enterprise determines the stand-alone selling price of a good based on the residual amount after deducting the observable stand-alone selling prices of other goods in the contract from the transaction price of the contract.

Article 22 — An enterprise may use the residual approach to estimate the stand-alone selling price of a good when the selling price of the good fluctuates significantly in the near term, or when the selling price cannot be reliably determined because the good has not been priced and has not been sold separately.

Article 23 — A discount in a contract shall be allocated among the performance obligations on a proportionate basis.

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

Where there is conclusive evidence that a discount in a contract relates only to one or more (but not all) of the performance obligations in the contract, the enterprise shall allocate the discount to the relevant one or more performance obligations.

Where a discount in a contract relates only to one or more (but not all) of the performance obligations in the contract, and the enterprise uses the residual approach to estimate stand-alone selling prices, the enterprise shall first allocate the discount among that one or more (but not all) performance obligations in accordance with the preceding paragraph, and then estimate the stand-alone selling prices using the residual approach.

A "discount in a contract" refers to the amount by which the sum of the stand-alone selling prices of the goods promised under each performance obligation in the contract exceeds the transaction price of the contract.

Article 24 — For variable consideration and subsequent changes in variable consideration, the enterprise shall allocate them to one or more performance obligations to which they relate, or to one or more goods within a series of distinct goods constituting a single performance obligation, in accordance with Articles 20 to 23 of this Standard.

For a satisfied performance obligation, the subsequent change in variable consideration allocated to it shall be adjusted against revenue of the period in which the change occurs.

Article 25 — Where a subsequent change in variable consideration occurs after a contract modification, the enterprise shall account for it separately by distinguishing among the following three circumstances:

(1) Where the contract modification falls within the circumstance in Article 8(1) of this Standard, the enterprise shall determine which contract the subsequent change in variable consideration relates to, and account for it in accordance with Article 24 of this Standard.

(2) Where the contract modification falls within the circumstance in Article 8(2) of this Standard, and the subsequent change in variable consideration relates to variable consideration promised before the contract modification, the enterprise shall first allocate the subsequent change in variable consideration on the basis determined at the inception of the original contract, and then reallocate the portion of the subsequent change in variable consideration allocated to performance obligations that remain unsatisfied as of the date of the contract modification on the basis determined at the inception of the new contract.

(3) Where a subsequent change in variable consideration occurs after a contract modification under circumstances other than those specified in paragraphs (1) and (2) of this Article, the enterprise shall allocate the subsequent change in variable consideration to the performance obligations that remain unsatisfied as of the date of the contract modification.

Chapter IV — Contract Costs

Article 26 — Costs incurred by an enterprise to fulfill a contract that are not within the scope of other accounting standards for business enterprises and that satisfy all of the following conditions shall be recognized as an asset as costs to fulfill a contract:

(1) The costs relate directly to a current or expected contract, including direct labor, direct materials, manufacturing overhead (or similar costs), costs explicitly chargeable to the customer, and other costs incurred only because of the contract;

(2) The costs enhance resources that the enterprise will use to satisfy performance obligations in the future;

(3) The costs are expected to be recovered.

Article 27 — An enterprise shall recognize the following expenditures in profit or loss for the current period when they are incurred:

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

(1) Administrative expenses.

(2) Abnormal consumption of direct materials, direct labor and manufacturing overhead (or similar costs) incurred to fulfill a contract but not reflected in the contract price.

(3) Expenditures related to the satisfied portion of a performance obligation.

(4) Expenditures that cannot be distinguished between the unsatisfied and the satisfied portions of a performance obligation.

Article 28 — Incremental costs of obtaining a contract that are expected to be recovered shall be recognized as an asset as costs to obtain a contract; however, where the amortization period of the asset does not exceed one year, the costs may be recognized in profit or loss for the current period when incurred.

"Incremental costs" refers to costs that would not have been incurred if the contract had not been obtained (such as sales commissions).

Expenditures other than incremental costs expected to be recovered that are incurred by an enterprise to obtain a contract (such as travel expenses incurred regardless of whether the contract is obtained) shall be recognized in profit or loss for the current period when incurred, unless they are explicitly chargeable to the customer.

Article 29 — Assets recognized in accordance with Articles 26 and 28 of this Standard (hereinafter referred to as "assets related to contract costs") shall be amortized on a basis consistent with the recognition of revenue for the goods to which the assets relate, and recognized in profit or loss for the current period.

Article 30 — Where the carrying amount of an asset related to contract costs exceeds the difference between the following two items, the excess shall be provided for as an impairment loss:

(1) The remaining consideration that the enterprise expects to receive in exchange for the transfer of the goods to which the asset relates;

(2) The costs expected to be incurred in transferring the relevant goods.

Where the factors that caused impairment in prior periods subsequently change such that the difference between item (1) and item (2) of the preceding paragraph exceeds the carrying amount of the asset, the enterprise shall reverse the impairment loss previously recognized and recognize it in profit or loss for the current period, provided that the carrying amount of the asset after the reversal shall not exceed the carrying amount of the asset that would have been determined (net of amortization) had no impairment loss been recognized.

Article 31 — In determining the impairment loss of an asset related to contract costs, the enterprise shall first determine the impairment loss of other contract-related assets recognized in accordance with other relevant accounting standards for business enterprises; it shall then determine the impairment loss of the asset related to contract costs in accordance with Article 30 of this Standard.

Where an enterprise tests a relevant asset group for impairment in accordance with Accounting Standards for Business Enterprises No. 8 — Impairment of Assets, it shall include the new carrying amount of the asset related to contract costs after the impairment determined in accordance with the preceding paragraph in the carrying amount of the relevant asset group.

Chapter V — Accounting for Specific Transactions

Article 32 — For a sale with a right of return, at the time the customer obtains control of the relevant goods, the enterprise shall recognize revenue at the amount of consideration to which it expects to be entitled in exchange for transferring the goods to the customer (that is, excluding the amount expected to be refunded because of the return), and recognize a liability at the amount expected to be refunded; at the same time, it

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

shall recognize an asset at the carrying amount of the goods expected to be returned at the time of transfer, less the expected costs of recovering those goods (including any decreases in the value of the returned goods), and recognize the cost of the goods transferred net of the above asset cost.

At each balance sheet date, the enterprise shall re-estimate future returns and, if there is any change, account for it as a change in accounting estimate.

Article 33 — For a sale with a warranty, the enterprise shall assess whether the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications. Where the enterprise provides an additional service, it shall be accounted for as a single performance obligation in accordance with this Standard; otherwise, the warranty obligation shall be accounted for in accordance with Accounting Standards for Business Enterprises No. 13 — Contingencies. In assessing whether a warranty provides a service in addition to the assurance that the product complies with agreed-upon specifications, the enterprise shall consider factors such as whether the warranty is required by law, the length of the warranty period, and the nature of the tasks the enterprise promises to perform. Where the customer has the option to purchase the warranty separately, the warranty constitutes a single performance obligation.

Article 34 — An enterprise shall determine whether it is a principal or an agent in a transaction based on whether it controls the goods before transferring them to the customer. Where the enterprise controls the goods before transferring them to the customer, the enterprise is a principal and shall recognize revenue at the gross amount of the consideration received or receivable; otherwise, the enterprise is an agent and shall recognize revenue at the amount of any commission or fee to which it expects to be entitled, which shall be determined as the net amount after deducting from the gross consideration received or receivable the amounts payable to other parties, or at a stated commission amount or percentage.

Circumstances in which an enterprise controls goods before transferring them to a customer include:

(1) The enterprise obtains control of the goods or other assets from a third party and then transfers them to the customer.

(2) The enterprise can direct a third party to provide services to the customer on behalf of the enterprise.

(3) After obtaining control of the goods from a third party, the enterprise provides a significant service to integrate the goods with other goods into a combined output for transfer to the customer.

In making the specific determination of whether the enterprise controls the goods before transferring them to the customer, the enterprise shall not rely solely on the legal form of the contract, but shall consider all relevant facts and circumstances, which include:

(1) The enterprise bears the primary responsibility for transferring the goods to the customer.

(2) The enterprise bears inventory risk of the goods before or after transfer.

(3) The enterprise has discretion in determining the price of the goods.

(4) Other relevant facts and circumstances.

Article 35 — For a sale with a customer option to acquire additional goods, the enterprise shall assess whether the option provides the customer with a material right. Where the enterprise provides a material right, it shall be accounted for as a single performance obligation, and the transaction price shall be allocated to that performance obligation in accordance with Articles 20 to 24 of this Standard, and the corresponding revenue shall be recognized when the customer exercises the option to acquire the relevant goods and obtains control of them, or when the option expires. Where the stand-alone selling price of the customer's option to acquire additional goods is not directly observable, the enterprise shall estimate it reasonably after considering all relevant information, including the difference between the discount the customer would obtain by exercising or not exercising the option, and the likelihood that the customer will exercise the option.

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

Notwithstanding that a customer has an option to acquire additional goods, if the price at which the customer exercises the option to acquire the goods reflects the stand-alone selling price of those goods, it shall not be considered that the enterprise has provided the customer with a material right.

Article 36 — Where an enterprise grants a license of intellectual property to a customer, it shall assess, in accordance with Articles 9 and 10 of this Standard, whether the license constitutes a single performance obligation; if it constitutes a single performance obligation, the enterprise shall further determine whether it is satisfied over time or at a point in time.

Where an enterprise grants a license of intellectual property to a customer and all of the following conditions are met, the enterprise shall recognize revenue as a performance obligation satisfied over time; otherwise, it shall recognize revenue as a performance obligation satisfied at a point in time:

(1) The contract requires, or the customer can reasonably expect, that the enterprise will undertake activities that significantly affect the intellectual property;

(2) The activities will have a favorable or unfavorable effect on the customer;

(3) The activities will not result in the transfer of a good to the customer.

Article 37 — Where an enterprise grants a license of intellectual property to a customer and the royalty is based on the customer's actual sales or usage, the enterprise shall recognize revenue at the later of:

(1) the occurrence of the customer's subsequent sales or usage; and

(2) the enterprise's satisfaction of the relevant performance obligation.

Article 38 — For a sale with a repurchase agreement, the enterprise shall account for it separately by distinguishing between the following two circumstances:

(1) Where the enterprise has an obligation or a right to repurchase the goods due to a forward arrangement with the customer, this indicates that the customer has not obtained control of the relevant goods at the point of sale, and the enterprise shall account for the transaction as a lease or a financing arrangement accordingly. Where the repurchase price is lower than the original selling price, the transaction shall be treated as a lease and accounted for in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 21 — Leases; where the repurchase price is not lower than the original selling price, the transaction shall be treated as a financing arrangement, a financial liability shall be recognized upon receipt of the customer's payment, and the difference between that payment and the repurchase price shall be recognized as interest expense or similar over the repurchase period. Where the enterprise does not exercise its repurchase right upon expiry, it shall derecognize the financial liability upon expiry of the repurchase right and recognize revenue at the same time.

(2) Where the enterprise has an obligation to repurchase the goods at the customer's request, it shall assess at contract inception whether the customer has a significant economic incentive to exercise that right. Where the customer has a significant economic incentive to exercise the right, the enterprise shall account for the sale with repurchase as a lease or a financing arrangement in accordance with paragraph (1) of this Article; otherwise, it shall account for the transaction as a sale with a right of return in accordance with Article 32 of this Standard.

A "sale with a repurchase agreement" refers to a manner of sale whereby the enterprise, at the same time as selling goods, promises or has an option to repurchase the goods (including the same or substantially the same goods, or goods of which the goods are a component) at a later date.

Article 39 — Where an enterprise receives advance payment from a customer for the sale of goods, it shall first recognize the payment as a liability and reclassify it as revenue when the relevant performance obligation is satisfied. Where the advance payment is non-refundable and the customer may forfeit all or part of its contractual rights, if the enterprise expects to be entitled to an amount related to the contractual rights

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

forfeited by the customer, it shall recognize that amount as revenue on a proportionate basis in accordance with the pattern of the customer's exercise of its contractual rights; otherwise, the enterprise may reclassify the relevant balance of the liability as revenue only when the likelihood of the customer's requiring it to satisfy the remaining performance obligations is remote.

Article 40 — A non-refundable initial fee (such as a club membership fee) charged by an enterprise to a customer at (or near) contract inception shall be included in the transaction price. The enterprise shall assess whether the initial fee relates to the transfer of promised goods to the customer. Where the initial fee relates to the transfer of a promised good to the customer and that good constitutes a single performance obligation, the enterprise shall recognize revenue when it transfers that good at the transaction price allocated to that good; where the initial fee relates to the transfer of a promised good to the customer but that good does not constitute a single performance obligation, the enterprise shall recognize revenue when the single performance obligation containing that good is satisfied, at the transaction price allocated to that single performance obligation; where the initial fee does not relate to the transfer of a promised good to the customer, the initial fee shall be treated as an advance payment for goods to be transferred in the future and recognized as revenue when those goods are transferred in the future.

Where an enterprise has received a non-refundable initial fee and is required to undertake initial activities to fulfill the contract, but those activities themselves do not transfer promised goods to the customer, the initial fee relates to promised goods to be transferred in the future and shall be recognized as revenue when those goods are transferred in the future; the enterprise shall not consider these initial activities in determining the progress toward satisfaction of the performance obligation; expenditures incurred by the enterprise for those initial activities shall be recognized as an asset or in profit or loss for the current period in accordance with Articles 26 and 27 of this Standard.

Chapter VI — Presentation

Article 41 — An enterprise shall present a contract asset or a contract liability in the balance sheet according to the relationship between the enterprise's satisfaction of performance obligations and the customer's payment. A right that the enterprise has to receive consideration from the customer unconditionally (that is, subject only to the passage of time) shall be presented separately as a receivable.

A "contract asset" refers to the enterprise's right to consideration in exchange for goods that the enterprise has transferred to a customer, where that right is conditioned on something other than the passage of time. For example, where an enterprise sells two distinct goods to a customer and, having delivered one of them, has a right to receive payment, but receipt of that payment also depends on the enterprise's delivery of the other good, the enterprise shall present that right to receive payment as a contract asset.

A "contract liability" refers to the enterprise's obligation to transfer goods to a customer for which the enterprise has received or is due to receive consideration from the customer. For example, a payment received by the enterprise before it transfers the promised goods.

The measurement and presentation of impairment of contract assets recognized in accordance with this Standard shall be accounted for in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments and No. 37 — Presentation of Financial Instruments.

Article 42 — An enterprise shall disclose the following information related to revenue in the notes:

(1) The accounting policies adopted for the recognition and measurement of revenue, the judgments that have a significant effect on the determination of the timing and amount of revenue recognition and changes in those judgments, including the method used to determine the progress toward satisfaction of a performance obligation and the reason for using that method, the relevant judgments in assessing the point in time at which the customer obtains control of the transferred goods, and the methods, inputs and

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

assumptions used in determining the transaction price, estimating variable consideration to be included in the transaction price, allocating the transaction price, and measuring obligations such as amounts expected to be refunded to the customer.

(2) The following information related to contracts:

Information related to revenue recognized in the current period, including revenue arising from contracts with customers, information disaggregating that revenue into major categories (such as type of goods, geographical region, market or type of customer, type of contract, timing of transfer of goods, duration of contracts, sales channels, and so on), and the relationship between the disaggregated information and revenue for each reportable segment.

Information related to the carrying amounts of receivables, contract assets and contract liabilities, including the opening and closing carrying amounts of receivables, contract assets and contract liabilities arising from contracts with customers, the impairment losses recognized on those receivables and contract assets, revenue recognized in the current period that was included in the opening carrying amount of contract liabilities, revenue adjusted in the current period for performance obligations satisfied (or partially satisfied) in prior periods, the relationship between the timing of satisfaction of performance obligations and the typical timing of payment and the quantitative or qualitative information on the effect of such factors on the carrying amounts of contract assets and contract liabilities, and significant changes in the carrying amounts of contract assets and contract liabilities during the current period.

Information related to performance obligations, including when the enterprise typically satisfies its performance obligations, significant payment terms, the nature of the goods the enterprise has promised to transfer (including whether the enterprise is acting as an agent), obligations such as amounts the enterprise expects to refund to the customer, and the type of warranty and related obligations.

Information related to the transaction price allocated to remaining performance obligations, including the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, quantitative or qualitative information on the expected timing of recognition of that amount as revenue, and the amount of consideration not included in the transaction price (such as variable consideration).

(3) Information related to assets related to contract costs, including the judgments made in determining the amount of the assets, the amortization method for the assets, the closing carrying amounts disclosed by major category of the assets (such as costs incurred to obtain a contract, costs incurred for initial activities undertaken to fulfill a contract, and so on), and the amounts of amortization and impairment losses recognized in the current period.

(4) Where, in accordance with Article 17 of this Standard, the enterprise has disregarded a significant financing component in a contract because it expects the interval between the customer's obtaining control of the goods and the customer's payment to be no more than one year, or where, in accordance with Article 28 of this Standard, the enterprise has recognized costs to obtain a contract in profit or loss when incurred because the amortization period of the costs does not exceed one year, the enterprise shall disclose that fact.

Chapter VII — Transitional Provisions

Article 43 — An enterprise applying this Standard for the first time shall adjust retained earnings and the amounts of other relevant items in the financial statements at the beginning of the year of first application based on the cumulative effect of first applying this Standard, and shall not adjust comparative information. The enterprise may adjust only the cumulative effect of contracts that are not completed as of the date of first application. At the same time, the enterprise shall disclose in the notes the amount of the effect of applying this Standard on the relevant items of the financial statements for the current period compared with the

Source: https://www.danyoungcpa.com/accounting-standard-for-business-enterprises-no-14-revenue-china/

original provisions of the accounting standards and regulations related to revenue, and, where the effect is significant, the reasons therefor.

A "completed contract" refers to a contract under which the enterprise has completed the transfer of all the goods in the contract in accordance with the original provisions of the accounting standards and regulations related to revenue. An "incomplete contract" refers to any contract other than a completed contract.

Article 44 — For a contract modification that occurred before the beginning of the earliest comparative period or before the beginning of the year of first application of this Standard, the enterprise may apply a simplified treatment, that is, it need not make a retrospective adjustment in accordance with Article 8 of this Standard; instead, based on the final arrangement of the contract modification, it shall identify the satisfied and unsatisfied performance obligations, determine the transaction price, and allocate the transaction price between the satisfied and unsatisfied performance obligations.

Where an enterprise applies this simplified treatment, it shall apply it consistently to all contracts and disclose in the notes that fact and a qualitative analysis, to the extent reasonable, of the effect of applying the simplified treatment.

Chapter VIII — Supplementary Provisions

Article 45 — This Standard shall become effective on January 1, 2018.

Disclaimer: This is an unofficial English translation of Accounting Standard for Business Enterprises No. 14 — Revenue (2017), provided by Dan Young Business Consultancy for informational and reference purposes only. It is not an official translation and carries no legal effect. In the event of any discrepancy between this translation and the original Chinese text, the original Chinese version shall prevail. This translation does not constitute accounting, tax, or legal advice and should not be relied upon as a substitute for professional counsel.