

# Accounting System of NPOs People's Republic of China

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## Chapter I General Principles

**Article 1** To standardize the accounting standards of NPOs and ensure the authenticity and integrity of accounting information, the system is stipulated in accordance with "Accounting Practices of the People's Republic of China", other state laws and administrative regulations.

**Article 2** The system applies to all the NPOs established in the territory of the PRC and being in conformity with the features described thereof. NPOs include social organizations, foundations and private non-enterprise entities which are registered in accordance with state laws and administrative regulations, as well as temples, palaces, mosques and churches, etc.

NPOs subject to the system should possess the following features:

- (1) Such organizations are not for the purpose of generating profits
- (2) Resource providers make investments in such organizations, but do not expect economical benefit from the rendering of services.
- (3) Resource providers do not have ownership of such organizations.

**Article 3** Accounting standards should address to the transactions of NPOs and relevant items, recording and reflecting all the activities of such organizations.

**Article 4** Accounting standards shall maintain an assumption of the continuous operations of NPOs.

**Article 5** Accounting standards should differentiate accounting periods, recording settlement accounts periodically and compiling financial reports.

**Article 6** Accounting standards should employ Chinese yuan (RMB) as reporting currency. NPOs with settlement transactions mainly in currencies other than Chinese

yuan could select one foreign currency for account recording, but items denominated in foreign currency must be converted to Chinese yuan in compiling financial reports.

NPOs should open relevant accounts denominated in foreign currencies when valuing foreign-currency business. Foreign-currency accounts include cash, bank deposits, creditor's rights and debt accounts with settlement in foreign currencies. Such accounts shall separate from non-foreign currency account and be valued respectively.

When foreign-currency businesses occur, NPOs should convert foreign currencies to the reporting currency for book-keeping. If otherwise stipulated, all the accounts relative to foreign-currency business shall use the exchange rate at the time that the business happens. If exchange rate is in low volatility, exchange rate at the commencement of the period could be adopted.

Balances of foreign-currency accounts shall be converted to the reporting currency at the end of each financial period. Differences between the value of converted reporting currency and book value of reporting currency should be recognized as gains or losses of foreign exchange activities. However, exchange differences incurred from the foreign currency special borrowing principal and interest related to the fixed assets during the period of the capitalization of borrowing expenditure should be capitalized and recorded as fixed assets costs. The period that borrowing costs could be capitalized shall be subject to the Article 35.

Foreign currency transactions in the system refer to fund receipt and payment, and settlement, etc in currencies other than the reporting currency.

Special borrowing in the system refers to the special borrowings for the purchase and construction of fixed assets.

**Article 7** The system should adopt accrual basis of accounting.

**Article 8** NPOs shall be in compliance with the following basic principles in accounting practice.

(1) The accounting system shall be on the basis of the real transactions and items of NPOs, and truly reflect their financial conditions, operations and cash flows.

(2) Information contained in the accounting system shall satisfy the needs of

recipients (such as donors, members, regulators, etc)

(3) Accounting practice should be carried out in accordance with the substantiality of transactions and relevant items, rather than the basis of laws.

(4) Accounting policies shall be consistent and unchangeable randomly. If required, adjusted contents, reasons, accumulated impacts, and potential uncertainties shall be disclosed in the appendix.

(5) Accounting practice shall be conducted in accordance with the regulated accounting standards. Information shall be consistent and comparable.

(6) Accounting practice shall be carried out at a timely manner, without ahead of schedule or any delay.

(7) Accounting practice and financial reports shall be clear and easy to be understood and used.

(8) In accounting practices, costs incurred shall match with relevant revenue, and revenue and related costs in the same accounting period should be recognized for the specific duration.

(9) Assets shall be measured at its real costs when acquired. If otherwise stipulated, special valuation method will prevail. The adjustment of the book value of assets thereafter shall comply with the standard. If otherwise stipulated by laws, administrative regulations and state accounting standard, NPOs shall not adjust asset book value at their own determination.

(10) Accounting practice shall be in comply with prudent principle.

(11) Accounting practice shall reasonably separate the expenditure as costs of a specific accounting period or expenses being capitalized.

(12) Accounting practice shall comply with priority principle. Important items that might exert influences on assets, liabilities, net assets, revenues and costs, etc, and further impact on financial users making reasonable judgment shall be dealt with in accordance with relevant accounting standards and procedures, and be disclosed in financial reports. Non-important accounting items, on the premise that information authenticity will not be impaired and information users will not be misled to make right judgment, could be simplified.

**Article 9** Debit-credit bookkeeping should be adopted.

**Article 10** Chinese characters shall be adopted in accounting recording. But prevailing ethnical languages are also applicable simultaneously in minority ethnic group region. Representative offices in PRC established by overseas NPOs could use a foreign language for accounting.

**Article 11** NPOs should draw out accounting standards in accordance with accounting laws, administrative regulations and the system, on the precondition that it would not violate the system and integrate the specific situations.

**Article 12** NPOs shall fill in accounting documents, accounting book registration and management of accounting files, etc, in accordance with “Accounting Practices of the PRC”, “Basic Accounting Standards”, “Management Provisions of Accounting Files”, etc.

**Article 13** NPOs shall establish internal accounting system, in compliance with relevant state laws, administrative regulations and internal accounting control standards, and combining business features of respective entities, to strengthen internal accounting supervision and enhance the accounting information quality and management.

## Chapter II Assets

**Article 14** Assets are defined as resources that derived from the previous transactions or similar activities and are currently possessed and controlled by NPOs, which are anticipated to bring potential economic benefits and rendering of services. Assets comprise current assets, long-term investment, fixed asset assets, intangible assets, and entrusted assets, etc in terms of its liquidity.

**Article 15** NPOs shall make revision, periodically or at the end of each financial year, on whether assets, such as short-term investments, accounts receivables, inventories, and long-term investment have devalued. If devaluation occurs, provision shall be set aside. Depreciation losses should be confirmed and recorded as expense for the period. If value of assets that have been made provisions for depreciation are recovered, depreciation losses must be transferred back to offset expense of the period.

**Article 16** Donated cash that NPOs have received shall be recorded in the real amount acquired. Donated non-cash assets, such as short-term investments, inventories, long-term investment, fixed asset investments and intangible assets shall be recorded in the following methods:

(1) If donors have provided with relevant documents (such as invoice, customs declaration, relevant agreements, etc), amount on the documents shall be deemed as the real value for recording. If there are great differences between the amount shown on the documents and fair value of the donated assets, fair value approach shall prevail.

(2) If donors fail to provide relevant documents, donated assets shall be recorded in fair value.

Labor donation received by NPOs will not be recognized, but shall be disclosed in the appendix of financial statements.

**Article 17** Fair value in the system refers to the amount that both parties who are familiar with the transactions voluntarily exchange assets and repay debts under the fair transactions. Procedures are as follows:

(I) If assets of the same sort or similar assets are active in markets, market price

of such assets shall be deemed as fair value.

(II) If assets of the same sort or similar assets are not existent or active in markets, or such assets cannot be found, reasonable pricing methods shall be adopted to decide the fair value.

Under the stipulation of the system on fair value, if there are solid ground to indicate that the fair value of the assets cannot be fairly valued, NPOs shall establish auxiliary accounts to separately register the name, quantity, origin and purpose of acquired assets and be disclosed in the appendix of financial statements. If the assets could be fairly valued in the following accounting period, NPOs shall be clarified in the accounting period with reliable measurement and measured as fair value.

**Article 18** If NPOs incur with non-currency transactions, the following principles will prevail:

(I) Book value of assets given up in a swap, plus relevant tax payment will be deemed as the value for assets acquired.

(II) If premium occurs in a non-monetary exchange transaction, measurement shall apply to different situations

1. NPOs that need to offset the differences, shall value the acquired assets with book value of assets given up, plus premium and paid taxes.

2. NPOs that receive premium shall follow the format to value the accounting value of the assets acquired in an exchange and relevant revenue and costs.

**A**=Value for account recording of assets acquired in an exchange

**B**= book value of assets given up

**C**=Premium

**D**=fair value of assets given up

**E**= payable taxes

**F**= payable relevant taxes and fee

**G**= revenue or expenditure to be recognized

$$A=B-(C/D)*B-(C/D)*E+F$$

$$G=C*[1-(B+E)/D]$$

(III) In the non-monetary exchange transactions, if several assets are acquired, the total book value of assets given up and payable taxes shall be allocated by

proportion that the fair value of a single asset acquired accounts for that of the total acquired assets, to value each assets acquired.

Non-monetary transactions in the system refer to the exchanges of both parties in non-monetary assets. The exchanges are involved in none or few monetary assets (premium), of which monetary assets refer to those of possessed cash and assets that are acquired in fixed or uncertain amount, non-monetary assets are those other than monetary assets.

### **Section I Current Assets**

**Article 19** Current assets are those that could be realized or consumed within one year (inclusive), including cash, bank deposits, short-term investment, accounts receivables, prepayments, inventories, and deferred expenses, etc.

**Article 20** NPOs shall prepare accounts on a daily basis for cash and bank deposits and register every single transactions in sequence. NPOs with cash and deposit denominated in foreign currencies shall detail breakdown items in both Chinese yuan and foreign currencies.

Cash must be recorded on a daily basis and balance must be in conformity with reserves: balance of bank deposits must be reviewed periodically with bills, which must meet the monthly deposit balance.

Book balance in the system refer to the real book value in the accounting standard, before the deduction of prepaid items (such as accumulated depreciation and provision for asset devaluation, etc)

**Article 21** Short-term investments refer to investments that could be freely realized or will be possessed for more than one year (inclusive), such as shares, bond investment, etc.

(1) Short-term investments shall be measured in their investment costs, which shall be recognized in the following methods:

1. Short-term investments purchased in cash shall be valued in all the payments, including taxes and commissions. Cash dividends which are already announced, but not received and bond coupons which are due, but not acquired shall be valued separately as accounts receivable, which are not part of short-term investment costs.

2. Cost valuation of donated short-term investments shall be subject to Article

16.

3. Costs of short-term investments that are acquired via non-monetary swap shall be subject to Article 18.

(II) Interest and cash dividend derived from short-term investment shall offset the book value on the receipt date. However, cash dividend or interest having recorded in accounts receivable are excluded.

(III) NPOs shall make revision on whether short-term investment incurs devaluation at the end of accounting period, in accordance with the Article 15 in the system. If market value of short-term investment is lower than book value, the difference should be deemed as the value for setting provisions for short-term investment devaluation and recorded as expense of the period. If market value of short-term investment is higher than its book value, the difference will be recorded to offset expenditure in the period.

(IV) When short-term investment is disposed, differences between the actual receipt of payment and book value of short-term investment shall be recognized as gains or losses in the period.

Book value in the system refers to the net amount that book balance of certain item deducts relevant reserved items.

Entrusted loans and investment (entrusted financing) of NPOs shall be differentiated in duration, and being valued and classified as short- or long-term investment.

**Article 22** Accounts receivable refer to the creditor rights that occurs to NPOs in daily activities, including bills receivable, receivables and other accounts receivables, etc.

(I) Accounts receivable shall be recorded with the real amount and establish breakdown items in entities and individuals.

(II) At the end of each accounting period, possibilities for accounts receivable recovery shall be analyzed. Provision shall be set aside for potential losses for bad accounts and be recorded as expense for the period.

**Article 23** Prepayments refer to items that NPOs prepay to goods suppliers or service providers.

Prepayments shall be recorded as the real amount of its real occurrence, breakdown items for entities and individuals should be established and measured.



**Article 24** Where an NPO is carrying on any trading/manufacturing activity and have inventories that are:

- (a) held for sale or received from donations in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(I) Inventories shall be assigned in its real costs while being acquired. Inventory costs include procurement, processing or other costs, of which procurement costs normally include the real-paid procurement payment, relevant taxes, transport and loading costs, insurance or other expense directly related to the inventory procurement. Processing costs include direct labor costs and indirect costs related to inventories in accordance with reasonable methods for allocation. Other costs are those other than procurement and processing costs, and other expense that inventories are the cost incurred in bringing the items of inventory to their present location and condition. Costs of donated inventories shall be assigned in accordance with the Article 16. Inventories that are swapped in through non-monetary transactions shall determine their costs in accordance with Article 18.

(II) The cost of inventories should be assigned on an item-by-item basis by using individual cost, the first-in, first-out (FIFO), or weighted average cost formula.

(III) Inventories shall be reviewed periodically or at least once a year. Reasons for value increase, decrease, deterioration and damages of inventories should be investigated and dealt with before the completion of settlement, based on the management power of NPOs and being approved by Board of Directors, Board of Supervisors, all similar authorities. Inventories in value increase should be recorded in their fair value and recognized as revenue of the period, while those with value reduction or damages should be initially deducted by residual value, recoverable compensation from insurance companies and wrongdoers and net losses thereafter will be recognized as expense of the period.

(IV) NPOs shall make revision, in accordance with the Article 15, on whether inventories have devalued. If net recoverable value is lower than its book value, value equivalent to the differences should be made for provision, and recognized as expense of the period. Depreciation losses should be confirmed and recorded as expense for the period. If net recoverable value is higher than its book value, depreciation losses

must be transferred back to offset expense of the period.

Recoverable net value in the system is the amount that expecting selling price of an inventory is deducted by the costs at the end of the project completion and other expense for sales.

**Article 25** Deferred expenses are those that NPOs have paid out, but need to be recorded in the current period and the periods afterwards, with the duration of within one year (included), such as prepaid insurance and rent, etc.

Deferred expense should be amortized equally within one year and recorded as relevant expense.

## **Section II Long-Term Investment**

**Article 26** A Long Term Investment is an investment other than a current investment, including long-term equity investment and debt investment.

**Article 27** Long-term equity investment shall be determined as the following principles

(I) Initial investment costs shall be determined as the real transfer costs and are dealt with in the methods below:

1. The initial costs of long-term equity investment acquired in cash shall be determined in the full payment of transfer, including taxes, commissions and relevant costs. Cum-dividend or cum-interest containing in the actual payment should be classified as accounts receivable separately.

2. Initial costs of acquired long-term equity investment from donation should be subject to the Article 16.

3. Initial costs of long-term equity investment acquired in exchange in non-monetary transaction shall be subject to the Article 18.

(II) Long-term equity investment should be assigned in cost methods or equity methods. If NPOs have no power, joint-power or influence on the invested firms, long-term equity investment shall apply to cost methods. However, if NPOs have controlling power, joint-power or substantial impacts on invested entities, equity method will prevail.

When cost method prevails, profit or cash that shareholders meeting or similar authorities have approved to release to invested entities should be classified as investment return.

When equity method prevails, investment book value should be adjusted with reference to profits or losses of invested firms and classified as investment return,

which will be decreased by the relevant allotment in respect to the announced profit and cash.

Dividend of invested firms will be absent from any accounting assignment, but shall be registered in the established auxiliary accounts.

Controlling power in the system refers to the fact that the investor has power to determine the invested firms' accounting and operational policies, and receive benefits from the economic activities. The joint-controlling power in the system refers to the joint-control for economic activities under the agreement. Substantial influence is that an investor has rights to participate in the decision-making in accounting and operational policies in the invested firm, but is not the final decision-maker.

(III) On disposal of a long-term equity investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to income.

**Article 28** Long-term creditor rights investment shall be determined in principles below:

(I) Initial investment costs shall be determined as the real proceeds and are determined in methods as follows:

1. The initial costs of long-term creditor rights investment acquired in cash shall be determined in the full payment of transfer, including taxes, commissions and relevant costs. Cm-dividend or cum-interest containing in the actual payment should be classified as accounts receivable.

2. Initial costs of long-term creditor rights investment acquired from donation shall be subject to the Article 16.

3. Initial costs of long-term creditor rights investment acquired in exchange in non-monetary transaction shall be subject to the Article 18.

(II) Coupons of long-term creditor rights investment shall be recognized at par value and coupon rate. Differences between the initial investment costs of long-term creditor rights investment and par value of bonds shall be amortized when confirming the relevant coupons in straight-line methods in duration period.

(III) Convertible bonds held by NPOs should be accounted for as the ordinary bonds before the bonds are converted to shares. When NPOs execute their rights to convert bonds into shares, the initial investment costs shall be determined in the balance that par value deducts the received cash.

(VI) On disposal of a long-term creditor rights investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to income

**Article 29** Where investments are reclassified from current to long-term, transfers should be made at the lower of cost and fair value at the date of transfer.

**Article 30** NPOs should make revision on whether diminution of long-term investment occurs at the end of the period. If recoverable amount from the long-term investment is lower than its book value, provisions for diminution should be made with the difference between recoverable amount and the book value. If otherwise tended out, the amount that the recoverable amount is higher than the book value will be transferred back to offset the costs of the period.

Recoverable amount is defined as “the higher of an asset’s net selling price and its value in use”. Value in use is defined as “the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life”. Net selling price is defined as “the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal”.

### **Section III Fixed Assets**

**Article 31** Fixed assets are tangible assets with the following properties:

(I) A fixed asset is defined as “an asset held with the intention of being used for the purpose of administrative management or providing services, producing goods or for leasing.

(II) With anticipated usage period of more than one year

(III) Higher value per unit.

**Article 32** Fixed assets should be dealt with in its actual costs on acquisition, which includes its purchasing, packaging, delivery prices and relevant taxes, and any attributable cost of bringing the asset to its working condition for its intended use. Actual costs should be defined separately in the following situation:

(I) Cost of a purchased fixed asset should be determined by its purchase prices, taxes and any attributable cost of bringing the asset to its working condition for its intended use, such as delivery, installation and handling fees.

Where several fixed assets are purchased for a consolidated price, the consideration should be apportioned to various assets on a fair basis.

(II) The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction

activity in general and can be allocated to the specific asset.

(III) Costs of fixed-assets acquired from donation shall be subject to the Article 16.

(IV) Costs of fixed assets acquired from non-monetary transaction shall refer to the Article 18.

(V) Cost of leased assets from financing should be determined by the payment, delivery, insurance on route, installation fees and any attributable cost of bringing the asset to its working condition for its intended use.

**Article 33** Project under construction includes prophase preparation, and building, installation, and technique innovation, etc. Many projects with substantial expense shall be recorded separated in properties.

**Article 34** Costs of projects under construction shall be assigned as any attributable cost of bringing the asset to its working condition for its intended use, which should be determined in the following conditions:

(I) If it is self-managed project, costs should be determined with direct materials, labor, machinery costs, etc.

(II) If it is an outsourced project, costs will be the project payment under contracts.

**Article 35** Borrowing costs derived from the constructed fixed assets could be capitalized during the acceptable period and accounted for as costs for project under construction. Borrowing costs here are interest incurred, auxiliary costs and foreign exchange differences due to foreign currency borrowing.

Only if the following three conditions are satisfied, costs derived from the special borrowing are allowed to be capitalized:

(I) Asset expenditure having incurred

(II) Borrowing costs having incurred

(III) Necessary construction activities have commenced in order to bring the asset to its working condition for its intended use

If construction activities of fixed assets are abnormally interrupted for the consecutive three months (inclusive), capitalization of borrowing costs should be suspended and the borrowing costs within the suspension period will be classified as costs of the period until the recommencement of the construction. However, if the

interruption is a necessary procedure for bringing the asset to its working condition for its intended use, capitalization of borrowing costs should continue.

When a constructed fixed asset reach its working condition for its intended use, capitalization of borrowing costs should be terminated and borrowing costs thereafter shall be classified as costs of the period. Normally, if constructed fixed assets enter the following condition, it will be recognized that they have reached the working condition for intended use:

(I) Construction of fixed assets (including installation) has been completed.

(II) Constructed fixed assets are in conformity with the design and contract. Although there are some discrepancies, their normal operation will not be impaired.

(III) Continuous costs for constructed fixed assets are few or none.

**Article 36** If constructed fixed assets have reached the working condition for intended use, costs for project under construction should be transferred to the classification of fixed asset investment from the date that they move to the working condition.

**Article 37** NPOs should set aside provisions for fixed assets, and amortize the costs of fixed assets within their useful life.

NPOs should reasonably determine the anticipated usage length and net residual value, based on the nature and consuming manner of fixed assets.

NPOs should adopt depreciation approach with reference to the economic benefits and service potentials of fixed assets. Applicable depreciation approaches are life average method, Units-of-production method, Double-declining balance method, and Sum-of-the-years-digits method. Depreciation approach cannot be changed freely as long as it is determined. If it must be adjusted due to the substantial changes of economic benefits and service potentials of fixed assets, relevant information must be disclosed in the appendix of the financial statements.

**Article 38** NPOs should make depreciation on the monthly basis. Deprecation for the increased fixed assets will be set aside in the following month. However, depreciation for decreased fixed assets should be made in the month occurred.

**Article 39** Subsequent expenditure related to an item of fixed asset should be added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. However, amount afterwards

should not surpass the receivable amount of the fixed assets. Expenditure afterwards should be classified as expense of the period.

**Article 40** Any gains or losses arising from goods sales, retirement or disposal of fixed assets should be recognized in the profit and loss account.

**Article 41** Antiques for exhibition, education and research, work of art, or other collection with cultural and historical value, which need to be kept for a long-term or permanently, should be classified as fixed assets, but provision for depreciation is unneeded. Such items should be recorded as “antique or cultural assets” in the balance sheet.

**Article 42** Fixed assets shall be reviewed periodically or at least once a year. Reasons for value increase and decrease of fixed assets should be investigated and dealt with before the completion of settlement, based on the management power of NPOs and being approved by Board of Directors, Board of Supervisors, all similar authorities. Fixed assets with value increase should be recorded in their fair value and recognized as revenue of the period, while those with value reduction should be initially deducted by compensation of wrongdoers or insurance companies, and residual value will be recognized as expense of the period.

**Article 43** NPOs should maintain accounting procedures for the purchase, construction, disposal, retirement, or internal transfer of fixed assets, and establish special accounts for breakdown items.

#### **Section IV Intangible Assets**

**Article 44** Intangible asset is defined as an identifiable non-monetary asset, without physical substance, held for use in conducting business, for rental to others, or for administrative purposes, including patent, non-patent technology, trademark rights, copyrights and land usage rights, etc.

**Article 45** Intangible assets should be recorded in their purchase price.

- (I.) Actual costs of acquired intangible assets should be determined in their real purchase price.
- (II.) Intangible assets that are self-developed and acquired in accordance with legal procedures should be booked in their real costs, including registration fee and expense on lawyer employment. Before acquisition, material costs, payrolls

and welfare of development personnel, rent or borrowing costs shall be classified as expense of the period.

- (III.) Investment costs of intangible assets acquired from donation should be subject to Article 16.
- (IV.) Actual costs of intangible assets acquired via non-monetary exchange shall be subject to Article 18.

**Article 46** The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life, which should be recorded as expense of the period. If the anticipated useful life exceeds the beneficial life specified by contract and effective life by law, amortization period of intangible assets shall adhere to the following principles:

(I) If the contract has prescribed beneficial period, but law did not give effective period, amortization period cannot exceed the beneficial period prescribed by the contract.

(II) If the contract does not prescribe beneficial period, but law gives effective period, amortization period cannot exceed the beneficial period prescribed by law.

(III) If the contract prescribes beneficial period, and law gives effective period, amortization period cannot exceed the shorter of the two periods.

If contracts do not prescribed beneficial limit, nor effective period by law, then the useful life of an intangible asset will not exceed ten years.

**Article 47** Gains or losses arising from the disposal of an intangible asset should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the statement of profit and loss.

## **Section V Entrusted Assets**

**Article 48** Entrusted assets are those that NPOs receive from the management of entrusted assets. During the entrusted period, NPOs normally only accept entrusted assets from trustees and retransfer the assets to other organizations or individuals under the trustees' will, or transfer the assets to designated organizations or individuals under some stipulations. NPOs only maintain intermediary function in the course of the entrustment and have no power to change the purpose of the entrusted assets and beneficiaries.

NPOs should carry out confirmation and measurement on the principle of the comparability of entrusted assets and accepted assets from donation. However, when



entrusted assets are recognized, entrusted liabilities must be assigned simultaneously.

## **Chapter III Liabilities**

**Article 49** Liabilities are present obligations arising from the past transactions and items. Fulfilling the obligation is anticipated to cause the outflow of resources of economic benefits and service potentials from NPOs. Liabilities include current liability, long-term liability and entrusted liability, etc.

**Article 50** A contingency is defined as a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

When obligations relative to contingencies satisfy the following conditions, they will be classified as liabilities and measured in the best expected figure to meet the needed expenditure for the liabilities and listed in balance sheet.

- (I) The obligation is the present obligation undertaken by NPOs
- (II) The fulfillment of the obligation might lead to the outflow of the resources containing economic benefits and service potential from NPOs
- (III) The amount of the obligation could be measured reliably.

**Article 51** Current liability is liabilities that must be paid back within one year (inclusive), including short-term borrowing, accounts payable, accrued payroll, taxes payable, deposit received, provisions and expected liabilities, etc.

- (I) Current liabilities are the borrowings of NPOs from banks or other financial institutions with duration of below one year (inclusive)
- (II) Accounts payable are all the bills payable, amounts payable or other payables of NPOs in the course of ordinary activities.
- (III) Accrued payroll are payments that NPOs owe employees.
- (IV) Taxes payable are the taxes that NPOs are supposed to pay, but fail.
- (V) Deposits received are amounts that NPOs receive in advance from services receivers and goods purchasers.
- (VI) Provisions are expenditure that NPOs have withdraw in advance, but have

not paid, such as rent, insurance, interest, etc.

(VII) Expected liabilities are the liabilities that NPOs have recognized for the present obligations arising from contingencies.

**Article 52** Current liabilities should be recorded in its actual occurrence amount.

Short-term borrowings should deal with interest based on principal and confirmed interest and be recorded as expense of the period.

**Article 53** Long-term liabilities are liabilities with repayment period of more than one year (excluded), including long-term borrowing, long-term accounts payable, and other long-term liabilities.

(I) Long-term liabilities are borrowings of NPOs from banks and other financial institutions with duration of more than one year (excluded).

(II) Long-term accounts payable are the leasing fees that NPOs lease fixed assets.

(III) Other long-term liabilities are the long-term liabilities other than long-term borrowing and long-term accounts payable.

**Article 54** Long-term liabilities should be recorded in books with its real occurrence amount.

**Article 55** Entrusted liabilities are liabilities arising from the activities that NPOs are engaged in retained agent services or are retained to manage assets. Entrusted liabilities should be determined and measured with the amount of the entrusted assets.

## Chapter IV Net Assets

**Article 56** Net assets of NPOs are the balance of total asset after the deduction of liabilities. Net assets are divided into restrictive net assets and non-restrictive net assets in the principle whether the assets are restricted.

If the usage of assets and economic benefits arising (investment return of assets and interest, etc) are restricted in timing and purposes by asset providers or relevant laws and administrative regulations are referred to as restrictive net assets. The remainders are non-restrictive.

Timing restriction in the system is that asset providers or other relevant laws and administrative regulations require NPOs to use the assets after within a specified period or other a specified date, or a permanent restriction for the asset usage.

Purpose restriction in the system is that asset providers or other relevant laws and administrative regulations require NPOs to use the assets for a specific purpose after receiving the assets.

Restrictive decision, resolution or fund allotment restriction that board of directors, board of supervisors or other authorities of NPOs make in the net asset usage belong to the restriction that the NPOs have made in internal management, exclusive from the restrictive net asset of the system.

**Article 57** When restrictions on the restrictive net assets are lifted, net assets should be reclassified and transfer the restrictive to the non-restrictive.

When each of the following conditions is satisfied, restrictions on restrictive net assets are deemed to be lifted:

- (I) Lock-up period of the restrictive net assets is due.
- (II) Purpose of the restrictive net asset is realized (or goal is achieved)
- (III) Asset providers and relevant laws and administrative regulations withdraw the restriction.

If restrictive net assets are subject to two or more restrictions, restriction is deemed to be lifted only if the last restriction is released.

## **Chapter V Revenue**

**Article 58** Revenue is the inflow of economic benefits and service potentials that NPOs acquire from operations and lead to the increase of net assets. Revenue comprises donations, Membership Fee collection, rendering of services, Government subsidy, investment returns, sales, and other revenue.

(I) Donation revenues are income that NPOs accept from entities or individuals.

(II) Membership fees are the income that NPOs collect from members in accordance with relevant articles.

(III) Revenue from the rendering of services that NPOs receive by providing services for others in accordance with relevant articles, such as tuition, medical and training fees, etc.

(IV) Government subsidiaries are subsidies that NPOs receive from government or authorities.

(V) Sales revenues are income that NPOs acquire through selling goods (such as publications, and medicine).

(VI) Investment returns are gains or losses that NPOs receive from investment activities.

Revenue from activities other than donation, membership collection, rendering of services, government subsidies, sales and investment return acquired by NPOs should be recorded separately.

(VII) Other revenues are those arising from the activities other than the above, such as net proceeds from the disposal of fixed and intangible assets.

Labor donations accepted by NPOs shall not be classified, but should be disclosed in the appendix of the financial statements.

**Article 59** When NPOs determine revenue, they should differentiate revenue acquired from the exchange transactions or non-exchange deals.

(I) Exchange transaction is the transaction conducted under equal-value exchange principle, i.e. a deal that a person needs to provide cash of the same value or similar amount or goods or services of the same value when acquires assets or services, or debt release. In accordance with equal-value exchange principle, goods sales or rendering of services are exchange transactions.

Sales revenue arising from exchange transaction should be determined when all the conditions are satisfied:

1. Major risks and welfare of the goods ownership have been transferred to purchasers.
2. There is no continuous management power normally relative to ownership, nor control on sold products.
3. Economic benefits related to transaction will be able to inflow into NPOs
4. Relevant revenue and costs could be measured reliably.

Labor revenue arising from exchange transactions shall be determined in regulations below:

1. Labor which is completed within a financial year shall be determined upon its completion.
2. If the commencement and completion of labor are in the different financial year, revenue shall be determined in completion process and the finished work volume.

Revenue arising from ownership of transactional assets due to exchanges should be determined when all the conditions are satisfied:

1. Economic benefits related to transaction will be able to inflow into NPOs
2. Relevant revenue and costs could be measured reliably.

(II) Non-exchange transactions are the deals other than exchange transactions. In such a transaction, a person does not need to provide cash of the same value or similar amount or goods or services of the same value when assets or services are acquired, or debt is released, or a person does not receive cash of the same value or similar amount or goods or services of the same value when goods or services are provided, such as donation or government subsidies.

Sales revenue arising from non-exchange transactions shall be determined when all the conditions are satisfied:

1. Resources containing economic benefits and service potential can flow into NPOs and be controlled by the organizations, or relevant debts could be eliminated.
2. Transactions could lead to the increase of net assets.

### 3. Revenue could be measured reliably

Normally, government donations and grants without condition shall be determined when they are received, while those with conditions shall be assigned when their ownership is acquired, but when NPOs has present obligations to repay donated assets (or government-subsidized assets) in full or part, or funds with similar funds, liabilities and expense shall be determined with the repaid amounts.

**Article 60** NPOs should record revenue separately in non-restrictive revenue and restrictive revenue.

If asset providers set timing and purpose restrictions on asset usage, relevant revenue should be classified as restrictive revenue, and the others are non-restrictive revenue.

Membership fees, revenues from rendering of services, sales and investment returns of NPOs are normally non-restrictive revenue, in the only exception that asset providers set restrictions on the asset use. Revenue from donation, and government subsidies should be recognized separately as restrictive assets and non-restrictive assets depending on whether the use has been specified.

**Article 61** At the end of each financial year, NPOs should transfer the non-restrictive and restrictive revenue of the period to the items under net assets.

## **Chapter VI Expense**

**Article 62** Expense is defined as the outflow of economic benefits and service potential that incurred in the course of operations of NPOs, but lead to the decrease of net assets. Expense includes operating costs, administrative overheads, financing costs, and other expense, etc.

(I) Operating costs are expense arising from the project activities and rendering of services conducted by NPOs to realize its business goals. If the projects, services rendered or business that NPOs are engaged are of little complexity, relevant expense should be recognized under the accounting heads of “operating costs”, otherwise, expense should be separately classified in project, services and business under the head of “operating costs”.

(II) Administrative overheads are defined as expense arising from the organization and management of business activities of NPOs, including expenditure for the board of directors (board of supervisors or similar authorities) of NPOs, payroll for management personnel, bonus, welfare, housing public reserve funds, housing allowance, social welfare, retirement payroll or subsidies, expense for office management, water and electricity bills, postage, property management fees, travel fees, depreciation, repair, leasing fees, intangible asset amortization, provision for assets devaluation, depreciation, losses from expected liabilities, fees for the employment of intermediaries and repayment of the donated assets, etc, of which welfare should be recognized in accordance with the management power of NPOs and regulations of board of directors, board of supervisors, or similar authorities.

(3) Financing costs is defined as expense arising from financing activities that NPOs are engaged to raise required funds, including expense incurred in the course of activities that NPOs are engaged to receive donated assets, losses for foreign exchange (minus profit from foreign exchange), etc. Expense incurred that NPOs to receive donated assets include fees for donation activities, preparation, printing and distribution of publicity materials, or other expenses.

(IV) Other expense are those incurred to NPOs, but could not be classified to the above operating costs, administrative overheads, or financing costs, including net losses from disposal of fixed assets or intangible assets, etc.

**Article 63** Some expense arising from many activities of NPOs or co-occurrence of business, management and financing activities, which cannot be classified in a certain activity, should be recorded in the expense of the period when they actually occur.

**Article 64** NPOs should classify the expense of the period to the non-restrictive net asset of the accounting head of “net asset”, as the deduction of non-restrictive assets.



## **Chapter VII Financial Statements**

**Article 65** Financial statements are written documents that reflect financial condition, operations and cash flow of NPOs.

**Article 66** Financial statement include annual and interim financial reports  
Interim financial report is a financial statement with reporting period shorter than a

full financial year (such as half-year, quarterly, or monthly). Annual report is the financial report compiled for the full financial year.

**Article 67** A financial report comprises a complete set of financial statements, appendix and financial notes. Contents, category and format and appendix released by NPOs publicly should be subject to the system. Accounting reported for internal management could be prescribed by the entities themselves.

When NPOs are compiling interim financial reports, they should adopt the uniform recognition and measurement principles with annual reports. Contents of interim financial reports could be simplified compared with annual report, but must be guaranteed that it contains the important financial information with the full understanding of financial conditions at the end of interim report period, operations and cash flows.

**Article 68** Accounting policies adopted by NPOs must be in conformity and cannot be adjusted freely, with the exception that it could satisfy one of the following conditions:

- (I) Requirement of laws and accounting regulations
- (II) The adjustment could provide more reliable and relevant accounting information for the financial conditions and operations of NPOs.

NPOs should adopt retroactive restatement method to recognize the adjustment of accounting policies, if infeasible, modified prospective method will apply. If otherwise specified by laws and accounting system, relevant regulations shall apply.

Retroactive restatement method in the system is an approach that adjusts relevant items using the accounting policies adopted at the beginning of the transaction or item, when there are changes on accounting policies for a certain transaction or item. Modified prospective method is that new accounting policies apply to the transactions and items in the current or future period when making adjustments on accounting policies.

**Article 69** Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved.” Events occurring after the balance sheet date are of two types - adjusted items and non-adjusted items.

Adjusted events are those which provide further evidence for the estimation of amounts relating to conditions that existed at the balance sheet date and assist in determining relevant amount. NPOs should make changes on adjusted events, relevant assets and liabilities confirmed by the balance sheet and relevant revenue and expense within the period.

Non-adjusted events are those which are indicative of conditions that arose subsequent to the balance sheet date, but do not relate to conditions existing at the balance sheet date. However, the absence of explanation will influence financial report users to make proper estimation and decisions. NPOs should disclose the nature and contents of non-adjusted events, as well as the influence they might bring to financial status and operations. If impacts cannot be estimated, further explanation must be provided.

**Article 70** A financial report should include, at a minimum, the following components

- (1) balance sheet;
- (2) profit and loss;
- (3) cash flow

**Article 71** Appendix of financial statement should comprise the following contents:

- (1) Explanation of important accounting policies and adjustment
- (2) Number of board members (or board of supervisors or similar authorities), adjustments as well as payment explanation
- (3) Important items of financial reports and the changes
- (4) Explanation on assets that asset providers set timing and use purpose restrictions.
- (5) Entrusted operations, including the composition of entrusted assets, pricing base and purposes, etc.
- (6) Explanations on important asset devaluation
- (7) Explanation on the donated assets and title, quantity, origin, and purposes of other assets which cannot acquired by fair value approach
- (8) Commitments and contingencies
- (9) Explanation on labor donation received
- (10) Non-adjusted events after the date of Balance Sheet

- (11) Explanation helpful to understand the financial statements

**Article 72** Notes of financial conditions, at least, should make illustration on the following conditions:

- (1) Mission, organization structure and personnel distribution of NPOs
- (2) The primary operations of NPOs, completion status of annual plan and budget, analysis of the difference arisen, and business plan and budget of the next financial period.
- (3) Other events that might have substantial influence on operations of NPOs.

**Article 73** When NPOs make investment and take over 50% stake in an entities (50% excluded), or hold substantial control in them although the stake holding is below 50%, or have controlling power in the entity, they shall consolidate the financial reports.

**Article 74** NPOs should release their financial reports within four months after the end of financial year. If the NPOs are required to provide interim financial reports, they should make the release within specified period.

Financial reports must be prepared in “yuan” as currency unit, with “fen” after it.

**Article 75** Financial statements released by NPOs shall be compiled in sequence, with front cover and company seals. The front cover must include organization tile, registration number, organization structure, address, year of the annual report belonging to, issuance date of interim reports, signature and seals of responsible managers, accounting managers and responsible persons; CFO signature and seal for entities with the position.

## **Chapter VIII Appendix**

**Article 76** The system will become effective on January 1, 2005.

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## **Accounting System of NPOs**

— **Accounting Subject and Accounting Statement**

## Financial Statements Format

S. Number	Title of Financial Statements	Compiling period
Statement 01	Balance Sheet	Interim financial report, annual financial report
Statement 02	Operating Activities	Interim financial report, annual financial report
Statement 03	Cash Flow	annual financial report

### Balance Sheet

Statement 01

Compiled by : \_\_\_\_\_  
\_\_\_\_\_month\_\_\_\_day\_\_year

unit : yuan

Assets	notes	Beginning of the year	Year end	Liabilities and Net Assets	notes	Beginning of the year	Year end
Current assets :				Current liabilities :			
Currency capital	1			Short-term borrowing	61		
Short-term investment	2			Accounts payable	62		
Accounts receivable	3			Accrued payroll	63		
prepayments	4			Taxes payable	65		
inventories	8			<u>Deposit received</u>	66		
deferred expenses	9			provisions	71		
Long-term equity investment due within one year	15			Expected liabilities	72		
Other current assets	18			Long-term liabilities due within one year	74		
Total current assets	20			Other current liabilities	78		
				Total current liabilities	80		
Long-term investment :							
Long-term equity investment	21			Long-term liabilities :			
Long-term liability investment	24			Long-term borrowing	81		
Total long-term investment	30			Long-term payables	84		
				Other long-term liabilities	88		
Fixed assets :				Total long-term liabilities	90		
fixed assets at prime cost	31						
Subtract: accumulated depreciation	32						
Net value of fixed assets	33						
Construction in process	34						
Assets of cultural relic and culture	35			Entrusted liabilities :			
fixed assets in liquidation	38			Entrusted liabilities	91		
Total fixed assets	40			Total liabilities	100		
Intangible assets :							
Intangible assets	41			Net profit :			
				Non-restrictive net assets	101		
Entrusted assets				Restrictive net assets	105		
Entrusted assets	51			Total net assets	110		

Total assets	60			Total liabilities and net assets	120		

## Operating Activities

Statement 02

Compiled by : \_\_\_\_\_ month \_\_\_ day \_\_\_ year

unit : yuan

Item	Notes	Current monthly figure			Accumulated figure since this year		
		Non-restrictive	restrictive	total	Non-restrictive	restrictive	total
I, Income							
including : donations	1						
Due collection	2						
Income from services	3						
sales	4						
Government subsidy	5						
Investment proceeds	6						
Other incomes	9						
Total income	11						
II, Expenditure							
1, operating costs	12						
including :	13						
	14						
	15						
	16						
2, management costs	21						
3, fund-raising costs	24						
4, other expenses	28						
Total expenses	35						
III, restrictive net assets transferred to non-restrictive net assets	40						
IV, changes of net assets ( if it is a decrease figure, list with “negative” )	45						



## Cash Flow

Statement 03

Compiled by : \_\_\_\_\_ year

unit : yuan

Item	Notes	Amount
I, Cash flow from operating activities :		
Cash received from donations	1	
Cash received from due collection	2	
Cash received from rendering of services	3	
Cash received from sales of goods	4	
Cash received from government subsidy	5	
Other cash received relating to operating activities	8	
Sub-total of cash inflow	13	
Cash paid for providing donations and subsidy	14	
Cash paid to and on behalf of employees	15	
Cash paid for purchases of goods or rendering of services	16	
Other cash paid relating to operating activities	19	
Sub-total of cash outflow	23	
Net cashflow from operating activities	24	
II, Cash flow from Investing Activities :		
Cash received from return on investments	25	
Cash received from investment proceeds	26	
Cash received from fixed assets and intangible asset disposal	27	
Other cash received relating to investing activities	30	
Sub-total of cash inflow	34	
Cash paid to acquire fixed assets and intangible assets	35	
Cash paid for investment	36	
Other cash paid relating to investing activities	39	
Sub-total of cash outflow	43	
Net cash flow from financing activities	44	
III, Cash flow from Financing Activities :		

Proceeds from borrowings	45	
Cash received from other related financing activities	48	
Sub-total of cash inflow	50	
Cash repayment of amounts borrowed	51	
Cash payments for interest	52	
Other cash paid relating to financing activities	55	
Sub-total of cash outflow	58	
Net cash flow from financing activities	59	
IV, affected amount on cash and cash equivalents due to exchange rate changes	60	
V. Net increase in cash and cash equivalents	61	