УДК 657.12

Ch. LinHua

ACCOUNTING AND VALUATION OF FIXED ASSETS IN A CHINESE COMPANY

Many practicing accountants think that the rules and ideas are unclear in the conduct of accounting, which is highly detrimental to the effective management of a company's operations in China. Therefore, it is extremely important to optimize the accounting and valuation of the company's fixed assets. On this basis, the accounting treatment of a company's fixed assets after the «VAT reform» and adjustments to the value added tax rate to guide the generation of company revenues and the increase in fixed assets is considered in this article.

Многие практикующие бухгалтеры считают, что правила и идеи бухгалтерского учета неясны при использовании, что очень неблагоприятно для эффективного управления операциями компании в Китае. Поэтому крайне важно оптимизировать учет и оценку основных средств компании. Исходя из этого, в данной статье рассматривается учет основных средств компании после «реформы НДС» и корректировки ставки налога на добавленную стоимость, чтобы управлять формированием доходов компании и ростом стоимости основных средств.

Fixed assets refer to tangible assets that simultaneously have the following characteristics. They are used for the purpose of producing goods, providing services, renting or operating management. Service life exceeds one financial year. For example: machinery and equipment, office equipment, cars, office buildings, etc.

It should be emphasized that not all houses are fixed assets. If the company's premises are for its own use, this is, of course, the company's fixed assets. If the company is engaged in real estate and the house is for sale, the house is in inventory at that time. If a company intends to rent out a house that this company owns, the house is an investment property.

Following the full implementation of the «VAT reform» policy in China, the value added tax rate has been adjusted several times, and the accounting treatment for fixed assets has also undergone major changes. Clear classification of property, plant and equipment and efficient management, as well as the accounting and valuation of property, plant and equipment are key to the efficient operation of a company. Based on the implementation of the «VAT reform» in China, this article analyzes the accounting and valuation of fixed assets in different ways of obtaining fixed assets [1].

The accounting standards for property, plant and equipment in China stipulate that property, plant and equipment must initially be measured at cost. The cost of purchased property, plant and equipment includes the purchase price, value added tax, import duties and other related taxes. Site preparation fees, shipping fees, loading and unloading fees, which can be directly attributed to assets and incurred before assets reach usable condition are also included. These are installation fees, professional fees, etc. With regard to the costs included in the purchase price of fixed assets, the requirements of China's accounting standards are basically the same as those of IFRS 16.

Fixed assets acquired by enterprises are divided into fixed assets that do not need to be installed and fixed assets that need to be installed. Its accounting treatment: the first is based on the amount to be included in the value of fixed assets by debiting the title account «Fixed assets», crediting «Accounts payable», «Bills of exchange» and other accounts; the latter is first recorded in the accounting entities «Construction in progress», and then transferred to the accounting entities «Fixed assets» after the completion of installation and commissioning.

Let's look at an example. On December 20, 2019, JHC General Taxpayer purchased a production machine and equipment that needed to be installed. The price of the equipment shown on the special invoice received is RMB 1,500,000. Value added tax was calculated at the current rate, the payment was made through a bank. The equipment was installed using a 28,000 RMB batch of raw materials from the company, and the input value added tax paid when purchasing the batch of raw materials was subject to the current value added tax rate. The wages of the installers were RMB 2,000. JHC's accounting was as follows (excluding special instructions):

1 Payment of equipment cost and value added tax: debit «Construction in progress» (equipment) – 1 500 000 yuan; debit «Tax payable» (provisional tax) – 195 000 yuan; credit «Payable» – 1 695 000 yuan.

2 Use of company raw materials, payroll for installers: debit «Construction in progress» (equipment) – 30 000 yuan; credit «Raw material» – 28 000 yuan; credit «Employee compensation payable» – 2 000 yuan.

3 The equipment was installed and brought up to a usable condition: debit «Fixed assets» (equipment) – 1 530 000 yuan; credit «Construction in progress» (equipment) – 1 530 000 yuan. Fixed asset value = 1 500 000 + 30 000 = 1 530 000 yuan.

Approaches to depreciation according to International Accounting Standards requires each important part of property, plant and equipment to be depreciated separately. The valuation of the various components is based on whether the cost of each component is significant in relation to the total cost. However, the accounting standards for property, plant and equipment in China do not clearly state this.

Methods for calculating depreciation of property, plant and equipment, permitted by international standards, include: straight-line method, declining balance method and one-off method. Among them, the unit sum method corresponds to the workload method in China. Depreciation methods permitted in China's standards include the four-year average (or straight-line) method, the workload method, the double declining balance method, and the sum of years method.

In international accounting standards and accounting standards in many countries, there are no clear provisions on the start or end of the depreciation of fixed assets, that is, the moment when the company should start or stop the accrual of depreciation of fixed assets. Chinese accounting standards stipulate that the original carrying amount of property, plant and equipment that has been received in the current month should be depreciated from the next month. When the use of fixed assets decreases or ceases, depreciation is still charged in the current month, and depreciation will cease to accumulate from the next month. Thus, the procedure for calculating depreciation of property, plant and equipment in China is clear, which contributes to the real reflection of transactions.

Accrued depreciation of fixed assets is reflected in the balance sheet under the item «Accumulated depreciation»; it is reflected in the form of expenses in the profit and loss statement. Some of the depreciation is reflected in items such as production costs, construction in progress and social benefits [2].

The different depreciation methods of fixed assets used by enterprises will affect the depreciation expense of fixed assets at different periods during service life of the fixed assets. Therefore, once the depreciation method for fixed assets is determined, it cannot be changed at will. If a change is required, it must comply with the items of the accounting standards for property, plant and equipment. At least at the end of each year, the service life, expected residual value and depreciation method of property, plant and equipment should be reviewed in accordance with the audit findings.

Chinese accounting standards of fixed assets stipulate that fixed assets built by enterprises must be recorded as the value of necessary costs incurred before they reach their expected useful condition. In accordance with IFRS-16, the value of self-built assets is determined by the method of calculating the cost of the acquired asset or confirmed the method of the cost of sold asset.

Chinese accounting standards take into account in the cost of a construction project the cost of defects, the value of damaged building materials as a result of negligence, less insurance indemnity. If the construction project has not been completed, then these costs will be deducted from the project cost. If the project has been implemented, then they are included in the current non-operating income and expenses.

However, IAS 16 requires abnormal losses such as losses of materials, labor or other resources during self-construction not to be included in the initial cost of assets. The practice of international accounting standards is more conducive to the supervision and management of engineering projects, prevents waste of resources and reflects the value of fixed assets from more reliable and objective point of view.

New Chinese accounting standards stipulate that at the beginning of the lease period the lessee should use the least of the following values as the initial cost of the leased asset: the fair value of the leased asset at the beginning of the lease term and the present value of the minimum lease payment. These are basically the same requirements as in international accounting standards.

IFRS 16 requires companies to use fair value to measure assets acquired in non-cash transactions, unless the exchange transaction has no commercial substance.

China's new accounting standards stipulate that the fair value and related payable taxes should be used as the value of the exchanged asset when the exchange of non-monetary assets meets two conditions: the transaction has commercial substance and the fair value of the exchanged assets can be measured reliably. The difference between the fair value and the carrying amount of the transferred asset is included in current profit or loss. This shows that China's new accounting standards are in line with international accounting standards on this matter.

Summing up, there are various ways to acquire property, plant and equipment, such as purchasing property, plant and equipment, building in-house, finance lease of funds, and non- cash acquisitions of property, plant and equipment. In accordance with national policy and the laws and regulations of China, the comprehensive analysis of the accounting and valuation of fixed assets of Chinese companies was carried out to achieve the company's goal of generating revenue and increasing the value of fixed assets.

Literature

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