**Introduction to Accounting**

I. Accounting is an economic management activity that uses monetary units as its primary measurement tool to reflect and supervise the economic activities of an organization. In enterprises, accounting primarily reflects the financial position, operating results, and cash flows, while also supervising business operations and financial revenues and expenditures.

II. The Role of Accounting in a Market Economy

1. It helps provide decision-useful information, enhance corporate transparency, and standardize corporate behavior. (e.g., investors, creditors, bank loans, government departments, etc.)

2. It assists enterprises in strengthening business management, improving economic efficiency, and promoting sustainable development.

3. It helps evaluate the fulfillment of economic responsibilities by corporate management.

III. Enterprise Accounting Reform and Accounting Standards

Since the initiation of economic reforms and opening-up, China's accounting system has undergone continuous innovation and transformation. Beginning with the Accounting System for Foreign Investment Enterprises established in the early stages of reform to attract foreign capital, followed by the Accounting System for Joint-Stock Enterprises introduced to accommodate shareholding reforms, China later developed unified accounting systems applicable across all industries and forms of ownership—namely, the Accounting System for Business Enterprises, the Accounting System for Financial Enterprises, and the Accounting System for Small Enterprises—to meet the needs of the country's reform and opening-up and market economic development.

In 1992, China issued its first accounting standard, the Accounting Standards for Business Enterprises, followed by 16 additional standards covering areas such as related-party relationships and disclosures, cash flow statements, non-monetary transactions, investments, revenue, contingent events, post-balance-sheet events, accounting policies, changes in accounting estimates and correction of accounting errors, and debt restructuring. To further align with the demands of China's market economy and economic globalization, the Ministry of Finance systematically revised the existing standards and developed a series of new ones based on the principles of maintaining Chinese characteristics, achieving international convergence, ensuring comprehensive coverage, and enabling independent implementation. On February 15, 2006, China issued a new set of standards, including the Basic Accounting Standards for Business Enterprises and 38 specific standards, followed by the release of application guidelines on October 30, 2006. This marked a substantial convergence with International Financial Reporting Standards (IFRS). The new standards took effect in listed companies starting January 1, 2007.

IV. Fundamental Accounting Assumptions

1. Accounting Entity

1. Going Concern: The assumption that the enterprise will continue to operate in the foreseeable future without interruption or significant changes in scale (e.g., fixed assets are allocated over periods based on historical cost).
2. Accounting Period: The division of ongoing business activities into consecutive and equal periods to determine profits and losses, prepare financial reports periodically, and provide timely information to users.
3. Monetary Measurement: Financial information is measured and reported in monetary units. (Note: Some factors affecting financial position and operating results, such as R&D capability and market competitiveness, are often difficult to quantify in monetary terms.)

V. Accounting Bases

Accrual Basis

Cash Basis

VI. Qualitative Characteristics of Accounting Information

1. Reliability

2. Relevance

3. Clarity (or Understandability)

4. Comparability

5. Substance Over Form (e.g., finance leases, sale-repurchase agreements)

6. Materiality (e.g., quarterly reports of listed companies)

7. Prudence: Judgments under uncertainty should not overstate assets or income, nor understate liabilities or expenses.

1. 8. Timeliness

VII. Accounting Elements

1. Assets: Resources arising from past transactions or events that are owned or controlled by an enterprise and are expected to generate economic benefits.

2. Liabilities: Present obligations arising from past transactions or events that are expected to result in an outflow of economic benefits from the enterprise.

3. Owner’s Equity: The residual interest in the assets of the enterprise after deducting all liabilities.

Accounting Equation:  
Assets = Liabilities + Owner’s Equity

VIII. Financial Statements

1. Balance Sheet: A financial statement that reflects an enterprise's financial position at a specific date. Its purpose is to help users assess the quality of the enterprise's assets, short-term and long-term solvency, and profit distribution capability by presenting the amounts and structure of assets, liabilities, and owner’s equity.

2. Income Statement / Profit and Loss Statement: A financial statement that reflects an enterprise's operating results over a specific accounting period. Its purpose is to help users analyze and evaluate the profitability, composition, and quality of the enterprise by showing the amounts and structure of revenue realized, expenses incurred, gains and losses recognized in current profit, and other comprehensive income.

3. Cash Flow Statement: A financial statement that reflects the inflows and outflows of cash and cash equivalents over a specific period. Its purpose is to help users evaluate the enterprise's cash flow and capital turnover situation.

4. Notes to the Financial Statements: Supplementary explanations to the financial statements.

IX. Internal Company Reports

1. Key data and FCF (Free Cash Flow)

2. RP / Hyperion (Note: Typically refers to enterprise performance management systems such as Oracle Hyperion, used for financial reporting, planning, and consolidation)

Financial Cost Management

I. Corporate Objectives and Their Implications for Financial Management  
The objectives of corporate management can be summarized as survival, development, and profitability.

1. The primary requirement for financial management is to maintain solvency—the ability to cover expenses with revenues and repay due debts—thereby reducing the risk of bankruptcy and ensuring long-term, stable operations.  
Threats to corporate survival arise from two sources:

Sustained losses (the internal cause of business failure)

Inability to repay due debts (the direct cause of business termination)

1. The second requirement for financial management is to raise capital necessary for business expansion.
2. The third requirement is to generate profit through rational and efficient use of capital.

II. Corporate Financial Objectives

Perspective 1: Profit Maximization  
Profit represents newly created wealth; thus, higher profits indicate greater wealth accumulation and closer alignment with corporate goals.  
Limitations of this perspective:

1. It ignores the timing of profit generation (time value of money).

2. It fails to consider the relationship between profit and invested capital.

3. It overlooks the relationship between profit and associated risks.

Perspective 2: Earnings Per Share (EPS) Maximization  
Perspective 3: Shareholder Wealth Maximization (i.e., Enterprise Value Maximization)  
Shareholders establish enterprises to increase their wealth. As owners, they benefit most when enterprise value is maximized. A company’s value lies in its ability to provide future returns to owners, including dividends and proceeds from the sale of equity.

III. Factors Influencing the Achievement of Financial Management Objectives  
The goal of financial management is to maximize enterprise value or shareholder wealth. Since stock price represents shareholder wealth, the level of the stock price reflects the degree to which financial management objectives are achieved.

A company’s stock price is influenced by both external environmental factors and internal management decisions.

From the perspective of factors controllable by management, stock price depends on the company’s return rate and risk level. These, in turn, are determined by:

Investment projects (the primary factor influencing return and risk),

Capital structure (the proportion of owner’s equity to liabilities),

Dividend policy.

Financial management achieves its objectives—increasing returns and reducing risk—through investment decisions, financing decisions, and dividend decisions.

IV. Content of Financial Management:  
Investment, Financing, and Dividend Distribution

V. Functions of Financial Management:

1. Financial Decision-making: Decisions regarding capital raising and utilization.

2. Financial Planning:

Setting financial objectives

Developing financial strategies and policies

Establishing financial procedures and rules for specific issues

Formulating financial plans and preparing budgets  
Budgets represent expected results in monetary terms. They are the endpoint of planning and the starting point of control.

3.Financial Control:  
Plans serve as the basis for control, while control is the means of executing plans. Together, they form the cycle of corporate financial management.

VI. Financial Management Environment:  
Refers to external conditions that influence corporate financial activities—constraints beyond management’s control. Financial decisions must adapt to these demands and changes.

1. Legal Environment:  
Company Law, Tax Law, General Rules for Enterprise Finance

2. Financial Market Environment:  
Financial markets serve as platforms for capital raising. Trading activities include:

Currency lending

Acceptance and discounting of bills

Trading of securities

Foreign exchange transactions

Domestic and international insurance services

Exchange of property rights for production materials

3.Economic Environment:  
Economic development status, inflation, interest rate fluctuations, government economic policies, and competition.

**Major Financial Institutions in China:**

1. The People's Bank of China (PBOC)  
   As China's central bank, it represents the government in managing financial institutions and activities nationwide, and operates the state treasury. Its main responsibilities include:

Formulating and implementing monetary policy to maintain currency stability;

Supervising and regulating financial institutions in accordance with the law to ensure the lawful and stable operation of the financial industry;

Maintaining the normal functioning of payment and settlement systems;

Holding, managing, and operating foreign exchange and gold reserves;

Acting as the fiscal agent for the government and handling other government-related financial operations;

Engaging in relevant international financial activities on behalf of the government.

1. Policy Banks  
   Established by the government to implement national industrial and regional development policies, these are non-profit-oriented financial institutions. China currently has three policy banks:

China Development Bank

The Export-Import Bank of China

Agricultural Development Bank of China

1. Commercial Banks
2. Non-Bank Financial Institutions:

Insurance companies

Trust and investment companies (acting as trustees to manage assets on behalf of clients; core businesses include fund and property entrustment, asset custody, financial leasing, economic consulting, and investments)

Securities institutions

Finance companies

VII. Cost Management: This refers to all measures taken by managers to control and reduce costs while meeting customer requirements, with the goal of achieving predetermined quality, quantity, and delivery time at the lowest possible cost.

1. Importance of Cost Management:

It relates to a company's competitiveness.

It is a fundamental way for a company to increase profits and directly serves its business objectives.

It is a key guarantee for resisting internal and external pressures and ensuring survival.

It serves as the foundation for a company's development.

1. Cost Control: This involves using methods primarily based on cost accounting to set predetermined cost limits, control costs and expenses within these limits, compare actual costs with the cost limits to evaluate operational performance and effectiveness, and apply the exception principle to correct unfavorable deviations. This improves efficiency and helps achieve or even exceed the cost targets.
2. Principles of Cost Management:

Economic Principle (Cost-Benefit Principle): The cost incurred in implementing cost control should not exceed the benefits lost due to the lack of control.

Principle of Adapting to Local Conditions.

Principle of Full Participation.

Principle of Leadership Drive. (Requirements for leaders: Value and fully support cost control; possess the determination and confidence to achieve cost targets; demonstrate a spirit of pragmatism.)

VIII. Standard Cost System: Variance Analysis, Cost Adjustment.  
IX. Analytical Methods for Financial Statements

1. Comparative Analysis Method: This involves comparing two or more relevant comparable data sets to reveal differences and contradictions. Comparison is the fundamental method of analysis; without it, analysis cannot begin.

Based on the object of comparison (whom to compare with), specific methods include:

1. Comparison with the enterprise's own historical data, i.e., comparing indicators from different periods, also known as "trend analysis";
2. Comparison with similar enterprises, i.e., comparing with industry averages or competitors, also known as "horizontal comparison";
3. Comparison with planned budgets, i.e., comparing actual execution results with planned indicators, also known as "variance analysis."

Classified by Comparison Content (What to Compare)

1. Comparison of Total Accounting Elements: Such as total assets, net assets, net profit, etc. For example, studying the year-on-year trend of profits to assess growth potential. It is also used for industry comparisons to evaluate a company's relative size and competitive position.
2. Comparison of Structural Percentages: For instance, treating revenue as 100% and examining the proportion of each item on the income statement. This helps identify items with significant issues and reveals directions for further analysis.
3. Comparison of Financial Ratios.

Factor Analysis Method: This method determines the degree of influence of each factor on an indicator quantitatively, based on the relationship between the analysis indicator and its influencing factors.

1. Difference Analysis Method: For example, analyzing the reasons for an increase in the net value of fixed assets by decomposing it into changes in original value and changes in depreciation.
2. Indicator Decomposition Method: Such as decomposing financial ratios.
3. Sequential Substitution Method: Replacing standard values with analyzed values sequentially.
4. Fixed Base Substitution Method: Replacing standard values with analyzed values separately.

Tax Laws  
I. Taxation  
Taxation is a form by which the government, to meet public social needs, relies on its political power to compulsorily and non-reimbursably obtain fiscal revenue. It serves as an important tool for the state to generate fiscal income. The exercise of state functions must be supported by certain fiscal revenue, such as taxation, currency issuance, government bond issuance, administrative fees, fines, and confiscations. Since the tax reform in 1994, taxation has consistently accounted for over 90% of fiscal revenue.

1. II. Types of Taxes  
   Based on the different objects of taxation specified in tax laws, taxes can be divided into five categories:
2. Turnover Tax: Primarily includes Value-Added Tax (VAT), Business Tax, Consumption Tax, and Customs Duty. The characteristic of these taxes is their close relationship with the production, circulation, and consumption of goods. Which goods are taxed and the tax rates applied directly impact economic activities, making them effective tools for macroeconomic regulation.
3. Income Tax (withholding at source): Mainly includes Corporate Income Tax and Individual Income Tax. These taxes directly adjust taxpayers' income, promoting fair tax burdens and regulating distribution relationships.
4. Property and Behavior Taxes: Primarily levied on the value of property or specific behaviors. These include Real Estate Tax, Vehicle and Vessel Tax, Stamp Duty, and Deed Tax.
5. Resource Tax: Imposed to protect and rationally utilize national natural resources. Examples include Resource Tax (levied on entities and individuals engaged in mining taxable mineral products and producing salt within China), Land Appreciation Tax, and Urban Land Use Tax.
6. Specific Purpose Taxes: Include the Fixed Asset Investment Direction Regulation Tax (temporarily suspended), Feast Tax, Urban Maintenance and Construction Tax, Vehicle Purchase Tax, Farmland Occupation Tax, and Tobacco Tax.

III. Taxes Applicable to Our Company

Business Tax (Note: Largely replaced by Value-Added Tax in China)

Value-Added Tax (VAT)

Customs Duty

Corporate Income Tax

Individual Income Tax

Real Estate Tax

Stamp Duty