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Particularities of Accounting for NFP Agency Transactions in China

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Abstract: The purpose of this short communication is to identify the particularities of accounting for NFP agency transactions in China compared with the U.K. and the U.S. An additional purpose is to find insightful examples of NFP agency transactions in order to consider correct practices. This short communication relies on the accounting standards of three countries as well as Chinese academic literature. In China, NFPs must recognize agency assets and agency liabilities in a manner different from the U.K. and the U.S. Some of the differences in accounting for agency transactions between the three countries are due to the difference in the degree of importance the regulators in each country place on liabilities. The differences in control over agency assets are also a source of difference for accounting practices. Consideration of accounting for NFPs in China will help other Asian countries to establish or improve their accounting regulations for NFPs.
Keywords: Accounting, NFP, Agency transaction, Agency asset, Agency liability, China

INTRODUCTION

When compared with the U.K. and the U.S, NFP (not-for-profit organization) agency transaction accounting in mainland China has many particularities. The accounting standards for NFPs in China are influenced by the accounting standards for NFPs in the U.K. Accounting standards in the U.S. are also frequently discussed by many Chinese accounting scholars [1]. Scholars should consider the particularities in these practices.

The Ministry of Finance of People's Republic of China (MOF) defines agency transaction below [2].

A NFP agency transaction is the action of a NFP receiving assets from principals and then simply transferring these assets to third parties according to the principals' intent or related rules. The NFP itself only acts as an intermediate in this distribution process and the NFP does not have rights to convert the usages or beneficiaries of these assets.

The beneficiaries of the agency transaction are not a NFP but third parties. According to the Accounting Department, MOF [1, 2], agency transactions occupy sizable ratios within the larger activities of NFPs. This seems to be common with the U.K. and the U.S., where NFP activities are more sophisticated than China.

In order to prompt discussion about accounting for NFPs amongst Asia-Pacific scholars, this short communication reveals the reasons why Chinese accounting regulations have such particularities and shows what accounting scholars interested in NFPs should consider about agency transactions. As a research method this short communication adopts normative/conceptual analysis and this research method was adopted by 74.1% of management accounting papers published in Chinese main journals in 2005 [3].

DESCRIBING ACCOUNTING REGULATIONSIN THREE COUNTRIES

"Chinese Accounting Standard for Non-Governmental Not-for-Profit Organizations" and its practice guide, "Chinese Accounting Standard for Non-Governmental Not-for-Profit Organizations: Account Titles and Accounting Reports" regulates accounting for NFPs in China.

In Chinese regulations, fundamental classifications made at the time a NFP receives agency assets are shown below;

Dr Agency assets XX
Cr Agency liabilities XX

However, when agency assets are monetary assets, it is accepted that a NFP classifies the type of monetary asset as an account title and establishes a subaccount, which is titled as agency assets. For example, when agency assets are cash, the classification

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below is accepted;

Dr Cash – Agency assets XX
Cr Agency liabilities XX

When a NFP makes the accepted classification, the amount of monetary assets as agency assets will not add to the agency assets account on the balance sheet, but add to the account of monetary assets (ex. cash account) on the balance sheet.

The Charities SORP (Statement of Recommended Practice) establishes the accounting standards for NFPs in the U.K. The SORP asks NFPs not to report agency assets or agency liabilities on the balance sheet but to note agency transactions in financial statements. Thus, there are no classifications about agency transactions.

The American Institute of Certified Public Accountants (AICPA) uses U.S. GAAP for NFPs. In the U.S., NFPs receiving financial assets as an agent must recognize these financial assets and agency liabilities as shown below;

Dr Cash XX
Cr Agency liabilities XX

This classification is almost the same as the accepted Chinese one. However, in the U.S., for a NFP receiving nonfinancial assets, they are free to either recognize the agency assets and agency liabilities or to not recognize them [4].

A large difference in accounting for NFPs in China is that a NFP must recognize agency assets and agency liabilities for all agency transactions, which is different from the U.K. and the U.S.

REASONS WHY THERE IS DIFFERENCES

Agency liabilities meet the definition of liabilities in all three countries and information about liabilities helps NFPs to explain their risks, which their contributors are interested in. When a NFP wants to credit liabilities, double-entry bookkeeping is required to debit any assets or costs. However, it is questionable as to whether agency assets meet the definition of assets. For example in the U.K., the regulator thinks that agency assets do not meet the definition of assets, because the SORP adopts the idea that a NFP as an agent does not have control over agency assets. Based on this ambiguity on agency assets, the regulator in each country is compelled to select from two options: ask NFPs to make classifications or ask NFPs only to note. On the other hand, from these practices we can see that Chinese regulators think NFPs have control over transaction assets and this thinking leads to the particularity of all agency assets needing to be recognized in China.

Some Chinese literature puts emphasis on agency liabilities. Jiang *et al*. [5] and Li and Lu [6] place more importance on agency liabilities than on agency assets. Jiang *et al*. [5] establishes a specialized section about agency liabilities, while Jiang *et al*. [5] does not establish a specialized section about agency assets. Li and Lu [6] establish a specialized topic about agency liabilities, while Li and Lu [6] do not establish a specialized topic about agency assets. Their construction of arguments shows that they place importance on agency liabilities. If the regulator in a country places importance on the agency, it is reasonable to recognize agency assets to some extent.

INSIGHTFUL EXAMPLES TO EVALUATE CHINESE PARTICULARITIES

As for financial assets that are almost the same as monetary assets, we can judge that most financial assets as agency assets meet the definition of assets. Until the time when a NFP transfers these assets to the third parties designated by the principals, the NFP which received the financial assets as agency assets can usually invest these assets to earn revenue to support the programs of the NFP. When financial assets as agency assets are in cash, it is not realistic for the principals to request that this cash be separately managed from the other cash in the NFP. The principals probably do not intend that the financial assets other than cash will be transferred, as it is intended that a NFP changes non-cash financial assets to cash and then transfers this cash to third parties. As long as the amount which the principals designated is guaranteed, there are usually no problems to invest financial assets other than cash to earn revenue. Then, the NFP will usually have control on financial assets as agency assets.

Based on the fact that most financial assets as agency assets meet the definition of assets, we can judge the Charities SORP regulation, which does not allow recognition of any agency assets, to be incorrect. On this point, the Chinese regulations and U.S. GAAP for NFPs are superior to the Charities SORP. On the other hand, it is not easy to decide which accounting regulations about nonfinancial assets as agency assets is the best in these three countries. However, it is obvious that proper accounting is that which allows a NFP to have control over agency assets. If agency assets have service potential, that means that a NFP has control over agency assets. Agency transactions can be seen as collaboration between an agency and the principals. For example, Wang [7] insists agency transactions by some scholarship foundations are collaboration with their principals. When the agency transactions are collaborations, the agency assets have service potential, because the agency transactions function as an advertisement to the public and contribute to the agencies fundraising. Regarding this, Wang [7] advocates a method of accounting of agency transactions that is different from the accounting standards in the three countries. In order to simplify analysis, this short communication does not consider this method in detail.

Sometimes a NFP acquires commissions from agency transactions. However, this is the same as consignment accounting of profit-oriented entities and a profit-oriented entity does not recognize any assets at consignment accounting. Thus, the existence of commission cannot be a reason to recognize agency assets.

As a whole, Chinese accounting about agency transactions can be judged to be a proper practice for the present.

CONCLUSION

In all agency transactions in China, the NFP must recognize agency assets and agency liabilities. Some parts of the differences of accounting of agency transactions between the three countries are from the difference in the degree of importance the regulator in each country puts on liabilities. The difference of thought about control over agency assets is also a source that accounts for the differences in accounting. Chinese particularities suggest that accounting scholars interested in NFPs should consider control over agency assets to find a proper accounting method in order to reflect the economic content.

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