HONGDA
CHINA COMPANIES MADE EASY

China accounting:
An introductory guide for foreign companies

A practical introduction to bookkeeping, tax, payroll and annual compliance for foreign-invested companies in Mainland China.

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Contents

Foreword 3

Chapter 1. Accounting framework and statutory books 4

- Who owns the accounting process? 5
- Accounting standards, books and records 6

Chapter 2. Monthly bookkeeping and tax routines 7

- Monthly close workflow 8
- VAT and fapiao management 9
- Cross-border VAT and tax controls 10
- Payroll, IIT and employee records 11
- Social insurance and employee expenses 12

Chapter 3. Annual compliance and statutory audit 13

- Audit preparation 14
- Enterprise income tax reconciliation 15
- Enterprise annual reporting 16

Chapter 4. Internal controls and management reporting 17

- First 90 days and compliance calendar 18

Chapter 5. Working with an accounting provider 19

- Provider selection and Hongda support 20

Conclusion, official sources and disclaimer 21

Foreword

China's accounting and tax environment remains rules-based and document-heavy. For foreign-invested companies, the practical challenge is not one isolated filing, but keeping bookkeeping, payroll, tax reporting and annual compliance aligned throughout the year.

This refreshed guide focuses on the operating basics: the records a company should maintain, the recurring tax and payroll routines that matter, the annual reporting and audit process, and the information management should provide to its accounting team.

Local implementation may vary by city, district and industry. Use this guide as a practical working reference and confirm material filing positions and deadlines with a qualified adviser before acting.



CHAPTER 1.

ACCOUNTING FRAMEWORK AND STATUTORY BOOKS

The accounting foundation

Build the statutory books around the legal entity, then bridge them to group reporting through controlled reconciliations.



Management remains responsible for the company's books, financial information and compliance, even when bookkeeping or tax work is outsourced. An accounting provider maintains records and prepares filings; management approves transactions, provides evidence and accepts business decisions.

Management responsibilities

- Establish accounting policies and approval limits.
- Provide complete contracts, invoices and bank records.
- Approve payroll, payments and unusual transactions.
- Review monthly reports and unresolved exceptions.
- Protect statutory books and access credentials.

A useful division of roles

- Bookkeeper: records and reconciliations.
- Tax team: filing and tax treatment.
- Management: approvals and commercial evidence.
- Auditor: independent examination and reporting.

CONTROL POINT

Company seals, online-tax accounts, invoice-system access and bank tokens should be assigned, documented and reviewed whenever staff or providers change.

Who owns the books and accounting process?

The company should maintain a clear distinction between management, the accounting team and the independent auditor. The accounting team records transactions, performs reconciliations and prepares financial statements. Management supplies complete evidence and approves judgements. The auditor examines the records independently.



When to involve a specialist

- Inventory, import/export activity or multiple operating sites.
- Related-party transactions and cross-border charges.
- Tax incentives, government grants or unusual VAT balances.
- Equity incentives, overseas payroll or frequent expatriate travel.
- Old reconciling items or incomplete books before year-end.

Management

Approves transactions, provides evidence and accepts risk decisions.

Accounting team

Maintains books, reconciles balances and prepares filings.

Auditor

Tests evidence and reports independently.

WHY THIS MATTERS

An auditor should not be expected to reconstruct missing bookkeeping records at year-end. A reliable audit starts with complete monthly records and reconciliations.

Accounting standards, books and records



China's statutory accounting framework is issued by the Ministry of Finance. Foreign-invested companies normally maintain PRC statutory books for the legal entity and may also prepare a separate management reporting package for the overseas parent. Group adjustments should be documented rather than used to overwrite the legal entity's books.

Core accounting records

- Accounting vouchers and supporting documents.
- General ledger and relevant sub-ledgers.
- Bank and cash journals.
- Receivable, payable and intercompany schedules.
- Fixed-asset and inventory registers.
- Payroll, IIT and social-insurance records.
- Tax returns, payment receipts and invoice summaries.

Financial statements

The year-end package commonly includes a balance sheet, income statement, cash-flow statement and supporting notes or schedules appropriate to the entity. The Company Law requires companies to prepare an annual financial report and have it audited by an accounting firm according to law.

Keep source documents and reconciliations available for management, tax review and audit.

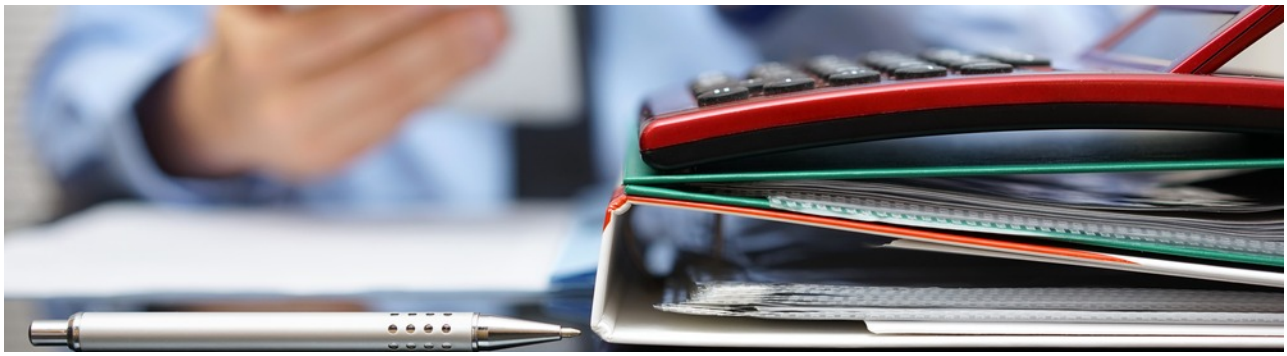


CHAPTER 2.

MONTHLY BOOKKEEPING AND TAX ROUTINES

A controlled month-end process connects commercial evidence, accounting entries, tax filings and management review. The purpose is not only to file on time, but to create a complete trail that can be reviewed without rebuilding the year from incomplete documents.

A controlled monthly close



1. Collect contracts, invoices, bank statements, expense claims and payroll inputs.
2. Validate the legal entity, business purpose, invoice type, tax treatment and approval.
3. Post revenue, purchases, payroll, fixed assets, accruals, prepayments and foreign currency.
4. Reconcile bank, cash, receivables, payables, inventory, tax, payroll and intercompany balances.
5. Complete the applicable monthly or quarterly tax and withholding submissions.
6. Issue financial statements, an exception report and actions for the next close.

COMMON FAILURE POINTS

Invoices arrive after the period closes; payments lack contracts or acceptance evidence; employee expenses are mixed with payroll; related-party charges lack service support; and old bank or tax differences are carried forward.

VAT and fapiao management

The Value-Added Tax Law and its implementing regulation took effect on 1 January 2026.

Main VAT rates are 13%, 9% and 6%, depending on the supply. General taxpayers normally calculate output VAT less eligible input VAT. Small-scale taxpayers generally use the simple method, and the statutory sales threshold is RMB 5 million.



Four operating controls

- Classify the supply, place of taxation and VAT rate.
- Issue and receive the correct invoice type.
- Verify whether input VAT is creditable.
- Reconcile invoice-system data, returns and ledger.

Evidence behind a valid transaction

- Contract or purchase order.
- Delivery or service acceptance.
- Correct fapiao and taxpayer information.
- Payment approval and bank trail.
- Business-purpose explanation.
- Accounting entry and tax treatment.

FAPIAO IS NOT A SUBSTITUTE FOR COMMERCIAL EVIDENCE

The complete file should explain what was supplied, by whom, when, for what amount and why the expense or input tax belongs to the company. Track cancelled, red-letter and abnormal invoices.

Cross-border VAT and tax controls



Do not assume that a service is outside China VAT merely because the customer or supplier is overseas. The 2026 VAT framework includes place-of-taxation rules for services and intangible assets. Depending on the facts, a transaction may be taxable, exempt, zero-rated or subject to withholding and documentation requirements.

Questions to resolve

- Where is the service or intangible asset consumed?
- Which party has the filing or withholding obligation?
- Is an exemption, zero-rate or treaty position available?
- Does the contract state whether fees are tax-inclusive?
- What invoice, customs, bank or registration documents are needed?

Monthly tax controls

- Tie output VAT to invoiced revenue.
- Tie input VAT to verified eligible invoices.
- Review red-letter and abnormal invoices.
- Reconcile tax payments to the ledger.
- Escalate sustained VAT credits or unusual refunds.

TEMPORARY SMALL-SCALE PREFERENCES

Qualifying small-scale taxpayers may benefit from an RMB 100,000 monthly threshold and a 1% rate for eligible 3% items through 31 December 2027. Confirm current eligibility and exclusions.

Payroll, IIT and employee records

The employer is normally the withholding agent for employee individual income tax. Withholding and prepayment are generally handled monthly. Resident individuals who need annual reconciliation normally file between 1 March and 30 June of the following year.



Monthly payroll file

- Approved employee master data and employment status.
- Employment contracts and actual work location.
- Attendance, leave, bonus and termination inputs.
- Salary, allowance, benefit and reimbursement breakdown.
- IIT calculation, withholding and bank payment evidence.

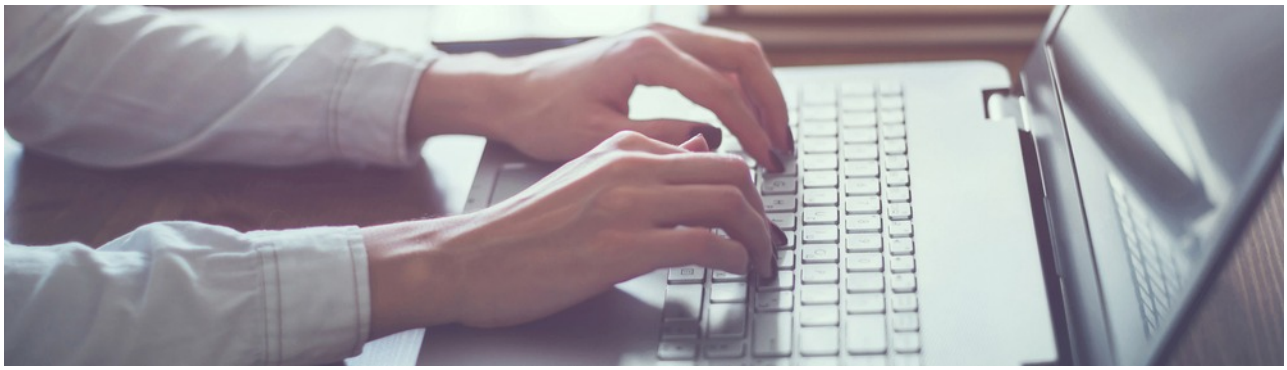
Foreign employee points

Tax residence is not determined only by nationality. Days of presence, China-source income and the employment arrangement can change the result. Work-permit, payroll, tax and bank records should tell the same story. Equity incentives, overseas payroll, split employment and frequent travel need specific review.

REIMBURSEMENT CONTROL

Reimburse genuine business expenses through a written policy, valid evidence and approval. Do not use reimbursements to disguise salary or personal spending.

Social insurance and employee expenses



Foreign employees legally working in China generally participate in the employee social-insurance system, subject to local implementation and applicable social-security agreements. Employers should normally complete registration within 30 days after the relevant work permit or employment documentation is obtained.

Local variation matters

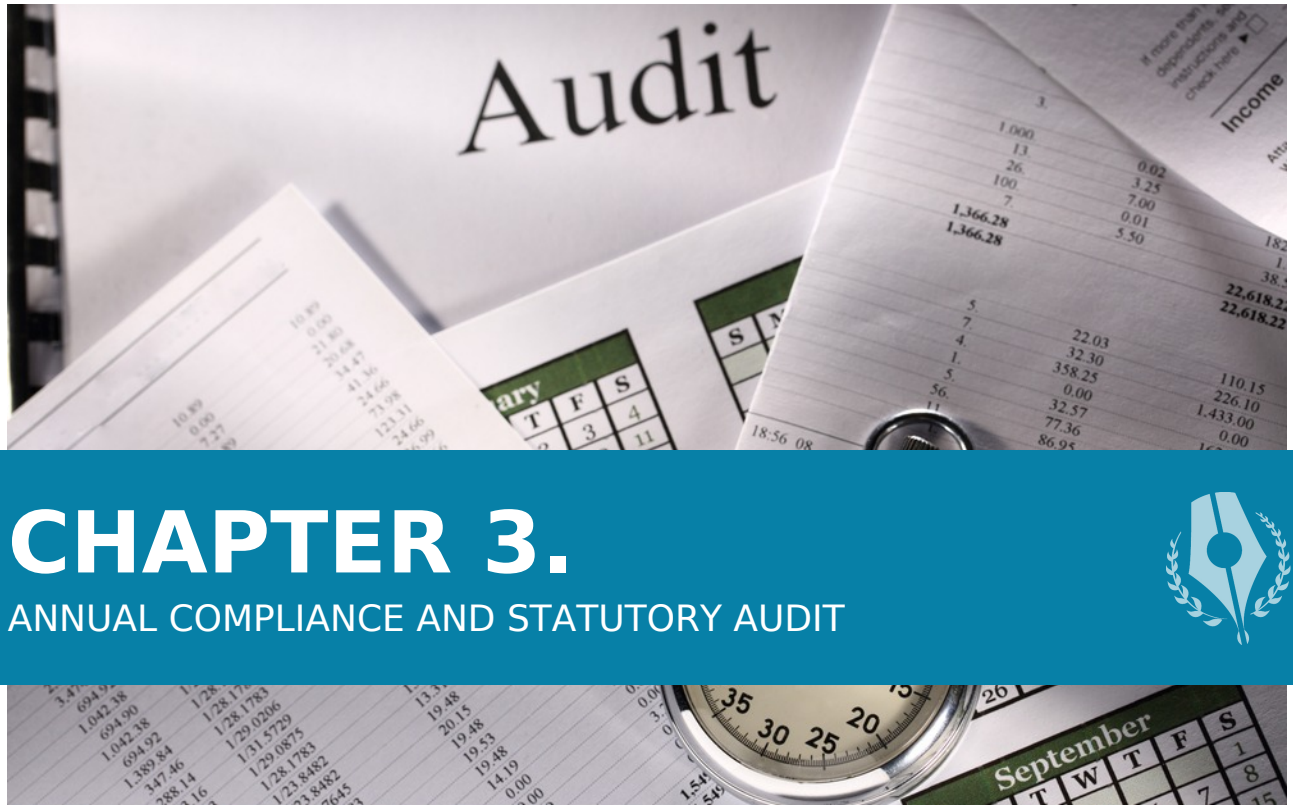
Contribution bases, rates, housing-fund rules and online procedures differ by city and may be updated annually. Use the employee's actual work and registration location rather than a generic national rate. Treaty exemptions normally require an application and supporting certificate.

Employee expense controls

- Define reimbursable business expenses.
- Require timely invoices and explanations.
- Separate payroll, benefits and reimbursements.
- Review recurring allowances for tax treatment.
- Reconcile employee advances and company cards.

PAYROLL-TO-LEDGER RECONCILIATION

Gross salary plus employer costs, less employee deductions, should reconcile to net pay and liabilities. Agree the payroll register to bank payments, IIT payable, social-insurance payable and accounting entries every month.



CHAPTER 3.

ANNUAL COMPLIANCE AND STATUTORY AUDIT

Year-end compliance is a sequence rather than one filing. Finalise the books, prepare annual financial statements, organise audit support, complete enterprise income tax reconciliation and submit the enterprise annual report.

Financial statements and audit preparation



The Company Law requires companies to prepare a financial report at the end of each accounting year and have it audited by an accounting firm according to law. Confirm the exact audit scope and timetable for the entity and location.

Audit preparation package

- Final trial balance and financial statements.
- Bank confirmations and reconciliations.
- Receivable, payable and related-party confirmations.
- Inventory count and fixed-asset records.
- Tax returns and annual reconciliation schedules.

Management information

- Major contracts and commitments.
- Board or shareholder decisions.
- Legal disputes and regulatory matters.
- Tax incentives and government grants.
- Subsequent events and going-concern assumptions.

PROVIDE COMPLETE INFORMATION

The company should provide true and complete vouchers, books, financial reports and other accounting information to the appointed accounting firm.

Enterprise income tax annual reconciliation

The standard enterprise income tax rate is 25%. Resident enterprises generally make monthly or quarterly prepayments and submit the annual return within five months after the end of the tax year, settling any tax payable or refundable.



Typical tax adjustments

- Non-deductible or partly deductible expenses.
- Accruals and provisions without sufficient evidence.
- Depreciation and amortisation differences.
- Employee benefits, entertainment and advertising.
- Related-party charges and transfer pricing.
- Loss carryforwards and incentive conditions.

Preferential rates

Qualifying small low-profit enterprises may calculate eligible taxable income at 25% and apply the 20% enterprise income tax rate through 31 December 2027, producing an effective 5% rate on the qualifying amount. Other incentives, such as recognised high and new technology enterprise treatment, require separate qualification and evidence.

ACCOUNTING PROFIT IS NOT TAXABLE INCOME

Record the accounting result correctly, then document tax adjustments in the return and reconciliation schedules.

Enterprise annual reporting



Enterprises should submit the previous year's annual report through the National Enterprise Credit Information Publicity System from 1 January to 30 June. A company established during the year generally begins reporting from the following year.

Before submission

- Confirm the registered legal name and licence details.
- Review shareholder and contribution information.
- Check addresses, telephone numbers and email.
- Confirm operating status and investment information.
- Reconcile key financial data to the year-end accounts.

Other annual obligations

Depending on the entity and activities, additional reporting may involve foreign-investment information, customs, foreign exchange, statistics, industry regulators or government incentive programmes.

Do not copy an old annual-inspection checklist. Confirm the current filing portal, form and responsible authority.

SAVE THE EVIDENCE

Retain the submission receipt and a copy of the information filed. Add any follow-up, correction or authority enquiry to the compliance calendar.



CHAPTER 4.

INTERNAL CONTROLS AND MANAGEMENT REPORTING



Accounting becomes useful when management can rely on it. Internal controls should protect cash, company seals, invoice access, tax credentials and financial data while still allowing the business to operate efficiently.

The first 90 days and the compliance calendar



0-30 days

Foundation

Confirm tax and invoice access; appoint finance owners; establish the chart of accounts; define approval limits; set document-submission rules.

31-60 days

First close

Complete the first bank reconciliation, VAT and payroll checks; issue a trial management pack; identify missing contracts and invoices.

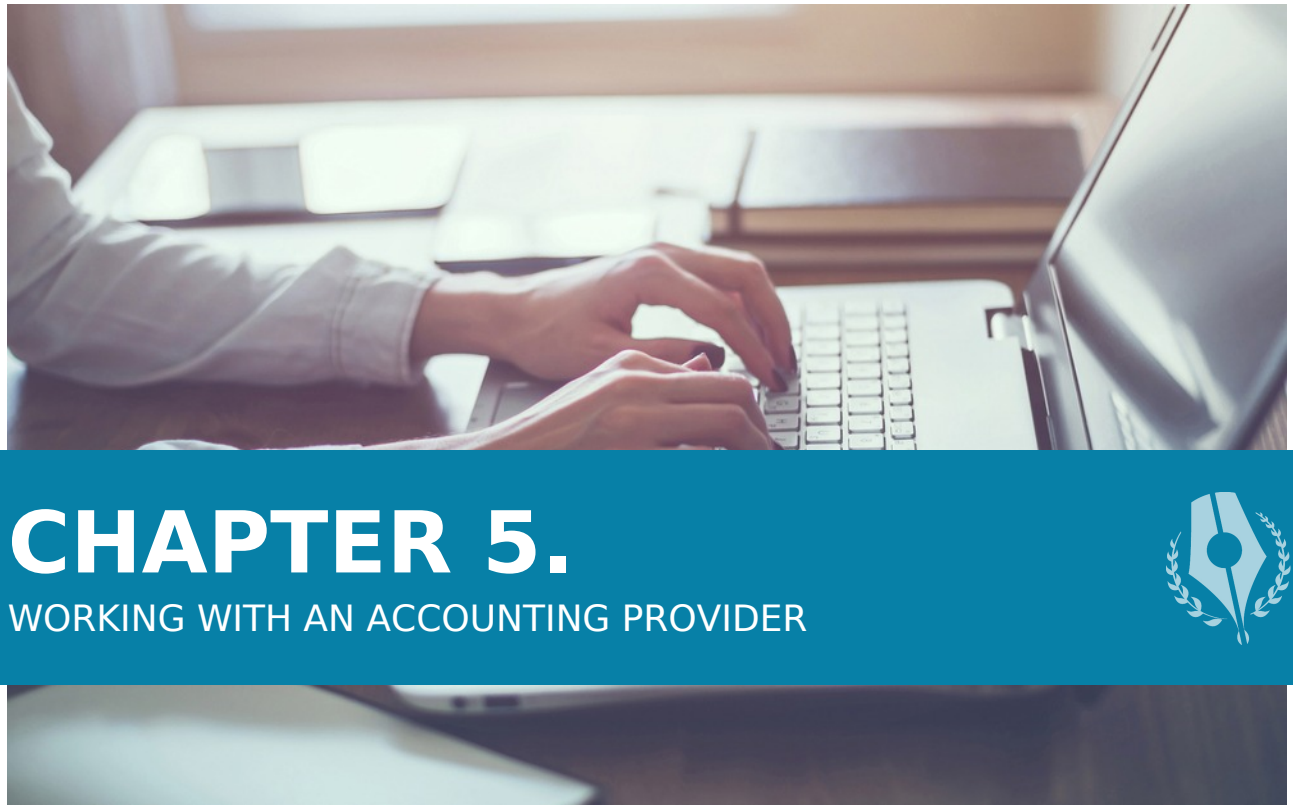
61-90 days

Stabilise

Close open items; document tax positions; set recurring cut-off rules; conduct a management review; build the year-end readiness folder.

BUILD A COMPLIANCE CALENDAR WITH OWNERSHIP

Every filing should have an owner, reviewer, statutory due date, internal due date, required inputs and evidence of submission. Distinguish national rules from city-specific procedures and one-off corporate events.



CHAPTER 5.

WORKING WITH AN ACCOUNTING PROVIDER

The right operating model depends on transaction volume, complexity, management needs and available local expertise. Cost alone is not enough: control, continuity, language, data ownership and accountability matter more.

Provider selection and Hongda support



In-house

High transaction volume and mature finance leadership.

Watch: Recruitment, retention and specialist knowledge.

Outsourced

New or smaller entities with predictable activity.

Watch: Scope, response time and data ownership.

Hybrid

Internal finance owner plus external bookkeeping, tax or audit support.

Watch: Clear responsibilities and one close calendar.

How Hongda helps

Hongda supports foreign-invested companies with bookkeeping, tax declarations, payroll coordination, tax-risk management and annual audit preparation. The working approach is designed for overseas management teams that need clear document requests and visibility over unresolved compliance matters.

Book a consultation: www.hongdaservice.com/arrange-china-accounting-consultation

Conclusion, official sources and disclaimer

Reliable China accounting is built through monthly discipline rather than a year-end clean-up. Maintain a complete evidence trail, reconcile tax and accounting records, review payroll and social-insurance liabilities and start annual compliance work early. National rules should always be distinguished from local implementation.

Selected official sources

1. PRC Value-Added Tax Law

https://shanghai.chinatax.gov.cn/bstax/ztzl/yshj/ldjj/202512/t478641.html

2. VAT Law implementing regulation

https://fgk.chinatax.gov.cn/zcfgk/c100010/c5246349/content.html

3. Small-scale VAT relief through 2027

https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247434/content.html

4. PRC Enterprise Income Tax Law

https://www.chinatax.gov.cn/eng/c102441/c5233197/content.html

5. Small low-profit enterprise policy through 2027

https://fgk.chinatax.gov.cn/eng/c102962/c102967/c102997/c103017/c5245816/content.html

6. PRC Company Law

https://www.samr.gov.cn/xyjgs/flfg/art/2024/art_d4e84936a8a744f8928ac7aec7594345.html

7. Enterprise Information Publicity Interim Regulation

https://www.samr.gov.cn/xyjgs/flfg/art/2024/art_be55c2e3a54a43e5ab12794c9dc87600.html

8. Guide to Working and Living in China

https://english.www.gov.cn/2025special/bizexpatsinchina2025



DISCLAIMER

This guide is for general information only and does not constitute accounting, tax, legal, employment, social-insurance or foreign-exchange advice. Rules, incentives, filing systems and local administrative practice can change. Obtain advice based on the company's location, legal form, activities and transactions before acting.