

Original Paper

The Impact of the Revision of Income Standards on the New Energy Vehicle Industry—A Case Study of BYD

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Abstract

The rapid development of economy requires more and more energy. With the continuous enhancement of the awareness of environment and sustainable development, new energy has the advantages of low pollution and wide development prospects, and has been deeply studied by various countries. At the same time, in order to regulate the development of the new energy automobile industry, China revised the accounting standards for Business Enterprises No. 14 - revenue in 2017 to standardize the relevant measurement methods, which has a certain impact on the new energy automobile industry. Taking the development status and trend of China's new energy automobile industry in recent years as the research background, this paper uses the case analysis method and selects BYD, a new energy automobile company, as the research sample to systematically analyze the impact of the revision of the income accounting standards on the accounting, strategy and risk management of BYD, and puts forward targeted suggestions and measures for the effective implementation of the income accounting standards in the new energy automobile industry.

Keywords

income criteria, New energy vehicles, accounting information

1. Introduction

According to the international financial reporting standards, the Ministry of Finance revised and issued the accounting standards for Business Enterprises No. 14—revenue, which redefined the time point, amount and conditions of revenue recognition, and adopted the unified “five steps” to recognize and measure revenue. As an industry vigorously developed and praised by the country, the new energy automobile industry is particularly important to the national economic transformation and development. The revision and implementation of the income standard will undoubtedly have a great impact on the

enterprises in the industry.

1.1 Development Status

The problem of energy demand and supply is increasingly serious. The traditional energy is high energy consumption, high emission, high pollution and the structure of energy use is unreasonable, which can not adapt to the development of Chinese enterprises. Therefore, the new energy with high-definition, low energy consumption and renewable has become the focus of energy development. In 2006, China promulgated the renewable energy law of the people's Republic of China, which provides certain support and guidance for the development of new energy. In 2016, the "13th five year plan" issued by the State Council took the concept of innovation, coordination, green, openness and sharing as the core of high-quality development. Whether from the perspective of national policy support or the guidance of national economy, the use of new energy is the inevitable development trend of future enterprises.

BYD, a listed company known as the "light of Chinese goods", was established in 1995 and listed in 2011. Its main business includes new energy vehicles, research and development of power batteries and solar cells, forming a complete battery industry chain. Its main customers include state grid of China, A-style of Japan, Fenecon of Germany, CGN, etc. According to the financial statements, BYD's annual turnover in 2020 reached 150 million yuan, of which automobiles and automobile related products accounted for about 53%, showing an increasing trend in recent years.

1.2 Development Trend

Among the top 500 global new energy enterprises in 2021, they are more widely distributed in 39 countries and regions. Among the top 500 enterprises, Chinese enterprises ranked first, with 214 in total, 64 in the United States and 52 in Japan. In the future, the new energy industry chain will be further optimized, the value chain will be reshaped, and the energy storage capacity will be continuously enhanced. The new energy enterprises will gradually become the key driving force and main support for the development of the national economy. Under this strong momentum, it has become an important work to improve the financial status of enterprises and study the accounting of internal accounting income of enterprises. However, new energy projects generally have high technical requirements, long construction period and large investment amount. Therefore, the accounting treatment of development, investment, construction, operation, sales and other links, especially the accounting of income, is relatively complicated. The revised income standards do not clearly specify the income recognition of energy vehicles, and only fair accounting treatment can be carried out according to the large framework. The impact of the revision of new income on the new energy vehicle industry is worth exploring.

2. Discussions

2.1 The Impact of the Revision of Revenue Standards on the Time Point of Revenue Recognition

The key to revenue recognition is that the consideration of this business is likely to be recovered. If the possibility of revenue recovery of this business is not high, it needs to be judged according to the

subsequent situation. BYD and Shenzhen West Bus signed an order contract on February 1, 2016. The contract stipulates that BYD will provide 296 8-meter pure electric ordinary buses and 395 10-meter pure electric high-speed buses to the West Bus Company. The contract price is 560 million yuan. When the contract was signed, BYD received a deposit of 168 million yuan. It is agreed that the other party will pay 336 million yuan within 7 days after receiving the goods issued by BYD. When the goods have been put into use, the remaining 56 million yuan will be paid. BYD chose to take delivery as the delivery condition. BYD issued the payment receipt and sales invoice on February 10, 2016, and submitted the bill of lading to the customer. However, the West Bus Company took delivery on February 15, 2016. According to the revenue standards before and after the preparation, the revenue recognition time is as follows:

Table 1. Recognition of Revenue under New and Old Revenue Standards

Old income criteria	new income criteria
2016.2.10	2016.2.15

The determination conditions of revenue are changed as follows: ① identify the contract signed with the customer, that is, the contract signed by both parties is identifiable, true and effective. ② In this contract, the performance obligation is “to deliver 296 sets of 8m pure electric ordinary buses and 395 sets of 10m pure electric high-speed buses”. ③ In the new income standard, the way in which the enterprise determines the transaction price is based on the price agreed in the contract, without considering the credit risk caused by the economic benefits brought by the transaction. The amount affected by the credit risk will be directly disclosed in the notes, and the occurrence of the credit risk will not affect the amount of the economic benefits. Therefore, the amount remains unchanged when the income is recognized. ④ If the transaction price is allocated to each individual performance obligation, if the electric vehicle is delivered in batches instead of one-time delivery, the revenue to be recognized is also different. ⑤ Revenue is recognized when performing the responsibility of “delivering vehicles”.

2.2 Impact on Risk Management

Before the revision of the income standard, the bad debt reserves caused by credit risk were listed in the income statement as losses on the basis that “the economic benefits caused by income are likely to flow into the enterprise and can be measured reliably”. However, after the revision of the income standard, the amount of bad debt reserves caused by credit risk is no longer used as the judgment basis to affect the presentation of income. From before and after the revision of the income standard, we can find that the revised standard can better reflect the commercial nature of the contract. When it is impossible to determine whether the amount of bad debt reserves can be recovered, the enterprise will disclose the amount in the notes to remind the users of financial reports to make more reasonable

judgments and decisions, so as to further improve the use value of the information in the financial statements. The credibility of the financial statements has greatly increased, which can not only present objective information, meet the needs of investors, It also protects the interests of the enterprise to a certain extent.

2.3 Impact on Enterprise Strategy and Risk Management

The revision of the income standard has put forward new requirements on the financial statements, enterprise financial information and other aspects, and has an impact on the recognition and measurement of enterprise financial information. In the strategic management of enterprises, the revision of the income standard has put forward new requirements on the accounting treatment of enterprise assets, income, expenses, liabilities and other aspects, and the direct result is the change of enterprise operating results. For example, as the phased products are also included in the income at a certain point, this will lead to an increase in the cash inflow at the end of the period. The decision-making level will make a favorable judgment on the current operating situation of the enterprise, and think that the profitability of the enterprise will be enhanced, and will also adopt a relatively more radical approach in strategy formulation. On the contrary, before the revision of the income standard, since the enterprise could not recognize the income in a timely manner according to the “contract”, it would form a negative judgment on the enterprise itself and thus formulate a conservative enterprise development strategy.

3. Conclusion

3.1 The New Energy Automobile Industry Should Strengthen the Implementation Effect of the Current Income Standard

At present, the state has increased its support for the new energy industry, and enterprises need to maximize the benefits of subsidies in a positive way, accelerate the transformation and upgrading of the industry, research and develop product performance, achieve independent profits, and create sustainable growth.

3.2 Enterprises Should Pay Attention to Improving the Quality of Financial Statement Information Disclosure

In the development process of new energy company, most of the contract related information includes contract assets, contract liabilities and other specific items. Therefore, the staff should improve the information disclosure system and improve the quality of information disclosure according to the requirements of the new accounting standards.

3.3 Improve Enterprise Strategic Management and Risk Prevention Mechanism

Changes in income standards will affect changes in various data and indicators of enterprises. Therefore, enterprises should establish real-time risk management strategies, improve internal control mechanisms, refine risk management solutions, and reduce financial risks.

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