CNY Intercompany Loan to Entity in China (W5)

This version is superseded. Click here to view the latest guide.

PURPOSE

To illustrate how transactions should be booked in the system to reflect a CNY loan to a Chinese entity from CNH funds held by an intercompany outside China.

WHY IS THIS IMPORTANT?

Entities outside China may have balances in CNH which is not available for transactions in China; loans made to Chinese entities must be denominated in CNY. Consequently, foreign entity with available CNH balances intending to lend to a Chinese entity needs to convert CNH to CNY when such loans are made. This requires a currency conversion through FX module.

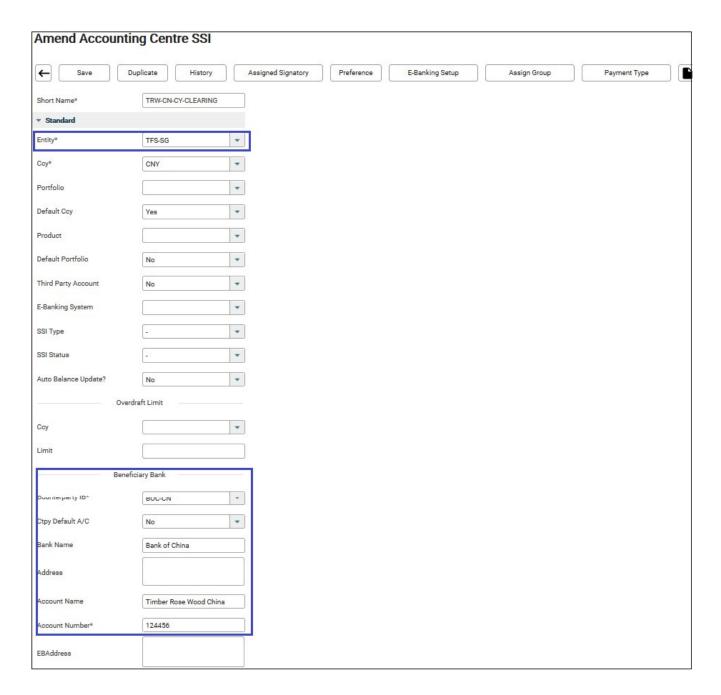
These instructions shows how the FX and loan transactions are booked and the required set up to correctly account for the settlement.

NOTE

In this guide, TFS-SG is the lending entity based in Singapore and TRW-CN is the borrowing entity based in China.

SET UP REQUIRED

Set up in the TFS-SG (lending entity) a "clearing" CNY SSI for TRW-CN (borrowing entity).



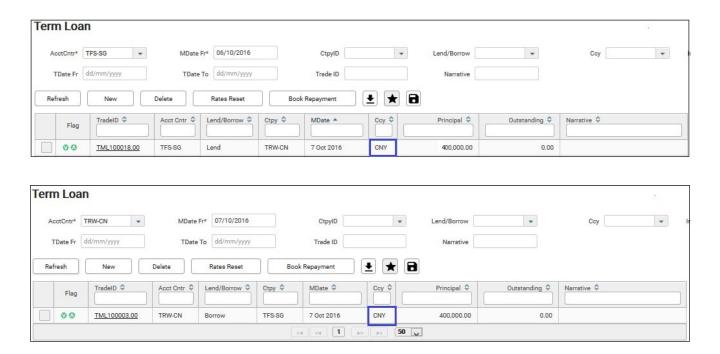
This set up is necessary to give the treatment for settlement and accounting as illustrated below.

Map the chart of accounts as an intercompany item.



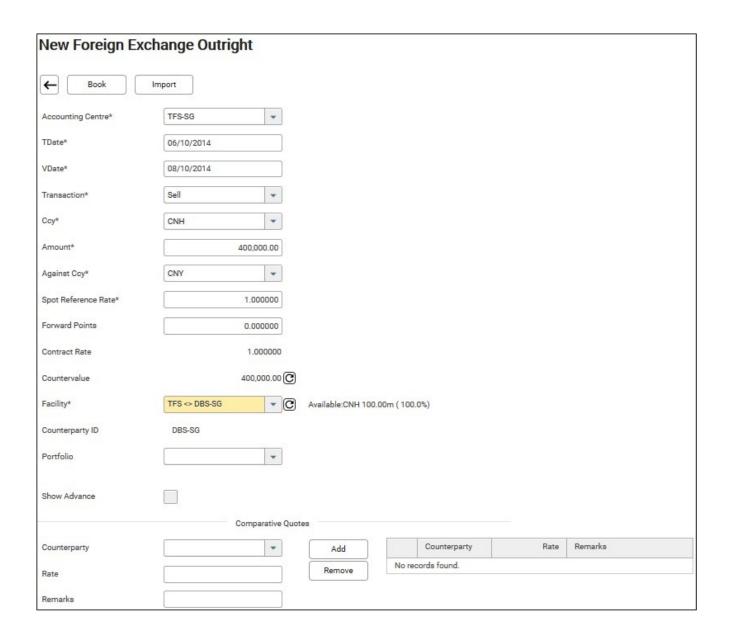
BOOKING OF THE TERM LOAN TRADE

The term loan is booked in CNY so that both parties correctly reflect nature of the trade.



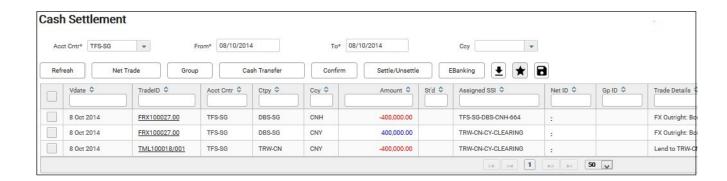
BOOKING OF THE FOREIGN EXCHANGE TRADE

This is to record the implied FX when a bank is instructed to transfer CNH in the oversea bank account to CNY in the China entity.

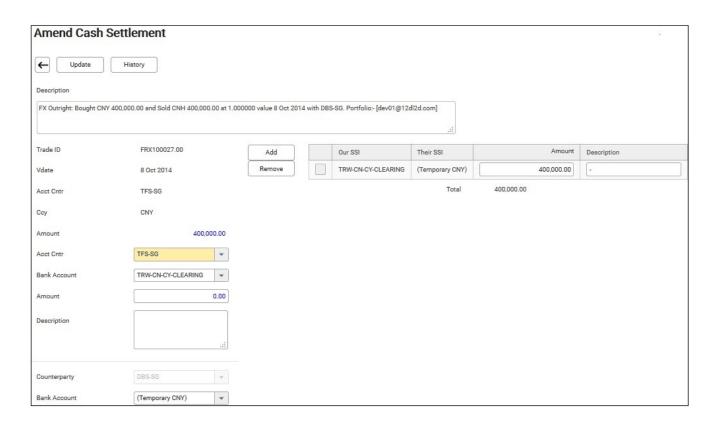


HOW TO SETTLE THE TL CNY AND FX CNY TRADE TRHOUGH THE CLEARING SSI?

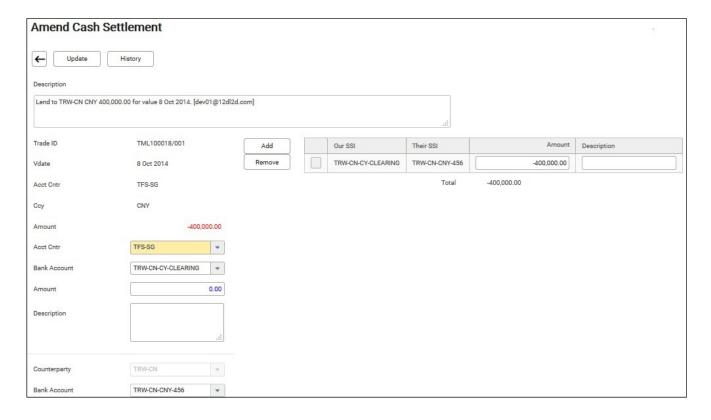
The below shows the cash flows of the Term Loan and FX transactions booked.



The receipt of the CNY under the FX trade should be settled through the TRW-CN-CNY-CLEARING account.

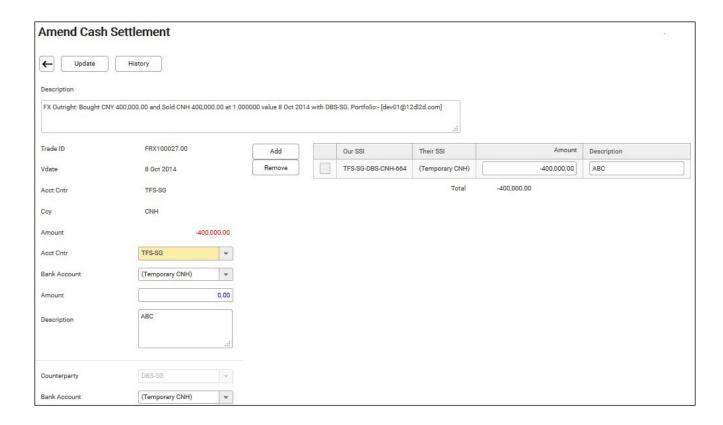


At the same time, the payment under loan draw down is also assigned to the TRW-CN-CNY-CLEARING account.



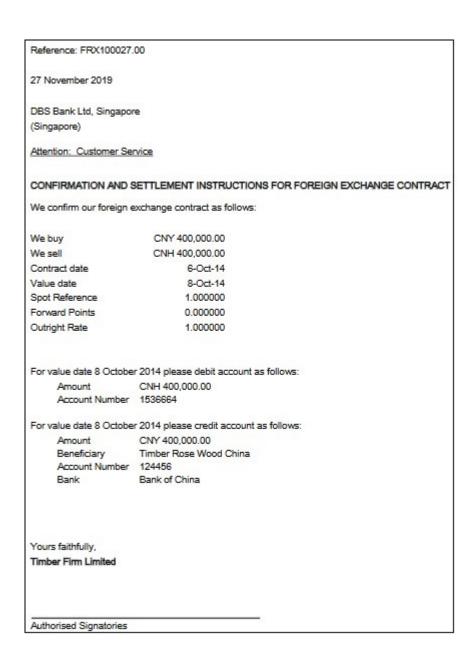
The above settlement assignments, will clear and offset balances in the TRW-CNY-CLEARING account. (See also journal below)

The FX payment of CNH will be assigned as normal.



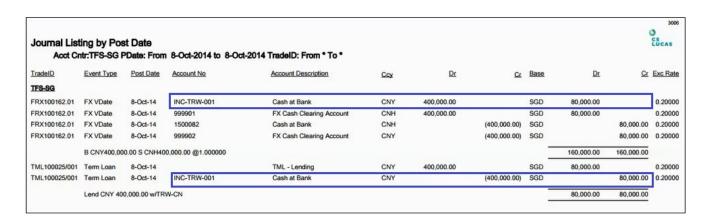
INSTRUCTION LETTER TO THE BANK

To instruct the bank, print out the confirmation letter from the FX transaction. This will make clear that we wish to convert CNH to CNY and transfer the funds to TRW-CN.



JOURNALS

The accounting journals for the FX and the Term Loan draw down are as follows:



Note that the clearing account off set each other.

The net impact for accounting (excluding FX Cash Clearing) is as follows:

Dr. Term Loan CNY 400,000

Cr. Cash CNH 400,000

The loan is stated in CNY.

FREQUENTLY ASKED QUESTIONS

RELATED INFORMATION

CHANGE HISTORY

Date	Ву	Changes
23-Aug-2016	CS	Created.
27-Nov-2019	Lyra	Updated Screenshots.