

On the Construction of China's Accounting Standard System with International Convergence in Accounting Standards

Hongman Zhang

Changchun University of Science and Technology, Changchun 130022, China

E-mail: Zhanghm1995@163.com

Xianfeng Liu

No. 65043 Section of PLA

E-mail: lxzf@vipsina.com

Abstract

With the international convergence of accounting standards becoming an irresistible trend, China's new business accounting standards have reached substantive convergence with International Financial Report Standards (IFRS). However, due to some factors including economy, law and culture, there is still a narrow gap between china's accounting standards and IFRS. In order to further keep up with IFRS, China should attach greater importance to learning from it to establish or implement its accounting standards.

Keywords: International convergence, International Financial Report Standards, Accounting standard system construction

With the development of China's economy and the improvement of its international status, more investors and business tycoons focus their attention on Chinese market which has the greatest potential in their eyes. It is a significant step towards the internationalization of Chinese accounting to accomplish the convergence of China's accounting standards with IFRS. In spite of its remarkable progress in accounting reform through many years' efforts, China is still far apart international convergence in accounting standards.

Convergence refers to integration, that is, using the same accounting method for the same economic transactions in different jurisdictions. In addition, convergence means narrowing differences, that is, some current differences will become the same after some time. However, convergence doesn't mean sameness, copying, passive acceptance or completely discriminating a nation's characteristics. Due to different nations' social institutions, market systems, execution environment and legal environment of accounting standards, convergence will finally result in "seeking for major similarities and accepting minor differences".

1. Reasons for the Differences between China's Accounting Standards and IFRS

As a nation facing economic conversion, China has great differences with developed nations in economy, law, culture and some other aspects. Therefore, under the general background of convergence between China's accounting standards and IFRS, there are still some differences between the two. The analysis on these differences is as follows:

1.1 Economic Environment

Economic environment is a major element influencing the international convergence of China's accounting standards since China's Socialist market economy based on public ownership is largely different from western countries' economic patterns. Compared with developed countries' mature market economy, China's market economy still lies in the elementary period of its development, supervision and resources allocation, hence actively exploring how to establish accounting standards. For example, business combination laid down in the standards refers to the combination of businesses both under common control and different controls, but the former is not included in the international standards. It is because Chinese state-owned enterprises are under the universal control of SASAC with the economic system based on public ownership. Besides, its market of equities is not mature enough to achieve fair value. However, most business combinations involve those under common control.

1.2 Legal Environment

In China, accounting standards and systems are established and issued by the Ministry of Finance, hence having mandatory force. All enterprises are supposed to prepare and submit financial reports according to the universal accounting system, leaving little space for accounting policies and accountants' professional judgment. For

instance, *Business Accounting Standards---The Basic Standards* belongs to China's law and regulation system on accounting standards, having the force of law. However, most western countries including U.K. and U.S. belong to the common law system and follow case law. Therefore, they rely more on the professional judgment of accountants in the comparison and interpretation of legal rules; they tend to follow the accounting rules including substance over form, measurement and calculation of fair value, the measurement of future cash flow and so on. It is these differences that have caused the ones between China's accounting standards and IFRS related to the offerings per share, land use right, pension and staff's welfare.

1.3 Cultural Environment

Due to the integrated structure of social power in Chinese traditional culture, people have deeply-rooted sense of hierarchy about superiority and inferiority and are accustomed to following the superior's will and acting according to laws, regulations and systems, hence forming an accounting system standard form with Chinese characteristics. Under China's historical and cultural background, people have traditional thoughts, are short of innovation sense and emphasize interpersonal relationships, hence leading to accountants' failure to acutely and decisively tackling new matters, ready to accept conservative and safe accounting principles and cautions about accounting calculation and information disclosure. Differently, deeply influenced by western culture, most of the international accounting standards and western countries' accounting standards are established and publicized only indicating some principles on business accounting and leaving them great decision-making power within the given accounting standards when dealing with specific accounting calculation and setting of accounts.

1.4 Staff Quality

Another difference between China and western countries lies in different accounting information users. Chinese accountants' professional quality needs to be improved because they have poor overall quality and lack in necessary professional judgment ability. In addition, with the constant changes in accounting standards and systems in the recent years, they have no enough time to absorb and grasp these new knowledge, causing difficulties during the execution of accounting standards. Therefore, when having international accounting coordination, we should focus on solving a series of problems caused by the crash of Chinese and western cultural environmental factors and ideas.

2. The Conception to Establish Accounting Standards Convergent with IFRS

The international convergence of accounting standards has become an irresistible historical trend. The issuance of China's new business accounting standards has reached substantive convergence with IFRS. In spite of some small differences, China has been being devoted to the construction of accounting standards convergent with IFRS with Chinese government's efforts in many aspects and the sharing and support of relevant foreign experiences.

The conception to establish accounting standards convergent with IFRS is shown in Figure 1.

As is shown in Figure 1, the issuance of new standards will certainly bring about a series of influences, positive or negative, on accounting information users and its application environment. Positive influences include the active effect from the stock market, the investment profit of foreign subjects, individuals' profit, a factual revelation of financial report, fairness in market economy, reduced cost for revelation and so on. Those on the contrary are negative ones. By completely measuring these influences, we can get a factual result of conducting the standards, compare this result with the expected one when establishing the standards to figure out in what parts the expectation is reached and in what parts it isn't and draw a general conclusion, that is, whether they are consistent with the expectation or not. If not, efforts should be made to adjust the content of standards to reach the expectation set when establishing the standards. In this way, the final conclusion can be drawn that the standards have reached the set goal.

3. The Measures to Construct China's Accounting Standards

3.1 Actively Participating in International Coordination of Accounting Standards

Greater efforts should be made to actively participate in international coordination of accounting standards to expand China's influence power in the establishment of international accounting standards, to gain the right to speak in IASB and to gain greater benefit. Australia, U.S. and the European Union have exerted a significant role in the international convergence of accounting standards. There are members from Australia in the board of managers of IASB Foundation, IASB, IASB Technical Directors' Committee as well as International Financial Report Explanation Committee. In addition, AASB has kept close cooperation with IASB and has participated in the amendment of insurance contracts and concept framework. Ever since the reorganization of IASC, U.S. has changed its attitude towards the international convergence of accounting standards from the former passive one

to active one. In the recent years, FASB and IASB have been in quite close contact with their joint conferences every year and IASB accrediting liaison men in FASB to keep constant communication and information exchange. Compared with these countries, China's influence in IASB seems minor, having no chance to participate in the establishment of IASB standards. China's role as one of the member countries of IASC as well as one of the representative nations of the inter-government expert working team of ISAR offers powerful organization guarantee for its intervening in the affairs on international coordination of accounting standards. Therefore, we should try to create opportunities to have multi-aspect contact to gain the right to speak in IASB in order to fight for greater benefit for developing countries including China in the establishment of the international accounting standards and to reduce the differences between china's accounting standards and the international ones.

3.2 Improving the Establishment Pattern of Accounting Standards, Improving the Quality of China's Accounting Standards and Further Perfecting China's Current Accounting Standard System

In view of the authority and influence of the international accounting standards all over the world, when establishing new accounting standards or amending the current ones, we should learn and use the existing accomplishments in the research on the international standards and combine them with our reality to conduct the construction of China's accounting standard system with high quality, high entry barriers and high standard.

(1) The institute to establish accounting standards should be extensively representative and fair. For any country, accounting standards should be the most basic principle requirement for the whole country's accounting calculation, the evidence and criteria to properly tackle accounting business. Therefore, this institute is expected to be extensively representative and fair.

(2) Great efforts should be made to properly deal with the connection and coordination of accounting standards and other national economic law systems. As a symbol of law, accounting standards should be as consistent with other economic laws as possible. So the influence of other economic laws and some other laws to be issued in the future several years on accounting, especially some provisions and requirements relevant to accounting in accounting standards and national macro policies such as financial regulations, stock transaction regulations, taxation regulations and business regulations, should be taken into full consideration when establishing and amending standards. Besides, when establishing and amending relevant economic regulations, relevant content in accounting standards and the suggestion of the institute establishing accounting standards should be referred to so that these regulations will be consistent with the accounting standards.

(3) Qualified accounting talents acting on international convention should be cultivated. Chinese accounting staff's professional quality is incomparable to that in developed countries. Especially in the modern times, with increasing international economic exchanges and the introduction of the international universal accounting standard pattern, it is of particular importance for the improvement of accounting practice quality to improve the accounting staff's professional quality. We should learn from international experiences in accounting education, promote the international coordination of further accounting education to cultivate an array of world-class accountants and multi-skill accounting talents.

3.3 Taking China's Reality into Consideration during the International Coordination of Accounting Standards

Accounting is endowed with a nation's characteristics due to historical, political and economic reasons. The nationalization and internationalization of accounting is contradictorily unified. The issuance of China's new standards reveals that it still maintains its own characteristics in international convergence instead of completely copying other countries' methods. Because China is a developing country while international accounting standards are established according to the economic conditions of developed countries, its economic and international political environment determines that we cannot copy the international accounting standards as those developed countries. Lying in the elementary stage of market economy, China has poor capital market, irregular inter-enterprise transaction and insufficient market competition. With China's accounting standards having not reached complete convergence with the international standards but being convergent with them to a large degree, it will take quite long time to realize complete convergence between china's accounting system and the international accounting standards. Therefore, from the perspective of development, we should accelerate our coordination with the international accounting standards and attach importance to learning from IFRS in the construction of China's accounting standards. According to China's reality, advanced foreign ideas and technologies on accounting should be introduced combining with China's accounting laws and regulations to find the best breakthrough point for the establishment and conduction of China's accounting standards.

Although more efforts need to be made on the way to the convergence with IFRS, we believe that China's pace towards international accounting coordination will be constantly accelerated and the prospect of its convergence

with IFRS will be bright with the increasingly perfected and developed Socialist market economy, the establishment of relevant laws and regulations as well as the constant improvement of accounting service quality.

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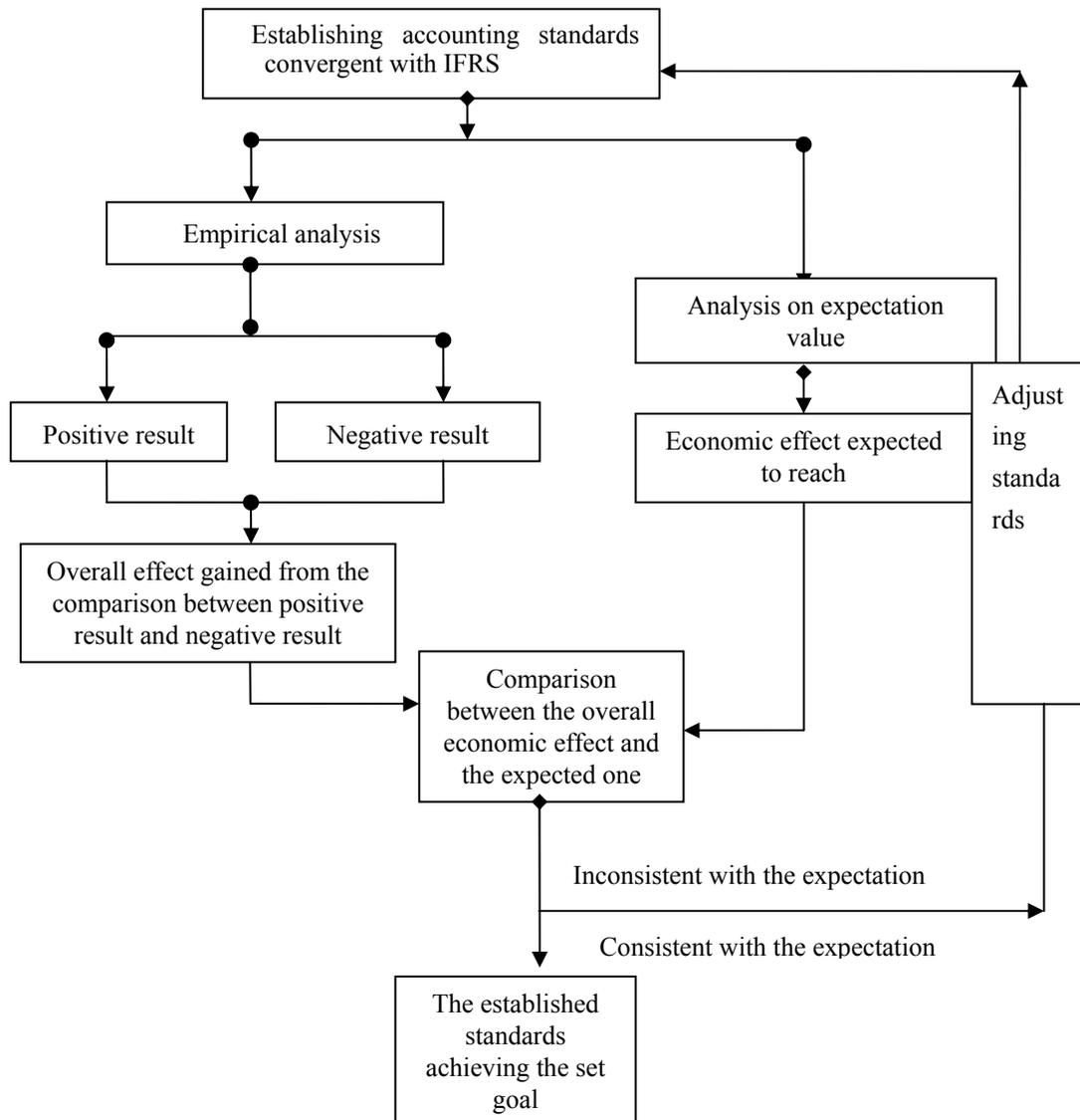


Figure 1. The Conception of Accounting Standards Convergent with IFRS