

The Convergence of Chinese Accounting Standards with International Standards

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Abstract—With the development of the global economy, in order to better participate in international economic activities, the development of accounting standards in various countries is imperative, and China has actively participated in it. This paper concludes that China's convergence effect is significant, but it has not yet fully converged. The differences and convergence of accounting standards should be correctly treated, and the international convergence of accounting standards should be actively faced, and gradually promoted in light of the national conditions of the country.

Keywords—Chinese accounting standards; international financial reporting standards; convergence

I. INTRODUCTION

At the time of global economic integration, with the continuous enhancement of international economic communication and cooperation, accounting as a worldwide "economic language" is not only an important medium for business communication between national enterprises, but also an international market and a special bridge between domestic markets.

From the end of the last century to the beginning of this century, the international community is increasingly calling for the convergence of accounting standards. All countries have begun to realize that in order to increase the transparency and comparability of accounting information, the convergence of accounting standards is an inevitable development trend in the future. Especially after the global economic crisis in 2008, more and more countries began to truly participate in the convergence of international norms. China is also following the footsteps of the international community. It tends to be internationally standardized in the formulation of accounting standards, and it has also been in line with the world in terms of effects.

II. THE DEVELOPMENT PROCESS OF THE CONVERGENCE

The convergence of accounting standards means to create a more unified international financial environment in order to reduce differences between different countries and regions in the world. Convergence is not simply to transform the country's original accounting standards into new international accounting standards, but to involve countries and regions in the formulation of international norms, to complement each other in the process of learning from each other and learning from

absorption. The process of the development of China's accounting standards can be divided into the following stages.

A. Strict Control Phase

Before 1979, Chinese central government closely controlled all aspects of the Chinese economy and Chinese accounting developed in a very uneven manner.

During the period 1949 to 1957, central government planning is given priority and accounting practices were developed to enable it to fulfill such an administrative role. Accounting principles and practices were determined by Ministry of Finance, which established unified accounting systems.

From 1958 to 1962, all accounting procedures were greatly simplified and the Ministry of Finance issued simplified methods of accounting. However, poor planning and control, including the lack of financial control that resulted from the inappropriate accounting records that were maintained as part of simplified systems, ruined the country's economy.

Great efforts were made to recover from 1962 to 1966. Accounting began to develop and became an important business. It is important to notice that the issue of "Regulations on the Rights and Duties of Accounting Personnel". Accounting was given a significant role to play in the planning and control of enterprises as part of the national recovery, but the methods of accounting became quite diverse. This made it very difficult to amalgamate financial results or compare financial performance.

From 1966 to 1976, the economy was severely damaged because of the great proletarian culture revolution. Only basic financial records were maintained.

B. Primary Stage of Development

During the period 1976 to 1992, China adopted a more "open" economic policy, which means to deal more extensively with outside world. Accounting began to move towards systems that exist in the industrialized nations.

In 1985, one of the most important developments for modern Chinese accounting took place when the National people's Congress issued the "Accounting Law of the People's Republic of China". This law is basically the first part of accounting framework that exists in China and covers some fundamental aspects.

In 1986, the State Council issued the “Regulation Concerning Certified Public Accountants in the People’s Republic of China”. This is the first professional accountancy body in China. Before it there was “Accounting Society of China”, which was more of an academic institution. This regulation is now administrated by Ministry of Finance, which approves CPA qualifications.

The regulations were updated in 1993 to bring CICPA (The Chinese Institute of Certified Public Accountants) qualifications closer to international qualification and allow foreign CPAs to enter into the Chinese accounting market. People with state qualification can fulfill the functions of an auditor and provide other services similar to those provided by auditing firms in Western Europe. The CICPA has been making great efforts to bring Chinese accounting into line with international practices and has recently joined the Confederation of Asian and Pacific Accountants, as well as forming close links with western accountancy bodies. The CICPA has also developed guidance for auditors by publishing audit standards. This guidance is more detailed than those issued by the Ministry of Finance. Because the main concern of Ministry of Finance was only with the audit of government bodies at that time.

The professional accounting training and the education have also been improved. Accounting students are studying foreign textbooks, particularly managerial textbooks in common use by the end of 1980s. This improvement in professional accounting training and the education is essential as accountants are to play a positive and necessary role in the development and modernization of China’s economy.

C. Big Step of Convergence

However, a big step of the convergence of Chinese Accounting Standards with International Standards was probably taken in 1992.

In 1992, after several years of consultation and redrafting, the State Council approved the “Accounting Standards for Business Enterprises”. It is designed to provide the fundamental accounting principles on which specific accounting standards are to be based – it is effectively the Chinese Conceptual Framework. This new framework is made up of ten chapters. The general content of models is very similar to UK and USA conceptual framework models.

Besides, China is also developing specific standards of accounting practice. These specific standards will include pronouncement on many aspects of financial accounting and disclosure, including: consolidated financial statement; accounting for income taxes; accounting for borrowing costs; accounting for foreign exchange rates; accounting for government grants; accounting for leases.

D. The Current Situation of CAS’s Convergence

China’s accounting standards have initially completed the convergence with IFRS at the beginning of this century. In the following years, we have followed the steps of IFRS to carry out timely revision and revision of the guidelines. Especially, the implementation of the new accounting standards in 2007 marks Chinese accounting standards are basically aligned with international standards.

From the domestic perspective, both accounting information compilers and accounting information users have fully felt that China’s accounting standards have greatly improved. And the ambiguous areas have been greatly reduced compared with the previous ones. From an international perspective, the convergence work of Chinese Accounting Standards has also been recognized by the international community. More and more communications and exchanges with international accounting organizations, the flow of accounting professionals and the further recognition of China’s capital market by the international community, are closely related to the achievements of Chinese Accounting Standards.

At the same time, domestic institutions and scholars have also strengthened their research on accounting standards. The tendency of convergence and such research have also improved the professional quality of accounting personnel in China. International accounting and International Financial Reporting Standards have begun to be well known to accountants, and many experts and scholars have also gained more opportunities to show themselves on the international stage.

III. FACTORS AFFECTING CAS’S INTERNATIONAL CONVERGENCE

At present, the international convergence of China’s accounting standards means that China’s standards are becoming more and more similar in the process of absorbing and competing with other countries’ accounting standards under the increasingly prosperous economic and trade trends of all countries in the world. In the course of the revision and implementation of the guidelines in China, the content consistent with international standards has also continued to increase. Therefore, China should not imitate the revision of accounting standards, but must make progress together in the process of complementing each other and competing.

A. Capital Market Globalization

As economic globalization promotes the development of capital globalization, funds are circulated internationally, and investment financing behavior is no longer restricted to one economy alone. Many companies’ investment and financing horizons have gradually tended to be global. Some enterprises in China have also gradually invested in operating capital in foreign markets. At the same time, more and more overseas companies have joined the Chinese market to carry out investment and financing activities. This requires the accounting information disclosure and statement preparation to be in line with the capital market regulations of the enterprise. However, there are certain differences in the accounting standards of various countries. The norms of our country and those of foreign countries are also different. Therefore, in order to reduce the cost of double disclosure of accounting information in China’s enterprises, and to make the statements prepared by CAS accepted by some capitalist countries, it is necessary to narrow the difference with IFRS and actively implement the convergence of accounting standards.

B. The Need for International Trade

Since China’s reform and opening up, especially after participating in the WTO, trade activities with foreign companies have become increasingly numerous. In the course

of trade activities, both parties to the transaction need to evaluate, compare, and select the economic strength, financial status, and operating conditions of the two parties based on the financial reports prepared by the company and the disclosed accounting information to reach a trade agreement. Therefore, in order to alleviate the negative effects caused by differences in accounting standards in international trade activities, and in order to achieve harmonious communication with international enterprises, reduce conflicts and disputes, China has to converge with international accounting standards.

C. Adapting to the Trend of International Convergence of Accounting Standards

More and more countries are now adopting amendments to accounting standards to achieve international convergence or simply using international accounting standards. China is also actively responding to and participating in the development of scientific and sound accounting standards. Due to the development of this trend, the situation of the development of international accounting standards dominated by the United States and Europe has been broken. In order to seek national interests, each country acts in different forms on the revision of international accounting standards. China is a developing country and there is no mature capital market. There is still a long way to go compared to the capital markets of developed countries. Therefore, China cannot copy the contents of international standards, but must follow the development of its own national conditions to revise the guidelines and conform to the development of the convergence direction.

IV. CONCLUSION

Due to the particularity of China's national conditions, there are inevitably some differences between China's accounting standards and international standards. In order to better participate in international trade, China's accounting standards should conform to the general trend and converge toward internationalization. Through the study of the differences and convergence between CAS and IFRS, we can identify the influencing factors and existing problems of convergence and promote the development of effective convergence of the guidelines while recognizing the differences between the two. However, in the process of implementing international accounting standards, we must also consider China's basic national conditions and characteristics, and we must not accept all of them. We have to maintain our individuality when pursuing commonalities, consider our own interests, and treat differences correctly, step by step, and have a choice. For the problems existing in the process of convergence in China, China should take the initiative to participate in international convergence, protect its rights and interests; improve laws and regulations and accounting conceptual framework; strengthen the construction of accounting teams.

On the basis of understanding our accounting standards, we should also understand international accounting standards and make suggestions for the future of accounting standards. We need to coordinate to achieve the mutual recognition between China and international accounting standards, and develop accounting standards with Chinese characteristics that are more recognized by the world.

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