

A Comparative Study of Chinese and Western Accounting Standards Analysis Based on Development History and Development Environment

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Abstract: As an international business language, accounting plays an extremely important role in realizing economic development, boosting international trade and investment, and promoting government operations. With the development of economic globalization, the issue of accounting internationalization has become a forward-looking and realistic issue for accounting professions around the world and in China. High-quality accounting standards are the basic premise for ensuring the quality of accounting information. The development of high-quality accounting standards is the focus of the work of national accounting standards-setting bodies and International Accounting Standards Board, and it is also an urgent problem to be solved. At present, China's accounting standards are still facing many practical problems, and there are many differences compared with the western countries' accounting standards. On the basis of comparing the differences between Chinese and western accounting standards, the existing problems of Chinese accounting standards was pointed out, and corresponding solutions and future development direction were put forward, so as to better provide institutional support for the development of China's accounting industry and enterprises.

1. Introduction

As an international business language, accounting plays an extremely important role in realizing economic development, boosting international trade and investment, and promoting government operations. With the development of economic globalization, the issue of accounting internationalization has become a forward-looking and realistic issue for accounting professions around the world and in China. High-quality accounting standards are the basic premise for ensuring the quality of accounting information. The development of high-quality accounting standards is the focus of the work of national accounting standards-setting bodies and International Accounting Standards Board, and it is also an urgent problem to be solved.

2. Manuscript Preparation

2.1. Fundamental Contents

The content of China's accounting standards consists of two levels, namely basic accounting standards and specific accounting standards. The basic accounting standards are formulated by the Ministry of Finance. They mainly stipulate government accounting objectives, government accounting subjects, accounting information quality requirements, accounting basis, accounting element definition, accounting element affirmation, measurement principles and reporting requirements. There are 10 chapters and 66 articles totally [1]. The specific accounting standards are specific requirements for corporate accounting in accordance with basic standards. They mainly stipulate accounting principles for economic operations or events that occur in the government, and specify affirmation, measurement and reporting of changes in accounting elements caused by economic operations or events. According to different norms, they can be divided into three categories. The first is specific standards for common business, the second is specific standards for basic business of special industries, the third is specific standards for disclosure.

2.2. Development History

2.2.1. Exploratory Stage of Accounting Standards

From 1980 to 1989, this decade was the exploratory stage of accounting standards. In order to meet the strategic requirements of “opening up outward” and “invigorating inward”, “Accounting System for Chinese-foreign Joint Ventures” was formulated, and accounting firms and foreign-invested enterprises were established. At the same time, accounting reforms for other enterprises also entered an exploration stage.

2.2.2. Gradually Established Stage of Accounting Standards

In the 1990s, in order to meet the requirements of reform of socialist market economic system, China has reformed its accounting, implemented “two sets of regulations and two systems” and “Accounting System for Joint-stock Pilot Enterprises”, and retained “Accounting System for Chinese-foreign Joint Ventures”. The accounting reform at this stage can be called “full transition stage” [2].

2.2.3. Development Stage of Accounting Standards

The Ministry of Finance promulgated “Enterprise Accounting System”, For special business of banks, insurance companies, securities companies, investment companies and fund companies, “Financial Enterprise Accounting System” was introduced. Meanwhile, to standardize accounting behavior of small enterprises, “Small Business Accounting System” was issued and implemented. Since then, China’s accounting system has changed from the original 13 industry accounting systems to “Enterprise Accounting System”, “Financial Enterprise Accounting System” and “Small Business Accounting System”. These three systems basically cover all types of enterprises across the country.

2.2.4. Perfect Stage of Accounting Standards (2007-)

In order to fully meet the requirements of market economy development and the needs of reform and opening up, China comprehensively promoted the construction of accounting standards system, emphasizing true reflection of financial situation of enterprises on balance sheet date and the principle of substance over form, rather than simply focusing on profit and loss. This marked the change of China’s accounting philosophy and changes in corporate growth philosophy. It pays more attention to profit model of enterprises and its future potential, rather than just a summary of history [3-4]. It also pays more attention to the quality of assets and revealing possible risks, powers and obligations, rather than just a number. In early 2014, the Ministry of Finance revised accounting standards on a large scale, and the revised five and the new two have been implemented. In 2017, the Ministry of Finance revised five accounting standards and issued two new standards and one supplementary provision (see Table 1). All of these measures have further improved China’s accounting standards, increased its usability, and accelerated the process of internationalization.

Table 1 Changes in Corporate Accounting Standards for 2014 and 2017.

Year 2014	Year 2017
Revision of Enterprise Accounting Standards No. 2 Long-term Equity Investment	Revision of Enterprise Accounting Standards No. 22 Financial Instrument Recognition and Measurement
Revision of Enterprise Accounting Standards No. 9 Employee Compensation	Revision of Enterprise Accounting Standards No. 23 Financial Asset Transfer
Revision of Enterprise Accounting Standards No. 30 Financial Statement Presentation	Revision of Enterprise Accounting Standards No. 24 Hedge Accounting
Revision of Enterprise Accounting Standards No. 33 Combined Financial Statement	Revision of Enterprise Accounting Standards No. 37 Financial Instrument Presentation
Revision of Enterprise Accounting Standards No. 41 Disclosure of Interests in Other Entities	Revision of Enterprise Accounting Standards No. 16 Government Subsidy
Revision of Enterprise Accounting Standards No. 39 Fair Value Measurement	Revision of Enterprise Accounting Standards No. 14 Revenue
Revision of Enterprise Accounting Standards No. 40 Joint Venture Arrangement	

2.3. The Status Quo of Internationalization of China's Accounting Standards

After more than a decade of accounting reforms that shifted to market economy system, China's accounting standards are actively moving toward internationalization, but there is still a gap between China's accounting standards and international accounting standards. The Ministry of Finance issued new accounting standards on February 15, 2006. The new accounting standards incorporated many contents of international financial reporting standards, which greatly reflected internationalization trend. It also paid attention to the actual situation of the country, thus retaining some contents that were different from IFRS. The release of the new standards was an important milestone on the road to internationalization of China's accounting standards. The new accounting standards system consists of one basic standard and 41 specific standards, as well as related application guidelines (see Table 2). This is the first time to build a relatively complete organic unified system, and provides relevant reference for improving IFRS. The new accounting standards have brought about major changes in the following areas. First, "General Principles of Accounting" is renamed "Accounting Information Quality Requirements", which highlights its relevance, comparability and importance. Second, focus on fair value. Third, inventory management method reform. Fourth, asset impairment provision reform. Fifth, debt restructuring method reform. Sixth, reform of accounting treatment method for business combinations [5]. Seventh, basic theoretical reform in consolidated statements. Eighth, financial instrument standards reform. The above-mentioned new changes are products of continuous internationalization of China's accounting standards. On the basis of correctly recognizing China's national conditions, the formulation of international accounting standards is also the best reference for China to formulate accounting standards.

Table 2 Analysis of Important Indexes in Major Western Countries and China.

	Global Competitive Index (0-100)	Institutions (0-100)	Public -Sector Effectiveness (0-100)	Legal framework (1-7)	Transparency (0-100)
USA	85.6	74.6	81.3	5.7	75.0
Japan	82.5	71.1	70.5	4.2	73.0
Germany	82.8	73.5	73.3	5.0	81.0
France	78.0	69.5	59.6	4.0	70.0
United Kingdom	82.0	76.8	70.2	4.9	82.0
Italy	70.8	56.4	39.9	3.2	50.0
Canada	79.9	75.5	63.6	4.5	82.0
China	72.6	54.6	63.8	4.6	41.0

3. The Differences between China's Accounting Standards and Western Accounting Standards

3.1. Purposes of Accounting Standards are Different

Due to the differences in economic system, way and intensity of macro-control of politics on economy, various organizational forms, organizational structure of enterprises, and channels and methods for enterprises to raise funds, the purpose of formulating accounting standards in various countries shows extremely significant differences. For example, the United States is the representative of free market economy system, where private enterprises have an absolute advantage. Although joint-stock companies is a minority, it accounts for 87% of total operating income of various enterprises, and its securities market is extremely developed. This economic system determines that the objective of US accounting standards is mainly to meet the needs of investors and creditors for economic decision-making, with particular attention to protecting the

interests of securities investors. Under socialist market economic system, public ownership economy is in a dominant position in the entire economic system, and the government plays an active role in macro economy [6]. This determines that the objective of China's accounting standards is not only to serve for ordinary investors and creditors, but also to serve for regulating national macroscopic economy, for national authorities to understand the state of state-owned funds and make investment decision-making. Although current financial reporting system and accounting methods still cannot fully meet this requirement, the design and formulation of China's accounting standards are moving forward in this direction.

3.2. Environmental Factors in Accounting Standards are Different

3.2.1. Economic Differences

Accounting standards are the product of economic development to a certain stage. It is a result of the continuous development of commodity economy, the continuous expansion of enterprise scale, the increasingly complex relationship between creditor's rights and debts, and the separation of ownership and management rights of enterprises. The direct cause of accounting standards is that corporate investors and other stakeholders maintain interests via understanding the company's financial status, operating results, cash flow and other related information, requiring companies to provide comprehensive, authentic and comparable accounting information. Accounting standards are the regulations of accounting behavior formulated to ensure the quality of accounting information, so as to meet the needs of multiple external information users [7]. It should be noticed that economic system and its level, especially degree of marketization, have a very significant impact on accounting standards. In this respect, economic development level of western countries is much higher than that of China, and the market is more mature and stable than China's. Table 2 below compares China and some western countries from economic system, public sector performance, laws and regulations, macroeconomics, with a view to explaining the differences in the formulation of Chinese and western accounting standards.

3.2.2. Political Differences

Politics is all the activities carried out by a certain class or social group to safeguard its own fundamental interests and to seize political power, consolidate political power and govern country. Western countries are capitalist societies that safeguard the fundamental interests of the bourgeoisie. Among them, there are disputes between different parties and interest groups, private interests are extremely prominent, while social interests are in a secondary position. However, China is a socialist country [8]. The fundamental political system is the people's congress system that organizes activities in accordance with the principle of democratic centralism. The multi-party cooperation and political consultation system under the leadership of the Communist Party of China is the merit and characteristic of China's political system. The ultimate goal is to achieve common prosperity. Therefore, China puts common interests of national society first. Different interest emphasis will inevitably lead to different political tendencies in accounting standards.

3.2.3. Law System Differences

Compared with the adoption of Anglo-American law system, the implementation of free market economy system, the accounting standards of private accounting professional groups, China adopts continental law system, implements socialist market economic system, and the accounting standards is formulated by the state and is legally mandatory and authoritative.

3.2.4. Unity System Differences

China's accounting standards have always been formulated by a unified department in accordance with a unified procedure, and its unique authority makes it highly recognizable. In western countries, for example, in the United States, although accounting standards have always been developed by non-governmental organization, they have been influenced by Securities and Exchange Commission. At present, government sectors such as Securities and Exchange

Commission have become more and more important in the formulation of standards, and they are playing an increasingly important role. It can be said that powerful accounting profession and securities management sector have formed the two major authorities in the formulation of US accounting standards. It is precisely because of the existence of the two authorities that the difficulty of coordination between the two parties is increased, and the uniformity and authority of accounting standards are reduced in contradiction.

3.2.5. Differences on Extent of Disclosure

In the process of formulating accounting standards in western countries, “sufficient procedures” were strictly followed, and almost from the beginning to the final release, the whole process was under “supervision of cameras”, all the processes will be made public. In contrast, the process of Chinese standards forming is not so transparent. The scores on transparency indexes in Table 3 show that China is different from western countries. China scored only 42 points, while the United States, Britain, Germany and other countries scored more than 70 points. At proposal stage of standards, members of community, especially members of advisory body, can make different comments. However, since China is still in the initial stage of norm-setting, there are too much standards to be developed. The overwhelming majority of standards have not been openly discussed. There is no regular disclosure of the next plan and arrangement, thus reducing the openness of standards.

Table 3 Analysis of Important Indexes in Major Western Countries and China.

	Macroeconomics Stability(0-100)	Labor Skills (0-100)	Vacation Education (1-7)	Product Market (0-100)	Labor Market (0-100)	Finance System (0-100)
USA	99.6	86.3	5.7	73.8	81.9	92.1
Japan	93.9	73.7	5.0	72.9	71.1	86.4
Germany	100.0	85.4	5.4	72.0	74.1	80.2
France	99.9	72.6	4.9	62.5	61.5	82.9
United Kingdom	100.0	80.2	4.7	68.7	76.5	87.8
Italy	85.0	70.1	4.4	62.6	58.1	64.3
Canada	100.0	81.0	5.2	64.9	77.0	86.1
China	98.3	64.1	4.5	57.4	59.3	71.9

Data Sources: Global Competitive Report of 2018 from World Economic Forum

3.3. National Cultural System in Accounting Standards are Different

3.3.1. Differences on Professionalization Level

Take the United States as an example, as early as late 19th century and early 20th century, the United States began to establish accounting professional groups that committed to the orderly development of accounting itself, thus laying a foundation for US accounting to maintain a high level of profession and self-regulation. Today, US accounting standards are developed by private accounting professional groups. A large number of economic businesses can be handled through accounting staff’s professional judgment, which has a profound impact on the development of accounting standards. Compared with the United States, accounting in China is at a obviously low level. There is a long way to go for whether self-regulation ability or professional judgment ability of accounting personnel. In turn, businesses can only be handled in accordance with requirements of laws and regulations. There are two indexes in Table 3, namely quality of vocational training and level of workforce skills. China scored 4.5 and 64.1 in these two indexes respectively, which is lower than the United Kingdom and the United States. Of course, these two indexes do not directly reflect professionalization level of accounting personnel in China, but they can explain that there are problems in professional training.

3.3.2. Different Levels of Confidentiality

Western countries are influenced by culture of transparency and openness, while Chinese culture is subtle, mysterious and restrained. Such cultural difference is directly reflected in disparity between Chinese and western accounting information disclosure. That is to say, there are fewer issues required to be disclosed in China's accounting standards, and the matters generally required to be disclosed in western accounting standards are numerous and detailed. For example, China's revenue standard requires disclosure of accounting policies used in revenue recognition in accounting statements, while the United States also requires disclosure of normal and recurring income, as well as abnormal or occasional income.

4. Problems in China's Accounting Standards

By analyzing differences between Chinese and Western accounting standards, problems faced by China's current accounting standards are summarized as follows.

4.1. Hesitation in Applying Principle of Stability

From the perspective of pure cultural tradition, China should fully reflect the principle of stability when formulating accounting standards. However, from the perspective of current political and economic conditions, China does not have sufficient conditions to apply the principle of stability. Therefore, it is doomed that China hesitates to apply principle of stability in the process of formulating accounting standards, which determines current situation of insufficient stability in accounting standards.

4.2. Imbalance between Drawing on International Accounting Practices and Adhering to Chinese Characteristics

Undoubtedly that there are many differences between Chinese culture and western cultures, and such cultural differences are often ingrained and will be difficult to eliminate in a long historical period. Cultural tradition will have an impact on value orientation of accounting personnel and formulation of accounting standards, so accounting standards of each country will vary from each other. In other words, China's accounting standards can be close to international accounting practices, but it is impossible to be similar to any country's accounting standards or international accounting standards. In China's accounting standards, some accounting concepts and accounting methods with Chinese characteristics determined by its unique cultural traditions will be retained. As mentioned above, in the case of adopting rule-oriented or principle-oriented accounting standards, rule-oriented accounting standards are more detailed. From the perspective of current quality of employees in China, this model is more conducive to carry out various tasks. China's accounting supervision system is not sound enough. The organizational structure of enterprises under government-led market economy is not perfect enough. If principle-oriented accounting standards are adopted, it is likely that enterprises will take advantage of loopholes in standards. Therefore, although current international community is gradually guided by principle-oriented standards, as far as national conditions are concerned, China still does not have sufficient conditions and should adhere to rule-oriented standards.

4.3. Insufficient Engagement of Stakeholders

Stakeholders actively participate in formulation and improvement of accounting standards and accounting systems in western developed countries, which plays an important role in improvement and development of accounting standards. However, in the process of formulation and improvement of China's accounting standards, the enthusiasm of stakeholders is not high, and the participation is low, which is not conducive to improvement of accounting system and against to keeping up with international trends. On one hand, it is affected by economic system, on the other hand, it is influenced by interdependence between enterprises and stakeholders. Take the United States as an example. It is a capitalist country whose economic development and resource allocation are completely determined by market. Under potential market rules of survival of the fittest,

stakeholders will hope to increase their competitive advantage and gain policy support by participating in the formulation of accounting standards. Meanwhile, enterprises and stakeholders are interdependent. Accounting standards are a basis for the protection of interests between enterprises and stakeholders. Accounting standards formulated by both parties are in line with the interests of both parties. China is a socialist market economic system. Although market plays a fundamental role in resource allocation, the government still involves in macroeconomic regulation and control to ensure normal operation of the market. Compared with the United States, Chinese enterprises under socialist market economy system lacks awareness of anxiety. Similarly, due to the state participates in macroeconomic regulation and control, it becomes a solid backing force to a certain extent and plays a role in the bottom, which also makes the possibility of risk exposure of stakeholders decline, thus reducing the enthusiasm of stakeholders to participate in the development of accounting standards to expand their own interests. This is extremely unfavorable to the development and improvement of China's accounting standards, and is a major obstacle for accounting standards internationalization.

4.4. Accounting Personnel Quality is Not High

From the perspective of professional judgment ability, some accounting personnel in China have lower academic qualifications and weaker judgment ability. It is difficult to adapt to the transition from a rule-oriented accounting system to a principle-oriented accounting system. From the perspective of professional ethics, accounting information distortion in China's capital market is serious. The emergence of many viciously fraud cases indicates that professional ethics of China's accounting profession still needs to be improved. At the same time, compared with the reality that litigation risk faced by accounting profession in western countries is extremely high, legal risk faced by China's accounting profession is too low. The accounting profession, which has to improve its professional ethics, is more likely to be manipulated unscrupulously in the conduct of professional judgment, thus further reducing the quality of accounting information.

4.5. Imperfect Legal Environment

As an ideology norm, accounting standards are closely related to national laws and regulations. However, due to the large differences in legal systems between China and western developed countries, it determines that there are major obstacles to the internationalization of China's accounting standards. Among applicability indexes of legal framework for digital business models in Table 3, China has only 4.6 points, while Germany and the United Kingdom are both around 5 points, and the United States is as high as 5.7 points. This shows that China's legal system is too imperfect to keep up with the pace of internationalization of accounting standards. For example, in terms of key content of accounting standards, due to legal norms of developed countries in the west, the International Accounting Standards are based on balance sheets and focus on predicting future cash flows of enterprises. However, China's law stipulates that company's listing, capital increase and share allotment, and delisting are all based on profit. Therefore, China mainly focuses on profit statement and ignores information quality of balance sheet to some extent. It can be seen that China has not yet provided a sound legal environment to promote internationalization of accounting standards system.

4.6. Market Economy Base is Not Strong Enough

Western developed countries, such as the United States, have a good market economy base. The strong market economy foundation is the main thrust of the formulation and implementation of International Accounting Standards. Chinese market economy started late and the foundation was weak. This is the most important reason why International Accounting Standards are under a difficult circumstance in China compared with developed countries. The above problems can be reflected from product market, labor market, financial system and other indexes in Table 3. If relevant provisions of International Accounting Standards are copied and placed under the conditions of China's market economy, some regulations will be difficult to operate and have no effect. China's multinational corporations are limited, capital market is weak, development of

international trade is immature, and economic foundation is not strong enough. This makes strength of “main action group” to renew accounting standards relatively weak, which has caused great resistance to internationalization of China’s accounting standards.

5. Analysis of Measures to Improve Current Accounting Standards in China

5.1. Adhere to Principle of Stability

On the issue of hesitation on applying principle of stability in the process of accounting standards formulation, what China can do for the moment is to balance pros and cons in each specific economic business and then draw conclusions and apply appropriate principles and treatment methods. In the long run, China must promote steady development of politics and economy, and promote the maturity of market development, making accounting standards reflect China’s cultural nature.

5.2. Raise Enthusiasm of Stakeholders to Participate in Formulation and Improvement of Accounting Standards

On the issue of lacking enthusiasm of stakeholders in the process of formulating and improving accounting standards, China should improve system and norms of accounting standards under development, so that all parties can participate in the formulation of rules. For example, to make norm-setting process more transparent and open, to broaden channels of public opinion expression, to extend the time for public comments, and so on. At the same time, it is necessary to further play the decisive role of market, reduce the government’s role as a bottom-up, and raise awareness of anxiety of enterprises, so that it automatically joins the formulation of accounting standards.

5.3. Strengthen Training of Accounting Talents and Improve Quality of Accounting Practitioners

On the issue of low quality of accounting practitioners, China must gradually improve quality of accounting personnel and improve training system for accountants. The most important task at present is to focus on cultivating comprehensive talents in accounting. It is necessary to pay attention to follow-up education of current accounting staff, so that they can have a new understanding of the latest international practices and accounting knowledge. Efforts should also be made to improve the level of personnel working in the field of CPAs in China, so that they can move closer to the level of internationalization. In the meantime, China has to improve relevant laws and regulations, increase the risks faced by accounting profession, and use laws and rules to constrain accounting behaviors.

5.4. Concept Transformation from Profit and Loss Statement to Balance Sheet

China must convert from profit and loss statement to balance sheet, introduce fair value model, pay more attention to the quality of assets, fully consider time value and risk value of funds, and truly reflect the profitability, solvency and growth potential of enterprises.

5.5. Establish an Accounting Conceptual Framework and Improve Accounting Systems and Accounting Standards

Establish an accounting conceptual framework and improve accounting systems, dig into international accounting standards, analyze and compare where China’s accounting standards need to optimized, to well build a framework that is conducive to China’s interests, while promoting international accounting concepts.

5.6. Adhere to Chinese Characteristics while Promoting Internationalization in a Gradual Manner of Coordination, Implementation and Unification

Coordination means to formulate and improve China’s accounting standards based on international accounting standards and China’s national conditions. Implementation refers to the implementation of Chinese accounting standards and international accounting standards.

Unification means that China's accounting standards and international accounting standards shall be unified, and the differences are constantly overcome. The overcoming of differences will further improve the "two rules", allowing the two to be cross-referenced and organically developed. Of course, in the process of moving towards internationalization, China must combine its national conditions and retain Chinese characteristics. It's not advisable to copy it all at once. For instance, as mentioned above, on the issue of whether follow principle-oriented or rule-oriented standards, China should consider national conditions, adhere to the latter one, and gradually build a principle-oriented environment. That would be a wise move.

6. Conclusion

To sum up, for the current situation of China, our country's accounting standards still have a lot of deficiencies, we should learn professional knowledge from the gap, reasonable reference and develop accounting standards in line with the actual situation of our country. At present, environmental factors are the biggest obstacle to the development of China's accounting standards. Because China's market economic system is not sound, all systems need to work hard to improve, and the whole society needs to work together to complete. We should develop corresponding strategies according to our own situation so as to provide impetus for the development of accounting standards.

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