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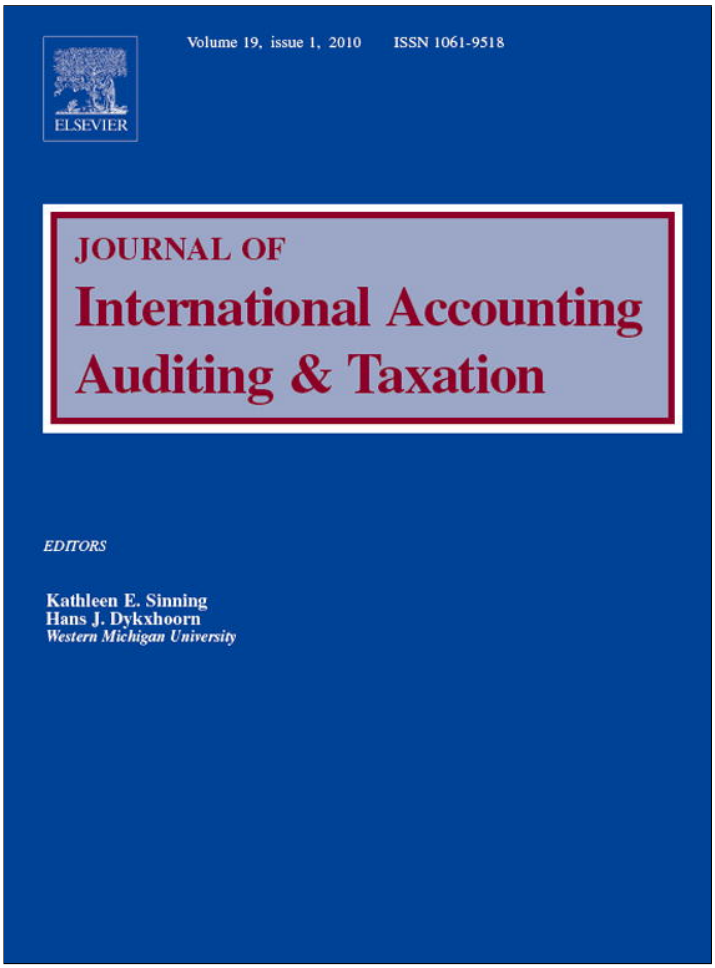

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Chinese GAAP and IFRS: An analysis of the convergence process

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ABSTRACT

In this study, we examine the process of convergence through a longitudinal analysis (1992–2006) of the convergence of Chinese GAAP with IFRS from the perspective of process theory. We find that significant steps toward convergence occurred through the issuance of four successive Chinese GAAPs: 1992, 1998, 2001, and 2006. Convergence occurred both through the direct import of standards from IFRS and progressive changes to Chinese GAAP. Direct import was observed for items either reflective of traditional Chinese accounting practice or ones that addressed situations not considered or not relevant under the previous accounting model. Progressive changes to Chinese GAAP were observed on items substantially different from traditional practice. Overall, we conclude that a combination of staged implementation and direct import has proven to be practical and effective in the convergence of Chinese GAAP with IFRS.

1. Introduction

The International Accounting Standards Board (IASB) is committed to develop a "single set of high quality, understandable and enforceable global accounting standards" and to work with national standard-setters to achieve convergence (Pacter, 2005, 71). The IASB's commitment to this goal has resulted in nearly 100 countries now requiring, permitting, or adopting a formal policy of convergence with International Financial Reporting Standards (IFRS[1]) (Tweedie, 2006). This growing acceptance of IFRS has prompted concerns about the applicability of IFRS to emerging economies (Ball, Robin, & Wu, 2003; Ball, 2006; Hassan, 1998; Larson & Kenny, 1996, 1998; Points & Cunningham, 1998). One suggested approach for assessing the applicability of IFRS is to evaluate the convergence process in emerging markets (Carlson, 1997; Mir & Rahaman, 2005; Watty & Carlson, 1998). Mir and Rahaman (2005, 820) states, "it seems that a common trend that binds the literature together is that the role and relevance of the IAS [IFRS] in the developing world depend largely on the processes through which these standards are adopted." However, the process of adoption has received little research attention.

Researchers have suggested using national case studies to analyze the process of IFRS adoption in individual nations (ISAR, 2006, Mir & Rahaman, 2005). The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), "a program of the United Nations Conference on Trade and Development, proposed conducting this research by preparing country case studies with a view to develop guidance on good practices in IFRS implementation in order to assist developing countries and countries with economies in transition to succeed in their efforts towards harmonization

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[1] The accounting standards issued by the IASB are known as IFRS. The accounting standards issued prior to 2001 by the IASB's predecessor, the International Accounting Standards Committee (IASC), are known as International Accounting Standards (IAS). For ease of discussion throughout this paper, we refer to the accounting standards issued by both the IASB and the IASC as IFRS.

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of their national accounting policies and practices with international requirements" (ISAR, 2006). As a partial response to this call, the goal of this study is to provide insight into the process of convergence in an emerging market; specifically, we evaluate the process of convergence of Chinese GAAP with IFRS. China provides an excellent environment for a case study since Chinese GAAP has been recognized by the IASB as having achieved "substantial convergence" with IFRS (IASB, 2006) and prior research has found the financial statements of firms within China to be in substantial compliance with Chinese GAAP (Peng, Tondkar, van der Laan Smith, & Harless, 2008).

To understand the convergence process, we conduct a longitudinal analysis of the sequence of changes that occurred in Chinese GAAP from 1992 to 2006 viewed within the context of China's institutional setting. We use process theory to form the theoretical framework for our analysis. Used extensively in management science, process theories provide a basis for explaining how and why changes occur. Examining convergence as a change process allows us to focus on two research questions: (1) what has been the process of convergence of Chinese GAAP with IFRS from 1992 to 2006; and (2) what practices have been successful in the convergence process, and are there specific characteristics associated with these practices? In other words, can we identify "good practices in IFRS implementation" as advocated by the ISAR?

To assess the convergence process, we identify key measurement items in IFRS and their matching treatment in each of the four stages of development of Chinese GAAP during the 1992–2006 period. This step allows us to measure the level of convergence at each stage of Chinese GAAP. We find that the Chinese government, with a sustained effort to improve the quality of accounting standards, has been successful in promoting convergence with IFRS, consistent with the predictions of teleological process theory. By analyzing the content of the changes, we identify the specific practices used in China's convergence effort, the direct import of an accounting concept and progressive change to a concept over time, and the factors associated with these successful practices. These factors may be of interest to other countries considering adopting IFRS.

In the next section of this paper, we discuss the institutional setting for this study followed by the theoretical framework and hypotheses development section. Next, we present the methodology section followed by a discussion of the results. In the final section, we summarize our conclusions and discuss the limitations of the study.

2. Institutional setting

2.1. China's equity market

In the late 1980s, the philosophy of the Chinese economy underwent a revolutionary shift as the system changed from a socialist-planned economy to a socialist-market economy (Graham & Li, 1997). This economic reform was designed to modernize China and integrate it more fully with the international market (Hilmy, 1999; Winkle, Huss, & Zhu, 1994). A major step in the Chinese government's economic reformation was initiated in the early 1990s. During this time, the government introduced non-governmental ownership in state-owned enterprises and organized stock exchanges in Shanghai (SHSE) in 1990 and Shenzhen (SZSE) in 1991. Firms listed on these two stock exchanges are permitted to issue two types of shares: A- and B-shares. A-shares are denominated in Chinese Yuan and are predominantly traded by domestic investors. B-shares are denominated in US dollars in SHSE and in Hong Kong dollars in SZSE and are predominantly traded by international investors. Firms issuing A-shares are required to comply with Chinese GAAP. Firms issuing B-shares are required to comply with IFRS. Firms issuing both A- and B-shares are required to prepare two sets of financial statements, one in accordance with IFRS and one in accordance with Chinese GAAP.

A-share firms comprise the overwhelming majority of Chinese listed firms. As of August 2009, there were 1697 firms listed on these two stock exchanges, including 1588 A-share firms and 109 B-share firms. In this study, we focus on the standards mandated for Chinese A-share listed firms, since these firms have been the primary target of Chinese accounting reforms[2] and since the accounting regulations for these firms reflect China's efforts to converge national accounting standards with IFRS.

2.2. The development of Chinese GAAP

The revolutionary shift in China's economic policy gave rise to the need for a high-quality accounting system that would integrate the Chinese economy with the international market and attract foreign capital. In the period prior to the shift to a socialist-market economy (referred to herein as the previous accounting system or model), the primary purpose of China's accounting model was "to assist in the implementation of state economic policy and to maintain state control over the means of production" (Adhikari & Wang, 1995, 27). During this period, the Accounting Law and numerous government agencies specified the detailed accounting methods and chart of accounts to be used in the various industries (Chen, Jubb, & Tran, 1997). The accounting system used a fund-based accrual methodology focused on accountability and stewardship (Winkle et al., 1994). Market-based accounting concepts – e.g., lower of cost or net realizable value (NRV), allowances for bad debts,

[2] The MOF has required A-share listed firms to adopt new accounting standards prior to other business enterprises. For example, 2001 GAAP was required for A-share listed firms but encouraged for other types of firms. 2006 GAAP was required to be in effect for A-share listed firms at the beginning of 2007 with a phase-in for other types of Chinese business enterprises by 2009.

and conservatism (Ding, 2000; Adhikari & Wang, 1995; Winkle et al., 1994) – were not necessary given the government's control over the markets. Financial reporting in China during this period reflected the government's focus on accounting as a planning tool for the economy. As many as thirty statements could be required in an annual report; these included both financial and managerial accounting statements (Ding, 2000), and the focus of the reporting was on quantitative production targets rather than profits (Adhikari & Wang, 1995, 31).

In the early 1990s, with the establishment of Chinese stock exchanges, this focus became problematic. Foreign investors in the developing Chinese stock market had difficulty interpreting the financial statements of Chinese firms and the restatement of the financial statements into "Western terms" was a costly process (Winkle et al., 1994, 50). It was evident that the existing socialist accounting model needed to shift to a market orientation if foreign investors were to be attracted to China.

China's Ministry of Finance (MOF), a governmental body, is the only entity authorized to promulgate Chinese accounting standards. The MOF determines the composition, timing, and implementation methodology for these accounting standards. The standards promulgated by the MOF are mandatory for Chinese business enterprises. In this regard, the MOF functions much like the Financial Accounting Standards Board (FASB) in the U.S. However, the standard-setting process used by the MOF lacks the due process and transparency common to the FASB and the IASB. Consistent with prior research, we refer to the accounting standards issued by the MOF (applicable to A-share firms) as Chinese GAAP (Chen, Sun, & Wang, 2002). Since China's economic reform, the MOF has been dedicated to the development of accounting standards that improve the quality of Chinese firms' financial reporting. To achieve this objective, the MOF's goal prior to 2005 was convergence of Chinese GAAP with "internationally recognized accounting standards" (Chen, Gul, & Su, 1999). In 2005, the MOF officially stated its goal as convergence with IFRS (IASB, 2005).

From 1992 through 2006, the MOF prescribed a series of four accounting regulations applicable to listed A-share firms, referred to herein as 1992, 1998, 2001, and 2006 GAAP. We accordingly divided the development of the accounting standards into four stages to analyze the progression of convergence. The first stage (1992 GAAP) extended from 1993 to 1997, and was considered a revolutionary change in Chinese accounting since it introduced a market-oriented accounting model (Chen et al., 2002). The 1992 GAAP was comprised of the *Experimental Accounting System for Joint Stock Limited Enterprises* (1992 Accounting System) and the *Accounting Standard for Business Enterprises* (the Basic Standard).

The second stage of standard development from 1998 to 2000 (1998 GAAP) was represented by the issuance of the *Accounting System for Joint Stock Limited Enterprise* (1998 Accounting System), which replaced the 1992 Accounting System, and ten specific *Chinese Accounting Standards* (CASs) issued by the MOF. The third stage of development, extending from 2001 to 2006 (2001 GAAP), is defined by the 2001 issuance of the *Accounting System for Business Enterprises* (2001 Accounting System), which replaced the 1998 Accounting System, as well as by 16 CASs, which consisted of 6 newly issued standards, 5 revised standards, and 5 original standards. The fourth stage of development (2006 GAAP) is defined by the issuance in February 2006 of the *Accounting Standards for Business Enterprises*, effective on January 1, 2007. It consists of a revised Basic Standard, which replaced the 1992 Basic Standard, and 38 CASs, which replaced the 2001 Accounting System and the 16 previously issued CASs.

The development of Chinese GAAP has triggered a series of studies on the convergence of Chinese GAAP with IFRS. These studies address the context of convergence in China (Chen et al., 1997; Ding, 2000; Graham & Li, 1997; Hilmy, 1999; Tang, 2000; Winkle et al., 1994; Xiang, 1998; Xiao, Weetman, & Sun, 2004) and the outcome of China's convergence efforts (Chen et al., 1999, 2002; Xiao, 1999; Lin & Chen, 2005). These convergence studies have been helpful in enhancing understanding of the environmental influences affecting China's convergence efforts and firms' reactions to the government-imposed standards. However, none of these studies has evaluated either the progress or pattern of IFRS adoption in China. In addition, none of these studies has analyzed specific standard changes or identified best practices in the convergence process.

3. Theoretical framework and hypothesis

Our objective in this study is to gain an understanding of the convergence process by examining the changes that occurred in Chinese GAAP from 1992 to 2006. To frame our analysis we use process theory. Process theory provides a method to unfold accounting standard convergence by identifying patterns and practices over time. Process theory, as defined by Van de Ven and Poole, is "an explanation of how and why an organizational entity changes and develops" (1995, p.512). It is a part of the collection of theories that attempt to explain changes at organizational, industrial, and societal levels. Van de Ven and Poole (1995) classify process theories into four groups: life-cycle, dialectics, teleology, and evolution theories. This study uses teleology theory, which is based on the assumption that a "purpose or goal is the final cause for guiding movement of an entity" (p.515). The entity has an end goal, and progress can be measured as it moves toward it. This theory often involves change that represents a break with the existing framework or ideals.

In addition to distinguishing the type of change events, an understanding of the context within which a change is occurring is necessary to understand the process of change. As Pettigrew, Woodman, and Cameron (2001, 698) so descriptively state, "if the change process is the stream of analysis, the terrain around the stream that shapes the field of events, and is in turn shaped by them, is a necessary part of the investigation."

We argue that teleology theory provides a method for viewing and predicting China's convergence process. First, the theory involves change that represents a break with the existing framework or ideals. Second, it assumes that the entity has an end goal and progression toward that goal is measurable. Finally, the theory requires an understanding of the context within which a change is occurring. Considering China's institutional legacy the convergence process required the MOF to

break from its pre-1992 mission of developing rules that provided for "consistent and comparable information to be used in the macro-control of the economy" (Zhou, 1988, 213) and establish a new accounting framework that met the needs of a socialist market economy. In 1992, the Finance Minister of China stated that the MOF's goal was to "bring China's accounting system in line with international practices" (Winkle et al., 1994, 53). Specifically, the MOF expects that standards developed since 1992 "will be formulated mainly by referring to the International Accounting Standards" (Chow, Chau, & Gray, 1995, 44). In 2005, the MOF further clarified this goal as convergence with IFRS. According to teleology theory's prediction, we should expect each Chinese GAAP issued by the MOF from 1992 to 2006 to be toward convergence with IFRS. Thus we hypothesize that the standard changes enacted through the promulgation of 1998, 2001, and 2006 Chinese GAAP resulted in a higher level of convergence with IFRS than the Chinese GAAP it replaced, i.e., 1992, 1998, and 2001 Chinese GAAP, respectively.

If we find support for this hypothesis, the next issue we want to investigate is how the convergence was achieved. That is, we attempt to develop a further understanding of the context within which a change is occurring. In accordance with teleology theory, we assume that change is driven by the MOF's efforts to converge with IFRS. To achieve this goal, the MOF could directly adopt IFRS; make progressive changes in Chinese GAAP toward convergence with IFRS; or, pursue a convergence path that combines both methods. It is also possible that changes occurring during the 1992–2006 period were both toward and away from convergence with IFRS. Therefore, to gain a deeper understanding of the methods used by the MOF in the convergence process and the actual changes that occurred in the accounting principles, we conduct a content analysis of the changes through the four stages of Chinese GAAP.

4. Methodology

Data collection and analysis are barriers to conducting process studies. As pointed out by Langley (1999, 691), "Process data are messy. Making sense of them is a constant challenge." One solution suggested by organizational researchers is the use of longitudinal analysis to examine a sequence of changes over time (Armenakis & Bedeian, 1999; Pettigrew, 1990; Van de Ven & Huber, 1990). We adopt this methodology to identify the level and pattern of change occurring in China's convergence process. We believe that the longitudinal approach provides an insightful picture of the dynamic process of convergence.

To assess the hypothesis and provide an anchor for our analysis of the process of convergence, we identified 159 key measurement items[3] and their effective dates. The key measurement items were identified from the principle paragraphs in 2006 IFRS (identified by bold type in the IFRS). A list of these measurement items and the source IFRS paragraph is presented in Appendix A. This resulted in the following measurement items applicable to each year of Chinese GAAP: 159 items for 2006, 130 for 2001, 101 for 1998, and 93 for 1992. Five IFRS (IAS 1, IAS 29, IAS 34, IFRS 1, and IFRS 7) were excluded from our analysis. We omitted IAS 29, on hyperinflation, because this economic situation was not relevant in China and was not addressed under Chinese GAAP. We omitted the remaining four IFRS because they are primarily disclosure requirements and therefore are not a focus of our study.

To measure the level of convergence of Chinese GAAP with IFRS, we calculate a standardized convergence score (convergence score). To calculate this score, we determine the level of convergence for each measurement item for each year by comparing each version of Chinese GAAP (1992, 1998, 2001, and 2006) with the corresponding version of IFRS—i.e., the IFRS in effect in 1992, 1998, 2001, and 2006. Each item is assessed for full convergence (FC), substantial convergence (SC), or non-convergence (NC) with the relevant IFRS.

FC is defined as Chinese GAAP being identical to IFRS for that measurement item. SC is defined as Chinese GAAP being in substance and principle the same as IFRS. For example, certain IFRS specify particular transactions or situations that should be included or excluded from the scope of the standard. If Chinese GAAP did not include those specifications, the applicable measurement item is classified as SC rather than FC. NC is defined as Chinese GAAP not converging with IFRS for that measurement item. Note that items addressed in IFRS but not in Chinese GAAP are categorized as not addressed (NCNA) in order to differentiate them from items addressed but not converged. Finally, items that were not relevant to a specific year because they were not addressed in IFRS for that year are categorized as not relevant (NR).[4] After assessing the level of convergence for each measurement item,[5] we calculate the convergence score for each year of Chinese GAAP by dividing the number of converged (FC and SC) items by the number of measurement items relevant in a given year.

The hypothesis states that changes made through the promulgation of 1998, 2001, and 2006 GAAP were toward convergence with IFRS. We assess the hypothesis in two steps. First, we examine the convergence score of each GAAP (Table 1,

[3] We focus on key measurement items while ignoring disclosure requirements so that we may provide a concentrated analysis of the convergence issues involved. Prior research has found that accounting measurement and disclosure requirements focus on different dimensions of accounting information and that, as such, it is theoretically possible to separate the two in research (Ali, 2005; Canibano & Mora, 2000).

[4] If Chinese GAAP does not allow the full range of accounting methods provided by IFRS for a measurement item, we consider the item to be NC. This reflects our view that to consider a measurement item FC or SC a firm must be able to select an IFRS treatment and still comply with Chinese GAAP. For example, if IFRS allows both the cost and revaluation methods for a measurement item while Chinese GAAP only allows the cost method we categorize this item as NC, since if a firm chose the revaluation method they would be in compliance with IFRS but not in compliance with Chinese GAAP.

[5] Due to the large size of the table, the complete standard comparison between each of the four Chinese GAAPs and IFRS is not included. It is available from the authors upon request.

Table 1
Summary of Chinese GAAP convergence level and process.

Panel A: convergence score	2006 GAAP	2001 GAAP	1998 GAAP	1992 GAAP
Number of items fully converged (FC) in a given year	103 (65%)	42 (32%)	20 (20%)	12 (13%)
Number of items substantially converged (SC) in a given year	20 (12%)	22 (17%)	15 (15%)	7 (7%)
Number of items not converged (NC) in a given year due to divergence between Chinese GAAP and IFRS	16 (10%)	31 (24%)	26 (26%)	27 (29%)
Number of items not converged in a given year because the item was not addressed in Chinese GAAP (NCNA)	20 (13%)	35 (27%)	40 (40%)	47 (51)
Total (FC + SC + NC + NCNA)	159 (100%)	130 (100%)	101 (100%)	93 (100%)
Total number of items coded as FC, SC, NC, NCNA	159 (100%)	130 (82%0	101 (63%)	93 (58%)
Total number of items coded as NR (items that were not in effect in either IFRS or Chinese GAAP in a given year)	0 (0%)	29 (18%)	58 (37%)	66 (42%)
Total number of measurement items	159 (100%)	159 (100%)	159 (100%)	159 (100%)
Convergence score: fully and substantially converged items ((FC + SC)/total)	77%	49%	35%	20%

Panel B: analysis of changes as of 2006 GAAP	FC	SC	FC and SC	NC	NCNA	Total
No change items						
Direst import or first appearance in 2006	29	6	35	8		43
Direct import or first appearance in 2001	16	3	19	1		20
Direct import or first appearance in 1998	8	2	10	1		11
Direct import or first appearance in 1992	8	2	10	–		10
Total number of items experiencing no change	61	13	74	10		84
Progressive change items						
Incurred one change	16	3	19	1		20
Incurred two changes	22	3	25	5		30
Incurred three changes	4	1	5	0		5
Total number of items experiencing change	42	7	49	6		55
Items not addressed in Chinese GAAP					20	20
Total number of measurement items	103	20	123	16	20	159

Panel C: direction of change	FC	SC	FC and SC	NC	NCNA	Total
Number of items of which changes were toward IFRS	42	7	49	4		53
Number of items of which changes were not toward IFRS	–	–	–	2		2
Total number of items experiencing change	42	7	49	6		55

Panel A) to observe whether there is an increase in the level of convergence. The convergence score measures the level of convergence at a point in time and provides a basis for assessing the process of convergence. However, it does not reflect the changes that have occurred. Therefore, the second step we use to assess the hypothesis is to examine the convergence process through a content analysis of the changes.

Content analysis is believed to "aid change agents in understanding which factors within their domains need attention" and "the requirements necessary for a successful transformation [change] effort" (Armenakis & Bedeian, 1999, 296–297). We identify the changes that occurred in each measurement item for each year of GAAP. This analysis allows us to identify the convergence practice, direct import or progressive change, and the direction of the change. If a specific measurement item was in FC or SC with IFRS at adoption, with no changes throughout the 1992–2006 period, we identify the item as being directly imported from IFRS. If an item experienced changes after its first introduction into Chinese GAAP, that item is identified as having progressive change. We count the number of times a measurement item changed even if the assessment of the level of convergence for the item remained the same. For example, for item 122 (IAS 39, subsequent measurement of financial assets) short-term investments were measured at cost in 1992 GAAP, at cost or lower of cost or market (LCM) in 1998 GAAP, at LCM in 2001 GAAP, and at fair value in 2006 GAAP. We count this item as having three changes even though it was considered as NC under 1992, 1998, and 2001 Chinese GAAP with a change to FC in 2006 GAAP.

In addition to the identification and categorization of the changes, we determine the direction of the changes—i.e., were the changes toward or away from convergence with IFRS. To illustrate, building on our example with item 122, we observe that Chinese GAAP changed from requiring cost in 1992 to cost or LCM in 1998, thus moving Chinese GAAP closer to the IFRS in effect in 1998. Similarly, the changes in Chinese GAAP from 1998 to 2001 and from 2001 to 2006 all moved Chinese GAAP closer to IFRS. Thus, we conclude that the item moved toward IFRS. However, if at any point during the process we observed a change away from convergence with IFRS (e.g., if the change from 2001 to 2006 Chinese GAAP had been from LCM to cost), then the item would have been identified as not moving toward convergence with IFRS.

5. Results and discussion

5.1. Test of hypothesis

Using teleology theory to view the convergence process, we expect to find improvement in the level of convergence with each issuance of Chinese GAAP as the regulators move toward their desired end state: full convergence with IFRS. Thus, standard changes made through the issuance of 1998, 2001, and 2006 GAAP should be toward convergence with IFRS. The convergence score, presented in Table 1, Panel A, reveals that the level of convergence (FC and SC) of Chinese GAAP with IFRS has improved with the issuance of each successive GAAP: from 20% with 1992 GAAP, to 35% with 1998 GAAP, to 49% with 2001 GAAP, to 77% with 2006 GAAP. However, as discussed earlier, the convergence score does not indicate if Chinese GAAP is moving toward IFRS or if IFRS is moving toward Chinese GAAP. Therefore, to understand the type of changes that occurred, we analyze the content of the standard changes.

We present a summary of the results of the content analysis of the changes in Table 1, Panels B and C. The results in Panel B show that among the 159 items being analyzed, as of 2006, a total of 55 items experienced changes, including 49 items that reached FC and SC with IFRS through progressive change and 6 items that have not yet converged with IFRS (NC) even after progressive change. The results in Panel C, regarding the analysis of the 55 items that changed, reveals that only two items experienced changes that moved away from IFRS; the remaining 53 items experienced changes toward IFRS. Overall, we believe these results provide strong evidence supporting the hypothesis. Consistent with teleology theory, Chinese regulators—with a goal of convergence with internationally recognized standards—are moving Chinese GAAP toward convergence with IFRS.

5.2. Further evidence and analysis

In order to gain a richer understanding of the convergence process, we further examine the content and progress of convergence with the objective of identifying successful convergence practices. We assume that changes were occurring in a cumulative manner, and we view each change within the context of the preceding changes. We evaluate those measurement items successfully converged versus those that were not to identify if there were specific factors leading to successful convergence. To assist this analysis we categorized the measurement items converged through direct import and progressive change by IFRS topic. This categorization by convergence process is presented in Table 2 . To facilitate reference to the tables throughout the following discussion, we refer to the measurement items both by their item number and by the related IFRS.

5.2.1. Successful convergence

Items that are fully converged (103 items) or substantially converged (20 items) with IFRS are considered successfully converged. As shown in Table 2, 74 of these 123 items, or approximately 60%, were directly imported from IFRS while the remaining 49 items experienced at least one change in the convergence process. We separately analyzed the items that were converged through direct import and those items that converged through progressive change to determine if there were specific factors associated with each type of convergence practice, direct import or progressive change.

5.2.1.1. Items directly imported from IFRS. Among the 74 successfully converged items that were directly imported from IFRS (Table 2), 10 were adopted in 1992 GAAP, 10 in 1998 GAAP, 19 in 2001 GAAP, and 35 in 2006 GAAP (Table 1, Panel B). Two characteristics associated with items imported before 2006 emerge from our analysis. First, the concepts associated with these items have not changed since adoption, implying that these concepts have been subject to little or no resistance from practitioners. These concepts appear to be ones that (1) had been widely used in Chinese practice or (2) were new to practitioners but were consistent with prior practice. Examples of items falling into category (1) are recognition of current taxes (IAS 12, item 20), selection of accounting policies and accounting for changes in estimates (IAS 8, items 5 and 8), and recognition and measurement of provisions and contingent assets and liabilities (IAS 37, items 107, 108, and 111). Examples of items falling into category (2) are criteria for recognizing property, plant, and equipment (PP&E) and methods for disposing of an asset and recognizing gain or loss (IAS 16, items 30 and 36, respectively).

Second, the import process during this period was progressive, reflecting the development of the economic and capital markets. As the capital market developed, Chinese listed firms encountered complex transactions not addressed in the previous Chinese accounting model for which accounting standard guidance was needed. For example, financial leases and property investment became more common during this period and accounting regulations were issued in these areas. In addition, with the rapid development of the capital market, investors required a higher level of protection that in turn required

Table 2
Measurement item categorization by IFRS and convergence process.

IFRS	Topic	No change items				Progressive change items				Not converged not addressed (NCNA)		Total
		Fully converged (FC) and substantially converged (SC) items through direct import		Not converged (NC) items since promulgation		Fully converged (FC) and substantially converged (SC) items		Not converged (NC) items		Item numbers	Count	Count
		Item number (year of adoption)	Count	Item number (year of promulgation)	Count	Item numbers	Count	Item numbers	Count			
IAS 2	Inventories	1 (92), 4 (98)	2			2, 3	2					4
IAS 8	Accounting polices, changes in accounting estimates and errors	5 (92), 8 (98)	2			6, 7, 9	3					5
IAS 10	Events after the balance sheet date	10 (98), 11 (98)	2			12	1					3
IAS 11	Construction contracts	13 (01), 14 (01), 16 (98), 18 (01)	4			15, 17	2	19	1			7
IAS 12	Income taxes	20 (92), 24 (06), 25 (06), 26 (92)	4			21, 22, 23	3					7
IAS 14	Segment reporting	27 (06)	1				0			28, 29	2	3
IAS 16	Property, plant and equipment	30 (01), 36 (92)	2	33 (06)	1	31, 34	2	32	1	35	1	7
IAS 17	Leases	37 (01), 42 (98), 43 (01), 45 (98), 46 (01), 47 (01)	6	48 (01)	1	38, 39, 40, 41	4	49	1	44	1	13
IAS 18	Revenue	52 (01), 53 (01)	2			50, 51	2					4
IAS 19	Employee benefits			54 (06), 56 (06)	2	55, 60	2			57, 58, 59	3	7
IAS 20	Accounting for government grants and disclosure of government assistance	61 (06), 62 (06), 63 (06)	3	65 (06), 66 (06)	2		0	64	1			6
IAS 21	The Effects of changes in foreign exchange rates	69 (92), 70 (06), 72 (06)	3			67, 68, 71	3					6
IAS 23	Borrowing costs	74 (92), 77 (01), 78 (98), 79 (01)	4			73, 75, 76	3					7
IAS 26	Accounting and reporting by retirement benefit plans	80 (06), 84 (06)	2							81, 82, 83	3	5
IAS 27	Consolidated and separate financial statements					85, 86, 87	3					3
IAS 28/31	Investments in associates; interests in joint ventures	89 (92), 90 (92), 91 (01)	3	94 (98)	1	88	1			92, 93, 95	3	8
IAS 34	Interim financial reporting	96 (01), 97 (01), 98 (01), 99 (06)	4									4
IAS 36	Impairment of assets	101 (98), 104 (06), 105 (06)	3			100, 102, 103	3	106	1			7

IAS 37	Provisions, contingent liabilities and contingent assets	107 (01), 108 (01), 109 (06), 110 (06), 111 (01)	5									5
IAS 38	Intangible assets	113 (06)	1			112, 114, 115, 116, 118, 119, 120	7	117	1			9
IAS 39	Financial instruments: recognition and measurement	123 (06), 124 (06), 125 (06), 128 (06), 129 (06), 130 (06)	6			121, 122, 126, 127	4					10
IAS 40	Investment property	131 (98), 133 (06), 135 (06), 136 (06)	4	134 (06)	1	132	1					6
IAS 41	Agriculture	137 (06), 138 (06), 139 (06)	3							140	1	4
IFRS 2	Share-based payment	142 (06)	1	141 (06)	1					143, 144	2	4
IFRS 3	Business combinations	145 (98), 147 (06), 148 (06), 149 (06)	4			146, 150, 151	3					7
IFRS 4	Insurance contracts	152 (06)	1							153	1	2
IFRS 5	Non-current assets held for sale and discontinued operation									154, 155	2	2
IFRS 6	Exploration for and evaluation of mineral resources	156 (06), 159 (06)	2	157 (06)	1					158	1	4
Total			74		10		49		6		20	159

additional standards. For example, asset impairment recognition was added to 1998 GAAP for inventory and financial assets and to 2001 GAAP for non-financial assets, such as PP&E, intangible assets, and investment properties.

In 2006, an additional 35 items were directly imported from IFRS (Table 1, Panel B). These items (Table 2) reflected China's continuing economic development. For example, the concept of financial instruments was introduced (IAS 39, items 124, 125, 128, 129, and 130) and reportable segments were required to be identified (IAS 14, item 27). However, some of these items, unlike items imported prior to 2006, appear to be a drastic change from existing practice. An example is accounting for insurance contracts, which appears to be an exact copy of IFRS 4. The lack of trained professionals and the developing nature of the capital markets in China may hinder the implementation of these standards. We note this particular concern since our analysis revealed that all IFRS were introduced into Chinese GAAP over time through a combination of direct import and progressive change except for accounting for insurance contracts (IFRS 4), segment reporting (IAS 14), and mineral resources (IFRS 6), which were all directly imported in 2006 (see Table 2).

5.2.1.2. Items successfully converged with IFRS through progressive change. As shown in Table 1, Panel B, 49 successfully converged (FC and SC) items as of 2006 experienced at least one change toward convergence. We began our analysis with the five items experiencing the greatest number of changes (three) composed of four items that were fully converged (IAS 16, items 34; IAS 38, items 116 and 118; and IAS 39, item 122) and one item substantially converged (IAS 38, item 114). We believe an examination of the content of changes underlying these five items provides additional insight into successful practices in the convergence process. A summary comparison of Chinese GAAP to IFRS by year for these items is presented in Table 3. We identify three common characteristics among these items. First, the adoption process has been gradual for fair value, a concept not allowed in previous Chinese accounting. We see movement toward fair value in the measurement of financial assets (IAS 39, item 122) and intangible assets (IAS 38, item 114). The accounting for both of these items moved from a cost basis in 1992 GAAP to a fair value basis in 2006 GAAP, through three consecutive changes with each change serving as a building block for the next.

Second, the regulators moved from prescribing specific accounting policies to providing firms with more flexibility in the selection of accounting treatments. Using item 34 (IAS 16) selection of depreciation methods as an example, Chinese GAAP initially prescribed both the depreciation/amortization method and the estimated lives of the assets (1992 GAAP). This requirement was removed and firms were given more discretion in determining their accounting policies in later GAAP (1998, 2001, 2006 GAAP). Meanwhile, the change in depreciation methods was initially treated as a change of accounting policy (2001 GAAP) and then as a change in an accounting estimate (2006 GAAP) consistent with 2006 IFRS.

The third characteristic observed was that the accounting regulations became more detailed or the techniques more advanced over time, showing the development of the capital market and the regulators' understanding of accounting issues during the process of convergence. For example, it was not until the 2006 GAAP that financial assets were required to be categorized as held for trading, held to maturity, or available for sale (IAS 39, item 122), revealing a more advanced understanding of the concept. This process is consistent with the development of the Chinese financial asset market over this period, resulting in the need for an accounting model consistent with a more advanced market economy.

After identifying the commonalities for items experiencing the greatest change, we analyze the 44 items (Table 2) that required less than three changes to reach successful convergence. Our analysis reveals that the primary characteristics of these items are consistent with the three identified above. Changes were made toward the gradual adoption of fair value (items 3, 38, 39, 50,121, 132, 146, and 150); changes reflected the government deregulation that gave firms more flexible accounting practices (items 23, 73, 55, 75, 86, 88, 100, and 115); and changes were made to provide more detail (items 2, 6, 31, 67, 71, 75, 87, 102, 112, 119, 120, 121, 126, and 127) or more advanced accounting techniques (items 7, 9, 21, 22, and 151).

Through the content analysis of successfully converged items, we identify two commonalities. First is the practice of directly importing standards that contained concepts consistent with the previous Chinese accounting model. The second is the practice of introducing new and more complex concepts through a series of progressive changes. Convergence when viewed over a period appears as a cumulative learning experience. Building on known concepts, China's regulators introduced variations on the standards that moved Chinese GAAP towards full convergence with IFRS.

5.3. Unsuccessful convergence

To gain a fuller understanding of China's convergence process, we also examined the items that were not successfully converged with the intent of identifying commonalities among those items. As shown in Table 1, Panel A, there were 16 items in 2006 Chinese GAAP that were not converged with IFRS. Eight of these 16 items were directly imported in 2006 GAAP but were not converged with IFRS (see Table 1, Panel B). As shown in Table 2, of the remaining eight non-converged items, two were adopted prior to 2006 Chinese GAAP and remain unchanged thereafter (items 48 and 94) and six remained non-converged after progressive change (items 19, 32, 49, 64, 106, and 117). These eight items appear to represent the most controversial items and, as such, are the ones on which we focus our analysis.

We begin our discussion with the two measurement items (48 and 94) promulgated in Chinese GAAP prior to 2006. At their initial promulgation, these items were not converged with IFRS and they have remained non-converged. Item 48 (IAS 17), sale and lease back transactions resulting in a finance lease, promulgated in 2001 GAAP with the requirement that any amount received in excess of the book value of the asset is to be deferred and amortized over the asset's depreciable life.

Table 3
Comparison of Chinese GAAP to IFRS for the five measurement items successfully converged (FC and SC) through three changes.

	2006	2001	1998	1992
Item 34 (IAS 16): depreciation method (FC)				
CGAAP	Same as IFRS	Depreciation method is determined by firm. Change of depreciation method is considered a change of accounting policy	Depreciation method is determined by firm. Change of depreciation method should be disclosed in notes	Depreciation method is determined and changed by the government
IFRS	Depreciation method is determined by firm. Change of depreciation method should be justified by circumstances and is considered a change of accounting estimate.			
Item 114 (IAS 38): intangible assets acquired through investments (SC)				
CGAAP	Recognized at a price agreed upon by both parties on the condition that the price reflects fair value. Definition of fair value is the same as IAS 38	Recognized at a price agreed upon by both parties or, if the asset is acquired through IPO, at the carrying value of the asset on investor's books	Recognized at a price agreed upon by both parties. Silent on the IPO scenario	Recognized at a price based on external appraisal
IFRS	Recognized at fair value of the asset given up, unless fair value of the asset acquired is more appropriate. Fair value is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.			
Item 116 (IAS 38): pre-operating costs (FC)				
CGAAP	Same as IAS	Deferred as an asset until the entity begins operations. Then charged to expense at the first month of operation	Deferred as an asset until the entity begins operations. Then amortized in no more than 5 years. If the amount is not material, charged to expense at the first month of operation	Deferred as an asset until the entity begins operations. Then amortized in no less than 5 years
IFRS	Charged to expense when incurred			
Item 118 (IAS 38): amortization of intangible assets: asset with definite life (FC)				

Table 3 (*Continued*)

	2006	2001	1998	1992
CGAAP	Same as IAS	Amortized over the useful life of the asset based on a tier of availability of the useful life: (1) the shorter of the life specified by law and the life specified in the acquisition contract (2) *no more than* 10 years	Asset with definite life is amortized over the useful life of the asset based on a tier of availability of the useful life: (1) the life specified in the contract; (2) the life specified in the law; (3) *no more than* 10 years	Asset with definite life is amortized over the useful life of the asset based on a tier of availability of the useful life: (1) the life specified in the law; (2) the life specified in the contract; (3) *no less than* 10 years
IFRS	Asset with definite life is amortized over the estimated useful life. The useful life shall not exceed the period of the contractual or other legal rights but may be shorter depending on the period over which the entity expects to use the asset. Asset with indefinite life is not amortized	Asset with definite life is treated the same way as 2006 IFRS. The useful life is rebuttably assumed not to exceed 20 years from the date when the asset is available for use. Silent on asset with indefinite life	Asset with definite life is treated the same way as 2006 IFRS The useful life is rebuttably assumed not to exceed 5 years from the date when the asset is available for use. Silent on asset with indefinite life	Asset with definite life is treated the same way as 2006 IFRS. Silent on the rebuttable assumption of useful life. Silent on asset with indefinite life
Item 122 (IAS 39): subsequent measurement of financial assets: short-term investments (FC)				
CGAAP	Same as IAS	Measured at LCM	Measured at LCM or cost	Measured at cost. If fair market value is available, the fair value should be disclosed in the notes
IFRS	Measured at fair value		Measured at fair value or LCM	

Table 4
Comparison of Chinese GAAP to IFRS for the six non-converged (NC) measurement items experiencing changes.

	2006	2001	1998	1992
Item 19 (IAS 11): measurement of construction revenue				
CGAAP	Not directly specified. Could be contract price receivable or fair value of consideration given up	At the contract price received or receivable	Not addressed	Not addressed
IFRS	At the fair value of the consideration received or receivable			Not addressed
Item 32 (IAS 16): measurement of PP&E subsequent to initial recognition				
CGAAP	Cost model only. No mention of revaluation model		Cost model but recognition of impairment loss is not allowed	
IFRS	Cost model (cost less accumulated amortization and impairment) or revaluation model			
Item 49 (IAS 17): sale and lease back transactions that result in an operating lease				
CGAAP	If the transaction is established at fair value, then accounting treatment is the same as IAS. Otherwise, any difference between sale price and carrying value is deferred and amortized using the same method as the method for determining lease expense	The difference between the sale price and the carrying value is deferred and amortized using the same method as the method for determining lease expense	Not addressed	
IFRS	If the transaction is established at fair value, any profit or loss should be recognized immediately. Otherwise, the accounting treatment depends on whether the sale price is above or below the fair value. If the sale price is below the fair value, any profit or loss should be recognized immediately unless the loss is compensated for by future lease payments at below-market price. If the sale price is above fair value, the excess shall be deferred and amortized over the period of use			

Table 4 (*Continued*)

	2006	2001	1998	1992
Item 64 (IAS 20): recognition of government grants related to assets on balance sheet date				
CGAAP	Recognized as deferred income. The option of deducting the grant in arriving at the carrying value of the asset is not available. Meanwhile, if the grants are initially measured at a nominal amount, the grants are recognized as income of the period when receivable. That is, CAS continues to allow certain firms to count government grants as income	Recognized as equity upon the completion of the project if the grant is to fund a specific project	Not addressed	
IFRS	Recognized either by setting up grants as deferred income or by deducting the grant in arriving at the carrying amount of the asset			
Item 106 (IAS 36): reversal of an impairment loss				
CGAAP	Reversal is prohibited for all assets	Reversal is allowed for all assets under the scope of IAS 36	Not addressed	
IFRS	Recognized as income for assets other than goodwill up to the initial carrying value recognized. If the reversal is for a CGU, it shall be allocated to the asset of the unit. Reversal is allowed for all assets under the scope of IAS 36 other than goodwill		Not addressed. Standard does not exist. Silent on individual standard on the issue	
Item 117 (IAS 38): measurement of intangible assets subsequent to initial recognition				
CGAAP	Only cost model is allowed	Only cost model is allowed	Cost model but recognition of impairment loss is not allowed	
IFRS	Cost model or revaluation model		Implying cost model	

However, IFRS requires amortization of any excess over the lease term. Item 94 (IAS 28/31), promulgated in 1998, requires the use of the equity method for investors who have jointly controlled entities. IFRS, however, allows the use of both the equity and proportionate methods. It is our belief that the strong impact of previous Chinese accounting practices is reflected in these areas of non-convergence. Both the equity method and the use of the depreciable life as the amortization period for leased assets were common practice in China prior to the adoption of the IFRS accounting model.

Table 4 presents a comparison of Chinese GAAP with IFRS for the six items remaining not converged after progressive change. Four of these items moved toward convergence (items 32, 117, 49, and 64) while two did not (items 19 and 106). Items 32 (IAS 16) and 117 (IAS 38) establish standards for the measurement of PP&E and intangible assets subsequent to initial recognition. IFRS allows the use of both the revaluation model (assets measured at fair value) and the cost model (assets measured at book value adjusted for impairment). Chinese standards in 1992 and 1998 adhered strictly to the cost model. The 2001 and 2006 standards require book value be adjusted for impairment consistent with the IFRS cost model, reflecting progress toward convergence. However, these standards do not allow reversal of the impairment adjustment or use of the revaluation model as allowed by IFRS. Thus, we continue to classify them as not converged.

Item 49 (IAS 17) presents the treatment for sale and lease-back transactions resulting in an operating lease. In the scenario of a sale price below fair value, IFRS requires immediate recognition of profit or loss for the difference between sales price and fair value while 2006 GAAP requires any difference between sales price and book value to be deferred and amortized. Despite the non-convergence, the changes in this item from 2001 GAAP to 2006 GAAP reflect progress toward convergence with the introduction of the fair value concept in 2006 GAAP.

We also observed progression toward IFRS convergence for item 64 (IAS 20). This item addresses the treatment of government grants related to specific assets. IFRS requires recognition of these grants as a deduction from the book value of the related asset. Chinese GAAP first addressed the accounting treatment for this item in 2001 by requiring recognition of the grant in equity, changing in 2006 GAAP to requiring recognition of the grant as deferred income. Thus, while it remains non-converged with IFRS, the accounting treatment for this item progressed from not being addressed in 1992 and 1998 GAAP to being recognized as equity in 2001 GAAP and then as deferred income in 2006 GAAP.

Unlike the unsuccessfully converged items discussed above, the changes in items 19 and 106 appear to be a move away from convergence with IFRS. Item 19 (IAS 11) addresses the measurement of construction revenue that IFRS measures at the fair value of the consideration received. 2001 GAAP required measurement of construction revenue at the contract price received or receivable. It is interesting that the MOF removed the entire paragraph on how construction revenues are measured in 2006 GAAP. The MOF provided no official explanation for this decision. The silence in 2006 GAAP on this issue implies that the MOF believed the 2001 treatment was not appropriate yet were hesitant to adopt the fair value treatment required by the IFRS.

Item 106 (IAS 36) allows the reversal of impairment losses. It is noteworthy that 2001 GAAP allows the reversal of impairment losses, but 2006 GAAP prohibits it. This move away from convergence with IFRS is clearly inconsistent with the observed movement in other items. One explanation is that it is difficult for regulators to differentiate earnings manipulation activities from appropriate accounting treatment. As Yang, Rohrbach, and Chen (2005) point out, recent accounting scandals in China involved large asset impairment losses and reversals.

Overall, our analysis reveals that the standards that have not been successfully converged have two commonalities. First, the accounting concepts are divergent from previous Chinese practice (e.g., fair value accounting as reflected in items 19, 32, and 117). Second, the items reflect the measured approach China is using in the introduction of flexibility into its standards (items 49, 64, and 106). That is, each successive version of Chinese GAAP has progressed down the path toward convergence with IFRS by moving from prescribing rigid accounting rules to rules that provide companies more flexibility in determining the appropriate accounting treatment. We believe this process is consistent with the successful convergence practices we previously identified, in that continual, progressive changes will be necessary in order for previous Chinese practices to converge successfully with the IFRS model.

6. Conclusion

In this study, we examine the past 15 years of the development of Chinese accounting standards within the framework of teleological process theory with the goal of identifying the process of convergence of Chinese GAAP with IFRS and the practices that have been successful in that process. We find that, consistent with the predictions of our theoretical model, China's MOF moved Chinese GAAP toward convergence with IFRS through the issuance of a series of Chinese GAAP (1992, 1998, 2001, and 2006) that improved the level of successful convergence with IFRS from 20% in 1992 to 77% in 2006. We also find that convergence has been achieved both from the direct import of standards from IFRS and through progressive changes to Chinese GAAP. Analyzing the specific changes to Chinese GAAP enables us to identify the factors related to these successful convergence practices.

First, items directly imported from IFRS appear to be standards consistent with the previous Chinese accounting system or standards that were new but contained concepts that were familiar or that addressed issues not relevant in the previous accounting model. Second, standards that represented a significant change from China's previous accounting system have been introduced through progressive change. These standards relate to the adoption of fair value accounting, the move from prescribing specific accounting policies to providing more flexibility to firms in their selection of accounting treatments, and the introduction of more detailed and complex accounting concepts. We also observe that the standards that have not

yet been successfully converged with IFRS are those reflecting the strong influence of previous Chinese accounting practice and those reflecting China's caution in permitting the flexibility allowed under IFRS. Overall, the combination of progressive change and direct import is both practical and effective in moving Chinese accounting from a central government planning model to a market-based model.

We believe the results of our study are useful in several ways. First, our study is a timely step toward a greater understanding of the process that China used in its convergence with IFRS. Secondly, our study builds on prior literature by focusing on the analysis of the process and the content of convergence. We believe that an assessment of the status of convergence can only provide a snapshot of the standard development process. Only by looking at the process of convergence is insight gained into the successes that have occurred. Finally, we have identified successful Chinese convergence practices that may be useful to other emerging markets that are moving from a system of accounting that provided for central government planning to a market system.

This study is subject to several limitations. First, our methodology purposefully did not include all IFRS; we focused exclusively on measurement issues excluding disclosure requirements. Second, while parallels may exist, the findings of this study are specific to China and may not be generalizable to other settings and countries. We also note that the success of accounting standard convergence is dependent on the success of the convergence of firms' actual accounting practices, which we do not measure in this study.

Appendix A.

Key measurement items.

#	TOPIC	Applicable IFRS
1	Inventory costs	IAS 2.10
2	Cost formulas used to assign inventory cost to cost of goods sold	IAS 2.23, 25
3	Ending inventory cost	IAS 2.9, 34
4	Recognition of impairment and reversal of impairment	IAS 2.34
5	Selection and application of accounting policies	IAS 8.7–12
6	Consistency of accounting policies	IAS 8.13–18
7	Changes in accounting policy	IAS 8.19–25
8	Change in accounting estimates	IAS 8.36–37
9	Prior period fundamental errors	IAS 8.42–45
10	Adjusting and non-adjusting events after balance sheet date	IAS 10.8, 10
11	Going concern issues arising after balance sheet date	IAS 10.14
12	Dividends declared after balance sheet date	IAS 10.12
13	Combining and segmenting construction contracts	IAS 11.8–10
14	Revenue and expenses costs on a construction contract	IAS 11.11, 16
15	Revenue recognition on a construction contract	IAS 11.22–24, 32, 35
16	Expected loss on a construction contract	IAS 11.36
17	Borrowing costs incurred in construction	IAS 11.18
18	Cost related to a construction contract	IAS 11.21
19	Measurement of construction revenue	IAS 11.12
20	Recognition of current tax	IAS 12.12, 13, 46
21	Recognition of deferred tax in the balance sheet	IAS 12.15, 24, 39, 44, 47, 51
22	Temporary differences used in recognition of deferred tax	IAS 12.5
23	Criteria to recognize deferred tax asset (DTA)	IAS 12.34
24	Discount for DTA and deferred tax liability (DTL)	IAS 12.53
25	Impairment loss on DTA	IAS 12.56
26	Recognition of current and deferred tax in the income statement	IAS 12.58, 61
27	Identification of reportable segments	IAS 14.26, 27, 31, 32, 34–37, 41–43
28	Segment accounting policies	IAS 14.44
29	Assets that are jointly used by two or more segments	IAS 14.47
30	Recognition of property, plant, and equipment (PP&E)	IAS 16.7
31	Measurement of PP&E at recognition	IAS 16.15
32	Measurement of PP&E subsequent to initial recognition	IAS 16.29, 31, 36, 39, 40
33	Depreciation for each part of an item of PP&E	IAS 16.43
34	Depreciation method, estimated useful life, and residual value for PP&E	IAS 16.50, 51, 60, 61, 48
35	Compensation for PP&E impairment	IAS 16.65
36	De-recognition of PP&E	IAS 16.67, 68, 71
37	Classification of finance lease	IAS 17.8
38	Accounting by finance lessees—recognition	IAS 17.20
39	Accounting by finance lessees—discount rate	IAS 17.20
40	Accounting by finance lessees—initial direct costs	IAS 17.20
41	Accounting by finance lessees—subsequent measurement	IAS 17.25

Appendix A (*Continued*)

#	TOPIC	Applicable IFRS
42	Accounting by finance lessees—depreciation method	IAS 17.27
43	Accounting by finance lessors—initial and subsequent measurement	IAS 17.36, 39
44	Accounting by finance lessors—recognition of lease income by manufacturer or dealer lessors	IAS 17.42
45	Operating lease—incomes/payments	IAS 17.33, 49–50
46	Operating lease—initial direct costs for lessors	IAS 17.52
47	Operating lease—depreciation method for lessors	IAS 17.53
48	Sale and lease back transactions that result in a finance lease	IAS 17.59
49	Sale and lease back transactions that result in an operating lease	IAS 17.61, 63
50	Measurement of revenue—general rule	IAS 18.9
51	Recognition of revenue from rendering of services	IAS 18.20, 26
52	Recognition of revenue from the sale of goods	IAS 18.14
53	Recognition of revenue arising from interest, royalties, and dividends	IAS 18.29, 30
54	Scope of employee benefits	IAS 19.1
55	Short-term employee benefits	IAS 19.10, 11, 14, 17
56	Post-employment benefit plans	IAS 19.29, 30, 36, 39
57	Measurement of defined contribution plans (DCP): recognition and measurement	IAS 19.44–45
58	Measurement of defined benefit plans (DBP): recognition and measurement	IAS 19.48–125
59	Other long-term employee benefits: recognition and measurement	IAS 19.128–129
60	Termination benefits: recognition and measurement	IAS 19.133, 134, 139, 140
61	Criteria to recognize government grants	IAS 20.7
62	General rules to recognize government grants	IAS 20.12, 20
63	Measurement of non-monetary government grants	IAS 20.23
64	Recognition of government grants related to assets on balance sheet date	IAS 20.24
65	Recognition of government grants related to income on balance sheet date	IAS 20.29
66	Repayment of government grants	IAS 20.32
67	Initial recognition of foreign currency transaction	IAS 21.21, 22
68	Balance sheet recognition of foreign currency transaction	IAS 21.23
69	Exchange differences resulting from foreign currency transaction	IAS 21.28, 32, 30
70	Change in functional currency	IAS 21.35
71	Method of translating financial statement of foreign operations	IAS 21.39, 47
72	Disposal of a foreign operation	IAS 21.48
73	Qualifying assets for borrowing costs to be capitalized	IAS 23.4
74	Recognition of borrowing costs	IAS 23.10, 11
75	Accounting for borrowing costs of qualifying assets—where funds are borrowed specifically to obtain the asset	IAS 23.15
76	Accounting for borrowing costs of qualifying assets—where funds are borrowed generally and used to obtain the asset	IAS 23.17
77	Commencement of capitalization of borrowing costs	IAS 23.20
78	Suspension of capitalization of borrowing costs	IAS 23.23
79	Cessation of capitalization of borrowing costs	IAS 23.25, 27
80	Defined contribution plans (DCP)	IAS 26.13–16
81	Defined benefit plans (DBP)	IAS 26.17
82	Defined benefit plans (DBP)	IAS 26.18
83	Defined benefit plans (DBP)	IAS 26.19
84	All plans—valuation of plan asset	IAS 26.32
85	Subsidiaries to be consolidated	IAS 27.12
86	Identification of subsidiaries	IAS 27.13
87	Consolidation procedures	IAS 27.24, 26–28, 31–33
88	Identification of associates	IAS 28.6
89	Accounting for investments in associate	IAS 28.13, 14
90	Applying equity method	IAS 28.11
91	Cease of equity method	IAS 28.18, 19
92	Dates and accounting polices used by investor and associate in applying the equity method	IAS 28.24,25, 26
93	Investor has jointly controlled operations or jointly controlled assets	IAS 31.15, 21

Appendix A (*Continued*)

#	TOPIC	Applicable IFRS
94	Investor has jointly controlled entities—proportionate method and equity method	IAS 31.30, 36, 38, 41–42, 45
95	Transactions between a venturer and a joint venture	IAS 31.48, 49
96	Interim financial reporting—general rule for measurement	IAS 34.28
97	Interim financial reporting—revenues that are received seasonally, cyclically or occasionally within a financial year	IAS 34.37
98	Interim financial reporting—costs that are incurred unevenly during a financial year	IAS 34.39
99	Interim financial reporting—use of estimates	IAS 34.41
100	Assets subject to impairment test	IAS 36.2
101	Identifying impairment asset: frequency and indicators	IAS 36.9, 10, 12
102	Measuring recoverable amount of impaired asset	IAS 36.30, 33, 39, 44, 50, 52, 55
103	Recognition of an impairment loss	IAS 36.59–60, 62–63
104	Identifying cash-generating units (CGU) to which an impaired asset belongs	IAS 36.66, 70, 72, 75
105	Allocating goodwill to CGU and impairment of goodwill	IAS 36.80–105, 108
106	Reversal of an impairment loss	IAS 36.110–111, 114, 117, 119, 121–124
107	Provisions—recognition	IAS 37.14, 15, 61, 63, 66
108	Provisions—measurement	IAS 37.36, 42, 45, 47, 48, 51, 53, 54
109	Provisions—subsequent measurement	IAS 37.59
110	Provisions arising from restructuring of an entity	IAS 37.72, 78, 80
111	Contingent assets and liabilities	IAS 37.27, 31
112	Initial recognition of intangible assets—general rule	IAS 38.21, 22, 24, 48, 68, 71
113	Initial recognition of intangible assets—if payment is deferred beyond normal credit terms	IAS 38.32
114	Initial recognition of intangible assets—acquisition through investments	IAS 38.33
115	Initial Recognition of research and development (R&D) costs	IAS 38.42, 54, 57, 63
116	Pre-operating, start-up, and pre-opening costs	IAS 38.69
117	Measurement of intangible assets subsequent to initial recognition	IAS 38.72, 74–75, 81–82, 85–86
118	Amortization of intangible assets	IAS 38.88, 94, 97, 100, 107
119	Annual review for intangibles	IAS 38.104, 109
120	Retirement and disposals	IAS 38.112, 113
121	Initial recognition and measurement for financial instruments	IAS 39.14, 43
122	Subsequent measurement of financial assets	IAS 39.46, 48
123	Subsequent measurement of financial liabilities	IAS 39.47
124	Reclassification of financial instruments	IAS 39.50–54
125	Gains and losses arising from change of fair value of a financial instrument	IAS 39.55–57
126	Impairment of financial instruments	IAS 39.58, 63, 66–68
127	Reversal of an impairment loss of financial instruments	IAS 39.65, 69, 70
128	De-recognition of a financial asset	IAS 39.15–41
129	Hedging instruments—fair value hedge: general rule	IAS 39.71, 86, 88, 89, 91–92
130	Hedging instruments—cash flow hedge and hedges of a net investment: general rule	IAS 71, 86, 88, 95, 97–102
131	Initial recognition and measurement of property investment	IAS 40.16, 20, 25
132	Measurement of property investment subsequent to initial recognition	IAS 40.30, 32A, 33–35, 38, 53, 55, 56
133	Transfer to or from investment property—cost model	IAS 40.57
134	Transfer from owner-occupied property or inventories to investment property—fair value model	IAS 40.61, 63, 65
135	Transfer from investment property to owner-occupied property—fair value model	IAS 40.60
136	Disposal of investment property	IAS 40.66, 69, 72
137	Recognition of agricultural products	IAS 41.10
138	Measurement of agricultural products	IAS 41.12, 13, 30
139	Gain and losses on agricultural products and biological assets	IAS 41.26, 28
140	Government grants related to biological asset	IAS 41.34, 35
141	Equity-settled share-based payment transactions in which goods or services (G&S) are received	IFRS 2.7, 2.10
142	Cash-settled share-based payment transactions in which G&S are received	IFRS 2.7, 2.30

Appendix A (*Continued*)

#	TOPIC	Applicable IFRS
143	G&S received in a share-based payment transaction that do not qualify for recognition of assets	IFRS 2.8
144	Share-based payment transactions with cash alternatives in which G&S are received	IFRS 2.34
145	Method of accounting for business combinations of separate entities not under common control	IFRS 3.14, 17
146	Cost of business combination	IFRS 3.24
147	Adjustments to the cost of a business combination contingent on future events	IFRS 3.32
148	Contingent liabilities subsequent to initial recognition	IFRS 3.48
149	Allocation of the cost of a business combination	IFRS 3.36, 37
150	Goodwill	IFRS 3.51, 54
151	Negative goodwill	IFRS 3.56
152	Insurance contracts—liability adequacy test	IFRS 4.15
153	Insurance contracts—change in accounting policies	IFRS 4.22
154	Classification of non-current assets (or disposal groups) as held for sale	IFRS 5.6
155	Measurement of assets classified as held for sale	IFRS 5.15
156	Measurement of mineral resources at recognition	IFRS 6.8
157	Measurement of mineral resources after recognition	IFRS 6.12
158	Change in accounting policies for mineral resources	IFRS 6.13
159	Impairment of mineral resources	IFRS 6.18, 21

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