A Comparison of China’s Basic Standard and the IASB’s Conceptual Framework

Yu WANG*

I. Introduction

International Accounting Standards (IAS) are a series of accounting standards that were issued by the International Accounting Standards Committee (IASC) between 1973 and 2000. Since the International Accounting Standards Board (IASB, formerly the IASC) establishment in 2001, it has been issuing International Financial Reporting Standards (IFRS) as accounting standards; the IFRS includes the IAS (IAS Plus 2001). Currently, the adoption of or convergence with IFRS is being carried out on a global scale. The Chinese government is avoiding, as much as possible, the option of forced adoption and instead, is carrying out convergence in a more practical manner. Moreover, on February 15, 2006, the Ministry of Finance (MOF) released the revised Accounting Standards for Business Enterprises—Basic Standard and 38 revised and new specific standards. This year, it released the new specific standards, No.39 Accounting Standards—Value Measurements (No.6 [2014]). However, whether the revision and new formulation of accounting standards are created from a certain logic or theory is not necessarily clear because China does not have a conceptual framework similar to the IASB’s conceptual framework or to the Financial Accounting Standards Board’s (FASB) Statements of Financial Accounting Concepts (SFAC) in the United States.

In the setting of global accounting rules, the conceptual framework for financial accounting approach is unlike other accounting principles, accounting theory, or accounting standards. The conceptual framework approach is positioned with the meta-standard as a kind of accounting constitution (Tsumori, 2002). Since the SFAC was first set by the FASB in the United States in 1978, it has been introduced to the IASC and many other accounting jurisdictions in various forms.

* Associate Professor, School of International Studies, Kwansei Gakuin University
In 1989, the IASC issued the *Framework for the Preparation and Presentation of Financial Statements*, and in 2010, the IASB issued the *Conceptual Framework for Financial Reporting* (CF), which superseded the previous framework (IASC, 1989). The conceptual framework approach has become more important today according to the IASB (IASB,D/P2013). However, the CF is not a part of the IFRS and does not exist in China. The *Accounting Standards for Business Enterprises·Basic Standard* (BS) is often referred to as a substitute.

At present, the BS practically plays the role of setting standards for domestic specific accounting standards: it is none other than the Chinese version of the meta-standard from the perspective of setting general standards. However, since this meta-standard is established by the public sector and is a part of Chinese accounting rules, it has the force of law in China. There are several differences between the IFRS or the U.S. Generally Accepted Accounting Principles (U.S. GAAP) and Chinese accounting standards.

In particular, the BS in China adheres to civil law and is very different from the CF in that the latter is influenced by Anglo-Saxon jurisdictions. Since the BS was issued in 1992, there has been confusion between the BS and the IASB’s CF.

In this study, when considering the conceptual framework for financial reporting in China, it is first necessary to look back at the history of accounting standards and the double-entry bookkeeping system. For this purpose, I first introduce three representative books of accounting standards and bookkeeping that were brought over to China in the early 20th century from overseas. Then, I discuss the BS, which is also called the “Chinese meta-standard” in this paper. Finally, I explain the differences between the BS and CF and consider whether a documented conceptual framework or its many forms is likely to be accepted in China.

**II. Origins of Western-style Accounting in China**

The origins of Western-style accounting in China date back a century. In particular, Western-style double-entry bookkeeping and financial statements were brought to mainland China by students returning home from studying abroad in countries such as the United States, Japan, and others in the early 20th century. In modern accounting, financial statements are made using the double-entry bookkeeping method. Some of the technical words, like “accounting,” “bookkeeping,” and “creditor” came to China through English accounting books translated into Japanese, which were then translated into Chinese. Consequently, many special Japanese accounting words were eventually adopted in China.

Western-style double-entry bookkeeping and accounting standards support the administrative activities of modern companies; however, these were not
intrinsic tools for business in China. Thus, the question becomes, “What kind of process influenced Chinese accounting, and where did they come from?” This question is examined in further detail in this study from a historical point of view. The following subsection provides an overview of the origins of double-entry bookkeeping accounting and the accounting standards derived from three important Chinese books, in chronological order: Bookkeeping of Banks, Pacioli’s Double-Entry System of Bookkeeping, and Introduction to Corporate Accounting Standards.

1. Bookkeeping of Banks

In 1907, Yinhangbujixue (Bookkeeping of Banks) was published by Xie Lin and Meng Sen in China and Japan. At that time, many Chinese students and authors studied abroad at Meiji University in Japan. Alexander Allan Shand wrote Bookkeeping of Banks in English, which was then translated into and published in Japanese (Ginko-Boki-Seiho) in 1873 under the jurisdiction of the Ministry of Finance in Japan. Shand’s book inspired both Xie Lin’s and Meng Seng’s work. The book also played a pivotal role in the introduction of the double-entry bookkeeping to the business world (Watanabe, 2011) and the introduction of the bookkeeping system of banks to China.

In 1916, System of Banks (Yin Hang Zhi Du Lun) was published by Xie Lin, and Li cheng in Shanghai (Xie&Li, 1916). Xie Lin (1885-1969) was a pioneer of accounting in the country; he was the founder of China’s accounting system and the founder of the country’s first public accounting firm (Shanghai, 2013).

2. A Translated Book: Pacioli’s Double-Entry System of Bookkeeping

Lu Shanzhi translated and published Pacioli’s Double-Entry System of Bookkeeping in Accounting Magazine (Vol. 6, 1935) in China. He was the first person to translate Luca Pacioli’s Summa de Arithmetica, Geometria, Proportioni et Proportionalità (published in Venice in 1494) from Italian (Fang, 2012). This book is considered the most important and famous book about bookkeeping ever written. Lu Shanzhi did not understand Italian at first, but he persevered through the translation process because he wanted to introduce the history of the double-entry bookkeeping system from Pacioli’s book to China. When he was studying in the library of Kyoto University in Japan in the 1920s, he found the book Patiori-Bokisyokennyuu (Studying Book of Pacioli Bookkeeping, 1920 version) in Japanese by Hirai Yasutaro. Then, he started to translate this Japanese translation into Chinese. Hirai Yasutaro did not understand Italian either, so he translated John B. Geijsbeek’s English translation of the Italian into Japanese (Hirai, 1920). Thus, essentially, the first introductory text on bookkeeping, Pacioli’s Double-Entry System of Bookkeeping, was translated with great effort from Italian to English to Japanese and then to Chinese before finally
being published in China in 1935.

3. Introduction to Corporate Accounting Standards

Pan Xulun (Kuaijiwang, 2013) is called the “Father of Accounting in China.” After getting a master’s degree from Harvard University and a doctorate from Columbia University in the 1920s, he returned to China and introduced the modern accounting theory and methods of the United States. He translated the book An Introduction to Corporate Accounting Standards into Chinese (Gongsikuaijizhunzexulun) and published a first edition of the translation in Shanghai in August 1949. An Introduction to Corporate Accounting Standards was first published by the American Accounting Association (AAA) in 1940 and was written by famous accounting professors William Andrew Paton and Ananias Charles Littleton. Many accounting conceptions in this book provided the basis for the U.S. GAAP and greatly influenced the formation of the IASB’s CF. Pan Xulun recognized that “a coherent, coordinated, consistent body of doctrines” (Patton & Littleton, 1949, p. 1) was also necessary for the improvement and reform of the accounting system in China.

However, in New China in October 1949, state enterprises dominated the socialist planned economy and a former Soviet Union accounting model was introduced to the country. This model dealt primarily with the fund balance statement, and from then on, the balance sheet gradually became obsolete. Thus, through the socialist planned economy, research on the early Western-style accounting standards in the early 20th century was eliminated. The socialist planned economy had an almost exclusive influence on China’s accounting. Research on accounting standards such as the U.S. GAAP centered on the market economy or the capital market and was driven into dormancy out of necessity under the socialist planned economy. This period of stagnation continued into the 1970s.

The following studies suggest that the Western style of accounting introduced to China played a pivotal role in the introduction of China’s new accounting system.

III. Formation of Chinese Meta-standard

Since the 1980s, Chinese accounting standards have been changing to harmonize with the IAS. In this section, the BS as the Chinese meta-standard, the origin of the Chinese meta-standard, and the inductive formation routes of the meta-standard are discussed.

1. Overview of Chinese Meta-standard

The meta-standard is the standard for setting accounting standards. According to Article 3 of the BS, “Accounting Standards for Business Enterprises
include the Basic Standard and Specific Standards. Also, Specific Standards should be formulated in accordance with the Basic Standard.” For example, according to the “Notice of the Ministry of Finance on Issuing the Enterprise Accounting Standards No.39—Value Measurements: the present Standard is formulated according to the Accounting Standards for Business Enterprises—Basic Standard for the purpose of regulating measurement and disclosure of Fair Value.”

The BS substantially functions as a meta-standard when all of the specific standards are formatted by the MFO in China. In other words, a fundamental characteristic of the BS as a meta-standard is that not only is it a part of the accounting standards for business enterprises, it is also the standard for setting specific accounting standards for business enterprises. As a consequence, the BS could be referred to as the Chinese meta-standard for convenience, in the same way that the CF is sometimes referred to as the meta-standard. However, in China, the BS is quite different from the FASB’s SFAC or the IASB’s CF.

2. The Origin of Chinese Meta-standard

As I explained in subsection 3 of section II, research on accounting standards went through a stagnation period that lasted until the 1970s. Research activities on the modern accounting theory started again with the foundation of the Accounting Society of China on December 26, 1979. However, with the violent political and legislative changes in China, the speed of economy growth was beyond the people imagination. Though the research activities on accounting theory centered on the setting and maintenance of accounting standards, they did not replace the role of the government in setting and maintaining such standards. This is one of the important factors of the formation of the meta-standard of China.

Accounting standards were formed by the government rather than by learning from China's past experiences as China had no experience to learn from to begin with and thus, could refer only to the experiences of other countries or of foreign investment companies in China. Owing to China's unique situation, politics, and economy, the country's accounting systems were formed based on models that vary from those of other countries and in the 1980s, tailored the standard contents and documents of relevant international practices like the IAS.

With the country's acceptance of investment from overseas, many foreign investors with significant funds began to invest in China. After the implementation of the Reform Opening policy in 1979, these investors also brought new technology into the country. As a result, foreign companies were established in the country and the concepts of double-entry bookkeeping system, balance sheets, and income statements, which had once been introduced from overseas, returned in full-scale and enforced through the Accounting Regulations
of the People’s Republic of China for the Joint Ventures Using Chinese and Foreign Investment (ARFI, promulgated on March 4, 1985 by the MOF; expired 1992). Furthermore, from the early 1990s, the accounting standards of China synchronized with international accounting customs backed by the practice of the rebuilding capital markets and the socialist market economy, thus contributing to the harmonization of international accounting standards. As a consequence, the BS was stipulated for the first time in China in 1992 and went into effect on July 1, 1993. In the same year, the ARFI was renamed Accounting Regulation of the People’s Republic of China for Enterprises with Foreign Investment (expired 2002), which was promulgated on June 24, 1992 also by the MOF.

3. Inductive Formation Routes of the Meta-Standard

Table 1 compares the ARFI (1985) and BS (1993) in terms of their general principles. It is clear that their general contents are the same in many respects. These principles are basically the same except for Article 1. In other words, it may be concluded that the BS took the inductive formation process to become the meta-standard.

Table 1 Comparison of the ARFI and BS in Terms of General Principles

<table>
<thead>
<tr>
<th>Attribute</th>
<th>ARFI</th>
<th>BS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal year is from January 1 to December 31</td>
<td>Article 10</td>
<td>Article 6</td>
</tr>
<tr>
<td>Adopts double-entry bookkeeping</td>
<td>Article 11</td>
<td>Article 8</td>
</tr>
<tr>
<td>Principle of credibility</td>
<td>Article 12</td>
<td>Articles 10, 14, and 15</td>
</tr>
<tr>
<td>Entry language is Chinese</td>
<td>Article 13</td>
<td>Article 9</td>
</tr>
<tr>
<td>Entry currency is the yuan</td>
<td>Article 14</td>
<td>Article 7</td>
</tr>
<tr>
<td>Principle of accrual basis</td>
<td>Article 15</td>
<td>Article 16</td>
</tr>
<tr>
<td>Principle of matching costs with revenues</td>
<td>Article 16</td>
<td>Article 17</td>
</tr>
<tr>
<td>Principle of historical cost</td>
<td>Article 17</td>
<td>Article 19</td>
</tr>
<tr>
<td>Principle of distinguishing between capital and earnings</td>
<td>Article 18</td>
<td>Article 18</td>
</tr>
<tr>
<td>Comparability</td>
<td>Article 19</td>
<td>Articles 12 and 13</td>
</tr>
</tbody>
</table>

Note. “ARFI” refers to the Accounting Regulations of the People’s Republic of China for the Joint Ventures Using Chinese and Foreign Investment, while “BS” refers to the Accounting Standards for Business Enterprises—Basic Standard.
Figure 1 shows that the pyramid-type accounting rules of China in 2014 consisted of the following hierarchy: (a) Accounting Law, (b) Financial and Accounting Reporting Regulation for Business Enterprises, (c) Accounting Standards for Business Enterprises—Basics Standard and Specific Accounting Standards, and (d) accounting rules according to the type of business.

Figure 1. Inductive Formation Routes of the Meta-Standard or the BS

Legend. “IFRS” refers to the International Financial Reporting Standards, and “IAS” to the International Accounting Standards.

The BS as the origin of the Chinese meta-standard was influenced by some significant domestic regulations and international standards, as described below. There are three formation routes through which the BS became the meta-standard.

The first route is the ARFI, which were developed with reference to the IAS in the 1980s (see ① at the center of Figure 1). In reality, these regulations are considered to be a revival of the old accounting style in China in the first half of the 20th century. The general principles of the ARFI (1985) and BS (1993) are summarized in Table 1.

The second route is the IFRS/IAS. This route has had more influence on
setting the BS since the 1980s (see ② at the center of Figure 1). Before the BS was set in 1993, there were no accounting standards in China that were similar to the IFRS/IAS. Specifically, it can be said the method for setting the accounting system has been changing from rules-based toward principles-based since 1993 (Wang, 2014). In any case, this direction needs to be examined more in-depth in China.

The third route is the Financial and Accounting Reporting Regulation for Business Enterprises. This regulation went into effect on January 1, 2000 (see ③ at the center of Figure 1). The definitions of the accounting elements in this regulation are closer to those in the IASC’s 1989 framework. Until the BS (1993) was revised and put into effect in 2007, its definitions of the accounting elements were used to set the new BS (2007) and other accounting rules in China, where they are still in use to this day. For practical purposes, this regulation is taken as one of the origins of the BS (2007), which is called the meta-standard in this study.

IV. Differences between China’s Basic Standard and the IASB’s Conceptual Framework

The China Accounting Standards Committee (CASC) is a consultative body in the MOF that also participates in international activities with the IASB and other countries’ accounting standards committee. This section attempts to compare the two types of meta-standard in accounting. One is the rule-type meta-standard, the BS (2007) of the Chinese accounting standard, and the other is the framework-type meta-standard, which is similar to the IASB’s CF. By examining some of these meta-standards’ main attributes, we can see the differences in the very nature of the BS (2007) and CF, as presented in Table 2.

1. Rule-type Meta-standard

The BS (1993, 2007) was issued and set by the MOF, which is a part of the public sector. It was created in accordance with the Accounting Law and other relevant laws, and administrative regulations. The specific standards shall be formulated in accordance with the BS (2007). As a result, the BS (2007) has compelling legal force. The issue of rules-based standards versus principles-based standards is a very important point for research and development in accounting standards. The paper Principles-based Accounting Versus Rules-based Accounting in China (Wang, 2014) analyzed the approach of Chinese accounting standards from the viewpoint of principles-based versus rules-based standards and concluded that the approach is neither principles-based nor rules-based but a hybrid of the two (Wang, 2014).

2. Framework-type Meta-standard

The IASC issued the Framework for the Preparation and Presentation of
Financial Statements in 1989, and the IASB issued the CF in 2010, which superseded the IASC’s framework. The CF sets out the concepts that underlie the preparation and presentation of financial statements for external users (Article 1). It is not an IAS and hence, does not define standards for any particular measurement or disclosure issue. Nothing in the framework overrides any specific IAS (Article 2). Moreover, the CF is not an IFRS/IAS. For this reason, it does not define other standards similar to the BS (2007) and does not have compelling legal force. It does not have a rules-based versus principle-based issue. The IFRS are principle-based standards. Principle-based standards, “stated as the dominant approach of the IASB, are less prescriptive and rely on broad statements of objectives and principles. Greater reliance is placed on the preparer’s judgment to align the financial reporting with the conceptual framework.” (IFRS, 2011, p37)

As is summarized in Table 2, the BS and CF are essentially different in some respects. In other words, the BS should not be confused with the IASB’s CF. The comparison of the two in Table 2 is useful in considering the potential of the Chinese approach to adopt the CF.

Table 2 Comparison of the BS and CF

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Rules-type (China)</th>
<th>Framework-type (IASB)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Basic Standard</td>
<td>Conceptual Framework</td>
</tr>
<tr>
<td>In accordance with the law</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Relationship with specific standards</td>
<td>Directly</td>
<td>Indirectly</td>
</tr>
<tr>
<td>An official standard</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Setter</td>
<td>Public sector</td>
<td>Private sector</td>
</tr>
<tr>
<td>Compelling legal force</td>
<td>Required</td>
<td>Not required</td>
</tr>
<tr>
<td>Rules-based standards or principles-based standards</td>
<td>Hybrid</td>
<td>Principles-based</td>
</tr>
</tbody>
</table>


V. Conclusion

As I have stated, research on accounting standards in China has been
occurring since the 1930s. Regulations on accounting rules began to be issued after the 1980s, which established the pyramid-type accounting rules in China. In 2014, the MOF issued three new specific standards and revised the BS and several other specific standards. These examples support the notion that China is moving toward convergence in a sustainable and continuous manner. However, convergence in China has not focused on or developed alternative theories of accounting as it set and revised the specific standards based on the IFRS. For example, the Accounting Standard for Business Enterprises No.39–Fair Value Measurement is a newly set accounting standard based on the IFRS 13 Fair Value Measurement. China should, however, develop a logic similar to that of the CF, which sets the concepts that underlie the preparation and presentation of financial statements. The CF is a practical tool that assists the IASB when developing and revising the IFRS.

The BS is a part of accounting regulations but not the CF and thus, is an insufficient basis for developing specific standards. The future of the Chinese accounting system is likely to have documenting practices similar to those of the CF. It would likely be a Chinese version of the CF that is not established in accordance with regulations or law, but rather, is set by the private sector but nevertheless converges with the IASB’s CF.

References
Financial Reporting.”


Kuaijiwang (2013/01/13) *The famous Person of Accounting,*


Xie, lin, and cheng Li. (1916). *Yin Hang Zhi Du Lun.* Shang hai: Zhong guo tu shu gong si he huo ji fa xing suo, Print.