

## New PRC Accounting Standards – A Milestone

Patrick P H Ng and Chris K C Lau, Hong Kong Institute of Vocational Education (Chai Wan)

As a key step to economic globalisation and capital market development, the Ministry of Finance of the People's Republic of China promulgated new accounting standards on 15 February 2006. The Ministry and the International Accounting Standards Board both regard the new standards as substantially in convergence with the International Financial Reporting Standards (IFRSs). This was echoed by the Hong Kong Institute of Certified Public Accountants in May 2006 which announced that the new standards would be substantially in convergence with Hong Kong Financial Reporting Standards (HKFRSs). The new standards will be firstly adopted by enterprises listed in the PRC and other business enterprises are encouraged to adopt the new standards from 1 January 2007.

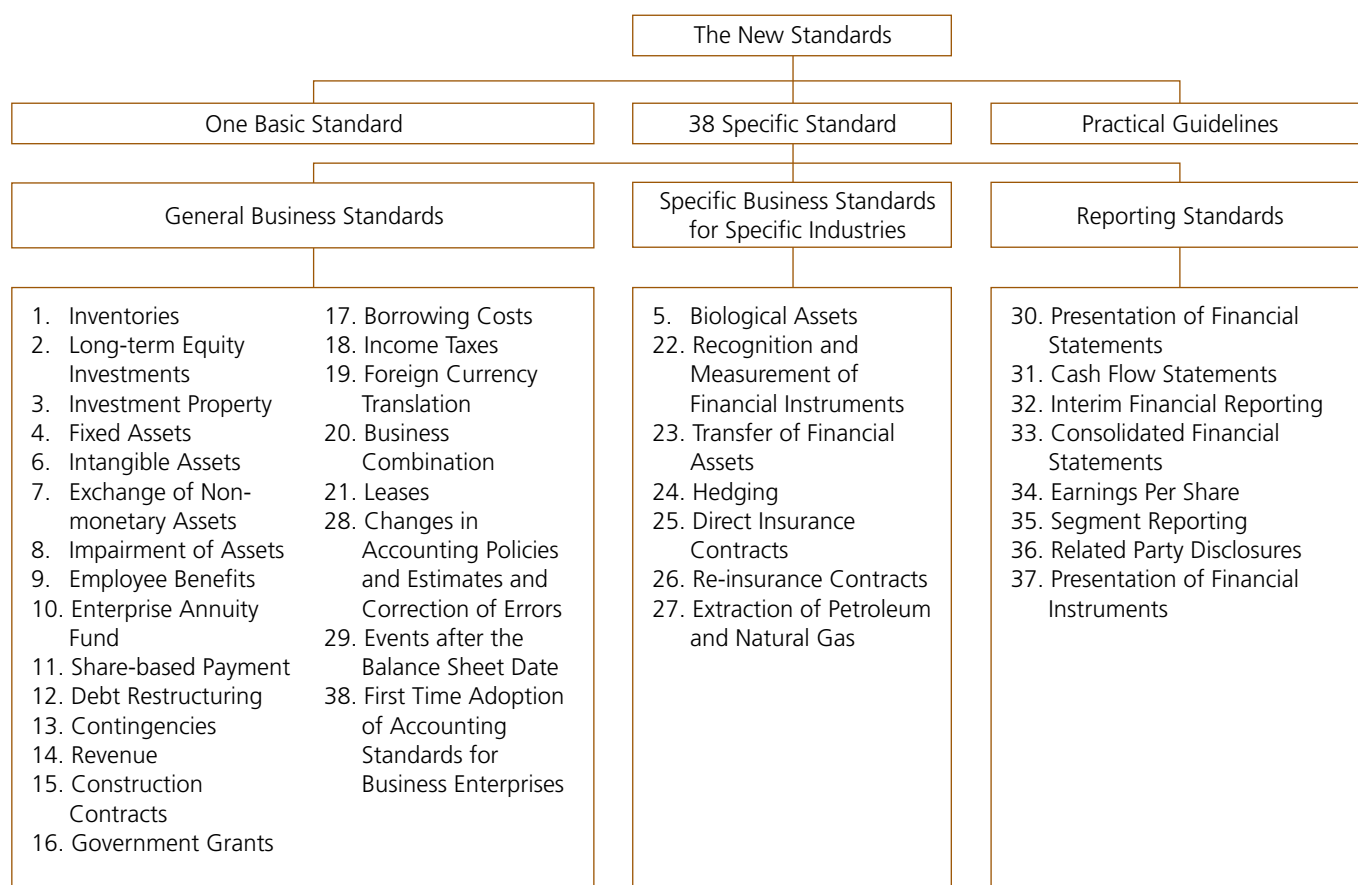
In this article, we first take a brief look at the structure of the new standards and the basis standard. In future articles, we will present the critical accounting practices established by the new accounting standards and highlight their potential impact on PRC enterprises. Meanwhile, we will identify the major differences between the new standards and our HKFRSs.

### The New Accounting Standards

In the development of the new standards, the Ministry has avoided drafting the provisions of the accounting standard by replicating the IFRSs directly because of potential incompatibility between the IFRSs and the PRC's economy and regulations. The new standards have been developed with reference to the accounting practices established by IFRSs and have taken into account future accounting developments. Certain accounting practices under IFRSs are simplified to ease the implementation and adapted to domestic conditions to avoid any incompatibility.

The new standards (as shown in Figure 1) comprise of one basic standard, and 38 specific standards and practical guidelines, which will be promulgated shortly. In addition to achieving convergence with the IFRSs, the new standards are expected to enhance the quality of accounting information and transparency of enterprises.

Figure 1: The New Accounting Standards



# Features

## *The Basic Standard*

**24** The basic standard sets out a regulatory framework for accounting decision making. In particular, it:

- (i) emphasises that the objective of financial reporting is assisting users of financial report to make economic decisions by:
  - providing accounting information, including the financial position, operating results and cash flow of enterprises, to the users; and
  - reflecting the outcome of management's stewardship in enterprise
- (ii) identifies the following users of financial reports
  - investors;
  - creditors;
  - government and its relevant departments; and
  - the public
- (iii) provides the following accounting definitions:
  - accounting entity;
  - going concern;
  - accounting period; and
  - monetary measurement
- (iv) provides the following accounting principles in accounting recognition, measurement and reporting:
  - accrual principle;
  - prudence principle;
  - substance over form principle; and
  - timeliness principle
- (v) requires enterprises to record transactions and events using the debit and credit double entry method
- (vi) requires enterprises to provide accounting information which satisfy the following qualitative characteristics:
  - reliability;
  - relevance;
  - understandability; and
  - comparability
- (vii) defines assets, liabilities, owners' equity, revenue, expenses and profit
- (viii) identifies the following bases of measurement and their application criteria:
  - historical cost;
  - replacement cost;
  - net realisable value;
  - present value; and
  - fair value

## *The Specific Standards*

Among the 38 specific standards, 16 specific standards are developed based on previous accounting standards and the other 22 specific standards are newly developed. The specific standards can be divided into general business standards, specific business standards for specific industries and reporting standards.

The general business standards regulate the recognition and measurement of general business transactions for various enterprises. The business standards for specific industries regulate the recognition and measurement of specific business transactions for enterprises belonging to specific industries. The reporting standards regulate the financial reporting of business transactions for various enterprises.

The revision and introduction of the specific accounting standards will broaden the presentation and disclosure requirements and update the PRC's accounting practices. It is expected that the fundamental changes in accounting practice will significantly affect the financial position and presentation of financial statements of PRC enterprises. Our coming article will consider some of the detail in the new standards.

