

Accounting

THE CHINESE ACCOUNTING STANDARDS: A COMPARISON BETWEEN CHINESE GAAP AND IFRS

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INTRODUCTION

In line with the opening of its economy to foreign investment in recent years, the Chinese authorities have developed an accounting framework to support its economic growth. The Chinese accounting framework is commonly referred to as the Chinese Accounting Standards (CAS) or the Chinese Generally Accepted Accounting Principles (or Chinese GAAP).

Although the Chinese Accounting Standards maintain a high level of integration with internationally accepted accounting standards, such as IFRS, foreign investors must understand a number of core differences that exists. This is of particular importance since all foreign-invested enterprises must meet [monthly, quarterly and annual compliance requirements](#).

In the remainder of this article, we provide a further introduction to the background of the Chinese Accounting Standards and enumerate its main differences compared to IFRS. The article further highlights some difficulties which foreign companies in China may encounter as a consequence and seeks to offer recommendations for foreign companies active in China who do not have a deep knowledge of the Chinese GAAP.

BACKGROUND TO THE CHINESE ACCOUNTING STANDARDS

In China, the Accounting Regulatory Department of the Ministry of Finance (MoF) is the authority responsible for setting out the country's accounting standards. Since 1992 the Chinese Ministry of Finance has worked on the gradual implementation of the Chinese Generally Accepted Accounting Principles, or China GAAP, also known as the Chinese Accounting Standards.

Here the Chinese Accounting Standards mainly consist out of two sets of accounting standards, namely 1) the Accounting Standards for Business Enterprises (ASBEs) and 2) the Accounting Standards for Small-Sized Business Enterprises (ASSBEs).

The ASBEs consist of one Basic Standard, 38 Specific Standards and the related application guidance, which provide the Chinese conceptual framework for financial reporting which applies to all enterprises established in Mainland China, and can be viewed as the counterpart of the International Financial Reporting Standards (IFRS). Whereas the ASBEs have been commonly adopted by most enterprises in China either on a compulsory or voluntary basis by since their issuance in 2006, small-scale enterprises may choose to adopt instead the ASSBEs (the counterpart of IFRS for SMEs).

Since the purpose of accounting is to provide information to truthfully reflect the financial situation and operating results of an enterprise, the Chinese Accounting Standards stipulate that for-profit enterprises should perform their accounting based on an accrual basis.

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Since the main objective of the Chinese authorities to issue the ASBEs and ASSBEs was further convergence with internationally accepted accounting standards, the differences in formulation of the Chinese Accounting Standards as compared to IFRS does not necessarily translate into many differences in accounting requirements. However, key differences still exist, and we will further enumerate upon these in the next section.

DIFFERENCES BETWEEN CHINESE GAAP AND IFRS

Despite the substantial convergence of the Chinese Accounting Standards with IFRS, a number of notable differences with IFRS exists. Among others these differences include:

The Fixed Assets Valuation Method

The most notable difference between Chinese GAAP and IFRS is that in line with the Chinese Accounting Standards companies can only use the historical cost method to value fixed- and intangible assets, whereas IFRS allows the use of both the historical cost method and the possibility of re-evaluating the asset(s).

Since the historical cost method does not allow for the re-evaluation of assets, which means there is the possibility for impairment losses of certain long-term assets, such as property, plant and equipment, intangible assets, investments (other than financial assets) and investment property.

Fiscal Year

In line with the Chinese Accounting Standards, the fiscal year in China must start from January 1st and no exceptions are provided. On the other hand, according to IFRS the company's fiscal year can start at any point throughout the year provided that it encompasses a period of 12 consecutive months.

After the end of the Chinese fiscal year all foreign-invested enterprises in China must complete the [annual statutory requirements](#), including the year-end statutory audit, annual CIT filing and annual publication report. As a consequence of the fiscal year end date, the deadline for the above statutory requirements is May 31st of the subsequent year.

Tax Filing

Whereas in China companies submit financial statements on a monthly basis, under IFRS returns can be filed on a quarterly or bi-monthly basis.

Classification of Expenses

The Chinese Accounting Standards stipulate that expenses are classified according to function, whereas IFRS would classify said expenses by nature.

Other Differences

Furthermore, it should be noted that the Chinese Accounting Standards contain standards for dealing with accounting matters concerning situations specific to China. An example would be that upon a merger between two entities which are controlled by the same entity are required to restate its accounting figures.

Conversely, IFRS may provide more guidance and details regarding situations less common in China. One major difference is the principles concerning employee benefits, where the Chinese Accounting Standards are fairly limited in addressing different types of employee benefits offered by international companies with the notable exception of company stock options.

It should be further noted that the ASBEs have not been revised since their issuance in 2006, where only interpretations to IFRS changes have been issued to provide authoritative guidance, and as a result we can conclude that the Chinese Accounting Standards are characterized by a delayed implementation of updates to the IFRS. As a result, foreign-invested enterprises with a Chinese subsidiary can expect some divergence between their subsidiary in China and other international subsidiaries.

CONCLUSION

The Chinese Generally Accepted Accounting Principles, also commonly referred to as the Chinese Accounting Standards, maintain a high level of integration with international accounting standards. However, despite the substantial convergence between Chinese GAAP and IFRS, foreign-invested enterprises in China must be aware that key differences still exist and these will have consequences for the finances of the Chinese subsidiary in comparison to the group as a whole.

Compliance with PRC legislation is more important than ever, particularly considering the imminent full implementation of the [Corporate Social Credit System](#), and therefore it is advised that foreign business active in China develop a thorough understanding of the Chinese Accounting Standards or obtain support via a qualified third-party. Another important consideration for the shareholder is the application of methodology for the consolidation of the accounts from the Chinese subsidiary with that of its headquarters.

If you need more information or require support with either ensuring compliance with the Chinese Accounting Standards for your Chinese subsidiary or require support with consolidation, you can read more about our [Accounting Services](#) or contact us at info@msadvisory.com.

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Our mission is to provide a full range of financial services to foreign enterprises, where we focus on delivering transparency, compliance and sustainability to your business. We commit ourselves to provide our clients with a good understanding of administrative and reporting requirements in China and ensure they have full control over their finances.

For more information on this subject, please do not hesitate to contact us.

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