A Comparison of Accounting Practice Between China and Western Countries Based on Culture Factors

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Abstract. China joined the International Accounting Standards Board (IASB) and adopted the China Accounting Standard (CAS) at year 2006 to keep pace with the International Accounting Standard (IAS). This is a synergetic step of China’s economy globalization. And since the CAS is similar to IAS, does that mean China’s accounting practice is equal to western countries? This paper discusses the different accounting performance and its reasons from culture angle.

1. Comparison of Accounting Background

It is generally accepted that the earliest accounting practice starts from the end of primitive society - knot count is the physical evidence that people starts to have the concept of recording numbers for their daily life convenience. Hence is the origin of China’s accounting performance, with the long history till Qin Dynasty, all the dynasties have certain bureau which functions like Ministry of Finance to deal with the national finance budget and output. Also, for the private economy the daily journal is popular used - both are under single entry system.

Till the Qing Dynasty, “Si Jiao Zhang” Method is invented by the practitioners, merged with the western practices, then double entry system is generally accepted by China accounting industry - this convergence of accounting method starts to put China and western accounting practice at the same page. But still different standards guide them. Before reform and open-up, China’s economy is featured with high central planning and the government made the accounting standards based on this highly centralized economic status - that is, most of the accounting rules and regulations were set out based on government control of the state-owned and collectively enterprise, there is very few rules regarding the other forms of organisation. After the open-up, China’s economy structure has changed a lot, and diversified business ownership sprung up and played their roles on the economic tide.

Compared with China’s economy, western countries have the long history of capitalization: US for instance, since its liberation, has been led by market economy for several hundred years. The market guides the supply and demand, and accounting standards are made out of people’s need in the process of resources allocation - they need as much true and fair information as possible when reading and analyzing financial statements. This is the incentive for them to continuously formulate their accounting standards and adjusting their standards as the economy requests.

A good example to illustrate this difference could be the purpose of accounting. For the western countries, the purpose of accounting information is to serve the stakeholders - all the parties related internally or externally with the business when the business runs in the market economy, thus debtors, creditors, shareholders, potential investors, government agencies, management, employees are all one part of the information users. The common financial statements are to meet all these parties’ needs. However in China, the accounting goal is separated and breaking down to three levels: first to satisfy the internal management’s need, second to satisfy the government macroeconomic control demand, and the third to satisfy the relevant parties of information needs. In the three levels, the governmental level is an outstanding level, and this reflects the China and western countries’ difference from history and current situation [1].

In conclusion, in China’s economy, government, or authority’s will and request is the key factor in most of China’s accounting history due to the political and economic factor, now with the
2. Comparison of Different Way of Logic Thinking

The different way of thinking is another cultural factor that works in the daily accounting practice. For the China practitioners, detail-first and “from detail to work out overall frame” is the typical Chinese thinking style. A whole set of rules and regulations, from top to bottom, from the practical details to the overall guidance has been set up by Chinese government to make sure China’s high standard of practice. An accounting transaction cycle would be exemplified thereafter. Rules and regulations are set by government to guide all way through accounting practice - from a business angle, accountants do not have a lot of options in deciding their work process. The government sets out rules from small things such as how to stamp and validate an invoice, what is the legal invoice format, how to do every single accounting entries till the important issues such as the recognition policy of financing and fund-raisin. Needless to say, this whole set of rules and regulations give little space for accounting autonomy.

Instead of all fields’ detailed guidance, science and logic is adored in western culture, so does the treatment of their accountancy: The conceptual framework is important in setup of the whole accounting structure, and leaves a lot of thinking., judgement, inference to western accountants. There are less rules or regulations as to the format and control of accounting vouchers, and there are a great amount of accountants’ professional choice and judgement. In a word, in China, almost every field would be guided and people do more in compliance.

3. Comparison of Social and Practical Environment

The social environment also plays differently in China and western. Western countries, which prefer individualism than collectivism, would have the accountancy industry self-disciplined and oversighted by the government. They are inclined to let the industry controlled by industry itself. However in China, which is predominated by the collectivism, people choose to give the individual choice away and let the more powerful authority take then in, so for sure this will lead the government control and oversight the accounting industry and the accounting method is conservative and ruled. While in contrast, the individual professional judgement plays important role in western countries and accountants are more flexible in choose their accounting method - they act based on their individual professional and reasonable judgement.

Under the western countries, the journal accounting procedure forms their accounting organization, e.g. they will journalize the accounting entries, and then put it to ledger, while in China, accountants are more stringent - they rely on accounting vouchers instead. Compared with western countries, they will record accounting entries on their accounting voucher, and then book their ledger (cash, bank and other ledger) according to their recording voucher, finally will record their journal. So in China, the accounting practice is more complex—the voucher itself will be treated for three steps- these increase the accounting prudence as well as accountants’ workload.

4. Comparison of Political and Ideological Feature

Generally speaking, most of western countries choose the Anglo-American Legal system, and the case law is very popular and hence the social atmosphere is more open-minded. The request for disclosure for accounting information is higher. And under western countries, more transparency is reached since their direct disclosure method.

In China, Confucianism is the core of Chinese culture, thus “prudence” and “implicit” are the two features of ideological environment. This also affects the accounting industry in that information disclosure is more implicit, and people would like to make the statement more implicit than explicit from their nature preference. Also, the continental legal system is used, which means the statue law rules in the legal system. And this gives the accountancy less space to choose their independency in financial statement disclosure. As to the purpose of disclosure, many accountants is believed the
disclosure is to make sure the legally binding of all accounting laws and regulations, “true and fair” disclosure is in the second place.

5. The Implied Difference of IAS and CAS

China has converged with international accounting standards in year 2006. After convergence, the CAS and IAS are highly similar, but there are still differences in niches.

5.1 The specialized accounting treatment for CAS when converging with IAS

Some interesting accounting standard could be found out when comparing the IAS and CAS. In converging with IAS, CAS still keeps an eye for the China-featured issues: the merges under same control is among one of them. Normally in western countries, there is no different treatment of merge under same or difference control. However in China, from the begin of 1990, with the restructure of big state-owned or national owned companies, the accounting recognition for the new merged enterprises is very important in accountancy practice, therefore, CAS 20 set up rules for this Chinese-featured mergers: Equity Method is accepted and restatement of the adjusted figures is needed while in IAS there is no specified rules for the mergers under same control. Purchase Method and Pooling off interests Method are both acceptable [2,4]. Another interesting case concerning with China’s specialized economy surrounding would be the related party transaction disclosure. According to CAS 24, the related party transactions do not include transactions between two national owned organisations if there is no other related interest. However in IAS 24, the government controlled or related companies can only be partly exempt from disclosure. They still have to disclose the name, the relationship of another party, the transaction with material amounts, the summarized amount and nature of transactions [3].

5.2 The implied difference of IAS and CAS in accounting method and treatment

Financial accounting, as an effective and orderly management tool, needs the continuous accurate accounting information. One thing that differentiates China from western countries’ practice is the accounting recognition and measurement. People can choose from different methods of their accounting treatment concerning with cost and value issues, while in China, the CAS reduces the possibility of accounting options and directly nominates the accounting method for the above certain issues. A good example would be the revaluation of fixed assets [2]. The IAS would accept the cost method as well as the revaluation method, so after test of asset impairment loss (except goodwill as it is excluded from recovery), if the impaired asset has a recoverable value at the current date, then it is recognized and a recoverable amount is recorded. While in CAS, only the cost method is acceptable. After the asset impairment loss is recognized, there is no way to re-recognize the recovery. This recognition difference arises from the social ideology - western countries are guided by the market economy, while in China, prudence is more preferred. And there are a lot more CAS standards which are guided by prudence rather than market economy reflection.

Conclusion

As the paper has discussed above, with the CAS’s adoption to IAS, CAS has become highly converged to IAS in the basis and material accounting conceptions and principles. However, due to the culture factors arising from the historical, social, political, and economic status, there are still many diverge in the China and western countries’ accounting practice. Recognize these difference and deeply dig out the reasons under diverge can be very useful for Chinese accountancy to melt with the international accounting and economic environment as well as keep China-featured socialist economy healthy and smooth in the globalisation process.

References


208
