



# The Comparison and Equivalence Research Between Chinese and Russian Accounting Standards

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**Equivalence Suggestions of Chinese and Russian accounting standards**



# Significances of the Accounting Standards Equivalence Between Countries

- **Differences of accounting policies among countries**
- **The lack of comparability of financial data**
- **Increased cost and risks of international trade and flow of production and capital**
- **Solve the problems of international trade, production and capital flow, capital integration**



# EU' s Equivalence Experience

- ***Equivalence*** is defined by reference to the ability of investors to make a similar assessment of the issuer's financial position and prospects, irrespective of whether financial statements are drawn up in accordance with the accounting standards of a third country or with IFRS.
  - The equivalence emphasizes the equality of economic consequences of accounting standards, instead of standards themselves.



# Affirmation of CESR on Accounting Standards Equivalence for Six Countries

Country	Conclusion	Advice
USA	<p>(1) U.S.GAAP has further converged with IFRS since IASB and FASB announced detailed planning of accounting standards equivalence in 2005.</p> <p>(2) In January, 2008, SEC proposed that foreign companies listed in the USA could prepare financial statements based on IFRS without adjustments.</p>	U.S. GAAP is equivalent to IFRS.
Japan	<p>(1) Japanese GAAP would be equivalent to IFRS before Dec. 31,2008 according to the agreement reached between ASBJ and IASB in August, 2007.</p> <p>(2) There is no need for EU companies listed in Japan to adjust financial statements based on IFRS to Japan's GAAP.</p>	Japanese GAAP is equivalent to IFRS.



# Affirmation of CESR on Accounting Standards Equivalence for Six Countries

Country	Conclusions	Advice
<b>China</b>	<p>(1) The latest version Chinese accounting standards is equivalent to IFRS substantially.</p> <p>(2) In order to draw the affirmation that Chinese accounting standards is equivalent to IFRS, the implementation, corporate governance and audit quality, etc., need to be taken into consideration.</p>	Temporary equivalence affirmation to allow Chinese companies listed in EU to prepare financial statements based on Chinese accounting standards from 2008 to 2011.
<b>Canada, Korea and India</b>	<p>(1) The convergence plan that accounting standards of the three countries equivalent to IFRS is still under implementation, but it is expected that the plan would be completed by the end of 2011.</p> <p>(2) No sufficient facts or policies show the equivalence of the three countries by far.</p>	To support the convergence plan, a temporary equivalence affirmation to allow companies from the three countries listed in EU to prepare financial statements based on respective standards from 2008-2011.



# Convergence with IFRS is the Foundation of EU' s Equivalence

- ***Two steps for equivalence: Firstly, converge with IFRS; then implement the accounting standards equivalence based on specific situation of each country.***
- **Global Adoption Strategies for IFRS**
  - **More than 120 countries and regions require (allow) the adoption of IFRS, or require the convergence with IFRS.**
  - **Four ways of equivalence: Fully adopt IFRS; Modify IFRS to domestic accounting standards based on domestic laws; Converge with IFRS; Allow domestic accounting standards and IFRS to exist simultaneously. Most countries adopt the third way.**



# The Critical Role of Russia

- **Largest territory in B&R**
- **Important economic and trade partner**
  - **Bilateral trade volume \$69.5 billion, up 2.2% year-on-year in 2016; the only one with positive growth among China's top ten trading partners**
  - **China, as the fourth investment origin of Russia, invested 2.5 billion U.S. dollars in Russia, accumulated amount \$42 billion.**
- **The first outline of multilateral cooperation planning within the B&R framework, *Outline of China-Mongolia-Russia Economic Corridor Planning*, was signed on June 23, 2016.**
- **China and Russia are both members of G20 and BRICS.**
- **China and Russia approved *Belt and Road Financing Guidelines* jointly.**
- **China and Russia are trying to coordinate accounting issues in cross-border financing.**



# IFRS Adoption in China

<b>Projects</b>	<b>CAS</b>	<b>IFRS</b>
<b>Reversal of asset impairment</b>	CAS 8 stipulates once the asset impairment loss is confirmed, it shall not be reversed in subsequent accounting periods.	IASB 36 stipulates the reversal of individual asset impairment loss, reversal of impairment losses on cash-generating units and reversal of goodwill impairment loss in detail.
<b>Related parties</b>	Criteria of related party in CAS 36 is one party controls, jointly controls or has significant influence on the other party, and two or more parties are controlled, jointly controlled or have significant influence by one party.	The definition of related party in IAS 24 is if one party can control or has significant influence on the other party in finance and management decisions, they are related parties. It includes companies that are jointly controlled or have been significantly influenced.
<b>Business combination under common control</b>		N/A



# IFRS Adoption in Russia

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- **On Jul. 25, 2002, Russia announced that all banks implement IFRS on Jan. 1, 2004.**
- **In Jan., 2003, Russia required listed company prepare financial statements based on IFRS since 2004 while subsidiaries can still adopt RAS.**



# IFRS Adoption in Russia

- **In 2010, Russia issued *Federal Law on “Consolidated Financial Statements***
  - **Credit agencies; insurance companies (except companies only offer compulsive medical insurance); non-state pension funds; investment fund management companies for unit trust and non-state pension fund; clearing house; federal state unitary enterprises approved by Federal Government of Russia; joint-stock companies with Federal Government of Russia shareholding and approved by federal government; other listed entities, such as bonds. The above 8 kinds of companies should prepare consolidated statements based on IFRS.**
- **The scope of application of IFRS is limited within the parent companies of listed companies, financial institutions, some government-owned companies, and foreign companies listed in Russia; many other entities in Russia and even subsidiaries of listed companies still implement RAS.**



# Comparison of differences between Chinese and Russian specific accounting standards

**Conceptual Framework  
for Financial Reporting**

**Correspondence between  
Chinese and Russian  
Accounting Standards**

**Assets & Liabilities View  
VS  
Revenue & Expense View**

**Comparison of  
Significant Differences**



# Comparison of Conceptual Frameworks for Financial Reporting

- **RAS lacks a systematic, comprehensive conceptual framework for financial accounting and a specialized standard for financial accounting concepts, which affects its unity, persistence and professionalism.**
  - **Some accounting objectives, assumptions, and information quality requirements are spread over their accounting regulations or specific accounting standards.**
- **CAS makes specific definitions to related concepts in *Accounting Standards—Basic Standard*, constructing a systematic, comprehensive conceptual framework for financial reporting.**



# Assets & Liabilities View VS Revenue & Expense View

- **CAS shows the concept of assets and liabilities integrally.**
  - *Basic Standard* lists eight demands of accounting information quality and focuses not only on reliability, but also the expression of correlation.
  - Introduces fair value to the measurement basis.
  - Calculates returns in comprehensive income perspective
- **RAS shows the concept of revenue and expense**
  - Focuses on cost accounting with separate accounting standards for accounting of costs and expenses, *RAS 10—Business Expense*
  - The measurement basis is relatively single, mainly historical cost.
  - The concept of comprehensive income has not been introduced and calculates revenue only by revenue expense



# Correspondence between Chinese and Russian Accounting Standard

RAS	CAS
RAS 1—Accounting Policy (2012)	CAS—Basic Standards (2014) CAS 28—Accounting Policy, Accounting Estimate Change and Error Correlation (2006)
RAS 2—Construction Contract (2012)	CAS 14—Income (2017)
RAS 3—Translation of Foreign Currency (2010)	CAS 19—Translation of Foreign Currency (2006)
RAS 4—Accounting Statements (2010)	CAS 30—Financial Statements (2014) Accounting Law of PRC (2017)
RAS 5—Inventory (2010)	CAS 1—Inventory (2006) CAS 12—Debt Restructuring (2006)
RAS 6—Fixed Assets (2010)	CAS 4—Fixed Assets (2006) CAS 5—Biological Assets (2006) No. 6 Interpretations of CAS (2014)



# Correspondence between Chinese and Russian Accounting Standards

RAS	CAS
	CAS 2—Long-term Equity Investment (2014)
	CAS 3—Investment Property (2006)
	CAS 7—Non-monetary Asset Exchange (2006)
	CAS 9—Staff Salary (2014)
	CAS 10—Corporate Pension Fund (2006)
	CAS 11—Stock Payment (2006)
	CAS 20—Business Combination (2006)
	CAS 21—Lease (2006)
N/A	CAS 24—Hedge Accounting (2017)
	CAS 25—Direct Insurance Contracts (2006)
	CAS 26—Reinsurance Contracts (2006)
	CAS 32—Mid-term Financial Statements (2006)
	CAS 33—Consolidated Financial Statements (2014)
	CAS 34—Earnings Per Share (2006)
	CAS 38—First-time Implementation of Accounting Standards (2006)
	CAS 39—Fair Value Measurement (2014)
	CAS 41—Equity Disclosure in Other Entities (2014)



# Differences in Measurement Basis

- **RAS: Mainly Historic Cost VS CAS 39—Fair Value Measurement**
  - **RAS 6—Fixed Assets:** Houses and buildings adopt historical cost measurement **VS CAS 3—Investment Property:** Investment property can adopt fair value for subsequent measurement
  - **RAS 6—Fixed Assets:** The drought animals, meat animals, productive livestock, perennial trees are regarded as fixed assets, using historical cost **VS CAS 5—Biological Assets:** Where there is conclusive evidence that the fair value of biological assets can be obtained continuously and reliably, the biological assets shall be measured by fair value.
  - **RAS 19—Investment Accounting:** Investment is measured at the original value **VS CAS 22—Financial Instruments Recognition and Measurement:** The initial recognition of a financial asset or financial liability should be measured at fair value.



# Doesn't RAS have fair value requirements?

- **There is application of fair value in RAS, but not systematic stipulations of scope and conditions.**
  - ***RAS 5—Inventory:*** The inventory of production materials used for debt repayment received under the debt repayment agreement... When enterprises cannot determine the value of assets obtained or should be obtained, the value of the inventory is determined based on comparable circumstances. This adoption is similar to the second level of fair value adoption in China.
  - ***RAS 19—Investment Accounting:*** Investments whose market price are determined according to some rules are reflected in current market price by adjusting the valuation of previous reporting period in annual accounting statements. Businesses can adjust it monthly or quarterly. The adjustment value between reporting day and previous period is included in operating results for companies (other business income or expenses) or included in expense account for non-profit organizations.



# RAS 6 VS CAS 4

## ○ Definition Scope of Fixed Assets

- **“Following assets are fixed assets: Buildings, constructions, service cars and lorries, equipment, measurement and calibration instruments and devices, computers, instruments, tools for production or daily use, draught animals, meat animals, productive livestock, perennial trees, internal roads and other corresponding objects **VS** CAS 5—*Biological Assets*: Draught animals, meat animals, productive livestock, perennial trees.**



# RAS 6 VS CAS 4

## ○ Revaluation of Fixed Assets

- Business companies can evaluate fixed assets of the same category based on current (reset) value within one year (at the beginning of the reporting year) no more than once...so that fixed assets do not deviate from current (reset) value in accounting and accounting statements... The value-added part of fixed assets is included in capital reserve...The value-added part of the evaluation of fixed assets should be transferred from the capital to the undistributed profits when the disposal of fixed assets **VS** CAS forbids the revaluation of fixed assets.

## ○ Depreciation of Fixed Assets

- Residual value is not considered in depreciations **VS** CAS calculates depreciations for each period by deducting the net residual value.



# RAS 14 VS CAS 6

- **Whether self-created goodwill can be recognized as intangible assets**
  - **RAS 4: It can be regarded as intangible assets if meets the following rules, for example: ..... know-how; brands and service brands; The rule lists 7 conditions that intangible assets accounting should follow, i.e. As long as the conditions for recognition of intangible assets are met, Russian companies can treat their own goodwill as intangible asset. VS The self-created goodwill and company's internally generated brand, newspaper name, etc. shall not be recognized as intangible assets.**



# RAS 14 VS CAS 6

## ○ Reversal of intangible assets impairments

- When revaluation results in an increase in intangible assets, the added value is included in the additional capital (capital reserve) of the unit. The amount of intangible assets' increment is equivalent to its impairment amount in previous fiscal years. **VS** Once the asset impairment loss is recognized, it cannot be reversed in subsequent accounting periods. Intangible assets should be tested for impairment annually, regardless of whether there is any indication of impairment.

## ○ Follow-up measurement of goodwill

- The goodwill depreciation period is 20 years (but no longer than the duration of the company's business activities). Goodwill is depreciated according to straight-line method stipulated in Article 29 of the Standard. **VS** CAS allows only impairments and no amortization.



# RAS 9 VS CAS 14

- **RAS differentiates income from sales, service offering and construction contracts VS CAS does not differentiates the ways of revenue recognition based on class of services.**
- **RAS classifies income into daily activity business income and other business income according to their nature, collection conditions and the direction of their business activities VS No corresponding classification in CAS**
- **RAS's principle of recognition of contract revenue is marked by the transfer of risk rewards VS The revenue recognition model of CAS is a unified recognition principle, marked by the transfer of control of goods or services.**



# Other Significant Differences

- **RAS 16—Termination of Business VS CAS 42—Non-current Assets Held for Sale, Disposal Group and Termination of Business:** CAS classifies termination of business into non-current assets held for sale and disposal group while RAS does not require classification in financial statements.
- **RAS 24—Cost of Natural Resources Exploitation VS CAS 27—Oil and Gas Exploitation:** The scope of RAS is wider with not only the oil and gas industry, but also other non-renewable resources exploration and exploitation industry; CAS only focus on oil and gas exploitation, not applicable to other extractive activities.



# Other Significant Differences

- **RAS 18—Corporate Income Tax VS CAS 18—Income Tax: RAS adopts the principle of income statement liability method while CAS adopts the balance sheet liability method for income tax calculation.**
- **RAS 15—Cost of Borrowings and Loans VS CAS 17—Borrowing Costs: RAS adopts average interest rate method while CAS adopts real interest rate method.**
- **RAS 11—Information of Related Party VS CAS 6—Related Party: CAS has a broader scope of the definition of related parties with more specific stipulation on related-party transactions .**



# Recommendations on Bilateral Accounting Standards Equivalence

- **In 2017, the Accounting Division and the BRICS countries drafted a joint statement of accounting standards setting bodies and accounting standards equivalence between China and Russia was formally put on the agenda.**
- **Two Steps of Equivalence from EU is not suitable for RAS which is significant different from IFRS**



# Recommendations on Bilateral Accounting Standards Equivalence

- **Creative way of accounting standards equivalence between China and Russia**
  - **STEP 1: Conduct dialogues and consultations on relevant accounting standards for each type of economic activity, discuss and issue policy directives, and implement them separately by China and Russia.**
  - **STEP 2: In major areas of cooperation, investors can make similar investment decisions based on these policy directives, making accounting standards of China and Russia equivalent in some economic sectors.**
  - **STEP 3: These major areas of economic sectors promote other sectors to be equivalent in accounting standards, realizing all-around accounting standards equivalence.**
- **For those Chinese accounting standards which cannot find correspondence in RAS, it's suggested Russia can adopt CAS straight away.**