

# Comparison and Thinking between Conceptual Framework for Financial Reporting and Chinese Accounting Standards for Business Enterprises

Zijie Liu

Accountancy, Chengdu University of Technology, Chengdu, 610000, China

**Abstract:** In March 2018, IASB released the comprehensive revised conceptual framework of financial reporting. The new conceptual framework has been redefined in many aspects such as statement elements, confirmation and measurement, and has put forward a series of new concepts, which have a far-reaching impact on the formulation of accounting standards and accounting practices in various countries. Based on the new conceptual framework, this paper compares the main differences between the new conceptual framework and China's basic accounting standards, and discusses the impact of the new conceptual framework on the formulation of China's accounting standards, so as to provide reference for further understanding and application of the new conceptual framework.

**Keywords:** Conceptual framework for financial reporting; Chinese accounting standards for business enterprises; Comparisoninspire

## 1. Introduction

As the basis for accounting theories, financial report concept framework is the theoretical basis to evaluate the existing accounting principles, guide and develop the future accounting principles. IASB Conceptual Framework for Financial Reporting (2018 IASB CF) is the new achievement of financial accounting theories and application, which will make a big difference to the accounting principle formulation and practice disposal in each country. First, the thesis introduces 2018 IASB CF and Chinese Accounting Standards for Business Enterprises (PRC ASBE). Second, it compared their main contents, finally it explores the influence of 2018 IASB CF on the construction of conceptual framework for financial reporting in China and provides some suggestions. China can construct and improve conceptual framework for financial report by referring to 2018 IASB CF, promotes the construction of Chinese accounting principle system. In March, 2018, IASB published Conceptual Framework for Financial Reporting which had been revised comprehensively.

## 2. The Background of Comparison between 2018 IASB CF and PRC ASBE

### 2.1. Overview of 2018 IASB CF

2018 IASB CF is a set of theory system composed of financial report objectives and other basic concepts de-

vised by the objective [1]. 2018 IASB CF is theoretical basis used to guide, evaluate and develop accounting principles, which does not belong to accounting standards. Western developed countries and IASB were both taken importance to the study of conceptual framework for financial report and built the system of conceptual framework for financial report for themselves [2]. With the development of globalization, IASB gradually realize the importance of eliminating the difference between different national conceptual framework and accounting standards to promote the allocation of resources of business globally so there is a comprehensive revision should be made over the original conceptual framework. [3]. IASB finally published conceptual framework for financial report after revision in March, 29th, 2018. 2018 IASB CF proposes many concepts, methods and standards fitting in new situation and future development [4].

### 2.2. Overview of PRC ASBE

Chinese Accounting standards for Business Enterprises include basic principles, specific principles and application guidance.

PRC ASBE include objectives of financial reports, accounting information requirements, accounting elements and accounting measuring. It can be seen that China has initially constructed conceptual framework for financial reports [5]. However, how to possess Chinese CF which has international quality is the problem in need of consideration.

### 3. Comparison between 2018 IASB CF and PRC ASBE

Some scholars such as point out that China should imitate and reference to the 2018 IASB CF, while others believe that China should maintain its local characters of conceptual framework for financial reports such as. In order to answer the questions and make the gap between 2018 IASB CF and PRC ASBE more clearly, the article compared them and some enlightenment is obtained from the revision of Chinese conceptual framework for financial report.

#### 3.1. Objectives of financial reports

In the objective, compared with PRC ASBE, 2018 IASB CF summarized as to provide financial information which is related resource decision making, rather to provide useful information only about financial situation cash flow, etc. In the aspect of users, 2018 IASB CF highlights main users, which is limited in existing and potential investors, loaners and other creditors. The limitation shows that IASB thinks that financial report should satisfy the information demand of main users. In the aspect of decision, there is not a clear definition about economic decision in PRC ASBE. 2018 IASB CF provides related resource decision making for users and explains the decision in detail. New CF is more clear with the definition of objectives. As shown in the following table:

Table 1. Financial report decision content

	Objective	Main users	Decision contents
2018 IASB CF	provide financial information which is related resource decision making which is favorable to existing and potential investors, loaners and other creditors, Provide resource related decisions;	Existing and potential investors, loaners and other creditors	resource decision making
PRC ASBE	Financial situation, management achievements and cash flow of business; Shows performance of enterprise managers, which is beneficial for report users to make economic decisions;	Investors, creditors, related government departments, social public	Economic decisions

#### 3.2. Quality of useful financial information

There is two level of 2018 IASB CF: 1. Fundamental qualitative characteristics, 2. Enhancing qualitative characteristics. While PRC ASBE shows eight requirement of information quality such as reliability and relevance

which is without layering [6]. Generally, 2018 IASB CF is more clearly in the layering of quality, and easier to practice. The quality characteristics of financial information in 2018 are as follows:

Table 2. Qualitative characteristics of financial information in 2018

	Fundamental qualitative characteristics	Enhancing qualitative characteristics
2018 IASB CF	Relevance Reality	Comparability Verifiability Timeliness Understandability
PRC ASBE	Reliability, Relevance, Understandability, Comparability, Substance over form; importance, prudence, timeliness	

#### 3.3. Financial report and reporting entity

Under 2018 IASB CF, financial reports provides financial information related to assets, liabilities, yield and expenses, which starts from the overall perspective of entity and is compiled based on going concern assumption. 2018 IASB CFs definition about entity is the newly added contents. Report subjects can not only single entity but also part of entity and may composed by many entities. Report entity may not be legal entity. At the same time, 2018 IASB CF also give definition about subjects

of combined financial statement, non-combined financial statement, and summarized financial statement. While PRC ASBE do not give a specific definition on the reporting entity.

#### 3.4. Confirmation and termination

2018 IASB CF makes instructions about the definition of final confirmation, accounting to under different situations. There is no regulations about final confirmation in PRC ASBE. The basic standards and factors influencing the standards are shown in the table below:

Table 3. Basic standards and factors affecting standards

New CF		Chinese basic standards
Standard	Elements influencing standard	Standard
Relevance	1.Uncertainty existing in assets or liabilities 2.Low possibility for profit flow	1.Satisfy definition of related elements 2.Future economic profits of the project may flow 3.The cost or value may rely on measuring.

Realistic reflection	1.Measuring uncertainty 2.Inconsistent confirmation 3.Disclosure requirements	
----------------------	---	--

**3.5. Presentation of financial reporting and disclosure**

In order to transmit financial statement effectively, 2018 IASB CF explains how to present and disclose information from objective principle, classification and summary. while PRC ASBE are not explained detailedly.

**4. Consideration on Construction of Conceptual Framework for Financial Report in China**

Through comparison between 2018 IASB CF and PRC ASBE, there is difference existing between content and function. For content, PRC ASBE is needed to improve in contents. There is no clear plan and statement about financial report, and also no definition about some conceptual framework which need to be defined.. The measuring of reporting is not clear enough which without specific explanation about different accounting behaviors in different periods. There is no unified written statement about financial reporting form during the independent accounting period, while lacking basic report formulation standards which can not form a systematic reporting concept. In terms of function, there is lack of theoretical basis of accounting in PRC ASBE. As a result, In order to reinforce users' perception about financial reports and improve the accuracy and understandability of accounting financial reports, China needs to construct its own conceptual framework for financial report to replace ASBE,

It can be seen from the development of IASB conceptual framework for financial report that revision and improvement of CF is a general trend, which is required by economic globalization, and plays an important role in directing the formulation of global accounting standards and dealing with accounting practice, as well as promoting international coordination of accounting information. The Chinese characteristics was been over-emphasized in the formulation of accounting standard In the early period, which made China's export enterprise be investigated subject to anti-dumping frequently, and the failure of anti-dumping lawsuits damaged the interests of enterprises seriously [9]. As a result, accounting as a common business language, which is necessary for China to make further construction of conceptual framework for financial report based on ASBE in order to direct the formulation of Chinese accounting standards and improve the international level of accounting.

**4.1. Path choice to construct Chinese conceptual framework for financial report**

For whether Chinese conceptual framework for financial report is tend to international or keep local features, Rui Zhuo and XiaoLiang Zhu think that the revision of IASB CF is benefits to unificate accounting practice all over the world, and promotes the healthy development of capital market. China should refer to 2018 IASB CF actively to establish Chinese conceptual framework for financial report [7].

**4.2. Suggestions about constructing Chinese financial statement conceptual framework**

At first, Ministry of Finance should start actively the revision and improvement of financial statement conceptual framework [8] I suggests that on the one hand refer to new experience and achievements of IASB financial report conceptual framework (2018), and on the other hand, study the relationship between conceptual framework and economic environment as well as start the revision of Chinese accounting standards for business enterprises combined with China's national condition. The Exposure Draft for Basic Standards can published to collect opinions widely.

Secondly, in the revision process, focus on solving deficiencies in basic standards in accounting, such as establishing hierarchical accounting information quality system, reinforce the importance of reflecting reality, increasing report subjects, disclosure, measuring and so on. Chinese government can revise their conceptual framework by studying the new achievement of 2018 IASB CF and start the revision according Chinese national conditions to improve the quality and level of revision.

**5. Conclusion**

The publishing of IASB financial report conceptual framework has further influence on Chinese accounting standards and accounting practice. Basic standards for accounting possesses function of accounting conceptual framework. Compared with new IASB financial report conceptual framework, there is certain difference. China can refer to the latest achievements of new framework, and establish Chinese financial statement conceptual framework, focusing on solving requirements for information quality in basic standards, report subjects, disclosure, measuring and so on. CF which manifests national situation with international level of quality should be made to improve the accounting work com-

prehensively, reinforcing the decision usefulness of financial accounting information.

## References

- [1] Silvia. Conceptual Framework for the Financial Reporting 2018. Available from: <https://www.ifrsbox.com/ifrs-conceptual-framework-2018/>. 2019.
- [2] Yongping, R. et al. Shi ping IASB, FASB cai wu kuai ji gai nian kuang jia de qu tong xing. Shanghai: Shanghai University. 2016.
- [3] Ming, Z. IASB Development overview and enlightenment of new financial reporting conceptual framework. Nanjing: Nanjing University of Finance and Economic. 2018
- [4] Pengfei, Z. et al. IASB Major changes and implications of the new conceptual framework for financial reporting. Beijing: Beijing University of Information and Technology. 2019.
- [5] Yun, P. Thinking on constructing the conceptual framework of financial report in China. Hunan: Xiangtan University. 2016.
- [6] IAS Plus. Conceptual framework for financial reporting 2018: chapter 2: qualitative characteristics of useful financial information. Available from: <https://www.iasplus.com/en/standards/other/framework>. 2019.
- [7] Hongchao, P. IASB Review and evaluation of the draft for soliciting comments on the conceptual framework of the new financial report. 1994-2019 China Academic Journal Electronic Publishing House. 2016.
- [8] Rui, Z. et al. IASB New development and prospect of conceptual framework of financial report. 1994-2019 China Academic Journal Electronic Publishing House. 2019.
- [9] Jing, C., Yan, L. Comparison and enlightenment of accounting elements setting of FASB, IASB and China FASB, IASB. Jiangxi University of technology. 2017, 36(27), 246-248.