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Original Paper

Accounting Standards Comparison between China and Russia

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Abstract

Both Chinese and Russian accounting standards follow the IFRS convergence route, despite there being a difference in the degree of international convergence between the two countries. The article examines the specific criteria for financial statement presentation in China and Russia and discovers discrepancies in the basic requirements for financial statement presentation, financial statement composition, and information in notes to financial statements in both countries. The comparison in this article is used to provide theoretical guidelines for reciprocal economic investment between the two countries.

Keywords

Financial statements, Accounting standards, Comparison between China and Russia

1. Introduction

In 2015, China and Russia signed the "Declaration on Cooperation between the Eurasian Economic Union and the One Belt One Road", which bolstered the economic cooperation strategy between the two nations. China and Russia have broad prospects and great potential for economic cooperation under the promotion of the "New Silk Economic Belt" and the vigorous promotion of the two countries leaders, thanks to their large economic volume, strong industrial complementarity, and wide market space, as well as unique geographical and cultural advantages.

As part of the world's leading countries in economic transition, China and Russia have implemented progressive reforms of numerous economic policies, including accounting standards, in line with the overall trend of economic development. However, because the pace of worldwide convergence of accounting standards in China and Russia is different, so the information in the financial statements of the two countries is not the same as IFRS and the information in the financial statements of the two countries differs significantly.

The financial report is the primary source of financial information for enterprises, and interpreting financial reports has become the primary method of understanding a company's financial performance. The financial statement serves as the foundation of financial reporting. The fundamental means for firms to fulfill the purpose of financial reporting is the correct and accurate preparation of financial statements. As a result, detailed analysis of financial statements is critical for mining financial data.

2. Comparison of Financial Statement Composition between China and Russia

CAS30 General Article 2 establishes the idea of a financial statement, which is a structured presentation of an enterprise's financial position, results of operations, and cash flows. A financial statement should include at least five parts: the balance sheet, income statement, cash flow statement, statement of changes in owners' equity (or shareholders' equity, as defined below), and notes, all of which are equally important.

According to PBU 4, financial statements should give credible and complete information regarding the enterprise's financial status, operating outcomes, and financial status changes. The balance sheet, income statement, notes, and instructions are the primary components of the financial statements (annexes to the balance sheet and income statement and instructions, the same below). If the enterprise's statements must be audited in line with federal legislation, the audit conclusion confirming the reliability of the enterprise's statements should be included.

In the case of the cash flow statement, there are similar independent standards in China's and Russia's accounting standards systems. The compilation of the cash flow statement is explicitly governed by CAS31 and PBU 23. In terms of the composition of the financial statements, both the Chinese and Russian financial statements contain the three basic statements of the financial statement system: the balance sheet, the income statement, and the cash flow statement. In contrast, the Russian financial statements do not include the statement of changes in owner's equity as a separate chapter for detailed specification, but instead list the quantitative indicators of the statement of changes in owner's equity at the end of the notes to the balance sheet and income statement in a separate chapter, indicating a different standard. This highlights the fact that the Russian financial statements continue to focus on the financial position and operating performance of firms, necessitating the need for more attention and adjustments to the owner's equity. Furthermore, PBU 4 makes unique definitions of key terminology engaged in this standard, whereas CAS 30 has definitions of relevant terms distributed throughout several chapters.

3. A Comparison of Balance Sheets

Both Chinese and Russian balance sheet items are displayed in order of liquidity, however, Chinese and Russian accounting rules differ in the order of presentation of asset and liability liquidity, as well as the classification criteria of current and non-current assets and liabilities.

PBU 4 has no relevant provisions and simply displays the balance sheet items in the form of a table, whereas CAS30 states the criteria and nature of the classification of current and non-current assets and current and non-current liabilities. The information in Table 1 was produced by the authors based on a collation of the order of presentation of balance sheet components in China and Russia.

Table 1. Comparison of Balance Sheet Item Presentation between China and Russia

Item	CAS30	PBU 4
Asset	Current assets	Non-current assets
	Non-current assets	Current assets
Liability	Current liabilities	Owner's Equity
	Non-Current liabilities	Non-current liabilities
		Current liabilities
Owner's Equity		

Both Chinese and Russian accounting statements, as shown in the table above, are divided into three major categories: assets, liabilities, and owner's equity. The distinction is that in Russian financial statements, the owner's equity is included in the liabilities category, whereas in Chinese financial statements, the owner's equity is classified separately.

China's balance sheet presents assets, liabilities, and owner's equity in sequence according to the accounting identity "assets=liabilities+owner's equity", while Russia's balance sheet presents assets, owner's equity, and liabilities in sequence. China's balance sheet shows current assets, non-current assets, current liabilities, and then non-current liabilities in order of liquidity strength, whereas Russia's balance sheet shows non-current assets, then-current assets, non-current liabilities, and current liabilities in order of liquidity strength.

In terms of the classification of balance sheet items, Chinese accounting standards present goodwill separately, while Russian accounting standards reflect goodwill as an intangible asset of the enterprise in the balance sheet. Because China has nationalized land, firms only have the right to use land, therefore they account for the right to use the land as an intangible asset, whereas Russia has privatized land and accounts for land as a fixed asset of the enterprise. China has a more extensive asset class classification, dividing investments into held-to-maturity investments, long-term equity investments, investment properties, and so on, whereas Russia has a simpler asset class division, primarily direct investment items invested in firms. China's financing items are also more plentiful among the liabilities represented in its financial statements, including financial liabilities for transactions, bonds payable, long-term payables, and so on, in addition to bonds, whereas Russia's financing liabilities are primarily bonds. The separation of investment items into the asset category and financing items into the liability category is mostly related to the country's economic capital's level of development. When firms have more investment and financing channels, these item categories will undoubtedly be represented in the company financial statements, giving users of financial statements more trustworthy financial information.

4. Comparison of the Income Statement

CAS 30 requires enterprises to categorize income statement expenses following the functional classification into costs incurred in conducting business operations, general and administrative expense, selling expense, and financial expense, among others; PBU 4 provides for the categorization of revenues and expenses into recurring and other categories. Although PBU 4 does not specifically indicate the manner of categorizing expenses in the income statement, the income statement items show that Russia also utilizes the functional way of categorizing expenses. Table 2 shows the indicators reflected in the income statements for China and Russia.

Table 2. Comparison of Chinese and Russian Income Statement Items

CAS30	PBU 4
Sales from operations	Revenue from the sale of goods, products, work performed, and services rendered, net VAT, excise taxes, and other necessary expenses
Operating costs	Net income
Operating tax and additions	Cost of goods sold, products, work performed, services rendered (excluding operating expenses and administrative expenses)
General and administrative expense	Gross profit from sales
Selling expenses	Operating expenses
Investment income	Management costs (overhead)
Profits or losses on the changes in fair value	Operating profit
Losses on the asset impairment	Interest income
Gain or loss on disposal of non-current assets	Interest expenses
Income tax	Dividend income
Net income	Other operating income
Amount of each item of other comprehensive income, net of income tax effect, respectively	Other operating expenses
Comprehensive income	Profit before taxes
	Corporate income tax and other similar taxes
	Profit from recurring activities
	Net income (undistributed earnings, for loss recovery)

When comparing the income statement items of Chinese and Russian firms, it is clear that the Chinese income statement is more specific and detailed, and contains more items, particularly the ability to consider profit and loss items such as fair value changes, asset impairment gains, and losses, and gains and losses on disposal of non-current assets and reflect them in a separate column, whereas the Russian income statement does not.

5. Comparison of Statement of Changes in Shareholders' Equity

CAS 30 provides that the statement of changes in owners' equity should reflect, as a separate example, at least the following items of information: total comprehensive income and, in the consolidated statement of changes in owners' equity, total comprehensive income attributable to owners of the parent company and total comprehensive income attributable to minority shareholders; the cumulative effect of changes in accounting policies and corrections of prior-period errors; capital contributions by owners and distributions of profits to owners; surplus reserves as required; and the opening and closing balances of the components of owners' equity and their reconciliation. The cumulative effect of changes in accounting policies and corrections of prior period errors; capital contributions by owners and distribution of profits to owners; surplus reserves as required; and the opening and closing balances of the components of owners' equity and their reconciliations. PBU 4 also does not require separate reporting of changes in owners' equity but rather states in the notes to the balance sheet and income statement that for-profit organizations and enterprises must disclose in their financial statements the balances and changes in registered capital (treasury stock), surplus reserves, and all other equity, and that the statement of changes in owners' equity must be disclosed in the notes to the balance sheet and income statement. The following quantitative indicators regarding changes in the shareholder's equity should also be recorded; Opening balance of owners' equity, the total increase in owners' equity (additional issuance of shares, revaluation of assets, appreciation of assets, reorganization of legal entities (union, merger), direct increase in registered capital according to the accounting and reporting standards), the total decrease in owners' equity (decrease in par value of shares, decrease in the number of shares, reorganization of legal entities (separation, split), direct decrease in registered capital according to the accounting and reporting standards), the closing balance of owners' equity. The absence of a separate statement of changes in owners' equity in PBU 4 indicates the fact that Russian firms are presently not paying enough attention to the statement of changes in owners' equity, which is directly connected to Russia's economic development. Corporate investors and creditors are interested not only in the enterprise's financial situation and operating outcomes but also in the distribution of earnings and changes in shareholders' equity. The declaration of changes in shareholders' equity will eventually be incorporated in the financial statement system as the two countries' joint-stock reform and the number of joint-stock businesses and listed firms grow. As a result, as the Russian economy grows, greater emphasis should be placed on the declaration of changes in owners' equity.

6. Comparison in Notes

According to CAS30, the notes are textual descriptions or detailed information of sample items in the balance sheet, income statement, cash flow statement, and statement of changes in owner's equity, as well as explanations of items that cannot be included in these statements. It also requires that the notes should disclose, in sequential order, basic information about the enterprise; the basis of preparation of financial statements; statement of compliance with accounting standards for enterprises; significant accounting policies and accounting estimates; description of changes in accounting policies and accounting estimates and correction of errors; notes to significant items in the statements; contingent and committed matters, non-adjusting events after the balance sheet date, related party relationships and their transactions, and other information that requires description, amongst other information; information on other comprehensive income; income, expenses, total profit, income tax expense and net income relating to discontinued operations; and profit from discontinued operations attributable to the owners of the parent company; disclosure of total dividends declared or total dividends per share and amount of dividends per share.

PBU 4 does not explain the notes, but it does require the notes to reveal the accounting policies of enterprises, and the procedures for disclosing the accounting policies of companies are outlined in the accounting standards for enterprises (PBU 1); basis of statement presentation; additional information related to the balance sheet, including the changes in assets, liabilities shareholder’s equity items; unusual factors and effects in operating activities; all guarantees made on liabilities and payments of the enterprise, and receipt of guarantees; contingencies; business discontinuation; consolidated entities; state aid; earnings per share; explanatory notes to the separate statement format; money flows; and changes in owner’s equity; and basic information about the enterprise.

When comparing the notes to financial statements of Russia and China, both the disclosure items and the sequence in which they are disclosed reveal considerable variations. Although the goal of the notes is to give users with accurate and trustworthy information that is used to make decisions, users in the two countries may interpret different information in the statements. Investors in international businesses are bound to pay more attention to the information in accounting statements as the asset-based market develops and improves. As a result, international accounting standards convergence between China and Russia is critical, and the sooner and greater the substantive convergence with international accounting standards, the more favorable to cross-border investment operations.

7. Conclusions and Insights

A comparison of Chinese and Russian financial statement presentation standards reveals that key information such as fair value and impairment of fixed assets is not reflected in Russian financial statements, this is closely related to the political economy of Russia. Some information in financial statements is not implemented in line with accounting rules due to the Russian government’s rigorous control of businesses, but it is represented in disclosures mandated by federal legislation. Furthermore, the purpose of Russian accounting laws is used for the state tax levy, fair value is not included in the balance sheet, but the rather historical cost is utilized as a measuring characteristic, and fixed assets are not impaired. Such treatment often leads to a biased interpretation of information in companies’ financial statements by investors. At the same time, such a treatment indicates that Russian financial statements primarily reflect a fiduciary view of responsibility. Furthermore, because the Russian capital market is still developing, financial instrument-related items are rarely included in financial statements. The aforementioned discrepancies might significantly influence financial personnel’s interpretation of financial information, and thus should be given full consideration in the process of economic contact between Russia and China. The quality and accuracy of accounting information interpretation will be improved by thoroughly studying and analyzing the differences between Russian and Chinese accounting standards, thereby providing good financial information support for enterprises in international investments or international transactions and operations, promoting the optimization of business strategies, and reducing or eliminating risk.

Since there is an insufficient study on Russian accounting standards in China and a scarcity of accountants who are familiar with the Russian accounting system, this will cause significant disruption to commerce, investment, and economic communication between the two countries. Faced with the broad prospect of Sino-Russian economic cooperation, we should increase research and public awareness of the differences between Chinese and Russian accounting standards, and lay a solid foundation for the optimization of accounting behavior of Chinese enterprises in the process of Russia-related investment, trade, or cross-border operation, based on the full understanding of the problems of Russian accounting reform and the differences between Chinese and Russian accounting standards. However, this paper only compares financial statement standards; a more in-depth examination of the impact of differences in financial statement standards between China and Russia on practical accounting is needed to improve people's understanding of the Russian accounting system and, as a result, provide richer reference value and significance for businesses.

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