

Comparison and prospect of Chinese and Western accounting standards based on SWOT-PEST model

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Abstract. Accounting is a language to record economic life, and with the rapid development of productivity and economic and social progress in China, accounting standards are constantly updated to meet the needs of accounting practice and promote the effective operation of socialist market economy. China promulgated the Accounting Standards for Business Enterprises in 1992 as the highest authority of accounting regulations, which has been developed and improved for nearly 30 years, but it is undeniable that the current Chinese accounting standards (CAS) have borrowed from Western accounting standards especially the International accounting standards (IAS) to a considerable extent. In this paper, from the development history of CAS, through the analysis of the causes and effects of the overall differences and specific differences between the two systems on the financial statements of enterprises, combined with the SWOT-PEST model, we make a reasonable outlook on the development of CAS.

Keywords: Accounting standards; comparison; SWOT-PEST; outlook.

1. Introduction

Accounting standards are the standards for accounting work. Along with the deepening development of economic globalization, the existing CAS are being substantially converged with IAS, but because of the different development stages and specific national conditions, CAS have retained Chinese characteristics. However, with the deepening of economic and trade exchanges in the new era, the international synergy of accounting standards is an inevitable trend of economic development. How to correctly treat the differences under the two sets of standards, how to eliminate the elements of backward development existing between CAS and IAS, and how to assume China's great power responsibility in the development of standards is the top priority for the development of China's accounting standards.

2. Overview of the development of accounting standards in China

2.1 Development history of accounting standards

According to the research of several scholars such as Daoyang Guo and Yibin Gao, the development history of accounting standards in China is roughly classified into the following stages.

Prologue: From December 1978 to October 1984, with the convening of the Third Plenary Session of the Eleventh Central Committee, we completed the setting right of the ideological, political and economic lines, which was also the beginning of the internationalization of accounting standards in China.

Establishment: From October 1984 to October 1992, as China's economic system gradually transitioned from a planned economy to a market economy, a large number of foreign-funded enterprises came into being, which put forward new requirements for the formulation and standardization of accounting standards. So, after years of research and discussion on accounting practice, the Chinese government and the Accounting Association issued the Accounting Standards for Enterprises in 1992, so that the accounting standards took the place of the unified accounting system on the historical stage.

Improvement: From October 1992 to January 2006, in order to meet the development requirements of establishing socialist market economy, China started to vigorously promote the reform of shareholding system of state-owned enterprises. With the standard "Disclosure of related party relationships and their transactions" as the starting point, the development of various specific standards has enriched the specific content of China's accounting standards system. It is worth mentioning that the successful accession of China to the WTO in 2001 has positively promoted the internationalization of China's accounting standards.

Development: From January 2006 to now, after a long period of practice and a series of revisions and improvements, the Ministry of Finance promulgated a new accounting standard system in February 2006, including 1 basic standard and 38 specific standards, marking the formal establishment of China's internationalized enterprise accounting standard system. It not only promotes the enhancement of China's position in the international capital market, but also plays an irreplaceable and positive role in promoting the enhancement of China's comprehensive national power and the development of the capital market.

2.2 Reasons for international convergence of accounting standards

2.2.1 Internal factors

In fact, the development of China's accounting career is relatively late, and there are not enough practical cases to original a reasonable and complete standard system, plus various conditions, if only let the congenital inadequate accounting system develop and improve according to the normal speed, it is unable to adapt to the objective needs of the rapidly developing economy after the reform and opening up. Therefore, it becomes a wise approach to draw on the international accounting system that has been relatively well established.

By studying the western accounting system, learning the mature experience and combining it with the existing standards in China, it will help to correct the problems in the construction of the accounting system in time and promote the construction and development of the accounting discipline system. It is also true that the improvement of China's comprehensive national power and the rapid development of productivity is the strongest evidence that China's accounting standards system has adapted to the objective requirements of development, rather than the shortcomings that restrict economic development.

2.2.2 External factors

a) Consideration of reducing duplication cost

With the rapid development of economic globalization, if different countries apply different accounting standards, then when it comes to the economic and trade exchanges between countries, the same economic affairs need to be labored many times according to the specific regulations of different countries to meet the needs of accounting information of different countries, which leads to a huge waste of resources of people, money and materials, so for the consideration of cost performance, countries try to converge. Therefore, for the sake of cost effectiveness, the convergence of accounting standards among countries can not only promote the efficient use of resources and improve the management level, but also help to adapt to the tide of economic globalization, create a more effective multilateral mechanism and better cope with the financial crisis, so that China can better dialogue with the world, show our advantages as well as more timely information needed to provide a solid guarantee for the development of China's market economy.

b) The need for the development of Chinese and foreign enterprises

After China's reform and opening up, the management of an increasing number of small and medium-sized enterprises does not have a long-term vision and does not have a deep understanding of the importance of CAS. At the same time, China has become a fertile ground for the development of multinational enterprises, and the development of China's economy also requires the participation of a large number of foreign enterprises, which gives rise to a series of internal and external accounting problems. As a result, along with the accelerating pace of mergers and acquisitions, the differences between countries involved in multinational companies and the problems of standardized development of small and medium-sized enterprises are becoming increasingly significant. Only when all countries deal with and declare the economic operations of multinational companies according to internationally accepted principles and methods, it is possible to solve these differences and improve their tax and investment financing environment. Therefore, regardless of whether it is effective supervision of foreign multinational enterprises or our successful enterprises entering overseas, China's accounting standards need to converge with the international.

c) Objective requirements of economic development

Investment is one of the three driving forces of economic development. Since our country started to develop late and started to get rid of backwardness and take off only after the reform and opening up, it is not enough to rely on ourselves in the initial stage of reform and opening up. This requires us to provide foreign investors with true and fair accounting information that they can understand, in order to enhance foreign investors' confidence in China's corporate financial reports and promote the development of small and medium-sized enterprises. Therefore, it is necessary to speed up the internationalization of accounting standards, which is the only way to enable foreign investors to assess risks and benefits and to promote the formation of a fair, just and open market economy, which is also beneficial to China's long-term development.

2.3 Impact of internationalization of accounting standards

2.3.1 Positive impact

a) Promoting economic exchange

The internationalization of accounting standards greatly enhances the transparency and comparability of accounting information, which also enhances the investment confidence of foreign investors, and at the same time reduces the transaction costs of China's investment and financing in the international capital market, weakens the uncertainty of financial information, reduces the possibility of enterprises manipulating profits and key financial indicators. Moreover, it helps improve the relationship between enterprises and stakeholders especially the relationship between investors, improve the capital market and asset capital structure, and ultimately promote the development of the world economy.

b) Improve international discourse

Development is the hard truth. However, IAS are usually formulated for the needs and demands of developed countries, and other developing countries such as China often can only passively accept them. Therefore, only by internationalizing accounting standards can China truly participate in the formulation of IAS and formulate standards that are more in line with the interests of the world's people, so as to improve the right to speak and play the role of a big country.

2.3.2 Negative impact.

a) Large cost of change

It is not easy to change any standard, and the process of internationalization will require a lot of human, material and financial resources. The standard setter usually needs to spend a lot of money on research to analyze the differences between the two sets of standards and the specific situation of the country, and then the follow-up training and education for the old accounting staff and the change of mindset will also incur huge costs.

b) Tax revenue reduction

The tax revenue of a country is usually calculated on the basis of the total profit of financial reports. When IAS are adopted, the accounting profit of enterprises is often lower than the profit calculated using the standards before the change, which means that when CAS converge with internationalization, the corresponding tax revenue will be indispensably reduced, which means that the interests of certain groups will inevitably be damaged and lead to great resistance. This means that there will be great resistance from certain groups whose interests will be compromised.

3. Comparison with the differences of western standards

The current western accounting standards can be roughly divided into principle-oriented International accounting standards and specific rule-oriented U.S. accounting standards, both of which are aimed at restraining the accounting behavior of countries around the world and promoting the overall standardized development of national economies on the basis of not affecting the economic transactions between countries. Therefore, this paper mainly compares and analyzes CAS and IAS.

3.1 Overall differences

3.1.1 Framework structure

The current IAS does not strictly divide basic standards and specific standards, and the IAS conceptual framework is explicitly stated not to be used as or to clarify IAS, so it does not have a measurement or presentation role. In contrast, China has established accounting standards that are suitable for our practice, including basic standards and specific standards, and the incorporation of basic standards into accounting standards is to some extent contrary to the guiding role that the conceptual framework can play for accounting standard setting. At the same time, CAS are very specific about each account and subaccount, which makes economic transactions easier to understand while weakening to a certain extent the substance-over-form characteristic of accounting information.

3.1.2 Object-oriented

The balance sheet view is a concept particularly emphasized by IAS, and the so-called balance sheet view, in short, can be understood as not caring about the names of the accounts, but recording the increase of assets or decrease of liabilities directly as income, and the decrease of assets and increase of liabilities as expenses, i.e., relatively focusing on the standardized management of the balance sheet, and focusing on the accurate measurement of assets and liabilities when carrying out the work, while China's accounting standards emphasize on the standardized management of income statement, i.e. they emphasize on the view of income statement and require to realize the reasonable ratio of income and profit to the maximum extent.

3.1.3 Effectiveness and orientation

Chinese accounting standards are formulated by accounting associations and government departments according to specific national conditions and tend to be rule-oriented and legally enforceable, while IAS are only a set of high-quality, understandable and principle-oriented standards formulated by the unofficial organization International Accounting Standards Board (IASB) in order to adapt to the wave of economic globalization and to strengthen fair value, decision usefulness, predictability and relevance. It is not legally enforceable.

3.2 Specific differences

Since the promulgation of the new standards in 2006, China has basically achieved convergence with IAS, but there are still some differences in many specific standards, mainly in financial reporting, business combinations, asset impairment, related party transactions, long-term assets, etc.

3.2.1 Financial reporting level

There are differences between the two systems at the level of preparation requirements, information quality characteristics and measurement principles for financial reporting. IAS provide alternative direct and indirect methods for cash flows of enterprises, and consider that the classification and disclosure of expenses should depend on the degree to which they provide reliable and relevant information, while CAS stipulate that the direct method is used to calculate cash flows of enterprises and the indirect method is disclosed in the notes, and expenses can only be classified by function. In terms of the basic assumptions of the financial statements, IAS only recognize the assumption of continuous experience in CAS.

Another very important point is that the current IAS has changed the recognition conditions of assets, liabilities and other elements at the financial reporting level, from the original three dimensions of meeting the definition, being able to measure reliably, and the relevant economic probability of flowing into the enterprise to starting from the value for money and whether the recognition of the elements can provide more relevant and reliable information for the financial report, so that the recognition of assets, liabilities and other elements is more inclusive and more dependent on professional judgment, while CAS have not yet been changed.

3.2.2 Business combination level

There are differences between the two systems in the treatment of business combinations, and the content and requirements for disclosure of different interest entities are also differently stipulated. IAS does not specify business combination under the same control, and its scope even includes the act of equity union which cannot clearly distinguish the purchaser, and recognizes the business expenses paid to the relevant consultants directly as the cost of combination and requires the application of purchase method to prepare the consolidated statement; CAS make detailed provisions for both same control and non-identical control, but exclude the act of joint venture of more than two enterprises. In addition, for consulting expenses, it is required to be directly recognized in current profit and loss when the same control is in place.

3.2.3 Impairment of Assets

At the level of asset impairment, Chinese and international accounting standards are also different. For general long-term assets such as fixed assets and intangible assets, under IAS, when objective conditions change such that the recoverable amount of an asset rises above its carrying amount, the previously recorded asset impairment loss can be reversed, except for goodwill, whereas under Chinese GAAP, once an asset impairment loss is recognized for general long-term assets, it cannot be reversed in subsequent accounting periods. This is also the result of the different importance attached to the principle of prudence in the two systems.

3.2.4 Related party transaction level

Related parties have a significant impact on financial statements and IAS requires all related parties used to be fully disclosed in the financial statements, while under CAS, there is an exemption that enterprises that are controlled by the state but do not themselves have control, joint control or significant influence do not constitute related enterprises and transactions between these enterprises do not need to be disclosed as related party transactions.

3.2.5 Long-term asset level

IAS 16 specifies that fixed assets and intangible assets can use either the cost measurement model or the revaluation model, but requires the same accounting treatment for the same type of assets, and the increase in revaluation gain or loss is directly charged to OCI that cannot be reversed in future periods in the income statement, and the decrease in gain or loss is first offset by the OCI arising from the revaluation increment, and then offset by the profit, while in the balance sheet "However, the measurement of fixed assets and intangible assets in the CAS can only be measured by the cost measurement model, which is similar to the US accounting standards.

In addition, there is also a difference between the two systems in terms of when the depreciation of fixed assets starts to accrue, as under Chinese GAAP, depreciation starts to accrue in the following month for fixed assets added in the same month, while under international standards, depreciation should start in the same month. For goodwill, it can be recognized as an intangible asset under international standards, while it is not allowed under CAS, and the fair value model is only used for the measurement of investment property if there is conclusive evidence that its fair value can be reliably obtained on a continuous basis.

3.3 Reasons for differences

3.3.1 Differences in the applicable economic environment

Most of the current IAS are formulated by western countries based on their relatively developed economic background and accounting needs, although China's productivity and total GDP are at the world's leading level after more than 40 years of reform and opening up, it is undeniable that China is still in the primary stage of socialism, there are defects in the management system, the supporting facilities and systems also need to be improved. There is still a certain imbalance in China's development, and there is a diversified status quo in terms of business methods, development degree, technology level and education status, plus the influence of political and cultural factors. Therefore, there is still a certain amount of friction with international standards.

3.3.2 Differences in the subjects and effects of standard-setting

Take IAS as an example, in order to be applicable to more countries, IAS are formulated by the IASB, a private organization, on the basis of the British and American countries. In contrast, China's accounting standards are formulated and issued by our governmental departments, which are an important part of the law and have a strong authority and directive, so in this sense, the implementation of China's accounting standards is more dependent on the stipulation and interpretation of legal provisions.

3.3.3 Difference in professional quality of accounting personnel

It is undeniable that the basic quality of accounting practitioners in China as a whole is uneven due to the limitations of many conditions such as economy and education. Accounting professionals lack professional judgment as well as professionalism, which makes the formulation of accounting standards in China usually rule-oriented, which is contrary to the high requirements of IAS for the professionalism and ability of accountants, so if the principle-oriented accounting standards alone are applied, lots of problems will be created. This is the reason why China's accounting standards are particularly specific and strict in accounting for many kinds of economic affairs, which is also a problem that needs to be solved for further synergy between accounting development and internationalization at present.

3.3.4 Specific national conditions are different

China is a large country with rich resources and a large population. In order to effectively protect the sound development of the economy and the fundamental interests of the general public, China's accounting standards focus more on the fairness and truthfulness of information to prevent fraud. IAS were born in capitalist countries and are based on the development pattern of capitalist countries, which focus more on the interests of the bourgeoisie and meet the decision-making needs of stakeholders, with emphasis on achieving relevant effects. In addition, the individualistic West focuses more on flexible and practical framework principles, while the collectivistic China focuses more on stable and mandatory rules, so there are some differences in the specific provisions and application of the two standards.

As far as fair value is concerned, although this concept has been introduced in China's revised standards, in practice, the government has been cautious about it because of its involvement in the development of standards. Similarly, fixed assets are not allowed to use revaluation models precisely because the existing conditions in China lead to a high degree of subjectivity and volatility in revaluation values, making them highly susceptible to financial fraud.

4. Model analysis

The following analysis is based on the SWOT-PEST model matrix to analyze the internationalization of CAS and the feedback to IAS.

TABEL 1 : SWOT-PEST model analysis matrix of the internationalization of CAS and the impact of feedback

| PEST SWOT | | Political factors (P) | Economic Factors (E) | Social factors (S) | Technical Factors (T) |
|---------------------|--------------------|--|---|---|--|
| Internal factors | Strength (S) | China's comprehensive national power, international influence continues to strengthen; Strong support of supporting policies | Smooth operation of socialist market economy and continuous improvement of capital market | Supporting facilities and systems are getting better and better; Profound and profound Chinese culture; Optimization of resource allocation | The vigorous introduction of accounting professionals; Advanced technology development such as 5G is at the forefront of the century |
| | Weakness (W) | The government plays a leading and decisive role in accounting standard setting, making the practical staff lack enthusiasm | Market economy is still immature and in its infancy; Lack of mature economic environment and market structure, prices are not fair enough | Uneven comprehensive quality and professional ability of accounting practitioners; The lack of social supervision power | Inertia of thinking and comprehensive quality of standards makers, lack of leading and innovative awareness; Some standards are difficult to apply in practice |
| External Factors | Opportunity (O) | "One Belt, One Road" Strategy; Promotion of the "Community of Human Destiny" concept | Economic development moves into a new stage; The requirements of deepening reform of the economic system; The need for trade commons | Deepening cultural and theoretical self-confidence; New information needs | Rapid development of information technology such as big data and artificial intelligence; The development of digital economy, cloud technology |
| | Threats (T) | Conflict of national interests; Inadequate regulatory system for accounting standards | Opacity of market information; The impact of the new crown epidemic; Threat of reduced international trade dependence | Difficulty in rolling out new standards; Retraining of accounting staff; Potential fraud threats | Independence problem of standard setters and accountants; The wavering attitude of the Ministry of Finance |

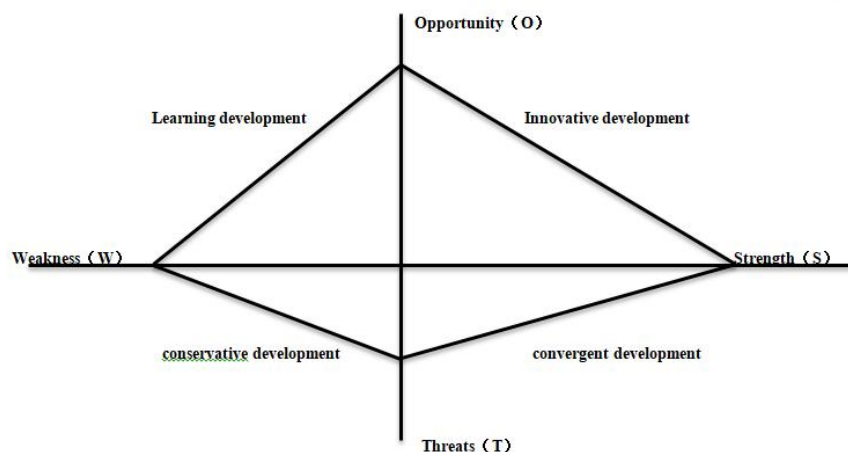


Figure 1: SWOT-PEST model development strategy analysis

The SWOT model comes from McKinsey & Company, which is used to judge the development of the industry; the PEST model is created by American scholars Johnson G. and Scholes K., which is used to analyze the macro environment and overall strategy. In this paper, through the SWOT-PEST model, we analyze the internationalization of China's corporate accounting standards and the feedback to IAS by analyzing the environment, identifying opportunities and threats, analyzing the current situation, and identifying advantages and disadvantages in the four dimensions: political, economic, social, and technological. The lengths of the respective axes reflect their comprehensive weights on the development of CAS, so that we can conclude qualitatively that the internationalization of CAS should focus on innovative development, i.e. SO portfolio, while the rest of convergent development (ST portfolio), learning development (WO portfolio) and conservative development (WT portfolio) should support or supplement the SO portfolio.

5. Outlook for development

In order to meet the development requirements of the new period and further promote the smooth operation of the socialist market economy, the development and improvement of accounting standards should keep pace with the times.

5.1 Adhere to the core of the standard and make reasonable reference

China's accounting standards must always conform to the socialist thought of the new era with Chinese characteristics, and must always adhere to the kernel of the standards. IAS are indeed advanced, but we cannot blindly copy them on the road of internationalization of accounting standards. The convergence of accounting standards is never equivalent, and the ultimate purpose is to realize the equivalence of accounting standards, so we should selectively and step by step combine with the specific development stage of the country to learn and improve, and make gradual and steady development, and constantly take the essence of them, so as to seek common ground while reserving differences, and be different. At the same time, we should pay more attention to the principle-oriented, improve the transparency of standard-setting, enhance the professionalism and diversity of standard-setters, strengthen the application of "substance over form", establish a more scientific and reasonable conceptual framework, improve the accounting system and the corresponding economic regulations, focus on the outstanding issues, reduce fraud, and strengthen the supervision of accounting practices. We will eventually develop into an accounting standard that meets international needs and has Chinese characteristics, and continue to provide a solid foundation for economic development.

5.2 Play the role of a big country and pay attention to exchange and learning

As a big country with global influence, China should not just learn from western standards when facing the issue of internationalization of accounting standards, but should change its previous misunderstanding, because China already has the corresponding economic strength and environment to participate in leading the development of world accounting standards. In other words, China should not always be passive, but should actively participate in international accounting standards exchange meetings. In today's situation where the epidemic affects the whole world, the government and relevant institutions should insist on upholding the concept of open integration and win-win cooperation, seize the opportunity of reconstructing the global value chain under the deepening of hierarchical division of labor, and strengthen international cooperation. Improve the efficiency of decision making, strengthen the coordination and communication with the outside world, and at the same time try to push CAS to the international level, strengthen the communication with IASB, improve the comprehensive quality of standard setters, strengthen the academic exchange between countries, improve the international influence of our accounting talents, fight for more standard setting discourse, better protect the national interests, reduce the cost of investment and financing in finding international markets, thus achieve equivalence with less change cost.

5.3 Cultivate professional talents and improve professionalism

China should continue to pay attention to the professionalism and professional competence of accounting practitioners, because the development status of Chinese characteristics has put forward higher requirements for accounting personnel, not only to study and research advanced international accounting standards, but also to be able to draw up accounting standards in line with Chinese characteristics by way of example, so increase the investment of corresponding educational resources, improve students' basic theoretical ability, improve enterprise financial accounting. Therefore, it is a crucial task for China to invest more resources in education, improve the basic theoretical ability of students, improve the financial accounting system of enterprises, promote the rational use of information resources through the Internet and other technologies, strengthen the training of accounting personnel in all aspects, train more high-end accounting talents, improve the reliability of professional judgment of accounting personnel, increase the publicity, strengthen the education of professional ethics and the awareness of law-abiding, set up more accounting firms outside China and encourage them to go abroad to join the research of international accounting standards. It is a long-term task for China.

6. Summary

The construction of enterprise accounting standards is a far-reaching systematic project. This paper, starting from the development and internationalization history of China's accounting standards, puts forward a reasonable outlook on the future development of China's accounting standards by comparing with IAS and combining with the SWOT-PEST model. China is now a big economic power, in the construction and development of accounting standards system, accounting professionals should be based on the specific national conditions, and through the concept and experience of IAS, while further achieving international convergence and equivalence, they should give full play to the international influence of CAS, and promote Chinese enterprises and accounting standards to the world.

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