

IFRS or IFRS-Based Domestic Standards: Implications for China's Future Accounting System

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ABSTRACT: People's Republic of China has a long history of accounting and accounting reforms. This study focuses on "whether China should continue its IFRS-based domestic accounting standards or full convergence with the IFRS is more appropriate"? Both quantitative and qualitative approaches are applied to answer the research question of this work. Binary choice model has been used in the statistical analysis because data of two variables shows presence or absence. The results of our model indicate that China's accounting reforms, including convergence with the IFRS, are significantly associated with the internal and external factors. In the light of our statistical findings and details of the theoretical aspects (i.e. environmental determinism theory, globalization, growth of economy and accounting profession in China and regulatory influence of the Chinese government) this study proposes that China should continue its IFRS-based domestic accounting standards and further convergence with the IFRS should be launched in case of decisive needs only.

Keywords: *Accounting reforms, China, Convergence, Environmental determinism theory, IFRS*

INTRODUCTION AND BACKGROUND OF THE STUDY

People's Republic of China (PRC) has a long and splendid history of accounting; Alexander (2002) has noted that the Chao Dynasty's¹ Chinese accounting was more sophisticated than the Nineteenth (19th) century's double-entry bookkeeping. The study of Solas and Ayhan (2007) also affirms that the Chinese accounting history is almost three thousand years old; and accounting was primarily used for the governmental and institutional affairs during different dynasties. Despite its economic links with the other countries since 1978, neither PRC became member of the IASC nor did it adopt any of the IAS until 1997. Soon after joining the

IASC in 1997, the government of China approved a regulation in 1998 for the harmonization of some Chinese GAAP with their relevant IAS (Chen, Sun and Wang, 2002).

At present, the most recent accounting standards of PRC² are effective from January 1, 2007. If we observe the Chinese GAAP before their revision in 2006, there were above one hundred differences from IFRS³ at that time (Wang and Li, 2005); but the differences were gradually decreasing since few years prior to the new accounting standards⁴ of China. After these new accounting standards, the major points of disparity between IFRS and the Chinese

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2- PRC and China have been used alternatively throughout the paper.

3- For the ease of use, IFRS is used throughout this study instead of IAS and IFRS.

4- i.e. Accounting Standards for Business Enterprises (ASBE)

accounting standards are only two (Ding and Su, 2008).

This study is aimed to suggest “whether China should continue its IFRS-based domestic accounting standards or full convergence with the IFRS is more appropriate”. Several aspects have been considered in the study to answer this question e.g. statistical results about the relationship of financial crises, accounting reforms and foreign investment, the trustworthiness of the IFRS, the basis of having own accounting standards and their current situation, PRC’s cultural aspects, evidence from other nations e.g. U.S., Japan and Indonesia regarding their own accounting standards etc. In short, the conclusion will be based on statistical analysis and observation of China’s cultural, historical, financial and international aspects of adopting the either set of accounting standards.

Theoretical Framework

While contemplating on the issue of accounting standards, the Environmental Determinism Theory must be considered carefully. This theory is one of the most prominent theories used in financial disclosures’ research (Sutthachai and Cooke, 2009); and it depicts that the similarities of environmental factors are strongly correlated with the financial disclosure practices (Carlson, 1997). Since “environment shapes the financial reporting” (Cooke and Wallace, 1990), we need to observe that the prevailing environmental factors are similar in case of China and IFRS-adopting nations or not; it will obviously help us to decide that China should continue its own accounting standards or the IFRS adoption is more desirable.

The theoretical bases of this study are also linked with the governmental control over the accounting system. Several prior studies, such as Aiken and Lu (1998); Lu and Aiken (2003) and Lu, Ji, and Aiken (2009), have stated that the Chinese cultural values and government always had a greater influence on the accounting system, but it is decreasing with the passage of time. The accounting reforms of 1993 are described by Tang (2000) as “a combination of foreign influences and domestic socio-economic reforms”; moreover, mandatory steps were approved by the Chinese government in 2001 for the harmonization of accounting standards (Chen

and Cheng, 2007), which indicates that the authorities were allowing flexibility for the accounting system.

Shields et al. (2010), have also asserted that PRC’s Ministry of Finance officially supported the accounting reforms of 2006 and showed high level of commitment towards the principles-based global accounting system. These reforms were both in the form of direct adoption from the IFRS and ongoing modification of the Chinese GAAP (Peng and van der Laan Smith, 2010). This change in the governmental control over accounting system gives rise to a question about the future of Chinese accounting standards and adoption of the IAS; thus we want to explore whether PRC should keep its discretionary powers regarding its accounting standards and reforms or comply with the requirements of the IASB.

Literature Review

There are plentiful studies regarding the ancient Chinese accounting history; e.g. the study of Guo (1982, 2008), Wei (1984), Lin (1992, 2000, 2003), Aiken and Lu (1993, 1998), Tang (2000), Gao and Handley-Schachler (2003), Chong and Wang (2004), Peng, Tondkar, van der Laan Smith and Harless (2008) and Lu, Ji and Aiken (2009). All these researchers have made remarkable contribution to the literature regarding different aspects of the Chinese accounting history and reforms, but these studies lack in terms of suggesting the specific set of accounting standards i.e. China’s own accounting standards or the IFRS.

The work of Tang (2000) and Lin (2000) indicate that PRC’s accounting reforms evolved as a result of both internal and external links. There are several questions which arise in the mind about what were those foreign and domestic factors that led towards accounting reforms in China; in particular, the linkage of the Chinese accounting reforms with the Asian financial crisis of 1997 gives rise to the question “whether PRC’s accounting reforms are caused by the global and international financial crises or not”. This study will

Ji (2000) described that the Chinese accounting practices will become closer to the international accounting practices and there will be some dramatic changes, but the author did not mention any reason of such changes and

reforms. Simon (2001) asserted that China's World Trade Organization (WTO) entrance will not influence its accounting reforms. The work of Wang and Li (2005) indicates that the net profit and net assets disclosure is affected by the differences of IFRS and the Chinese GAAP; moreover, the authors have proved from their six years' analysis of the Chinese listed companies that the domestic accounting standards are converging towards the IFRS.

Just like the abovementioned studies, the work of Chen and Cheng (2007); Yu and Qu (2009); Lu, Ji and Aiken (2009); Peng and van der Laan Smith (2010) and Shields, et al. (2010) are also related to the convergence of PRC's accounting standards. The current literature mainly focuses either on the Chinese accounting history or examines the convergence progress; there is no study regarding the accounting standards of China in the future. This work is intended to contribute to the literature regarding "whether China should continue its IFRS-based domestic accounting standards or full convergence with the IFRS is more appropriate".

China's Future Accounting Standards

While more than 120 countries of the world are adopting the IFRS (Lin, Hua, Lin and Lee, 2011), our research question i.e. "whether PRC should continue to have its IFRS-based domestic accounting standards or it should fully converge with the IFRS" is very important in many aspects. First of all, the decision regarding own standards or IFRS will deeply affect the financial disclosures of the Chinese companies, because both aspects of this decision have various linkages. Secondly, PRC is one of the leading economies in the world now, its adoption or non-adoption of the IFRS will influence other nations' convergence or adoption. Thirdly, one aspect of the question i.e. full convergence with the IFRS is linked with the globalization, while the other one i.e. continuing own standards is connected with the domestic needs of the state-owned enterprises and their financial disclosures; and nevertheless both of these aspects are vital.

The Accounting Law of PRC, which was originally enacted in 1985, has been revised four times i.e. in 1992, 1999, 2001 and 2006 respectively (Peng, Tondkar, van der Laan Smith and Harless, 2008); however, the most

significant modifications in terms of converging with the IFRS have been made during 2006 only. After this convergence, there are still some differences between the Chinese accounting standards and IFRS; such differences are due to the distinctive state of affairs existing in the PRC's environment (Deloitte, 2006). It clearly shows the fact that China still needs its own accounting standards and keeping them distinctive from the IFRS is also required to prepare the financial disclosures of certain enterprises.

Referring to the first paragraph of this section, continuing own accounting standards or full convergence with the IFRS, both will leave a deep impact on the Chinese financial disclosures. In case of retaining own accounting system, a general notion is that the optimum level of globalization will be difficult to achieve; while full adoption of the IFRS will increase the cost of preparing separate sets of financial statements¹ (i.e. one for the domestic stakeholders as per domestic standards and another one according to the IFRS); these two sets of accounts can cause some serious differences in the financial results of the IFRS complying and non-complying companies, it can even produce a different image of the organization as well. When general public will know about the differences of the financial statements, such issues will be hard for those people to comprehend who possess limited knowledge of the national and international accounting practices.

Thinking of the benefits of globalization, there is one doubt that might come to the mind; if PRC is retaining its own accounting standards and full compliance with the IFRS is rejected, whether its economy will be able to avail the benefits of globalization or not? We would like to answer it in a couple of ways: the first answer is actually a question, i.e. did China get the advantages of globalization from 1978 to 2006 or not²; the answer is obviously yes. The second reply to the aforementioned doubt is hidden in the approach of getting benefit from globalization; a nation can follow others' foot-steps to achieve

1- Those companies will specifically face this problem for which IFRS compliance is non-mandatory, because they need to prepare separate sets of accounts for the national and international users.

2- PRC opened its economy for the outer world in 1978 and retained its own accounting standards until 2006, which shows that globalization was achieved before convergence with the IFRS as well.

its goals or a nation can make others follow its foot-steps. PRC has followed the first approach since its early years of open-economy, now being a supplier of the whole world, it is a suitable time to lead the other nations.

Being one of the leading economies of the world, if China converges its accounting standards with the IFRS completely, it will set an example for the other nations as well. The countries having their own accounting standards, as well as economic relations with the PRC, will also consider the convergence. Moreover, if PRC converges with the IFRS and abandons its prudence approach, and if other nations also follow the same set of accounting standards, another global financial crisis like 2008 will be enough to ruin the masses; because most of the nations will be using the so-called optimistic accounting approach of fair value and a financial blow like 2008 will clarify the reality of fair value and prudence concept. Alternatively, if PRC retains its own accounting standards, even if substantially converged with the IFRS, it will serve as a useful tool against such financial epidemics; not only China but many other nations will also be safe during an unfortunate manipulation and forged financial statements resulting from the fair value accounting.

As far as globalization and state owned enterprises of PRC are concerned, both own accounting standards or convergence have their consequences. Since majority of the big enterprises in China is state owned, full convergence with the IFRS requires new professionals or training the existing accounting personnel, because without either of these options, financial statements can't be prepared. As a matter of fact, it is not that easy to educate and train all the concerned personnel in the world's most populous nation. On the other hand, China has no big danger of losing the globalization privileges in case of carrying on its domestic accounting standards; the worldwide availability and consumption of the Chinese goods is a clear evidence for the fact that PRC's economy is already globalized.

Apart from the above given details about the accounting standards of China, a careful learning of the government's control over its accounting system and policies and the application of environmental determinism theory are very crucial for answering the research question of

this study. These topics are profoundly discussed in the following sections:

Government's Influence and Convergence

From the ancient times, governments in China maintained a strict control over the development of accounting and accounting practices; due to the severe policies of feudal rulers, private sector accounting could not prosper because they highly discouraged the profitable activities and private ownership (Gao and Handley-Schachler, 2003; Lu, Ji and Aiken, 2009). It left some profound marks on the development of the Chinese accounting practices, as accounting records were prepared for the state only and there was no room for the private sector accounting. In contrast to the ancient times, the communist government of PRC started to change its accounting policies right from the beginning of the open-market era; it adopted double entry book-keeping and abandoning the increase-decrease system of accounting in 1979.

Henceforth, China resisted against joining the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC) until late 1990s; finally in 1997, it joined both of the accounting bodies. This membership shows the regulatory control of the Chinese government, otherwise avoiding the international accounting standards right at the beginning of open market economy is not an easy task to manage. The initial step taken by PRC for the internationalization of its accounting standards was the accounting regulation of 1998 that showed commitment for harmonizing the Chinese GAAP with the IFRS (Smantser, 2006; Peng, Tondkar, van der Laan Smith and Harless, 2008).

An important factor that determines a government's influence over its accounting system, as noted by Ding, Hope, Jeanjean and Stolowy (2007), is the economic prosperity and development of the accounting profession. The economy of China is growing with an average rate of 10% per annum from the last three decades (IMF, 2011), while the number of general and professional accountants in the country has also grown with an amazing pace since the open-market economy (Guo, 2008). It will be no wonder if the Chinese government

retains its IFRS-based domestic accounting standards or diverges from the IFRS in the near future, because the study of Ding, Hope, Jeanjean and Stolowy (2007) proves that divergence has significant positive relationship with the development of economy and accounting profession in a country. This results of study are easy to comprehend because the new or growing sectors of the economy need specific accounting standards; moreover, different financial disclosures are necessary for certain companies (e.g. the state-owned enterprises of China) and to meet the social, cultural and intellectual values; while the growing number of accounting professionals in a country can handle their national accounting standards.

The above-given debate portrays the vital role of governmental control in the convergence process; the government of a country can decide about adopting the IFRS due to several reasons e.g. attracting foreign investment, attaining the benefits of globalization and internationalization of the accounting practices etc. On the other hand, the government can diverge from the IFRS due to the domestic disclosures needs e.g. accounting for state-owned enterprises of PRC; moreover, divergence from the IFRS can also take place after the ample growth of a country's economy and accounting expertise etc. Last but not least, at present, PRC is in a position to diverge from the international accounting practices as much as it needs and wants because its economy and accounting profession both have grown a lot.

Environmental Determinism Theory

The environmental determinism theory describes that similarities of the environmental factors are strongly correlated with the financial disclosure practices (Carlson, 1997). As mentioned earlier, Ding, Hope, Jeanjean and Stolowy (2007) have found that divergence is associated with the growth of economy, accounting profession and richer firm-specific information in the capital markets. If we apply these findings regarding China, for sure, the economy and accounting profession of PRC are developing rapidly and continuously; therefore, full convergence with the IFRS is not highly needed and the divergence from the IFRS is totally justified as per country's own unique situation.

The study of Ding and Su (2008) describes about the fair value (FV) and prudence in China as follows: ...“the new Chinese accounting standards adopted in 2006 emphasize that FV should be introduced carefully and gradually, because the prices applied in unsophisticated markets may not form a good basis for fair value. Consequently, in standards relating to investment property, biochemical products, and debt reorganization fair value is allowed only when an active market exists from which fair value can be reliably determined and verified”... The authors have plainly made their suggestion due to the market conditions of PRC and this is an environmental factor that differentiates PRC from other nations; therefore, convergence with the IFRS must be decided after thorough analysis.

The IASB has also shown its understanding about the internal situation of China regarding the prudence and FV; the work of Wang (2007) noted that ...“the IASB has agreed that China's prudence in adopting FV may be a good example for other emerging markets to follow. The IASB has also agreed with the Chinese authorities that transaction prices should not be automatically taken to reflect FV in markets where active trading is not always carried out on an arm's length basis”... This opinion of the IASB is evident of the fact that environmental factors must be observed by a country before convergence of its accounting standards with the IFRS. Last but not least, in response to a question about the future of the IAS, China's Vice Minister of Finance, Mr. Wang Jun replied: ...“Because different countries have different cultural practices, legal requirements and economic development, uniformity should not be blindly forced. It is unnecessary and counterproductive.”... (Sancto, 2010). This is what environmental determinism theory is all about and this study also favors the approach of environmental determinism.

RESEARCH METHOD

The research question of this study “Whether China should continue its IFRS-based accounting standards or it should fully converge with the IFRS” sounds totally theoretical in nature; however, there are some statistical linkages that must be observed before answering this question. For instance, the changes in accounting

system (i.e. accounting reforms) might be linked with the internal variables like GDP growth and increase in the number of listed companies; moreover, the external variables like foreign portfolio investment (FPI) and financial crises can also bring reforms to the accounting system of a country. Therefore, Binary Choice Model is constructed to identify the causal relationship between the Chinese accounting reforms and the abovementioned internal and external variables; the results of this model will be used to devise the recommendation for the future of PRC's accounting system.

Details of the Model and Variables Used

There are five variables used in the model: PRC's accounting reforms as the dependent variable, whereas the yearly number of listed companies, GDP growth, global and international financial crises and level of FPI as the explanatory variables. Since three out of five variables (i.e. GDP growth, number of listed companies and level of FPI) have time series data and the remaining two variables (i.e. accounting reforms and financial crises) have data in the form of presence or absence; that's why, instead of Least Square Model, Binary Choice Model is being used for the statistical analysis. The accounting reforms are used as dependent variable because it covers both convergence of the Chinese accounting standards and other changes in the accounting system.

The data range is from 1992 to 2011 because the first B-share Company of PRC was listed at Shanghai Stock Exchange¹ in 1992 and FPI obviously started later on². Likewise, both of the stock exchanges of China (i.e. Shanghai Stock Exchange and Shenzhen Stock Exchange) were established in the end of 1990; therefore, the data of yearly number of listed companies is also used from 1992 onwards. The data of PRC's accounting reforms is taken from the work of Lu, Ji and Aiken (2009) and the accounting standards issued and revised by the Ministry of Finance, government of China; while the data of FPI is obtained from the official websites of the World Bank and China's State Administration of

Foreign Exchange; the data of PRC's listed companies is obtained from the fact books of Shanghai Stock Exchange and Shenzhen Stock Exchange.

Following are the variables, their abbreviations used and the hypothesis to be tested from the statistical results of binary choice model:

CH_ACRF = China's Accounting Reforms
(Dependent variable)

LIST_CO = Yearly Increase in Listed Companies
(Explanatory variable # 1)

GDP_GR = Gross Domestic Product Growth Rate
(Explanatory variable # 2)

FIN_CR = Financial Crises
(Explanatory variable # 3)

FPI = Foreign Portfolio Investment
(Explanatory variable # 4)

The CH_ACRF FIN_CR and FPI represent the presence or absence of PRC's accounting reforms and foreign portfolio investment respectively; whereas real figures are used for the LIST_CO and GDP_GR because their time series data is available. The level of significance is 10% ($\alpha = 0.10$) and following hypotheses are used in the analysis:

H₀₁: The Chinese accounting reforms have no significant relationship with the GDP growth

H₁₁: There is significant relationship between China's accounting reforms and GDP growth

H₀₂: The Chinese accounting reforms and yearly number of listed companies have no significant relationship

H₁₂: China's accounting reforms and the yearly number of listed companies are significantly related to each other

H₀₃: The Chinese accounting reforms have no significant relationship with financial crises

H₁₃: There is significant relationship between China's accounting reforms and financial crises

H₀₄: The Chinese accounting reforms have no significant relationship with FPI

1- Fact Book of Shanghai Stock Exchange 2009, page 185.

2- In China, A-share companies can issue their share to the local investors only while B-share companies can issue to the foreign investors as well; hence, FPI started in China from 1992.

H₁₄: There is significant relationship between the Chinese accounting reforms and FPI

RESULTS AND DISCUSSION

The results of Binary choice model for the internal and external explanatory variables are summarized as follows:

The statistical outcome given in table 1 depicts that probability of z-Statistic for GDP_GR is 0.2528, 0.2699 and 0.3446 from the Binary Probit, Logit and Extreme value methods respectively. These probabilities are more than

Chinese accounting reforms have statistically insignificant relationship with the GDP growth. The probability of z-Statistic for the second variable (i.e. LIST_CO) is 0.0281, 0.0387 and 0.0302 by using Binary Logit, Probit and Extreme Value methods respectively. Since probability of z-Statistic from all three methods is less than level of significance, that's why we reject H₀₂ and accept the alternative hypothesis (H₁₂) i.e. the Chinese accounting reforms and the yearly number of listed companies are significantly related to each other.

Table 1: Results of the Binary Choice Model for the internal explanatory variables

Method	Variables	Coefficient	Standard Error	z-Statistic	Probability
Binary (Probit)	C	3.961224	2.447404	1.618541	0.1055
	GDP_GR	-0.229987	0.201122	-1.143517	0.2528
	LIST_CO	-0.001396	0.000636	-2.196440	0.0281
Binary (Logit)	C	6.466649	4.165731	1.552344	0.1206
	GDP_GR	-0.372161	0.337300	-1.103351	0.2699
	LIST_CO	-0.002291	0.001108	-2.067446	0.0387
Binary (Extreme Value)	C	4.974997	3.116243	1.596472	0.1104
	GDP_GR	-0.243929	0.258069	-0.945208	0.3446
	LIST_CO	-0.001744	0.000805	-2.167292	0.0302

Dependent Variable: CH_ACRF
9 out of 20 observations with Dep=0
Covariance matrix computed using second derivatives

Sample: 1992 2011
11 observations with Dep=1

Table 2: Results of the Binary Choice Model for the external explanatory variables

Method	Variables	Coefficient	Standard Error	z-Statistic	Probability
Binary (Probit)	C	0.674490	0.481763	1.400044	0.1615
	FIN_CR	0.253347	0.972723	0.260451	0.7945
	FPI	-0.927837	0.626808	-1.480256	0.1388
Binary (Logit)	C	1.098612	0.816496	1.345521	0.1785
	FIN_CR	0.405465	1.554563	0.260823	0.7942
	FPI	-1.504077	1.040832	-1.445072	0.1484
Binary (Extreme Value)	C	1.245899	0.709548	1.755905	0.0791
	FIN_CR	0.279091	1.104238	0.252746	0.8005
	FPI	-1.158478	0.825903	-1.402680	0.1607

Dependent Variable: CH_ACRF
9 out of 20 observations with Dep=0
Covariance matrix computed using second derivatives

Sample: 1992 2011
11 observations with Dep=1

FIN_CR is the third explanatory variable used in the statistical analysis; the probability of z-Statistic for this variable is 0.7945, 0.7942 and 0.8005 by using the Binary Logit, Probit and Extreme Value methods respectively. Based on this outcome, we accept the null hypothesis (H03) i.e. the Chinese accounting reforms are insignificantly related with the financial crises. In case of the fourth explanatory variable, which is FPI level in China, the probability of z-Statistic is 0.1388, 0.1484 and 0.1607. Although these probabilities of z-Statistic are more than the 10% level of significance, but the difference is not extraordinary; therefore, the Chinese accounting reforms have slightly less significant relationship with the level of FPI in the People's Republic of China.

From the statistical results, it is difficult to answer the research question of this study, because the previous accounting reforms in China are statistically associated with both internal and external variables i.e. with the number of listed companies and FPI respectively. Therefore, along with the statistical results, a variety of theoretical facts and logical views are also considered for answering the research question. Following are the arguments in favor of China's IFRS-based domestic accounting standards:

1. Converging with the IFRS as a whole is against the internal facts of PRC; even if agreed to do so, it will take time to cope-up with the language barrier and to manage the personnel's training in the most populous country of the world; and most importantly, developing the public and cultural acceptability of the IFRS can be achieved gradually and not at once.

2. Rather than full convergence with the IFRS, PRC should further improve its own accounting standards; it will preserve an important chapter of the accounting history and will save the unique knowledge from extinction.

3. As described by Rosser (1999) ...“many developing countries are adopting Western accounting regulations, particularly IASs, in order to access global financial markets.”... While PRC is not striving to attract the capital from developed markets anymore, rather it is the

second biggest holder of the U.S. government debt (Toscano, 2012); therefore, unlike other developing nations, PRC has no need to converge its accounting standards for the sake of foreign capital, and it should retain its IFRS-based accounting standards.

4. According to the environmental determinism theory ...“where environmental factors are similar, there will be a strong level of correlation between financial reporting practices”... (Carlson, 1997). Since these factors are different in case of China and other nations, full convergence with the IFRS is not compulsory anymore.

5. If the IASB represents the whole world and the IFRS are meant for every nation, why IAS 39 was amended after the U.S. banks' strike; wasn't it IASB's duty to carefully observe the aftermath of this amendment, its potential misuse and global impact? One might say that the IASB has complete procedure for amendments i.e. extensive research, proposal draft, worldwide comments etc., do other countries really know the realities? Selling (2008) has rightfully pointed that “the non-U.S. members of the IASB” are not well aware of the standards settings. Based on these facts, to avoid any future conspiracies of the IFRS, PRC should carry on its own accounting standards.

6. Achieving the benefits of globalization through adoption of the IFRS is a fact but it is not the only variable that globalizes a nation. The accounting standards of the U.S., Japan and Indonesia are not fully converged with the IAS and IFRS, while there is no convergence at all in case of Saudi Arabia (IFRS-Foundation, 2010), but these nations are getting the advantages of globalization. The level of globalization in PRC itself is a big example in this regard. Since PRC was not even a member of the IASB and IFAC before 1997, but it has achieved a level of globalization that many nations are still struggling for. Hence, adopting the IFRS is not the only prerequisite; globalization depends on many other factors as well.

7. Last but not least, if PRC retains its own accounting standards, not only PRC but the

whole world can enjoy its benefits. We explain this viewpoint with the example of violation of prudence concept and its contribution towards the financial crisis of 2008. When IASB amended the IAS 39, banks and other financial institutions were allowed to report their assets at FV. This revision was adopted by the European Union and many other countries as well. This amendment was somehow linked with the financial crisis of 2008; except few nations, the whole world suffered a lot during this financial crisis. Since the IFRS-based Chinese accounting standards still require the application of prudence concept and restraint the full application of FV accounting, if PRC retains its accounting standards, the users of financial statements will not face any vulnerable situation originated from other parts of the world due to the loopholes of the IFRS.

CONCLUSION AND IMPLICATIONS OF THE STUDY

The aim of this work was to answer the question “whether China should continue its IFRS-based domestic accounting standards or full convergence with the IFRS is more appropriate”. The statistical and theoretical findings suggest that the Chinese accounting reforms¹ are associated with both internal and external factors. Moreover, the arguments in favor of continuing own accounting standards are very interesting and rational. To summarize these results, let’s refer to an excellent quote of the well known Chinese philosopher Confucius: “To go too far is the same as not to go far enough” (Chan, 1967). As asserted by Gao and Handley-Schachler (2003), Confucianism “...always suggested a ‘middle way’ in a conflict. The ‘middle way’ means understanding the inevitability of change and always being prepared to make the necessary adjustments in your life to maintain a harmonious and balanced stance...”

Full convergence with the IFRS is important in terms of globalization and for the continuity of China’s opening-up process, but the cultural and environmental factors regarding such convergence are also inevitable; therefore, we recommend that PRC should consider retain its

IFRS-based accounting standards and further convergence with the IFRS should be approved in case of utmost necessity.

This study has some important implications for the standard setters. We neither oppose the worldwide accounting convergence nor do we favor the sightless adoption of the IFRS; rather the possible consequences are highlighted for the nations that are interested in convergence of their accounting standards with the IFRS. As per findings of this work, the relevant authorities must evaluate the social, cultural, economic, governance and corporate mechanisms thoroughly before finalizing such convergence; it will leave a good impact on their financial disclosures and will prove as a protective measure in case of any financial turmoil caused by the worldwide accounting practices. In particular, this study proposes that PRC should continue its own accounting standards; whereas further convergence with the IFRS must be investigated thoroughly according to the internal factors of the nation.

FURTHER RESEARCH

By adding more explanatory variables e.g. Number of accounting professionals in PRC, constructive and better results can be obtained from the statistical analysis. Since this study addresses the issue of PRC’s further convergence with the IFRS, its results should not be generalized for other countries; further research based on the Environmental Determinism Theory can be conducted for the other nations and the results will be suitable for generalization. Moreover, there is room for country-wise and regional comparative analysis regarding the suitability of full convergence with the IFRS.

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