

УДК 657.37:006.032

**Victoria Ambarchian**, PhD in Economics

Kyiv National University of Technologies and Design, Kyiv, Ukraine

**ACCOUNTING FRAMEWORKS OF THE COUNTRIES THAT DID NOT ADOPT IFRS****В.С. Амбарчян**, канд. екон. наук

Київський національний університет технологій та дизайну, м. Київ, Україна

**ХАРАКТЕРИСТИКА ОБЛІКОВОЇ СИСТЕМИ КРАЇН,  
ЩО НЕ ЗАСТОСОВУЮТЬ МСФЗ****В.С. Амбарчян**, канд. екон. наук

Киевский национальный университет технологий и дизайна, г. Киев, Украина

**ХАРАКТЕРИСТИКА УЧЕТНОЙ СИСТЕМЫ СТРАН,  
НЕ ИСПОЛЬЗУЮЩИХ МСФО**

*The article focuses on research of the rules of accounting and financial reporting under domestic GAAP in countries that did not adopt IFRS application for public companies. As the objects of research the author chose 5 countries-the G20 members that play the dominant roles in determination of international economic and social policies: The USA, Japan, China, India and Indonesia. Refusal of IFRS mandatory adoption by public companies is determined as a criterion of the objects selection. Domestic GAAP are characterized, government officials providing their development and adoption are considered, as well as certain exceptions of GAAP application in favor of IFRS are distinguished. The paper compares basic rules of accounting and financial reporting under domestic GAAP and IFRS.*

**Key words:** IFRS, US GAAP, JP GAAP, PRC GAAP, Ind AS, PSAK.

*Досліджено правила ведення обліку та складання звітності за національними стандартами у країнах, що не затвердили на законодавчому рівні застосування МСФЗ для публічних акціонерних товариств. Об'єктами дослідження обрано 5 країн-членів Великої 20-ки, що посідають провідні позиції у визначенні напрямів міжнародної економічної та соціальної політики: США, Японія, Китай, Індія та Індонезія. Критерієм у відборі об'єктів дослідження стало незастосування МСФЗ як базових стандартів складання фінансової звітності для публічних компаній. Охарактеризовано національні стандарти бухгалтерського обліку, визначено органи державного управління, що забезпечують їх розроблення та затвердження, окреслено особливі випадки незастосування національних стандартів на користь МСФЗ. Проведено порівняння основних правил ведення обліку та розкриття інформації щодо класів операцій у фінансових звітах за національними стандартами обліку та МСФЗ.*

**Ключові слова:** МСФЗ, національні стандарти бухгалтерського обліку США, національні стандарти бухгалтерського обліку Японії, національні стандарти бухгалтерського обліку Китаю, національні стандарти бухгалтерського обліку Індії, національні стандарти бухгалтерського обліку Індонезії.

*Исследованы правила ведения учета и подготовки отчетности за национальными стандартами в странах, не утвердивших на законодательном уровне применение МСФО для публичных акционерных компаний. Объектами исследования выбрано 5 стран-участников Большой 20-ки, занимающих ключевые позиции в определении направлений международной экономической и социальной политики: США, Япония, Китай, Индия и Индонезия. Критерием отбора объектов исследования стало неприменение МСФО в качестве базовых стандартов подготовки финансовой отчетности для публичных компаний. Охарактеризованы национальные стандарты бухгалтерского учета, определены органы государственного управления, обеспечивающие их разработку и утверждение, очерчены особые случаи неиспользования национальных стандартов учета в пользу МСФО. Проведено сравнение основных правил ведения учета и представления информации о классах операций в финансовых отчетах за национальными стандартами учета и МСФО.*

**Ключевые слова:** МСФО, национальные стандарты бухгалтерского учета США, национальные стандарты бухгалтерского учета Японии, национальные стандарты бухгалтерского учета Китая, национальные стандарты бухгалтерского учета Индии, национальные стандарты бухгалтерского учета Индонезии.

**Urgency of the research.** International financial reporting standards (IFRS) are developed to standardize financial reports of business entities in different countries. Especially, the need to unify accounting procedures and financial reports preparation relate public companies with traded securities in the stock exchange. Majority of democratic countries have legally adopted IFRS application for domestic public companies, financial institutions and foreign companies with securities listings in the stock exchange. But certain countries do not apply IFRS. Special attention is paid to the states with high economic, human and resource potential: the USA, Japan, China, India and Indonesia.

**Actual scientific researches and issues analysis.** The issues of IFRS and domestic GAAP convergence were discussed by P. Harris, L. Washington Arnold, K. Kinkel [1],

## ОБЛІК, КОНТРОЛЬ ТА АУДИТ: ТЕОРЕТИКО-МЕТОДОЛОГІЧНИЙ АСПЕКТ

Z. Hongman [2], A. Habib [3], E. Wahyuni [4], Hu Dan Sembra, Lun Yao [5], K. K. Shah [6] and others.

**Uninvestigated parts of general matters defining.** Despite significant achievements in analysis of similarities and differences between IFRS and domestic GAAP, certain issues need further research. Special attention requires the characteristics of GAAP of 5 countries – the members of G20 – that did not approve mandatory application of IFRS for public companies.

**Target setting. Statement of research.** The USA, Japan, China, India and Indonesia are the G20 member countries with large share in world financial market. Disapproval of IFRS demands detailed research of domestic GAAP. The purpose of the paper refers to comparison of the USA, Japanese, Chinese, Indian and Indonesian GAAP with the IFRS and determination of core differences in recognition, classification, measurement, impairment and disclosure of assets, liabilities, equities, revenues and expenses.

In the USA, the principles of accounting and financial reporting are consolidated in the Generally Accepted Accounting Principles (US GAAP) – the set of codification standards for all the industries – issued by Financial Accounting Standards Board, Securities and Exchange Commission and Institute of Certified Public Accountants. Numerous GAAP codifications cover all the aspects of accounting for all the possible types of business activity. Special attention is paid to financial instruments and financial operations accounting, that makes GAAP difficult for understanding for users from countries with slightly developed financial markets, including Ukraine.

The basic distances between US GAAP and IFRS are covered in Table,

Table

*Accounting principles comparison under IFRS and GAAP*

Accounting procedure	IFRS	US GAAP
1	2	3
Impairment of fixed assets	Asset is classified as impaired one if its carrying amount is lower than recoverable amount. Recoverable amount is the higher of its fair value less sale costs and value in use	Two-step impairment test: 1. Carrying amount is compared with the undiscounted cash flows. If carrying amount is lower, impairment losses are not recognized. 2. If carrying amount is higher, the impairment loss is measured as the difference between carrying amount and fair value
The reversal of impairment of fixed assets	If impairment recognized in prior accounting periods has decreased: 1. Reversing of impairment losses for non-revalued assets: Dr “Depreciation” Cr “Profit on impairment” 2. Reversing of impairment losses for revaluated assets: Dr “Asset” Cr “Revaluation” Cr “Other comprehensive income” – to the extent of debit balance in the revaluation sum	Forbidden
Depreciation of fixed assets	Three methods of depreciation: 1) straight-line method; 2) the diminishing balance method; 3) the units of production method [7]	Four basic methods of depreciation: 1) strait-line method; 2) units of production methods; 3) accelerated method – declining balance method; 4) accelerated method

Table cont.

1	2	3
Inventory measurement	Two methodologies: FIFO and weighted-average cost	Three methodologies: FIFO, LIFO, weighted-average cost
Biological assets	Measured at historical cost. Tested for impairment	Measured at fair value less sale costs
Financial assets classification	The method of subsequent measurement drives the classification: a) financial assets, subsequently measured at amortized cost; b) financial assets, subsequently measured at fair value through other comprehensive income; c) financial assets, subsequently measured at fair value through profit or loss	The legal form of the contract drives the classification: a) derivative financial instruments; b) hybrid financial instrument; c) financial assets determined to be measured at fair value; d) loans and receivable; e) debt and equity securities
Financial liabilities classification	The method of subsequent measurement drives the classification: a) financial liabilities measured at amortized cost; b) financial liabilities at fair value through profit or loss (including derivatives); c) financial liability recognized for transferred asset, which does not qualify for derecognition; d) financial guarantee contracts; e) commitment to provide a loan at a below-market interest rate; f) contingent consideration recognized by acquirer in a business combination; g) financial assets measured at fair value through profit or loss	Classification for 3 categories as follows: a) at fair value through earnings (derivatives, hybrid financial instruments, financial liabilities under the fair value option); b) forward contracts – repurchase of issuer's equity shares in exchange for cash or repayable financial instruments); c) liabilities subsequently measured at amortized cost

*\*Built by the author. Source [8].*

In Japan, the principles of accounting and financial reports preparation disclosed in Japanese GAAP, issued by Accounting Standard Board of Japan. The set of financial statements is similar to the one determined by IAS 1 and consists of Balance sheet, Statement of Income and Statement of comprehensive income, Statement of changes in net assets, Statement of cash flow and Notes to financial statement. Fixed assets are depreciated by one of four methods: straight-line method, diminishing balance method, sum-of-the-years'-digits-method and units of production method. The cost of inventories is assessed using specific identification formula, FIFO and average cost method. LIFO is permitted only when the year-end balance of inventories is immaterial.

Unlike IFRS, Japanese GAAP classifies financial assets as securities (trading, held-to-maturity, available-for-sale, and equity investment in associates and subsidiaries), receivables, money held in trust and derivatives. Receivables are classified into 3 categories: normal receivables, doubtful receivables and uncollectible receivables. The sum of receivables impairment is estimated for uncollectible ones as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. To compare, IFRS 9 applies expected-loss-model, recognizing loss allowances for expected credit losses as the difference between current value and present value of future cash flows discounted at a newly calculated effective interest rate [9].

Chinese Accounting Standards for Business enterprises (PRC GAAP) are developed by the Ministry of Finance of PRC are endorsed for all Chinese public companies except for those registered in Hong Kong (Hong Kong companies select between IFRS, PRC GAAP and Hong Kong Financial Standards. In the phase of financial reports preparation the set of Chinese financial statements differs from the one prepared under IFRS by the structure of

income statement. IAS 1 entitles an entity with an option of revenues and expenses presentation in a single statement (“Statement of comprehensive income”) or two separate statements (“Profit and loss statement” and “Statement of other comprehensive income”). Under PRC GAAP only one statement approach is accessible: profit and losses are disclosed in “Income statement”, while other comprehensive income should be shown in Notes. PRC GAAP do not content information regarding reverse impairment, because, in contrast to IFRS, once impaired fixed assets can’t be renewed again [10].

In February 2015 The Indian Ministry of Corporate Affairs adopted Indian Accounting Standards (Ind AS) and determined the dates of transition from Indian GAAP. Unlike GAAP, Ind AS are quite similar to IFRS except for tiny requirements of financial instruments and business combinations accounting. Voluntary adoption began after 1 April 2015. Mandatory adoption starts on 1 April 2016 for companies with net worth of 500 crores or more (the mandate also relates to associates, subsidiaries, joint ventures and holdings), and on 1 April 2017 for the same companies with net worth below 500 crores [11].

Indonesia is the only country of G20 membership that did not approve IFRS application for domestic and foreign public companies. Indonesian business entities follow domestic GAAP (PSAK – Indonesian abbreviation). The biggest differences, worth highlighting, are the following ones: presentation of financial statements (IAS 1/PSAK 1) non-controlling interest measurement (IFRS 3/PSAK22), financial instruments disclosure (IFRS 7/PSAK 60), fixed assets recognition (IAS 16/PSAK 16) [12].

IFRS-free countries are characterized by the following criteria: titles of local GAAP, issuing body, the scope and exceptions for application. All the determined above features are disclosed in a Figure.

**Conclusions.** The research resulted in disclosure of basic accounting principles and requirement to financial reports presentation of five countries that refused to endorse IFRS for public companies. Domestic GAAP - US GAAP, JP GAAP, PRC GAAP, Ind AS, PSAK – were compared to IFRS. The research showed off that the US GAAP have the biggest inconsistencies with the IFRS on financial and non-financial assets and liabilities accounting and presentation. Accounting frameworks of the rest four 4 have more similarities than differences with the IFRS. Indonesia that proclaims disapproval of IFRS for all the companies, in practice uses the IFRS principles under PSAK coverage. So the gap between IFRS and domestic GAAP of these countries is not that big, as seemed in the beginning of the research, and the convergence process is still continuing. Nevertheless, the US GAAP require accounting approaches that differ from IFRS ones. Such inconsistencies drive the scope for further research.

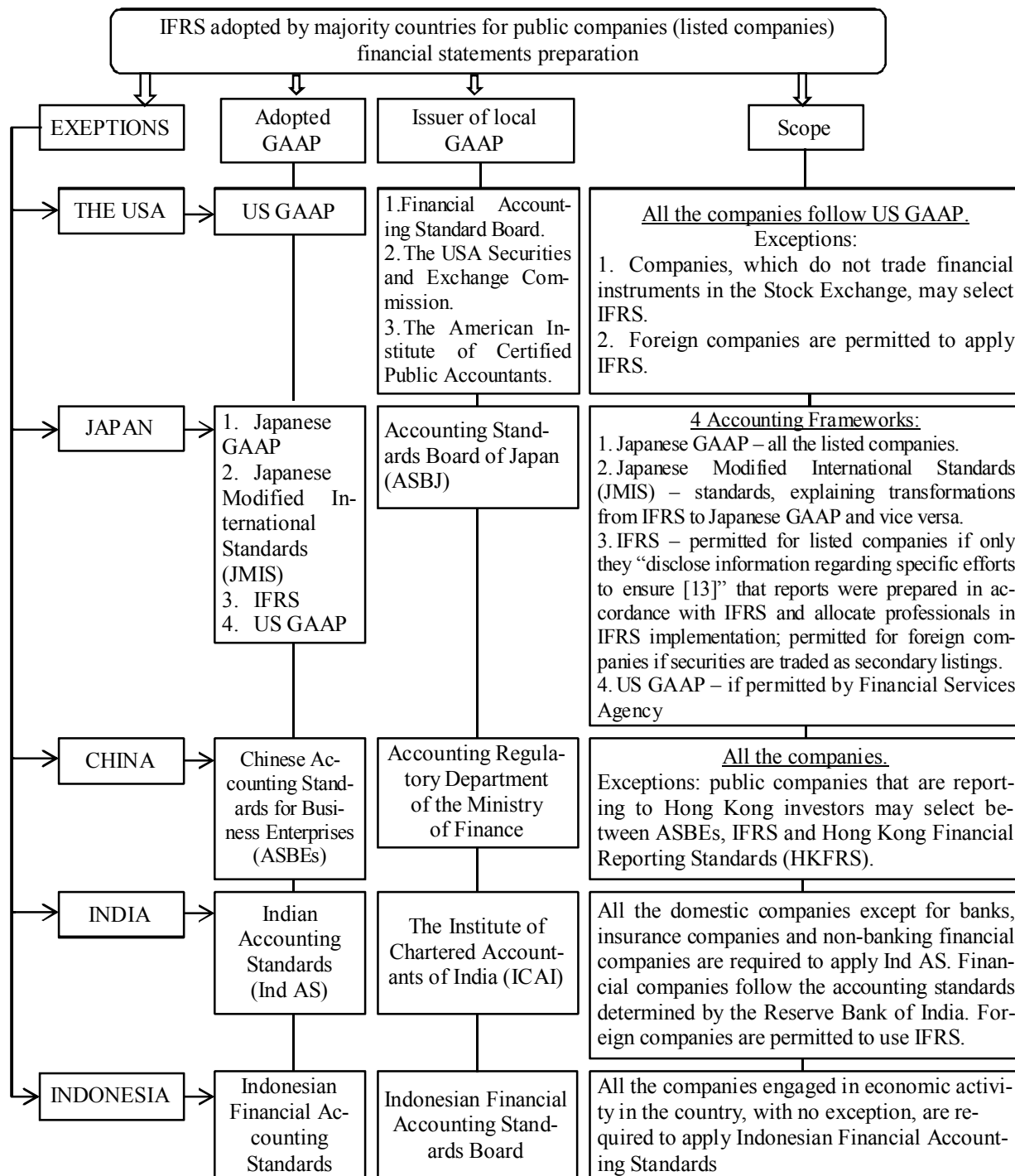


Fig. Accounting frameworks of the countries that did not approve IFRS

\*Built by the author.

**References**

1. Harris, P., Washington Arnold, L. A Comprehensive Case Study: US GAAP Conversion to IFRS [Electronic source] / Peter Harris, Liz Washington Arnold, Katherine Kinkel. – Retrieved from : <http://www.researchgate.net>.
2. Hongman, Z. On the Construction of China’s Accounting Standard System with International Convergence in Accounting Standards / Zhang Hongman // International Journal of Business and Management. Vol. 5, No. 4. April 2010. – P. 200–203.
3. Habib, A. The New Chinese Accounting Standards and Audit Report Lag / Ahsan Habib // International Journal of Auditing. – Vol. 19, Issue 1. – March 2015. – P. 1–14.

---

**ОБЛІК, КОНТРОЛЬ ТА АУДИТ: ТЕОРЕТИКО-МЕТОДОЛОГІЧНИЙ АСПЕКТ**

---

4. *Tri, Wahyuni E.* The Role of Institutional Entrepreneur in IFRS diffusion: The Case study of IFRS Convergence in Indonesia [Electronic source] / Wahyuni Ersa Tri. – Retrieved from : [www.apira2013.org](http://www.apira2013.org).
5. *Semba, Dan Hu, Yao, J.* Roadmap to Future Mandatory Application of IFRS in Japan from the Perspective of Financial Statement Papers [Electronic source] / Hu Dan Sembra, Lun Yao. – Retrieved from : <http://papers.ssrn.com>.
6. *Shah, K. K.* IFRS and India: Opportunities and Challenges / Kishore Kumar Shah // Global Journal of Multidisciplinary Studies. – Vol. 3, Issue 9. – August, 2014. – 250 p.
7. *IAS 16* “Property, Plant and Equipment” [Electronic source]. – Retrieved from : <http://www.iasplus.com>.
8. *IFRS and US GAAP: similarities and differences* / PWC. – September, 2015. – 162 p.
9. *Similarities and differences. A comparison of IFRS and JP GAAP* / PWC. – March, 2013. – 162 p.
10. *An Overview of New PRC GAAP: Differences between Old and New PRC GAAP and its Convergence with IFRS* / KPMG. – 3<sup>rd</sup> edition. – October, 2014. – 51 p.
11. *Indian GAAP, IFRS and Ind AS. A Comparison* / Deloitte. – 26 February, 2015. – 117 p.
12. *IFRS and Indonesian GAAP (PSAK): similarities and differences* / Pwc. – October, 2014. – 24 p.
13. *IFRS Application around the world. Jurisdiction Profile: Japan* [Electronic source] / Official website of the IFRS Foundation and the IASB. Retrieved from: [www.ifrs.org](http://www.ifrs.org).