

New era – new challenges

There is a shortage of accounting professionals on the mainland as it prepares to adopt new standards

By Maria Trombly

China's move towards international accounting standards is proving to be a massive undertaking. Obstacles include a lack of trained staff, back-end IT systems and a tight deadline.

The Ministry of Finance (MOF) announced the new standards in February, giving companies and accounting firms less than a year to get ready.

"Companies have had to learn the new standards, assess their impact on the companies, both financially and non-financially, make changes to the accounting and internal control systems and upgrade their IT systems," says Alden Leung, a technical partner at Ernst & Young China.

"The MOF is out there preaching the new standards," says Yvonne Kam, assurance director at PricewaterhouseCoopers in Shanghai. "You can sense there is a very strong will for this to happen, to make sure this transition is as smooth and as clean as possible. Nowhere would you find the standard setters out there instructing themselves – I think it only takes place in China. This shows just how determined they are."

Eng Choon Tan, managing partner of Shanghai-based Eng & Co. Consultants Limited, confirms there is a shortage of trainers in China.

"Most of the listed companies will meet the deadline for the new standards as this is a mandatory requirement," he says. "However, the quality of the implementation may be an issue."

To help, the MOF held five training sessions in Beijing, Shanghai and Xiamen in the summer. The five-day sessions, accommodating 300 to 400 people, were targeted at accountants at listed companies, accounting firms and regulators.

The training sessions went through the general standards book issued by the MOF – the definitions of the standards and their initial and subsequent measurement.

"This was quite a bit of information to absorb in five days," says Kam. "But it gave the accountants a good understanding of what the new China Accounting Standards entail."

However, there have been questions about the quality of training available. One Shanghai-based accountant said the training offered by the MOF was limited to lectures, without interactive content or hands-on workshops.

Public accounting firms have also been offering training. How much training companies have needed has varied, depending on how familiar they are already with International Financial Reporting Standards. "Some companies only need a day to bridge the gap," says Kam.

XBRL in China

In 2004, China became the first country in the world to mandate that all listed companies file their reports in XBRL format.

XBRL – or eXtensible Business Reporting Language – is an XML-based, open standard for corporate financial data.

Putting the data into XBRL means that all the numbers are available in electronic form and can be sliced and diced at will. Analysts, investors, and government regulators can quickly use XBRL data to drill down into company financials, to look at historical trends, and to compare companies with others in the same industry.

But XBRL data doesn't just make life easier for investors, said Kurt Ramin, global chair of the XBRL Steering Committee of the International Accounting Standards Committee Foundation. Ramin was in China in October to take part in a meeting of the International Accounting Standards Board and took the opportunity to meet with Chinese government officials and stock exchange executives.

If a company collects invoices and accepts payments in electronic form, then

the process of generating financial reports can be automated, he said. In addition, once a company collects all the data for one report, it can automatically generate other reports, such as for government-mandated statistical purposes or for taxes.

"The bookkeepers are all going to be obsolete," he said.

In addition, with early adoption of XBRL, China is leapfrogging over other countries when it comes to transparency, he said.

"Currently, the accounting standards here are not trusted," he said. "But they're moving, and XBRL is a huge help for China because the accounting concepts are broken up into pieces. The XBRL taxonomy is an intelligent chart of accounts."

Today, companies' XBRL data is collected by the Shanghai and Shenzhen stock exchanges. It is distributed in the United States by Edgar Online, Inc.

"The data is pretty good," said Jennifer Wu, Edgar Online's vice president for business development. "The Shanghai Stock Exchange has gotten down to pretty good granular data. China has taken a big step forward in disclosure."



Having international experience helps. "Because of prior exposure to IFRS, international audit firms will probably be able to adapt to the new standards more easily than their local counterparts," says Kam. For example, just the move to fair market value will present significant challenges for local staff – though international employees will have had previous exposure to the concept.

Chinese companies used to use historical costs for the valuation of assets. For financial assets such as stocks or bonds, however, a fair market valuation is more appropriate. But Chinese companies have had

little experience with valuating assets based on their fair market value; part of the reason is China's stock and financial markets have not yet matured and it is difficult to value financial assets without robust capital markets.

Another challenge will be the significant time, money and energy put into designing back-end IT systems to handle accounting entries dictated by the new standards.

Kam says investing money in a back-end system is a sound move because it will increase the transparency of the company and help lower the cost of raising capital in the future.

One example of the revolution that is occurring is the decision that all listed companies should file their reports in XBRL format (*see sidebar*). **A+**

The China Accounting Standards Committee, an advisory body under the MOF, announced on its website that three additional training sessions would be held in Nanjing, Shenzhen and Chengdu in November.

Patrick Martino contributed to this report.