

New Achievements of Government Accounting Reform in China—“Governmental Accounting Standards—Basic Standards”

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Abstract

Through joint efforts, “Chinese Government Accounting Standards—Basic Standards” was finally officially promulgated on October 23, 2015. This is a great achievement of our government accounting reform and it has a significant influence on future reform in China. The purpose of this paper is introducing our first government accounting standards and by comparing, I find several ways to safeguard its implementation. My conclusion is that our future governmental accounting standards will be better and more fruitful.

Keywords

Government Accounting, Basic Principles, Future Development

1. Introduction

Governmental accounting reform has been an important issue of China’s Party Central Committee and State Council. From 2013 to now, China has successively promulgated several policy documents in all aspects related to the reform of government accounting. In 2013, a document named China’s Party Central Committee solving Some Major Issues was about comprehensively deepening the reform. It proposed that the country’s budget management system and government financial system were not perfect, especially the government’s financial reporting. We should try our best to build an accrual accounting reporting system. In 2014 the newly revised budget law also proposed that we needed to put accrual basis into government financial reporting. At the same year, the ministry of finance in our country had established a comprehensive “accrual government financial re-

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porting system reform plan”, and the plan explicitly pointed out that making the government financial report could comprehensive, fully reflect the government’s financial position and operating results, you must use the accrual basis of accounting principles. In order to absorb a wide range of reasonable suggestions, the Ministry of Finance also issued a Governmental Accounting Standards—Basic Standards (second draft) and major issues before our first basic standard. After effective long-term preparation, China’s “Government Accounting Standards—Basic Standards”¹ was finally implemented on October 23, 2015, which was China’s first specific government accounting document. It lays a solid foundation for our future government accounting reform. In addition, China’s Accounting Standards Board was also established on December 16, 2015. Under the guidance of our basic government accounting standards and supervision of the government accounting standards board, our government accounting standards and the modern financial system must be born soon.

2. Basic Features of the Government Accounting Standards

2.1. Conceptual Framework of Chinese Government Accounting

Qi Yanxia *et al.* (2010) [1] proposed government accounting conceptual framework as the theoretical basis of specific criteria should be first to be set up in our government accounting reform. They also thought that when developing conceptual framework, it is not only necessary to refer to our country’s corporate accounting standards, but also to learn from the successful experience of international government accounting reform. Jun Pan, Chen Zhibin (2015) [2] also believed that building Government Accounting Conceptual Framework was a very important initiative. In China’s government basic accounting standards, it well constructed accounting conceptual framework of our government accounting. It defined the government accounting entity, accounting information quality requirements, important elements of the content of accounting and financial reporting. Government accounting entity refers to government departments at all levels and units. This helps to improve the comparability of accounting information between them. Government Accounting Information Quality Requirements focus on comprehensiveness, reliability, timeliness, relevance, comparability, understandability and substance over form of accounting information. Comprehensiveness is unique requirement in government accounting information. It refers that the government accounting entity should include all economic events it owns to its accounting system. This ensures the accounting information can reflect whole financial condition, operating result and cash flows. I will make a detailed presentation about the accounting elements and financial reporting on the follow-up.

2.2. The Chinese Government Accounting System

The budget accounting system of our government has been based on cash basis. In this budget accounting system, it can only reflect the implementation of our government budget and strengthen budget management to some extent. It can’t fully reflect an exact number of government-owned assets and liabilities and measure our debt risk. Once, Iceland sovereign states emerging international bankruptcy, the Greek debt crisis and the US government shutdown crisis were all due to the government accounting system is not a good measure of the debt risk. Thus, in China, the establishment of government budget accounting and financial accounting in government accounting system is imminent. Zhang Qi, Cheng Xiaojia (2008) [3] drawn on the practices of the International Public Sector Accounting Standards and stressed the need of separation and coordination for government budget accounting and financial accounting systems. In our basic principles, the Chinese government accounting includes two parts: the budget accounting and financial accounting. The budget accounting was based on a cash basis, while the financial accounting on accrual basis. Under the combination of both, our government accounting not only exert good budget management functions, but also provide complete financial information for the users of financial information.

2.3. Financial Reporting System in China’s Government Accounting

Constructing financial reporting system is one of the major issues in our government accounting reform. With the introduction of basic standards, this issue has finally been resolved. China’s government financial reporting system contains two reports: the government final report and government financial reports. Government Final Report is mainly used for evaluating whether the implementation of annual budget is good or not. Government

¹Government Accounting Standards—Basic Standards is the first standards of Chinese government.

financial report comprehensively, truly reflects the government's annual financial position, operating results, cash flow and other financial information, which will not only help fulfilling government accountability, but also help users of government financial report get a comprehensive understanding of government financial condition. Government final report includes accounts statements and the government's financial report includes three main reports: the balance sheet, income statement and cash flows statement. Other relevant non-financial information will be disclosed in detail in the notes. Both preparation of the two reports can be more comprehensively, clearly reflect the government budget performance and financial situation, and they help significantly enhance government financial transparency and decision-making capacity.

2.4. Introduction of Accrual Basis in Governmental Accounting

Budget accounting system in cash basis can only reflect the strength of the government's annual budget implementation and meet the requirements of budget management to a certain extent. Compared with the accrual accounting system, it does not accurately reflect the number of assets and liabilities owned by the government, not objectively reflecting the level of operating costs and not making a good assessment of the government performance. All these problems in our government system indicate that the introduction of accrual accounting is very urgent and necessary. Xu Sui town (2006) [4] compared the advantages and disadvantages of accrual basis accounting and cash basis accounting, as well as analyzed problems in our budget accounting system. He suggested that we should gradually introduce accrual accounting into our government accounting system. He Jingping, Wang and Yang Xiaolin (2011) [5] selected the government accounting reform in Hainan as an example, suggesting China's government's accounting needs accrual basis to supplement and perfect. Gao Yuan (2015) [6] also expressed the opinion that we should build our government accounting system and bring accrual basis into it. Cheng Min (2015) [7] also concluded that setting up unified government accounting standards and making accrual accounting reform in our government are two important issues. The reason that accrual basis system is strongly recommended by many scholars is that comparing with the cash basis, it can more fully reflect the economic nature of the business and the allocation of responsibilities and obligations. By introducing accrual, we can redefine the assets, liabilities and other accounting elements. We can ensure that government assets, liabilities and other accounting information records are truly and completely. This can prevent debt risks. On accrual basis, revenues and expenses are more useful in evaluating management abilities and operating performances of our government. The introduction of accrual system is good for our government to achieve convergence with international government accounting. Many scholars put forward suggestions after introducing the successful experiences of foreign government reforms. Ministry of Finance Accounting Division IPSAS mission (2006) [8] told us to learn the practice of Switzerland and Italy and make China's government accounting gradually achieve the transition to accrual accounting. Ouyang Zongshu *et al.* (2013) [9] introduced the accounting reform process to complete accrual basis of the United States, the Canadian government, hoping we can learn from them. Gao Yue (2016) [10] introduced British government from cash basis to accrual basis, noting that accounting reform of our government should follow the reforming road of England.

2.5. Defining Government Accounting Elements

After the forming of our government accounting system, our basic standards also established an accounting mode of "3 + 5". Among them, the three elements of the government budget accounting are as follows: budget revenues, budget expenditures and budget balances; five government financial accounting elements include assets, liabilities, net assets, revenues and expenses. The guidelines give a clear definition and recognition criteria for each accounting elements. It is noteworthy that, when given the definition of assets, it emphasis on the assets should have a "service potential" character. Service potential refers to the government accounting entity to provide public goods and services to perform government functions through the use of asset potential. The definition of liabilities in particular emphasizes on the "present obligation". It refers to the obligation of the government accounting entity has assumed under the current conditions, which will bring the estimated liabilities which is security responsibility taken by the Government to be included in the accounting. Revenues and expenses of t two accounting elements firstly include in our government accounting. They have different definitions with budgetary revenues and expenditures. This two accounting elements contribute to more accurate operating costs of government accounting entity, more scientific evaluation of the government-funded job performance and more excellent decision-making ability of the government.

3. The Implementation of Governmental Basic Accounting Standards and Its Future Prospect

3.1. The Implementation of Governmental Basic Accounting Standards

Getting broad, comprehensive implementation of our government basic accounting principles require close cooperation of all sectors of society.

3.1.1. The Introduction of Specific Accounting Standards

After the basic principles, the enactment of specific government accounting standards should be introduced as soon as possible. The basic principle is the basis of government accounting reform in our country. According to this, the introduction of the specific guidelines can make the financial condition of our government more detailed. So far, the inventory, investments, fixed assets and intangible four specific government accounting standards are being drafted. Its draft is also under development. This requires our financial officers actively put forward valuable suggestions. We hope that under the guidance of the Ministry of Finance, the specific accounting standards can be implemented and enacted quickly.

3.1.2. Providing Legal Support

Government accounting reform in any country can accomplish smoothly without legal support and defend. From the experience of foreign government accounting reform, related bills are cornerstone of successful implementation of the government accounting standards reform. From the process of US government accounting reform, the legislations play important role in it. In 1990, the US Congress passed the establishment of “the CFO Act,” which requires all government departments should be based on government accounting standards to prepare real financial statements. Doing this will make financial statements accurately reflect the financial position and operating results of government departments. In 1993, the country promulgated “The US Government Performance and Results Act”, which focuses on operating results of its government. The bill requires the 24 states of the United States must use the accrual basis for government accounting. Learning from the successful experience of foreign government accounting reform, the Chinese government should introduce relevant laws and regulations for the government accounting reforms. This can reduce barriers and provide protection for our government accounting reform.

3.1.3. The Role of the Government Accounting Standards Board

Our Government Accounting Standards Board is founded in December 16, 2015. It plays an important role in monitoring and protecting the establishment of government system and accomplishment of government accounting reform. The source of this Committee is very scattered. This decentralized sources will facilitate all members working together to complete the goal of the government accounting reform. The importance of accounting committee established by the Government is to strengthen cooperation with relevant departments, settle all important matters and promote the smooth implementation of the reform. It also plays an important role in the supervision and guidance on the process of accounting reform.

3.1.4. Intensifying Publicity and Training Efforts

Strengthening publicity and training is very important to ensure the basic standards and other relevant system effectively implemented. This training needs strong cooperation of all levels of government departments. First, we must develop a good means of propaganda, which makes the basic government accounting standards getting accurate interpretation. Second, we must print a book about government accounting standards which facilitates our accountant insight into the background of the guidelines, accounting treatment and the difference comparing with other accounting knowledge. Finally, our accounting staff should also actively involved in the training and reform. In order to do the publicity and training well, it requires all government departments learn from financial personnel training experience and expand the scope of training. Our financial officer also needs a positive and voluntary attitude to obtain new knowledge.

3.1.5. Accelerating the Transformation of Financial Officers' Concepts

Compared with the traditional budgetary accounting system, China's basic principles have a big difference in terms of accounting concepts and accounting system and so on. This requires our accounting staff to master the

basic principles and establish the concept of accrual accounting. Meanwhile, China's financial personnel should strengthen the concept of accrual accounting, recording and reporting government-related assets and liabilities comprehensively. They also need do good management of assets and liabilities, which can better in controlling the cost of our government, evaluating performance and managing debt risk.

3.2. Future Prospect of Government Accounting Reform in Our Country

Establishment of basic principles and the development of the Government Accounting Standards Board are two great achievements in the process of government accounting reform, but the way our government reform has just begun.

In China, the continuing reform of our government accounting need improve and strengthen. Based on China's basic national conditions and lessons learning from the government accounting reform in foreign countries, we must make the development step by step. Finally, we should make our financial reporting system implemented using full accrual accounting, which is conducive to China Government accounting to establish a unified cost control system, standardized performance evaluation system and identical risk control systems. In addition, the reform of our government accounting should also learn from the successful international experience, putting corporate accounting standards into it and do some changes and supplement. Internationally, the International Public Sector Accounting Standards and the United States and Canada and other countries use corporate accounting standards in its own country as reference and make a certain degree of modification and improvement (Ouyang *et al.* (2013). Similarly, the development of China's government accounting standards may also use the basic principles and elements of our corporate accounting standards as reference and make appropriate changes and additions in it. After all, compared with the government accounting standards, China's corporate accounting standards promulgated earlier, and it has great reference value because it has done lots of improvements. In this process, China's financial sector should do publicity work well and our accounting staff also be actively involved. I believe that, through the joint efforts of all sectors of our society, China's government accounting reform will be fruitful.

4. Conclusion

Following the first governmental accounting standards—basic standards and other specific governmental accounting standards will also be officially promulgated. This will benefit our governmental accounting's developing and improving. Based on the first governmental accounting standards in China, my paper has proposed many new achievements of it and gives several ways to suggest how to safeguard its implementation in future. I think after learning from international experiences and the achievements of our enterprise's accounting standards, our governmental accounting standards will be better and government accounting reform in China will be more fruitful in future.

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