ACCOUNTING FRAMEWORKS OF THE COUNTRIES THAT DID NOT ADOPT IFRS

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.
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,

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<th>Accounting procedure</th>
<th>IFRS</th>
<th>US GAAP</th>
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<td>Impairment of fixed assets</td>
<td>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</td>
<td>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</td>
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<td>The reversal impairment of fixed assets</td>
<td>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 revalued assets: Dr “Asset” Cr “Revaluation” Cr “Other comprehensive income” – to the extent of debit balance in the revaluation sum</td>
<td>Forbidden</td>
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<td>Depreciation of fixed assets</td>
<td>Three methods of depreciation: 1) straight-line method; 2) the diminishing balance method; 3) the units of production method</td>
<td>Four basic methods of depreciation: 1) straight-line method; 2) units of production methods; 3) accelerated method – declining balance method; 4) accelerated method</td>
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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

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<td>Inventory measurement</td>
<td>Two methodologies: FIFO and weighted-average cost</td>
<td>Three methodologies: FIFO, LIFO, weighted-average cost</td>
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<tr>
<td>Biological assets</td>
<td>Measured at historical cost. Tested for impairment</td>
<td>Measured at fair value less sale costs</td>
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</table>
| 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].
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.
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Fig. Accounting frameworks of the countries that did not approve IFRS

<table>
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<th>Country</th>
<th>GAAP Adopted by Majority for Public Companies (Listed Companies)</th>
<th>Financial Statements Preparation</th>
<th>Issuer of Local GAAP</th>
<th>All Exceptions</th>
</tr>
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</table>
| **THE USA**              | US GAAP                                                           | 1. Financial Accounting Standard Board  
2. The USA Securities and Exchange Commission  
3. The American Institute of Certified Public Accountants. | All the companies follow US GAAP. Exceptions:  
1. Companies, which do not trade financial instruments in the Stock Exchange, may select IFRS.  
2. Foreign companies are permitted to apply IFRS. |
| **JAPAN**                | Japanese GAAP  
2. Japanese Modified International Standards (JMIS)  
3. IFRS  
4. US GAAP | Japanese Accounting Standards Board of Japan (ASBJ) | 4 Accounting Frameworks:  
1. Japanese GAAP – all the listed companies.  
3. IFRS – permitted for listed companies if only they “disclose information regarding specific efforts to ensure [13]” that reports were prepared in accordance with IFRS and allocate professionals in IFRS implementation; permitted for foreign companies if securities are traded as secondary listings.  
4. US GAAP – if permitted by Financial Services Agency | All the companies. Exceptions: public companies that are reporting to Hong Kong investors may select between ASBEs, IFRS and Hong Kong Financial Reporting Standards (HKFRS). |
| **CHINA**                | Chinese Accounting Standards for Business Enterprises (ASBEs) | Accounting Regulatory Department of the Ministry of Finance | All the domestic companies except for banks, insurance companies and non-banking financial companies are required to apply Ind AS. Financial companies follow the accounting standards determined by the Reserve Bank of India. Foreign companies are permitted to use IFRS. |
| **INDIA**                | Indian Accounting Standards (Ind AS) | The Institute of Chartered Accountants of India (ICAI) | All the companies engaged in economic activity in the country, with no exception, are required to apply Indonesian Financial Accounting Standards |

*Built by the author.

**References**


