

The Financial Statements of BRIC Countries

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Abstract- The financial statements of BRIC countries.

The aim of this paper is to investigate the accounting systems used in those countries that today are driving the growth of the world economy, the so-called "BRIC" (Brazil, Russia, India and China), and to verify whether and to what extent the current global process of convergence of the different accounting systems with the International accounting Standards would also involve these countries. After an early introduction, an analysis is reported on the accounting practices adopted by each of the four countries and on the similarities and differences with IFRS. As you can read from the article, the BRIC countries are an active part of the process of convergence to IAS, however there are still many differences between the accounting practices used by individual countries and the international ones, due both to the specific economic conditions of developing countries and their peculiarities, and to a certain "resistance" to a full adoption of the model of international accounting standards. At the end of the article there is a table which highlights the distance between the accounting systems adopted in the BRIC countries with International Accounting Standards by comparing the financial statements of some companies prepared in accordance with both the two types of accounting standards.

Index terms BRIC, Financial Statement, IFRS, GAAP –

I. INTRODUCTION

The recent financial crisis and the increasing globalization of markets have highlighted new regions of the world where production, consumption and investment are growing rapidly. A significant proportion among these is represented by the countries that make up the BRIC: Brazil, Russia, India, and China.

The following table shows the main parameters relating to the countries in the analysis, compared with the U.S., Italy and Germany.

	Area km ² (/000)	Popula tion	GDP (billion s of \$)	Gro wth (%)	Unemplo yment Rate (%)
Brazil	8 515	198 million	2,425.1	1.5	5.8
Russia	17 098	143 million	1,953.6	3.7	5.4
India	3 287	1,258 billion	1,946.8	4.9	nd

China	9 562	1.354 billion	8,250.2	7.8	nd
USA	9 629	316 million	15,635. 4	2.2	7.9
Italy	301	61 million	1,980.4	-2.3	11.1
Germany	357	82 million	3,366.7	0.9	5.5

Source: Le Bilan du Monde 2013 Edition

As can be seen from the table, the BRIC countries have rates of growth which are much higher than those of the western countries. In such countries, there exist companies of various sizes and in some cases subsidiaries of multinationals. So what are the accounting standards that are used in those countries? Do the International Accounting Standards / International Financial Reporting Standards (IAS / IFRS) also apply to them? Or is the desired homogenization of economic and financial communication remain a distant realization? The purpose of this article is to review the implementation of accounting rules in different countries.

II. BRAZIL

In Brazil, there have been many steps towards convergence with IAS / IFRS. The process of convergence from national to international accounting rules was initiated in 2007 with the enactment of the Companies Act No. 11,638 and has been carried out in recent years through two different pathways. First, the Commission for the Securities and Exchange of Brazil and the Brazilian Central Bank have established the mandatory use of IAS / IFRS for the presentation of the consolidated financial statements of listed companies, insurance companies and all banks (both listed and unlisted) from 2010.

Second, since 2008, all other Brazilian companies, public and private, are required to prepare their financial statements using the new Brazilian GAAP (a standard suitable for small and medium sized Brazilian companies), which are substantially similar to the IFRS.

The local Brazilian GAAP (CPC) are issued by the Comit  de Pronunciamentos Cont beis, currently there are 43 standards, 38 of which constitute a "true copy"

of IFRS. However, there are some differences compared to international standards due, usually, to more specific guidance and clarification given within the local standards. The Brazilian companies cannot apply all the options available in IFRS (for example, the revaluation of tangible fixed assets, which is prohibited by law in Brazil) and must provide some information not required by international standards (for example, the presentation of the statement of value added).

The small and medium sized companies have the right to use the CPC for SMEs, which corresponds to IFRS for small and medium sized enterprises.¹ The parameters to determine whether a company is small or medium sized are defined by Brazilian law and differ from those required by the IFRS. In particular, companies that have registered revenues in the previous year lower than 300 million Real (approximately 114 million Euro²) and total assets not exceeding 240 million Real (91 million Euro²) are considered small or medium sized.

Currently, therefore:

- Listed companies must present consolidated financial statements in accordance with IFRS and with the CPC, while separate financial statements must be prepared in accordance with CPC.
- Financial institutions must use IFRS for the preparation of consolidated financial statements, while the separate financial statements of the parent company must follow the COSIF (principles of the Brazilian Central Bank).
- Insurance companies also prepare their consolidated financial statements using IFRS, however, the CPC is issued by SUSEP (regulator of insurance companies) for the separate financial statements.
- All other companies are required to prepare, both, consolidated financial statements and their separate financial statements by applying the CPC.
- In Brazil, companies are governed under two main legal structures:
- Sociedad Anonima (SA), which is the equivalent of a joint stock company, and
- Limitada, a limited liability company, which has "quotas" in place of the shares, and corresponds to the Ltd.

The publication and filing of the financial statements are related to the legal structure and the status of the company. The listed SA must file its

financial statements with the respective institution regulator (CVM, the Brazilian Central Bank, SUSEP or CFCs), depending on the type of company (listed, bank, insurance company or unlisted) and must publish in a national newspaper. The unlisted SA must also publish the financial statements (including the notes) in a national newspaper. Currently, there are no deposit requirements of the financial statements with regard to the "Limitada" (there is no equivalent chamber of commerce where companies are required to file financial statements). Having said this, it remains a legal requirement for large companies (companies that exceed the parameters defined above for SMEs) to prepare its financial statements in accordance with the CPC and have them audited.

III. RUSSIA

In recent years, as a result of the adoption of certain accounting Russian standards compatible with IFRS, a process of harmonization of Russian standards with IAS has been initiated; The new procedures for editing and issuing Russian standards include, as a requirement, that any new principle is based on the corresponding IFRS.

Following the formal adoption of IFRS in Russia in 2011, the Public Interest Entities (PIE) are now required to prepare consolidated financial statements in accordance with IFRS (previously only Russian banks were required to prepare IFRS financial statements). This is a requirement in addition to the separate financial statements to be submitted in accordance with the RAS. The PIE include companies whose securities are traded on exchanges, banks and insurance companies. Also subject to this obligation are entities that have issued securities through a public offering or through private placement with a large number of shareholders. The consolidated financial statements must be audited, submitted to the shareholders and filed with the Federal Committee on Securities Markets (or at the Central Bank for banks) within 120 days prior to the year's end.

In Russia, a legal entity must prepare a separate financial statement in accordance with the Russian Accounting Standards (RAS) for each period that ends, by law, on December 31. The schema and content of the financial statements are established by the Ministry of Finance; the financial statements include the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements.

The RAS are organized on 4 levels; at the first level are the constitutional and federal laws and ministerial and government decrees, on the second level are the standards (PBU), on the third level there are the guidelines, instructions and comments issued by the Ministry of Finance for the application of standards and then there are the working papers on the organization's accounts.

¹ The IFRS for small and medium sized enterprises (IFRS for SMEs) is an independent Standard of 230 pages, designed to meet the needs and capabilities of small and medium sized enterprises (SMEs). Compared to the full adoption of IFRS, the IFRS for SMEs appears to be less complex for a number of simplifications. Currently its application is not allowed in Europe.

² Monthly average exchange rate Euro / Real (May 2013) = 2.64144 Source: Bank of Italy

Despite the intention to harmonize the Russian principles with international standards, currently, there are still significant differences between the RAS and IFRS. Noticeable disparities seen in the RAS compared to the IFRS include:

- The principle of fair value is not allowed,
- most financial instruments are accounted for using the cost or amortized cost (net of provisions),
- financial leasing can be accounted for using the financial method or the equity method according to the agreements signed between the parties in the lease contract,
- tangible fixed assets are not depreciated, but their revaluation at current replacement cost are allowed,
- the useful life of property tends to be in line with the useful life established by tax legislation,
- deferred taxes are calculated using the income statement method instead of different methodologies, and
- generally, the costs or revenues are recognized as a result of the presence of a document certifying that the transaction has taken place in accordance with relevant tax law.

Most companies maintain their accounting records in Russia using IT systems adapted to the chart of accounts (whose schemes are established by law in the Russian Federation) and to the financial statements provided by the RAS.

Furthermore, reporting for management purposes is often based on RAS, with the conversion to IFRS quarterly or annually. Only larger companies have the ability to perform the transformation into IFRS and therefore, for smaller companies, this process is often entrusted to consulting firms or run with their assistance.

IV. INDIA

India has experienced in recent years a strong economic development. In fact, the adoption of a policy of liberalization and the implementation of important reforms have allowed the country to open up to international competition and to attract foreign investment. This development has provoked the need for India to align its accounting standards with international ones.

Large progress has been made in this direction thanks to the decision by the Institute Of Chartered Accountants of India or ICAI (the institution that has the task of formulating accounting standards in India), to issue a new set of accounting standards convergent with the IAS / IFRS. The road taken was therefore that of a "convergence" with international standards rather than direct adoption.

The new Indian standards are composed of 35 principles and correspond to the IFRS available in 2011, are known by the name of Indian Accounting

Standards (Ind ASs) and, although based on international accounting rules, have a number of differences from IFRS mainly due to the particular conditions and characteristics of the economic environment in India. However, the implementation (initially scheduled for 1 April 2011) has been postponed to a future date, as a consequence of a series of decisions that must be made about certain topics (such as fiscal discipline) and to ensure a smooth transition.

In the future, following a period of gradual transition achieved in stages, the new principles must be used by all listed companies and unlisted large companies (a company with a net worth of more than 5 billion rupees, or about 70 million Euro³). Small and medium sized enterprises, however, continue to follow the current standards unless they adopt the new Ind ASs on a voluntary basis.

The new Ind ASs shows 5 main discrepancies from the IFRS:

- Differences from IFRSs that result in Ind AS financial statements not being in compliance with IFRS,
- removal of options: the Ind Ass are compliant with IFRS, although they eliminate choices about accounting methods,
- additional options not permitted under IFRS, so if adopted by Indian companies, the financial statements result to not be in accordance with IAS,
- deferment or non-adoption of IFRSs renders the financial statements non-IFRS compliant, and
- differences in regulations and practical application of the principles.

The Indian standards currently in use include 32 principles founded on international standards, however, even if there are some similarities with IFRS, there are also large differences.

V. CHINA

For several years, China has embarked on a path of convergence of its GAAP with IFRS. This process began in 2006, when the Chinese Ministry of Finance (the only institution responsible for the preparation and issuance of accounting standards in China) enacted the Accounting Standards for Business Enterprises (ASBE), a new body of accounting standards based on IFRS regulations. These principles are obligatorily to all listed Chinese companies, financial institutions and all large state companies. For small and medium sized companies there is the possibility to use another body of principles: the Accounting Standards for Small Sized Business Enterprises (ASSBE). The ASSBE provide a copy of the IFRS for SMEs (Small and Medium Enterprises) and, like in IFRS, they have a simpler discipline than the ASBE's and their application is dependent on the fulfillment by the

³ Monthly average exchange rate Euro / Indian Rupee (maggio2013) = 71.476 Source: Bank of Italy

company of some parameters, such as the value of sales, total assets and number of employees, and other conditions that determine whether a company may be considered small or medium. For example, a company in the construction industry sector is considered large if it has more than 600 employees, a turnover of over 30 million RMB (about 3.7 million Euro⁴), and total assets of more than 40 million RMB (5 million Euro).

It is important to emphasize that all Chinese companies are required to adopt the Chinese Accounting Standards (CAS) issued by the Ministry of Finance; in other words, the direct adoption of IFRS is not permitted. The decision made by Chinese institutions was to "converge" the Chinese accounting standards with IFRS rather than allowing their direct use, and was motivated by the unique circumstances that characterize China, such as its economic context and the status of its emerging market.

Moreover, despite China's objective of convergence with IFRS, the ABSE have substantial differences with regard to some important areas, the main differences with IFRS include:

- The related party disclosure,
- the accounting for business combinations under common control,
- the fair value accounting, and
- the reversal of impairment.

Since most of the companies in China are controlled, at least in part, by the State, in accordance with IFRS, all state-controlled companies should be considered as related parties and all their operations would be account as "related party transactions". Providing information about all of these operations would be impossible since it would require extensive information at the expense of clarity of the financial statements. Therefore, the Chinese principles do not provide this kind of information for state-controlled companies.

For the same reasons, in China, the regulation of business combinations under common control assumes great relevance, since most business combinations take place between companies controlled by the same entity, namely the State. Therefore, unlike what happens in IFRS, which are silent on the accounting method to be adopted, the CASs state that such operations should be accounted for using a method similar to the pooling of interest method.

In the CAS the use of the fair value method is limited, since, due to the insufficient development of the financial market compared to the economic growth of the country, it appears to be difficult to determine the fair value on an ongoing basis for many goods.

The reversal of tangible assets as a result of impairments is seen by Chinese regulators as dangerous, since, given the great importance attached to net income by investors in their assessments, firms

have an incentive to use the reversals instrumentally to alter the operating result. For this reason, the revaluation of an asset is permitted only for certain categories of fixed assets and current assets such as trade receivables.

However, the Chinese regulators seeking to maintain their capacity to make changes to the principles if and when the need emerges.

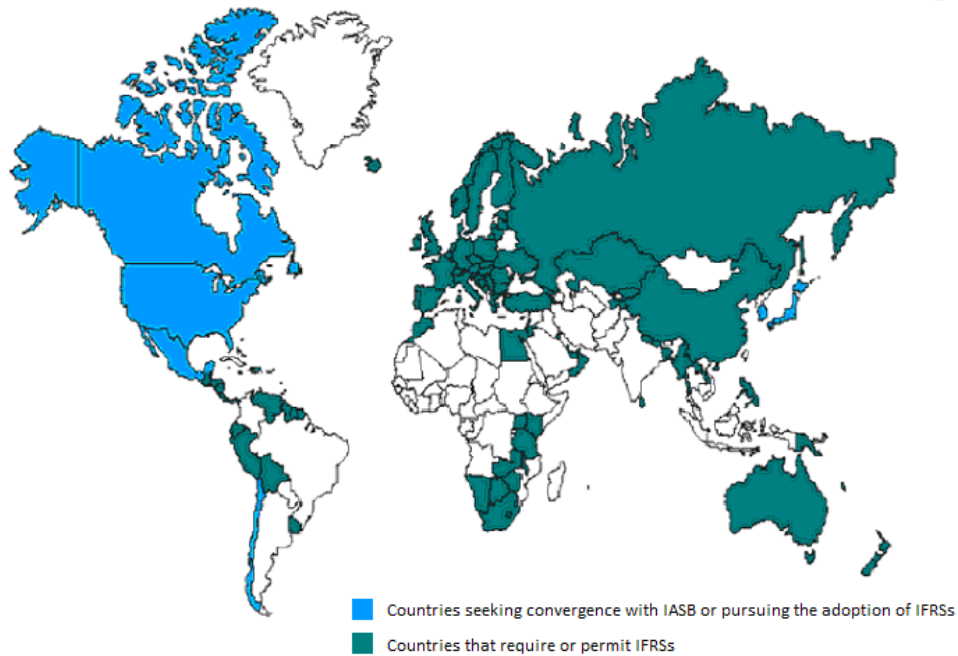
VI. CONCLUSIONS

As is clear from this analysis, despite the current convergence of accounting standards occurring today as a priority on the agenda of most countries, and among them the so-called BRIC countries, in reality it is noted that there are still many differences due, mainly, to both the specific economic conditions of developing countries and their peculiarities, and to a certain "resistance" to a full adoption of the IAS model. In all the countries analyzed, the choice was to "converge" to IFRS rather than "adopt them directly" and is probably related to the need, on the part of developing countries, to not lose their ability to approve and to amend the standards. Only in some cases, and only for listed companies, are countries mandatorily required, or are given the opportunity, to use IFRS for the preparation of consolidated financial statements (e.g. Brazil, India). However, the smaller companies in BRIC countries used different principles that are simplified and often very different from the regulation of international accounting standards. From all this it can be concluded that the IFRS are of course, a great tool and provide a uniform accounting language that is used in different contexts, but they probably cannot be effectively applied to all realities and, in the future, they probably will be affected by the dynamics of the economic world and, more importantly, the new role of the BRIC countries.

Looking at the map in Figure 1, it is understood that the adoption of IFRS is not uniform in all continents, in Africa in particular their application is still poor and , in some cases, has given way to the emergence of new systems, such as the accounting standards issued by OHADA (Organization pour l'Harmonisation en Afrique du Droit des Affaires), adopted by 17 African Francophone countries belonging to Western and Central Africa.

⁴ Monthly average exchange rate Renminbi (Yuan) / Euro (May, 2013) = 7.9715 Source Bank of Italy

Figure 1



Source: www.ifrs.org

The following table shows certain financial statement items constructed using domestic GAAP and IFRS. As

can be seen, despite the desired convergence to IFRS, in some cases the results are significantly different.

Table 1 – Distance between local GAAP and IFRS

PETROBRAS Brazil		GAZPROM Russia	
2009*		2012	
IFRS		IFRS	
Equity	166.895	Equity	8.701.094
Net profit	33.344	Net profit	1.210.566
ROE IFRS	19.98%	ROE IFRS	13.91%
Brazilian GAAP		Russian GAAP	
Equity	161.075	Equity	10.196.698
Net profit	28.982	Net profit	770.581
ROE BRAZILIAN GAAP	17.99%	ROE RUSSIAN GAAP	7.56%

TATA MOTORS India		BANK OF CHINA China	
2012		2006*	
IFRS		IFRS	
Equity	33.134,36	Equity	412.956
Net profit	11.644,04	Net profit	48.264
ROE IFRS	35.14%	ROE IFRS	11.69%
Indian GAAP		Chinese GAAP	
Equity	33.457,06	Equity	388.254
Net profit	13.598,83	Net profit	41.892
ROE INDIAN GAAP	40.65%	ROE CHINESE GAAP	10.79%

*Last year available with domestic GAAP and IFRS

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