



## On the Challenge of Accounting Standards for Enterprise towards Enterprise Internal Control

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### Abstract

With arrival of the information age, as well as the ever-changing and complicated capital and financial markets and financial instruments, the policy –making requirements of the enterprises on the faithful, accurate, reasonable, and effective financial and accounting information become more demanding. Enterprise internal control proves to be the basic safeguard to ensure the regular and reliable operation of the accounting information system. At the same time, the Ministry of Finance issued the *Internal Control Standards - the Basic Norms* and opinion-open drafts for 17 norms. The promulgation of accounting standards for enterprise has brought tougher internal control challenges.

**Keywords:** Accounting Standards for Enterprise, Enterprise Internal Control, Challenge

2006 witnessed the sustained development of china's economy and the rise of China's accounting system. On February 15, Accounting Standards for Enterprises was promulgated; afterwards, the Ministry of Finance issued the *Enterprise Internal Control Standards - the Basic Norms* and opinion-open drafts for 17 norms. How to understand the challenges of internal control brought by the accounting standards for enterprises at the moment is in deepening the reform of China's accounting system, which needs of the needs resolving urgently.

Guided by the basic norms and standardized by specific norms and application directions, Chinese accounting standards for enterprises cover the common business of all sectors. It will not only provide Chinese accounting with a unified standard, but also increase the quality of accounting information. The enterprise internal control has brought more severe challenges as follow:

1. The introduction of fair value makes the problem highlighted that "how to obtain fair value in reasonable ways, to ensure the reliability of accounting information, as well as how to define and prevent enterprises from making use of fair value measurement standards to manipulate profit ". The fair value of asset and liability projects will directly affect the overall business profits, thereby informing users of the overall benefit information. It can be presumed that with the further application of fair value measurement, using fair value measurement model to manipulate profits will become another important means of profits regulation besides accounting policy and estimate. Moreover, the accounting standards for enterprises merely make principal regulation, and leave more space for enterprises with choices and flexible application of accounting policies. A considerable number of matters require accounting professionals' judgments to resolve the accounting treatment of specific issues, such as the application of fixed asset depreciation, residual value and disposal costs, asset impairment and fair value. The professional judgments of accounting staff and the quality of accounting information are closely linked.

However, due to the lack of accounting integrity, the selectivity of accounting standard on the business may also allow for the existence of fake information. The phenomena of listed companies manipulating earnings impairment have posed a challenge for the implementation of accounting standard for enterprises. A lack of supervision will result in a further deterioration of the quality of accounting information. Therefore, we must conscientiously strengthen the

effective supervision of accounting information and improve the internal control, which is a severe touchstone to the development of enterprise internal control.

2. Accounting standards have introduced a modern financial theory, and established the time value of money, the effective interest method and asset valuation theory, such as deferred payment in the purchase of fixed assets and intangible assets, disposal of residual value estimates, the economic business of extension receivables, the confirmation and measurement of financial instruments, all of which extensively applied time value and asset valuation theory, making accounting results more truthfully reflect the company assets and liabilities and operating results. However, the accounting fundamentals have changed greatly and it will increase the difficulty of the audit statements and put forward higher requirements on audit institutions and audit staff and bring new challenges to external supervisors of internal control. At the same time, the company will also face with the uncertainty of the assets and liabilities refreshment and future operating results at the beginning of implementation of accounting standards. In addition, the changes will bring a good few difficulties to the implementation of accounting standards to supervision, which will be a real test of the effectiveness of internal control.

3. The improvement and implementation of accounting standards will directly affect enterprise financial management policy and have profound impacts on the strategic positioning of sustainable development. In many aspects such as target profits, investment and financing plans, financial budgeting, profit distribution policy, cost accounting and analysis, performance evaluation, asset pricing, revenue recognition, measurement attribute choice, accounting methods judgment, customer credit management, risk financial assets, tax costs, cash flow and financial risk warning, enterprises are affected by accounting standards with a long-lasting effects, and some problems are to be disclosed after authorization in the future. Thereby, it sets up a high demand for the determination of control strategies of corporate finance, and further affects their internal control strategies.

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