

The impact of the introduction of international accounting standards in China

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Resumo

A China experimentou nos últimos 20 anos um processo de transição que, partindo de uma economia socialista, baseada no planeamento estatal, desembocou gradualmente numa economia liberal-regulada de tipo ocidental. Uma área sensível de tal processo foi o sistema contabilístico. Este estudo mede o impacto dessas mudanças nos profissionais chineses ligados à Contabilidade. Usando metodologias baseadas em inquéritos e questionários, o estudo examina a metamorfose que levou uma vasta, economicamente vibrante nação, a transformar-se uma realidade totalmente nova. O estudo revela as dificuldades sentidas pelos contabilistas chineses ao longo deste processo e mostra quais os aspectos onde as novas normas são mais frequentemente mal interpretadas. O estudo também procura responder à questão de saber se as novas normas estão a satisfazer as expectativas dos investidores, empresas e outros interessados. As conclusões parecem sugerir que, se os profissionais chineses têm sido capazes de se adaptarem a mudanças radicais nas normas contabilísticas, isso deve-se ao facto de que estas mudanças são uma consequência directa de mudanças na economia. O estudo corrobora portanto o ponto de vista de que a economia, as suas necessidades, é o que determina a evolução dos sistemas contabilísticos, podendo especular-se que, ao invés, aquelas transformações que são impostas sem suporte em nenhuma evolução da economia, serão vistas pelos contabilistas como carentes de sentido e, como tais, de implementação difícil.

Palavras-chave: Normas contabilísticas, contabilidade internacional, China.

Abstract

During the last twenty years, China has undergone a gradual process of conversion from a state-run economy into a modern liberal-regulated economy. One of the major areas of change was the Accounting system. The study assesses the impact of these changes on Chinese practitioners. Using survey and questionnaire methodologies, the study examines the transformation of this vast, economically active country when moving from a system mostly centred on planning and control into western-style standards, supposed to work in parallel, and to appeal to, a modern economy. Light is shed on difficulties felt by practitioners and on those aspects of the new standards that they seem to miss or misinterpret more frequently. The study also seeks to answer the question as to whether the new standards are up to the expectations of enterprises, audit firms and other parties involved. Conclusions seem to support the view that practitioners are capable of adapting to major changes in accounting

standards when these stem from changes in the economy. In this sense, the study demonstrates how economic transformations have a profound effect on accounting practice. It is speculated that, conversely, significant changes in standards not supported by changes in the workings of the economy, may be sensed by practitioners as meaningless and, as such, difficult to implement.

Key-words: Accounting standards, international accounting, China

1. Introduction

The diversity of national accounting standards and procedures is generally seen as a stumbling block for the work of international investors, creditors or financial analysts. Efforts to overcome this through harmonisation are central issues inside economic blocks such as the European Union (EU) or at a global level. Of course, harmonisation requires from some or all of the countries involved the introduction of significant changes in their accounting systems.

This study sets out to assess such type of sweeping change in the accounting system of countries and its impact on practitioners. Using survey and questionnaire methodologies, the study examines the recent transformation undergone by a vast, economically active country, China, when moving from a system mostly centred on planning and control by the state, into western-style standards, supposed to work in parallel, and to appeal to, a modern, liberal-regulated economy. The study investigates contradictions that may emerge from the confrontation between an economic reality not yet settled and new accounting rules pre-supposing a mature liberal economy. Light is shed on difficulties felt by practitioners and on those aspects of the new standards that they seem to miss or misinterpret more frequently.

Several authors (see, e.g., Chow, Chau and Gray, 1995) have published in depth studies of the accounting reform in China, pointing out the social and economic factors which seem to have influenced the development of the new Chinese accounting system. Typically, authors mention, amongst many factors, the drive towards economic reform, the state-owned enterprise reform, the development of the Chinese stock exchanges and the need to attract foreign capital investment as the major factors behind the Chinese accounting reform. What remains unclear from the prior literature is the relative impact on practitioners of some of the influences which may have encouraged or inhibited change. The study addresses this issue by examining how Chinese accountants answer the following four questions:

What are the most significant changes introduced by the new standards?

Which factors are most significant in affecting future accounting practice?

Who benefit from the new accounting information?

What are the information needs of such users?

Moreover, the study also seeks to answer the question as to whether the new standards are up to the expectations of enterprises, audit firms and other parties involved. The objective of the new Chinese accounting standard, the Accounting Standards for Business Enterprises (ASBE), is to satisfy the needs of the government, of all concerned external users and of the management of the firms. External users are

not defined in the listed objective. Without a definition and ordering of external users, it is difficult, if not impossible, to design an accounting system that meets their needs. The study collects the views of the parties involved concerning this subject and also reflects the views of practitioners on the issue.

Finally, the study also assesses the level of maturity and reliance on personal judgement of Chinese professionals. This is an important aspect since western-style standards do require the exercise of personal judgement whereas, not long ago, personal judgement was absent from Chinese practitioner's horizons. All that was needed in order to prepare accounts was the strict following of detailed and comprehensive instructions.

Conclusions seem to support the view that practitioners are able to adapt to major changes in accounting standards stemming from true changes in the workings of the economy. In this sense, the study demonstrates how economic transformations have a profound effect on accounting practice. It is speculated that, conversely, when not following changes in the underlying economic system, significant changes in standards may be sensed by practitioners as meaningless and, as such, as difficult to implement.

Lessons from the study seem to be welcome now that all publicly listed firms in Europe are required to prepare their accounts in accordance with international standards. European accountants will experience, in some countries, changes that are comparable to those in China. Therefore, while discussing results, the study explicitly compares the consequences of the Chinese adoption of western standards with the process of harmonisation in Europe.

1.1 The Economic Reform in China

Prior to 1978, all Chinese enterprises were state-owned or collective-owned. During the economic reform, enterprises are being given more autonomy in making economic and business decisions, individuals are allowed to run businesses, foreign investment in China is highly encouraged. As a result, private enterprises, foreign invested enterprises and various forms of business combinations with joint ownership have emerged. Foreign invested enterprises can be in three different forms: wholly foreign owned ventures, equity joint ventures¹ and co-operative joint ventures².

Non-state-owned business grew steadily over these years. By the end of 1996, collectively owned enterprises are the largest sector of the Chinese economy while enterprise with foreign investment (including joint ventures and foreign wholly owned enterprises) and individually owned enterprises play an increasingly important role. The share of the state enterprises has declined from 78 to about 34 per cent of the 1995 industrial output while collectively-owned enterprises has increased from 22 to 36.6 per cent. Even the private enterprises (individual-owned) increased from nil in 1978 to 12 per cent of the industrial output in 1995.

With the diversification of business ownership in China, the concept of

¹ An equity joint venture is established as a separate legal entity with limited liability, in which partners share profits and losses in proportion to their equity ratio.

² A co-operative joint venture may be registered as an independent legal entity or as a non-legal entity, where profits and losses are shared in any proportion agreed by partners

separating ownership and management is becoming accepted. Enterprise reform and restructuring of the state-owned enterprises (SOEs) were designated by the Chinese government as the core of the economic reform. Instead of privatising the SOEs, as would later be the pattern for the ex-Soviet Union and Eastern European countries, the Chinese government chose to restructure the SOEs by increasing autonomy in making managerial decisions and by creating financial incentives at the enterprise level. Various measures, all of which conform with the concept of economic responsibility, have been taken to reform the SOEs and to separate the management from ownership. They can be classified into two categories: the contract responsibility system (CRS) and share capital system (SCS).

Under the CRS, managers and employees of SOEs enter into contracts with the state for certain production tasks and provided that they meet their production plans, profit targets and other contract terms, profits in excess of the target can be retained. These retained profits can be used to expand the business, pay bonus and to improve the enterprise's collective welfare facilities. The management of the SOEs under the CRS is not only accountable to the state administrative departments but also the market.

Several versions of the CRS have been experimented with by the Chinese government, although the essential idea remains unchanged: granting managerial autonomy to SOEs and applying profit-sharing rules to motivate the managers and employees within the confines of maintaining public ownership.

As the capital structure of enterprises developed into a more diversified ownership, the financial reports regulated by the Ministry of Finance geared to public ownership failed to meet the needs of other report users (Lefebvre and Lin, 1990). One of the problems with the CRS is that short-term profit maximisation become the primary objective of the management rather than giving adequate priority to state objectives. Excessive rewards sometimes are paid to existing workers. This shortcoming indicates that modifications are necessary. It was proposed in the mid-1980s that a share capital system should be introduced as the next step in the reform process.

Whereas the main focus of the economic reforms in the 1980s was the CRS, it has changed to the shareholding system in the 1990s. The characteristics of the share capital system means that SOEs with unlimited liability are transformed into companies with limited liability. It is a further attempt by the Chinese government to separate the management from ownership (control). By replacing the CRS with the share capital system, management of SOEs have sole responsibility for its profits and losses. The establishment of the share capital system calls for a change in the objective of financial reporting, and in accounting practices. The state is no longer the sole users of the financial statements and the needs of other users such as creditors and investors should also be catered for (Tang, Chow and Cooper, 1994).

1.2 The Accounting Reform in China

The first phase, leading to the Chinese accounting reform, commenced in March 1985, with the promulgation of the "Accounting Regulations for Joint Ventures

Using Chinese and Foreign Investment" (the 1985 Regulation), since a lot of joint ventures have been established by mid-1980s. These regulations were used to provide flexibility for Sino-foreign joint venture with foreign capital. Because their organisational and capital structure are different from the state enterprise and they need to consolidate their China operation with their parent financial statements, the 1985 Regulation was established to a large extent by reference to international accounting practices.

The 1985 Regulation, being the first attempt at harmonisation with international practices, departed from the fund-oriented accounting approach and adopted the financial statements widely used in western countries (Chow, Chau and Gray, 1995). It established the accounting elements, namely, assets, liabilities, capital, revenue and expenses, and adopted the western accounting equation (i.e. assets = liabilities + equity) for preparing financial statements. It also explicitly required the principles of historical cost, matching, consistency and revenue recognition. The principles of recognition and measurement for intangible assets were also established. In respect of income measurement, the 1985 Regulation required interest and administrative expenses to be excluded from product cost and treated as periodic expenses.

The 1985 Regulation applied mainly to equity joint ventures, which at the time of promulgation of the regulations was the only form of foreign investment explicitly provided for in law. Other types of foreign investment, the co-operative joint ventures and wholly foreign-owned enterprises, were required to report their operation by referring to this regulation. The 1985 Regulation marked a significant breakthrough in China's accounting history by introducing western accounting practices and requirements to the foreign investment sector of the economy.

The second phase of the reform was marked by the promulgation of the Accounting Regulation for Experimental Share Enterprises in 1992. It was enacted as a response to the process of converting SOEs into limited liability companies (Xiang, 1998). The establishment of the share capital system inevitably calls for a change in the objectives of financial reporting. The traditional accounting regulations geared to public ownership are inadequate for investors entering the emerging Chinese stock markets and for Chinese companies attempting to list on foreign stock exchanges (Winkle et al., 1994). As share enterprise do not operate on a fund allocation basis, the fund-oriented accounting requirements are not adopted. Instead, the Regulation requires the western type of financial statements, including a balance sheet, an income statement and a statement of changes in financial position (Ministry of finance, 1992). The classification of assets, liabilities and equity is similar to that for enterprises with foreign investment. The Regulation thus became the first set of accounting regulation to apply international accounting principles to domestic enterprise (Tang, Cooper and Leung, 1995).

In 1992, the first accounting standard, entitled the Accounting Standard for Business Enterprise (ASBE), was issued by the Ministry of Finance and became effective on 1 July 1993. The traditional accounting model rooted in the centrally planned economy has been replaced by accounting practices compatible with the development of a market-oriented economy in China and of international accounting harmonisation.

The ASBE broadens the traditional function of accounting in the provision of information for the government's decision-making on macro-economic management by addressing the needs of external users in assessing an enterprise's financial position and operating results. It contains the following four main areas (Yang, 1994):

1. It establishes four accounting assumptions: accounting entity, gong concern, periodicity and money measurement.
2. It identifies 12 basic principles: objectivity, relevance, comparability, consistency, timeliness, understandability, accrual basis, matching principle, conservatism, materiality, historical cost and distinction of capital and revenue expenditure.
3. It defines six accounting elements: asset, liability, owner's equity, revenue, expense and profit.
4. It requires three main accounting statements: balance sheet, income statement, statement of changes in financial position or cash flow statement.

A separate set of *General Rules on Financial Affairs for Business Enterprise (GRFABE)*, accompanied by several industry-specific financial system, was also introduced and became effective at the same time. These rules are used to regulate financing transactions or expenditures of individual business enterprises. The financing rules, unique in the Chinese environment, contain detailed provisions governing the pattern of business financing, the elements of product costs, the classification of repair expense, the calculation of depreciation, the amortization of intangible assets and deferred assets, profit distribution and the specified spending allowances for business expenses or expenditures.

The ASBE and GRFABE, applicable to all enterprise established in China, supersedes in principle all other accounting regulations issued earlier. With the promulgation of the new accounting standard the fund-oriented accounting regulation for public-owned enterprises, which had been practised for decades, were annulled. It essentially comprise a conceptual framework rather than operational standards; expected to serve as a guide for formulating the detailed accounting standards (see Davidson, Gelardi and Li, 1996). However, as it may take several years to develop a full set of operation accounting standards, the Ministry of Finance issued new industry-based accounting regulations for 13 industries as a transitional arrangement to provide technical guidelines. These new regulations integrate industrial characteristics and the requirement of the ASBE, all effective on 1 July 1993. The 13 industries are manufacturing, merchandising, transportation, transportation (railway), transportation (airline), agriculture, postage and communication, real estate development, construction, baking and finance, insurance, tourism and catering, and foreign economic co-operation.

In February 1993, the Ministry of Finance started a three-year project to formulate detailed accounting standards. The project, funded by the World Bank, employed Deloitte Touche Tohmatsu International as an international consultant and also an enactment of thirty detailed accounting standards which are expected to be applicable to all enterprises in China. According to the original planning, about 30 specific accounting standards will be developed within the framework set out by the

Accounting Standards for Business Enterprise. The exposure drafts of these transaction-based accounting standards were all issued by the Ministry of Finance to solicit public comments in 1995 and 1996.

The first specific Accounting Standard, "Disclosure of Related Party Relationships and Transactions", was officially released by the Ministry of Finance (MOF) in May 1997. In 1998, seven more specific accounting standards have been issued. However, only two specific accounting standards, "Cash Flow Statements" and "Post Balance Sheet Events", were effective from 1 January 1998. The remaining five standards are effective from 1 January 1999. During 1998, the MOF also issued "Accounting System for Companies Limited by Shares" which came into effect on 1 January 1998. This new accounting system summarises and consolidates all the relevant accounting rules and regulations issued from time to time for listed and unlisted companies with share capital (including companies issuing B and H shares) over the past few years.

These specific accounting standard are transaction-based and closely follow the equivalent International Accounting Standards except for some minor modifications to suit Chinese conditions. The application of the specific standards no longer depends on industry type. Instead, it reflects whether the enterprise is listed or not. Of the eight standards in issue only two standards, "Cash Flow statements" and "Debt Restructuring" are applicable to all type of enterprises. The rest of them are only applicable to listed enterprise for the time being.

The standard on Debt Restructuring introduced the concept of fair value into the Chinese accounting system for the first time. It also standardises the relevant accounting treatment on enterprises restructuring which is expected to greatly increase in the coming years. The eight specific accounting standards explicitly demonstrate that the development of Chinese accounting regulations has deviated from previous rule-based approach. It is expected that the full implementation of these specific accounting standards will further narrow the differences between the Chinese accounting standards and IAS (International Accounting Standards).

On completion of a full set of accounting standards covering the measurement of individual accounting elements, preparation of financial statements and accounting for specific business activities, the reforms in respect of financial reporting regulation will be essentially accomplished. It is planned that on the full implementation of accounting standards, the industry-specific accounting regulations for the 13 industries will be phased out and that financial reporting will be completely governed by accounting standards. This development reveals a significant move towards the Anglo-Saxon model of financial reporting regulations.

2. The survey: data, methodology and results

This study adopts a questionnaire survey method. A total of 500 questionnaires were distributed amongst academics, in the private sector, state-owned enterprises and accounting firms through local contacts, of which 156 responses were returned. The high response rate, 31%, reflects the fact that the questionnaires were sent to known accountants arranged through a network of local contacts. Guan Xi (networking) is the

only practical way available to successfully carry out this type of activity in China.

A draft questionnaire was first tested in pilot interviews with 15 respondents in Guangdong province in November 1998. The purpose of these pilot interviews was to discover any ambiguities in the questionnaire and to assess the feasibility of a large-scale questionnaire survey. Based on the feedback of pilot interviews, the questionnaire was refined and shortened.

A full-scale questionnaire survey was carried out from January 1999 to June 1999 in major cities: Beijing, Shanghai, Dalian, Shenzhen, Heilungxiang, Xiamen, Canton and other cities in the Pearl River Delta.

The questionnaire contains a total of 25 questions and is divided in four sections:

1. Background of the respondent;
2. Views on the new accounting standards in relation to the old;
3. Factors which affect the development of the new standards and practice;
4. Users of information produced under the new law;.

Section 1 establishes the background of the respondent: name, organization and number of years' experience practicing accounting in China. Section 2 explores the general understanding of the *de jure* aspects of the new accounting standards. Section 3 explores nine factors that may affect the accounting standards: Section 4 explores the users as perceived by the interviewees and their needs and the possible reasons for not trusting the figures produced under the new accounting standards.

Table 1 shows the distribution of respondents by sector where they work. The two largest groups of respondents are from manufacturing industry (26.6%) and from schools or universities (25.8%). They are followed by CPAs (Certified Public Accountants) working in audit firms (19.4%) and by those from servicing industry (14.5%). 20% of respondents did not reveal where they work. This percentage highlights the problem of insecurity of respondents: they did not want to answer any questions that might give a slight chance of tracing who he/she is.

Table 2 displays the profession of respondents. The majority of respondents are accountants (47.6%). The rest of respondents are CPAs (19%), students (14.3%), and finance managers (10.3%). Professors make the smallest group of respondents (8.7%). 30 out of 156 (19.2%) respondents would not identify their position in the company probably because of the same reason as for the last question.

The number of year's experience of respondents practising accounting in China ranges widely from 0 to 50 years. Respondents with 10 and 3 years of experience make up 13% and 12% respectively, followed by respondents with 5 years of experience and no experience, each 10%. Respondents with less than 3 years of experience are non-experienced practitioners; with equal to or more than 3 years, are experienced.

Table 1. Sector in which respondents work

	Frequency	Percent	Valid Percent	Cumulative Percent
Audit	24	15.4	19.4	19.4
Bank	8	5.1	6.5	25.8
Government	9	5.8	7.3	33.1
Manufacturing	33	21.2	26.6	59.7
School	32	20.5	25.8	85.5
Service	18	11.5	14.5	100

Table 2. Profession of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Accountant	60	38.5	47.6	47.6
CPA	24	15.4	19.0	66.7
Finance manager	13	8.3	10.3	77.0
Professor	11	7.1	8.7	85.7
Student	18	11.5	14.3	100.0

24.8% of respondents have less than 3 years of experience in practising Chinese accounting while 75.2% have 3 years or more experience. For experienced respondents, over half are accountants (51.5%) but for non-experienced respondents, the majority are students. The second largest experienced group is that of CPAs (23.7%) and the smallest group is students (3.1%). But for non-experienced respondents, the second largest group is that of accountants (34.5%). As expected, only a small fraction of the students (16.7%) have experience. Most of the CPAs (95.8%), accountants (83.3%), finance managers (92.3%), professors (81.8%) have experience. 84.3% of respondents use the new accounting standards at work.

A subjective ranking given by the interviewer attempts to classify the quality of the questionnaires into 4 categories (lousy, somehow useful, good, very good. 38.5% of the questionnaires are perceived by the author as of very good quality. Experienced practitioners usually answer the questionnaire better. 46.1% very good quality questionnaires, 35.7% good quality questionnaires, totalling 81.8% are from experienced respondents. Only 7.8% of experienced respondents give origin to lousy questionnaires. 88.3% of the very good quality questionnaires are from experienced practitioners.

3. Quantitative results

3.1 Factors perceived to affect the accounting standards and practice

Respondents were asked to rank factors that may have affected the development of accounting standards and accounting practice. The ranking ranges from 0 (no

influence) to 3 (very strong influence). 5 respondents have answered that all the factors listed have very strong influence. None has given 0 to all the factors. Now let us examine each factor listed and see whether respondents considered them to have influence on the development of the accounting standards and accounting practice. When respondents give "no influence" or "weak influence" to the factor, this factor is considered to have no influence to the development of the accounting standards and accounting practice. When "moderately strong influence" or "very strong influence" is indicated, that factor is considered to have influence on the development of accounting standards and practice.

Table 3 shows the results. Over 50% of respondents, ranging from 68.1% for creditors to 95.8% for the need to attract foreign capital investment, consider that the factors stated have some influence. All these nine factors are considered to have some influence on the development of the accounting standards and practice. None was ruled out. For example, 91% of respondents consider multinationals to have moderately strong to very strong influence while 9% of respondents believes that they have weak or no influence. Table 3 also shows the sum of all respondents' score for each factor and mean. Results suggest that the most important influence is the development of the Stock Exchange, followed by the need to attract foreign capital investment and Multinationals. The least important is government's statistical needs.

Table 3. Ranking of Factors by Total Score

Factor	Total Score	Mean	Influence	Non-Influence
Development of the Stock Exchanges	380	2.64	95.7%	4.3%
Need to attract foreign Capital Investment	370	2.57	95.8%	4.2%
Multinationals	349	2.41	91%	9%
Government need for collecting taxes	327	2.24	85.6%	14.4%
Requirement of Shareholders	318	2.22	83.9%	16.1%
China Institute of Certif. Public Accountants	308	2.12	81.4%	18.6%
Requirement of Creditors	281	1.95	68.1%	30.9%
Academics	282	1.94	71.7%	28.3%
Government need for Statistical Data	279	1.90	70.1%	29.9%

When respondents are asked to comment on the factors provided, most of them said that the factors in the list were complete. Other factors such as economic reform, ownership diversification, Ministry of Finance, China's attempt to enter World Trade Organization were also added by a few respondents. It is interesting to note that one respondent put Mr. Deng Xiao Ping, the former President of China, as the significant "factor" that influenced the development of accounting standards.

3.2 Perceived Users of Accounting Information

Respondents were asked who they think will find the accounting information produced under the new standards useful. They are given a list to choose from: private

owners, potential investors, banks, employees, customers, suppliers, state regulatory agencies and tax agents. 7.3% of respondents name all the users listed as the perceived users of the accounting information under the new standards while 79.5% of respondents name 2 to 5 user groups only. Experienced practitioners tend to name more user groups than non-experienced practitioners. Accountants and professors also tend to name more user groups than other groups of respondents. Students, in average, name only 2.72 perceived users of the accounting information. The better the quality of the questionnaire, the more users it tends to name as the perceived user of the accounting information.

Over 50% of respondents believe that potential investors (84.1%), banks (62.9%), tax agents (65.6%), state regulatory agencies (57%) and owners (55%) will find the accounting information produced under the new standards useful. Less than 30% of respondents think that employees (9.3%), customers (12.6%), suppliers (25.2%) will find it useful. Potential investors are perceived by respondents as prime users of accounting information. On the other hand, employees are perceived to be the least user of the accounting information.

Table 4. Perceived Users of Accounting Information

Owners	55.0%
Potential Investors	84.1%
Banks	62.9%
Employees	9.3%
Suppliers	25.2%
State Regulatory Agencies	57.0%
Tax Agents	65.6%

When cases are split into 2 groups (experienced and non-experienced practitioners), the perceived user group of the accounting information slightly changes. Over 50% of the experienced practitioners considered that the same 5 groups (potential investors, bankers, tax agents, state regulatory agencies and owners) would find the accounting information useful. However, the non-experienced practitioners drop bankers, state regulatory agencies and tax agents, leaving only potential investor and owners as the perceived user groups. In both groups, "potential investors" is perceived to be the number one user of the accounting information.

3.3 Users who find accounting information insufficient

Respondents were also asked who they think will find the accounting information produced under the new standards insufficient. They are given the same list to choose: private owners, potential investors, banks, employees, customers, suppliers, state regulatory agencies and tax agents.

2.7% of respondents believe that all the users listed find the accounting information produced under the new standards insufficient while 5.4% of respondents believe that no user group will find it insufficient. 82.3% of respondents name 1 to 4 user group who will find the accounting information insufficient.

Over 50% of respondents believe that potential investors (66%), banks (53.7%) and tax agents (51.7%) will find the accounting information produced under the new standards insufficient. All other users, i.e. owners, state regulatory agencies, employees, customers and suppliers will not find it insufficient. Among the 5 user groups which were considered as the perceived users in the last question, 3 user groups find the accounting information insufficient while the other 2 user groups will not. Employees, customer and suppliers will not find the accounting information insufficient simply because they are not the perceived user and they will not use them as often as the other groups.

The above results are similar to those of the last question. Experienced practitioners tend to name more user groups as finding the accounting information insufficient than non-experienced practitioners. Accountants, finance managers and professors are the ones who tend to name more user group as finding the accounting information insufficient than other groups of respondents: CPA and students. Good quality respondents seem to believe that more users will find the accounting information insufficient.

3.4 Users who have significant Influence on the regulation of accounting

Respondents were asked who would have the most significant influence on the regulation of accounting standards; 46.4% of respondents name more than one user group.

Table 5. Perceived Users who have significant Influence on regulation.

Perceived User	Frequency	Percent	Valid Percent	Cumulative Percent
Academic	5	2.0	2.2	2.2
Banker	23	9.2	10.0	12.2
Government	90	36.0	39.1	51.3
Potential Investor	55	22.0	23.9	75.2
China Security Regulatory Commission	3	1.2	1.3	76.5
Stockholders	8	3.2	3.5	80.0
Tax authorities	31	12.4	13.5	93.5
Creditors	5	2.0	2.2	95.7
Suppliers	4	1.6	1.7	97.4
Accountants	1	0.4	0.4	97.8
CICPA	4	1.6	1.7	99.6
WTO	1	0.4	0.4	100.0

4 groups of users are considered by respondents to have significant influence on the regulation of accounting information in China. They are the government, potential investors, tax authorities and bankers. The government is considered to have the most significant influence. If we combine government and tax authorities, more than half (51.9%) of respondents believe that they are the ones who have the most significant

influence on the regulation of accounting information in China.

When respondents were asked why, 45.5% did not answer and 37.6% of those who answered reasoned that the accounting regulation and law were set by the government and therefore the government have the most significant influence.

Table 6 shows whether respondents believe that quality of accounting information is sufficient to make decisions of economic significance. 64.7% of respondents believe that users consider that the quality of the accounting information is sufficient to make decisions of economic significance while 32.4% do not.

Table 6. Quality of Accounting Information Sufficient to Make Decisions

	Frequency	Percent	Valid Percent	Cumulative Percent
Depends	4	2.6	2.9	2.9
No	44	28.2	32.4	35.3
Yes	88	56.4	64.7	100.0

When respondents were asked what kind of decisions they would make, 41.1% of respondents did not answer. Table 7 shows that 38.2% and 20.3% of respondents used accounting information to make investment and financing decision respectively. 13.8% of respondents said that accounting information was not sufficient and must be used together with other information to make decisions.

Table 7. Perceived Users Needs: Decisions taken by Users

	Frequency	Percent	Valid Percent	Cumulative Percent
Cost adjustment	1	0.5	0.8	0.8
Financing (loan/credit)	25	12.0	20.3	21.1
Investment	47	22.5	38.2	59.3
Management Operation	6	2.9	4.9	64.2
Other information	17	8.1	13.8	78.0
Purchasing	1	0.5	0.8	78.9
Production	7	3.3	5.7	84.6
Government policy	4	1.9	3.3	87.8
Tax collection	4	1.9	3.3	91.1
Government budget	1	0.5	0.8	91.9
Macro-economic Control	1	0.5	0.8	92.7
Merger	1	0.5	0.8	93.5
Management Performance	1	0.5	0.8	94.3
Distribution of profit	1	0.5	0.8	95.1
Stock level	1	0.5	0.8	95.9
Growth rate	1	0.5	0.8	96.7
Leasing	1	0.5	0.8	97.6
Forecast	1	0.5	0.8	98.4
Supplier	2	1.0	1.6	100.0

3.5 Difficulties Encountered When Reading or Preparing Accounts

Respondents are given a list of seven difficulties that they may encounter when reading/preparing the accounts. They are asked to choose and more than one answer is allowed. The list of difficulties is provided in the table below.

Table 8. Difficulties Encountered When Reading or Preparing Accounts

Difficulties	YES	NO	No Answer	In Between
the standards seems to be directed towards state centred and tax collection	80	51	21	0
the standards impose unnecessary complication and foster bureaucratic specialists, corruption and so on	29	93	29	1
the standards basically contemplate the needs of the lenders – bankers	16	97	37	2
the standards are contemplating only the needs of investors in stock markets	27	84	38	3
our business partners (present or potential shareholders) cannot find useful information in our accounts	44	70	29	9
Standards too expensive or complicated to implement in small firms	68	63	20	1
the standards are not grounded in reality, have been made by theorists	42	77	33	0

Only difficulties 1 and 6 were clearly sensed by respondents. 52.6% of respondents pointed out item 1 (The standards seem to be directed towards state-centered and tax collection) as the difficulty they sensed when reading/preparing accounts. 44.7% of respondents considered item 6 (the standards are too expensive and complicated to be implemented in small firm) as a difficulty. This percentage is only slightly higher than those who do not (41.4%). Less than 30% of respondents experience the remaining difficulties. The percentage is the lowest, 10.5% for item 3, i.e. 10.5% of respondents consider that the standards basically only contemplate the needs of the lenders – bankers.

4. Qualitative results

4.1 Perception of significant differences between new and old standards

Interviewees were asked what, in their opinion, were the most significant differences between the new accounting standard and the old accounting regulation. The change from fund accounting practices to the Western type of financial statements (assets = liabilities+owners' equity) is the most important difference confirmed by respondents. The second most frequent response is harmonisation with international practice. This is followed by the response stating that the new accounting standards are more flexible and is a uniform set of accounting standards irrespective of industry and business ownership while in the old accounting system there were over 50 subsets

of industry-specific accounting regulations in existence (before 1993). Responses that the new accounting standard is principle-based and the change from full costing method to direct costing method³ have the same percentage. Use of the debit and credit method, prudence and better comparability of accounting information are three other differences often cited.

4.2 Aspects technically difficult to implement the new standards

When respondents were asked in what aspects he/she thinks it is technically difficult to implement the new standards, the most frequent aspects pointed out were: the cash flow statement and revenue recognition. It is easy to comprehend that cash flow statement is considered to be technically difficult because it is the first specific accounting standard applicable to all types of Chinese enterprises. Other specific accounting standards are only applicable to listed enterprises as mentioned in Chapter 2.2. Among the eight specific accounting standards issued, the other one applicable to all enterprises is Debt Restructuring, which is not used very often. Therefore, the cash flow statement is the only specific accounting standard which all the accountants have a practical hand-on experience. Revenue recognition is difficult because of the use of the accrual system. It is no longer that straight-forward as in the cash-based accounting.

4.3 Aspects technically easy to implement the new standards

104 respondents did not answer this question. The responses are very diverse. No conclusive answer can be drawn. Some respondents think the same as in last question and believe that the new accounting standards are easier to be implemented in coasted areas, economically developed areas and non-governmental enterprises. It is interesting to note that cost calculation, on one hand, is considered to be difficult to implement and on the other hand it is considered by some as easy to implement. Others mention accrual basis, statement preparation, profit distribution, revenue and expense recognition.

4.4 Aspects of the new standards that produce different earnings figures

Respondents were asked in which aspects the new standards would produce different earning figures from those in the old accounting system. As the change from old to new standards is significant, many respondents gave more than 4 answers to this question. A few respondents felt that it was impossible to list all the areas and simply

³ Prior to 1993, "factory cost" was the most important cost concept employed in Chinese cost accounting, for manufacturing enterprises in particular, in terms of the requirements on cost management specified by the government authorities in charge. Factory costs were defined as the total monetary value of the production elements consumed by a manufacturing enterprise in producing goods and services over a period of time. Thus factory costs included not only costs incurred in the direct manufacturing process (product costs) but also expenses related to the organization and administration of production at the level of the entire enterprise (period costs). This cost concept was different from the general pattern of cost classification in the West, where a distinction between product (manufacturing) costs and period (non-manufacturing) costs is clearly defined. Following the accounting reform of 1993, the concepts of manufacturing costs and period costs have been adopted in Chinese cost accounting practice and to enhance the comparability of cost information in terms of the norms prevailing in the rest of the world. As a result of this reform, the original concept of factory costs has been discarded, while the new definition of factory costs is similar to that of manufacturing costs in the West, no longer including period costs. Under the new accounting system, cost of goods manufactured includes direct materials, direct labor and factory overheads.

put down "a lot". Bad debt provision, cost calculation, revenue recognition, depreciation, tax expense, stock valuation, are areas most often cited by respondents. Other answers include accrual basis, investment valuation, prudence and profit distribution.

4.5 Aspects where new standards are more appropriate than the old to present economic situation

The literature on the change in the accounting standards emphasizes the need to make accounting practice more relevant to the present economic situation, so a question is asked on how this new accounting standard is more appropriate to the present economic situation of the country. Again the responses were wide ranging, from technical aspects of the new standards which are more appropriate to the confirmation of the greater relevance of the new accounting standards which are suitable to the needs of the business. For example, accounting elements used, accelerated depreciation method, bad debt provision are aspects of the new standards which are more appropriate to the present economic situation of the economy. Many respondents confirmed that the new standards reflect the changes taken under the economic reform and suit the economic development of China. The new accounting standards better reflect different capital structure under the economic reform and enable enterprises to attract foreign capital investment. The new standards are close to international accounting practice and enable greater comparability with the Western systems. In short, respondents, in general, agree that the new standards are more appropriate to the present economic situation of China.

4.6 Aspects of standards influenced by the past rather than by the present

48.1% of respondents did not answer this question. 12.8% of respondents stated that no aspects of the new standard were influenced by the past. It is unclear whether such a big percentage of respondents said no simply because they felt that it was difficult to answer a question which requires analysis of the past and its association to the new standards. A few has mentioned the following aspects:

Accounts Receivables: Enterprises in China can currently select allowance or the direct write-off to deal with doubtful accounts. When the allowance method is used, the estimated percentage of bad debt provision should be approved by the government's finance or taxation authorities in advance.

Depreciation: Depreciation on fixed assets is now accounted for on the straight-line method or the output method. The accelerated depreciation may only be adopted upon approval. The life of the fixed asset is determined by the Ministry of Finance.

Amortization: Intangible assets should be amortized within a period of no less than tens years and deferred assets no less than five years.

Inventories Under the new accounting standard, inventories are recorded at their actual acquisition cost and the "lower of cost or market" valuation method is not allowed.

13-industry specific accounting system: The use of 13 industrial accounting system is clearly due to the influence of the past. The traditional pattern of setting accounting regulations has been in place for over 40 years. Government administrative agencies and accounting personnel in individual enterprises and other organization have become

used to it. Changes must be implemented over time. Therefore, industry specific regulations are enforced to guide the accounting personnel of individual business entities to design appropriate internal accounting systems.

Uniformity: Stipulating the fiscal year end date to be December 31 conforms with the past practice of uniformity from the old accounting systems.

4.7 Where the accountant can exert discretion (LIFO/FIFO, depreciation), which of the users of accounting information would he/she try to please?

69 respondents did not answer this question. Some misunderstood it as whether to choose between LIFO/FIFO or between different depreciation methods. Potential investor and owners/stockholders are the two largest groups of users of accounting information respondents said they would try to please. Management occupied the third place. 4 of them mentioned that they would not please anybody but simply reveal the real financial situation of the firm. Bankers, creditors, employers and suppliers are also brought up by a few respondents as the user to be pleased. Interesting enough, government and tax authorities are also cited. One respondent is very practical and will please certain user only if this method will reduce tax or help to obtain a loan. Another respondent said that he would please a particular user who would provide him a profit.

4.8 Where accountants cannot do things in the fairest way, who is the less informed user?

Potential investors and stockholders are the most cited one amongst less informed, followed by government and tax authorities. Two contradictory views exist. 7 respondents see any external party as less informed and 4 respondents see internal party as less informed. Banker, creditor, employee, management and suppliers are also mentioned but none of these groups have a significant weight.

4.9 Possible reasons for not trusting earning figures under the new standards

73 respondents, reaching almost half of the sample, did not answer this question. 15.8% of respondents, the largest group of those who answered this question, see no reason for not trusting the earning figures produced under the new standards. Bad debt provision, useful life of depreciation being too long, lower of cost or market inventory valuation not allowed, cost calculation incorrect (classification of product cost and period cost), false accounts are mentioned by 4.95% to 8.91% of the answers. Other reasons are also mentioned once or twice: companies with mainly cash sales, government interference, interest income unable to receive, exchange loss, companies with internal control deficiency and also qualification of the auditor and preparer. Retail, manufacturing and financial institutions are the type of firms mostly cited. Companies whose management performance is evaluated by profit level is also mentioned as not to be trusted.

4.10 Reasons for not trusting liabilities figures under new standards

76 respondents, reaching almost half of the sample, did not answer this question. 24 respondents, the largest group amongst those who answered, have no reasons for not trusting the liability figures produced under the new standards. No single reason exists for not trusting: they range from false accounts to purchases not recorded or contingent liabilities not recorded. Companies with a bad financial

situation, having related-party transaction with affiliated companies, litigation or product warranty are those whose liabilities figures may not be correct.

Lack of enthusiasm for answering these last 4 questions shows that respondents do not feel comfortable in answering questions which require deeper thinking and ask for their own personal judgement. The difference between the old and the new accounting standards are well-covered in different books and articles. However, these last 4 questions are seldom discussed anywhere in Chinese accounting books. Repeating what is said elsewhere is easy for respondents, but to form their own opinion on certain accounting matters is still a big step for them.

5 Research findings

Respondents show awareness of the significance of economic changes, their relation to the new accounting standards and the improvements intended to bring about. The most evident characteristic of responses is that a vast majority of answers are plainly the expected ones. They simply denote a sound basis of common sense rooted in accounting practice or knowledge of the Chinese changing reality and very little is to be found in terms of surprising outcomes. Respondents, for instance, agree that potential investors are clearly the most important users of information; on the other hand they are aware that tax authorities still are the prominent source of regulation in China.

Answers are also consistent: the most important users of accounting information are also those who will probably find it insufficient. Respondents offer the reasonable answer also when questioned about what are the most significant differences between the old and the new system, being able to correctly list many features now able to significantly affect the Earnings figure of an enterprise. Finally, respondents wisely identify the (still existing) sequels of statism and rank tax collection needs as the most important difficulty encountered when reading and preparing accounts.

As a consequence of this consistency, respondents should also be believed when they state that the new accounting information seems to be sufficient to make decisions of economic significance or when they point out that, amongst all possible decisions, those related to investment or financing rank as the most common. This provides an optimistic background for the prospects of accounting reform in China. There are however facets in our results which show a different picture and cannot be overlooked. It should be stressed at this point that our survey-questionnaire, although of a preliminary nature, was carefully designed, prepared, tested and then answered by a large number of highly skilled professionals with many years of experience. And yet, a general impression conveyed by some results is that those accountants do not fully dominate the new system and its consequences. They are, after more than five years of practice, still in a state of adaptation, bracing themselves to the most fundamental changes introduced by the new system but not in a confident way. Moreover, they denote caution or over-precaution.

Take, as a first instance, their perception of factors that may affect accounting standards and practice. Instead of showing a clear preference towards some factors,

respondents tend to attribute importance to all or almost all of them, as though they were afraid of missing some. The factor perceived as the less important is, nevertheless, considered as important by 68% of respondents. This indicates, to some degree, lack of confidence in personal judgement. The same may be said of the high percentage of practitioners (41%) who find it difficult to answer the question as to what kind of decision may be made using accounting information. Consider also the avoidance of answers that may unveil personal views or personal data: questions, for instance, about areas where the new standards affect the work of respondents are carefully left unanswered. Another symptom of a guarded mentality is the refusal to make comparisons with past standards. The above omissions reflect a taboo about the past and how it has shaped the present, a common feature of the Chinese society nowadays.

Another contrasting feature is the answer given to questions of the type: "whom would you try to please". There is no room in socialist accounting for discretion whereas liberal accounting practices stress the search for fairness. In both cases, therefore, preparers and auditors are not expected to please anybody. Our respondents, however, seem to believe that they should please potential investors first. Apparently, for them, a liberal economy should be taken as far as this. They are not far from the past after all.

All in all, our belief that successful reforms of accounting standards require the corresponding economic change is strengthened. The Chinese economy is evolving in a clearly defined direction, the new standards being an embodiment of the ideals of competition, free market, private initiative and regulation rather than control. Our respondents plainly reflect this trend. On the other hand, there is another background which makes it quite impossible to go beyond a certain level type of answers.

6 Concluding remarks

It is thus possible to argue in the same vein that the implementation of the IA standards in countries where statism prevail will not be easy. There is not, in those countries, any clear economic push that may justify the introduction of such type of standards. The consequences of this lack of correspondence between the proposed rules and economic reality may be that these rules will be viewed, as before, as another bureaucratic ritual. It is also predicted that tax authorities will be swift in enacting "supplementary" regulations emptying those standards of their original meaning.

Indeed, most of the difficulties in attaining harmonisation in European standards already stem from the fact that the adoption of one standard instead of another seldom is a neutral issue regarding those systems and their goals. If, for instance, Portuguese standards undermine the principle of prudence, that is simply because such principle is useless in economies where competition for capital or the interests of creditors are viewed as less important, being even regarded as dangerous in their consequences for the tax collector. By contrast, in countries such as Britain, competition for capital is a central concern, thence the importance of this principle.

One possible recommendation would be that accounting harmonisation should be viewed as something that follows, or is a consequence, of economic reform, not the

opposite. As Coleman (1981) has stressed, "It is quite clear that accounting rules are a reflection of profoundly rooted economic institutions and traditions. Thus, you cannot necessarily change an accounting rule without also changing the economic and social structures to which they relate."

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