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Ca' Foscari
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To the Osekita Family,

for being part of my journey.

List of Contents

前言 4

Introduction 8

List of Abbreviations 12

CHAPTER 1: The Chinese Accounting System: the legal framework 13

1. 1 The Accounting Law (1985-1999) 17

1.1.1. Shanghai and Shenzhen Stock Exchanges (1992) 20

1.2 The PRC CPA Law (1993) 21

1.3 The Company Law (1994) 23

1.3.1.The New Company Law (2014) 28

1.4 The China Accounting Standard Committee (CASC) 33

1.5 The Standard Rules for Enterprise Accounting System: the System (2001) 33

1.6 The New Accounting Standards for Business Enterprises: convergence with IFRS (2006 - present) 35

1.7 Roadmap for continuing and full convergence of the ASBE's with IFRS (2010) 38

1.8 Fair Value Reforms 41

1.8.1. First Fair Value Reform (1995 to 2000) 43

1.8.2 Abuse and Suspension of the Fair Value (2001-2006) 44

1.8.3 The re-introduction and the second fair value reform (2006-2008) 45

1.9 What is behind the Chinese Accounting Reforms? 46

CHAPTER 2: Literature Review 49

2.1 Chinese Accounting System and the Harmonization: theoretical approach 50

2.2 Chinese Accounting System and the Harmonization: empirical approach 58

CHAPTER 3: Methodology 70

3. Research approach 70

3.1 Sample selection 71

3.2 Financial reporting performance analysis 74

CHAPTER 4: Empirical Results 77

4. Introduction 77

4.1 Results of Global Distance 77

4.2 Results of partial index differences 78

4.3 Results of Financial Performance 85

CONCLUSIONS 86

REFERENCES 90

APPENDICES 103

Appendix 1: Sample of companies 103
Appendix 2: Analysis of global comparability distance, partial adjustments index and financial performance 105
Partial adjustments impact 106
ACCOUNTING GLOSSARY: 会计字汇 114
Acknowledgements 126

前言

全球化的扩张对国际经济体系产生了影响。世界各国的经济交易和国际投资在许多国家的经济体系，公司的经济活动和财务报告上都带来了许多变化和差异。这促使采用统一和可比较的会计准则，以抵消在世界不同地区经营的公司的财务报告之间的差异。换句话说，高质量的会计准则将使公司的财务报告在全球范围内更加透明和可比。不同国家的会计准则不同，是国际投资贸易的障碍。这对于希望在国际范围内经营的公司来说是一个障碍，因为对公司财务报告的解释，不同国家会计制度的不同规定使财务信息无法比拟。

因此，组织需要使用相同的“会计语言”发布财务报告并使信息更具可比性。要有这种语言，会计专业人士从 70 年代开始，制定了一种全球普遍的会计语言，即所谓的国际财务报告准则（IFRS）。国际会计准则委员会（IASC）由国际会计准则委员会（IASC）组成的一批合格的会计专业人士组成，1973 年开始实行全球可以接受的标准。这些国家是英国，爱尔兰，美国，澳大利亚，加拿大，法国，德国，日本，墨西哥和荷兰。他们的主要目标是用全球会计准则取代当地的会计准则，不仅是为了协调法律制度，税收制度，业务结构多样化方面的财务报告差异，也是促进跨境交易，提高可比性信息，简化国际投资者财务报告的解读。以这种方式，财务信息用户可以轻松比较不同公司的财务报表，最终评估其财务业绩。 2001 年，国际会计准则委员会(IASC)重组为国际会计准则委员会（IASB）。截至今天，国际会计准则理事会有 14 个成员，是一个制定和批准国际财务报告准则（IFRS）的独立机构。欧洲联盟在 2005 年开始通过国际财务报告准则，确保欧盟所有上市公司在其财务报告（Odia 和 Ogiedu，2013 年）中实施国际财务报告准则。

不过，亚洲的情况，特别是中国呢？

随着 1978 年中国邓小平经济体制改革，中国会计制度开始发展。中国市场的开放带来了国家经济的积极变化。因此，中国政府认为有必要改革其法律和会计制度。作为第一步，1992 年，开设了两家证券交易所，上海证券交易所和深圳证券交易所，让中国企业的股票在这些交易所上市。 1992 年以后，随着与其他国家的商业贸易越来越受欢迎，中国一直在实行许多会计改革和交易。这些众多会计改革的目标是

为用户和国际投资者提供可靠和可比较的会计信息。因此，开始出现将中国会计准则与国际财务报告准则相统一的需要，统一和可比较的会计信息和制度。

转向市场经济后，中国决定采用国际会计准则和国际财务报告准则作为概念框架。中国认为，国际会计准则和国际财务报告准则的融合将通过为资本市场上的外国投资者和债权人提供可理解和有用的会计信息来完成其义务（Lin 等，2001 年）。中国政府在融入中国会计准则和国际财务报告准则方面做了大量工作。2006 年 2 月 15 日，中国财政部宣布推出新中国会计准则（New PRC GAAP）于 2007 年 1 月 1 日生效。新中国会计准则由一项基本准则和 38 项特殊处理方式组成。在制定新标准时，中国会计准则委员会（CASC）涉及国际会计准则委员会（IASB），以确认新中国会计准则与国际会计准则和国际财务报告准则的融合程度。因此，2005 年 11 月 25 日，中国证监会和国际会计准则理事会发布了联合声明，表示新中国公认会计准则与国际财务报告准则（毕马威，2014 年）达成一致。然而，这些标准实际上完全符合国际财务报告准则，而且这些标准在中国企业实际上被采纳的情况仍然存在一些问题。

本研究的目的是评估中国会计准则与国际财务报告准则的统一过程。 特别是分析中国采用并仍然采用国际会计准则的公司与国家会计准则报告相比，产生不同的经济和财务业绩。 事实上，引入国际性质的新会计规则，对财务报表的数量有影响。 值得注意的是，国际财务报告准则对中国企业采用后对财务报告的影响。

从实证角度来看，这一影响将通过考虑中国企业按照中国会计准则和国际财务报告准则发行的财务报告进行分析。 此外，本研究评估了每个公司产生的信息。目的是研究在会计准则下产生的财务业绩与国际财务报告准则对中国企业报告业绩的量化影响之间的全球距离。

因此，本研究有两个主要目标。 从理论的角度来看，第一个是说明中国会计准则与国际会计准则协调的过程，也参考了以前关于这个话题的文献。 第二个，从经验的角度来看，是检查比较中产生的全球距离和差异以及对中国企业绩效的影响。 目的是分析中国会计准则是否与国际财务报告准则完全融合，国际会计准则的实施直接意味着会计实务的实施。

这遍论文分为四章。 第一章概述了中国会计制度的发展，与国际财务报告准则的统一过程，参考了制度框架和所有会计准则。 将特别注意本组织在执行新会计制度方面的作用，如财政部，中国证券监督管理委员会和中国会计准则委员会。

第二章回顾了有关中国会计制度的文献及其与国际财务报告准则的统一。将参考“中国会计准则”规定的理论研究和实施国际财务会计准则的难点。 此外，本章还将考虑以前对使用国际财务报告准则的中国企业财务报表的实证研究，强调其对财务业绩的影响。

在第三章中，根据上市公司过渡到国际财务报告准则期间和之前发行的年度报告中净利润与股东权益的调节情况，将进行实证分析。 这一分析将显示两套会计准则之间的全球距离。 以便更好地了解国际财务报告准则对财务报告的影响，并量化影响。 此外，还将分析中国会计准则与国际财务报告准则之间的主要差异。最后，通过使用财务比率，将根据两项标准发布的年度报告中的信息，分析了每家公司对财务业绩的影响。

第四章详细介绍和讨论了上述分析结果。 根据本研究开始时提出的研究问题，将得出结论，以验证拟议假设的有效性。 最后，本研究将提出一些进一步研究的建议，解决作者在进行研究时面临的局限性和障碍。

最后结论: 虽然新中国公认会计准则与国际财务报告准则大幅融合，但仍然出现差异。与国际会计准则/国际财务报告准则的融合可以认为是有正面因素，也有反面因素，可以认为是积极的，因为投资者和会计专业人士通过一个简单的会计语言，可以轻松获取不同国家公司的会计信息。

然而，它可能代表一些国家的负面因素，导致对国际财务报告准则不灵活。因此，这可能在财务报表的问题上有重大变化。在中国，财政部和中国会计准则委员会通过促进对国际财务报告准则的通过，一直在努力改善中国会计。然而，在协调过程中，出现了许多问题，影响到国际财务报告准则的总体趋同。

本研究中发现的不同实施选择的差异很多。主要原因是采用公允价值。本研究中评估的所有公司均采用历史成本，衍生金融工具，可交易理财产品和理财产品，资产和负债以公允价值计量的除外。许多作者证实，缺乏公允价值可能与资本市场

不发达，盈余管理，公司治理问题，合格的审计师和有限的工具来评估公允价值有（Peng＆Bewley，2010）。

另外，由于没有用于评估公允价值的有用工具，公司决定不在中国公认会计准则中选择公允价值计量。因此，他们更喜欢选择历史成本，以某些金融工具的公允价值计量。另一个原因可能与中国的文化背景，熟练的审计师和政治制度的短缺有关。

全球经济和资本市场的发展影响了中国会计准则制定和会计准则实施的过程。因此，全球会计协调一致会影响中国新会计准则与国际会计准则和国际财务报告准则的融合。

因此，本研究中所有在两套会计准则之间进行评估的差异表明，中国会计准测(Chinese Accounting Standards,CAS)与国际财务报告准则(IFRS)之间存在较为均匀的差异。

而事实上，以往的研究肯定了会计准则的趋同并不总是导致会计实务的趋同（Chen 和 Cheng，2007）。

最后，本研究可能被考虑用于今后关于这一主题的研究，以便在可预见的将来监测中国会计准测(CAS)与国际财务报告准则(IFRS)的融合过程。由于与现有数据有关的限制，本研究仅涵盖 50 家企业，其中只有 13 家被反面经验评估。主要原因是在很多情况下，中国企业不提供有关其财务状况的信息和数据。这项研究是对中国标准制定者在提高本地会计准则与国际财务报告准则的衔接方面的关注。

总而言之，这一实证研究可能对未来的深入研究有所帮助，并提出进一步的建议，以提高中国会计准则与国际财务报告准则的衔接，并抵销后者可能出现的差异.

Introduction

The expansion of globalisation has had an impact on the international economic system. Economic transactions and international investments among countries around the world have brought many changes and discrepancies in the economic systems of many countries, in the companies' economic activities and their financial reporting. This urged for a uniform and comparable accounting standard, in order to offset these discrepancies between financial reporting of companies that operate in different parts of the world. In other words, a high quality accounting standard will produce companies' financial reports more transparent and comparable at a worldwide level. Different accounting standards in different countries represent an obstacle for international investment and trade. This represents a barrier for a company that wants to operate in an international context, as the interpretation of financial reports of companies, different regulations on accounting systems of different countries make financial information incomparable.

Consequently, there is a need for Organizations to use the same "accounting language" to issue financial reports and to make information more transparent. To have this kind of language, accounting professionals, starting from the '70s, developed a worldwide common accounting language, the so-called International Financial Reporting Standards (IFRSs). The development of a standard that could have been acceptable globally started in 1973 as a result of a group of qualified accounting professionals of major countries to form the International Accounting Standard Committee (IASC).These countries are the UK, Ireland, the United States, Australia, Canada, France, Germany, Japan, Mexico and the Netherlands. Their main objective was to replace the local accounting standards with a global accounting standard, not only to harmonise the differences in the financial reporting due to diversities in legal systems, tax systems, business structures, but also to foster cross-border transactions, enhance comparability information and simplify the interpretation of financial reports from international investors. In this way, users of financial information can easily compare the financial statements of different companies and eventually evaluate their financial performance. In 2001, The IASC was reorganised into the International Accounting Standards Board (IASB). As of today, the IASB has fourteen members and is an independent body that develops and

approves the International Financial Reporting Standards (IFRSs). The European Union started the adoption of IFRSs in 2005 by ensuring that all listed companies in the European Union implement IFRSs in their financial report (Odia and Ogiedu, 2013).

However, what is the situation about Asia, in particular referring to China?

With the China's economic reform of Deng Xiaoping in 1978, the Chinese Accounting system started to develop. The opening of the Chinese market brought positive changes in the economy of the Country. As a consequence, the Chinese government felt the necessity to reform its legal and accounting systems. As a first step, in 1992, it opened two Stock Exchanges, Shanghai Stock Exchange and Shenzhen Stock Exchange, to let Chinese companies to be listed in these stocks. After 1992, China has been going through the issuing of many accounting reforms and transactions as business trade with other countires became more and more popular. The goal of these numerous accounting reforms was to provide reliable and comparable accounting information to users and to international investors. Consequently, it started to arise the need to harmonise the Chinese Accounting Standards with International Financial Reporting Standards, to have a uniform and comparable accounting information and system.

After shift to market-oriented economy, China decided to adopt IAS/IFRS as a conceptual framework. China believes that the convergence of IAS/IFRS will accomplish its obligation by providing understandable and useful accounting information for foreign investors and creditors in capital market (Lin, et. Al 2001). The Chinese government has made a lot of efforts in the process of converging the Chinese accounting standards with IFRS. On February 15th 2006, the Chinese Ministry of Finance announced the introduction of the New Chinese Accounting Standards (New PRC GAAP) to be effective on 1st of January 2007. The New PRC GAAP consists of one Basic Standard and 38 special treatments for specific issues. In developing this new standard, the China Accounting Standards Committee (CASC), involved the International Accounting Standard Board (IASB) to confirm the extent to which the New PRC GAAP are converged with IAS/IFRS. Consequently, on the 25th of November 2005 a joint statement by CASC and IASB was issued stating that the New PRC GAAP has achieved convergence with International Financial Reporting Standards (KPMG, 2014). Nevertheless, there are still some concerning over the fact these standards are really fully complied with International

Financial Reporting Standards and, also, if these standards are really adopted in practice by Chinese companies.

The aim of this study is to evaluate the process of harmonisation of Chinese Accounting Standards with International Financial Reporting Standards. In particular, the intention is to analyse whether Chinese companies, that adopted and still adopt International Accounting Standards, produce different economic and financial results compared to those reported under national accounting standards. In fact, the introduction of new accounting rules of international character, had an impact on numbers of financial statements. It is worth noticing the implications that IFRSs had on financial reporting of Chinese companies after their adoption.

From an empirical point of view, this impact will be analysed by taking into consideration financial reports of Chinese companies issued under both accounting standards: Chinese Accounting Standards and IFRSs. Besides, this study evaluates the information produced by each company. The objective is to examine the global distance between financial results produced under both accounting standards and the quantitative impact that IFRSs had on Chinese companies' reporting performance.

Therefore, this study has two main objectives. The first one, from a theoretical point of view, is to illustrate the process of harmonisation of Chinese accounting standards with the international ones, by referring also to the previous literature on this topic. The second one, from an empirical perspective, is to examine the global distance and differences arising in the comparison and the impact on the Chinese companies' performance. The aim is to analyse whether Chinese accounting standards are fully converged with International Financial Reporting Standards and if the implementation of international accounting standards directly means implementation in accounting practices.

This work is divided in four chapters. The first chapter outlines the development of the Chinese Accounting System, the process of harmonisation with IFRSs referring to the institutional framework and all the accounting rules issued during the decades. A particular attention will be given to the role covered by the Organizations in the implementation of the New Accounting System, such as the Ministry of Finance, the China Securities Regulatory Commission and the Chinese Accounting Standard Committee.

The second chapter makes a review of the literature concerning the accounting system in China and its harmonisation with IFRSs. It will refer to theoretical studies related to the regulation of Chinese Accounting Standards and the difficulty in implementing international financial accounting standards. In addition, this chapter will take into consideration previous empirical studies on Chinese companies' financial statements using IFRSs, highlighting the impact on their financial results.

In the third chapter an empirical analysis will be conducted, based on the reconciliations of net profit and shareholders' equity presented in the listed companies' annual reports issued before and during the period of transition to IFRSs. This analysis will show the global distance between the two sets of accounting standards, in order to have a better understanding of the impact that IFRSs had on financial reporting and to quantify the impact. Furthermore, each cause will be analysed regarding the main discrepancies between Chinese Accounting Standards and International Financial Reporting Standards. In the end, by using financial ratios, an analysis will be made to understand the impact on financial performances of each company from information reported in annual reports issued under both standards.

In the fourth chapter, the results from the above analysis will be presented and discussed in details. Based on the research questions formulated at the beginning of this study, conclusions will be drawn, to verify the validity of the hypothesis formulated. At last, this study will propose some suggestions for further studies and address the limitations and obstacles faced by the author while carrying the study.

List of Abbreviations

ASBE Accounting Standard for Business Enterprises

CASC Chinese Accounting Standard Committee

CAS Chinese Accounting Standards

CICPA Chinese Institute of Certifies Public Accountants

CPA Chinese Professional Accounting

CSRC China Securities Regulatory Commission

EFRAG European Financial Reporting Advisory Group

GAAP Generally Accepted Accounting Principle

MOC Ministry of Commerce

MOF Ministry of Finance

IPO Initial Public Offering

HKIFRS Honk Kong International Financial Reporting Standards

Ltd Limited Liability Company

IASB International Accounting Standard Board

IASC International Accounting Standard Committee

IAS International Accounting Standards

IFRS International Financial Reporting Standards

IOSCO International Organization of Security Commission

PRC People's Republic of China

ROE Return on Equity

ROA Return on Assets

WFOE Wholly owned Foreign Enterprises

WTO World Trade Organization

CHAPTER 1: The Chinese Accounting System: the legal framework

China is one of the most emerging economies in the world and thanks to the economic globalisation, it has contact and deals business transactions with countries from all over the world. From an accounting point of view, accounting professionals and investors, in order to have economic transactions with China, need to have financial information that is clear and understandable. In other words they need to use the same accounting language. Accounting professionals from any part of the world have been working hardly so far to develop a worldwide common accounting language, the so-called International Financial Reporting Standards (IFRSs). The development of a standard that could have been acceptable globally started in 1973 as a result of a group of qualified accounting professionals of major countries to form the International Accounting Standard Committee (IASC).These countries are the UK, Ireland, the United States, Australia, Canada, France, Germany, Japan, Mexico and the Netherlands. Their main objective was to replace the local accounting standard with a global accounting standard. They wanted not only to harmonize the differences in the financial reporting due to diversities in legal systems, tax systems, business structures, but also to foster cross-border transactions, enhance comparability information and simplify the interpretation of financial reports from international investors. In this way, users of financial information can easily compare the financial statements of different companies and eventually evaluate their financial performance. In 2001, The IASC was reorganised into the International Accounting Standards Board (IASB). As of today, the IASB has fourteen members and is an independent body that develops and approves the International Financial Reporting Standards (IFRSs).

The European Union started the adoption of IFRSs in 2005 by ensuring that all listed companies in the European Union implement IFRSs in their financial report (Odia and Ogiedu, 2013). However, what about China?

With the China's economic development, the Chinese accounting system started to develop. As stated by Zhang Guohua (2005), China's economy has going through three periods of change since 1949. From 1949 to 1978, China was a socialist, centrally controlled and planned economy. From 1979 to 1992 it turned a socialist commodity economy and from 1992 China is a socialist market economy. Along with these economic

stages, accounting systems start to develop. The first stage, from 1949 to 1978 was called the "uniform accounting system" (The Development of Accounting system in China, 2015). After the new economy policy, in 1978, "Reform and Opening-up", with the Deng Xiaoping[1] economic reforms, there was a huge and significant change in the growth of the country and in the export growth. For example, from 2000 to 2005, the export grew 29.9% per year (Dwight H, et al. 2008). This data gave a proof that Chinese economy became more exposed to international trade as the economic policy boosted the international business. Whereas, before the economy reformation, China was a planned economy system and therefore Chinese government represented the major investor to the entrepreneurs. Thus, as of today, the main task of accounting system had been to provide useful information in accordance with the government to make macro management decisions. Therefore, the opening of the Chinese market brought positive changes in the economy of the country. As a consequence, the Chinese government felt the necessity to reform its legal and accounting systems. In 1992, it created a stock exchange. The goal of accounting reform was to provide reliable and comparable accounting information to users and to investors, as business transactions with foreign companies became more and more popular. After shift to market-oriented economy, China decided to adopt IAS/IFRS as a conceptual framework. China believes that the convergence of IAS/IFRS will accomplish its obligation by providing understandable and useful accounting information to foreign investors and creditors in capital market (Lin, et. Al 2001). The Chinese government has made a lot of efforts in the process of converging the Chinese accounting standards with IFRS. On February 15th 2006, the Chinese Ministry of Finance announced the introduction of the New Chinese Accounting Standards (New PRC GAAP) to be effective on 1st of January 2007. The New PRC GAAP consists of one Basic Standard and 38 special treatments for specific issues. In developing this new standard, the China Accounting Standards Committee (CASC), involved the International Accounting Standard Board (IASB) to confirm the extent to which the New PRC GAAP are converged with IAS/IFRS. Consequently, on the 25th of November 2005 there was issued a joint statement by CASC and IASB stating that the New PRC GAAP has achieved convergence with International Financial Reporting Standards (KPMG, 2014). Nevertheless, there are still some concerning over the fact these standards are really fully complied with International

[1] Deng Xiaoping was the most powerful leader in the People's Republic of China in 1970s. His economic policies aim at open China to the rest of the world in order to attract foreign investment. (www.notablebiographies.com).

Financial Reporting Standards. Even though there are still uncertainties, the New PRC GAAP seem to adopt the same principle contained in IFRS, with some differences in the actual practice.

In order to better understand of the convergence process of Chinese Accounting Standards with IAS/IFRS, it is worthwhile to go back to the initial stages when the Chinese Accounting system started to shape, in particular from a legal point of view. The rapid growth of the Chinese economy, the growth of the influx of foreign investment have all highlighted the need for a reliable and a transparent accounting system in China. As China is considered a country where the accounting has its roots in its laws, China has been issuing many legislations and laws over accounting standards. In fact, China has put as much as effort in making an institutional framework for improving corporate accounting, auditing and financial reporting practices. The accounting reforms in China during the period 1992-2010 made significant progress, and a conceptual framework has been promulgated. The institutions playing a role in the implementation and enforcement of accounting standards in China are the Ministry of Finance (MOF) of the People's Republic of China and the Chinese Securities Regulatory Commission (CSRC). The Ministry of Finance is responsible for developing principles, issuing regulations, setting standards, ensuring compliance with financial reporting requirements and for providing directions and setting requirements for the accounting and auditing profession. The Ministry of Finance has a department called the Accounting Regulatory Department who is in charge of certain works related to the drafting and the implementation of Accounting Standards, to the unification of the Accounting System and to the analysis of the implementation of the Standards. Whereas, the Supervision Department of MOF has to oversee financial reporting of all entities, within the Chinese areas, including listed companies. The MOF is also responsible for the supervision of all auditing firms located within Chinese boundaries and also for those firms that provide audit services to listed companies (European Financial Reporting Review, 2013). The MOF declared a goal of modernising China's economy and making it more global. Along with its strategies there is the modernisation of China's accounting system in order to make them comparable with international practice. Besides, the increasing of globalisation of economic activities could be an opportunity for the MOF to improve its own practice.

The second institution is the Chinese Securities Regulatory Commission (CSRC). It is similar to the U.S.'s Securities and Exchange Commission and it has the authority to

prescribe accounting and reporting practices for companies under its jurisdiction. Among its main responsibilities there are the regulation of China's securities and futures markets, the approval of direct or indirect issuance of securities by Chinese companies, the revision and approval, together with the MOF, of applications from accounting firms for licenses to practice securities and future businesses. It also supervises listed entities in accordance with the provisions set out in the Securities Law, which requires listed companies to disclose their annual and interim financial statements to the CSRC (EFRAG, 2013). The CSRC's Accounting Department work is to examine the integrity of all listed companies' financial reports, so that it can ensure that investors have clear and understandable financial information published by listed entities. In addition, the CSRC issues four types of disclosure rules:

- Statement of Form and Contents of Information Disclosure;
- Rules on disclosure practice;
- Financial Reporting Releases, including special requirements for IPO[2] (with special rules for banks, securities companies, insurance companies and real estate companies, requirements for quarterly reports, calculation and presentation of ROE[3] and EPS[4];
- Staff Accounting Bulletins.

In addition, CSRC undeavors the review of audit practice. At the end of 2008, out of 60 licensed accounting firms that are eligible to audit listed companies, more than 50 percent of these firms were reviewed by CSRC. It will review these licensed accounting firms once every three years and in doing the reviewing it contracts with technical experts from other accounting firms. By doing this, it has also established a "*professional integrity and ethical track record system*" for its review process (ROSC, 2009, p.27). Basically, its work includes the recording of basic information of the accounting firms and the

[2] IPO, Initial Public Offering, is the first time when the stock of a private company is offered to the public. The Initial Public Offerings are sometimes issued by smaller and younger companies that want to expand their capital. In an IPO, an underwriting firm gives assistance to the issuer, by helping him to determine what type of security to issue, which is the best offering price and the amount of shares to be issued and the time to bring it to the market.

[3] Return on Equity is the amount of net income returned as a percentage of shareholders' equity. It measures how much profit a company generates with the money that shareholders have invested.

[4] Earnings per share (EPS) is the profit of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of company's profitability.

inspection of results. After reviewing, based on the results, the MOF and the CSRC re-assessed the qualification of accounting firms on providing statutory audit services to listed companies.

Other relevant authorities of the Chinese Accounting System are illustrated in Table 1.

Table 1 Government authorities in China's Accounting System

Authority	**Role**
State Administration for Taxation (SAT)	Tax collection, official invoice supplier, accounting audits. Most important authority related to tax & accounting.
State Administration of Industry and Commerce (SAIC)	Issue business licenses, reviews financial statements of enterprises on an annual basis
External Audit Firm (CPA)	Conducts compulsory annual audit by third party.
Ministry of Commerce (MOC)	Approval of dividend distribution.

Source: InterChina Consulting

From a legal point of view, the major laws of the Chinese accounting system are: The Accounting Law (1999), the PRC CPA Law(1993), The Company Law (1994, 2006, 2014).

1. 1 The Accounting Law (1985-1999)

The first regulation is the Accounting Law, which was promulgated in 1985 and then revised twice in 1993 and 1999. The Accounting Law is very important in the accounting system of China as "*it provides the fundamental legal framework for ensuring a uniform accounting and corporate financial reporting in corporate entities*" (ROSC, 2009, pp.3-4). The Accounting Law aims at formulating accounting tasks and duties of accounting working into law state-owned enterprises. The Accounting Law is divided in seven Chapters and it has 52 Articles.

According to this Law, State organs, associations and other organisations must abide stated by article 8 "*the State shall exercise a uniform accounting system. The uniform accounting system of the State shall be formulated and promulgated by the financial department of the State Council in accordance with this Law".* (Accounting Law of the People's Republic of China, 1999, p.1). Under the Accounting Law, state organs, associations, companies, enterprises, institutions and other organisations are obliged to

prepare and present financial statements in compliance with the unified accounting system of the State. The unified accounting system includes a series of rules and regulations, which includes also the Accounting Standards for Business Enterprises (ASBE). [5] According to article 10, the accounting procedures shall be conducted taking into consideration some economic transactions that is receipts and disbursement of cash holdings and valuable securities; receipts, issuance, reductions, additions and use of money and articles of properties; creation and settlement of debts and claims; increases and decreases of capital and funds; computation of revenue, expenditures, expenses and costs; computation and arrangements of financial results and also other matters that are exposed to accounting procedures and accounting practice. Referring to the fiscal year, article 11 says: *"A fiscal year starts on January 1 and ends on December 31 of the Gregorian calendar"*(The Standing Committee of the National People's Congress, 1999, p.2). Moreover, under this Law, the base currency used for bookkeeping in the accounting practice is the Renminbi. However, in the case where there are receipts with currency different from the Renminbi, that currency might be selected as the base currency for bookkeeping, but it is better that financial and accounting reports have the Renminbi converted from the foreign currency. All account books, financial and accounting reports must conform with the provisions of the uniform accounting system of the State and those circumstances where the accounting practices are managed through software and computers. Moreover, every unit shall calculate all the operational matter and the economic transaction in an uniform way and they should regularly check the accounting records with physical assets, cash holdings and relevant information. Following these transactions, every company might ensure that accounting records comply with the actual amount of the physical assets and cash holdings. In situations where the units need to make some changes, they should make it in accordance with the provisions of the uniform accounting system of the State, by reporting explanations in the notes of financial reports.

For the preparation of the financial reports, article 20 says:

> "*Financial and accounting reports shall be prepared on the basis of the examined accounting book records and relevant documents . They must be in conformity with the provisions of this Law and the uniform accounting system of the State on matters relating to the requirements for the preparation to*

[5] The ASBE are also known as Chinese Accounting Standards (CAS).

whom they are required to be submitted, and the time limit within which they must be submitted to…"(The Standing Committee of the National People's Congress, 1999, p.3).

According to this article, the composition of the financial is composed of accounting statements, the explanatory notes related to the accounting statements and the explanatory statements on the financial conditions. At the end of the preparation, financial and accounting reports should be signed by the person in charge of the unit, the person in charge of the accounting work, and the person in charge of the accounting office. Article 22 of this Law gives attention to the language to be used in the accounting reports. As matter of the fact, the language to be used is Chinese. In cases where there is a minority language, it must be used together with the Chinese language in the accounting reports.

Chapter III of the Accounting Law includes Special Provisions for the use of the Accounting practice for companies and enterprises. This chapter requires all companies and enterprises to confirm, calculate and record assets, debts, owner's equities, revenues, expenses, costs and profits in accordance with the provision of the uniform accounting system of the State. Furthermore, The Accounting Law includes other provisions to help and ensure a true and fair view of the disclosed enterprises' financial performance. Accounting Supervisions are included in Chapter IV of the Accounting Law which demands for each entity the establishment of an internal accounting supervision system. Why? Because, this assures that enterprises truly follow the right approach in preparing their financial statements.

Chapter V is a section dedicated to the Accounting Offices and Accounting Personnel. Under this Law, each accounting office need to have accounting personnel with an accountant in charge. If there are some conditions where this is not possible to accomplish, the unit shall delegate its bookkeeping to an intermediary organization (The Accounting Law, article 36, 1999, p.5). The accounting office of each unit needs to have an internal audit system and the person in charge of the accounting office of a unit should possess an accountant's practice qualification certificate. Moreover he or she should have been engaged in accounting work for more than 3 years.

Chapter VI is called "Legal Liability", which contains provisions in cases of violations to this Law and if the basis for the preparation of the financial and accounting reports is inconsistent, that is failure in account recording language and failure in the use or loss of

the accounting documents. In addition to this, provisions will look at if functionaries in financial department abuse their powers or neglect their duties, commit illegalities for personal interest, and if so, they will be investigated for criminal liabilities. Furthermore, according to article 49, if all the provisions written in Chapter VI will be violated, sanctions will be applied by the relevant departments (The Accounting Law, 1999).

The last Chapter contains supplementary provisions about the purpose of this Law and in which it is specified that the uniform accounting system of the State refers to the system concerning the accounting practice, accounting supervision, accounting offices and accounting personnel as well as administration of accounting works.

1.1.1. Shanghai and Shenzhen Stock Exchanges (1992)

Between 1990 and 1991 the Shanghai and Shenzhen Securities Exchanges were created and capital markets in China have developed quickly since their establishment. China's first stock exchange opened in the 1860s in Shanghai. However, it has been closed for 41 years during the Communist revolution.

Shanghai Stock Exchange was re-opened on November 26th 1990 and nowadays it is the largest Stock Exchange in China. Most of the companies listed in this Stock are large, state-owned companies responsible for China's economic growth. It is located in Shanghai and most of its investors are pension funds and banks. It is governed by the China Securities Regulatory Commission (CSRC) and bases its development on the principles of the rule of law, regulation and self-discipline. It provides a variety of functions, such as facilities for the securities trading, it formulates business rules, organises securities trading, regulates members and listed companies and manages and publicise market information. Besides, it has drafted a self-regulatory framework that regulates listed companies, the Shanghai Stock Exchange members and the securities market. To make an example, by the end of 2016, it had 1182 listed companies with the total market capitalization of 28.5 trillion RMB. In addition, the bond market consists of 8077 listed bonds and the number of registered accounts of investors has reached 224.85 million by the end of 2016. (English.sse.com.cn).

On the other hand, the Shenzhen Stock Exchange (SZSE) was created in 1991 and it is smaller than the Shanghai Stock Exchange. It is located in Shenzhen, Guangdong Province. Like the SSE, it is also under the supervision of the CSRC and it performs the same duties as the Shanghai Stock Exchange. The main goal of the SZSE is to develop

China's multi-tiered capital market system, by supporting and transforming the national strategy of independent innovation. The Shenzhen Stock Exchange plays an important role in supporting the China's economic growth model.(www.SZSE.cn) .

Before the creation of these two Stock Markets, Chinese listed companies were obliged to issue shares only to Chinese nationals. These shares are called "A" shares, denominated in *renminbi* (Chinese currency). After their establishment, these markets required that domestic individuals and institutions are permitted to trade "A" shares, quoted in Chinese currency (yuan) and listed on either the Shenzhen or Shanghai Stock Exchanges. On the contrary, non-domestic investors can trade anyone of three types of Chinese shares, that is "B" shares listed on either the Shenzhen or Shanghai Stock Exchanges, "H" shares listed on the Hong Kong Stock Exchange and for some companies "N" shares traded on the New York Stock Exchange. Concerning "B" shares listed on the Shenzhen Exchange and "H" shares are quoted in Hong Kong dollars, whereas "B" shares listed on the Shanghai Exchange and "N" shares are quoted in U.S. dollars.

By 1998, it was reported that 395 "A" shares and 51 "B" shares were listed on the Shanghai Stock Exchange and 370 "A" shares and 54 "B" shares on the Shenzhen Stock Exchange (Taiwan Economic Journal Mainland China Database Book, 1998). Before 1998, firms were permitted to list multiple classes of shares. After that time, firms were required to choose a single listing exchange and one type of share class.

1.2 The PRC CPA Law (1993)

The PRC CPA Law (Law of the PRC on Certified Public Accountants) is a law that regulates the audit profession and the accounting firms. It was promulgated in October 1993 and defines the legal status of CPAs in the socialist market economy and lays down regulations on the professional management system . It includes also regulations concerning CPA exams and registration, CPA business scope and practicing standards, accounting firms, CPA institutes and legal liabilities (ROSC, 2009).

To start with, in this Law there are specific requirements on how to become an auditor and highlights the auditor's right and obligations. In other words, the CPA Law outlines the auditors' obligations. In fact, in Chapter III of the CPA Law there are specific norms that allow the statutory auditors to undertake audit and advisory services. While examining the financial statements, the auditors have the right to express independently their opinion.

Moreover, The PRC CPA Law specifies the legal status of MOF and the CICPA[6]. In the PRC CPA Law there are some articles related to CICPA. According to article 4 of the CPA Law, CICPA is a civil society association. The CICPA has more than 150,000 members and it was established in 1988. Among its membership, 88,000 practice auditors and more than 70,000 work as a non-practicing professional, in other words they work as corporate accountants. Among the functions concerning the work of the CICPA there are: the implementation of polices regarding the admission to membership, the formulation of professional standards and rules for the CPAs, the organization of the uniform CPA examination, the administration of some programs for members' professional development. The CICPA has to ensure conformity with professional ethics and standards and to take disciplinary actions against members in errors. In general, the CICPA works as a modern professional accountancy body that need to grant membership, formulate professional standards for its members, organise the CPA examination[7]. It also deals with the practice review of members; undertake actions against those members that violate the rules (ROSC, 2009, pp. 8-9).

In the CPA Law, there are certain articles that refer to the accounting firms. Particularly, article 23 and 24 of this Law allow them to be established as either a partnership or a limited liability company. Generally, accounting firms are incorporated as a limited liability company with low share capital. In fact, the six largest accounting firms in China are founded as limited liability companies. According to the system in China, audit services are to be provided in the name of a firm and individuals cannot issue audit reports as well as undertake audit services in the name of individual auditors. Moreover, under this two articles, accounting firms must register with MOF or with provincial finance bureau if they want to work as statutory auditors (CPA Law, 1993).

As stated above, the CPA Law gives more attention to accounting firms and auditors. In case of losses of their clients, due to the negligence in undertaking audit works, auditors are changeable for compensation. Referring to the accounting firms, according to the CPA Law , they should establish funds for professional liability or buy a professional liability insurance policy.

[6] The Chinese Institute of Certifies Public Accountants (CICPA) manages the audit profession and is a full member of the International Federation of Accountants.
[7] The CPA examination analyses the conditions for becoming an auditor.

1.3 The Company Law (1994)

On December 1993, the National People Congress adopted the Company Law of the People's Republic of China. It came into effect on 1st of July 1994 to govern the establishment and operation of corporations. The 1994 Company Law is divided in eleven sections: General Provisions, Limited Liability Companies, Companies Limited by Shares, Issuance and Assignment of Shares, Company Bonds, Accounting, Mergers, Dissolution, Branch Offices, Liability, and Supplementary Provisions. The Company Law represents a culmination of the legislation produced in the third stage of Chinese legal evolution (The Company Law, art. 229, 1994). First of all, the purpose of the Company Law is to provide a nationwide standard of establishing and operating limited liability companies as well as companies limited by shares in China. In order to achieve its main goal, the Company Law referred to four secondary purposes: 1. Provide a part of the overall legal framework useful for transforming China's state-owned enterprises into independent entities; 2. Encourage and promote the new security exchanges of Shanghai and Shenzhen by setting the stage for the forthcoming National Security Law; 3. Attract foreign investment by restoring investor confidence in Chinese corporations; 4. Foster overall domestic growth (The Company Law, 1994).

With regard to the contents of the Company Law, "*Limited Liability Companies*" (有限公司 youxian gongsi) is the second section. Limited Liability Companies appeal to investors whose intentions are to set up or have a direct control of small corporate entities in China. If they want to achieve this goal, foreign investors shall take into consideration the shareholders voting and profit sharing provisions under this Law, since Western Corporation Code are different from it. Moreover, in this section, all the requirements for setting up a Limited Liability Company are specified, seeing that under such Law this process is very straightforward under this Law. In order to have a Limited Liability Company, a company should consist of a minimum of two and a maximum of fifty shareholders who shall invest in the company through direct capital contributions. The shareholders of the company should draw up the articles of association related to the company's scope of business. At the same time, the company has to decide a fixed site for production and operations before proceeding with the registration, and of course, it must follow all the requirements established by the Company Law.(The Company Law, art. 8, 11, 19, 1994). According to articles 23 and 27 of the Company Law, before continuing with the registration of the company's establishment, *Limited Liability Companies* must

acquire a minimum level of registered capital. The minimum level of registered capital depends on the company's scope of business operations. For example, for production companies the minimum amount is around RMB 500,000, for commercial retail companies is about RMB 330,000, whereas for technological development or consulting companies is RMB 100,000.18 (The Company Law, art. 23, 27, 1994).

"*Rights and Liabilities of Shareholders*" is another paragraph included in this section. According to article 33 of this Law, the rights and the liabilities of shareholders of the limited liability companies depend on the amount of their initial capital contributions, which is made always in currency. Talking about rights, the shareholders are protected against liability to the company exceeding the total amount of their capital contribution. Additionally, the shareholders have the right to vote at every meeting in proportion to their capital contribution (Company Law, art. 33, 1994). Under the Company Law, there are two kinds of shareholders meetings: regular meetings under the company's articles of associations and extraordinary meetings with shareholders or a group of shareholders which has to represent at least 25% of the total voting rights (The Company Law, art. 43, 1994). In both cases, the shareholders can freely decide business strategies and take investment decisions for the company. They can also consider and then approve reports from the Board of Directors of the Supervisory Board and also to approve the company's annual budget and final accounts (The Company Law, art. 38, 1994). In case of the company's dissolution or of an increase or decrease of capital, the minimum number of essential votes is two-third of the majority vote. During the meetings, it is not allowed to use proxies. Only in cases where foreign investors cannot personally attend the meeting in China, they should call for proxy rights. Once the company is registered, none of the shareholders cannot withdraw their capital contributions, but they can assign their capital contribution to other shareholders without any limitation (The Company Law, art. 35, 1994).

In the *Limited Liability Company* section, there are also several anti-corruption provisions aimed at enhancing the independence and stability of all these corporate entities. In the first place, for companies that aim at achieving big business scope, they need to have supervisory boards who has the capability to oversee general operations. Their main work is to examine the company's financial affairs, supervise the actions of directors and managers, and guarantee that they follow and respect all the requirements of this Law, and in a last instance call extraordinary meetings as non-voting attendees. These supervisors

may not be employed for directors, managers or any other person who is in charge of the company's financial affairs (The Company Law, art. 52, 1994).

Regardless the size of the company, no one cannot serve as a director , manager or supervisor if he/she has no capacity, or limited capacity for civil actions or he/she has been convicted for corruption or crimes, or he or she has been the legal representative of a company that has had its licence revoked. Moreover, if a director, manager or supervisor tries to accept a bribe or makes things for personal gains by misappropriating of the company funds or mishandles the company assets or does things that harm the company's interests, he or she will be held personally liable for any losses (The Company Law, art. 59-63, 1994).

At last, under this Company Law, all limited liability companies have the duty to look for their labour unions' opinion before making a decision on any other issues related to wages, welfare benefits, production safety, labour insurance (The Company Law, art. 55-56, 1994). Even though all provisions related to the company's duty are clear stated, the Company Law does not explain how conflicts between the labour unions and the company are to be offset.

To sum up, it seems that *Limited Liability Companies* are best suited for those investors that are willing to spend a certain amount of personal time in monitoring operations of their Chinese companies. Seeing that proxies are not permitted under this Law, because the control of these corporate entities depends on the ratio of the shareholders' capital contributions, investors that put a certain percentage of the total capital has to be available to take part in the proceedings. On the other hand, those investors that would probably prefer to invest in a passive way in China, they should set up a company limited by shares. The third section is related to company limited by shares.

In order to establish a *Limited Liability Company by Shares*, investors should observe the basic requirements of this Law: the company must have the statutory minimum number of promoters and must be able toincrease the statutory minimum amount of capital through the subscription of shares. Furthermore, the company must have formulated its articles of associations and the share issuance; the organizational structure must conform with relevant Chinese regulations. In the end, the company's position for production and operation must be prepared prior the registration (The Company Law, art. 73, 1994). According to this Law, sponsorship can set up a company limited by shares, where

promoters have to attest all the shares to be issued and they must subscribe to a minimum of 35% of the total number of shares (The Company Law, 1994).

In other cases, in order to have a *Limited Liability Company by Shares*, the company must have at least five promoters, more than half of whom must have the domicile in China. Of course, state-owned enterprises that will be restructured as limited liability companies by shares are excluded from this rule as long as the company is being restructured by means of share offer.

According to article 97 of this Law, if the company cannot be properly established, promoters are responsible for all the expenses. All companies, as just said before, in order to be a limited company shares, must have a minimum of capital registered that has to be at least of RMB 10,000,000 (The Company Law, 1994).

The section company limited by shares includes also "*Operation of Companies Limited by Shares"* which contains all the rules governing shareholders' meetings, Board of Directors' meetings and Supervisory Boards. The rules are similar to the ones governing *Limited Liability companies*, although the anti-corruption provisions for the former seem to be slightly more rigorous. For example, according to article 104, shareholders' meetings, which are held once a year for companies limited by shares, in cases when net losses of the company reach an equivalent of one-third of the total share capital, an extraordinary meeting will be called to take action. During these meetings, proxies are permitted. Like for *Limited Liability Companies*, *Companies Limited by Shares* must also have their labour unions' opinion before proceeding on issue involving labour issues (The Company Law, 1994).

Another section treats with restrictions of share transfer. According to articles 129 and 130, all the shares must be issued in the form of share certificates containing shares of the same type. Under all the requirements provided by the Company Law, company might also issue registered shares (The Company Law, 1994). However, in the case where some investors are familiar with the U.S. Corporate Securities System should know that a company cannot issue other types of shares without asking the approval from the State Council in advance. Whereas, according to article 147, in the event of companies limited by shares have been established by sponsorship, shares cannot be transferred to the public for a period of three years.

Directors, supervisors and managers must not transfer their shares to another party while they remain in office under the Company Law requirements (The Company Law, 1994). Furthermore, *Companies Limited by Shares* should not repurchase their own shares except in the case of mergers or for the purpose of cancelling the shares entirely (The Company Law, 1994).

The last paragraph of the *Company Limited by Shares* section has to do with listed companies. Listed companies are *"joint stock companies which have obtained approval from the State Council to list and trade their shares on an authorized security exchange"* (China, Euromoney Supplement, 1994). These joint stock companies, in order to obtain the approval, they must satisfy some requirements: the share capital of the company must be equal or more than RMB 50,000,000; then, before proceeding with the application, the company should have done at least three years of business and give a proof of profitability during those years of business work and must not have committed any illegal acts; it must have at least 1,000 shareholders, who hold at least RMB 1,000 worth of shares each; if the shares are going to be released to the public, they must represent at least 25% of the company's total shares (but, it could be that the total share capital does not exceed RMB 400,000,000, in this case the issue must be at least 15% of the total shares); lastly, the company must follow all the conditions stated by the State Council (The Company Law, 1994).

However, although the Company Law says that shares may be provided to those investors that are outside China during the initial share offer and that securities may be also listed on overseas Stock Exchanges, it is not clear how these provisions will govern overseas listings of Chinese companies. According to article 155, the shares may be listed outside the People's Republic of China, but such listings will be governed by as of yet unidentified "*special regulations*". In other words, there is an ambiguity as there is a conflict between these "*special regulations*" to be drafted by the State Council and the rules governing foreign stock exchanges (The Company Law, 1994).

To sum up, in this section includes provisions governing *Companies Limited by Share*, which have resulted to be quite strict. At the time of drafting, the main goal of these provision was to ensure the stability and the profitability of a *Company Limited by Shares*, in particular if the company is a listed company.

1.3.1.The New Company Law (2014)

After the 1993, the Company Law has been going through a few revisions over the years. On the 27th of October 2005 it was revised in accordance with the decision of the 11th Session of the Standing Committee of the 10th National People's Congress of PRC and came into effective the 1st January 2006. On the 28th of December 2013, the Company Law was revised again , which was promulgated and came into effect on the 1st of March 2014.

For the first time on the 27th of October 2005, the People's Republic of China adopted a new Company Law, which became into effective 1st of January 2006. This was a full revision of the Old one, specifically approximately 90% of the provisions are unique. So, almost nothing of the Old Law has remained.

In the first revision of the New Company Law there are provisions on two kinds of corporations, which are *limited liability companies* and *joint stock companies*. There have been changes in the section regarding *limited liability companies*, as foreign direct investment[8] is useful for foreign investors that operate through a Chinese *limited liability company*. Basically, all the rules for *foreign invested limited liability companies* have substantially changed. In fact, foreign investors cannot invest in China through joint stock companies. Important changes have been made in regards with *limited liability companies*. To start with, the New Company law is less rigid than the Old one as shareholders of limited liability companies can easily have a flexible approach to the company management. In the new Company law, regarding the management of the company, shareholders are free to adopt specific provisions to meet the need of the company. They can also include provisions in the article of association related to the financial management of the company. To have a better view of the Old Company Law the profit earned was addressed to be distributed among shareholders in accordance with the shareholders' ownership interest in the company. Whereas, under the New Company Law, shareholders are entitled to provide for distribution of profits in any way agreed in advance among shareholders (The Company Law, 2014).

Other changes have been delivered for the reduction of capital requirements. In order to protect creditors, Chinese Company Law emphasised registered capital requirements. The

[8] Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interest in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

2006 Company Law simplifies and reduces minimum capital requirements to make the corporate form available to those regions that are less developed in China. According to the Old Company Law, the minimum capital requirements were around RMB 500,000 for manufacturing and wholesale trade businesses, RMB 300,000 for sales businesses and RMB 100,000 for service businesses. This represented an obstacle for individual investors and for businesses in less developed areas. On the other hand, the New Company Law eliminated the high and minimum requirement of registered capital requirements. Under this New Law, the minimum capital requirements for *limited liability companies*, with two or more shareholders, is reduced to RMB 30,000. Whereas companies with one shareholder, the minimum capital requirement is about RMB 100,000. What is the scope of this reduction? The intent was to channel as much economic activity as possible into the companies that have been registered under the New Company Law. As a consequence, this would have protected all limited liability companies and increased their economic activity (The Company Law, 2014).

Concerning the establishment of the limited liability company, the New Company Law allow to have a single shareholder limited liability company. This was not possible under the Old Company Law, which required to have two or more shareholders. In contrast, with the New Law it is possible to have a simplified structure with one shareholder. However, there are some restrictions for preventing the abuse of the corporate structure. The restrictions include:

- The registered capital requirement is of RMB 100,000;
- All the amounts of the registered capital has to be paid in a single instalment;
- One investor should form a company with one shareholder;
- In cases where shareholders are not able to keep the distance between the finances of the company and the finances of the shareholder, the shareholder lose the protection of the limited liability company.

Basically, the provisions of the New Company Law maintain a balance between the benefits of limited liability status to potential investors and also provide protection to creditors.

Another revision of the Old Company Law includes the access to company information from the shareholders and the public. The public could not have accessed to the information about companies under the Old Law, unless it was with an attorney or a legal professional. On the contrary, with the New Law, the public has the right to have basic information about the company's registration. More specifically, the public can have an access to the information of the limited liability companies' name, registered address, legal representative, registered capital, business classification, scope of the business, termination date and the identity of the shareholders. This basic information is easily accessible to the public (The Company Law, 2014).

This kind of information is also available to shareholders, as before they had no way to gain information about the company. Under the New Law, the shareholders can have an access to the articles of associations, minutes of meetings of the Board of Directors, minutes of meetings of the Board of Supervisors and tax returns and lastly financial reports. Although shareholders can have an access to the financial reports of the company, the company has the right to deny this access if it consider that such access will damage it.

In the New Company Law, there was also an introduction of new concepts regarding the abuse of the shareholder rights, to protect the company and third party creditors. Under the New Company Law the shareholders must exercise their rights, the regulations, the articles of association, and not abuse their own limited liability rights in a way that will be harming the company or other shareholders, otherwise shareholders will be responsible for such damage. The concept of "*piercing the corporate veil*" was introduced for preventing obvious abuses, to undermine the concept of limitation of liability.

The New Company Law had a great impact on foreign investors. In China, direct foreign investment can be carried out in three kind of forms: a wholly foreign owned enterprise, an equity joint venture or a contractual joint venture. In other words, these three kind of foreign enterprises are called as limited liability companies. The big changes brought by the New Company Law had an impact on both existing and future foreign invested enterprises in China. The three foreign invested enterprises laws provide special treatments of investors in a limited liability company based on the status of the investor, which is foreign nationality. The primary goal of the New Company Law was to eliminate the status-based distinction for domestic enterprise. China provides significant tax benefits and other incentives to foreign invested enterprise, so it is good to characterise a limited

liability company as a foreign invested enterprise to maintain these benefits (The Company Law, 2014).

In conclusion, the New Company Law wanted primarily represent a change in the practice of formation and management of corporations in China. However, this change will be effective only if all the entrepreneurs, attorneys and courts will put into practice such changes in the provisions. Some elements of the New Company law had an immediate impact, like the reduction in the amount of the registered capital, the provision allowing single shareholder limited liability companies and the provisions allowing a simplify management structure for limited liability companies with one or two shareholders (Company Law of People's Republic of China, 2005).

However, these changes caused in implementation problems. The 2006 New Company Law was drafted by legal professionals of Government and not from the public. Given that these changes did not have a great judiciary system, The Company law will likely have an impact on closely held limited liability companies in China.

Since the 2006 revision of the Old Company Law, there have been three Supreme Court Interpretations of the Company Law, that is, Provisions of the Supreme People's Court in Several Issues concerning the Application of the People's Republic of China Company Law (1st effective 9 May 2006, 2nd 19 May 2008 and 3rd on 16 February 2011). However, on 28 December 2013, the 6th meeting of the Standing Committee of the 12th Session of the National People's Congress adopted the decision to make amendments on some laws, one of them is the Company Law. These new amendments came into effect on 1st March 2014.

The most significant amendments that have been implemented into the New Company Law concern the registered capital payment system. First of all, one change is in the concept of "*paid-in-registered capital*" to "*subscribed registered capital*".[9] In the amendments there is no longer the minimum of the registered capital, so that the

[9] Article 7: *"Company registration authorities shall issue business licenses of companies to the companies established under the law. The date of issuance of the business license for a company shall be the date of establishment of the company. The business license of a company shall state therein such matters as the name, domicile, registered capital, business scope, and the name of the legal representative, etc. of the company. Where any of the matters stated in the business license of a company is changed, the company shall go through the formalities for change of the registration in accordance with the law, and the relevant company registration authority shall issue a new business license to replace the old one"(*Company Law of the People's Republic of China, HFG, Law & Intellectual Property, Shanghai, 2014).

shareholders can determine the amount, method and deadline for payment of subscribed capital and they are responsible for ensuring and monitoring the actual and legal payment of capital contributions (Company Law of the People's Republic of China, Articles 23(2), 26, original 77 (2) and original Article 81, 2014). Instead, article 27 provides the removing for requirements for minimum cash contributions by making up 30% of the registered capital.[10]

The Premier Li Keqiang in late October 2013, with a slogan of "*lenient entry conditions, strict supervisions*" (宽进严管 yan jin yan guan) launched five major changes to company registration and supervision in China. The main goal was to reduce the bureaucratic procedures and the cost of market entry to grow the flow of investments.

The removal of the requirements of minimum registered capital and capital contribution had an influence on foreign-invested enterprise (FIEs). It turns out that investors would be able to set up "one-yuan companies". However, if other laws and regulations made by the State Council provide otherwise, then such provisions will be applied. In this case, we have the People's Republic of China Wholly Foreign-Owned Enterprise Law Implementing Rules (2001). According to Article 14 (4) in order to establish a *wholly foreign-owned enterprise* ("WFOE"), it must have the total investment amount specified, registered capital, source of funds, type of capital contributions and the time limit for making them in relation to the proposed WFOE; the registered capital of this type of enterprise shall be in proportion with its operational scale and must be paid (Article 20); also according to article 22, if the registered capital has increased, it must be approved and registered. Another law made by the State Council is "*The People's Republic of China Sino-Foreign Equity Joint Venture Law Implementing Regulations*" (22 July 2001). Article 11 (3), 11 (4) of this legislation state that the total investment amount and the total registered capital must be set out in the joint venture agreement and article of association as well as the capital contribution of each joint venture party and the deadline for making it; reduction and /or increase of the registered capital must be approved by the examination and approval authority. Lastly, Articles 28 and 29 state that each capital

[10] Article 27: *"A shareholder may make capital contributions in the form of monetary funds, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary terms and may be transferred in accordance with the law, excluding the property that shall not be used for capital contributions as specified in laws and administrative regulations".* Company Law of the People's Republic of China, HFG, Law & Intellectual Property, Shanghai, 2014.

contribution must be verified by a certified accountant (The Company Law of the People's Republic of China, 2014).

However Minister Zhang claimed that reform measures will be applied to foreign-invested enterprise. To sum up, these "*Five Changes*" are an example of modernising China's business environment. They stimulate investment in China thanks to the limitations of the restrictions on market entry.

1.4 The China Accounting Standard Committee (CASC)

In October 1998, the China Accounting Standard Committee was established. It is, under the Ministry of Finance, the advisory body for setting the Chinese Accounting Standards, but without standard setting powers. The Committee was set up in order to provide useful advices and recommendation for setting and improving Chinese Accounting Standards. Since its establishment, it has been making as much effort as possible to develop and improve the Chinese Accounting Standards, specifically it has participated also in the convergence of Accounting Standards, working closely with International Accounting Profession. From a social movement perspective, the creation of the CASC has facilitated the creation of shared infrastructure. The Committee in March 2003 was re-organized under MOF and comprises 20 members. The members are: Lou Jiwei, who is appointed as Chairman of the Committee, Wang Jun, is appointed as Secretary-General of the Committee. The CASC, of course, has an administrative office, called "*The Office*", which deals with daily administrative work. It is based in the Accounting Regulatory Department of MOF. After the re-organization of the Committee, other three professional committees have been established, such as the Professional Committee on Accounting Theory, Professional Committee on Accounting Standards for Business Enterprises and Professional Committee on Accounting for Government and Non-profit Organizations (ROSC, 2009, pp. 12-13).

1.5 The Standard Rules for Enterprise Accounting System: the System (2001)

As illustrated from the above paragraphs, the Chinese Accounting System was based on P.R.C. Accounting Law, which was promulgated in 1985 and then revised twice in 1993 and 1999. In 2000 the Accounting Law called for a unified national accounting system. It

is evident that at that time, a willingness of having one set of standard to follow, started to emerge.

After this Law, from an institutional point of view, there have been many regulations over the Accounting Standards and over the Accounting profession in China before moving to international accounting, that is PRC CPA Law, the Company Law of 1994, 2006 and 2014, and also the Accounting System for Joint Stock Limited Enterprises (2000) which was renamed as the Accounting System for Business Enterprises, the so-called the System. The System came into force from January 2001. The Ministry of Finance introduced the System to all large and medium-sized enterprises in China, by eliminating the accounting distinction based on industries or on the form of the business enterprises. Not only joint-stock limited enterprise are required to follow the System, but also other enterprises can follow it. If a parent company adopts the System, then all its subsidiaries have to adopt the System as well (Hu, 2001). The System is a prior example of closeness to the international practice than the previous accounting regulations. It was more like an all-inclusive financial reporting structure that includes concepts, definitions, standards, presentation and record-keeping (Deloitte Touche Tohmatsu, 2001). On one hand this System relied on the experience of the Ministry of Finance, to implement the Accounting System for Joint Stock Limited Enterprises. On the other hand it also depended on the existing Chinese Accounting Standards and rules promulgated by the China Securities and Regulatory Commission (CSRC).

By all means there are some differences between the IAS/IFRS and the System. These differences have been grouped into three group of areas such as “Similarity group”, “Difference group” and Lack of guidance group”. The first one, the “Similarity group” is made of regulation which has a slightly difference, for example, those articles regarding “short-time investment”, “receivables” and “inventories” in The System and in the IAS. According to article 16 of The System, the short-time investments have to be carried at lower of cost or market, whereas in the IAS the valuation is based on prudence concept. Referring to the receivables, article 18 of The System states that they should be stated at the net value after minus the bad debt provision. In the IAS provision is based on prudence concept. While, for inventories, in The System, FIFO and LIFO, acceptable for determining cost and inventories must be carried at the lower of cost and net realizable value, whereas in IAS 2 the cost of inventories should be assigned by using FIFO and LIFO an alternative (HU, 2001, pp.7-8).

A net difference is present in the "Difference group", for example articles related to "foreign currency translation", according to article 119 of The System, foreign currency exchange rates published by the China Bank should be used, while in IAS no publishing authority is mentioned.

The third group, that is the "Lack of guidance group" contains those articles where regulations are present in one of the two systems. For example, articles about "equity adjustments"(The System, 2000) are present in The System, but not in the IAS, whereas in the IAS there are articles concerning "earnings per share-diluted"[11], but not in The System.

Other differences emerged between the System and the IAS can be found in "intangible assets amortization" where in the System article 46 states that "*amortized on an estimates period of useful period not more than 10 years"* (Hu, 2001, p.8). Whereas according to IAS 38, if an intangible asset has a finite life, then its cost less residual value should be amortised on a systematic basis and charged to profit or loss. Furthermore, the method of amortisation should indicate the way is received and the amortisation period should be reviewed at least annually.

Taking into consideration the above differences, it is clear that from 2000, the System has started to approach the IAS. It is evident that there have been many changes into the Chinese accounting system on that time, with some exceptions in some accounting areas, like business combinations, consolidation procedures, discontinued operations , revaluation earnings per share, employee benefits, where the System was still an obstacle towards IAS and towards the development of the PRC socialist market economy for the convergence of international accounting standards. Furthermore, at that time there was still lack of accounting professionals and, to move from rule-orientated accounting regulations to the System, it required much more work from accounting personnel (Hu, 2001).

1.6 The New Accounting Standards for Business Enterprises: convergence with IFRS (2006-present)

The aim of Ministry of Finance focuses on the convergence of China GAAP towards IFRSs and eliminates the differences between the two standards. On November 2005, the

[11] IAS33: Earnings Per Share sets out how to calculate both basic earnings per share and diluted EPS. The calculation of Basic EPS is based on the weighted average number of ordinary shares outstanding during the period, whereas diluted earnings per share also includes dilutive potential ordinary shares.

IASB and the China Accounting Standard Committee (CASC) signed a joint statement. In this statement was expressly indicated that China issued exposure drafts of the Basic Standard and Specific Standards in the past year and the system of ASBE was being developed with the goal of achieving convergence of those standards with the IFRSs (ROSC, 2009). In fact, because the two standards have still some differences in some accounting areas, this statement was a way to push forward the convergence and therefore eliminate these discrepancies. Moreover, the IASB identified other accounting issues in China, such as disclosure of related party transactions, fair value measurements and business combinations between companies under common control. This can be very useful for the IASB in order to develop a high-quality IFRSs solutions.

After this joint statement, in 2006 the MOF officially promulgated the ASBE system, with the effective date the 1st January 2007 to all listed companies. The ASBE system consists of a Basic Standard, 38 Specific Standards and the Implementation Guidance. The CASC members and other experts came to an agreement on the Chinese convergence strategy. In doing so, the Ministry of Finance also worked with the China Securities Regulatory Commission (CSRC) to guide and monitor all listed companies in their implementation of the accounting standards. As a consequence, the ASBE has been tested in practice, that is, it took a day-to-day approach for a deep analysis of the financial statements disclosed by listed companies. And successively, in 2009 the Accounting Regulatory Department of the Ministry of Finance took the same approach to track the implementation of ASBE by listed companies in 2008. It also produced a report stating that listed companies in China maintained their smooth implementation of ASBE in the year covered (ROSC, 2009).

Furthermore, in May 2008, IASB experts and professionals conducted a study on the implementation of these standards through meetings with accounting firms, listed companies, investment banks and funds and it resulted that the implementation was smooth and effective. According to the assessment by the Internal Market & Services DG, EU, the ASBE performed very well in China. Following this assessment, the EU, in December 2008 issued a regulation on the equivalence of third country accounting standards allowing Chinese enterprises listed or to be listed on the EU regulated markets to record financial statements prepared under the ASBE for the transition period from 2009 to the end 2011 (EFRAG, 2013).

To sum up, the 2006 Standards are very significant for the development history of enterprise accounting. They propose a series of accounting policy and help to ensure that the enterprise accounting is consistent with the need of the market economy. Comparing with the past reforms measures, the 2006 ASBE is a milestone in the accounting reform history of China, which is reflected in some aspects. First of all, it establishes an integrated and systematic accounting standard system. The framework of this system is composed, as already said, of one basic standard, 38 specific standards and the guidelines. The basic standard is similar to the conceptual framework of the IFRSs, the specific standards consist of standards for general and special transactions and reporting standards; they contain rules for specific business and financial reporting. The guidelines contain the refinement of specific rules, in other words plays a complementary role on the specific standards.

Secondly, the 2006 Standard is a substantive way of harmonization with International Financial Reporting Standards. The reformers highlighted:

> " *the recognition and measurement of accounting and reporting standards, aiming to improve the quality of accounting information and help investors make economic decisions, not only makes itself more scientific, more consistent with international norms, but also is conductive to further strengthen the rigid constraints of the information providers , the effective safeguarding on investor's right for knowing the information, helping the public to make rational decisions, and thus provide a good system for safeguarding their legitimate rights and interests."* (MOF, 2006).

Seeing that China is having more and more transactions and relationship with countries from all over the world, it is good to promote economic and trade cooperation. At this point the convergence is the first step in achieving this goal. After so many efforts, the goal has been accomplished in the 2006 ASBE. Although there are some exceptions in the disclosure of related party relationships and transactions, reversal of assets impairment and loss and the use of the fair value, basically the New Accounting Standards substantially converged with the International Financial Reporting Standards.

Thirdly, the New Standards contain a guideline which includes the recognition, measurement, reporting of accounting elements. It also take into account the fact that these standards are close to the International Financial Reporting Standards, but not fully

identical (MOF, 2006). In fact, one of the problems in China is related to the accounting records. Accounting records means recording economic transactions using accounts based on recognition and measurement. This will take long time until China will require contents of accounting records. So, this guideline is quite important as not only achieves international convergence on the main content of the accounting standards, but also enhances the operation of the accounting standards. In conclusion, this guidelines makes it easy for Chinese listed companies to fully implement the standards towards a full convergence and also it helps them to deal with differences arising in the financial reporting (EFRAG, 2013).

1.7 Roadmap for continuing and full convergence of the ASBE's with IFRS (2010)

From 2005, China started the process of converging the ASBEs with the IFRSs. After the financial crisis in 2008, the G20[12] summits and the Financial Stability Board (FSB) started to set up a single set of high-quality global accounting standards to improve transparency of accounting information. Moreover, the convergence of Chinese Accounting Standards with the International Standards represents a good way towards the growth of the China's economy as well as its adaptation inthe economic world of globalization.

At this point, in April 2010, the MOF released the "*Roadmap for Continuing Convergence of ASBE's with IFRS*", which stated the MOF commitment to continue the process of convergence to IFRS, in response to G20 and the FSB's recommendations for the implementation of the continuing convergence of the ASBEs with IFRSs (EFRAG, 2013).

Before talking about this "*Roadmap for continuing the convergence*", it is worth to spend a few words regarding the initial stage of the convergence of ASBEs with IFRSs. In 2005, the Ministry of Finance started to put as much as effort to finalize the system of ASBEs. On 8 November 2005, the IASB and the CASC signed a joint statement affirming that the ASBE system has achieved convergence with the International Financial Reporting Standards. Moreover, thanks to the environment and unique circumstances, the IASB

[12] The Group of Twenty (G20) is an international forum that brings together the world's 20 leading industrialized and emerging economies. The group accounts for 85 per cent of the world GDP and two-thirds of its population. Much of the important business takes place on the sidelines and in informal meetings. Initially attendance at G20 summits was limited to the finance ministers and central bank governors of members when it was established 17 years ago.

found some accounting issues for which China that could have been helpful to the IASB in finding high-quality solutions for IFRSs. Among them we can find disclosure of related party transactions, fair value measurements and business combinations of entities under common control. On 4 August 2009 the IASB issued the revised IAS 2, Related Party Disclosure which washed off any issues of non-convergence between the ASBEs and IFRSs (ROSC, 2009).

The New Accounting Standards for Business Enterprises has been applied by all listed companies, some non-listed financial institutions and state owned enterprises form 1st January 2007. The Ministry of Finance worked hardly with the China Securities Regulatory Commission (CSRC) to monitor listed companies during their implementation of the accounting standards. This kind of implementation has played an important role in regulating the accounting activities and enhancing the capital market. A 2008 study confirmed that the implementation of the ASBE by listed companies in China resulted to be smooth and effective. Therefore, the full convergence of the ASBEs with IFRSs by all listed companies and non-listed large and medium-sized enterprises in China had been recognised both nationally and internationally.

In November 2008, because of the international financial crises, the G20 Washington summit made a deep analysis of the cause of this financial crisis by implementing some plans for improving the IASB governance as well as establishing a single set of accounting standards. In 2009 the Financial Standard Board set up a Standard Implementation Committee in order to promote convergence of countries' national accounting standards with international ones. Based on the recommendations of the G20, the IASB looked for how to improve accounting standards to help regulators in solving the problem of the financial crisis. As a first step, in December 2008, the IASB set up the Financial Crisis Advisory Group (FCAG) which issued a report to improve the financial reporting to respond to the financial crisis; in May 2009, it issued an exposure draft *Fair Value Measurement*, in July 2009 an exposure draft *Classifications and Measurement of Financial Instruments* in order to reduce the complexity of accounting requirements as well as simplify the accounting standards on those accounting areas, such as classification, measurement, impairments and hedge accounting of financial instruments; additionally one of the IASB works was to revise the accounting standards on financial statements presentation and consolidated financial statements which clarified the accounting treatments of off-balance sheet transactions and special purpose entities (EFRAG, 2013).

According to this Roadmap, all these projects had to be completed by the end of June 2011.

From this Roadmap, it resulted that China fully recognised and appreciated the efforts made by the IASB in the convergence of the accounting standards and it will continue to support the IASB in its efforts. According to what is written in this document, the CASC and the IASB set up a working tool for continuing the convergence and they promised to hold at least two meetings a year for an analysis of the implementation of the accounting standards. As China is an active actor of this programme, it will be participating in the IASB's revisions of the financial instruments, such as fair value measurement and financial statement presentation standard (EFRAG, 2013).

Similarly, from the third section of this document, it emerges that China is committed to support IASB in the simplification of the IAS 39 Financial Instruments: Recognition and Measurement. According to the exposure draft of the first phase, "*Classification and Measurement of Financial Instruments, which was issued on July 14, financial instruments are proposed to be classified into two categories, for example, measured at amortized cost and at fair value"* (ROSC, 2009, pp 28-29). In other words, while China was trying to recognize the value of the two category solution, it was keen on expanding the scope of fair value measurement. In addition, it agreed to introduce "*other comprehensive income*" into financial statements with the limitation that some modifications in the internal structure of the financial statement could not have been appropriate.

The IASB and the CASC claimed that, by continuing the path to full convergence, they will make an effort to minimise and eliminate the existing differences between the ASBE and the IFRSs. An example is the revision of IAS24 *Related Party Disclosures* in 2009, which looked upon China's situation and removed such differences. Then, in August 2009, the IASB made its revision on IFRS 1 *First-time Adoption of International Financial Reporting Standards.*

According to IFRSs, enterprises are allowed to reverse impairments of non-current assets, like fixed assets, recognized in advance and included them in the profit and loss. However this is not permitted under China's accounting standard and, on such issue, the IASB

asked for continuing the project of FASB[13] and IASB on assets impairment in order to tackle this problem. So, all the IASB relevant improvement projects and plans on the convergence and on the reduction of differences between CAS and IFRSs are to be accomplished by 2011 according to what has been written in the document. Therefore, 2011 has been taken into consideration as the target year for continuing the full convergence of the ASBE. Besides, by 2012 all large and medium-sized enterprises are required to use the revised standards. In the meantime, these enterprises will receive trainings to ensure that they gain a good understanding of the changes of significant accounting standards.

The revised Standards consist of three parts, such as the Basic Standard, Specific Standards and Implementation Guidance. However, the Basic Standard remained unchanged whereas the Specific Standards have been revised. Regarding the Implementation Guidance, it will be incorporated in related Specific Standards and provide worthwhile examples addressing the difficult issues related to the Specific Standards.

1.8 Fair Value Reforms

How do New Accounting Principles become generally accepted? In order to have a clear understanding of the process of how the NEW PRC GAAP became generally accepted in the society, we need to pay attention also on how the fair value accounting (FVA) has become acceptable by Chinese companies. What does it mean fair value? Literally, "fair" means justice which relies on people's subjective sense. While, "value" is an economic term which can express a basis for accounting. So, fair value refers to the expression of certain assets' value with a widely accepted and recognised standards (Liu, 2010).

'Fair value' is defined also by IASB as:

> "*the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction". IASB published in June 2009 an Exposure Draft for Fair Value Measurement in which proposes to change the definition of 'fair value' as "[t]he price that would be received to sell an asset or paid to transfer a liability in an orderly*

[13] The Financial Accounting Standards Board (FASB) was established in 1973 and is the independent, private-sector, not-for-profit organization base in Norwalk, Connecticut and establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Principles (GAAP) (www.fasb.org).

transaction between market participants at the measurement date." (IASB 2009, p. 4).

Before having adopted of the fair value, in Chinese Accounting was predominant the historical cost principle[14] from 1978 to 1996. After 1996 until 2000, a pilot fair value reform was carried out, but this failed. However, after the implementation of the New PRC GAAP in 2006, consisting of a conceptual framework and 38 standards, the fair value was for the first time recognised as a measurement metric in the conceptual framework and was also required in 25 of the 38 standards. After 2006, the implementation of the fair value-related standards appeared to be successful. Contrary to the historical cost model, FVA requires that the assets acquired and liabilities occurred are reported on the balance sheet at prices that would be chosen in the current market transactions; and that the increases or decreases in the hypothesised 'prices' of assets and liabilities, are to be recognised as incomes and expenses in the Income Statements (Bewley, Graham and Peng, 2013).

As just said before, prior first fair value reform, Chinese accounting system was predominant the pure historical cost principle, with limited requirements in the standards. Following the first set of Accounting Standards after the economic reform of 1978, Accounting Regulation for Sino-Foreign Joint Ventures were issued. These Standards require that the carrying value of an asset should not be adjusted, despite of the market value of the asset (MOF, 1985). Losses on impairment could only be recognised in an income statement through classification of the asset. The 1992 two set of Accounting Standards "*Accounting Regulations for Foreign Investment Enterprises* (MOF, 1992) and the "*Experimental Accounting System for Joint Stock Limited Enterprises*" (MOF, 1992) replaced the 1985 standards. Still, in these standards the use of historical cost is present, with some exceptions in some instances. For example, section 23 of the Experimental Accounting System for Joint Stock Limited Enterprises permitted accrual of bad debt at a government prescribed rate. This example and the change in standards from 1985 to 1992 reflected the MOF standard setter's effort to increase the need for foreign firms to report fair values, while maintaining the status quo of historical cost standards. However, at this stage, assets at fair value were forbidden within the financial statements. On the other hand, market values for certain assets were required to be disclosed in the notes of the

[14] A historical cost is a measure of value in which the price of an asset on the balance sheet is based on its nominal or original cost when acquired by the company.

financial statements. After that, there has been a shift towards the Fair Value Accounting, driven by national leaders that associate FVA with a new culture of market-based economic development and globalization (Bewley, Graham and Peng, 2013).

Under the 1992, Accounting Standard regime, the practice diverged from International accounting principles, and the use of FVA Accounting in the standards was increasing. This stage is characterized as a political opportunity due to the shifting institutional context, giving the Chinese Standard Setters (MOF) a reason to start the first value reform. In fact, outside China, fair value principles for financial reporting found support, due to research by influential accounting academics (e.g. Barth, 1994) and also because the fair value had been perceived as more relevant than historical cost (Peng & Bewley, 2010). After that, a FVA network was created giving to standard setters a reason to begin to conform.

1.8.1. First Fair Value Reform (1995 to 2000)

The 1995 year can be considered as the starting year of the first fair value reform in line with the application of China to the World Trade Organization (WTO). More specifically, in December 1995, the WTO established the Working Party on the Accession of China and China asked for some favourable treatments under the WTO regulations as a developing economy. On the other hand, the WTO asked for Chinese commitment to non-discriminate foreign companies and to reduce government influence in Chinese enterprises (WTO, 2001). However, during the first stage of the fair value reform, there have been some obstacles in the implementation of such reform. For example, Ray Harris of the World Bank said that the MOF was "*determined to make changes*". By saying this, he wanted to point out the main problem and obstacle to the implementation of the fair value, which was the shortage of accountants. In fact, at that time an accounting institute had not been created yet, the first one was established in 1998. In a second stage, this obstacle was offset, as the Ministry of Finance started to cooperate with the World Bank, because the World Bank funding changed from supporting the accounting standards to supporting training. However, in 2002 there have been some comments from an Assistant of the Ministry of Finance:

> "*China's accession to the WTO in 2001 represents the beginning of a new era of the opening of Chinese economy. China will increase its scope and extent of international cooperation" and "will expedite its process of accounting reform…"*(Feng, 2002, p. 6-8).

These words can indicate that the FVA could not have been suitable to the actual China's situation. So, what is the situation of the Fair Value in Chinese accounting system after 1998? In line with the release of the Chinese Accounting Standards between 1997 and 2000, three of which are for debt restructuring,[15] non-monetary transactions[16] and investments,[17] there was the demand for the application of the fair value with some limitations to four types of assets: inventory, accounts receivables, and short-term and long-term investments. At that time, the adoption of only some aspects of the fair value accounting by China's standard setters has seen as an aggressive way to support its own capital markets (Feng, 2002). In fact, it seems that the MOF did not actually wanted to use the Fair Value Accounting, but they wanted to converge to IFRS, and so they had no change of non considering the FVA as it is part of it. To sum up, in the first stage of the FV reform, the MOF chose the FV without querying. Whereas in the 2nd reform they were more cautious. One interpretation is that the MOF perceived a need for the adoption of an appropriate new style of writing, FVA, to conform with the shift to a market based economy (Robson, 1992).

1.8.2 Abuse and Suspension of the Fair Value (2001-2006)

The introduction and the use of the fair value in this period of time into the Chinese Standards set on fire to some accounting scandals. What are the reasons for this? Because, as the standards allowed firms to recognise gains arising from debt restructuring as income, it turned out that some listed firms reported net losses into their profits. Then, firms claimed the difference between the carrying value and the fair value of the assets as gains. In addition, a number of listed firms transmitted proceeds from equity offerings to their majority of their shareholders by creating non-monetary transactions using fair value rules. This had impact on the interests of the shareholders. What resulted from these scandals

[15] The debt restructuring standard required that assets received by the debtors or creditors in a debt restructuring should be measured at fair value. Any gain or loss resulting from restructuring was to be recorded in the current period as net income.

[16] The non-monetary transactions standard required that the exchange of dissimilar assets should be measured at the fair value of the asset received or given up, whichever was more reliable.

[17] The investments standard required that investment acquired by living up non-monetary assets should be recorded at the fair value of the asset relinquished.

according to some systems perspective is the reaction of the MOF, which changed the stability between it and the firms reporting under the new Fair Value Accounting standards (Bewley, Graham and Peng, 2013).

Despite these problems and scandals, in this first stage there were useful reasons why China had to apply the Fair Value Accounting. First of all, thanks to the demand of China's economic development, social market economy system and modern enterprise system, this set up a platform for the application of the fair value. Also, after the entry of China into the WTO, it is clear and natural introduce the fair value into accounting principles. Secondly, there have been some application of fair value in China's theory and practice, as the fair value measurement reflects the economic interest brought about by enterprises and the value to be transferred when paying off debts. Thirdly, Chinese accounting standards started the path to the convergence to international accounting standards, many fair value accounting standards were issued at this time.

However in this stage, the fair value was not employed to have accurate measurement on enterprises' profit and loss, but it was aimed at helping those companies that defraud their in profit. In practice, the Ministry of Finance had to adjust the part related to fair value in its accounting standards after 2001. The adjustment in the employment of fair value was attributed to some factors, that is the immature market that caused the manipulation of the fair value, also the fair value could not have filled investors and shareholders' demands for precise accounting information. At this point, the historical cost was re-introduced in order to avoid negative repercussions (Bewley, Graham, Peng, 2013).

1.8.3 The re-introduction and the second fair value reform (2006-2008)

In 2006 the New Accounting Standards were issued and the MOF and IASB made an agreement for China to substantially converge with IFRS, including the fair value accounting requirements.

With the rapid spread of economic information economy, more financial tools were brought into enterprises in order to have a better evaluation of financial risks and investment opportunities. As a consequence, a lot of standards issued in this period regarded the concept of fair value to some extent. If we make a comparison with International Accounting Standards, the application of fair value in the 2006 standards is closer to China's reality, which will avoid the previous mishandled fair value reform. Although, IASB wanted full adoption of Fair Value, China did not want to fully adopt FV.

However, there are many premises for the application of the fair value in China. First, the fair value is a measurement of assets value and is characterised by its emphasis on authenticity, fairness and reliability. These are valuable factors for China to accomplish the full convergence to the International Standards. Secondly, the development of the market economy brought the spread of the application of fair value. After China became a member of the WTO, it had greater frictions with developed countries due to the fact that they wanted not to admit the status of Chinese market economy. However, to reserve such situation, open and transparent disclosure of accounting information became an effective tool. It is also difficult for traditional historical cost measurement pattern to fully reflect enterprises' operations. To have real business transactions, fair value is the right choice. Thirdly, by introducing the fair value, it is, without any doubt, a motivation to fully converge with international accounting standards (Bewley, Graham and Peng, 2013).

1.9 What is behind the Chinese Accounting Reforms?

Having looked back at all the accounting reforms that China had undergone from 1985 to 2010, what conclusion can be drawn? What is behind all these accounting reforms?

First of all accounting is not only related to the company's management, but is also linked to the economy of a country. The first accounting reforms in China were taken in connection with the economic reforms. For example, the first Accounting Standards were introduced in 1993 just after the socialist market economic system and successively it joined the international association of accountants and the World Trade Organization. At this point, the accounting reform became an important constituent of China's economic reform. Moreover, although there had been a number of accounting reform since 1985 in China, with restrictions and drawbacks, it was necessary to implement a more systematic and comprehensive accounting reform, different from the previous ones (LEI, 2010).

To bring an example, in 2001 when China implemented the Accounting system, the constant growth of the capital market and the spreading of joint-stock reform of companies, the issues of coordination with international accounting began to arise and so the attention was more focused on listed companies than non-listed ones, as listed companies obtain more investment. On this concerning, the "*Accounting Law*" promulgated in 1985 and then revised in 1999 included some provisions over the State-owned enterprises and it is also a first example towards a unified national accounting system. Another drawback behind the accounting reforms lies in the Accounting

Standards developed in 1993, because it presents lack of objective truth, comparability and operability. Therefore, it was useful to improve the reliability of accounting information and so the quality and the transparency of information. That is one of the reasons why there have been issued so many reforms in China over the Accounting system for enterprises (LEI, 2010).

Therefore, after so many reforms, such as the Accounting Law, the PRC CPA Law, the Company Law and so on, lastly in 2006 China issued the New Accounting Standards for Business Enterprises, as China's market economy has also entered a new stage by integrating into the world economy. In other words, the Accounting standards should be in line with the economic development of the Country, in this case, China. In this regard, it can be affirmed that there is a strong relationship between accounting, the country's economic reform and social development (LEI, 2010).

Secondly, the accounting reform process has been gradual during the years. Thanks to the accounting reforms, China changed from the planned economy model to the market economy model. Let's take the System of 2001 as an example. It is on the basis of all previous existing accounting reforms and it came after the accounting reform of 1993. *"Two principles and two systems" played a positive role in promoting the development of Chinese accounting".* (MOF, 2001). Therefore, without these two systems it would have been quite difficult for accountants and users of accounting information to shift from the former planned economy to the enterprise accounting system. Furthermore, the "two systems and two principles" represented a first step for implementing further accounting reforms and for the realization of the internationalization of accounting standards, in order to attract foreign investors and push enterprises to go abroad. Also the 2006 Accounting Standards contain new standards and basic principles and sixteen specific standards according to the previous accounting standards published in 1993. It can be said that the reform process had been gradual, step-by-step, and it was not implemented in an aggressive way. Although there are still a few things to be improved, in order to reach a full convergence with the International Financial Reporting Standards, there are also a number of advantages in this gradual process. Having a gradual approach, the reform is easy to be accepted and the process is easy to bealigned, avoiding any problems that might arise in the implementation of a new accounting standard.

On a last instance, the reform should concern about the relationship between international convergence and national characteristics. By establishing a standard system in China, there is need to pay attention to the fact that it has to be convergent with the international accounting practices. However, because there are many gaps between Western countries and China's accounting environment, the International Accounting Standards, including its practices, are not consistent with the reality of China. One point is the "business language", as differences might not arise between countries in accounting. So China's accounting should be consistent with the international one, in order to have one business language. However, the International Accounting Standards reflect the developed market economy and so its basis has discrepancies with Chinese accounting. Some experts retained that China took into consideration its national characteristics during the implementation of its reforms, without neglecting national accounting practices, as it would be difficult for such a country to implement the new reforms. That's why the first stage of the relationship between the Chinese accounting and the international accounting practice has been called "*convergence*" and the last stage took the name of "*harmonization*" in 2007 when with the new set of Chinese Accounting Standards substantially converged with IFRSs (Lei, 2010, pp. 612-624).

CHAPTER 2: Literature Review

Some previous studies had examined various issues concerning the accounting system in China and also regarding the harmonisation with International Financial Reporting Standards. Most of these studies applied a contextual perspective or related interdisciplinary method. As this study investigates the context of the Chinese accounting over the pre-convergence and post-convergence period, prior literature review will be focusing on that.

On February 2006, the Ministry of Finance issued the New Accounting Standards for Business Enterprises (ASBE) to be effective starting from 1st January 2007 to all listed companies in mainland China. Before this date, the rules for financial statements were as follow:

1. Companies issuing A shares must fulfil their financial statements under the PRC GAAP;
2. Companies issuing B shares must fulfil their financial statements under IFRS;
3. Companies issuing A shares and B shares must fulfil their financial statements under PRC GAAP and IFRS, so two kinds of financial statements.

All Chinese companies were obliged to follow point two and three and after and from 2007 all Chinese companies listed in Mainland Stock Exchange have to provide their financial statements under the new PRC GAAP.

However, the adoption of these new standards have affected positively and or negatively the financial performance of many companies. Previous studies on accounting literature studied the process of harmonisation of Accounting Standards in China and had also compared financial statements of companies applying IAS/IFRS before and after the substantial convergence in 2007. There have been some studies related just on the Chinese Accounting Standards and its regulation during the implementation process; others have also held studies from an empirical point of view, by analyzing financial figures reported under the old Chinese Accounting System and the New ASBE.

2.1 Chinese Accounting System and the Harmonization: theoretical approach

Many previous studies have been conducted in relation to the development of the Accounting System in China. Tang and Lin (2000) study focuses on the development of the Chinese Accounting System and how the People's Republic of China's Accounting reforms were issued. They stated that accounting reforms in China are the results of both internal and external connections, although there are many doubts on what were those foreign and domestic factors bringing accounting reforms in China.

The economic reforms in China, starting from 1978, lead China towards the internationalisation. Yunwei Tang (2000) provides a review of accounting development in China. From his study emerged that China tried to adapt the traditional accounting system considered the basis for market-oriented accounting. However, China decided not to adapt the traditional measures, but to develop a system used elsewhere in market economies. In other words it developed the Basic Accounting Standard, similar to IASC's framework and FASB's Conceptual Framework by publishing approximately 30 accounting standards. The aim of the Ministry of Finance was to bring China's accounting in line with IAS/IFRS. However, from the Tang study it is clear that the process of internationalisation was not so smooth, and it presented some challenges. The first one is related to the difficulty in Accounting Standards Setting, that is lack of accounting education and also the reliability of the accounting information disclosed by companies, as companies are often accused of providing false accounting information. The second issue revealed by Tang's study is the acceptance of International Accounting Practice, as many prepares of financial statements were diffident in adopting new accounting standards and practices, because many accountants did not have the right accounting education, and, in addition some managers found that the cost of preparation and audit outweighed the benefits. As a result, in a country like China, where traditional thinking is deeply rooted, the acceptance of international accounting standards had a long way to happen. Moreover, the accounting profession in 1980 was still young and the education background was not sufficient to accept a new standard. In a last instance, academics did not give much contributions to the accounting development, they have been *"catalysts of the movement toward modernization and internationalization of accounting in China"*(Tang, 2000)Although during the period between 1980 and 1997 there have been many articles available for the analysis and for understanding the Western accounting development, due to a lack of

academic system in China, there were restrictions for the development of accounting theory and practice.

Because the harmonisation process of the PRC Accounting System took many years before converging with IAS/IFRS, some researchers looked into the implementation problems. For example, Xiang (1998) affirmed that the adoption of International Accounting Standards (IAS) in China would probably took some time before applying, because at that time there was lack of professional independence. He stated:

> *"China's accounting environment both now and in the foreseeable future is characterized by a lack of independent professional auditing. Without an independent audit profession, information provided under IAS will be unreliable; therefore, adopting IAS may not be warranted in the specific context of China"* (Xiang, 1998, p. 105).

However in his study, declared that economic reforms have also changed the corporate environment and a number of eighteen accounting regulations were promulgated. As a consequence of these accounting regulations, the China's accounting changed from to be traditionally rigid and uniform system into a principally Anglo-Saxon approach financial reporting. This was a first and big step of China's accounting practices towards IFRSs.

Many other earlier studies have highlighted some obstacles to the convergence with International Standards, from political, economic and cultural perspectives.

First of all, Xiao et al.(2004), He et al.(2012) and ICAS (2010) found out limitations in the application of the fair value in China because the market is not entirely free. In fact, Peng &Bewley (2010) affirmed that the motivation of converging with IFRS could appear to be political rather than for economic reasons, because of some challenges in the implementation of the fair value.

> *"The benefits from the IFRS convergence project in China may be seem as more political than economical…emerging economies can signal an image of improved financial quality by donning the brand name of IFRS".* (Peng &Bewley, 2010, p. 1005).

Other reported influences in the Xiao et al. (2004) study are political factors influencing the nature of the accounting system in China. In addition, in the Xiao et al. (2004) emerges the coexistence of a uniform accounting system and accounting standards as well as the

2000 System. He declared that for one thing, the 2000 System is an example of turning China's accounting practices similar to the international accounting practices, in particular, impairment losses in eight types if assets are required to be recognized. He observed that in part the Chinese government, although has been active in promoting the harmonisation of international accounting standards, on the other hand it has retained a uniform accounting system in the 2000 System to support the government reformation.

From a cultural perspective, Chow et al. (1995), basing on cultural dimensions which were identified by Hofstede (1980) and Gray (1988), carried out an analysis of IAS/IFRS in China. His study provides information on how Chinese culture had influenced the Chinese Accounting system. Also Chinese accounting professionals are considered unskilled in applying principle-based standards.

Also Gina Xu (2014) published a report over the implementation of IFRS, focusing on the cultural obstacles during the convergence of the Chinese Accounting Standards. She carried out interviews to understand how a Confucian-heritage culture affects the judgements of Chinese accounting professionals. She analyzed how Confucian teachings influenced Chinese accounting professionals, accounting students, accounting academics and foreign practitioners who worked in China. From her study it emerged that Confucianism is still an influence on Chinese accounting education *"which is reflected through a teacher-central pedagogy and an examination-oriented assessment structure"* (Xu, 2014, p. 2). She also stated that practitioners and students do not have a good preparation for making professional judgement. In addition, Confucian teachings is an obstacle to professional ethics as Chinese professionals have to follow the obligations of Confucian culture and as a result Chinese accounting professionals might not exercise effective judgements. From a cultural point of view, this study shows that culture is a barrier to the development of a global accounting standards and convergence with IFRS has not been substantial as it has stated by many.

Many other essays and reports have been talking about how environmental factors governed the development and practice of accounting. Davidson et al. (1996) declared that all the economic reforms that have been issued in China, had a huge impact on China's accounting, such as the separation of ownership and management of enterprises, changes in the banking system since 1978 and the open-door policy. As a consequence of these changes, the basic function of accounting information changed from implementing macroeconomic planning and safeguarding national assets to decision making by enterprise management. Whereas, Tang and Lau (2000) found the economic reform of

State-owned Enterprises (SOEs), the development of capital market and the increase in FDI as the three driving forces that managed the accounting changes from 1992 accounting reforms. It is therefore evident from these studies that the Chinese accounting reform is the result of its economic reforms.

Some other researches and experts, dealing with accounting matters, believe that by making an analysis from an historical perspective, it would be useful to have a deeper understanding of the world of accounting. In fact, the role of accounting could be better caught by reviewing its historical association with the institutionalisation development within which it operates. Zhang, Andrew and Collier (2007) in their working paper tried to explain why and how China moved from a uniform accounting system to IFRS, focusing in particular on the role of the political ideology and its function during the transition process. They examined the development of China's accounting regulatory change in order to provide a reason of how ideological factors affected accounting practices. Although there has been an amount of research until 2007 on differences in culture, economic and political systems influencing the accounting regulatory change (Clapp 1967; Muller 1968; Choi 1973), there is still lack of evidence of how any ideology has assisted the accounting profession. From an historical point of view, China decided to adopt a uniform accounting system in order to sustain its political agenda. Today, China has decided to converge with International Financial Reporting Standards, to have a better access to the global capital markets and gain some benefits from the international investments. The main goal of Zhang, Andrew and Collier paper is to explain why and how China decided to move to IFRSs and what is the role played by the political ideology during the transition process. They made an historical excursus on the accounting in China from 1949, with the establishment of People's Republic of China, to 1978 and from 1978 to 2007, talking about the Deng Xiaoping economic reform, the Shanghai and Shenzhen Stock Exchanges establishment, the release of Accounting Standards for Business Enterprises (ASBE) and the thirteen new industry-specific accounting regulations (systems) in 1992, and, finally the promulgation of new CAS in 2006, which represented a significant progress towards the convergence of international accounting standards (Jun and Tweedie 2006). They predominantly focused on how dominant political ideologies shaped the history of the definition of accounting terms and how they created an environment which supports or expels particular accounting concepts. From their study, it resulted that discourses by politicians, regulators and practitioners disseminate political ideology into the domain of accounting. In other words, the political ideology of China

had a great impact on the Chinese accounting profession (Zhang, Andrew and Collier, 2007).

Many studies have looked upon the development of the Chinese Accounting System and most of them, as stated above, have found many negative factors influencing the process of the harmonisation with international accounting standards. However, some experts found some positive factors on the implementation of new accounting reforms. One important study on this concerning is Fu LEI (2010) study on the course and development and future of China enterprise Accounting Reform. He analyzed the 30 years of accounting reforms in China to enhance the understanding of the reform in order to make better plan for the future of accounting in China. He found out that the reform must be connected with national economic reform and also must well handle the relationship of international harmonisation and national qualities. Moreover, the reform must be gradual and its process must be consistent with the changes of current situation. He gave some suggestions over the accounting, that is the reform should pay more attention to the new international commutations and take into consideration non-listed enterprises, provide some tests over the accounting reforms and enhance coordination between enterprise accounting reform and other amendments (Fu LEI, 2010). From Lei study it emerges some optimism towards the accounting reforms in China especially for its development in the future and he concluded by saying that *"we have sufficient reason to believe that the prospects of China's business accounting construction would be magnificent; our country's accounting business would have a more brilliant future"*. (LEI, 2010, p. 2). Rich (2011), also provides a study on China's Accounting reform plan, by making an analysis of ten years of reform, from 1992 to 2002. The article provides a picture of the progress made in the area of accounting, auditing standards and securities regulation and also it highlights some of the challenges exsisting China in the path towards international accounting standards. She found out that the accounting reforms in China have made significant progress during the period 1992-2002, during which a conceptual framework was released. Besides, the accounting profession was already composed of more than 56,000 who had to follow 45 auditing standards. During this stage, the CSRC was developed, who issued four types of disclosure rules (Chapter 1). However, in the Rich (2011) study emerged some challenges for the CSRC such as the dissemination of information, as until 1992 the main means for the spread of information were local newspaper under the control of the government. Another challenge was related to the

financial fraud and, because companies must keep a certain amount of return on investment in order to retain their listings on the stock exchanges, it was discovered that in 2002, 105 official notices were transmitted to listed companies indicating deficiencies reporting. As a consequence nineteen companies were accused of censure. Another evident challenge concerned the quality of auditors. Chen, Sun and Wang (2002) found that "*Big 5 auditors seem effective in reducing earnings gap*", saying that there are some discrepancies in the auditors of international companies and the ones of local Chinese firms (Chen, Sung and Wang, 2002).On this matter, even the largest firms were under attack and in 2003 it was reported that KPMG China was believed to be the first Big Four auditor to face the Chinese courts over the falsification of the financial information. It was reported then that *"Chinese financial statements are not worth the paper that they are written upon.."*(Lipsher, 2003). In other words, in many cases, financial statements are not reporting true and reliable financial information and this could be related to the problem and application of standards. Despite these challenges and drawbacks, Rich (2011) seemed to be optimistic towards the revivalrestore of investor confidence in financial statements in the China's future.

The above studies have been followed by some other works after the promulgation of the new PRC GAAP in 2006. For example, Biondi and Zhang(2007) study is a correlative study on the IFRS and the New Chinese Accounting standards promulgated in 2006. They made an analysis of the two systems based on the characteristics of the two systems namely statistic, that is fair value and dynamic, that is matching based. Their research was based on historical, economic and political economy perspectives related to both accounting systems. However, because their studies is not an empirical one, it was therefore unable to verify their propositions and so it was unable to have a good prospect of the situation convergence of the standard applied and its impact.

They identified, then, that Chinese GAAP allow the use of fair value measurement only when fair values could be truly measures, whereas the historical cost remains the benchmark measurement for most assets and liabilities (Biondi and Zhang, 2007). In addition to this, Biondi and Zhang (2007) focused on the Accounting Standards for Business Combinations as an example to illustrate the existing differences between IFRS and Chinese GAAP. They found out that IFRSs require all business combinations to apply the purchase method (net assets acquired in a business combination should be recorded based on the fair value method) and acquired goodwill should be reported. On the other hand, the Chinese Accounting System require business combinations, which involve those

entities that are under common control, to apply the pooling of interests method. In this case, a business combination should be valued by using the book values of the merged entities and goodwill should not be recognised. In this study, authors debated the fact that the purchase method denotes the statistic perspective and so it views a business combination as a purchase, whereas the pooling of interests method takes for the dynamic perspective, by viewing a business combination as a joining of entities. It also valuates combined assets and liabilities based on 25 book values. In conclusion, they stated that Chinese GAAP are in line with the statistic perspective rather than the dynamic perspective (Biondi and Zhang, 2007).

Biondi and Zhang (2007) gave also additional explanations regarding the differences between the two sets of accounting standards, by examining the Chinese context. They discovered that many large corporate groups in China, with the aim to pursue economies of scale and enhance their competitive power, reorganised subsidiaries and parent companies. In addition, they found that the purchase method might cause opportunistic accounting treatments regarding fair values and affect the quality of accounting information.

On the differences between the Chinese Accounting System and IAS/IFRS, there have been studies also on the implementation of the fair value measurements. Peng and Bewley (2010) made an analysis on the adoption of the fair value in the New set of Chinese GAAP, in particular in regards with the implementation of fair value measurement in Chinese companies. Their main objective was to identify how the New PRC GAAP included the fair value. They recognised few differences regarding fair value measurement of financial instruments between the New PRC GAAP and IFRS, but many discrepancies in the application of the fair value in measurements of non-financial long-term asset investments. Furthermore, they also focused their research analysis on the impact of fair value measurement on Chinese listed companies' financial reporting, in order to see if the fair value had been effectively implemented in Chinese listed companies. From their research, it comes out that the fair value measurement of financial instruments differs from Chinese listed companies' financial statements of 2007 and 2008 fiscal years, for example excess volatility in net income and shareholders' equity. In addition, they also demonstrated that Chinese listed companies were diffident in appling fair value to evaluate long-term non-financial assets. It also resulted that, even though Chinese GAAP allow to use historical cost or fair value for investment properties' subsequent measurements, the majority of Chinese listed companies chose to apply the historical cost in their financial statements in

2007 and 2008. From their perspectives, it seems that there are some complex communications between the accounting and the economic political systems in China and it would be quite challenging to apply entirely the fair value measurement (Peng & Bewley, 2010).

Table 2.1: Chinese Accounting Harmonisation: Theoretical approach

Chinese Accounting Harmonisation: Theoretical approach	
Authors	**Type of study**
Chow et. Al (1995)	Accounting Reforms in China: Cultural Constraints on Implementation and Development
Davidson (1996)	Analysis of the conceptual framework of China's new accounting system
Xiang (1998)	Institutional factors influencing China's accounting reforms and standards
Tang (2000)	Bumpy Road Leading to Internationalization: A Review of Accounting Development in China
Tang & Lau (2000)	Accounting reforms in China: a transition from a state plan and control-oriented system to capital market-oriented system
Ding (2000)	Harmonisation trends in Chinese Accounting remaining problems
Xiao et al. (2004)	Political Influence and Coexistence of a Uniform Accounting System and Accounting Standards: Recent Development in China
Biondi and Zhang (2007)	Accounting for the Chinese Context: A Comparative Analysis of International and Chinese Accounting Standards Focusing on Business Combination
Zhang, Andrew and Collier (2007)	The Convergence of IFRS in China: A view on the influence of political ideology on Chinese accounting profession
Ding and Su (2008)	Implementation of IFRS in a regulated market
Lei (2010)	Course, Experience and Future Development of China Enterprise Accounting Reform
Peng & Bewley (2010)	Adaptability to fair value accounting in an emerging economy: A caser study of China's IFRS convergence
Xu (2014)	Cultural obstacles to the implementation of IFRS-converged Chinese Accounting Standards
Rich (2011)	China's Accounting Reform Project - Ten Years of Progress and Challenges

Source: elaborated by the author.

2.2 Chinese Accounting System and the Harmonization: empirical approach

Since the issue of the ASBE in 1993, researches have been attempting to prove that the Chinese standards have tried to catch up with the international standards. Starting from this date, many empirical studies on the Chinese accounting and its harmonization with IFRS were released. Previous studies had compared financial statements of companies in both standards to see the impact caused by the convergence and if these companies have found benefits from the harmonisation process. After the establishment of the Shanghai and Shenzhen Stock Exchange in 1992, China changed its accounting system. Precisely, listed companies were originally authorized to issue A-shares only to domestic investors and most of them were also permitted to issue B-shares to overseas investors. However, The Accounting Regulation for Experimental Listed Companies in 1992 changed from the fund-based Soviet accounting model to adopt some accounting practices reflected in the IAS. From that moment, companies issuing B-shares must have restated their earnings according to IAS, in order to support investor regarding the lack of high-quality accounting standards in China. In addition, these companies must issue financial statements based on both sets of accounting standards and at the same time provide reconciliations of earnings between the two standards. Most studies focused on the comparability of China GAAP-based earnings and IAS-based earnings with the conservatism index. To start with, Chen et al. (1999) in his study compared 34 of 50 B-share companies listed on the Shenzhen Stock Exchange from the period between 1994 and 1997. He found that, on average, the reported earnings based on Chinese Standards were 20-30% higher than those reported under IAS. It also emerged that, once the earnings were restated from Chinese standards back to IAS, they reduced on an average by a minimum of 17.9% in 1994 and a maximum of 30.1% in 1995. It was significantly evident that Chinese accounting standards were less conservative, resulting that earnings were higher than those reporter under IAS. In addition to that, 15% of the B-share companies changed from a reported profit to a reported loss after restatement to IAS (Chen et. al, 1999). However, it was identified that some Chinese enterprises are listed also in the Hong Kong Stock Exchange and so the adoption of B-share reports as models for the harmonization progress was not sufficient. As a consequence, many researches focused on the analysis also on A-share and H-share, in order to provide more insights.

Lin and Wang (2001) conducted a study on three Chinese enterprises listed simultaneously in China and Hong Kong, that is Tsingtao Brewery Company Limited, Shanghai Petrochemical Company Limited and Yizheng Chemical Fibres Company Limited. They made an empirical analysis by making a comparison of their annual reports for the period from 1995 to 1998. When the statements of the three companies prepared under Chinese standards were issued with H-share reporting, the analysis presented mixed results. They showed that the harmonisation progress until 1998 was still behind the step of business development and disclosure requirement was one of those areas to be strengthen. IP and Noronha (2007) examined the trend of overstatement and understatement on some financial statement items after the implementation of ASBE in 1993. They made a comparison of the financial information disclosed by 30 companies issuing both A-share in China and H-share in Hong Kong for the year 2004. Compared to the previous studies of Chen et al. (1999, 2000) and Lin and Wang (2001), the Ip and Noronha results gave different outcomes. According to them the harmonisation of accounting standards reached an acceptable level with some exceptions, such as results in the operating income. However, the accounting figures of sales revenue, income before tax, net income, assets, debts and shareholders' equity prepared under the two sets of accounting standards, that is Chinese standards and IFRSs, did not show any differences. They concluded by affirming that:

> *" The harmonization progress of Chinese accounting standards has advanced remarkably. Although full convergence has not been reached, the existing Chinese accounting standards have incorporated both the traits of international standards and the features of Chinese accounting practises"* (Ip and Noronha, 2007).

Nevertheless, it has been proved that not always harmonisation of Accounting Standards could mean harmonisation of accounting practices (Chen, Sun and Wang, 2002). Chen, Sun and Wang (2002) in their study evaluated whether China's harmonisation efforts in 1998 (with the release of Accounting regulation for Listed Companies) eliminated or reduced the gap between earnings under IAS and under Chinese GAAP. They examined differences between Chinese and IAS earnings of 75 companies for the period from 1997 to 1999, so before and after the issue of the Accounting Regulation for Listed Companies in 1998. Secondly, as the 1998 provided a revision of seven specific accounting methods to eliminate discrepancies between Chinese GAAP and IAS, they also examined the

earning gaps for these seven methods. However, they did not find differences. As a last point of their study, they tried to find a reason for the continued earning gaps, by developing a link between the earnings gap and earnings management and they found a smaller earning gap in 1999, when Big 5 firms audit both A- and B- share reports. Unfortunately, they did not have evidence for suggesting that auditing effectiveness of local firms helped to reduce the earnings gap. They cleared stated the harmonisation of accounting standards did not lead to the harmonisation of reported earnings in China. In addition, they suggested that a lack of effective financial reporting infrastructure may have had an impact on the harmonization of China with IAS. What are the reasons of this? Because the sample of companies analysed by Chen, Sun and Wang (2002) reported a reconciliation between Chinese earnings and IAS, these companies had an incentive to minimize the earnings gaps. However, if the reconciliation of net profit and equity were not required, then the observed gaps could have been larger. Bingbin, Jing and Miyao (2015) provided an analysis of the influences of Accounting standards change on value-relevance of accounting earnings. They examined the correlation between earnings per share from 2005 to 2008 of A and B-share listed companies in Shenzhen, and also value-relevance of accounting earnings before and after the convergence. It was reported from their study that before 2006 the value relevance of earnings prepared according CAS was lower than the value relevance of earnings prepared under IFRS. Whereas after the implementation of the New PRC GAAP in 2007, the value-relevance of earnings in Shenzhen A-share listed companies has improved. They concluded by saying that this is not a good news for investors on one side, but on the other side it demonstrates the positive effects of international coordination of CAS. And, even though accounting professionals and accounting experts have been trying to reduce the differences existing between the two sets of accounting standards, differences are not completely disappeared, because different social systems and cultural traditions directly or indirectly affect the development of accounting. Bingbin, Jing and Miyao (2015) not only provided an examination of the value relevance of accounting earnings, but also they put forward some suggestions. With this study, they improved the guidelines for the implementation mechanism to ensure a successful transition. Secondly, its main goal is to strengthen the accounting information disclosure and to issue punishment for the market manipulation behaviour. Thirdly, they suggested to provide more accounting practitioners training, necessary to maintain good accounting market development and improve the content of accounting information (Bingbin, Jing and Miyao, 2015).

Peng (2005) provided a great evaluation of the harmonisation of Chinese GAAPs issued in 1998 and 2001. She examined the levels of compliance, consistency and comparability of Chinese listed companies' practices under Chinese GAAP and IAS. Instead of comparing the reported earnings, he developed an agenda of 77 measurement items and assigned each measurement item a degree of closeness to IFRS. She found that the level of harmonisation is high more than two thirds of the financial accounting measurement requirements considered substantially harmonised with IAS. However, Peng (2005) did a qualitative comparison between the Chinese GAAP and the IFRS and so she did not quantify the effects on the reported figures according to the respectives accounting standards. Kuanet et. Al (2007) also carried out an analysis on companies issuing both A-share and H-share, taking into consideration financial information disclosed in 2004 and with the Regulation on Enterprise Financial Reporting issued in 2001. He also affirmed that there was no significant difference between A-share and H-share, and, as the new standards applied starting from 1st January 2007, he expected that the new ASBE would have probably reduced the existing gaps. Wang, Lin and Zhu (2009) provide a further study by comparing A-share and H-share reported earnings. They analysed a sample of 30 companies listed in mainland China, 29 listed in Shanghai Stock Exchange and just one listed in Shenzhen Stock Exchange in 2006 and 2007. They divided the companies based on the type of industry and they found that the new Chinese GAAP has high conformity with IAS, except for the industries of "*Production and supply*" and "*Manufacturing*" (Wang, Lin and Zhu, 2009). By using an index of comparability, they indicated that Chinese net income is higher than IFRS net income, deeply in 2006 Chinese net income was lower than IFRS, whereas in 2007 it was a little higher than IFRS net income. The same results were also obtained by Ip Chi et. al (2007), who by analysing listed companies' financial statements of 2004 year, found that 57 percent of the companies resulted having higher net income in their H-share financial statements than in their A-share statements. These results differed from the previous studies (Chen et al., 1999; Lin and Wang, 2001), which showed that A-share earnings were most of the times higher than H-share earnings. Wang, Li and Zhu (2009) found that in 2007 the earning gaps were eliminated with the advent of the New Chinese GAAP. Moreover, as they provided a study of the convergence using the industry classification, they stated that different industry has different level of convergence with IAS/IFRS. In conclusion, under the research of accounting items in each industry, findings showed that the earning gaps between Chinese GAAP and IAS are mainly caused by environmental factors, such as industry characteristics and government

regulation in China. In the overall, a minor earning gap will still exist between the two sets of accounting standards, in order to reflect the special accounting practices under Chinese accounting environment and national regulations (Wang, Li and Zhu, 2009).

Hussain et al. (2008) examined the trendency of earnings gaps between the Chinese GAAP and the IFRS from 2000 to 2003. The study implied the analysis of 51 companies that issued B-shares and they used the 1998 and 2001 ASBE. By examining the reconciliation statements of these companies, he found that there was a falling trend in the earnings gap between Chinese Accounting Standards and IFRS from 2000 to 2003. Numerically speaking, he found that the gap reduces to zero in 2003, and this indicates the process of harmonisation is achieving its goal towards the full convergence. Compared to Chen et al. (1999) and Lin and Wang (2001) studies, he reported that a 23 out of 51 companies reported higher Chinese GAAP earnings and 25 out of 51 reported higher IFRS earnings.

Peng and Smith (2010) provided a different study to analyse the convergence process, that is a longitudinal analysis of the convergence of Chinese GAAP with IFRS from 1992 to 2006 from the perspective of process theory. The process theory is useful to provide a method to develop accounting standard convergence by identifying patterns and practices over the decades. Van de Ven and Poole defined the process theory as "*an explanation of how and why an organizational entity changes and develops"*(1995, p. 512). Taking into consideration the process theory, in particular the teleological process theory, Peng and Smith (2010) examined 15 years of the development of Chinese accounting standards. They found that the issuance of a series of Chinese GAAP to move towards IFRS, improved the level of successful convergence with IFRS from 20% in 1992 to 77% in 2006. From their study, they also found that convergence has been achieved both from the direct import of standards from IFRS and from progressive changes to Chinese GAAP. Overall, the combination of progressive changes is effective in moving Chinese accounting from a central government planning model to a market-based model. Differently from the Peng and Smith (2010) study, Qu and Zhang (2013), in order to measure the convergence of National Accounting Standards with International Financial Reporting Standards, used a different approach, that is the fuzzy clustering analysis. The definition of fuzzy clustering in their study is as follow:

> *"Fuzzy clustering analysis is a method used in multivariate statistical analysis. It employs mathematical methods to identify close or estrange relationships of cases so as to classify them objectively. The close or estrange relationships are expressed by using some measure of similarity or distance. The former is usually measured by simple relevant coefficients; the latter is measured by distances".* (Qu and Zhang, 2013, p. 8).

They used this kind of method to find similarities or unequalities between the two sets of accounting standards. Based on their calculation and analysis, they concluded that CAS has achieved its goal of substantial convergence with IFRS. However, some differences still exist, like *scope of related party disclosure*, *reversion of impairments*, *business combination*. They also affirmed that using fuzzy clustering to measure accounting standards is still a stage to be explored. Wei (2007), on the other hand, explored the challenges for Chinese companies to implement IAS/IFRS as well as the relation between IAS/IFRS and China New Accounting Standards. He provided a theoretical and empirical study to see how IAS/IFRS has been adopted in China. In the theoretical part, he used accounting technology and an institutionalisation approach, in order to explain the context of China accounting reform and to analyse the issue on how the global harmonization influences Chinese accounting. In the empirical part, he collected data from accounting professional experts and analysed three listed companies. In a first instance, he explained that the external environment, the development of global economy and capital markets affected the process of China accounting setting norms and the accounting practices. Also the internal environment, that is the Chinese government, encourages the domestic enterprises to enroll the global capital markets to seek further development. Chinese government started to reform the accounting standards and to make enterprises' financial information more transparent and comparable, in order to absorb investment abroad and solve the economic trade inconsistency (for example, the anti-dumping). Secondly, as many researches, he also found differences between CAS and IFRS, for example in "*related party disclosure*" (IAS 24 vs. CAS 36) and "*impairment of assets*" (IAS 36 vs. CAS 8). In other words, companies will encounter some problems and challenges in the implementation of the accounting reforms and professional accountants will be the most important factor to decide the companies implementing the new accounting standards. Further influences identified on the accounting reforms in China are accountants with high accounting education, internal perspective and high-tech assistance system (Wei, 2007).

After the implementation of the New Accounting Standards in 2007, many researches felt the necessary to launch new studies to provide an update of the harmonisation progress. According to Li (2006) and Ernst and Young (2006), the implementation of the revised 2006 Accounting Standards for Business Enterprises with the effect date in January 1, 2007, was aimed to bring the Chinese GAAP in line with the IFRS. Heng and Noronha (2011) provide a study of the impact of the New Accounting Standards for Business Enterprises (ASBE) on financial results on a sample of 75 Chinese listed companies, with 35 listed on the Shanghai Stock Exchange and 40 on the Shenzhen Stock Exchange. They analysed items of financial statements reported under the old Chinese Accounting rules and Regulations and the New ASBE. The study focused on the 2007 financial statements of the above companies issuing A-share. They measured the quantitative gap between the two sets of accounting standards, by the examination of the income statements, balance sheet and cash flow statement items. In particular, they have taken into consideration items required by ASBE No. 38 "*First Time Adoption of Accounting Standards for Business Enterprises*", such as total assets, shareholders' funds attributable to equity shareholders of the company, net assets per share, operating revenue, profit before tax, net profit attributable to equity shareholders of the company, basic earnings per share, net cash flow from operating activities and net cash flow from operating activities per share (Li, 2006). The outcome of this study reported that there were significant differences between the operating results, that is total assets and shareholders' fund attributable to equity shareholders for the year 2006. Another net evident difference emerged is related to the use of the fair value measurement in many reporting areas introduced by the New ASBE. In fact, they noticed that the introduction of fair value would increase reported profits or the values of items, like trading securities and investment properties. This let people to pay more attention to the relevance of accounting information, because it connects the external financial market with the performance of companies. Thus it increase the instability of reported results and net assets of entities. They also noticed that the adoption of fair value may not be appropriate and also it might reduce the reliability of accounting information. However, although they identified some discrepancies, they affirmed that the harmonisation of accounting standards "*reached an acceptable level*" (Li, 2006- Ernest and Young, 2006). Even though, there are still some gaps between the old Chinese GAAP and the NEW one, most of the financial items under both standards did not provide significant variances. As a consequence, they noticed that the financial statements released under the new Chinese Accounting Standards would be more

comparable than those prepared under IFRS. Olesen and Cheng (2011) examined forty seven annual reports of companies listed on the Shanghai and Shenzhen Stock Exchanges for the period of 2006-2007. The companies analysed were required to prepare two sets of accounts under the Chinese GAAP and under either IFRS or the Hong Kong IFRS. It is worth to say that the HKFRS was fully converged with the IFRS. As a consequence, the comparison of the financial statements in the companies' reports for 2006 and 2007 provided insights into the convergence process between Chinese GAAP and IFRS. They found that the 2006 A-share financial reports followed the 2001 ASBE, while the 2007 A-share financial reports were prepared according 2006 ASBE. From their findings it resulted that there were fewer changes in the total equity gap under the IFRS ad the Chinese GAAP during 2006 and 2007, compared to that in the net profit gap. Sixty four percent of the companies analysed showed a reduction in the net profit gap between the two sets of accounting standards. On the contrary, many companies reported an increase in the total equity gap under the IFRS and the Chinese GAAP. Based on their research, we can say that although there have been improvements to align Chinese accounting standards with the IFRS, there are still some discrepancies between the two. Most of the times, companies decide to choose the method of measurement that best reflect their nature of operations, but they did not find the reason of this choice. Though, they found that Chinese GAAP have substantially converged with IFRS, however implementation choices have caused many discrepancies. They concluded by saying that Chinese GAAP convergence with IFRS is not fully achieved in practice and it might not happen in the future, due to political, economic and historical reasons. He, Wong and Young (2009) study looked at 1382 companies' annual reports prepared under the 2001 ASBE and 2006 ASBE. They said that earnings quality under the 2006 ASBE was lower than that of the 2001. The cause of this results were the lack of developed markets for fair value, and the incentives for earnings management under the new standards.

Furthermore, the new accounting standards, although it have brought substantial convergence between Chinese GAAP and IFRS, they significantly affect also the quality of accounting information in Chinese stock market. To bring an example, the impairment loss for fixed and intangible assets was abused under the previous version of accounting standards. There have been studies on that, like Zhang et al. (2010) who compared the long-term assets impairment loss between the transition periods and pre-convergence period. From the findings, it resulted that the mean long-term assets impairment charge

fell by 29.4% after the announcement of the new standards. Another significant impact on financial reporting, as already said, is the adoption of fair value measurement. Barth (2007) in his study suggested that IASB considers fair value more relevant in some situations because, it can faithfully represents assets and liabilities and it reflects the present economic conditions. It has been reported that under the 2006 Chinese GAAP, 17 out of 38 ASBE have applied the fair value measurement at some level. However, although fair value accounting has some advantages, it also brings about many application issues. For example, a lack of a clear definition of fair value, lack of verifiability, the ability for management to affect fair value estimates (Barth, 2007). Hao, Sun and Yin (2013) to see the effect of adoption of 2007 GAAP on accounting quality, examined all non-financial firms that only issue A-shares in Chinese stock market. They found evidence of significant increase in the "*aggressive reporting of accruals for Chinese firms after the convergence to IFRS"* (Hao, Sun, and Yin, 2013). Moreover, it was evident an increase in accrual aggressiveness for firms in regions with a lower percentage of CPA or lawyer in local population. However, they did not find a change in the likelihood of reporting large negative net income due to the convergence with International Accounting Standards. Peng and Bewley (2010) tried to assess the feasibility and desirability of China implementing fair value accounting. They also focused on the China's accounting standards and how they have been implemented in practice. Peng and Bewley (2010) analysed in practice China's implementation of fair value accounting by examining the extent of FVA requirements in its 2007 GAAP and also factors underlying divergence and assessing its experience with implementation. The authors found a high-degree of adoption of IFRS FVA standards in Chinese GAAP for financial instruments. Although, they found differences for non-financial long-term asset investments. Reasons of these differences are found in the characteristics of the Chinese environment. They suggested that the divergence in the FVA requirements between IASB's IFRS and 2007 GAAP is not likely to be bridged in the future. In fact, there is a great likelihood that China will face challenges to implement successfully the FVA. If China will adopt the FVA, it will serve to improve the accounting quality, to promote effective internal control and risk prevention, to increase the relevance of accounting information and in the end to enhance the proficiency and internationalisation of accountants and auditors working in China. Wang (2007) said :

> *"The IASB has agreed that China's prudence in adopting FV may be a good example for other emerging markets to follow. The IASB has also agreed with the Chinese authorities that transaction prices should not be automatically taken to reflect FV in markets where active trading is not always carried out on an arm's length basis"*(Wang, 2007).

However, Peng and Bewley (2010) concluded by suggesting that IASB standard-setting should pay more attention to whether uniform fair value accounting standards are implementable in an emerging economy such as China, as its factors diverged from developed economies ones.

To sum up, all the above studies have analyzed the process of harmonization of accounting standards, finding positive factors as well as negative factors form many perspectives. According to Baker and Moore (2008) there were two major obstacles during the harmonization of Chinese Accounting Standards with IAS/IFRS, that is the concept of related parties, lack of professionals, and the adoption of the fair value measurement due to cultural Chinese background. They also suggested that centralised ownership, multiple ownerships in company structure and short operating history of the market economy were considered factors having a negative impact on the convergence process. In addition to this factors, Rossetti and Verona (2016) found differences in the application of policy choice and in the exsistence of the accounting classification. They clearly stated that although the standardization brought by IFRS, some differences still exist in China as prepares are influenced by local accounting practices. In their paper they attempted to examine the choices made by Chinese companies to discover whether they were bound to choose an option rather than the other countries analyzed by Nobes and Kvaal. Secondly, they classified China within Nobes's international classification of IFRS countries and thirdly they compared China's classification with the other BRICS countries. They reviewed the policy choices made in the financial statements of Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges for the year 2005-2006. From their statistical analysis, by making an historical review of Chinese accounting, it resulted that within Nobes's classification (2011), China is closer to the Continental European countries than to the Anglo ones. These results differ from Nobes and Stadler (2013) results, as they looked into the accounting reports of Chinese companies listed on the Hong Kong Stock Exchange and found the Chinese system to be closer to the UK area. In conclusion, they confirmed that Chinese financial statements show a "local" nature in their

use of IFRS and China belongs to the Continental European group rather than with the others BRIC countries.

From the above studies, all of them have affirmed the “substantial” convergence of Chinese accounting standards with International Financial Reporting Standards. However, gaps between the two accounting standards still exist, due to economic, political, social and cultural factors, which affect the total convergence with IFRSs. It would be useful to provide further analysis on the latest data, to evaluate the course of harmonisation of Chinese GAAP towards a full convergence in the future.

Table 2.2: Chinese Accounting Harmonisation: and empirical approach.

Chinese Accounting Harmonisation: an empirical approach	
Authors	**Type of Study**
Chen et al. (1999)	A comparison of reported earnings under Chinese GAAP vs. IAS: Evidence from the Shanghai Stock Exchange
Lin & Wang (2001)	Financial disclosure and accounting harmonization: cases of three listed companies in China
Chen, Sun & Wang (2002)	Evidence from China on Whether Harmonized Accounting Standards Harmonize Accounting Practices
Peng (2005)	The Harmonization of Chinese Accounting Standards with International Accounting Standards: An Empirical Evaluation
IP & Norohna (2007)	The progress of Accounting Harmonization in China: A Comparision of A-share and H-share Financial Results
Wei (2007)	How is IFRS/IAS Implemented in China
He, Wong & Young (2009)	Challenges for implementation of fair value accounting in emerging markets: evidence from China
Wang, Lin & Zhu (2009)	Accounting harmonization in China: A comparision of A-share and H-share reported earnings
Peng & Smith (2010)	Chinese GAAP and IFRS: An analysis of the convergence process
Peng & Bewley (2010)	Adaptability to fair value accounting in an emerging economy: A case study of China's IFRS convergence
Zhang et al. (2010)	Fair value accounting in China
Heng & Norohna (2011)	The impact of the new Accounting Standards for Business Enterprises (ASBE) on financial results of mainland Chinese listed companies
Olesen & Chen (2011)	Convergence of Accounting Standards Does Not Always Lead to Convergence of Accounting Practices: The Case of China
Qu & Zhang (2013)	Measuring the Convergence of National Accounting Standards with International Financial Reporting Standards: The Application of Fuzzy Clustering Analysis
Hao, Sun & Yin (2013)	Convergence to IFRS, Accounting Quality and the Role of Regional Institutions: Evidence from China
Bingbin, Jing & Miyao (2015)	The influence of Accounting Standards Change on Value-Relevance of Accounting Earnings
Rossetti & Verona (2016)	International Differences in in IFRS Policy Choice and the Persistence of Accounting Classification: The Case of China

Source: elaborated by the author.

CHAPTER 3: Methodology

3. Research approach

This study empirically evaluates whether Chinese Accounting Standards are fully converged or partially converged with International Accounting Standards, taking into consideration accounting practices adopted by Chinese companies. Although Chinese government has been making a lot of efforts to pushy the convergence, previous studies raised some concerning over the applicability of IFRS to Chinese accounting practices. In fact, political, cultural and economic factors as well as the competency of the audit profession influenced the accounting practices. Therefore, there are still some doubts on whether harmonised accounting standards leads to harmonised accounting practices (Chen, Sung and Wang, 2002). First, the primary objective of this study is to empirically evaluate if the highly convergence between the New Chinese GAAP and IAS/IFRS has improved or not the earning gap between Chinese Standards and IAS/IFRS. Secondly, the study aims to investigate the impact that the convergence had on Chinese companies' financial performance, by analysing key financial ratios.

Basically, this research will focus on two research questions:

Q1: To what extent has Chinese GAAP been harmonised with IAS/IFRS? Have these companies benefited from the harmonisation of the Chinese accounting standards with International accounting standards?

Q2: From a quantitative point of view, what are the effects of the differences between Chinese GAAP and IFRSs on Chinese listed companies' financial statements?

The first question aims at evaluating how Chinese accounting standards have been harmonised with IFRSs. The second question focuses on the quantitative effects of accounting standard differences on the net income and shareholders' equity in companies' financial reports as well as the financial performance of companies reported under both standards. In order to answer to these questions, an empirical analysis through financial statements of 13 companies has been applied. Through the analysis of their reconciliations of net profit and net assets and shareholders' equity presented in their annual reports, as the adjustments on net income and on shareholders' equity provide a huge amount of information concerning changes in accounting practices and policies, it was able to understand and quantify the impact. This study covers a period of twelve years,

from 2004 to 2016. Year 2004 to 2006 are treated as the pre-convergence period, and year 2007 to 2016 as the post-convergence period, in order to scrutinise the effect and the impacts that IFRS had on financial reporting of Chinese companies. The used methodology is both qualitative and quantitative.

To start with, an analysis of the global distance by using the Gray's index of comparability has been adopted, to quantity the impact of the transition. Secondly, an analysis of the adjustments caused by each IAS has been applied, in order to gain a deep view of the transition effects and to identify how the NEW PRC GAAP polices affected Chinese companies. By applying the proposed index in the data, it has been possible to quantify the total impact of each IAS on net income and equity. Thirdly, a financial ratio analysis has been employed in order to measure, compare and analyse the performance of Chinese companies under both standards IAS/IFRS and the PRC GAAP standards. The last analysis was possible thanks to the financial statement available of three companies, such as Air China Ltd., China Southern Airlines Corp. Ltd. and Huaneng Power International Inc, that provide two kind of financial reporting according to PRC GAAP and IFRS. Why do these companies provide financial statements according to two sets of accounting standards? According to the local policies, at the moment Chinese A shares companies and overseas listed companies must provide two kind of financial reporting under two sets of accounting standards, in this case PRC GAAP and IFRS.

3.1 Sample selection

In this analysis a sample of 50 Chinese listed companies selected from Nikkei Asia300 Index has been taken into consideration. Table However, the sample size has decreased to 13 for some reasons. First of all, insurance companies and banks are not considered in this study. Secondly, some companies do not provide financial statements in English language, so it was not possible to make a comparison between the two different accounting standards. Thirdly, some companies do not adopt IAS/IFRS, but other accounting standards, such as Hong Kong Standards, Hong Kong IFRS, China Accounting Standards or Accounting Standards for Business Enterprises as illustrated in table 4.

Seeing that, the research objective is to make a comparison between CAS and IFRS and to look at the impact that IFRS had on financial reporting of Chinese companies, only 13 companies that follow IAS/IFRS were considered. Moreover, among them only 6 companies provide a reconciliation of net profit and net assets and a reconciliation of shareholders' equity. Because of 7 companies do not provide a reconciliation of net profit

and net assets as well as the reconciliation of shareholders' equity, it was therefore not possible to identify the partial adjustments or to track their quantitative impact. Therefore, this sample includes all the companies that have completed the transition to IAS/IFRS, but we cannot say if they are fully converged or not. According to IFRS 1 *"…company's first IFRS financial statements should include a reconciliation of shareholders' equity and net income…"*.The classification of sample firms is presented in Table 4.

Table 3: Criteria used for the selection of the companies

Criteria used for the selection of the firms	
Chinese companies listed on the Nikkei Asia300 index	**50**
Less:	
Companies that prepare the financial statement under PRC GAAP, ASBE, HK	27
Companies that prepare the financial statement under IAS/IFRS and HKIFRS	2
Companies that do not prepare the consolidated financial statement	8
TOTAL	**13**
Companies that provide the reconciliations of net profit and net assets and a reconciliation of shareholders' equity	6
Companies that prepare the financial statement under IAS/IFRS, but without providing the reconciliation of net profit and net assets, because they had already applied IAS/IFRS, for this reason the adjustments IAS/IFRS-PRC GAAP are not indentified during the transition to IAS/IFRS	7

Source: elaborated by the author

Furthermore, in data selection, Morningstar database was used for the selection of the 13 companies' financial statement for the period 2004-2016.

The sample of 50 companies used for the empirical analysis has been selected from the Nikkei Asia300 Index, which is a composite stock index. The reason is because it has not been possible to gain information about these Chinese companies from other Stock Exchanges. Because of the political and cultural influence, in China, it is not easy to gain information about the financial situation of a certain company (Asia Nikkei.com).

The Nikkei Asia300 Index is a stock index that comprise about 300 of Asia's most influential companies from China/Hong Kong, India, Taiwan, South Korea and six countries from South East Asia. Nikkei has also created many sub-indexes of sixteen countries where the Nikkei Asia300 companies are headquartered. One of them is the Nikkei Asia300 ASEAN Index, which focuses on companies in six States that belong to the Association of the Southeast Asian Nations.

The indices are calculated based on free-float adjustment value method and are calculated in real time from Monday to Friday, except for January 1st and when all market are closed for business reasons. “Asia300” companies need to be reviewed once a year at the beginning of December.(Asia Nikkei.com). The index is calculated based on the share prices converted into U.S dollars and the index calculation has been consigned to Singapore Exchange (SHX).
In order to create new financial products, from 2017, Nikkei is planning to develop further indexes based on the Nikkei Asia300 Index (Asia Nikkei.com).

As stated above, just 13 of the 50 companies from mainland China were analysed. Among them there are state-owned enterprises of different sectors, such as finance and communication, energy and transport services, as well as fast-growing private companies such as Tencent Holdings, as illustrated in Table 6.
The tool used for this research analysis are global index of Gray, partial adjustment index and key financial ratios of profitability, liquidity and leverage performance.
For quantify the effect of transition from PRC GAAP to IFRS on Chinese listed companies, a comparability index has been applied. Reconciliations provided by the sample companies under IFRS 1 has been analysed as well as it has been assessed the nature of reported differences in the profit and equity between IFRS and PRC GAAP.
Accordingly, the index for profit is calculated as:

$$1-\left[\frac{profit\ IFRS-profit\ PRC\ GAAP}{profit\ IFRS}\right]$$

Similarly, the index for equity is calculated as:

$$1-\left[\frac{Equity\ IFRS-Equit\quad PRC\ GAAP}{Equity\ IFRS}\right]$$

In the calculation of the above indices, a value greater than 1 implies that the profit or equity reported under PRC GAAP is higher than that calculated under IAS/IFRS; an index value of less than 1 implies that profit or equity reported under PRC GAAP is less than profit or equity reported under IFRS. Furthermore, an index value equal to 1 implies neutrality and would indicate that the transition to IFRS has no impact on profit or equity.

In order to have a better interpretation of results, Gray (1980) suggests that if the profit or equity under PRC GAAP is higher than reported under IAS/IFRS is regarded as less conservative than that reported under IAS/IFRS. If the profit or equity under PRC GAAP is less than the profit under IAS/IFRS is therefore more conservative than that reported under IAS/IFRS. Moreover, if the index value is equal to 1, it implies neutrality and so, it indicates that the transition to IFRS has no impact on profit and equity.

For the second research question, after extracting the data from Morningstar database, I applied the partial comparability index (PCI). Weetman and Gray(1991) developed a partial index for exploring the effects or adjustments for each reconciliation item to the net income and equity produced by the firm under two sets of accounting standards. The calculation of their partial adjustment for profit and equity is as follow:

Partial index for profit = 1- $\left[\frac{partial\ adjustment}{profit\ IFRS}\right]$

and

Partial index for equity = 1-$\left[\frac{partial\ adjustment}{Equity\ IFRS}\right]$

An index value which is greater than 1 implies that PRC GAAP based profit or equity is higher than IFRS based profit or equity; an index value of less than 1 implies that PRC GAAP based profit or equity is less than IFRS based profit or equity, whereas an index value which is equal to 1 implies neutrality.

3.2 Financial reporting performance analysis

In order to investigate the IAS/IFRS impact on the Chinese companies' financial performance, financial ratio analysis was used. Two key profitability ratios, two liquidity ratios and one leverage ratio have been applied. Unfortunately, three companies were taken into consideration, because they are the only ones that provide two sets of financial statements. Moreover, the analysis has not been made for all the years, from 2004 to 2016, but just for a few years, based on the information and materiality that it was possible to acquire. For example, for Air China profitability performance from 2007 to 2016 has been analysed, for China Southern Airlines from 2004 to 2007 and for Huaneng Power International form 2004 to 2011, except 2005, as the company did not provide a financial

statement translated into English Language, so it can be that for that year this company did not follow IAS/IFRS.

Profitability ratios are the most common measure of the company's performance. They measure the efficiency of a firm in using its operating resources to make profits compared to its expenses and other costs incurred during a given period of time. So, it provides a clue to the effectiveness of companies' operation. The profitability ratios include the gross profit margin, net profit margin, asset turnover, return on assets (ROA), return on shareholders' equity (ROE). For my empirical study, return on assets (ROA) and return on shareholders' equity (ROE) were considered.

ROA is analyzed in comparison to assets to see how efficient is a company in deploying its assets to generate sales and profits. So, ROA tells us how effectively the company is converting its money into profits. The higher it is, the better, because it means that the company is earning more money by making a big profit. ROA, of course, can vary depending on the industry sector and if the company is a public company. ROA is calculated as a percentage and its formula is equal to Net profit before tax/total assets.

In order to compare and identify the results and the impact of IAS/IFRS on the profitability of the Chinese companies, ROA under PRC GAAP and ROA under IFRS have been calculated.

The second profitability ratio considered is Return on Equity (ROE). ROE measures how much profit a company generates using the money that the shareholders have invested into the company. In other words, is the amount of net income returned as a percentage of shareholders equity. ROE results from the division of the net income with shareholder's equity.

In this work analysis, the Liquidity ratio analysis, as this is a useful indicator of performance of the financial health of the company, by measuring a company's ability to pay its maturing obligations and its margin of safety. Liquidity ratios include cash ratio, current ratio, acid test ratio, inventory turnover, receivable collection period, payables collection period.

Cash ratio and Current ratio has been considered for the purpose of this study, because they are mostly used by firms to determine their financial strengths, weaknesses and the ability to meet their obligation. Cash ratio, measures if and how quickly a company has the ability to pay off its short-term liabilities. The cash ratio is a more conservative look at the company's ability to cover its short-term liabilities, respect to others liquidity ratios.

Cash ratio under CAS and under IFRS has been assessed. The cash ratio is calculated by adding cash equivalents and dividing by the total current liabilities of a company.

If a company's cash ratio, under CAS or under IFRS, is equal to 1, it means that this company has the same amount of cash and equivalents as its current debt. A cash ratio higher than 1 means that all the current liabilities can be paid with cash and equivalents. In this situation, the company has the ability to cover all its short-term debts and also has some more cash to implement in other activities. A ratio below than 1 means that the company needs more than just its cash to pay off its short-term liabilities. In this case, the company has insufficient cash on hand to pay its short-term debt.

To determine the firm's ability to meet its financial obligations and to survive over a long period of time. The leverage ratios include Debt ratio, Equity ratio and Debt to Equity. In this study only Debt ratio has been considered.

Debt ratio is a ratio that measures how much a company is relying on funds from others such as loans, payables. The debt ratio is definite as the ratio of total-long-term and short-term debt to total assets, expressed as a decimal or percentage. Depending on the results, we can define if a company has less or more debts than assets. For example, a debt level of 40% may be manageable for a company, whereas a debt ratio more than 100% shows that a company has without any doubts more debts than assets. The scope of using leverage ratio in this study aims to reveal the results from PRC GAAP to IFRS. Past studies discovered that leverage ratio increased under IFRS (Lanttoet all 2009; Marchal et all 2007). However, this will depend on the type of industry to which the company belong to.

Table 3.1: Financial Ratios.

Ratio	**Measures**	**Interpretation**
Profitability Ratios	Return on Asset (ROA)= Net profit/Total assets	It measures how efficient a company is at using its assets to generate profit
	Return on Equity (ROE)= Net profit/sharehilders' equity	It measures how much profit a company generates with the money shareholders have invested
Liquidity ratios	Cash Ratio= Cash+Cash equivalents/Current Liabilities	It measures if, and how quickly a company can repay its short-term liabilities
	Current Ratio= Current Assets/Current Liabilities	It measures the company's ability to pay back its short-term liabilities with its short-term assets
Leverage Ratios	Gearing Ratio= long-term debt/equity	It measures the proportion of equity and debt that a company uses to finance its assets

Source: elaborated by the author.

CHAPTER 4: Empirical Results

4.Introduction

Based on two research questions, this study aims to evaluate the extent to which Chinese Accounting Standards have been harmonised with International Financial Reporting Standards and the impact that the convergence with IFRSs had on financial reporting of Chinese companies. First of all, to make a comparison between Chinese Accounting Standards and IAS/IFRS, an analysis of global distance has been applied to analyse the impact, that the convergence with IAS/IFRS, had on financial results presented in Chinese companies' financial statements. Reconciliations of net profit and shareholders' equity reported in the Chinese companies annual reports were considered during the analysis. The instrument used to assess the comparability and the distance between the two sets of Accounting Standards is Gray's index comparability. However, this index examines the global distance between the two sets of accounting standards, but does not explain the main causes of discrepancies between the two sets. At this point, an analysis of adjustments has been carried out, in order to analyse and explain the difference emerging in financial reporting of the companies analysed. At the end, a financial ratio analysis has been applied, in order to have a deeper understanding of the IFRSs impact on companies reporting performance.

4.1 Results of Global Distance

In order to analyse the effects that the harmonisation of Chinese GAAP with IAS/IFRS has created, thirteen Chinese companies of different sectors, which adopt the New PRC GAAP and are substantially converged with IFRSs, have been evaluated. The study covers a period of twelve years, from 2004 to 2016, where the period from 2004 to 2006 is the pre-convergence period and the period from 2007 until 2016 is treated as the post-convergence period.

Table 7 reported in the Appendix includes a descriptive analysis of the global distance between Chinese Accounting Standards and IAS/IFRS looking at the net profit and the shareholders' equity.

The value of the index of comparability between 2004 and 2006 were between 1,19 and 1,58, indicating that the net profit expressed according Chinese GAAP is higher than IFRS net profit. However, looking at the post-convergence period, there are different results.

With the promulgation of the New PRC GAAP, Chinese GAAP became closer to IFRS. In the period from 2007 to 2016 the value of the net profit is between 0.99 and 1,07, indicating that the net profit under two sets of standards are almost the same. It is evident that in the pre-convergence period the net profit under PRC GAAP is slightly higher than the one reported under IFRS, and so the adoption of IFRS had a negative impact on the profit of the companies, while in the post-convergence period the net profit under the two sets of accounting Standards are quite the same, so there is no impact after the adoption of the New PRC GAAP.

The index of comparability has been applied also to the shareholders' equity. The table 7 shows that in 2006 the value reported is 1,05, so the shareholders' equity under PRC GAAP is slightly higher than the equity reported according to IFRSs. On the contrary, in the post-convergence period the equity under both sets of Standards is almost equal, the values are between 0,99 and 1,00. It is clear that there the transition to the New PRC GAAP had no impact on equity. Reporting Gray's instrument, the net profit and equity in the pre-convergence period is regarded as less conservative as the profit under PRC GAAP is higher than IFRS, whereas in the post-convergence period the indexes resulted imply neutrality, and so no impact on the net profit of the companies and the shareholders' equity.

4.2 Results of partial index differences

The analysis and results of each partial adjustments presented in companies' financial statements emerged during the harmonisation of Chinese Accounting Standards is showed in Table 7.1. In each table are reported all the partial differences of the reconciliations of net profit and shareholders' equity. There are some general items which contributed to the discrepancies in the convergence to the IFRSs. These general items required adjustments between IFRS and the Chinese GAAP by the companies, that is Business Combination, Income Taxes, Property, Plant and Equipment, Leases, Revenue, Employee Benefits, Accounting for Government Grants and Disclosure of Government Assistance, Borrowing costs, Investment in Associates and Joint Ventures, Intangible Assets and Recognition and Measurement.

a)Business Combination. Under the ASBE 20 of the New PRC GAAP, *Business Combination* under common control should be accounted for by applying the pooling of-

interest method. Under the pooling-of-interest method, the difference between the historical carrying amount of the acquire and the consideration paid is accounted for as an equity transaction. In addition, the acquired assets and liabilities are recorded at fair value of the cash paid, non-cash assets transferred and liabilities assumed at the date of acquisition.

In other words, for the business combination occurred prior to 1 January 2007, according to the with previous PRC GAAP, when equity interests acquired is less than 100%, the assets and liabilities of the acquires are measured at their carrying amounts. On the other hand, when acquiring the entire equity, the entire assets and liabilities are accounted for in a method similar to purchase accounting. Goodwill arising from such transactions is amortised over the estimated useful lives on a straight-line basis.

Under IFRS, purchase accounting is used and also assets and liabilities of the subsidiaries are recorded at fair value. As a result, these companies adopted the purchase accounting method for acquisition of business under common control. The adjustments are made to make the associate's accounting policy of the business combination under common control conform to the policy of the companies, when acquiring long-term equity investments.

In addition, also subsidiaries of the companies adopted the purchase method for the acquisition, where assets and liabilities were recorded at fair value by the acquirer. The differences in accounting treatment under PRC GAAP and IFRS on *Business Combination* under common control affected both equity and profit, positively and negatively, depending on the companies' use of accounting policy. In 2004, the Business Combination under IFRS produced an increase in the net profit and shareholders' equity of 0,4% and 0,1%. However, with the introduction of the New PRC GAAP, Business Combination had a negative impact on profit of the companies, producing an average reduction of 2% (Table 6). Due to different measurement basis of the assets acquired, depreciation and amortization of the period following the acquisition will be affected and this clearly affects the profit, equity or loss upon subsequent disposals of investments made by the companies (KPMG, 2014).

b)Property, Plant and Equipment. The New Chinese GAAP relating to *fixed assets and land use rights* were set out in ASBE 4 "Fixed Assets" (KPMG, 2014). Under IFRS, each *"company should make a policy choice to carry items of property, plant and equipment held for own use using either the cost model or the revaluation model"*(KPMG, 2014,

p.45). Whereas under New PRC GAAP only the cost model is allowed for the measurement of fixed assets. As a consequence, there are differences in the amount of fixed assets recorded under the two sets of accounting standards. In general, this adjustment brought a positive impact on the profit and equity of the companies' financial statements. Before the transition period it is reported a reduction in the net profit of an average 3,8%, with an increase in the shareholders' equity of around 1,4%. However, during the transition period, between 2008 and 2013, the adoption of this accounting principle brought a negative impact on the net profit, percentages of the impact are between 0,6% and 3%. On the contrary, between the period form 2014 to 2016, this accounting principle produced ann increase both in the net profit and shareholders' equity on an average of 4,4% for the net profit and 0,6% on the shareholders' equity (Table 6.1).
Mainly, the differences were caused by the adoption of component accounting in different years under IFRSs and CASs.

c)Leases. Under New ASBE 21, sale and leaseback transactions, which result in an operating lease, are recorded as deferred credits and amortised over the lease terms on a straight-line basis. Whereas under IFRS, gains on sale and leaseback transactions where the subsequent lease is an operating lease, are recognised immediately as income in profit or loss, if the transactions are established at fair value. In addition, differences between the sale price and fair value are deferred and amortised over the lease term.
Or, according to IAS 17, if the the sale price is below the fair value, the profit or loss should be recognised immediately, or, if the sale price is above the fair value, the extra fair value should be deferred and amortised over the period of use. Furthermore, if the fair value is less than the carrying amount or equal, a loss equal to the difference should be recognised immediately (IAS 17.63, Deloitte, 2014). The adoption of IAS17 determined a reduction of the net profit expressed under IAS/IFRS on an average of 1,4% in the transition period and of 0,5% in the last few years. Whereas, in the shareholders' equity under IFRS produced an increase of an average of 2,6% in the transition year (Table 6.2).

d)Employee Benefits.
As stated in the reconciliations items of these companies, under IFRSs, the aggregate early retirement benefits for the period from date of early retirement to normal retirement date are recognised and charged to the income statement. However, under PRC accounting rules and regulations there are no specific requirements in this respect.

Changes in the reported amount of shareholders' equity under IFRS to evaluate employee benefits brought a reduction on an average of 1,5% in 2006 and from 2007 until 2015 the reduction is between 0,1% and 0,3%. Regarding the net profit, the mean in 2006 is of -69,8%, which is a huge reduction in the net profit of the companies adopting this new accounting principle. However, after 2012 it had a positive effect on the net profit reported under IFRS, mean are between 0% and 4,4% (Table 6.3).

e)Government Grants. According to IFRS, *Government Grants* are credited to income, in cases when they became receivables or in a date in the future when some conditions are met. They must not be credited directly to equity, but only in cases they arise as a result of government participation in the ownership of the enterprise. ASBE 16 of the New PRC GAAP is similar to IFRSs, with some exceptions. Specifically, special funds, such as investment grants allocated by the government, are not reported as government grants if they clearly stated ad written in official documents as being part of "capital reserve". Only in this cases, government grants are credited directly to equity (KPMG, 2014).
Government Grants has produced ann increase in median between 0,003% and 1% in the net profit reported under IFRS, but a decrease in the shareholder's equity of an amount between 0,3% and 1,2% during the period 2005 and 2016. In other words, although it has negative impact on the equity of the companies, it produces positive effects on the net profit reported according IFRSs (Table 6.4).
Therefore, in the companies's financial statements prepared in accordance with New CASs, these government grants received were debited as the relevant assets and credited as capital reserve between 2007 and 2016.

f)Borrowing Costs. Under IFRS, a company can choose not to capitalise borrowing costs attributable to inventories, if inventories are manufactured, or produced in large quantities on a repetitive basis. (IAS 23.4 and 5, KPMG, 2014). As stated by KPMG, *"borrowing costs eligible for capitalisation include exchange differences arising from foreign currency borrowings only to the extent that they represent an adjustment to interest costs."* (KPMG, 2014, p. 45). Under New PRC GAAP, ASBE 17 sets no specific exemption for inventories that are manufactured or produced in large quantities. However, in cases when an enterprise meet the definition of a qualifying asset under New PRC GAAP, it shall capitalise borrowing costs attributable to inventories.

Companies that reported this kind of adjustment, by providing two sets of financial statements under both standards, it resulted that in the PRC GAAP financial statements, interest incurred on specific borrowings obtained for the construction of fixed assets, is capitalised. Whereas, in the IFRS financial statements, interest, which incurred on specific and other borrowings directly attributable to the construction of fixed assets is also capitalised. As a result of the adoption of this principle, the net profit under IFRS reported a reduction between 2004 and 2016 of an average between 0,2% and 15%. On the other hand, the shareholders' equity benefited with an increase in the amount reported which is between 0,1% and 1,2% for all the period analysed (Table 6.5).

g)Revenue. Only one company reported an adjustment on revenues, in merit on the amount received in advanced. Huaneng Power International received in advance a payment as the major repair and maintenance cost requirements of their power plants. The payment received in advanced has been recognised as a liability under IFRS and was recognised as revenue when the repair and maintenance has been performed and the liability extinguished. Under PRC financial reporting, this amount was not recorded as a liability and so was recognised as revenue. The reported adjustments caused a negative impact on the shareholders' equity on an average between 0,4% and 3,1% from 2004 and 2016, but a positive impact on the net profit under IFRS, reporting an increase between 0,1% and 5,6% (Table 6.6).

h)Intangible Assets. Under IAS 38 of IFRS, a company should make a policy choice, on a class by class basis, to carry intangible assets using or the cost model or the revaluation model. If a company decides to use the revaluation model, it should be used for all intangible assets within that class. On the contrary, under ASBE 6 of the New PRC GAAP, only the cost model is permitted. One company has reported an adjustment in intangible assets, by showing a reduction both in the net profit and shareholders' equity, values are between -0,6% and -7,6% for the net profit under IFRS and -0,01% and -4,8% for the shareholders' equity for the period between 2004 and 2016 (Table 6.7).

i)Financial Instruments: Recognition and Measurement. IAS 39, Financial Instruments: Recognition and Measurement, includes specific requirements for the recognition and measurement of financial assets, financial liabilities and also some kind of contracts to buy or sell non-financial items. When a company becomes a party to the contractual

provisions of the instruments, financial instruments are initially recognised and classified into various categories depending upon the type of instrument. The subsequent measurement of the instrument is typically amortised cost or fair value. Under ASBE 22 of the New PRC GAAP, a financial instruments is classified as an equity instrument if it evidences a residual interest in the assets of a company after having deducted all its liabilities (KPMG, 2014). The adoption of this accounting principle brought a positive impact on the equity of the companies, reporting an increase of values between 0,2% and 1,5% in the equity under IFRSs.

Changes in the net profit reported under IFRS were caused by the adoption of IAS39 by showing an increase in the net profit of an average between 0,9% and 6,7% for the period between 2009 and 2013. Whereas from 2013, the adoption of this principle caused a reduction in the net profit of around 5,9% (Table 6.8).

This is because, in the PRC GAAP financial statements of the Company, gain or losses on derivative financial instruments are recognised in the income statement upon settlement. Whereas, under IFRSs, derivative financial instruments are carried at fair value. Therefore, the gain or loss on re-measurement of fair value is recognised in the income statement.

l) Presentation of Financial Statements. Among six companies that reported a reconciliations of net profit and shareholders' equity, just one company, and only for year 2006, has made an adjustment related to the presentation of financial statements. Under IFRS, when a company has to decide how to present its financial statements, it has the choice to present in a single statement of comprehensive income or it can use two statement approach, presenting an income statement, followed by a statement of comprehensive income. Under ASBE 30, only the single statement approach is allowed. Other comprehensive income should be shown as a separate line item within this statement. Under ASBE 30, Financial Statements should at least include, Balanche Sheet, Income Statement, Statement of cash flows, Statement of changes in equity and the Notes.

Huaneng Power International reports adjustment of minority interests, which under IAS 1, in the consolidated net profit and consolidated net assets they should be included as a portion of net profit and total equity attributable to shareholders respectively. However, this requirement is not present under PRC GAAP. The adoption of IAS 1 by the company has resuled in an increase of both net profit and shareholders' equity under IFRSs, the net profit has increased about 13% and the equity of 12%. This shows that by adoptiong this

principle companies certainly benefited, with an increase in their reported amounts in the financial statements (Table 6.9).

m) Income Taxes

IAS12 on *Income Taxes* uses the 'comprehensive balance sheet method' of accounting for income taxes. It recognises both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities are recognised as deferred tax liabilities or deferred tax assets (IAS Plus.com).

The ASBE 18 Income Taxes disallows the tax payable method. In order to determine deferred tax of temporary differences it adopts the balance sheet liability method. Under PRC GAAP, both the liability method and the deferral method are allowed and deferred tax is recognised for other differences. The adoption of this accounting principle showed a decrease in the net profit reported under IFRS for the transition period on an average of 2,33%. After 2006 there is an increase in the net profit, values are between 0,7% and 3,6%. Looking at the equity of the companies, the adoption of IAS12 brought a decrease in the amount reported on an average of 0,3%. After the convergence period, however, there is reported an increase in the equity of the companies reported under IFRS, values are between 0,1% and 0,3%. (Table 6.10).

n) Separate Financial Statements and Investments in Associates and Joint Ventures

Under ASBE 2, Long-Term Equity Investments, in the separate financial statement of the parent, a subsidiary shall use the cost method instead of the equity method (Deloitte, 2006).

Under this method, if the accounting policies adopted by the investee are different from the one adopted by the investor, in this way the adjustments have to be made to guarantee that the investee's accounting policies conform to those of the investor. In addition, associates and jointly controlled entities can use the equity method (Deloitte, 2006).

While, under IAS 27, subsidiaries, associates and jointly controlled entities can be account separate financial statements of the parent either at cost or in accordance with IAS 39. The adoption of this principle by Chinese companies produced a reduction in the shareholders' equity reported under IFRSs in median of 0,1% from 2007 to 2014. Whereas in the net profit under IFRS there is an increase between 0,1% and 1,4% between 2008 and 2015.

On the other hand, the adoption of IAS 28, had a positive impact on the net profit of the companies either in 2004 reporting an increase on an average of 54% and of 3,9% in 2006 (Tables 6.22; 6.12).

4.3 Results of Financial Performance

This section examines the profitability, liquidity and leverage performance of the Chinese companies analysed. Figures from the balance sheet and income statement issued under both standards were utilised. Only a few companies have prepared both the CAS and IFRS statements, for different reasons. The first one is that, if a company issues A-share and H-share, it has to provide financial statements under both standards. Secondly, companies issue two kind of financial statements for foreign investors or for their business partners' requirements. In addition, some of these companies have their securities listed on international markets, like US Stock Exchange or London Stock Exchange, and thus they compiled financial statements for the needs of capital requirements.

a) *Profitability Ratios*. From the analysis of the financial statements issued under both standards emerged that for the year 2004 profitability ratio is higher under Chinese GAAP than IFRS. Form 2005 and 2009 ROE and ROA increase under IFRSs. This kind of results are consistent with the one of previous researchers who found out that profitability ratio increase under IFRS compared to local GAAP (Latto et al. 2009; Marchal et al, 2007). However, from 2014 and 2016, results showed no significance difference between ROE and ROA under both Standards, in other words profitability ratios are pretty the same under both Standards.
b) *Liquidity Ratios*. The results of this study showed, although in a minor impact, a reduction in liquidity ratio issued under IFRSs. The results proved that cash ratio decreases under IFRSs, while current ratio decreases under IFRS during the period 2004 and 2009, and from 2010 and 2016 it shows a slight increase. Findings are consistent with that of Lantto and Sahlstom (2009) study, by showing that liquidity ratio decreases under IFRS compared to local GAAP.
c) *Leverage Ratio*. Past researches studies on comparing leverage ratio's computed under IFRS and local GAAPs, showed that leverage ratio increased under IFRS (Lantto et al, 2009; Marshall et al, 2007). Therefore, in this study was discovered an increase in the leverage ratio computed under IFRS, and a slightly decrease between 2006 and 2007, which is the transition period, and it could be the main reason for this decreasing in the leverage ratio.

CONCLUSIONS

The process of harmonisation of Chinese accounting standards with IFRSs has achieved its substantial convergence in 2006, with the issue of the New PRC GAAP, to be adopted starting from 1st January 2007. Although the New PRC GAAP are substantial converged with the International Financial Reporting Standards, discrepancies still arise. The convergence to IAS/IFRS can be considered either positive and negative factor. It can be considered positive, because investors and accounting professionals, through one and simple accounting language, can easily access to accounting information of companies of different countries. However, it can represents a negative factor for some countries, which have resulted to be not flexible towards IFRSs. As a consequence, this might have had significant changes in the issue of financial statements.

In China, the Ministry of Finance and the Chinese Accounting Standard Committee have been making as much as effort in improving the Chinese Accounting, by fostering its adoption to the IFRSs. However, during the harmonisation process many problems arose, affecting the total convergence to International Financila Reporting Standards.

In order to have a deeper view regarding the process of the harmonisation of Chinese Accounting Standards with IAS/IFRS, in particular concerning the financial performance of Chinese companies, the main objective of this study was to analyse the qualitative and quantitative impact on Chinese companies' financial statements before and after the adoption of the New Standards in 2007.

The empirical analysis has been carried out on the global differences between the economic and financial results under national accounting standards and the international ones. Secondly, the analysis has been applied at each adjustment reported in the reconciliations of net profit and shareholders' equity, which express the main items that caused the major impact on financial reporting. Thirdly, an analysis of financial ratios has been made to look at the results of net profit, the management of assets and cash, under both Standards.

The analysis of global distance differences has reported a positive impact on the net profit and shareholders' equity under IFRS, but in the last few years of this study the net profit and equity reported are quite the same under both standards. In other words, companies have benfited from the convergence and this is also proved by ROA and ROE

results showing an increase on the reporting results of Chinese companies (Table 7.1). This kind of results are consistent with the one reported in previous studies, which found profitability ratio increases under IFRS compared to PRC GAAP (Lantoo et al., 2009; Marchal et al., 2007). This study has also found that in most cases liquidity ratios decreases under IFRS. These kind of results have been found by Lantto and Sahlstom (2009) as well, by proving that liquidity ratio decreases under IFRS compared to local GAAP. It was also discovered an increase in the leverage ratio computed under IFRS, and a slightly decrease between 2006 and 2007, is considered the transition period, and it could be the main reason for this decreasing in the leverage ratio.

Findings in this study showed that the net profit and shareholders' equity under IFRS, in most of the cases, tended to be higher than the one reported under local GAAP. However, it has found few cases where the profit and equity under CAS is higher than IFRS, due to some adjustments made by the companies.

To find the reason of this decrease in the net profit and equity of the companies under IFRS, major items that contributed to the differences in net profit and shareholders' equity issued under both Standards were examined. It was found that some accounting differences in the companies' financial statements might be caused by the accounting practices used by a certain industry and its features. In fact, depending on the type of industry of the companies, some firms belonging to the air transport services reported a decrease or a loss in the net profit and equity computed under IFRS, whereas companies belonging to the electric utilities sectors reported a great increase in the net profit and equity under IFRS. It was also found that general items contributed to the differences regardless the type of industry. In other words, the main adjustments made were on revaluation and depreciation of fixed assets, business combination, property and plant, government grants had a negative impact on the reported profit and equity. Regarding business combination, it was proved that Chinese Accounting Standards are similar to IFRSs, but with some differences in the implementation. In other words, the new ASBE 20 allow the fair value measurement and prohibited the amortisation of goodwill, there are differences in the treatment of assets and liabilities for business combination. However, the adoption of IFRS 3 on Business Combination brought an increase in the shareholders' equity of Chinese companies under IFRS on an average of 3%, in contrast to what is reported in the net profit which decreases on an average of 2%.

Concerning adjustments related on revaluation of fixed assets, the difference in the implementation is: the cost method is used when applying Chinese GAAP, whereas under IFRS either the cost or revaluation method could be used. Government grants implementation are quite similar under both standards, the only difference is that under IFRS, a company can choose to credit them as a deferred income over the useful life of the asset, or the grant can be deducted in arriving at the carrying amount of the assets, while under New PRC GAAP, only deferred income is permitted. This, therefore, caused a reduction in the equity of the Chinese companies reported under IFRS on an average of 0,54%.

Differences for different implementation choices found in this study are many. The main explanation is related to the adoption of fair value. All the companies assessed in this study adopt the historical cost, except for derivative financial instruments, tradable wealth management products and wealth management products, assets and liabilities, which are carried at fair value. Many authors affirmed that the lack of fair value could be related to the undeveloped capital market, earnings management, corporate governance problems, qualified auditors and limited tools to asses fair values (Peng & Bewley, 2010). In addition, because there are no useful tools to assess the fair values, companies decide not to adopt entirely the fair value measurement in their Chinese GAAP. As a consequence, they prefer to choose the historical cost, calculated at fair value for some financial instruments. Another reason could be related to the Chinese cultural background, the shortage of skilled auditors and the political system. The development of the global economy and capital market has affected the process of China accounting norm setting as well as accounting practices. Consequently, global accounting harmonisation has influenced Chinese New Accounting Standards convergence with IAS/IFRS.

Therefore, all the differences evaluated in this study between the two sets of Accounting Standards demonstrate a scarse level of homogeneity between CAS and IFRSs. And, in fact, previous studies have affirmed that convergence of accounting standards does not always leads to the convergence of accounting practices (Chen and Cheng, 2007).

Lastly, this study may be considered for future research on this topic, in order to monitor the process of convergence of CAS to IFRS in the foorseable future. Due to some limitations related to data available, in this study only 13 companies of the 50 companies' initial sample have been objected to the empirical evaluation, as they are the only ones adopting IFRSs. The rest of this sample adopt other accounting standards among Chinese Accounting Standards, Hong Kong Financial Reporting Standards or Hong Kong

Standards, and some of them do not provide information and data regarding their financial position.

This study might be of interest of standard setters in China in their efforts in improving the congvergence of local accounting standards with IFRSs.

To sum up, this empirical study might be useful for further studies in the future and to give further suggestions to improve the convergence of Chinese Accounting Standards with International Financial Reporting Standards and offset all discrepancies that may arise in the implementation of the latter.

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APPENDICES

Appendix 1: Sample of companies

Table 4: Initial Sample of 50 companies

Company Name	Financial statement in English Language	IFRS	ASBE OR CAS	HKFRS	HK ACCOUNTING STANDARD
Air China Ltd.	X	X			
Anhui Conch Cement	X	X			
Baoshan Iron & Steel					
BOE Technology Group	X		X		
BYD	X				
China Communications Construction Co. Ltd.	X	X			
China COSCO Holdings	X			X	
China Eastern Airlines Corp. Ltd.	X				
China Mengniu Dairy	X				
China Merchants Port Holdings	X			X	
China Mobile	X	X		X	
China Overseas Land & Investment	X			X	
China Petroleum & Chemical (Sinopec)	X		X		
China Railway Construction (CRCC)	X		X		
China Railway Group	X	X			
China Resources Beer	X			X	X
China Shenhua Energy	X	X			
China Shipbuilding Industry Co.,Ltd.					
China Southern Airlines Co. Ltd.	X	X			
China Telecom Corp. Ltd.	X	X			
China Unicom (Hong Kong)	X	X		X	
China Vanke	X	X			
Chongqing Changan Automobile	X		X		
CITIC	X			X	X
CNOOC	X				
CRRC Corp. Ltd.	X	X			
Dongfeng Motor Group	X	X			
Fosun International	X			X	
Great Wall Motor Co. Ltd.	X		X		
Gree Electric Appliances	X				
Greenland Holdings					
Guangzhou Automobile Group	X			X	
Hengan International Group	X			X	
Huaneng Power International	X	X			
Lenovo Group	X				
Leshi Internet Information & Technology					
Midea Group	X				
PetroChina	X		x		
SAIC Motor	X		X		
Sany Heavy Industry					
Shanghai Electric Group	X			X	
Spring Airlines					
Suning Commerce Group					
TCL Corp.					
Tencent Holdings Ltd.	X	X			
Tingyi Holding	X			X	
Tsingtao Brewery	X				
Want Want China Holdings	X			X	
WH Group	X	X			
ZTE	X			X	

Legend

IFRS - International Financial Reporting Standards
Accounting Standards for Business Enterprises or Chinese Accounting Standards
Hong Kong Financial Reporting Standards, which, starting from 2005 is fully converged with IFRS. It includes both Standards and Interpretations, which are identical to IFRSs.
Hong Kong Accounting Standards

Source: elaborated by the author.

Table 4.1: Chinese companies characteristics

Chinese Companies characteristic				
	Year of Foundation	**Stock Exchange**	**Shares**	**Sector**
Air China	1988	Shanghai, London and Hong Kong	A-Shares in Shanghai Stock Exchange	Air transport services
Anhui Conch Cement	1997	Shanghai and Hong Kong	A-Shares in Shanghai Stock Exchange and H-Shares in Hong Kong Stock Exchange	Cement industry
China Railway Group	2007	Shanghai and Hong Kong	A-Shares in Shanghai Stock Exchange and H-shares in Hong Kong Stock Exchange	Train transport services
China Shenhua Energy	1995	Shanghai	A-Shares in Shanghai Stock Exchange	Industry/Energy
China Southern Airlines	1995	Shanghai, Hong Kong and New York	A-Shares in Shanghai Stock Exchange and H-Share in Hong KongStock Exchange and N -Shares in New York Stock Exchange	Air transport services
China Telecom	2002	Hong Kong and New York	H - Shares in Hong Kong Stock Exchange and New York Stock Exchange	Communication services
China Vanke	1984	Shenzhen and Hong Kong	A-Shares in Shenzhen Stock Exchange and H-Shares in Hong Kong Stock Exchange	Real Estate
China Communication Construction	2006	Shanghai and Hong Kong	H-share in Hong Kong from 2006 and A-share in Shanghai Stock Exchange in 2012	Infrastructure Construction
CRRC	2015	Shanghai and Hong Kong	A-Shares in Shanghai Stock Exchange and H-Shares in Hong Kong Stock Exchange	Industrials/Capital Goods
Dongfeng Motor Group	2001	Hong Kong	H-Shares in Hong Kong	Automobiles & Components
Huaneng Power International	1994	Hong Kong, Shanghai and New York	H-Shares in Hong Kong Stock Exchange and A-Shares in Shanghai	Electric Utilities
Tecent Holdings	1998	Hong Kong	H-Shares in Hong Kong Stock Exchange	Information Technology services
WH Group	2014	Hong Kong	H-Shares in Hong Kong Stock Exchange	Food Beverage & Tobacco

Source: elaborated by the author.

Appendix 2: Analysis of global comparability distance, partial adjustments index and financial performance

Table 5: Global distance of comparability

	2004		2005		2006		2007		2008		2009	
	for Profit Global Index	for Equity Global index	for profit Global index	for equità Global index	for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index
Air China					1,19	1,05	0,92	1,00	0,99	0,99	1,04	1,00
Anhui Conch Cement					0,96	1,02			1,00	1,02	1,01	1,02
Tecent Holdings												
China Vanke			0,99								-	
China Construction												
China Shenhua Energy												
China Southern Airlines	2,15	0,98	1,51	1,00	0,63	0,99	0,99	1,00	1,00	1,00	1,08	1,00
Wh Group												
Dongfeng Motor Group												
Huaneng Power International	1,01				0,81		0,99		0,94		1,03	
CRRC												
China Telecom												
China Railway Group												
Mean	**1,01**		**0,99**		**0,63**	**0,99**	**0,92**	**1,00**	**0,94**	**0,99**	**-**	**1,00**
Median	**1,58**		**1,25**		**0,88**	**1,02**	**0,99**	**1,00**	**0,99**	**1,00**	**1,03**	**1,00**
Max	**2,15**		**1,51**		**1,19**	**1,05**	**0,99**	**1,00**	**1,00**	**1,02**	**1,08**	**1,02**

2010		2011		2012		2013		2014		2015		2016	
for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index	for Profit Global index	for Equity Global index	for profit Global index	for equity Global index	for profit Global index	for equity Global index	for profit Global index	for equity Global index
1,02	1,01	1,06	1,01	1,07	1,02	1,02							
1,00	1,01	1,00	1,01	1,00	1,01	1,00	1,01	1,00	1,01	1,00	1,00	0,99	
		1,00		1,00		1,00						1,00	1,00
				0,98		1,01		0,95		0,91		0,91	
1,00	1,00	0,99	1,00	1,00	1,00	0,95	0,99	1,00	0,99	1,03	1,00		
1,06		1,07		1,06	0,99	1,01	0,99	0,98	0,99	1,01	0,94		
1,00	**1,00**	**0,99**	**1,00**	**0,98**	**0,99**	**0,95**	**0,99**	**0,95**	**0,99**	**0,91**	**0,94**	**0,91**	
1,01	**1,01**	**1,00**	**1,01**	**1,00**	**1,00**	**1,00**	**0,99**	**0,99**	**0,99**	**1,00**	**1,00**	**0,96**	
1,06	**1,01**	**1,07**	**1,01**	**1,07**	**1,02**	**1,02**	**1,01**	**1,00**	**1,01**	**1,03**	**1,00**	**1,00**	

Source: elaborated by the author.

Partial adjustments impact

Table 6: Business Combination

Business Cominations - IFRS 3						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	0,004		1	0,001	
2005						
2006	2	-0,017	-0,017	2	0,022	0,022
2007	2	-0,009	-0,009	2	0,029	0,029
2008	1	0,001		1	0,001	
2009	2	-0,009	-0,009	2	0,043	0,043
2010	1	0,000		1	0,066	
2011				2	0,039	0,039
2012	2	-0,010	-0,010	2	0,031	0,031
2013	1	-0,001		2	0,028	0,028
2014	1	-0,001		2	0,025	0,025
2015	2	-0,020	-0,020	2	0,033	0,033
2016						

Table 6.1: Property, Plant and Equipment.

Property, Plant and Equipment - IAS16						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	2	-0,0038	-0,0038	1	0,014	
2005	2	-0,001	-0,001	1	-0,016	
2006	3	0,078	0,021	3	-0,016	-0,015
2007	2	0,043	0,043	2	0,000	0,000
2008	3	-0,006	-0,001	3	0,004	-0,006
2009	3	-0,012	0,001	3	-0,003	-0,005
2010	3	-0,010	0,0010	3	-0,004	-0,004
2011	1	-0,012		1	-0,005	
2012	1	-0,032		1	0,008	
2013	2	-0,030	-0,030	2	0,003	0,003
2014	2	0,019	0,019	2	0,004	0,004
2015	2	0,063	0,063	2	0,007	0,007
2016	2	0,044	0,044	2	0,006	0,006

Table 6.2: Leases.

Leases - IAS 17						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	2,96		1	0,032	
2005	1	0,025		1	0,033	
2006	1	-0,033		1	0,026	
2007	1	-0,014		1	0,010	
2008	1	0,005		1	0,013	
2009	1	-0,08		1	0,006	
2010	1	-0,004		1	0,001	
2011	1	-0,005		1	0,000	
2012	1	-0,005				
2013						
2014						
2015						
2016						

Source: elaborated by the author.

Table 6.3: Employee Benefits.

Employee Benefits - IAS 19						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	-0,006		1	0,001	
2005						
2006	3	-0,698	-0,005	3	-0,015	-0,007
2007	1	-0,006		1	-0,001	
2008	1	0,009		1	-0,002	
2009	1	-0,007		1	-0,003	
2010	1	-0,005		1	-0,002	
2011	1	-0,003		1	-0,003	
2012	1	0,000		1	-0,002	
2013	1	0,000		1	-0,002	
2014	1	0,000		1	-0,002	
2015	1	0,000		1	-0,002	
2016	2	0,044	0,044	2	0,006	0,006

Table 6.4: Government Grants.

Government Grants - IAS 20						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004						
2005	1	-0,029		1	-0,004	
2006	2	0,0005	0,0005	2	-0,009	-0,009
2007	2	0,0025	0,0025	2	0,005	0,005
2008	3	0,0003	0,000	3	-0,012	-0,009
2009	3	-0,005	-0,005	3	-0,011	-0,012
2010	3	-0,0013	-0,0020	3	-0,0073	-0,0110
2011	3	0,007	0,011	3	-0,0013	-0,0010
2012	4	0,007	0,0015	4	0,0025	0,0015
2013	3	0,010	0,002	3	-0,003	-0,002
2014	3	0,008	0,001	3	-0,003	-0,001
2015	3	0,003	0,004	2	-0,003	-0,003
2016	1	0,005		1	-0,004	

Source: elaborated by the author.

Table 6.5: Borrowing Costs.

Borrowing Costs - IAS 23						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	2	-0,110	-0,11	1	0,0025	0,0025
2005	1	-0,008		1	0,001	
2006	2	-0,15	-0,15	2	0,04	0,04
2007	1	-0,004		1	0,009	
2008	1	0,008		1	0,012	
2009	1	-0,006		1	0,01	
2010	1	-0,009		1	0,007	
2011	1	-0,03		1	0,007	
2012	1	-0,005		1	0,006	
2013	1	0,0030		1	0,005	
2014	1	-0,0030		1	0,004	
2015	1	-0,002		1	0,003	
2016						

Table 6.6: Revenue.

Revenue - IAS 18						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	-0,027		1	-0,031	
2005						
2006	1	0,002		1	-0,024	
2007	1	0,056		1	-0,016	
2008	1	-0,003		1	-0,023	
2009	1	0,001		1	-0,02	
2010	1	0,003		1	-0,015	
2011				1	-0,016	
2012				1	-0,015	
2013	1	0,025		1	-0,009	
2014	1	0,024		1	-0,004	
2015	1	0,02		1	0,000	
2016						

Table 6.7: Intangible Assets.

Intangible Assets - IAS 38						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	0,009		1	-0,001	
2005	1	0,006				
2006						
2007	1	-0,042		1	-0,022	
2008	1	0,060		1	-0,048	
2009	1	-0,031		1	-0,042	
2010	1	-0,076		1	-0,038	
2011	1	-0,017		1	-0,044	
2012	1	-0,033		1	-0,044	
2013	1	-0,006		1	-0,041	
2014	1	-0,004		1	0,038	
2015	1	0,011		1	-0,012	
2016						

Source: elaborated by the author.

Table 6.8: Financial Instruments: Recognition and Measurement.

Recognition and Measurement - IAS 39						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004						
2005						
2006		-0,0613	-0,061		0,006	-0,003
2007	1	0,030		1	0,0050	
2008	1	-0,011		1	0,015	
2009	1	0,009		1	0,011	
2010	1	0,0030		1	0,005	
2011	1	0,017		1	0,0010	
2012	1	0,0010		1	0,005	
2013	1	0,067			0,007	0,007
2014	1	-0,016			0,006	0,006
2015	1	-0,059			0,003	0,003
2016				1	0,002	

Table 6.9: Presentation of Financial Statements.

Presentation of Financial Statement IAS 1						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2006	1	0,13		1	0,12	

Table 6.10: Income Taxes.

Income Tax - IAS12						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	3	-0,036	-0,042	3	-0,004	0,000
2005	2	0,0055	0,0055	1	0,000	
2006	4	-0,0233	0,0190	4	-0,003	-0,005
2007	3	0,0017	-0,0020	3	0,0003	-0,0010
2008	3	-0,0010	0,0030	3	0,0027	0,0030
2009	3	0,0073	0,008	3	0,0003	0,000
2010	3	0,010	0,009	3	0,0013	0,0010
2011	3	0,036	-0,0020	3	0,0013	0,0020
2012	3	0,0047	0,0010	3	-0,0003	-0,001
2013	3	-0,0037	0,0030	3	0,0013	0,0020
2014	3	0,0013	0,0020	3	0,0013	0,0020
2015	3	0,007	0,01	3	0,0013	0,0010
2016	1	0,000		1	0,001	

Table 6.11: Separate Financial Statements.

Separate Financial Statements IAS 27						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004						
2005						
2006	2	0,016	0,0160	2	0,011	0,011
2007	1	-0,014		1	-0,0010	
2008	1	0,0010		1	0,002	
2009	1	-0,003		1	-0,001	
2010				1	-0,001	
2011	1	-0,001		1	-0,001	
2012	1	0,001		1	-0,001	
2013	1	-0,005		1	-0,001	
2014	1	0,014		1	-0,001	
2015					0,001	
2016						

Table 6.12: Investments in Associates and Joint Ventures.

Investment in Associates and Joint. IAS 28						
		PROFIT			EQUITY	
YEAR	N	MEAN	MEDIAN	N	MEAN	MEDIAN
2004	1	0,540		1	-0,002	
2005	1	0,037		1	-0,009	
2006	2	0,039	0,039	2	0,006	-0,003
2007				1	0,004	

Source: elaborated by the author.

Table 7: Profitability Ratios (%)

PROFITABILITY RATIOS	2004				2005				2006				2007				2008				2009			
	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs
Min	**0,71**	**0,44**	**0,88**	**1,55**					**0,40**	**0,47**	**1,17**	**1,68**	**3,51**	**3,57**	**12,64**	**12,44**	**2,69**	**2,89**	**10,13**	**10,70**	**3,12**	**2,88**	**11,07**	**10,09**
Max	**9,3**	**9,06**	**14,4**	**14,6**	**2,4**	**3,04**	**18,03**	**22,23**	**20,25**	**21,43**	**13,28**	**13,61**	**6,05**	**6,16**	**13,88**	**14,04**	**98,98**	**68,69**	**45,65**	**45,79**	**12,32**	**12,39**	**20,78**	**20,05**

2010				2011				2012				2013				2014				2015				2016			
Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs	Roa cas	Roa ifrs	Roe cas	Roe ifrs
2,05	**1,83**	**6,05**	**5,32**	**0,92**	**0,80**	**2,35**	**1,98**	**3,79**	**3,51**			**2,23**	**2,20**			**2,40**	**2,43**			**4,23**	**4,38**			**4,56**	**4,56**		
21,70	**21,70**	**29,87**	**29,82**	**25,85**	**26,06**	**15,95**	**14,61**	**18,68**	**18,8**	**10,07**	**9,43**	**16,77**	**16,84**	**6,33**	**6,28**	**17,8**	**17,86**	**7,1**	**7,24**	**18,0**	**18,09**	**10,84**	**11,2**	**18,5**	**18,53**	**10,15**	**10,16**

Source: elaborated by the author.

Table 7.1: Liquidity Ratios

	2004				2005				2006				2007				2008				2009			
	CASH R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS	CURRE NT R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS	CURRE NT R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS	CURRE NT R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS	CURRE NT R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS	CURRE NT R. CAS	CASH R. IFRS	CASH CAS	CURRE NT R. IERS
Min	**0,10**	**0,10**	**0,31**	**0,24**			**0,23**	**0,22**	**0,05**	**0,06**	**0,19**	**0,17**	**0,05**	**0,09**	**0,21**	**0,21**	**0,05**	**0,07**	**0,22**	**0,24**	**0,09**	**0,07**	**0,20**	**0,23**
Max	**0,16**	**0,14**	**0,62**	**0,58**	**0,06**	**0,09**	**0,55**	**0,52**	**0,13**	**0,12**	**0,52**	**0,50**	**0,25**	**0,23**	**0,61**	**0,59**	**0,11**	**0,11**	**0,39**	**0,38**	**0,10**	**0,09**	**0,39**	**0,41**

2010				2011				2012				2013				2014				2015				2016			
CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CUREEN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS	CASH R. CAS	CASH R. IFRS	CURREN T R. CAS	CURREN T R. IFRS
0,12	**0,11**	**0,36**	**0,38**	**0,09**	**0,09**																						
0,30	**0,27**	**0,41**	**0,44**	**0,27**	**0,25**	**0,37**	**0,38**	**0,20**	**0,20**	**0,37**	**0,38**	**0,22**	**0,21**	**0,37**	**0,37**	**0,15**	**0,14**	**0,36**	**0,37**	**0,16**	**0,14**	**0,39**	**0,40**	**0,11**	**0,11**	**0,30**	

Source: elaborated by the author.

Table 7.2: Solvency Ratio

	2004		2005		2006		2007		2008		2009	
	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS
Min	**0,43**	**0,46**			**0,85**	**0,72**	**0,80**	**0,78**	**1,72**	**1,76**	**1,82**	**1,73**
Max	**1,76**	**2,04**	**2,70**	**2,21**	**2,21**	**2,03**	**1,71**	**1,67**	**1,77**	**1,82**	**1,91**	**1,91**

2010		2011		2012		2013		2014		2015		2016	
GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS	GEARING RATIO CAS	GEARING RATIO IFRS
1,36	**1,31**	**1,31**	**1,33**										
1,95	**1,57**	**1,57**	**1,70**	**1,41**	**1,45**	**1,34**	**1,35**	**1,49**	**1,49**	**1,45**	**1,45**	**1,10**	**1,09**

Source: elaborated by the author

ACCOUNTING GLOSSARY:会计字汇

English word	Chinese translation	Pinyin
Account	(1)帐; 帐户, (2)科目, (3)客帐	(1) zhàng; zhànghù, (2) kēmù, (3) kè zhàng
account executive	客户主任;户口主任	Kèhù zhǔrèn; hùkǒu zhǔrèn
account form	帐户式	Zhànghù shì
account payee only	只限存入抬头人帐户; 只可转帐	Zhǐ xiàn cún rù táitóu rén zhànghù; zhǐ kě zhuǎnzhàng
account sales	承销清单;销货清单	Chéngxiāo qīngdān; xiāo huò qīngdān
Accountability	责任承担	Zérèn chéngdān
Accountant	会计人员;会计主任;会计师	kuàijì rényuán; kuàijì zhǔrèn; kuàijìshī
accounting assumption	会计假定	Kuàijì jiǎdìng
accounting base	会计基础	kuàijì jīchǔ
accounting concept	会计观念; 会计概念	kuàijì guānniàn; kuàijì gàiniàn
accounting control	会计牵制; 会计统制;会计管理	kuàijì qiānzhì; kuàijì tǒngzhì; kuàijì guǎnlǐ
accounting convention	会计惯例	kuàijì guànlì
accounting cycle	会计循环	kuàijì xúnhuán
accounting element	会计要素	kuàijì yàosù
accounting entità	会计个体	kuàijì gètǐ
accounting equation	会计等式	kuàijì děng shì
accounting error	会计错误	kuàijì cuòwù
accounting framework	会计架构	kuàijì jiàgòu
accounting information system	会计资讯系统	kuàijì zīxùn xìtǒng
accounting period	会计期间; 会计结算期	kuàijì qíjiān; kuàijì jiésuàn qī
accounting policy	会计政策	kuàijì zhèngcè
accounting principles	(1)会计原则, (2)会计原理	(1) kuàijì yuánzé, (2) kuàijì yuánlǐ
accounting procedure	会计程序	kuàijì chéngxù
accounting quality	会计质量	kuàijì zhìliàng
accounting rate of return	会计报酬率	Kuàijì bàochóu lǜ
accounting ratio	会计比率	kuàijì bǐlǜ
accounting record	会计记录	kuàijì jìlù

accounting report	会计报告	kuàijì bàogào
accounting standards	会计准则	kuàijì zhǔnzé
accounting statement	会计报表	kuàijì bàobiǎo
accounting system	会计制度	kuàijì zhìdù
accounting theory	会计理论	kuàijì lǐlùn
accounting transaction	会计事项；帐务交易	kuàijì shìxiàng; zhàng wù jiāoyì
accounting year	会计年度	kuàijì niándù
accounts payable	應付帳款	yìngfù zhàng kuǎn
accounts payable turnover	应付帐款周转率	yìngfù zhàng kuǎn zhōuzhuǎn lǜ
accounts receivable	应收帐款	yīng shōu zhàng kuǎn
accounts receivable turnover	应收帐款周转率	yīng shōu zhàng kuǎn zhōuzhuǎn lǜ
accrual accounting	应计会计	yīng jì kuàijì
accrual concept	应计观念	yīng jì guānniàn
accrual date	应收日；应付日	yīng shōu rì; yìngfù rì
accruals	应计项目	yīng jì xiàngmù
accrued asset	应计资产	yīng jì zīchǎn
accrued basis	应计基础	yīng jì jīchǔ
accrued depreciation	应计折旧	yīng jì zhéjiù
accrued dividend	应计股息	yīng jì gǔxí
accrued expense	应计费用	yīng jì fèiyòng
accrued income	应计收益	yīng jì shōuyì
accrued item	应计项目	yīng jì xiàngmù
accumulated dividend	累積股息	lěijī gǔxí
accumulated fund	累积基金	lěijī jījīn
achievement test	成就测试	chéngjiù cèshì
acid test	酸性测试	suānxìng cèshì
acquisition accounting	收购会计法	shōugòu kuàijì fǎ
acid test ratio	酸性测试比率	suānxìng cèshì bǐlǜ
acquisition cost	取得成本；购入成本；购置成本	qǔdé chéngběn; gòu rù chéngběn; gòuzhì chéngběn
adequate disclosure	充份表露；充份披露	chōng fèn biǎolù; chōng fèn pīlù
advertising	广告	Guǎnggào
annual audit	周年核数	zhōunián hé shù
annual report	年报	Niánbào

annual return	(1)周年回报，（2）年报，（3）年收益率	(1) zhōunián huíbào,(2) niánbào,(3) nián shōuyì lǜ
Appraisal	评价	Píngjià
Asset	资产	Zīchǎn
asset turnover	资产周转率	zīchǎn zhōuzhuǎn lǜ
associated company	联营公司	liányíng gōngsī
attributable profit	可归属**利润**	kě guīshǔ lìrùn
Auction	拍卖	Pāimài
Audit	查核；核数；审计	cháhé; hé shù; shěnjì
audit committee	核数委员会；审计委员会	hé shù wěiyuánhuì; shěnjì wěiyuánhuì
auditor's remuneration	核数师酬金	hé shù shī chóujīn
auditor's report	核数师报告	hé shù shī bàogào
balance of payments	国际收支差额；国际收支平衡	guójì shōu zhī chāi é; guójì shōu zhī pínghéng
balance sheet	资产负债表	zīchǎn fùzhài biǎo
bankruptcy	破产	Pòchǎn
book inventory	帐面存货	zhàng miàn cúnhuò
book of original entry	原始分录簿；原始计录簿	yuánshǐ fēn lù bù; yuánshǐ jì lù bù
bookkeeping cycle	簿记循环	bùjì xúnhuán
business behavior	商业行为	shāngyè xíngwéi
business enterprise	企业机构	qǐyè jīgòu
business entity	企业个体	qǐyè gètǐ
business environment	营商环境	yíng shāng huánjìng
business ethics	商业道德	shāngyè dàodé
business information	商业资讯	shāngyè zīxùn
calendar year	历年	Lìnián
Capital	资金；资本	zījīn; zīběn
capital allowance	投资补贴；资本资产税务折旧扣减	tóuzī bǔtiē; zīběn zīchǎn shuìwù zhéjiù kòu jiǎn
capital deficiency	资本亏绌	zīběn kuī chù
capital expenditure	资本支出；资本开支	zīběn zhīchū; zīběn kāizhī
capital gain	资本利得；资本增值；资本增益	zīběn lìdé; zīběn zēngzhí; zīběn zēngyì
capital gearing	资本与负债比率；资金借贷	zīběn yǔ fùzhài bǐlǜ; zījīn jièdài bǐlǜ

	比率	
capital goods	资本物品	zīběn wùpǐn
cash accounting	现金会计	xiànjīn kuàijì
cash dividend	现金股息	xiànjīn gǔxí
cash flow	现金流转；现金流量	xiànjīn liúzhuàn; xiànjīn liúliàng
Chief Executive Officer (CEO)	行政总裁	xíngzhèng zǒngcái
commodity	商品	Shāngpǐn
company	公司	Gōngsī
company accounts	公司会计	gōngsī kuàijì
comparability	可比性	kěbǐ xìng
comparative advantage	比较优势	bǐjiào yōushì
comparative balance sheet	比较资产负债表	bǐjiào zīchǎn fùzhài biǎo
comparative statement	比较报表	bǐjiào bàobiǎo
completed transaction	完整会计事项	wánzhěng kuàijì shìxiàng
completeness	完整	Wánzhěng
conciseness	简明	Jiǎnmíng
concreteness	具体	Jùtǐ
consistency	一贯性；一致性；一贯原则	yīguàn xìng; yīzhì xìng; yīguàn yuánzé
consolidated balance sheet	综合资产负债表	zònghé zīchǎn fùzhài biǎo
consolidated financial statement	综合财务报告表；综合财务报表	zònghé cáiwù bàogào biǎo; zònghé cáiwù bàobiǎo
consolidated income statement	综合损益表	zònghé sǔnyì biǎo
corporate governance	公司管治	gōngsī guǎn zhì
corporate social responsibility	企业社会责任	qǐyè shèhuì zérèn
corporation tax	公司税	gōngsī shuì
cost	成本	Chéngběn
cost accounting	成本会计	chéngběn kuàijì
cost allocation	成本分配	chéngběn fēnpèi
cost of goods sold	销货成本；销售成本	xiāo huò chéngběn; xiāoshòu chéngběn
cost of sales	销货成本	xiāo huò chéngběn
cost-volume-profit analysis	本量利分析法	běn liàng lì fēnxī fǎ
credit	(1）贷方,（2）贷项,（3）贷记，（4）贷入，（5）赊账（6）信用；信贷	(1) dàifāng,(2) dài xiàng,(3) dài jì,(4) dài rù,(5) shēzhàng (6) xìnyòng; xìndài
currency	货币	Huòbì

current asset	流动资产	liúdòng zīchǎn
current cost accounting	现时成本会计	xiànshí chéngběn kuàijì
current investment	短期投资	duǎnqí tóuzī
current liability	流动负债；短期负债	liúdòng fùzhài; duǎnqí fùzhài
data collection method	数据搜集方法	shùjù sōují fāngfǎ
date of acquisition	购置日期；取得日期	gòuzhì rìqí; qǔdé rìqí
Debit	（1）借方,（2）借项,（3）借记,（4）借入	(1) jièfāng, (2) jiè xiàng, (3) jiè jì, (4) jièrù
debt capital	借人资本	jiè rén zīběn
debt ratio	债務比率	zhàiwù bǐlǜ
debt-equity ratio	债务与资本比率	zhàiwù yǔ zīběn bǐlǜ
decision making	决策；决定	juécè; juédìng
Declaration	（1）公布；声明；宣布,（2）申报	(1) gōngbù; shēngmíng; xuānbù, (2) shēnbào
declared dividend	已宣布股利	yǐ xuānbù gǔlì
distribution expense	分销费用	fēnxiāo fèiyòng
disclosure requirement	表露要求；披露要求	biǎolù yāoqiú; pīlù yāoqiú
Dividend	股息	Gǔxí
document against payment	付款交单	fùkuǎn jiāo dān
double-entry bookkeeping	复式簿记	fùshì bùjì
Earnings	收益；盈利	shōuyì; yínglì
earnings management	收益管理	shōuyì guǎnlǐ
economies of scale	规模经济	guīmó jīngjì
Enterprise	企业	Qǐyè
entity concept	个体观念	gètǐ guānniàn
equity	（1）产权；主权；权益（2）股本; 股权；股票	(1) chǎnquán; zhǔquán; quányì (2) gǔběn; gǔquán; gǔpiào
external audit	独立审计	dúlì shěnjì
fair value	公允价值	gōngyǔn jiàzhí
fictitious asset	虚设资产	xūshè zīchǎn
financial accounting	财务会计	cáiwù kuàijì
financial ratio	财务比率	cáiwù bǐlǜ
financial report	财务报告	cáiwù bàogào

financial reporting	财务申报	cáiwù shēnbào
financial situation	财务状况	cáiwù zhuàngkuàng
financial statement	财务报表	cáiwù bàobiǎo
financial year	会计年度；财政年度	kuàijì niándù; cáizhèng niándù
firm	商号；商行；企业	shānghào; shāngháng; qǐyè
First-In First-Out (FIFO)	先进先出法	xiānjìn xiān chū fǎ
fiscal period	会计期间；财政期间	kuàijì qíjiān; cáizhèng qíjiān
fiscal year	财政年度；会计年度	cáizhèng niándù; kuàijì niándù
fixed asset	固定资产	gùdìng zīchǎn
fixed cost	固定成本	gùdìng chéngběn
fixed liability	固定负债	gùdìng fùzhài
foreign currency	外币	Wàibì
foreign exchange	外汇	Wàihuì
foreign exchange market	外汇市场	wàihuì shìchǎng
fraud	舞弊；欺诈	wǔbì; qīzhà
full disclosure	充份披露；全面披露；充份表露；充份透露；充份表达	chōng fèn pīlù; quánmiàn pīlù; chōng fèn biǎolù; chōng fèn tòulù; chōng fèn biǎodá
fundamental accounting concept	基本会计概念	jīběn kuàijì gàiniàn
gain	盈馀；利得	yíngyú; lìdé
gearing	资本借贷作用；资本杠杆作用；杠杆比率	zīběn jièdài zuòyòng; zīběn gànggǎn zuòyòng; gànggǎn bǐlǜ
gearing ratio	资本与负债比率；资本借贷比率	zīběn yǔ fùzhài bǐlǜ; zīběn jièdài bǐlǜ
General Agreement on Tariffs and Trade (GATT)	关税及贸易总协定	guānshuì jí màoyì zǒng xiédìng
Generally Accepted Accounting Principles (GAAP)	公认会计原则	gōngrèn kuàijì yuánzé
going concern	继续经营	jìxù jīngyíng
gross	总；毛	zǒng; máo
gross loss	毛损	máo sǔn
gross profit	毛利	Máolì
gross profit ratio	毛利率	máo lìlǜ
gross revenue	总收入；总收益	zǒng shōurù; zǒng shōuyì
gross sales	销货总额	xiāo huò zǒng'é

heterogeneity	异质性	yì zhí xìng
holding company	股权公司；控股公司	gǔquán gōngsī; kònggǔ gōngsī
Hong Kong Financial Reporting Standards (HKFRS)	香港财务报告准则	xiānggǎng cáiwù bàogào zhǔnzé
Hong Kong Index	香港指数	xiānggǎng zhǐshù
Hong Kong Statement of Standards and Accounting Practice (HKSSAP)	香港会计实务准则	xiānggǎng kuàijì shíwu zhǔnzé
horizontal analysis of statement	财务报表横的分析	cáiwù bàobiǎo héng de fēnxī
Income	收益；收入	shōuyì; shōurù
income and expense	收益及费用	shōuyì jí fèiyòng
income in advance	预收收益	yùshōu shōuyì
income statement	收益表；损益表	shōuyì biǎo; sǔnyì biǎo
income tax	所得税；入息税	suǒdéshuì; rù xi shuì
information management	信息管理	xìnxī guǎnlǐ
insurance	保险	Bǎoxiǎn
interim closing	**中期结账**	zhōngqí jiézhàng
interim dividend	**中期**股息	zhōngqí gǔxí
interim report	**中期报告**	zhōngqí bàogào
intangible asset	无形资产	wúxíng zīchǎn
internal audit	内部审计	nèibù shěnjì
inventory	存货	Cúnhuò
inventory cost	存货成本	cúnhuò chéngběn
inventory turnover	存货周转；存货流转率	cúnhuò zhōuzhuǎn; cúnhuò liúzhuàn lǜ
invested capital	投入资本	tóurù zīběn
Investment	投资	Tóuzī
joint venture	合营企业；合营项目；联合短期投资；短期合营	héyíng qǐyè; héyíng xiàngmù; liánhé duǎnqí tóuzī; duǎnqí héyíng
journal entry	日记分录	rìjì fēn lù
journalize	分录	fēn lù
Last-In First-Out (LIFO)	后进先出法	hòujìn xiān chū fǎ
Liability	(1）负债；债务,（2）责任	(1) fùzhài; zhàiwù,(2) zérèn
limited company	**有限公司**	yǒuxiàn gōngsī

liquid asset	速动资产；流动资产	sù dòng zīchǎn; liúdòng zīchǎn
Liquidity	流动性；变现性；变现能力	liúdòng xìng; biànxiàn xìng; biànxiàn nénglì
liquidity ratio	“速动比率；流动资金比率；流动资产比率“	sù dòng bǐlǜ; liúdòng zījīn bǐlǜ; liúdòng zīchǎn bǐlǜ
listed company	上市公司	shàngshì gōngsī
listing requirement	上市条件	shàngshì tiáojiàn
long-term liability	长期负债	chángqí fùzhài
loss	损失；亏蚀	sǔnshī; kuīshí
loss ratio	损失比率	sǔnshī bǐlǜ
management accounting	管理会计	guǎnlǐ kuàijì
manipulation of data	操纵信息	cāozòng xìnxī
mean	**中数**	zhōng shù
multinational corporation	跨国公司；多国公司	kuàguó gōngsī; duōguó gōngsī
net	净价	jìng jià
net asset	帐面净值；净资产	zhàng miàn jìngzhí; jìng zīchǎn
net current asset	流动资产净值	liúdòng zīchǎn jìngzhí
net income	净利益；净收益；净利；纯利	jìnglìyì; jìng shōuyì; jìnglì; chúnlì
net loss	**净损失**	jìng sǔnshī
net profit	纯利；净利	chúnlì; jìng lì
net sales	销货净額	xiāo huò jìng é
non-operating	**非营业**	fēi yíngyè
office equipment	办公室设备	bàngōngshì shèbèi
on account	赊账	shēzhàng
open account	**欠账**	qiàn zhàng
operating expense	营业费用	yíngyè fèiyòng
operating income	营业收益	yíngyè shōuyì
operating ratio	营业比率	yíngyè bǐlǜ
owner's equity	（1）资本主权,（2）业主权益；所	(1) zīběn zhǔquán,(2) yèzhǔ quányì; suǒ
ownership	所有权；拥有权	suǒyǒuquán; yǒngyǒu quán
payable	应付	Yìngfù
payment	支付；付款	zhīfù; fùkuǎn

payment on account	(1）定金；预缴付款,（2）供款	(1) dìngjīn; yù jiǎo fùkuǎn,(2) gōng kuǎn
post-acquisition profit or loss	**收后损益**	shōu hòu sǔnyì
pre-acquisition profit or loss	**收后前损益**	shōu hòu qián sǔnyì
prepaid expense	预付费用	yùfù fèi yòng
prepayment	预付项目	yùfù xiàngmù
profit and loss account	损益帐；损益表	sǔnyì zhàng; sǔnyì biǎo
profit and loss appropriation account	损益分配帐	sǔnyì fēnpèi zhàng
profit margin	利润率；利润幅度	lìrùn lǜ; lìrùn fúdù
Profitability	盈利能力；盈利水平	yínglì nénglì; yínglì shuǐpíng
profitability ratio	盈利能力比率	yínglì nénglì bǐlǜ
public limited company	**公共有限公司**	gōnggòng yǒuxiàn gōngsī
qualified opinion	保留意见、限定意见（审计）	bǎoliú yìjiàn, xiàndìng yìjiàn (shěnjì)
qualitative research	定性研究	dìngxìng yánjiū
quantitative research	定量研究	dìngliàng yánjiū
quality control	质量控制；质量控制	zhìliàng kòngzhì; zhìliàng kòngzhì
Quotation	报价；报价单	bàojià; bàojià dān
Ratio	*比率*	Bǐlǜ
ratio analysis	*比率分析*	bǐlǜ fēnxī
registered bond	记名债券	jìmíng zhàiquàn
registered capital	*注册资本；注册股本；法定股*	zhùcè zīběn; zhùcè gǔběn; fǎdìng gǔ
Registration of Companies	**公司注册**	gōngsī zhùcè
Regulatory Body	**监管体制**	jiānguǎn tǐzhì
Reliability	可靠性；**信度**；**可靠程度**	kěkào xìng; xìn dù; kěkào chéngdù
report form	报告书	bàogào shū
Reserve	**公积金**	Gōngjījīn
retained earnings	**保留盈余**	bǎoliú yíng yú
retained profit	**留存利润**	liúcún lìrùn
Return On Capital Employed	**动用资金报酬率**；**运用资金**	dòngyòng zījīn bàochóu lǜ; yùnyòng

(ROCE)	报酬率	zījīn bàochóu lǜ
return on investment	投资回报率	tóuzī huíbào lǜ
Revaluation	重估价值重估	zhòng gū jiàzhí zhòng gū
revaluation reserve	重估准备；估值准备	zhòng gū zhǔnbèi; gū zhí zhǔnbèi
Revenue	收益；收入；营业收入	shōuyì; shōurù; yíngyè shōurù
revenue reserve	收入准备；收益准备	shōurù zhǔnbèi; shōuyì zhǔnbèi
revenue statement	收益表	shōuyì biǎo
savings account	储蓄账户	chúxù zhànghù
Share	(1)股份，(2)股票	(1) gǔfèn, (2) gǔpiào
share capital	股本	Gǔběn
Shareholder	股東	Gǔdōng
short-term capital	短期资本；短期资金	duǎnqí zīběn; duǎnqí zījīn
short-term liability	短期负债	duǎnqí fùzhài
short-term loan	短期贷款	duǎnqí dàikuǎn
single-entry bookkeeping	单式簿记	dān shì bùjì
Small and Medium Enterprise (SME)	中小型企业	zhōng xiǎoxíng qǐyè
social cost	社会成本；公损；社会代价	shèhuì chéngběn; gōng sǔn; shèhuì dàijià
solvency	偿债能力	cháng zhài nénglì
stakeholder	持分者	chífēn zhě
statement of account	(1)会计帐目，(2)结单	(1) kuàijì zhàng mù,(2) jié dān
statement of affairs	资产负债表；清理式资产负债表；财产状况证明书；资产负债状况说明书	zīchǎn fùzhài biǎo; qīnglǐ shì zīchǎn fùzhài biǎo; cáichǎn zhuàngkuàng zhèngmíng shū; zīchǎn fùzhài zhuàngkuàng shuōmíngshū
statement of changes in financial position	财务状况变动表	cáiwù zhuàngkuàng luán dòng biǎo

state owned enterprises (mainland China)	*国有企业（中国内地)*	guóyǒu qǐyè (zhōngguó nèidì)
stock exchange	股票交易所	gǔpiào jiāoyì suǒ
Stock Exchange of Hong Kong Limited, The (SEHK)	香港联合交易所	xiānggǎng liánhé jiāoyì suǒ
stock market	股票市場；股票市場	gǔpiào shìchǎng; gǔpiào shìchǎng
stockholder	股東	Gǔdōng
subsidiary account	补助分类帐户；明细分类帐户	bǔzhù fēnlèi chàng hù; míngxì fēnlèi chàng hù
subsidiary company	附属公司；子公司	fùshǔ gōngsī; zǐ gōngsī
substance over form	实质重於形式	shízhì zhòng yú xíngshì
supervisor	监督	jiāndū
T account	T 字帐	T zìzhàng
true and fair view	*真确及公正意見*	zhēnquè jí gōngzhèng yìjiàn
tangible asset	有形资产	yǒuxíng zīchǎn
total account	总账户	zǒng zhànghù
total assets turnover	总资产周转率	zǒng zīchǎn zhōuzhuǎn lǜ
trade union	工会	gōnghuì
trial balance	试算表	shì suàn biǎo
trustworthiness	可信赖性	
Turnover	周轉	zhōuzhuǎn
unclaimed dividend	未領股利	wèi lǐng gǔlì
undistributed profit	未分派之盈利；未分派利润	wèi fēnpài zhī yínglì; wèi fēnpài lìrùn
unearned income	递延收益；預收收益	dì yán shōuyì; yùshōu shōuyì
unit cost	单位成本	dānwèi chéngběn
unpaid dividend	未付股利	wèi fù gǔlì
valuation account	计价账户	jìjià zhànghù

variable cost	可弯成本	kě wān chéngběn
variable costing	弯动成本法	wān dòng chéngběn fǎ
Verifiability	可验证性	kě yànzhèng xìng
working capital	营运资金；周轉資金；流动资金	yíngyùn zījīn; zhōuzhuǎn zījīn; liúdòng zījīn
working capital ratio	营运资金比率	yíngyùn zījīn bǐlǜ
World Trade Organization (WTO)	世界貿易组织	shìjiè màoyì zǔzhī
year-end adjustment	年终调整	niánzhōng tiáozhěng
year-end dividend	年终股利	niánzhōng gǔlì

Source: elaborated by the author.

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