

中国会计研究
**Accounting Research
in China**

Accounting Society of China
中国会计学会

-
- *What determines the earnings gap in China's A- and B-share dual-reporting:
Accounting standards or professional judgement?*
 - *Regulatory propensity toward auditor liability in audit failures:
An empirical analysis*
 - *To whom do companies' dividend policies cater?
Empirical evidence from listed Chinese companies*
 - *Chinese accounting standards system:
Structure, international convergence and equivalence*

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中国会计研究

Accounting Research in China

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Editorial: *Accounting Research in China*

Consulting Editors and Joint Editors

Accounting research in China has flourished over the last few decades, in large part due to major developments including economic reform and marketization. Improvements in the quality of Chinese accounting research have been further facilitated by the evolution from unitary theory and methodology to engagement of a variety of theories and rigorous research methodologies, some of which have been borrowed from developed economies. International scholars should be well aware of the now vast literature on China in the fields of accounting and finance published in English, a literature noted for its variety, thoroughness and scholarship. However, they likely face a language barrier in accessing the voluminous and rich literature published only in Chinese.

The launch of *Accounting Research in China* is an effort by the Accounting Society of China to enhance overall understanding of the developments in accounting theory and practice in China. This new journal will publish annually English translations of a selection of research studies published very recently in Chinese. In addition to increasing the accessibility of scholarly accounting research published in Chinese, *Accounting Research in China* will provide a channel for exchanges between Chinese and international academics.

Initially, the journal will be published once a year, moving to multiple issues per year as the journal matures. Papers in the early issues will be selected from those already published in *Accounting Research* (Chinese), a leading Chinese journal edited by the Accounting Society of China and published monthly. In the medium and long term, the journal will accept direct submissions, with special preference for international comparative studies. We also plan to introduce some novel features, such as creating a Debating Forum section to solicit new papers on issues of major current interest.

We have great pleasure in presenting the first issue of the new journal. It contains four papers selected from the 2006 and 2007 issues of *Accounting Research*. Before introducing these papers, we would like to draw readers' attention to a number of features pertaining to accounting research published in Chinese.

While most of the papers in this volume, and indeed most of the recent published accounting research in Chinese, draw heavily on Western theories and methods, there

are some crucial differences in the *style* of reporting. In part, this has come about as a consequence of the Chinese journals' editorial demands. In the specific case of *Accounting Research*, the journal has set a ceiling on the number of words per manuscript that is significantly lower than that employed by most journals published in English. In part, the differences are due to Chinese and Western writing styles. Thus to readers of English papers, the Chinese papers translated and reproduced in this volume may appear to be unnecessarily brief in various areas, such as articulating the motivation of the research, describing sampling procedures and demographics, discussing robustness tests, or making connections to the extant literature. In many cases, authors would have attended to these issues but not reported them in their manuscripts.

Another issue relates to how the manuscripts contained in this volume were selected. The process followed was to ask a panel of editorial board members for *Accounting Research* to nominate the best and most representative papers published in *Accounting Research* during 2006—2007 (the 2008 volume was not available at that stage). The Editors of *Accounting Research in China* provided guidelines concerning such aspects as originality, topicality, and sub-discipline. From this pool of nominated papers, the Editors selected the final manuscripts to be translated for this volume. We do not wish to claim that these are the only good papers in *Accounting Research*, but we do believe that they are among the best papers published in the Chinese journal. To mark this point, we also provide a list of the titles of other significant papers at the end of the volume.

Now let's focus on the papers published in this volume.

While the role of professional judgement in the quality of accounting information has been much debated over rules-based versus principles-based accounting standards in the recent accounting literature, direct empirical evidence on this is rare (ICAS, 2006). Wang and Liu (2009) represent a fresh attempt to help fill in this gap. They use dual-listed firms that are required to disclose earnings under both Chinese Accounting Standards (CAS) and International Accounting Standards (IAS) to examine whether differences in accounting standards or differences in professional judgement caused the earnings gap between the two reporting regimes during 1998—2000. They find that professional judgment rather than accounting standards drove the earnings gap and argue that their findings support the conjecture that IAS per se do not necessarily improve accounting information quality (Ball, Robin, and Wu, 2003). While such a finding has important policy implications, it also raises theoretical and methodological issues such as what constitutes professional judgement, how professional judgement can be measured empirically, and how the influence of accounting standards and professional judgement on the quality of accounting information can be separated.

Wu (2009) documents a trend of relaxing regulatory enforcement against auditors

involved in financial audit failures: auditors were held liable in 88.2 percent and 23.6 percent of audit failure cases in the periods of 1999—2002 and 2003—2006 respectively and they were found to be liable for an average of 82.7 percent and 41.2 percent of accused fraudulent misconducts in the periods 1999—2002 and 2003—2006 respectively. He observes that the pressure on auditor liability has been diverted by a change in the regulatory focus from equity offering regulations to regulations of continuous information disclosure and an increasing reinforcement in the corporate management liability as well as corporate governance. This change has several implications. For the auditing profession, it appears to contribute toward a more favourable audit environment. A less harsh environment may be necessary to foster the development of the young Chinese profession. On the other hand, it could breed misconducts by some auditors who seek to take advantage of such a relaxed regulatory enforcement. The audit profession should have learned a lesson from the recent international financial scandals, particularly, the Arthur Anderson saga which shows that the whole audit profession could suffer from the misconduct of a single audit firm. For regulators and enforcers who have to balance auditor liability and management accountability, such a change has to be constantly monitored in case the trend of loosening regulatory enforcement goes too far. For users of accounting information, the regulatory change may have contributed toward an increased suspicion of audit quality in China. Apart from practical implications, the findings raise several questions for future research, for example, how does such a regulatory propensity affect audit quality, auditor behavior and users' perception of audit quality? How does the current level of regulatory sanction in China compare with that in other countries? What factors affect regulators and enforcers' decisions in relaxing or tightening up regulatory enforcement?

Catering theory has emerged as a popular alternative theory on dividend policy. Building upon this theory, Huang and Shen (2009) argue that in China, where many listed companies have a highly concentrated ownership structure, dividend policies are likely to reflect only the preferences of large shareholders. Using a sample of listed companies in China between 1994 and 2005, they find strong evidence in support of the impact of ownership structure on setting corporate dividend policy. While such a finding is interesting, it is even more important to find out why ownership structure affects shareholder preferences and then corporate dividend policy. In addition, it is of interest to find out why many more listed Chinese firms issue stock dividends compared to companies elsewhere (e.g., the USA and the UK). Also adopting catering theory, Wei and Xiao (2009) attempt to address these questions. Using data of listed Chinese firms from 1995 to 2006, they find that tradability and asymmetrical taxation are important institutional factors that affect shareholder preferences for the type and level of dividends. Spe-

cifically, they find that the cash dividend level is significantly and positively related to the proportion of non-publicly tradable shares and this relation is mainly driven by legal person shareholders' preferences for cash dividends. In contrast, the stock dividend level is significantly and positively associated with the proportion of publicly tradable shares, reflecting the preference for stock dividends by the holders of publicly tradable shares.

As this journal seeks to provide a forum for policy makers and regulators to debate the most critical accounting issues relating to China, we include a paper by Dr. Yuting Liu, Director-General of the Department of Accounting Administration, Ministry of Finance, on the Chinese approach to the adoption of International Financial Reporting Standards (IFRS). In his opinion, the new Chinese Accounting Standards system (CAS) issued in 2006, effective from 1 January 2007, is based on an integration of the experience of Chinese accounting reforms and IFRS. Liu argues that this approach is adopted to suit the needs of Chinese economic development and the new system has achieved a substantial convergence with IFRS with differences existing in relation to a few issues. The large scale de jure convergence is likely to benefit Chinese firms seeking international finance as well as international investors or business partners who invest in China or trade with Chinese firms. However, while such regulatory developments are encouraging, it remains to be evaluated whether the new standards will lead to improved quality of accounting information. It would be interesting to see whether and how the remaining differences between CAS and IFRS can be ironed out. Although Liu is optimistic about the mutual recognition of accounting standards between China and international communities, it remains to be seen whether the latter are readily cognizable of the transitional nature of the Chinese economy and unique culture and the resultant special circumstances that often create different regulatory needs.

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编辑的话:《中国会计研究》*

顾问编辑和主编

随着中国经济体制改革和市场化的推进,中国的会计研究在近十余年来取得了长足的发展。从单一的理论及方法到多样化的理论和方法(其中一部分源于发达的西方国家)的转换提高了中国会计研究的质量。国外学者应当早已知道英文文献中存在大量的关于中国会计与财务的研究,这些研究以多样性、严谨性以及学术性见长。但是,他们在应用以中文发表的大量和丰富的文献时却可能会遇到语言上的障碍。

《中国会计研究》是中国会计学会为促进国际机构和个人更好地了解中国会计理论及实务的发展而采取的一个重要举措。这份新期刊将精选并用英文发表最近刊登在中文期刊上的论文。这不仅有助于海外学者获取中国文献,而且也为中国和海外会计学界的交流提供一个平台。

创办初期,本刊为年刊。随着刊物的成熟,将逐渐增加到每年出版多期。初期的文章来源主要是目前中国会计研究的顶级期刊——中国会计学会主办的《会计研究》。从中长期来看,我们将接受直接投稿,并优先考虑国际比较研究方面的文章。同时,我们也将关注一些新问题,例如,就一些热点难点问题适时开辟专门论坛进行讨论。

我们很高兴向读者献上《中国会计研究》第一期。本期刊登的四篇文章选自2006年和2007年发表在《会计研究》上的论文。在具体介绍这几篇文章之前,我们先向读者说明中文版《会计研究》刊发论文的一些特点。

尽管本期所含的大部分文章和近年来发表的其他中文会计论文在一定程度上近似西方的理论和研究方法,但两者在形式上仍有较大差别。这一方面是由于中文期刊特有的编辑需求所造成的。例如,《会计研究》对投稿文章在篇幅上有严格的限制,其允许的最大篇幅远低于绝大多数英文期刊允许的篇幅。另一方面,这种差异还来源于中西方不同的写作风格。例如,对大多数英文文献的读者来说,本期中的若干文章在一些方面显得过于简要,如对研究动机的陈述、对样本选择过程的描述、对描述性统计数据的表列和分析、对模型稳健性检验结果的分析以及对本文与现有文献的联系等。在许多情况下,作者已经考虑过这些问题,但由于写作风格上的差异,中国学者不倾向于将其报告在正文中。

* 感谢潘妙丽将“编辑的话”从英文译成中文。

另一个需要明确的问题是第一期发表文章的录用过程。首先,《会计研究》的编委会成员推荐 2006—2007 年间在《会计研究》上发表的最好和最具代表性的文章(2008 全年的期刊当时尚未发表)。《中国会计研究》的编辑提出了创新性、热点性及针对性等筛选论文的要求。最后,编辑按此标准从被推荐的文章中选定最终的稿件,并将其翻译成英文。值得注意的是,我们并非说最终被我们刊登的文章就是 2006—2007 年间《会计研究》中仅有的几篇好文章,但我们可以肯定它们是其中关于中国会计问题研究的最好文章之一。为此,我们也在卷末列出了其他重要论文的标题。

接下来,我们将介绍发表在本期的四篇文章。

虽然有关职业判断对会计信息质量的影响这一话题在近年来对会计准则制定的规则导向和原则导向的辩论中引起了不少争议,相关的经验证据仍不多见(ICAS, 2006)。刘峰和王兵(2009)的研究则是填补该研究空白的一个新尝试。他们以同时发行 A、B 股的,需同时按照中国会计准则和国际会计准则提供财务报告的上市公司 1998—2000 年的财务报告为样本,研究究竟是准则的差异还是会计人员职业判断的差异造成了两种报告体制下的盈余差异,结果表明是职业判断而非会计准则导致了报告盈余之间的差异。他们的结果支持了国际会计准则本身并不必然导致会计信息质量提高的假说(Ball, Robin and Wu, 2003)。本文在提供重要政策启示的同时,也提出了一些有待进一步商讨的理论和研究方法上的问题,例如,什么构成职业判断?在实证中如何衡量职业判断?如何区分会计信息质量中的准则因素和职业判断因素?

吴溪(2009)发现在历次的财务审计失败中,监管者对审计师审计责任的认定逐渐趋于缓和。在 1999—2002 年及 2003—2006 年期间有关审计失败的案例中,分别有 88.2% 和 23.6% 的审计师遭到处罚。另外,在这两段期间的虚假陈述事项中,需由审计师承担审计责任的比例分别为 82.7% 和 41.2%。作者发现,有关审计师责任认定的重点已由原来的股票发行转变为强调持续性信息披露、公司管理层的问责以及公司治理上来。这种审计责任认定的转变有以下几个启示:一方面,它为审计师行业提供了一个更为缓和及稳健的职业环境,过于苛刻的外部环境不利于培养中国新兴的审计师行业;另一方面,它却可能导致部分审计师利用管制上的放松进行虚假陈述。整个审计师行业应该从近年来发生的国际性会计丑闻中吸取教训,尤其是,一个安达信事件就使整个审计师行业遭受了前所未有的重创。对政策的制定者和执行者而言,他们必须有效平衡审计师和公司管理层之间的责任,因此需要对这种审计师审计责任认定的转变过程实施监管,以防管制过于放松。对会计信息的使用者而言,有关审计责任认定的变化或许增强了他们近年来对审计质量的怀疑。除上述对实务的启示之外,吴溪(2009)的研究结果也提出了若干值得进一步研究的问题。例如,监管的缓和趋势对审计质量、审计师行为以及报表使用者对审计质量的看法的影响,中国对审计师惩处的程度与其他国家的差异,以及影响监管放松或加强管制的因素等。

股利迎合理论是近年来应用于股利政策研究中的一个比较流行的理论。基于该理论,黄娟娟和沈艺峰(2009)指出,在中国这样一个上市公司所有权结构高度集中的国家,相关的股利政策很可能只是迎合了某些大股东的需求。他们以1994—2005年间的中国上市公司为样本进行研究,结果表明所有权结构的确对公司股利政策有影响。值得我们深思的是,为什么所有权结构会影响股东的偏好并进而影响公司的股利政策?此外,与别的国家(如美国、英国)相比,为什么更多的中国上市公司发放股票股利?对此,一篇可供比较的文章是Wei and Xiao(2009)。同样是基于股利迎合理论,他们试图回答以上两个问题。以1995—2006年间的中国上市公司为样本,他们发现股票可流通性和税收政策是股利发放中出现不同股东对股利的类型和水平有不同偏好的两个重要的制度因素。特别是现金股利的发放高低和非流通股比例显著正相关,而其后的原因则是法人股股东对现金股利的偏好。相反,股票股利的发放高低却和流通股比例显著正相关,体现了流通股股东对股票股利的偏好。

最后,考虑到本期刊创办的宗旨之一是向会计政策的制定者和监管者提供一个认识和讨论有关中国会计问题的平台,我们采用了刘玉廷博士(现任中国财政部会计司司长)有关中国采纳国际财务报告准则情况的一篇文章。刘玉廷指出,2006年颁布并于2007年1月1日起执行的新会计准则是总结中国会计改革实践以及借鉴国际财务报告准则的结果。这种趋同符合中国经济发展的实际需要,除极个别问题尚存一定差异外,新准则体系已实现了同国际财务报告准则的实质性趋同。这种大范围的准则趋同不仅有利于中国企业进行跨国融资,也有利于国际资本投资于中国企业及双方的贸易往来。然而,会计准则的国际趋同固然值得肯定,但新准则的实施是否有助于提高会计信息质量仍有待实证检验。另外,我们认为,研究中国会计准则和国际财务报告准则之间尚存的差异以及能否消除这些差异也同样重要。尽管刘玉廷对相关国家看待中国会计准则与国际财务报告准则趋同问题持较为乐观的态度,但其他国家是否认同中国转型经济的特征、其独特的文化背景以及由此形成的特殊的会计准则制定和实施环境仍然有待时间的检验。

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¹ 本文所引用的英文文献见本文英文版的参考文献。

What Determines the Earnings Gap in China's A- and B-share Dual-reporting: Accounting Standards or Professional Judgment?*

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Abstract In China, nearly 100 firms issue both A-shares and B-shares simultaneously. These dual-listed firms are required to disclose earnings under both Chinese Accounting Standards (CAS) and International Accounting Standards (IAS). It is widely believed that there was only a minimal difference between CAS and IAS during 1998–2000. We examine the earnings gap between the two reporting regimes during that period. Our empirical evidence suggests that professional judgment rather than accounting standards drove the earnings gap. We further analyze the underlying incentives for management to make the biased judgment. The findings support the conjecture raised by Ball (1995) that IAS do not necessarily improve accounting information quality.

Key words Earnings gap, International Accounting Standards, Professional judgment

1. Introduction

According to the International Accounting Standards Committee (IASC hereafter), the predecessor of the International Accounting Standards Board (IASB), the development of International Accounting Standards (IAS) is driven by economic globalization as IAS adoption helps improve the quality of accounting information worldwide (Chen, 1998). However, this view is debatable and empirically contestable. Ball (1995), for example, argues that generally-accepted accounting rules are an integral part of how corporations transact, and the adoption of IAS requires a conducive institutional environment in terms of legal systems, incentive mechanisms and so on. Ball et al. (2003) undertake an empirical test using four Asian economies (i. e. China Hong Kong, Malay-

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sia, Singapore, and Thailand). All of these jurisdictions follow the Anglo-American accounting tradition and IAS, but their corporate managers and auditors face varying reporting incentives. The authors find that the reported earnings in these economies generally lack transparency and also vary in quality. They conclude that adopting IAS does not in itself ensure high transparency.

Since the reintroduction of a capital market in China in the early 1990s, accounting regulation has been changing. The impact of accounting regulation has been the focus of both policy makers and academic researchers. In the 1950s, China adopted a uniform accounting system from the former Soviet Union. In the early 1980s, China partially adopted Anglo-American accounting due to the open-door policy and the emerging market economy. However, it was as late as in 1992 that China introduced its first accounting standards, Accounting Standards for Business Enterprises —Basic Standards. This is regarded as the starting point when China attempted to replace the uniform accounting system by IAS. The first practical accounting standard, Disclosure of Related Parties and their Transactions, was effective in 1997. By the end of 2000, a total of ten accounting standards had been issued. Also, the Ministry of Finance, the Chinese accounting regulators and standards setters, issued *Accounting Regulation for Listed Companies* in 1998 which granted more room for professional judgment by requiring all listed companies to assess and provide for asset impairment (Chen et al., 2002). These standards were generally close to IAS (Feng, 2001).

Can IAS adoption improve the quality of accounting information? Chen et al. (1999) find a significant difference in the profit reported under CAS and that under IAS by B share corporations listed at the Shanghai Stock Exchange from 1994 to 1997, mainly due to the differences between the two sets of standards, opportunistic application of the standards, and extraordinary items. Chen et al. (2002) find that the two sets of accounting standards were mostly identical from 1998 to 1999, but the profit based on the domestic accounting standards was higher than that reported under IAS. The suggested underlying reasons include poor accounting infrastructure, earnings management, and poor audit quality. Based on these findings, they conclude that harmonized accounting standards do not necessarily lead to harmonized accounting practice.

Our paper also examines the impact of accounting standards on the quality of accounting information. Unlike the aforementioned papers which focus on why high quality accounting standards per se cannot generate high quality accounting information and attribute this inability to institutional differences or varying reporting incentives, our paper explores whether professional judgment causes different reported earnings under two sets of similar accounting standards, CAS and IAS. In doing so, we restrict our research to the period between 1998 and 2000 when the domestic accounting standards are consid-

ered a selected translation of IAS.¹ We categorize the sources of earnings gap between A-share report and B-share report into two classes, one arising from professional judgment and the remainder from non-professional judgment, which may be caused by differences in accounting standards or by different macro-economic environments or policies.

We first decompose the earnings gap into specific items. We then classify them into either professional judgment or non-professional judgment. In the third step, we test whether there is a significant discrepancy between the dually reported earnings after excluding the effect of professional judgment. If the gap persists even after the earnings difference caused by professional judgment is excluded, then the earnings gap may be attributed to the difference in the two sets of accounting standards. Otherwise, we may conclude that the earnings gap between the two sets of financial statements is mainly driven by professional judgment, which is consistent with the conjecture of Ball (1995). Our findings tend to support the conjecture that the earnings gap is mainly driven by professional judgment instead of the difference in the two sets of accounting standards.

Our research contributes to the literature in several regards. First, we explore how accounting practice deviates from accounting standards, while the mainstream literature only focuses on why accounting practice departs from accounting standards. Second, we use a single set of firms which prepare two sets of financial statements under domestic accounting standards and IAS respectively. This helps control for the noise of institutional settings. Third, to the extent that our findings are robust, they contribute to the debate on rules-based versus principles-based accounting standards since principles-based standards will permit more room for professional judgment, which, in turn, will result in more varied accounting information quality.

The remainder of the paper is organized into four parts. In Section 2, we discuss the distinction between professional judgment and non-professional judgment. We then group our sample firms' sources of the earnings gap into professional and non-professional judgment and test the difference statistically in Section 3. Section 4 further explores the underlying incentives driving professional judgment and Section 5 concludes the paper.

¹ As mentioned above, by the end of 2000 a total of ten accounting standards had been issued. In most cases, they are identical to their IAS counterparts except for some minor changes including some terms that are considered to be used for featuring Chinese characteristics.

2. Differences in Accounting Standards, Gaps in Reported Earnings and the Role of Professional Judgment

Prior to Ball (1995), the literature on differences in accounting standards merely focused on the standards themselves. For example, comparative accounting research depicts differences in national accounting standards by comparing detailed accounting treatments under different economies (Choi et al., 1999). Ball (1995) suggests that accounting standards are an integral part of how a firm contracts and operates, rather than stand-alone. Therefore, even two identical accounting standards in two different countries may not guarantee that accounting practice will be the same if related infrastructures are different.

The dual-listing and dual-reporting system provides a unique setting to explore the difference in accounting standards and its impact on accounting information quality, or for simplicity, the gap between the two reported earnings. A dual-listed company is mandated to prepare two sets of financial statements following two sets of accounting standards, i. e., CAS for A-share reporting and IAS for B-share reporting respectively. Ball (1995) argues that accounting standards cannot be stand-alone; rather their implementation is affected by related institutions, especially the legal environment. Ball et al. (2003) find that the implementation of IAS in four Asian jurisdictions where the institutions and managerial reporting incentives are different generates non-transparent accounting information with varied quality.

Why do high quality accounting standards not necessarily generate accounting information with high quality? Why do the same accounting standards result in quality-differentiated accounting information? We offer a basic analytical framework here to help answer these questions.

It is widely believed that accounting information should truthfully represent the economic reality of the reporting entity. According to IASC or its successor, IASB, similar or same transactions, no matter where they occur, should be accounted for and reported similarly.² Following this logic, if similar transactions are accounted for in different ways, it must be the accounting standards at the country level that allow different treatments.

Many studies provide empirical evidence to support the view that accounting policy

² At IASB's website, various speeches or news either explicitly express this idea or implicitly imply this idea. For example, Sir Tweedie emphasizes in the Empire Club of Canada in April 25 2008 that *Whether you are in Toronto, Tokyo, Tampa, or Turin, accounting should provide the same answer for the same economic transaction.*