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- *Accounting Standards Reform in China and the Role of Subsidiary Earnings Information in Decision Making*
- *Government Accounting Reform in China: Incentives of Stakeholders and the Impact of the Institutional Environment*
- *Function of Property Rights in Chinese CPA Auditing: Evolution and Extension*
- *An Evaluation of Fair Value Accounting: Towards the Fundamental Characteristics of Financial Accounting*

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Accounting Research in China

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Accounting Research in China
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Editorial

In this editorial, we first make two announcements and then provide a brief introduction to the papers included in this issue.

We regret to report that Professor Mahmoud Ezzamel of Cardiff University has decided to step down from his Consulting Editorship due to his other heavy commitments. During the journal's start-up process as well as during his stint as Consulting Editor, Professor Ezzamel offered valuable advice on numerous policy and procedural issues and shared his rich experience from serving as Joint Editor of *Accounting and Business Research* and as an associate editor or editorial board member for many other renowned accounting and management journals. In particular, he played an important role in the formation of this journal's editorial team and was directly involved in the selection of the papers for its first issue. He will be very much missed. Fortunately, he will continue to undertake research on Chinese accounting issues. We wish him well in his research and other work.

We are also pleased to welcome Professor Mary Barth's joining the journal as a Consulting Editor. Together with Professor Chee Chow, she will provide guidance and advice on important policy, journal standard-setting, and procedural issues. Her academic reputation, achievements and international editorial experience will boost the capacity of the journal and facilitate attaining the journal's aim as a means of exchanges and cooperation between Chinese accounting researchers and their international counterparts and as an outlet for original and significant research on accounting in China and beyond.

Now let us introduce the four papers published in this issue.

While the role of fair value (FV) accounting in the current financial crisis is still being hotly debated (e. g. , Laux and Leuz, 2009, 2010), it is interesting to see a veteran Chinese academic's view on this issue. Ge (2010) argues that FV accounting, as it is currently adopted, is misleading and deceptive although it can be useful for certain purposes. He maintains that FV accounting is problematic even when there is no financial crisis because its current application suffers from two main problems. First, until a transaction occurs, the value derived from FV measurement is hypothetical. Second, as many assets are not FV-measured, the values reported in the financial statements are a mixture of values based on FV and historical cost. He thus proposes that FV information should be reported separately from historical cost-based information.

It is also interesting to contrast Ge's view with the current Chinese regulation and practice relating to FV accounting. FV measurement has been adopted in over 25 of the 38 current Chinese accounting standards, either for initial measurement, subsequent measurement, impairment test, or other uses. However, the number of companies that actually use FV has been limited (e. g. , 25 out of 772 firms that had investment property adopted the FV model in 2009)(MoF, 2010). In most cases, FV is a restricted option in the accounting standards. For example, the FV model may be used if there is clear evidence that the fair value of an investment property can be reliably determined on a continuing basis. As a result, the impact of FV measurement on profit in listed Chinese firms has been reported to be less than one percent (MoF, 2009). In light of these circumstances, the MoF did not follow the IASB in allowing certain financial assets to be reclassified in response to the financial crisis (IASB, 2008; MoF, 2009).

There have been numerous studies of the value relevance of IFRS in the contexts of developed economies (e. g. , Europe, Australia), but there is little reported empirical evidence on this issue in the Chinese context. Lu and Zhang (2010) help to address this gap. Taking advantage of the fact that the adoption of the new Chinese accounting standards issued in 2006 increases the difference between the earnings of the parent company and the consolidated earnings of the group, Lu and Zhang (2010) hypothesize and find evidence that the difference between the two earnings figures provides no incremental information before the adoption, but it does after the adoption. This suggests that the new accounting standards enhance the value relevance of accounting information. In addition, the study demonstrates that the retained earnings of subsidiaries contained in the consolidated earnings but not in the parent firm's earnings actually provide incremental information and that the adoption of the cost method in parent firm statements for investments in subsidiaries recovers the information loss caused by consolidation techniques.

Zhang, Zhang and Cheng (2010) undertake a questionnaire survey of the stakeholders of government budget accounting and find that both internal and external stakeholders are strongly dissatisfied with the current cash-based budget accounting system. The results indicate a strong desire for improved governmental accounting information. Indeed, most participating stakeholders support the adoption of the accrual basis. This finding confirms the outcome of an earlier study on the same issue (Chen, Deng and Chow, 2005; Chang, Chen and Chow, 2008). The study also reveals the need for considering a range of institutional factors in reforming the Chinese government accounting system.

Zhang and Tang (2010) examine the development of CPA auditing in China since the late 1970s from a property rights perspective. Their study discusses how CPA auditing has emerged and evolved as a response to the demand of marketization. In particular, they find that CPA auditing satisfied a need to define external macroscopic and microscopic property rights. Their study also investigates several changes in the property rights of audit firms themselves, such as the mergers of "accounting firms" and "auditing firms" in the 1990s (Xiao, Zhang and Xie, 2000), the disaffiliation campaign (Yang, Tang, Kilgore and Jiang, 2001), the development of foreign invested audit firms, and cross-border audits by Chinese audit firms. A further area of interest would be to explore how the reforms of audit firms'property rights relate to the protection by audit firms of the property rights of other economic entities.

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中国会计研究
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编辑的话*

在此，我们首先宣布编辑团队的两个重要变化，然后对本期刊发的几篇论文作一个简短的介绍。

我们十分遗憾地告诉大家，卡迪夫大学的 Mahmoud Ezzamel 教授因其他事务繁忙已决定辞去其顾问编辑一职。在本刊的初创阶段，Ezzamel 教授作为顾问编辑，为相关的政策制定和流程设计提出了大量颇具建设性的意见，也与大家分享了他作为 *Accounting and Business Research* 杂志的联合主编以及其他许多知名的会计和管理杂志副主编、编委会成员丰富的工作经历。尤其是他在本刊编辑团队的组建过程中发挥了重要作用，他还亲自参与了第一期杂志的选稿工作。我们感谢他为本刊所作出的贡献。幸运的是，他将继续从事有关中国会计问题的研究，我们祝愿他在以后的研究及其他工作中一切顺利。

同时，我们很高兴地欢迎斯坦福大学的 Mary Barth 教授加入本刊、成为顾问编辑。她将与周齐武教授一起就重要的办刊方针、标准和程序提供指导和咨询。她的学术声誉和成就将有助于本刊的发展，使其成为具有国际影响的中外学术交流平台和发表原创性的、中外会计研究成果的学术期刊。

接下来，我们将介绍一下在本期刊出的四篇文章。

在大家还在热烈地讨论公允价值会计在当前的金融危机中到底扮演了什么样的角色的时候（如，Laux 和 Leuz，2009，2010），了解一位中国权威学者对这一问题的看法是非常有价值的。葛家澍教授（2010）认为，尽管公允价值会计在某些方面确有其存在的意义，但当前对其的应用极具误导性。他表示，即使没有金融危机的发生，公允价值会计本身也是存在问题的，主要表现在以下两个方面。第一，在交易发生前，公允价值计量的结果都是假设性的。第二，由于还有许多资产不是用公允价值计量的，财务报表上的数字就成为以公允价值和历史成本两种计量基础共同得到的混合物。他提出公允价值计量的信息必须从历史成本计量的信息中分离出来，单独报告。

将葛教授的观点与当前中国的公允价值会计制度和实践对比一下也很有意思。在中国现行的 38 项会计准则中，至少有 25 项使用了公允价值计量，应用在初始计量、后续计量、减值测试等方面。但是，真正使用这些准则的公司的数目

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* 感谢邓舒文将《编辑的话》从英文翻译成中文。

却非常有限（如，2009 年拥有投资资产的 772 家公司中，只有 25 家使用了公允价值模型进行计量)(财政部，2010)。多数情况下，会计准则中对公允价值的使用有严格的规定。例如，如果有确切的证据表明一项投资资产的公允价值可以持续准确的计量，才可使用公允价值模型。所以，据估计，公允价值计量对中国上市公司利润的影响不足 1%（财政部，2009)。正是在这种情况下，财政部才不仿效 IASB 的规定允许特定的金融资产因为金融危机的发生而进行重分类（IASB，2008；财政部，2009)。

考察发达经济体（如欧洲、澳大利亚）IFRS 的价值相关性的研究汗牛充栋，但是以中国经济为背景的相关实证证据还非常有限。陆正飞和张会丽（2010）的研究有助于填补这一空白。利用由 2006 年中国新会计准则颁布实施导致母公司利润与合并利润之间差异增大的契机，陆正飞和张会丽（2010）研究并发现证据表明，新准则实施以前，二者之间的差异没有提供增量的信息，而新准则实施之后，二者之间的差异却提供了增量信息。这一发现证明，新会计准则增大了会计信息的价值相关性。另外，本研究还说明了合并报表净利润中已包含但母公司报表净利润中未包含的子公司的留存收益能够提供额外的信息，而母公司对子公司长期股权投资的成本法计量，弥补了合并技术导致的信息损失。

张琦，张象至和程晓佳（2010）对政府预算会计的利益相关者进行了问卷调查，研究发现不管是内部利益相关者还是外部利益相关者都对现行的、以收付实现制为基础的预算会计系统表现出强烈不满，因而对改善政府会计信息寄予厚望。事实上，大多数参与问卷的利益相关者都支持权责发生制的应用。这一发现再次验证了已有文献（陈工孟，邓德强和周齐武，2005；Chang，Chen and Chow，2008)。该文还揭示出中国政府会计系统改革中深入考虑制度因素的必要性。

张立民和唐松华（2010）从产权的角度研究了中国自 20 世纪 70 年代末开始的注册会计师审计的发展。该文讨论了中国注册会计师审计是怎样应市场经济发展的需要而产生并逐步发展壮大的。具体的，他们发现注册会计师审计满足了界定外部宏观和微观产权的需求。该研究也考察了事务所自身产权安排的一些变化，如 20 世纪 90 年代“会计事务所”和“审计事务所”的合并（Xiao，Zhang and Xie，2000)，脱钩改制（Yang，Tang，Kilgore and Jiang，2001)，外资事务所的发展以及中国事务所的“走出去”战略。将事务所自身的产权改革与事务所保护其他经济体产权的问题结合起来讨论，将是非常有意义的。

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Accounting Standards Reform in China and the Role of Subsidiary Earnings Information in Decision Making*

Zhengfei Lu　　Huili Zhang**

Abstract　In financial reports, Chinese listed firms report both consolidated numbers and numbers for parent firms (excluding consolidated subsidiaries). Thus, we are able to separate earnings of the parent firm from earnings attributed to subsidiaries, and examine the different implications of these two components of consolidated earnings. The implementation of the new accounting standards in January 2007 potentially increased the difference between consolidated earnings and parent earnings, mainly due to new requirements on consolidation. This paper examines the incremental information content of this new requirement. We find that the difference provides no additional information for investors' pricing decisions before the reform, but exhibits significantly improved decision relevance, and offers incremental information content conditional on consolidated earnings under the new standards. Our results suggest that, conditional on consolidated earnings, the retained subsidiary earnings contained in the consolidated but not in parent firm earnings could actually provide incremental information.

Key words　Subsidiary earnings, Accounting standards reform, Incremental information content

1. Introduction

The essence of stock investors'[1] pricing decisions is to predict the future profitability and to assess the risk of a listed company by using historical accounting information. In formulating earnings expectations, past earnings levels as well as components of past earnings have been proved to be relevant (Finger,

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1 In this paper, investors refer to the investors of listed parent companies unless otherwise stated.

1994; Kormendi and Lipe, 1987; Ramesh and Thiagarajan, 1993; Rutherford, 2000). However, to our best knowledge, the literature has so far overlooked another potentially useful piece of earnings information: subsidiary earnings, which is the difference between consolidated earnings and earnings attributed to the parent firms (parent earnings). In China, listed firms have to report both consolidated numbers and parent firm numbers, so subsidiary earnings are easy to determine by investors.

The existing literature routinely used consolidated earnings[2] to study the implication of earnings in investors' pricing decisions, with the underlying assumption that shareholders will value equally the earnings of parent firms and the earnings of subsidiaries (which in many cases also involve shareholders other than the parent firm). However, in practice, the assumption is undermined because the transfer of earnings between parents and subsidiaries is restricted by cost constraints such as tax concerns (Hevas et al., 2000). Figure 1 shows that, by the end of 2007, 96.52% of listed companies in China reported a gap between consolidated earnings attributed to parent shareholders and parent firm earnings. Thus, in order to understand investors' pricing decisions and study the decision usefulness of the accounting information of different legal entities within the listed firm, it is of great importance to open the *black box* of how investors use subsidiary earnings information to make pricing decision.

The key to solving the above problem is to determine whether investors will distinguish parent earnings information from subsidiary earnings information in stock valuation. If subsidiary earnings could provide incremental information conditional on consolidated earnings, it would be insufficient for investors to just use consolidated earnings information in pricing decisions. Consequently, investors need to pay further attention to the difference between consolidated earnings and parent firm earnings, namely the realized but undistributed subsidiary earnings contained in consolidated earnings but not in parent firm earnings. In the preparation of consolidated financial statements, the consolidation techniques and adjustments result in an information loss of parent and subsidiary profitability. Hence, to delve into the above issue, researchers need to take into account the earnings information of parent firms and subsidiaries (Pendlebury, 1980; Francis, 1986).

However, developed market economy countries such as the U. S. adopt a single-disclosure-system, lacking publicly available data about parent firm state-

[2] To be specific, the earnings refer to the consolidated earnings attributed to parent stockholders and this is the meaning used throughout this paper.

ments (Harris et al., 1997; Abad et al., 2000; Hevas et al., 2000).[3] Furthermore, in countries that adopt a dual-disclosure-system, since parent companies apply the equity method to account for investment in subsidiaries, the division of responsibilities between consolidated statements and parent statements is not clear, inevitably resulting in information overlap between consolidated statements and parent statements (Hevas et al., 2000; Dai et al., 2006). As a result, the characteristics of the disclosure systems mentioned above make it difficult for researchers to obtain data on the incremental information content provided by the subsidiary earnings contained in consolidated earnings.

The implementation of the *Accounting Standards for Business Enterprises* (the new accounting standards)[4] issued by China's Ministry of Finance in February 2006 modified the division of responsibilities between consolidated statements and parent statements, thereby providing a valuable opportunity to study how investors utilize parent earnings and subsidiary earnings in making pricing decisions. The new accounting standards require parent financial statements to use the cost method to record investments in subsidiaries. However, in the consolidation process, parent firms have to change from the cost method to the equity method for the investment. Under this requirement, consolidated earnings reflect the realized profits of the whole group while parent earnings only reveal the realized earnings of the parent company. Therefore, the realized but undistributed subsidiary earnings attributed to a parent company constitute an important component of the difference between consolidated earnings and parent-only earnings. For brevity, in the rest of the paper, the difference between consolidated earnings and parent-only earnings is abbreviated as Diff. By identifying Diff, we separate consolidated earnings into two components: earnings from the parent firm, and earnings from subsidiaries.

By exploring the economic connotation and incremental information of Diff under old and new accounting standards, this paper studies how investors utilize the information of subsidiary earnings in consolidated statements in pricing decisions. Our research suggests that, under the old accounting standards, Diff mainly reveals the influence of inter-company transactions on consolidated earnings, providing no additional information contents for investors' pricing deci-

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[3] According to Dai et al. (2006), the single-disclosure-system requires the parent company to substitute consolidated statements for parent statements and to provide only consolidated statements to external users, while the dual-disclosure-system requires the parent company to provide both consolidated statements and parent statements.

[4] For brevity, in this paper, the *Accounting Standards for Business Enterprises* is called new standards and the accounting standards implemented previously are called old standards.

sions. By contrast, under the new standards, Diff can offer investors incremental information conditional on consolidated earnings for pricing decisions.

This paper, to a certain extent, reveals how investors use the information of parent earnings and subsidiary earnings to make stock pricing decisions. Compared with the previous literature, this paper offers a clearer picture of the decision usefulness of subsidiary earnings information by making a dynamic comparison of financial statement information in the context of China's accounting standards reform. Herrmann et al. (2001) and Hevas et al. (2000) have undertaken similar studies about how investors use Diff in stock pricing decisions in Japanese and Greek markets, respectively.[5] However, having been conducted in a static environment, their studies cannot distinguish the impact of inter-company transactions on stock pricing from the effect that subsidiary earnings information has on pricing decisions. Hence, the results of their studies cannot convincingly validate the decision usefulness of subsidiary earnings information in stock pricing. By contrast, our study can tell the separate role of subsidiary earnings information in pricing decisions by analyzing the dynamic change in the incremental information contents provided by Diff under new and old accounting standards. Besides, our research finds that a clearer division of responsibilities between consolidated statements and parent statements contributes to the disclosure of subsidiary earnings information and brings investors additional information for pricing. The findings prove that the information loss caused by previous consolidation techniques exerts a negative influence on investors' pricing decisions, thus confirming the rationality of the adjustment in accounting methods for investments in subsidiaries under the new standards and verifying the significance of such modifications in stockholder protection.

The paper is structured as follows. The economic connotation of Diff under old and new accounting standards is analyzed and the hypotheses of our research are proposed in the next section. The research design is outlined in Section 3. The descriptive statistics analysis is presented in Section 4 and the empirical results are reported in Section 5. Finally, the conclusion of the paper is provided in Section 6.

2. Background and Hypotheses

Before the implementation of the new accounting standards, the preparation

[5] Both Japan and Greece adopt the dual-disclosure-system and apply the cost method for investment in subsidiaries in parent financial statements.