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How is IFRS/IAS Implemented in China

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SAMMENDRAG

Masteroppgaven undersøker hvordan IFRS/IAS er implementert i Kina. Grunnen til dette er å finne svar på følgende spørsmål: Hvordan har miljøet innenfor kinesisk revisjon endret seg? Hva er grunnen til at revisjon blir basert på IFRS/IAS i Kina? Hva er nytt innenfor revisjonsstandarder, sett fra revisjon som en teknologi? Hvordan kan vi forstå institusjonaliseringsprosessen av revisjon i Kina? Oppgaven analyserer Kinas reform ved å se på revisjonsmiljøets faktorer, motivasjon, implementeringsprosess, implementeringsproblemer og utfordringer, og forholdet mellom forskjellige aktører.

For at Kina skal kunne ta del i den økonomiske globaliseringen, er løsningen å konvergere CAS (Kinas revisjonsstandard) med IFRS/IAS. Kinas regjering tar sikte på å få samsvar mellom IFRS og Kinas nye revisjonsstandard (CAS), men det eksisterer fortsatt forskjeller mellom disse. Fra januar, 2007, er alle børsnoterte selskaper pliktig til å innføre den nye CAS. Men den nye revisjonsstandard og dens teknikk, gjør at mangelen på profesjonelle revisorer med et internasjonalt perspektiv blir “gapet” i Kinas nye revisjonsform.

Bodø, May 23, 2007

Fei Wei

PREFACE

A master thesis is an obligatory part of the Master of Science in Business education in Bodø Graduate School of Business. The thesis has been written for specialization Management Control and counts for 30 credit. The main task of this thesis is to demonstrate independent work with problem statement resulting in presentation of written report.

Here, I would like to give my sincere thanks to my supervisor Anatoli Bourmistrov for assistance, advice and comments, which significantly helped me in the process of research. Special thanks also give to Professor Inger Johanne Pettersen for her course and friendly help. I really appreciate to Ian Ball (Chief Executive of IFAC), Hongxia Li (officer of China Ministry of Finance), Jiacy Qiu (Parter of Ernst&Young, China), Ying Li (Auditor of PwC, China), Mingxia Gang (FAW SIHUANAUTOMBILE Co., Ltd), Yueqiang Gao(YATAI GROUP Co., Ltd), Shuqin Pan (EURASIA GROUP Co., Ltd), Harald Brandsås(Technical Director of The Norwegian Institute of Public Accountants), Steinar S. Kvifte (Parter of Ernst&Young, Norway), Veslemøy E. Ellinggard(Manager of KPMG, Norway), Jing-Li Taklo (Telenor, Norway) for the interviews, Daniel Solstrand for translation of the abstract into Norwegian, all my teachers in Høgskolen i Bodø, everyone helping me during the study in Norway. I also would like to convey my thanks to my home university, Changchun University of Science and Technology, especially to professor Hailou Guo who gave me a lot of help on my study.

Finally, I am very grateful for my parents and my brother. They always make me know they are proud of me and love me. Their understanding and love encourage me to work hard, to be steadfast and never bend to difficulty.

ABSTRACT

The thesis investigates how IFRS/IAS is implemented in China. The main idea of the study is to find out the answers of following questions: How has the environment of Chinese accounting changed? What are the reasons for convergence with IFRS/IAS in China? What is the new finding in new accounting standards from perspective of accounting as technology? How can we understand the process of accounting institutionalization in China? Thus, from environmental factors, motivation of reform, implementation process, implementation problems and challenges, and interaction relationship between different actors, the thesis analyzes the China's new accounting reform.

In the global accounting harmonization situation, CAS (China's accounting standards) convergence with IFRS/IAS is China's solution to take part in the economic globalization. China government aims at the achievement of compliance between IFRS and China's new accounting standards (CAS), but differences between CAS and IFRS/IAS still exist. From January 2007, all the listed companies are required to implement the new CAS. Facing the new accounting standards and technique, the lack of professional accountants with international perspective turns to be the "Gap" to the China's accounting reform.

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ABBREVIATIONS

CAS – China Accounting Standard

E&Y – Ernst & Young (audit firm)

EC – European Commission

EU – European Union

FASB – Financial Accounting Standards Board

FSF – Financial Stability Forum

IAS – International Accounting standard

IASB – International Accounting Standards Board

IASC – International Accounting Standards Committee

IASCF - International Accounting Standards Committee Foundation

IFAC – International Federation of Accountants

IFRIC - International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

IMF – International Monetary Fund

IOSCO – International Organisation of Securities Commissions

MOF – Ministry of Finance

OECD – Organization of Economic Development

PwC – PricewaterhouseCoopers (audit firm)

SEC – Securities and Exchange Commission

WTO – World Trade Organization

1. INTRODUCTION

1.1 Background for the study

With the development of the world economy rapidly, globalization has turned to be the most obviously characteristic. It presses for a uniform and comparable accounting standard in the global scopes. On 1 April 2001, the reorganization International Accounting Standards Board (IASB) starts a target of instituting and implementing a set of global accounting standards with high quality, high comprehended and high implementation. On June 2001, the chairman of IASCF, Paul Volcker mentioned in his public speech that the rapid development of the global capital market stimulates the requirement and expectation of a uniform accounting standards and auditing methods. Uniform accounting standards in global scope, it not only increase the transaction transparency and comparability, but also decrease the “regulating and interpreting” cost and error, and reduce the transaction cost, improve the credibility of accounting information.

There is an intangible obstacle for international investment and trade because of the different accounting standards in different countries. Markets participates all expect a set of high quality accounting standards to change the situation. For most country, not only public sectors but also private sectors aware that is beneficial for the organizations to use the same “accounting language” to present the financial reports.

The high quality accounting standards will make financial report of enterprise more transparency and more comparability. It will show a true financial situation of enterprise, so that giving confidence to the investor to do investment. “ It is widely recognized that investors will be more willing to diversify their investments across borders if they are able to rely on financial information based on a similar set of standards (Wong, 2004).”

Implementation of IFRS is a trend to regulate and coordinate the financial connection between different international communities. From 2005, European Union (EU) has obliged all European listed companies to present their financial report based on the IFRS/IAS. For instance, as the member of European Environment Association (EEA), Norway has implemented IFRS/IAS in its listed companies since January 2005. For China, there are two backgrounds cause Chinese New Accounting Standards convergence with IFRS/IAS: The first one is EU and Australia have finished the transition to IFRS; The second one is the Commission of EU and U.S Securities and Exchange Commission (SEC) have the same perception that IFRS and U.S GAAP getting convergence.

In China context, Ministry of Finance is the constitutor that is responsible for standardization the accounting standard. Building confidence of investor, increasing the transparency of finance report, and harmonizing with International Financial Reporting Standards (IFRS) are its targets. On 15-16 February 2006, the Chinese Ministry of Finance and the International Accounting Standards Board (“IASB”) held a joint press conference at the Great Hall of the People in Beijing, to formally announce that Chinese Accounting Standards (CAS) will converge with International Financial Reporting Standards (IFRS) in January 2007. China has been implementing the New Accounting Standards in its listed companies in 2007. Different countries with different specific context feature, in China, the issues will be related with the specific features when the company implements the new accounting standards. There will be huge challenges for Chinese companies to implement the new accounting standards.

1.2 Purpose of the Study and Problem Statement

The paper explores challenges for Chinese companies to implement IAS/IFRS and its implication relation between IAS/IFRS and China New Accounting Standards. Norwegian company, as a comparison study, it will help to find out what is the similar and difference issues of practice process when Chinese companies implements

IFRS/IAS.

The problem statement of the study can be formulated as follows:

How is IFRS/IAS Adopted in China?

Enclosing the research problem statement and data collection from different fields, the thesis will illustrate and answer the main questions in China accounting standards reform process: How has the environment of Chinese accounting changed? What are reasons for convergence with IFRS/IAS in China? What is the new finding in new accounting standards from perspective of accounting as technology? How can we understand process of accounting institutionalization in China?

1.3 Scope of the Study

The scope of the study will include three sectors: norm setting (standards constitutors), practice part (organization), and user part (organization). Doing research to standards constitutors, it will focus on the process of norm changes. From the national level, it will understand the motivation of doing the reform. Doing research to case companies, from organization level, it will concentrate on the companies' practice in regards to the IFRS/IAS and the implementation process and consequence. "Big 4" companies and local assurance & advisory companies, as the experts in the paper, they seems like the link to connect the national level and organizational level.

Due to the limitation of the companies' type of implementing IFRS/IAS, I chose the representative companies as my research objects, and there are automobile company involved the new standard of "related party disclosure" (FAW-SIHUAN AUTOMOBILE CO., LTD), multiple company holding real estate business (YATAI GROUP CO., LTD), and traditional chain store (EURASIA GROUP CO., LTD). Via

investigating to these companies, the thesis will describe and analyze how IFRS/IAS implemented in China.

1.4 Structure of the Thesis

The paper is constructed in the following way. The entire thesis will be structured into six chapters: introduction, theoretical framework, methodology, empirical study, analysis and conclusion. In the chapter 2, it will present the theoretical framework of reference that is going to be used to structure and analyze the empirical data. In the chapter 3, it will present the methodological approach used for grasping insight into the present phenomena. The data collected addresses for the empirical part. In the chapter 4, it will illustrate and discover the empirics during the data collected in the qualitative and quantitative. In the chapter 5, according to the theoretical framework chosen above, it will analyze the reality phenomenon. In the last chapter, it is a conclusion. It will attempt to summarize the result of the research and give the suggestion for the further research.

2. THEORETICAL FRAMEWORK

2.1 Introduction

The theoretical part build a knowledge structure for studying the IFRS/IAS implemented in China. From the perspective of IFRS vs. National GAAP, around accounting theory, the paper discusses the content from three aspects: Rational perspective, Accounting technology, and Institutional approach.

The first part of theoretical framework will illuminate from rational for global accounting aspect. Providing the evidence to the study, why doing the accounting change or why not, finally find out the reason of convergence with IFRS/IAS in China.

The second part of the theoretical framework considers the technology of accounting. Implementing new accounting standards (IFRS/IAS), it will be associated with the accounting technique changing. The accounting activity, i.e. registration, measurement and communication, will emerge some changing in the reform process. According to the national GAAP convergence with IFRS/IAS, issues will take place in the harmonizing process.

The third part of the theoretical framework will discuss the institutional approaches. Supply the theoretical evidence to the process of China accounting reform. It presents the reasons that the enterprises implement the new accounting standards in order to meet the requirement of legitimacy and survival.

2.2 Rationals in Accounting Reforms and Accounting Environment

Accounting as a product of changing factors in its environment, it is both concerned with nationally and internationally accounting.

2.2.1 Global Environment of Accounting

Globalization is an obviously feature of the world economy now. Woods (2002) defines globalization as combination of internationalization, political and economic liberalization. Guohua Zhang (2005) stated that fuelled by the worldwide wave of the trade liberalization, rapid development of communication and global information networks, and the spread of market-oriented economies, the globalization of the economy is increasingly becoming widespread and pervasive. One manifestation of the increasing pace of globalization is the intensification of competition within and across national boundaries. Competition is increasing not only for international and domestic markets of products and services but also for attracting increasingly mobile investments and capital. Therefore, “the process of financial globalization has shifted the balance of powers from governments to markets (Hanson, 2003).”

International accounting development is triggered by the development of multinational enterprises, the global capital market, and worldwide trade, which in return will facilitate the international economic development. Mueller (1967) state that accounting evolution and direction of accounting development are determined by “various individual social, economic, and legal influences”. “ Thus different environments have produced different results in accounting structures. In addition to environmental relationships, the development process itself has caused outcome variations”(Mueller, 1967).“ Accounting innovation and development are triggered by non-accounting factors” (Choi and Mueller, 1984).

Nobes and Parker (2006) explained Mueller classification that the types of accounting rules that exist in a country are a product of economic, political and other environments, which have determined the nature of the system. Choi and Mueller (1992) summarized four approaches of accounting development as follows:

1. Accounting within a macroeconomic framework. Accounting has developed as an adjunct of national economic policies. Serving for national economic policies,

accounting is obviously intervened by the government.

2. *The microeconomic approach.* This approach can prosper in a market-oriented economy that has individual private businesses at the core of its economic affairs. Being a tool for microeconomics, accounting serves businesses and business enterprises. The Netherlands was suggested as an example.

3. *Accounting as an independent discipline.* Accounting, as an independent discipline does not need any conceptual support from a discipline like economics, because accounting mainly serves businesses, and it has to meet the conditions of practical business usefulness, thus it can construct itself a meaningful framework derived essentially from the business process it serves. The United States and the United Kingdom are as the example.

4. *Uniform accounting.* Such systems have developed where governments have used accounting as a part of the administrative control of business. Accounting presents itself as a tool for economic management and business control by government. Three practical approaches, business approach, economic approach, and technical approach, are distinguished to the uniform accounting development pattern. France was cited as an example.

As Gray (1988) notes that societal values are determined by ecological influences and modified by external factors...In turn, societal values have institutional consequences in the form of the legal system, political system, nature of capital markets, patterns of corporate ownership and so on.

2.2.2 International Accounting and Harmonization

Globalization is, “triggering a process of systematic convergence in which all governments face pressures to pursue more or less similar policies to enhance their national (or regional) competitiveness, visa—a—visa other countries, as locations for international production” (Hamdani, 1997). Guohua Zhang (2005) stated that high-quality international accounting standards are needed to provide comparable and

consistent financial information to assist in capital allocation, and to maximize the efficiency of capital markets throughout the world, which results in a growing importance of financial globalization. In order to achieve this objective, accounting professions have increasingly become aware of the need to establish a single set of accounting standards that would be valid in the international arena.

Nobes and Parker (2006) stated that ‘harmonization’ is a process of increasing the compatibility of accounting practices by setting bounds to their degree of variation. ‘Standardization’ appears to imply the imposition of a more rigid and narrow set of rules. However, within accounting, these two words have almost become technical terms, and one cannot rely upon the normal difference in their meanings. ‘Harmonization’ is a word that tends to be associated with the transnational legislation emanating from the European Union; ‘standardization’ is a word often associated with the International Accounting Standards Board. So, accounting standards setting can be seen one of the main activities within the global harmonizing process.

The initial efforts to facilitate the harmonization of international accounting standards began after 1990, when the IASC began “to work towards greater compatibility between national accounting requirements and the removal of differences between national requirements and IASs. Among the most likely candidates to work with the IASC were standard setters from the US, UK, Australia, and Canada, especially in view of each entity’s commitment towards harmonizing standards and their strikingly similar conceptual frameworks” (Street, 1998). Efforts in achieving of the unified set of international accounting standards have been marked by sharp debates (Carlson, 1997).

2.2.2.1 Reasons and Obstacles for Harmonization

In global economic situation, there is a requirement to building up the same “commercial language” and make accounting information more transparency and comparability. Nobes and Parker (2006) described that investors and financial analysts

need to be able to understand the financial statements of foreign companies whose shares they might wish to buy. They would like to be sure that statements from different countries are reliable and comparable, or at least to be clear about the nature and magnitude of the differences. They also need confidence in the soundness of the auditing. This is the main reason for accounting harmonization.

Different countries hold different culture, political, economic factors, which are influence on the accounting development and global harmonization. Nobes and Parker (2006) stated that the most fundamental of obstacles to achieving standard practice is the size of the present differences between the accounting practices of different countries. Another obstacle is the lack of an international regulatory agency. A further problem is nationalism. These will form the main obstacle of global accounting harmonization.

2.2.2.2 Advantage of Harmonization

The international accounting harmonization will bring advantages to promote the global economy and eliminate the misunderstanding about the reliability of foreign company's financial statements, so as to increase the flow of international investments. Wong (2004) stated the benefits of harmonization as follows:

- Greater comparability of financial information for investors;
- Greater willingness on the part of investors to invest across borders;
- Lower cost of capital;
- More efficient allocation of resources;
- Higher economic growth.

Global harmonization can also make “companies may save time and money, which previously were spent on preparation of reports following different national laws and practices (Epstein and Mirza, 2004).

2.2.2.3 Disadvantage of Harmonization

The purpose of international accepted standards is to coordinate social and economic activities. However, there are some limitations of harmonization process in the worldwide scope.

Wong (2004) stated that international accounting standard setting process is one of the important tactics of large international accounting service firms to improve their market position and to enter new markets. International accounting standard setting process is difficult for many companies especially for small ones, hence, only large international companies can meet the demand according to the market's insistence on the use of such standards.

Nobes and Parker (1995) described that the most fundamental factor, which limits the harmonization, is a number of initial differences between accounting practices in different countries. The accounting standard-setting process has proceeded somewhat differently in the major nations of the developed world.

The professional accountancy body and good training system both form the limitation and disadvantage for the harmonization process. Choi, Frost and Meek (1999) emphasized that the international standardization of accounting may create so called "standards overload". The companies must respond the costly international requirements.

2.3 Accounting Technology

What is accounting?

"Accounting is a system for measuring economic activity and communicating the result (of these measurements) to users (Arne Kinserdal, 1998)." "Accounting can be defined as a framework, consisting of various theoretical dimensions, closely linked to one another in a hierarchical order (Belkaoui, 1993; FASB, 1976). These theoretical

components are the objectives of financial reporting, the fundamental postulates and principles of accounting, the particular accounting methods and techniques, and the accounting reports (Chan et al., 1996).

“Accounting is related to all of the activities described above (planning, implementation, control), and in all of them the emphasis is on using accounting information in the process of making decisions” (Anthony et al., 1999).

2.3.1 Activity

2.3.1.1 Registration

Accounting can be recognized as a set of rules about recording the business transactions and reporting. “Accounting records dating back several thousand years have been found in various parts of the world. These records indicate that at all levels of development people desire information about their efforts and accomplishments” (Schroeder and Clark, 1998). “Accounting is based on an analytical view of the world, and in a functionalist sense it can be seen as a set of rules about how to record transactions and how to report” (Mellempik et al., 1988).

2.3.1.2 Measurement, Control and Decision-making

During the economic development, the role of accounting is not only bookkeeping and registration but also having control, predict, measurement, communication and decision-making, etc. “The goal of accounting theory is to provide a set of principles and relationships that provide an explanation for observed practices and predict unobserved practices” (Schroeder and Clark, 1998). The American Accounting Association said accounting is “...the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information.” The Accounting Principles Board claimed that the function of accounting is “...to provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions.” And the FASB asserted that the role of financial reporting in the economy is “to

provide information that is useful in making business and economic decisions.”

2.3.1.3 Communication

Accounting can be seen a kind of communication tool in the business transaction. It improves and promotes the understanding of business behavior. “Accounting is a language and therefore a medium of communication” (Ashton and Bizzell, 1975-1976; FASB, 1980).

2.3.2 Functions (Real & Intended)

2.3.2.1 Real Function

The primary objective of accounting is to provide financial information about economic affairs of an entity to interested parties for use in making decisions (Mellempvik, et al., 1988). From the opinion, it will find out how and why the enterprises are influenced by accounting. Two basic objectives have been identified (AICPA,1974;Chan, 1985), namely the accountability and the decision-making objectives. Accountability objectives can be seen that enterprises understand the management of resource use by account information. And decision making will be based on the account information. The point, Rosenfield(1974) and Gjesdal (1978) stated the objective of accountability and decision making.

2.3.2.2 Intended Function

“ According to its intended function, accounting is a language designed to reduce uncertainty with a view to improving control and decision making.” (Mellempvik, et al., 1988) “The intention in connection with both accountability and decision making is that the true and fair information should produce certainty or at least reduce uncertainty... (Edwards and Bell, 1961) Now, China government reforms the accounting standards, which are convergence with IFRS/IAS. It is looking for the way to communicate with external economic environment based on the same “commercial language”, in order to reduce the uncertainty and do better decision making in the

business. The following figure.2.1 will illustrate the relationship of accounting as a language for control and decision-making.

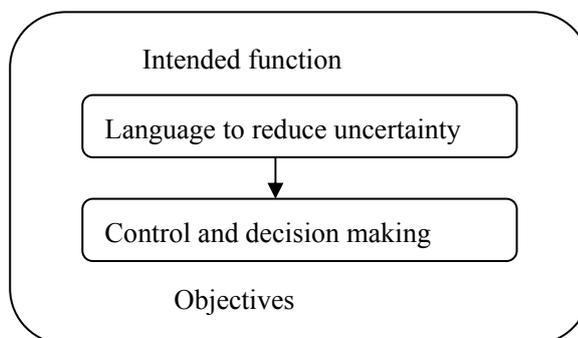


Figure 2.1. Accounting as a language for control and decision making (Mellemvik, et al., 1988)

2.3.3 System and Process

Accounting, in a system approach, is viewed as an important calculative practice. (Miller and O’Leary, 1987) Accounting systems consist of certain rules guiding how a particular environment should be converged into numeric values and a number of interrelated technical elements, for instance, accounting objectives, postulates, principles, techniques and reports, through which such rules may literally be translated into practice.(FASB, 1976)

In the system approach, accounting operates in a mechanistic way, i.e. in a routine, efficient and predictable way by generating a description of what has happened and reflecting organizational actions. (Manninen, 1996)

Accounting can be seen from the process-oriented perspective, which includes three different types of processes; processes related to the elaboration of accounting standards (norms), processes also talked about how accounting is handled in practice,

and processes stated how accounting is used (Bourmistrov and Mellemvik, 2003)

From establishing a norm of accounting to practicing and using, the system accomplishes the accounting process. Norm system will affect accounting practice and use, whereas the system of accounting practice and use will also influence the norm system. The whole accounting procedure will interact with the environment of accounting. "...accounting involves many types of activities, which can be divided into three different processes connected with the accounting norms, the accounting practice and the use of accounting. These accounting processes in general openly imply that they are influenced by and influence the environment." (Mellemvik, et al.,) Above study, it also developed a generic accounting process model, as figure 2.2

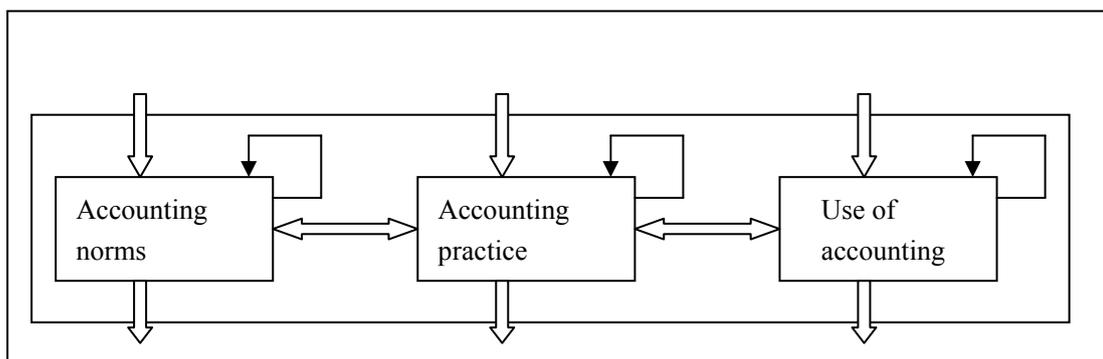


Figure 2.2 the accounting process

The thin arrows in the figure 2 indicate learning from own experience. The thick arrows indicate learning from each other. "Accounting systems consist of certain rules guiding how a particular environment should be converged into numeric values and a number of interrelated technical elements, for instance, accounting objectives, postulates, principles, techniques and reports, through which such rules may literally be translated into practice." (FASB, 1976)

2.4 Accounting Institutionalization

Accounting is closely linked with the economic and political process. Existing a variety of parties, according to their economic benefit, are interested in the development of accounting standards.

As a matter of fact, institutional theory has come to be regarded as a dominant theoretical perspective in organizational theory research. (Lemke et al., 2001; Dillard et al, 2004) Institutionalization is a pattern to install values with the aim of promoting certainty and persisting the organizational structures over time. The extent of institutionalization, however, varies across organizations. (Selznick, 1957). Institutional techniques are not based on efficiency but are used to establish an organization as appropriate, rational, and modern. Their uses display responsibility and avoid claims of negligence (Meyer and Rowan, 1977). “Institutional compliance assures organizations to be enlisted or approved by powerful external collective actors” (Scott, 1987).

2.4.1 Institutional Environment

The concepts of institution have been extended by acknowledging the impacts of a variety of elements on the existence and elaboration of organizational structures (Scott, 1987).

Accounting in action cannot be isolated from the social processes operating in and around organizations (Hopwood, 1983; Roberts and Scapens, 1985). Meyer and Rowan (1977) propose that organizations adapt to myths of the environment, or the wider culture, in order to gain legitimacy, resources, stability and the possibility of survival.

Accounting as a social and institutional practice has come to view the phenomenon of accounting as a symbol of legitimacy. Institutional environments are described by a myths range of external and internal and requirements that are required organizational

compliance. Organizations are often acquiesced with these rationalized institutional beliefs, not because they consist of reality or in order to secure efficacy, but to maintain appearance and demonstrate them to be rational and modern organizations. (Oliver, 1991; Meyer and Rowen, 1997; Carruthers,1995) So, the organizations meet the institutionalization to meet their survival and legitimacy requirement.

2.4.2 Process Institutionalization

2.4.2.1 Mechanisms of Institutionalization

DiMaggio and Powell (1983) propose three major ways in which an organization conforms to the symbolic order: by coercive, mimetic, and/or normative processes.

1) *Coercive* isomorphism that stems from political influence and the problem of legitimacy; 2) *Mimetic* isomorphism resulting from standard responses to uncertainty; and 3) *normative* isomorphism, associated with professionalization. In normative process, Scott (1987) portray that states usually adopt an inducement strategy to enforce their members to conform to their authorities and rules.

Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. Mimetic processes, not all-institutional isomorphism, however, derive from coercive authority. Uncertainty is also a powerful force that encourages imitation. Organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful. Normative pressures, a third source of isomorphic organizational change is normative and stems primarily from professionalization. (DiMaggio and Powell, 1977)

Czarniawska and Sevon (1996) presents two prospects concerning why, and to what extent organizational changes and their results deviate from the intended forms.

Czarniawska and Sevon (1996) states translation is a key concept for understanding organizational change. Firstly, organizational change is a long process and occurs in a step-by-step approach. Secondly, the politically oriented actors modify and amend the original ideas in correspondence with their intention and represent them in a new guise (Jacobsson, 2004). That is, “organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures” (Meyer and Rowan, 1977). Therefore, the three types of coercive, normative and mimetic always can explain the process of institutionalization of the organization.

2.4.2.2 Epistemic Community

“Epistemic community” is the linkage between the world of idea and the world of action. “Epistemic communities” have a number of different characteristics. Haas (1992) describes these in the following way:

“ An epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity- that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise- that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be

enhanced as a consequence.”

As Adler and Haas(1992) state that epistemic communities are not in the business of controlling societies; what they control is international problems. Their approach is instrumental, and their life is limited to the time and space defined by the problem and its solutions. Epistemic communities unique position is dependent on their ability to convince that they have solutions to particular problems facing policy decision makers.

“Epistemic communities” can be seen the experts, they links with the regulator and practice. Adler and Haas stress that while epistemic communities are active in particular countries “they also diffuse their policy advice transnationally through communication with their colleagues in scientific bodies and other international organizations, during conferences, and via publications and other methods of exchanging lessons and information. The transnational links allow them to exert concurrent pressure on governments, even if such action is not formally planned by members of the community.

“Any change in management and accounting practices requires a motive for change, an opportunity to allow this to happen and some epistemic community who will be advising the policy makers as to the ‘solution’ to the ‘problem’ which the ‘motive’ has generated” (Laughlin and Pallot, 1998). So, epistemic communities can be seen a special group people who have professional knowledge and experiences, their opinion will influence the process development.

2.5 Summary

In the theoretical part, the thesis mainly encloses three aspects to organize and collect the theories, rationals for global accounting, accounting technology, and institutionalisation approach. The purpose of choosing rationals for global accounting is to provide the evidence to the study, why doing the accounting change or why not,

finally find out the reason of convergence with IFRS/IAS in China. Choosing accounting technology, it will be associated with the accounting technique changing. Institutionalization approach will supply the theoretical evidence to the process of China accounting reform in the later analysis part.

3. METHODOLOGY

3.1 Introduction

The chapter is intended to provide an overview of the research methods and data collecting procedures. This part of the thesis is aimed at mentioning the reader about scientific methods that were used to work out the research, for example the methods and procedure used.

What is methodology? “Methodology is combination of techniques used to enquire into a specific situation. Method can be thought individual techniques for data collection, analysis, etc” (Mark Easterby-Smith, et.al, 2002). Hellevik (1980) states that methodology gives the reader an idea of how to conduct a scientific research and what tools are to be used to collect empirical data as well as the validity and reliability of the results. It is worth reminding that there are neither good, nor bad methodologies, but more or less adequate methodologies under specific conditions in order to achieve a goal. Methodologies are only evaluated to be more or less useful. That means they are not assessed right or wrong. And methods are recognized as some specific research techniques, like quantitative methods and qualitative methods.

Maurice Godelier (1972) states the method simultaneously expresses the subjective approach of the thinker and the objective content of what he is thinking about. In the last analysis, though, it is the content that provides the “grounds” for the method, since, while the method expresses the procedure adopted by the thought process, the latter expresses the nature of what is being thought about.

In the thesis, it mainly uses the science theory of hermeneutics. Hermeneutics may be described as the development and study of theories of the interpretation and understanding. The term hermeneutics cover both the first order art and the second

order theory of understanding and interpretation of linguistic and non-linguistic expressions. As an interrogation into the deepest conditions for symbolic interaction and culture in general, that hermeneutics has provided the critical horizon for many of the most intriguing discussions of contemporary philosophy, both within an Anglo-American context (Rorty, McDowell, Davidson) and within a more Continental discourse (Habermas, Apel, Ricoeur, and Derrida).

3.2 The Choice of Research Design

There are many choices to make the research design. “... research designs are about organizing research activity, including the collection of data, in ways that are most likely to achieve the research aims.” (Mark Easterby-Smith, et.al, 2002) There are many kinds of factors that can affect the decision of how research should be designed and implement in practice. For example, the topic of the thesis, as the important factors, will influence the research process. The topic will directly influence on the choice of specific research and what kinds of data will be used. The research design is contextualised in terms of Churchill’s (1999) design typology; conceived as ‘descriptive’, it is seen in practice to involve ‘exploratory’ elements as well. So, evaluation research will be the choice. As the practical accounting reform situation existing in China now, the thesis will be based on an actual case study as a framework to collect document data.

3.2.1 Qualitative Method and Quantitative Method

The thesis studies a complicated case with many actors (government, experts, listed companies and International accounting standards, etc). So, both primary and secondary data collection methods are used according to the level of personal involvement of the researchers. “Quantitative method is the reliance on experimental and statistical control as the defining feature of the research.” (Kaplan & Duchon, 1998) Using this method, researchers can analyze the collected data through the statistical tools. Skritic (1995) states that qualitative methods are preferable to quantitative

methods when the phenomena to be studied are complex human and organizational interactions and therefore not easily translatable into numbers. Although qualitative methods provide less explanation of variance in statistical term than quantitative methods, they can yield data from which process theories and richer explanations of how and why processes and outcomes occur can be developed (Macus & Robey, 1988).

In the thesis, I collected primary data by qualitative methods, for example, interview; and learning secondary data, I chose to use quantitative methods, for example, reading public document or announcement. Case studies are well known to use mixed methods of data collection. Van Maanen (1983) defines qualitative techniques as ‘ an array of interpretative techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world’. Mark Easterby-Smith (2002) states that one important feature of quantitative techniques is that the process of data collection becomes distinct from analysis. I preferred interviews to other forms of primary data collection (observation and diary method) because it gives the opportunity to go deeper into the problem (Easterby-Smith et al. 2002) and it is the more accessible method at that time.

In the accounting standards reform context, I used qualitative researches, for example: interview, as the best way to explore the phenomenon. Doing interview to the experts, first, I apply structured interview question that contributes to better capturing of different positional opinions of respondents (phenomenological triangulation). Abusabha and Woelfel (2003) state the methods concern with flexibility, which means that they allow the questions to emerge and change, as researchers become more familiar with the subject area.

3.2.2 Case Study

In the paper, it is to investigate the process of China accounting reform and how IFRS/IAS implemented in China context. Based on the reality, the paper uses case study to do further explanation.

Hamel (1993) states case studies have proven to be investigations of particular cases. “ An empirical inquiry that: investigates the contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used” (Yin, 1989). In the thesis, I use case study. I will focus on some Chinese listed companies to find out the challenges and problems for them, when they implement the IFRS/IAS.

Lekvall and Wahlbin (2001) argue that a case study can be used for identification of processes, underlying values and motives. A specific case made it possible to better understand the problem and explore the problem.

Case study can help the researchers better to explore the problem. In my thesis, I choose three representative Chinese listed companies (automobile company, multiple company holding real estate business, and traditional chain store company) as my sampling to do research. According to study and analyze the case company, I draw a general conclusion. Hamel (1993), stresses that the researcher must be careful when drawing conclusions. He means that before the conclusions can be considered accepted more studies, with a different approach should be conducted. By studying case, it is more clearly to find out and show the problem to the researchers and readers.

Yin (2003) states the most frequently encountered definitions of case studies have merely repeated the types of topics to which case studies have been applied. The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were

implemented , and with what result (Schramm, 1971).

About case study, there are different applications. Yin(2003) describes as below:

“The most important is to explain the presumed causal links in real-life interventions that are too complex for the survey or experimental strategies. A second application is to describe an intervention and the real-life context in which it occurred. Third, case studies can illustrate certain topics within an evaluation, again in a descriptive mode. Fourth, the case study strategy may be used to explore those situations in which the intervention being evaluated has no clear, single set of outcomes. Fifth, the case study may be a metaevaluation- a study of an evaluation study.”

3.3 Data Collection

My data collection will be mainly divided into three parts:

1. Secondary data analysis
2. Interview with government and experts
3. In-depth interview with some case companies

Table 3.1: The list of interview conducted:

Country	Name	Company	Position	Date, Type of the interview, Duration
International organization	Ian Ball	International Federation of Accountant (IFAC)	Chief Executive	October 16, 2006 Semi-structured, Open discussion (15 minutes)
China	Hongxia Li	Minstry of Finance (MOF)	Accounting Standards Institutor	March 28, 2007 Open discussion (45 minutes)
	Jiaci Qiu	Ernst&Young	Parter	March 28, 2007 Open discussion (1 hour and 10 minutes)
	Ying Li	PwC	Auditor	March 29, 2007 Open discussion (1 hour and 15 minutes)
	Mingxia Gang	FAW SIHUANAUTOMBILE	Finance part Minister, CPA, Legal adviser, Senior economist	April 15, 2007 Open discussion (1 hour and 40 minutes)
	Yueqiang Gao	YATAI GROUP	Vice Fiancial President	April 17, 2007 Open discussion (1 hour and 25 minutes)
	Shuqin Pan	EURASIA GROUP	Financial Reporting Manager	April 17, 2007 Open discussion (55 minutes)
Norway	Harald Brandsås	The Norwegian Institute of Public Accountants	Technical Director	February 24, 2007 Open discussion (45 minutes)
	Steinar S. Kvifte	Ernst&Young	Parter	February 26, 2007 Open discussion (1 hour and 10 minutes)
	Veslemøy E. Ellinggard	KPMG	Accounting Manager	February 27, 2007 Open discussion (45 minutes)
	Jing-Li. Taklo	Telenor	Group Accounting	March 26, 2007 Open discussion (35 minutes)

3.3.1 Secondary Data

The first empirical part of the thesis largely consists of secondary data. The secondary data has been gathered by the formal official website of China and libraries and formal accounting announcement from listed companies.

“Secondary data includes both raw and published summaries which can provide a useful source from which to answer, or begin to answer, research questions” (Saunders et al. 2001). News in periodicals, published material from commercial research organizations and published material from academic or official institutions are the generally sources of secondary data. These secondary data will bring the thesis the first-hand materials and make reader have a general impression with the research body. To obtain an overview of the problem area, I prepared a preliminary study by reading extent material and the literature on international accounting standards, with especial attention to the difference between new Chinese accounting standards and IAS/IFRS. It was useful for general understanding of the reforming situation, formulating the research problem and conducting my continue research.

3.3.2 Interview with Government and Experts

It is necessary to use other sources of extend data to develop a further understanding of the problem area. In order to acquire the more exact general data, I did interview with the government and accounting experts including both international level and local level. That makes me get a clear clue to continue my further research. Interview to government (Ministry of Finance), my purpose is to acquire the motivation of reforming accounting that is convergence with IFRS/IAS from official level. Interview to experts (E&Y, PwC, KPMG), from their opinion, my purpose is to get the information about the challenges and problem prediction of doing reform. The interviewees all owns rich accounting working experience, and all directly or indirectly take part in the reform process of accounting standard.

Nachmias and Nashmias (1996) separate between structured and unstructured interviews. In my first empirical part interview, I had a list of questions send to respondents in advance. So, I used semi-structured interview in this part. In the interview process, I did one-to-one (face to face) basis that allowed me to have high degree of flexibility, and control over interview situation. It will prove that I can attain detailed information from the interviewees. The interview questions of this part were open-ended. The aim is trying to make the interviewee explain their opinions more clearly and more freely.

3.3.3 Interview with Case Companies

In this empirical part, after interview with the accounting experts, I will prepare to do interview with some typical case companies. According to the specific case to analyze the problem what I explored, from this interview, I can go inside the research body, and obtain the core data. The Chinese new accounting standards will first implement in the listed companies from January 1, 2007. Investigate the implementation actor that will be the only way to find out the practice and using troubles and problems. I chose three different types of companies as my objective, as below:

1. FAW-SIHUAN AUTOMOBILE CO., LTD (automobile company)
2. YATAI GROUP CO., LTD (multiple company holding real estate business)
3. EURASIA GROUP CO., LTD (traditional chain store)

This part will combine with the listed company--the direct user of the new accounting standards. It has difference from the interview with experts. The former interview with the experts only acquires the information from the experts' opinion and predict. From their individual perspective, judge what challenges for Chinese company to use the new accounting standards. However, this part will have a dialogue with the direct actors—listed company and obtain the data. Previous part and this part can be seen a

supplement due to the new standards just carry out in 2007.

In this collected data part, I will do interview from the decision-maker to specific accountant. The procedure will be covered from the accounting practice and accounting user.

3.4 Evaluation of Data

The paper use both qualitative and quantitative data, so I use hermeneutics and textual concerning the analysis. In my paper, the data are mainly relevant with opinion and own feeling by the interviewee, actually, mainly depends on their recognitions. Hopper and Powell (1985) thought the approach is too focusing on the individuals' perceptions of the 'reality', and too subjective. In order to avoid too "individual" and "subjective", I should test the research from the following requirements: validity, reliability and generalizability.

3.5 Validity and Reliability

The data, which collected, should be validity and reliability. Mark Easterby-Smith (2002) thought validity is a question of how far we can be sure that a test or instrument measures the attribute that it is supposed to measure. George Kelly defined validity as, 'The capacity of a test to tell us what we already know' (Bannister and Mair, 1968) Mark Easterby-Smith (2002) states reliability is primarily a matter of stability. If the collected data were not accurate, relevant and couldn't pertain to the topic, for example: if it were not valid, the data would be useless. In order to keep the validity and reliability, I chose representative interviewees, when I collected data. The data sources are mainly from the interviews. So I try to choose the people are familiar with the reform and the people are experts in the field. Therefore, I had interview with Standards constitutors, auditors of 'Big 4' international accounting firms in order to comply with the validity and reliability.

3.5.1 Validity

Validity refers to the degree to which a study accurately reflects the specific concept that the researcher is attempting to measure or describe. While reliability is concerned with the accuracy of the actual measuring instrument or procedure, validity is concerned with the study's success at measuring what the researchers set out to measure. With other words, validity is often defined by asking the question: Are you measuring what you think you are measuring? (Kerlinger, 1979, P.138, cited in Kvale, 1996, P. 238) Researchers should be concerned with both external and internal validity.

Yin (1989) suggested using multiple sources of evidence as the way to ensure construct validity. The method of having a variety of data collecting techniques in research, so it is called data triangulation and is the central rules in my research.

In order to increase the validity, based on some similar implementation process, I collected data from both China and Norway. From my primary thought, I did interview in Norway first. Norway has implemented IFRS/IAS since 2005. In the beginning implementing time, it had some similar problem and challenges as China. So, I also chose interviewee from three hierarchical (institutional constitutor, experts from "Big 4", case company) before I collect data from China. During the data collection in Norway, there are primary ideas in my mind. So, that will support me more detail information and thought to investigate China's case. That will increase the validity of the research. The paper mainly focuses on the China part. Thus, according to this principle, the enterprise chosen should be a typical and representative one, and whose going concern would be suitable enough for this requirement, as a unified accounting system has been exercised in China.

3.5.2 Reliability

Reliability is generally seen as a very difficult concept in qualitative research, especially when it is defined as ‘the extent to which studies can be replicated’ (Le Compte and Goetz, 1982).

Researchers should evaluate stability and transparency in how sense it was made from the collected data. As a researcher, it doesn’t mean to record all you hear from the interviewees. Get answers what researcher need, and guide interviewee tracing the questions what you want to ask. By investigator triangulation, it will keep the reliability. Reliability is enhanced by the triangulation of data collection and multiple analysis methods (Yin, 1989)

Reliability is understood that different researchers investigating the same issue would get the same observations, or the same findings. In order to increase the reliability of my thesis, I not only portray from the interviews but also to browse the formal and official website or companies’ annual report. Using all kinds of different materials to prove and eliminate the bias from the individual. It will give me possibility to evaluate the problem from different points of view.

According to the principle of reliability, I considered some factors. First, the enterprise selected should have a very good foundation in accounting, so as to enable me to be able to collect the enterprise’s archives and reporting framework intact. Second, in order for the enterprise chosen to be representative enough of the majority of the state-owned enterprises, the targets will be focused on the most famous large-scaled state-owned industrial enterprises in China. Third, the location of the enterprises should be convenient to access. Considering Northeast of China is the oldest industry base, I am easy to touch this part, so it is an idea place to find a reasonable company to match the condition what I need to research.

4. EMPIRICAL PART

4.1 Structure of the Empirical Part

The empirical part set up a basic understanding for the research. It contains of five main sections.

The first section of the chapter focuses on the changes in environment of Chinese accounting. Based on external and internal information, here describe the environmental factors influenced on the China's accounting changing.

The second section focuses on the reasons for introducing new accounting standards. Here will present the data to describe the motivation and intention of China government fulfilling the new accounting standards.

The third section mainly focuses on the difference between New CAS, IFRS/IAS and Old CAS. Based on the comparison of standards between New CAS and IFRS/IAS, here disclose how the New CAS convergence with IFRS/IAS and what is the similar and difference between each other.

The fourth section focuses on the process of implementation. Here is a study from accounting practice and use, presenting the field of Micro-level. In the section, the paper presents the representative companies chosen to describe the new accounting standards using in China. And, in the part, there are also experts' opinions shown up here.

The fifth section is a short summary of the empirical part. The part will summarize the main findings from the empirical data.

4.2 Changes in Environment of Chinese accounting

From the secondary data and the respondents' opinions that environment factors facilitated the China's accounting reform.

4.2.1 International Environment

The international organization's development on the convergence of international accounting is another main reason that pushed China's accounting going towards internationalization. For example, the World Bank has provided the funds to China government in 1993. The aim is to ask China Ministry of Finance to manage the first setting of China accounting standards, called the Financial Sector Technical Assistance Project. In 1999, with funding from the World Bank, China conducted a second accounting project, The Accounting Reform and Development Project, including an accounting standards subproject and training system of Chinese CPAs, and an advanced financial staff subproject, which lasted for 5 years. (Xiang, 1999)

China has become the member of several international accounting organizations beginning from 1982. China joined the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) in 1982; the International Accountants Federation Commission (IFAC) in 1997; the International Accounting Standards Committee (IASC) in 1997; the Confederation of Asian and Pacific Accountants (CAPA) in 1996; and the World Trade Organization (WTO) in 2001 (Xiang, 1999). Through the process, China has started to actively take part in the world action. Meanwhile, international accounting activities may further promote China to pay attention to the international accounting standards when it set its own accounting standards and comply with the international "game rules".

4.2.1.1 Introduction of IFRS/IAS

Though several international organizations such as the United Nations (UN), the

European Unity (EU), and the organization for Economic Cooperation and Development (OECD), are interested in the harmonization of accounting standards, the most influential organizations are the International Organization of Securities Commissions (IOSCO) and International Accounting Standards Committee (IASC). During a hard process, the IASC has gained more and more cooperation from all over the world, especially the cooperation from Western powers.

Since IASC formation in 1973, the IASC has been trying to improve its body of accounting standards with a view towards promoting the use of the IAS internationally. International Financial Reporting Standards (IFRS)/ International Accounting Standards (IAS) are formulated by International Accounting Standards Board (formerly the IASC). The purpose of IASB is to set international accounting standards and promote international accounting convergence in the whole world. Recently, it turned to be more and more popular and gained more agreement in the world. For example, “the EU has embarked on a major program of harmonization, including measures to coordinate the company law, accounting, taxation, capital market, and monetary systems in the EU countries”.

4.2.1.2 Adopting IFRS/IAS (For Instance: Norwegian Case)

In regard of implementing IFRS/IAS, Norway is a full adoption country. I studied in Norway, so it is easier for me to get data in Norway. Via investigating Norwegian implementing IFRS/IAS case and comparing the similar and different process, it will help to better study the accounting reform process in China.

Norway is the member of European Economic Association (EEA). According to the EU regulation, Norway implemented IFRS/IAS in its Listed companies in 2005. From the respondents of E&Y Norway and KPMG Norway, they both stated that all Norwegian listed companies must fully adopt IAS/IFRS. From the Macro-level of Norway, the interview respondent Harald Brandsås opinion, IFRS is more detailed and complicated than Norwegian GAAP. From respondents Steinar S. Kvifte (E&Y) and

Veslemøy E. Ellinggard (KPMG), they states that IFRS/IAS are more standards to be understood, more complicated than Norwegian GAAP. For the big listed companies with good foundation, they can deal well with IFRS/IAS, especially for the international listed companies, like Telenor. For most small listed companies, facing the standards exchange, they spent a hard period to accept it. The companies need professional accountants. So, until now, the experts like “Big 4” gave them external support each year. The respondent Steinar S. Kvifte (E&Y) stated that some non-listed company also implemented IFRS, like Postbanken. The respondent Jing-Li. Taklo (Telenor) stated that it is advantage for Telenor to implement IFRS/IAS in Norway. Telenor is an international listed company. It is enrolled in US stock exchange. In the past, Telenor needed to prepare and present two sets of financial reporting, one based on the Norwegian GAAP, and the other one based on the US GAAP. Now, Telenor only prepares and presented one financial reporting, which is based on the IFRS/IAS. IFRS/IAS and US GAAP are similar. In one IFRS/IAS financial reporting, Telenor only noted the different from US GAAP. It decreases the accounting practice working volume. It is easier for the accountants to do accounting work. For international listed company, like Telenor, implementing IFRS/IAS seems having more advantages.

According to the description of Norway above, the thesis can do short comparison between the two countries. China and Norway holds the different accounting background and context. From 2005, Norwegian Listed company followed the EU regulation and full adopts IFRS/IAS. From 2007, China Listed company implement New Accounting Standards, which are convergence with IFRS/IAS, but not equal to IFRS/IAS. First, from the motivation, Chinese Listed Companies and Norwegian Listed companies are both enforced to adopt standards. Second, from the process of implementation, Chinese companies and Norwegian companies are mostly using teamwork and ask for the external support to manage the accounting affairs. From the practice problem of implementation, China and Norway holds both similar and difference. The similar is the two countries both need professional accountants who understand and know well the international rules. Using the new standards, they both

face the complexity of implementing. For Norway, from experts, they thought there are no big registration and measurement change. For the practice people, when they used IFRS/IAS, they are short of implementing freedom as before. About interpretation, although Norway has no uniform standards translation books, there was no big problem from the interpretation problem from language aspect. For China, companies implemented new accounting standards, so they will face some change in the registration, calculation and evaluation. For Chinese companies' respondents, they don't think they have freedom to practice. They must follow the regulation of accounting law and accounting standards, even in the past and now. China has uniform standards translation books. All the practice people follow the same guide.

4.2.2 National Environment

Discussing the China accounting development, it will not separate talking with their specific national environment.

4.2.2.1 Background and history of China accounting

From Wang Guangyuan and Wu Liansheng (2000), Since 1949, China's economy has undergone three periods of change: a socialist centrally controlled, planned economy (1949-1978); socialist commodity economy (1978-1992); and socialist market economy (1992-present). In accordance with the development of China's economy, the development of China's accounting system has also experienced change: the "uniform accounting system" (1949-1978), which served for the centrally planned economy; the transition and the construction of accounting norms (1978-1992), which served for the commodity economy; and the construction of a new accounting system (since 1992), which served for the socialist market economy towards internationalization.

Since 2001, China has been the member of World Trade Organization (WTO). During five years efforts, China has finished this kind of changing until 2006. It is well known that global economy is coming up. If China wants to attend the global economic

activity, China must follow the global rules, including accounting requirement. In order to promote environment and attract the investment, and make Chinese companies go into global capital market, China government decided to reform the old accounting standards. The new Chinese accounting standards are formulated in accordance with the international accounting standards. It will improve the transparency and comparison of financial information to the public. On 15th of February 2006, Chinese Ministry of Finance announced the new accounting standards, which are convergence with IFRS/IAS. The new accounting standards will be first implemented in the listed companies from 1st of January 2007, and other enterprises are encourage to carry out it. From 2007, Chinese listed companies will use the international universal “commercial language” to talk with the public. (Guohua Zhang, 2005)

So far, there are already more than 1,200 listed companies, 174,000 state-owned companies, 82,000 collective companies, 410,000 foreign investment companies, and more than 2,200,000 private companies in China. There will be more and bigger business companies in China based on the existing speed of economic growth. (Xinhua News Press, 2002)

During the process of China’s accounting development, some changes and adjustments were made in order to respond to China’s political and economic movements and development.

4.2.2.2 Context of China accounting

As a Communist country, China’s accounting environment is different from other countries, especially in its political and legal system. In order to have a good understanding on Chinese accounting development, it is necessary to have an understanding of the background of China’s social, political and economic development process, as well as its legal system.

4.2.2.2.1 Political Factor

Chinese Communist Party in China plays the leading role in the Chinese society. The Chinese Communist Party established the People's Republic of China in 1949. The new China takes socialist as its basic political system. Since 1949, Chinese Communist Party influenced China's political, economic and social life strongly.

“The Chinese Communist Party is the primary political force in China. Unlike parties in Western democracies, it is a tightly organized movement that controls and leads society at all levels. The party sets policy and controls its execution through government officials who are also party members. The effect is to make the government an organ of the party.”¹

In the political system, all the national policy or affairs must submit the central government to approve. Therefore, accounting reform as the national reform, it complies with the central government. Chinese politics, therefore, influence on China's accounting development.

4.2.2.2.2 Economic factor

China has undergone several times economic development. From planned economy (1949-1978) to socialist commodity economy (1978-1992), to socialist market economy (1992-present), there are holding different characteristic in the different process. With the changing of economy, accounting system also experienced change to meet the requirement of national economic development. In Chinese context, various economic factors will influence on the accounting obviously. This can be found from contemporary China's economic reform.²

China is actively participating in the global economy and looking for the new economic development opportunity, in the new economic situation, China decided to

¹ Chinese Cultural Studies: Concise Political History of China, download articles about China

² <http://www.mof.gov.cn>

do accounting reform. Economic factors, therefore, determined the contents of China's accounting system.

4.2.2.2.3 Legal system

The China situation has change much since 1979, the state carried out a series of political and economic reform. Before 1979, China was in planned economy. The central government controlled China's economic system. After 1979, China reformed economic system and open door incentives gradually evolved China's legal system along with an accounting system. So, the year of 1979 looks like the different watershed with different legislation feature. Here, I will mainly focus on the legal system after 1979.

China issued accounting law in 1985, which is the symbol of Chinese accounting legal system construction. Guohua Zhang (2005) states that the accounting system reform, which turned the Chinese accounting system to a capital market oriented financial reporting system, served for the market-oriented economy in 1992, and brought China's accounting system more towards standardization and internationalization. China accounting law has become the basic law of accounting in China, and has become the basis of China's accounting work and other related accounting regulations. It defined the essential targets of the accounting work, jurisdiction of accounting management, accounting entity, the essential requirements of business accounting and accounting supervision, the jurisdictions and responsibilities of accounting personnel.

Ministry of Finance (MOF) within the Central Government is authorized department in managing the country accounting affairs. MOF has the authority to formulate the uniform accounting norm system, which included business accounting, accounting supervision, accounting agency, and accounting personnel and the management on accounting affair. And the unified accounting norm systems are drafted, approved and implemented by the Ministry of Finance.

4.3 Reasons for Introducing New Accounting Standards

With the development of global economy and domestic economy, international organizations are achieving to institute the uniform “game rules” in the world scope. Accounting, as the well-known “commercial language” is also formulated by the international organization. More and more countries chose unified accounting standards, like IFRS/IAS, as their basis. For instance, from 2005, EU asks its member that all listed companies to adopt IFRS in Europe. From 2007, China implements the new accounting standards, which are convergence with IFRS/IAS. Why China did this kind of accounting standards reform? Why are the new accounting standards convergence with IFRS/IAS, not completely implement IFRS/IAS? Why China’s accounting has reformed and developed in its own way with its specific characteristic? The vice president of MOF, Jiwei Lou stated in the press conference ‘...international convergence does not mean equal to international standards; China has own national situation, that lead to the little difference from international standards.’³

Why reform? — From Government

China joining the WTO has forced its trade and trade rules to be adjusted to international rules, which in turn have had an impact on the government’s function, especially on macro-management, and also on management behavior in the market. In order to absorb more foreign investment, to finance from international capital market, to invest in international markets and to develop multinational companies, China needs to adjust its accounting standards more in accordance with international traditions, so as to enable outside investors to better understand Chinese enterprise’s financial situations, financial results and potential development capabilities, and also to decrease the companies listed abroad cost for preparing financial statements. The challenge and opportunity concerning Chinese accounting now is to build up a suitable accounting standards system.

³ [http:// www.casc.gov.cn](http://www.casc.gov.cn)

Accounting as a window to the international society, in premier Wen Jiabao's speech, "WTO accession symbolizes China has entered a new phase of opening up to the outside world, and has turned to a new page of restructuring its economic system."⁴

From statistic reports, China has participated in international capital markets by issuing both stocks and bonds overseas. The number of listed companies at home has increased from 725 in 1998 to 1268 in August 2003. At the same time the number of listed companies abroad has increased from 42 in 1998 to 82 in August 2003. Most companies are listed in Hong Kong (66 companies), and there are also some companies listed in the US (1 company) and New Zealand (1 company). There are also companies with simultaneous listings in and Hong Kong and London (3 companies), as well as Hong Kong and the US (2 companies).

Chinese government doing accounting reform is based on the current global and domestic situation. Ian Ball, the Chief Executive of IFAC, states: "The new accounting standards' opportunity for China is the high standards which are similar to those other countries, so win Chinese businesses, for example, to list on the stock market outside of China, people can understand financial statements of the Chinese companies. So with globalization, with China looking to be more international economy, being having standards that similar to the standards used to United States or Europe or someone else in the world, it is the advantageous terms of people are visiting China from outside."

4.3.1 Solve the Inconsistency of International Trade

One of the purpose of reforming the accounting standards is solving the inconsistency of international trade, for instance, anti-dumping complaint. The core solving approach for replying the anti-dumping is accounting work. Whether dumping comes into exist, whether the enterprise is admitted the "market economy position, etc, are all judged from investigating the accounting information by the censorship. It is well know that

⁴ Wen Jiabao's speech, People's Daily, Monday, March 25, 2002

“establishing accounting standards complied with the international accounting standards” is one of the fifth criteria of EU judge the enterprise whether has the “market economy position” or not. Therefore, China needs a new accounting standards and support to deal with the complaint about anti-dumping case from other countries.⁵

4.3.2 Build the Entire Market Economy Position

Building accounting standards and auditing system is one of the basic works for China to consummate its market economy position. It will get positive effect for China to improve the quality of accounting and auditing, facilitate the reform of finance and national enterprise, promote the build of capital market, expedite to carry out the enterprise strategy of “going into global capital market”, strive for the admission of entire market economy position. Thus, it is important for China government to establish a uniform accounting standards based on the international accounting standards system.⁶

4.3.3 Promote the Business Combinations

While absorb the investment, a number of Chinese companies are looking for the developing chance by business combination abroad. Old accounting standards have many differences from the international accounting standards, so it forms an intangible barrier of absorbing outside investment and carrying out the strategy of “going into global capital market”. Otherwise, Chinese company goes into global market, they need present the financial report based on the international accounting standards, so it will increase the transfer cost for the enterprise to use the old accounting standards. In accordance with the international accounting standards will increase the transparency and comparison of accounting information, it will reduce the ingoing risk of capital, and strengthen the confidence of investor. Therefore, China reforms accounting

⁵ [http:// www.mof.gov.cn](http://www.mof.gov.cn)

⁶ [http:// www.mof.gov.cn](http://www.mof.gov.cn)

standards.⁷

Chairman of International Accounting Standards Board (IASB), David Tweedie states in the China government press conference that the new Chinese standards that incorporate accounting principles familiar to investors worldwide will encourage investor confidence in China's capital markets and financial reporting and will be an additional spur for investment from both domestic and foreign sources of capital. For Chinese companies that are increasingly playing a global role, the acceptance of the new standards should also reduce the cost of complying with the accounting regimes of the different jurisdictions in which they operate.

4.4 New Standards: Differences with IFRS/IAS

Reform what? —From Standards

New accounting standards include 1 basic standard and 38 specific standards. Comparison with old accounting standards, new accounting standards fill up the blank, for instance, business combination, government grants, real estate for investment, assets of biology, financial instrument, insurance contracts, oil and gas, stock payment, etc. In the past, China was short of the practice regulations in above, and results in the different accounting practice. The highlight in the reform is bringing into the perspective of “fair value”.

4.4.1 Basic Explanation of New Accounting Standards

Building a set of high quality accounting standards, which are convergence with international standards. It is an inevitable development trend of global economy. They play important role in reducing the decision-making risk of investor, actualizing the efficient allocation of resource, and keeping the domestic financial stabilization

In China, the new accounting standards can be seen the part of the law. It forces the

⁷ [http:// www.mof.gov.cn](http://www.mof.gov.cn)

companies to implement it. From the speech document of vice financial minister, Jiwei Lou said the Chinese accounting standards must adapt to the requirement of the national law. According to the accounting law, China new accounting standards is the part of uniform national accounting system. It is constituted by MOF and belongs to the regulation of department. So, China accounting standards are enforcement.

Old Chinese accounting standards include 1 basic standard and 16 specific standards. It mainly focused on the industry and commerce. New Chinese accounting standards include 1 basic standard and 38 specific standards. New CAS filled in the blank of old CAS, which extend to concern financial industry, insurance industry, agriculture, and real estate, etc. In the speech of Jiwei Lou, the vice financial minister, states that China introduced many new accounting-handling rules into accounting policy, especially for the development of financial instrument and financial market.

From the introducing of Hongxia Li, the Chinese accounting standards include three parts: basic standard, specific standards and implementation guide. In the three parts, the basic standard is in the central position and play the controlling role; specific standards are the requirements, which are based on the standards principle and regulate the rules to some related business and reporting; and the implementation guide is supplement, which is the practice and handling guide to the specific standards.

In the China reform of accounting, the most development is to bring into the concept of fair value. Hongxia Li (Accounting Standards Department of MOF) said: "...according to the international universal requirement, we strictly formulated the definition of accounting basic element, for instance asset, liability, revenue and cost. Clearly regulate the confirming condition for the accounting elements, and emphasize the facticity and reliability of balance sheet. And, while keeping the principle of historical cost, bring into the concept of fair value." The vice financial minister, Ju Wang said: "bring into fair value as the basic of measure, first, it is advantage to improve the

quality and transparency of accounting information in financial enterprises; prevent and solve the financial risk; confirm the financial security and stability. Second, it is advantage to promote the finance innovation and the development of financial products.”

4.4.2 Relationship with IFRS/IAS

China new accounting standards are in accordance with IAS/IFRS. The vice financial minister of China (Jun Wang) said: “While the new accounting standards are suit for Chinese characteristic, it is most similar with IFRS, cover all kinds of business operation and implement the accounting standards independently.”

From the speech of press conference on 2006, new accounting standards introduced new international ideas and accounting practice method into China, for example, the measure of fair valuation, the purchase way of business combination, rights and interests in investment of stock, income taxes, etc. Introducing these measures into China, it make Chinese accounting standards are in accordance with international accounting standards. Adopting “ fair valuation” as the criteria of accounting calculation is the core factor of the reform, and the decision will be in accordance with IAS/IFRS. The new accounting standards are based on the IAS/IFRS, but it is not equal to IAS/IFRS. In three aspects, for example, related party disclosures, switching back of impairment of assets, part of special operations about government grants, China keeps some Chinese characteristics.

Here, from the document and interview respondents, mainly concentrate on the difference between IFRS and CAS. Referring to the responds from government, Ernst&Young China and PricewaterhouseCooper China, all of them have emphasized that the differences mainly come from the China’s specific situation and economic situation and enterprise structure.

According to the three difference standards mentioned above, the paper is going to present main conceptual differences and the reason of difference. The concept is based on the observations and judgments, as well as on the overview of available publications. The most valuable sources for describing the difference are the interviews respondents with the Ministry of Finance (MOF) and experts, representatives from the leading audit and consulting firms Ernst&Young and PricewaterhouseCoopers.

- Related Party Disclosures (IAS 24 VS. CAS 36)

From the IASB's public publication on 2007, the content of the standards are described as follows:

IAS 24 requires disclosures about related parties and the entity's transaction with related parties. The disclosures are required both in consolidated financial statements, and in the separate financial statements of a parent, venturer or investor. Related party relationships are a normal feature of commerce and business. A related party relationship may affect an entity's profit or loss and financial position. Related parties may enter into transactions that would not be undertaken by unrelated parties. An entity's profit or loss and financial position may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect transactions between the entity and other parties. Related party disclosures highlight the possibility that the entity's financial position and profit or loss might have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related parties include:

- other entities within the group
- investors with control, joint control or significant influence over the entity
- key management personnel of the entity or its parent
- a close member of the family of any individual within the categories above
- entities controlled or influenced by any of those above

- associates
- joint ventures
- post-employment benefit plans for the benefit of employees of the entity or any of its related parties.

In the standards, China gave its own different opinion and explanation to it. Starting from the specific national situation, China claims that it will not form the relationship of related parties. From the interview respondent of MOF, Hongxia Li stated: “ there are many state-owned enterprises in China. The special economic situation and enterprises structure decided that the standards difference from other countries. Many enterprises are only the same controlled by the state, but they have no business and controlling relationship at all. So, in China’s opinion, such enterprises don’t need to disclose as related party. From the interview respondent of Ernst&Young, Jiacy Qiu said: “in China, there are the reorganization below the same controlling state. However, in IFRS 3 states, it is no claim about the opinion. In the requirement of China accounting standards, if the enterprises are no stock right relationship, it will not be recognized as related party. So, the enterprises don’t need to present their financial reporting in related party.” However, in IFRS/IAS standards, international financial report standards recognize that, in the same time, the enterprises are controlled by the state, which are be affirmed as related party and require to disclose the transaction information between each other. The vice financial minister, Jun Wang (2006) said: “ according to the special situation of China, if China blindly full adopt the international accounting standards, that will destroy the benefit of our enterprises.” So, that means China’s new accounting standards are convergence with IFRS/IAS, but not equal to IFRS/IAS.

During the negotiation with international accounting organization, China’s regulation about related party disclosure is accepted by IASB. All interview responds from MOF and experts think that it is reasonable to have such the difference from IFRS/IAS for

Chinese enterprises in China special situation. On the February of 2007, the standards about related party was negotiated to revise by IASB, due to the situation of so many state-owned enterprises in China.

- Impairment of Assets (IAS 36 VS. CAS 8)

The content of the standards from IASB public publications on 2007, IAS 36: An asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired. The entity must reduce the carrying amount of the asset to its recoverable amount, and recognize an impairment loss. The standard also applies to groups of assets (known as cash-generating units). The recoverable amount of the following assets must be assessed each year: intangible assets with indefinite useful lives; intangible assets not yet available for use; goodwill acquired in a business combination. The recoverable amount of other assets is assessed only when there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is the arm's length sale price less costs of disposal. The value in use of an asset is the expected future cash flows the asset in its current condition will produce, discounted to present value using an appropriate pre-tax discount rate. The value in use of an asset sometimes cannot be determined.

Impairment might be indicated by decline in an asset's market value; adverse changes in the technological, market, economic or legal environment; increase in market interest rates; market capitalization of the entity being less than net asset value; obsolescence or damage of an asset; plans to discontinue or restructure operations; asset under-performance compared with expected return. Estimating the value in use of an asset involves professional judgment. The valuation inputs should be market-determined, whenever possible. Disclosure is required of key assumptions and estimates used to measure the recoverable amount of cash-generating units containing

goodwill or intangible assets with indefinite useful lives. Disclosure is also required of the adverse effect of reasonably possible changes in those key assumptions.

In CAS 8, the content of standard are keep accordance with IAS 36. From the interview respondent of MOF, Hongxia Li said: “ talking about impairment assets, the method of calculation keeps the same. The difference is the confirmation of switching back of impairment assets.” Hongxia Li also stated: “ in China, the standard of impairment assets will have big influence on the enterprises of holding real-estate business.

The respondents from Ernst&Young China and PwC China stated: “ in China, the development of economy is not in the same level from north to south and from east to west in China. Therefore, it is difficult to measure and constitute the fair value. However, the impairment of assets is related with fair value. To the real-estate business companies, the confirmation of fair value is very important.”

- Accounting for Government Grants and Disclosure of Government Assistance (IAS 20 VS. CAS 16)

From the IASB’s public publication on 2007, the content of the standards are presented as follows:

IAS 20 specifies the accounting for government grants and the disclosure of government assistance from which the entity has directly benefited.

Government grants are transfers of resources to an entity in return for compliance with specified conditions. They include reductions in liabilities to the government. Government assistance is a benefit available to entities that satisfy qualifying criteria. Government grants are recognized when there is reasonable assurance that the entity will comply with any specified conditions and that the grants will be received. Non-monetary grants are either recognized at fair value or both the asset and the grant

are recognized at a nominal amount. Receipt of a grant is not always conclusive evidence that conditions will be fulfilled. Government grants are recognized in profit or loss in the same periods as the costs they are intended to compensate, i.e. they are not recognized directly in equity. If there are no future related costs, a grant is recognized as income when receivable.

From the respondent of MOF, Hongxia Li said: “ in initial period, on February of 2006, China hold the different opinion from international standards. After the negotiation with the international accounting organization, the difference is almost eliminated. From the beginning of implementation, Chinese enterprises will adopt the standards almost the same as the IFRS/IAS. “

There are no obvious difference between IFRS/IAS and new CAS except the standards listed above.

4.5 Process of Implementation

China new accounting standards will implement in the listed companies. The thesis will take China’s enterprise as a case, in which a state-owned integrated listed company, a state-owned single listed company, and a private listed company will be selected separately.

4.5.1 The Opinion from Ministry of Finance Officer

Hongxia Li said: “ starting from listed companies to implement the new accounting standards, there are some reasons: first, listed companies are holding good foundation; second, listed companies have the requirement of transparency in accounting information. They have the responsibility to report and disclose their financial information to the public; third, there is the preparation for the listed companies to go into the global capital market.” So, it is easier to implement new CAS in the listed

companies.

In the speech of financial minister of MOF, Renqing Jin stated: “ in the future, the emphasis of financial supervision and accounting quality information inspecting is on the listed companies, their implementing situation of accounting law and accounting standards.”

4.5.2 The Opinion from Experts

Jiaci Qiu is the partner of Ernst&Young in China. He is one of the experts in my interview. He said: “ the new accounting standards are only for the listed companies to use, but not to all the companies in 2007.” He said: “ China new accounting standards are over 80% or 90% to cover the IFRS/IAS. But, not many accountants understand IFRS/IAS so far.” The respondents from E&Y and PwC both think that using new accounting standards, the listed companies will reduce big transaction costs.

4.5.3 Experience of Chinese Enterprises

From the interview to case companies, there is a general phenomena that most the accountants are not familiar with new accounting standards, even they have received the training from MOF. They are still holding the practice opinion to old accounting standards. In the data collection process, the respondents only knew the old and new China accounting standards, but not IFRS/IAS. Most of them knew the new accounting standards are convergence with IFRS/IAS, but they don't know how to convergence and how to handle it. So, from international experts, MOF officers and national experts, they all think totally new training and education to the future accountants will be the most important problem to China.

Based on the difference between IFRS/IAS and CAS, the paper chose some representative listed companies to collect data. Due to the preparing and presenting their quarter financial reporting period and their first year implementing new

accounting standards, the companies didn't finish the financial figures in the financial statements. Besides introducing the basic situation of the companies, based on the respondents from the companies, here mainly describe the practical problem of implementing new accounting standards.

4.5.3.1 CHANG CHUN FAW SIHUANAUTOMOBILE CO., LTD

Changchun Faw Sihuan Automobile Company is located in Changchun, the capital of Jilin province. The company belongs to China Faw Group Corporation that is the state-owned enterprise and the biggest automobile group corporation in China, established in 1953. Faw Sihuan Automobile Company is build up in 1993. As the first stock-reforming company of the Group Corporation, it enrolled Shanghai stock exchange in 1996. The major businesses of the company are the automobile and accessories of car.

The interview respondent of the company is the Mingxia Gang, who holds many positions in the company. She is the plan finance part minister, CPA, enterprise legal adviser, and senior economist.

Motivation for Implementation

From Mingxia Gang's said: " about the motivation of implementation, the company mainly follow the policy requirement of the state. From the new accounting standards published, the government has required that all the listed companies must implement it from January of 2007. " Faw Sihuan" is the listed company, so from 1st January 2007, it started to use the new accounting standards. It is government requirement, so it is no choice for the enterprise. However, if the enterprises can choose, that will be another way, like keeping the old standards." So, it is enforcement for the company to implement the New CAS.

Process of Implementation

Mingxia Gang said: “ the company mainly depends on the team work to implement the accounting standards. The company has specific department to handle the accounting affair. However, in the implementing process, it also needs some helps from external support, like outside accounting advisory organization.” So, they depended on the teamwork and external assistance to implement the New CAS.

Implementation Problem

There are mainly three implementation problems from Minxia Gang’s opinion. She said: “ some big implementation problem for her company are time, new accounting software, and the understanding and interpreter to the new accounting standards. And also, adopting the new accounting standards, for her company’s characteristic, the parent company of “FAW SIHUAN” is not Listed company. After the publication of new accounting standards, there are more working volume for them because the accountants must prepare and present two financial reporting, one is based on the new CAS and the other one is based on the old CAS. In the past, they only provide one financial reporting based on the old CAS.”

- Time

She said: “ the new accounting standards are published on November of 2006. It is not enough for accountants to prepare and learn it. However, all listed companies must adopt the new standards on 2007. So, the time is a problem.” So, it is a problem for the company to implement New CAS, that is short time of learning and preparing new CAS.

- Software

Mingxia Gang said: “ for new accounting standards, there will be a new accounting software system to fit it. Now, for all companies, there are no new accounting software systems, but they couldn’t use the old systems. So, there is more hand working for them. They must wait for the new software systems developed. However, during the time, accountants will get more work than before.” So, it needs high-tech support.

- Standards difference

Mingxia Gang said: “ the new CAS are convergence with IFRS/IAS. The new CAS

increases many standards than before. Some changing, they have never practice before.”

According the business of her company, Mingxia Gang gave some examples and explanation.

·**Income taxes:** Mingxia Gang stated, in the past, it is free to choose how to handle with the income taxes. Now, according to the new standards, there is the formulation for choosing the income taxes. Compare with past, it is more enforcement for the company.

·**Balance-beginning:** Mingxia Gang stated that based on the new standards, the adjustment of balance beginning of the year is very difficult to manage. The item will have strong influence on the future to the company, if it couldn't be good to handle.

·**Balance sheet:** Mingxia Gang stated that, in the past, the balance sheet list based on not only the liquidity of the assets and liability. Now, the balance sheet is only classified with liquidity and non-liquidity of assets and liability.

·**Profit and loss:** Mingxia Gang said that based on the new standards, the big difference is combining the major operating income with the other operating income. The kind of classification more reflects operation result.

·**Accounting freedom:** Minxia Gang explained that about accounting freedom, it is only discussed in academic level. However, it is no big changing on reality practice. The company must follow the standards regulated. If there is freedom for the company, it is only once in its first time. It must be care of choosing the items of standards, because it shouldn't be changed later.

Consequences of Implementation

Mingxia Gang states: “ although implementing new CAS only several months, it can be say a improvement. It is in accordance with IFRS/IAS, which makes more companies know the international “game regulation” and build a good financial foundation for the company going into global market in the future. From her opinion,

New CAS will not affect the decision making of the company. Now, the company is in the period of learning and understanding period. Although, the accountants are not familiar with the New CAS, from the standards framework and content, it supplements many blanks. That makes the financial reporting can show more enterprise's information, so that the enterprise financial reporting is more transparency for the investors.”

4.5.3.2 YATAI GROUP CO., LTD

Jilin Yatai (Group) Co., Ltd was formed on 19th April 1993, and on 15th November 1995, was successfully enrolled on the Shanghai Stock Exchange. Its total assets have reached 5,200 million after transition mechanisms, capital operation, management creation, structural adjustments and market exploitation. The company is a multiple company holding real estate business. Its major business is real estate, biology, etc.

The interview respondent of the company is the Yueqiang Gao, who is the vice financial president in the company. According the business of his company, Yueqiang Gao gave some examples and explanation.

Motivation for Implementation

Yueqiang Gao said: “ his company implemented the New CAS, because it is enforcement. From 1st January 2007, all the listed companies must use the New CAS. There is no choice.” So, it showed that it is enforcement.

Process of Implementation

Yueqiang Gao stated that the company hold many subsidiary companies, which are located in different cities. Generally, in the large-scale branches, they mainly depend on the teamwork to manage accounting affair. In the small-scale branches, they mainly depend on one or two accountants who are experienced. Sometimes, they will ask for

the support from external experts. Especially these time when new standards established, the accountants in the companies can not well understand the New CAS in the new added standards. The company invited many experts, including government officer and accounting experts to give explanation to all the accounting practice department.

Implementation Problem

Yueqiang Gao said: “ there are many problems in the implementing process. From the New CAS established to the company’s implementation, the time is very short. So, it is difficult to state it clearly now, due to accountants couldn’t understand the new standards clearly.” Based on the current situation of his company, he mainly describes some problems, which the company has.

- Time

Adopting new CAS only several months, it is difficult for the practice staff to understand and use when they face to the so big change.

- Software

In the past, based on the Old CAS, there is a whole accounting software system, so the accounting practice could be handled in the system. Now, before the new software systems developed, all the work depended on the practice people. The volume of working is increased than before.

- Standards difference

Yueqiang Gao said: “ his company has real estate business, in this part, the company face the changing. The problem is how to deal with the concept of ‘fair value’.”

According to the business of his company, Yueqiang Gao gave some examples and explanation.

·investment property: Yueqiang Gao said in the part of investment property, the changing space is big. With the concept of ‘fair value’ introduced, how to identify and confirm it, it will be a problem. The confirmations of ‘fair value’ will strong influence

on the profit and loss to the real estate business. From the state, it is no clear regulation to the 'fair value'. So, the accountants don't know how to evaluate it, in original time, it only depends on their experience evaluation.

·all kinds of reporting statement: He said that from the framework of statement, it was adjusted a lot, for instance, the assets measurement. As regards how to convergence with the IFRS/IAS, it is unclear. In this part, the company more pays attention to other advanced company to learn and imitate. The new reporting forms are based on the old one and copy from other companies so far.

Consequences of Implementation

From the respondents, he thinks it is not so long time to implement New CAS. So, the problem and consequences are not clear. From his own opinion, to the user, it will not have strong influence to them; to the practice, it will not have so big freedom to them.

4.5.3.3 EURASIA GROUP CO., LTD

Eurasia Group Co., LTD is established in 1953. It is typical traditional chain store corporation. The company is enrolled stock exchange in 1993.

The interview respondent of the company is the Shuqin Pan, who is the financial reporting manager in the company. According the business of his company, Shuqin Pan gave some examples and explanation.

Motivation for Implementation

Shuqin Pan said: " according to the requirement of state, all the listed companies must implement the new accounting standards. "Eurasia Group" is one of the listed companies in China. So, it is necessary for the company to implement."

Process of Implementation

The respondent said: " we have a strong accounting department. We depend on the

team work to manage accounting affair.” So, the company mainly depend on the teamwork to handle the accounting affair.

Implementation Problem

Shuqin Pan stated: “ there is no implementation problem for her company. Actually, the old accounting standards almost covered all the operation of her company. There are some differences, but not problem for her company to implement.” That means New CAS include the Old CAS. For her company, the old CAS has met the requirement of business.

Consequences of Implementation

From Shuqin Pan’s opinion, the accounting reform is almost no influence for her company. It is almost no change to user and practice. To user, it will not affect their decision-making; to practice, it will not lead to much trouble. From her opinion, the accounting reform seems no influence to the traditional chain store business.

4.6 Major Challenges and problem for companies

New accounting standards will bring austere challenges into the Chinese companies. It will mainly be represented in two aspects, one is increasing the difficulty of accounting practice, the other one is increasing the complexity of accounting judgment which are more depend on the estimation of accountant and it will cause the increasing of control probability about accounting data. However, the most important challenge for China is to train the professional accountant now.

From the interview, I acquired the information about main challenges for the companies from the government, experts, and companies. The statistics is as following figure 4.

Table 4.1: The main opinion about challenges to implement new accounting standards:

Opinion Nam	High Accounting Education	Training & Retraining System	Company's Implementation Attitude	Accounting software system
Ian Ball	√	√		
Hongxia Li	√	√	√	√
Jiaci Qiu	√	√	√	
Ying Li	√	√	√	
Mingxia Gang	√	√		√
Yueqiang Gao	√	√		√
Shuqin Pan	√	√		√
Total number	7 (√)	7 (√)	3 (√)	4 (√)

4.6.1 High Accounting Education and Understanding the Accounting Interpretation

Implementation issues will be the key problem for China to adopt new accounting and auditing standards. High quality accounting standards need high educational and professional accountants to implement. This change will need people to have a learning process. New accounting standards will bring into big change; therefore, companies should revise the old financial report. Some investor will question for the modifications. However, it is difficult for accountant to give the proper explanations. Understanding the interpretation of international accounting standards will be a big challenge for the company. Ian Ball said: “ international standards of accounting is a ‘book’, it is complicated. People not only know what the standards said, but also need to understand the reasons behind of the standards. In Europe and another place, people are moving to adopt the international accounting standards; it is a very big requirement to do training and education. ” Ying Li said: “ understanding the interpretation and

meaning of new accounting standards will be a challenge.” Jiaci Qiu said: “ understanding the real meaning of new accounting standards need accountant with high education background.” From government aspect, Hongxia Li said: “ with the New accounting standards implementation and China economy development situation, China needs more and more professional people who hold high accounting knowledge.” From the companies opinion, all the respondents thought: “ the new accounting standards increase the difficulty of understanding and practice, the practice people should accept the high accounting education that will be better to understand the standards.”

4.6.2 Training and Retraining System

Training means not only retraining the old accountants but also training entire high education and young professional accountants. Ian Ball states: “ If a country adopts international accounting standards, it should do a lot of training and the students should learn the standards.” Ian Ball also said: “ I think China’s challenges is the people, and it is not any retraining, it is just training and education.” Jiaci Qiu stated: “ the big challenge for company is to train the people. For accountants, they should start to learn the new accounting standards.” Ying Li said: “ Training is not only to accountants, it will be a systematic project. It needs company to study from top to down.” The Chief Executive of Ernst&Young, James S. Turley said: “ China need to have a lot of professional accountants by training.” People are the core factor for every country to adopt the IAS/IFRS, and training professional accountants will be a big challenge for Chinese company. Hongxia Li said: “ from the government, government has organized many training conference and seminar all over the country. The purpose is to bring up the eligible accountants as soon as possible.” From the companies’ respondents, they stated: “ the companies need time to train people to understand and implement the new accounting standards.”

4.6.3 Implementation Attitude from the Companies

From the experts' opinion, the attitude from the companies is one of the challenges for implementing the new accounting standards. Ying Li said: "through convergence towards international standards, China reform the accounting standards. This is an entire accounting system update. Whether the companies support the new accounting standards or not, is a challenge for the development of new standards." Yiqing Dong said: " 'actors' implementation attitude will influence the development of the new accounting standards." Hongxia li thought: "the government hope the companies will actively accept and implement the new accounting standards."

4.6.4 Requirement of New Accounting Software System

The requirement mainly focuses on the companies. With new and old accounting standards exchange, there are the requirements of accounting software exchange. From companies' respondents, they stated: "in order to reduce the volume and operation complexity, they need the new accounting system which are in accordance with the standards." Hongxia Li said: "the difficult is not only in the implementing process, but also in the computer software system reform. In order to suit for the new accounting standards, the government is organizing to develop the new computer software system and reporting system."

4.7 Summary of the Empirical Part

In the empirical part, the thesis encloses the questions in the introduction part to collect data, for instance changes in environment of Chinese accounting, reasons for introducing new accounting standards, the differences between New CAS and IFRS/IAS, and the process of implementation. The data collections are from both Macro-level and Micro-level. From the government, mainly obtained the motivation of reform accounting standards; as the link between government and companies, the

experts knew the general problems in the process of accounting standards changing; from the listed companies, it showed the actual implementing troubles and problems when companies adopted the new accounting standards.

5. ANALYSIS

5.1 Structure of Analysis

The analytical part will be based on the data collection of the empirical part. The theories and the models in the theoretical part will mainly be used to analyze and interpret the empirical findings.

The first section presents that the New CAS is convergence with IFRS/IAS as the main idea of reforms in China. Based on the rational theory, the part mainly analyzes accounting change follows economic development in China; accounting is an important means of internationalization of China in a global economy; not only traditional harmonization advantages, but also “window to the international market” and solving the international disputes; and analyze the reform is not “full adoption” but “convergence” to IFRS/IAS.

The second section mainly based on the institutional approach to analyze the reform process in China. Based on the picture summarized here, using three mechanisms of institutionalization theory to analyze the relationship in the accounting process. In the part, it also uses the “epistemic community” theory to analyze the role of professional experts in the reform process. The part emphasizes that changing in accounting (adaptation of IAS/IFRS) is characterized by hierarchical process supplied by normative and mimetic processes.

The third section, based on the accounting technology perspective, mainly focuses on the accounting system and process. In the part, according to the empirical part, here mainly uses the model presented on the Figure 2 in the theoretical part to analyze the

norm, practice and user system. The case companies' feedback will be the evidence of the part.

The fourth section is consequence of accounting changing in China. In the section, the thesis will summarize the gap in the reform process in China. And it will show the main problem for China to develop and implement the new accounting standards.

5.2 Rationals Analysis

5.2.1 Accounting Change Follows Social and Economic Development in China

From the document and respondent in empirical part, the China authorities' incentive is to fit for the development requirement of China market economy, joint with the global capital market, and promote China's economy development. In the empirical data, it has clearly presented that social and economic development always accompanies with accounting change, and accounting change always follows social and economic development in China.

5.2.1.1 External Environment Influence

With the development of the world economy rapidly, global harmonization turns to be the trend, including rules, principle requirement. IFRS/IAS, as the universal accounting standards, holds more and more influential power in the global scale. It claimed that the harmonization of accounting standards in the world. In the open and free global market requirement, transparency and comparability of financial information is the basic requirement.

The worldwide situation of the trade liberalization, rapid development of communication and global information networks, and the spread of market-oriented economies, the globalization of the economy is increasingly becoming widespread and

pervasive. This revolution in economic environment affects all enterprises in different countries, whether they are catering to only the domestic markets or to international markets. One manifestation of the increasing pace of globalization is the intensification of competition within and across national boundaries. Competition is increasing not only for international and domestic markets of products and services but also for attracting increasingly mobile investments and capital.

Joining World Trade Organization (WTO), China has been forced its trade and trade rules to be adjusted to international rules. In order to attract more foreign investment, to encourage more domestic companies enrolling to global capital market, to finance from international capital market, to invest in international markets and to develop multinational companies, China must reform its accounting standards, which are more convergence with IFRS/IAS. That will enable outside investors better to know Chinese companies' financial situations, operation results and potential development competence, and also to decrease the transaction cost for preparing financial statements.

As similar as other countries in the world, China's accounting is more and more affected by international factors. These influences can be seen mainly from WTO and the standards convergence with IFRS/IAS.

To be the member of WTO, that means China has to follow the commitment to reform its political, economic and legal system to adapt to the change in the global economic environment, in order to get the permission to take part in the competition in the world market. As the situation, China's economy is turning more suitable to the international economic environment, which has driven China's accounting system to more open itself to the outside world. China's position in the WTO, it pushed its economic environment to integrate into the international environment, and more or less to be in harmony with the international economic activities. As a part of harmonization, therefore, it caused China's accounting standards further internationalization, like the

new published accounting standards, which are convergence with IFRS/IAS in order to keep in line with the international accounting step.

5.2.1.2 Internal Environment Influence

In China, talking about any reform, it shouldn't disengage its specific internal political and economical and legal environment. These internal environment links all kinds of political, economical and society reform. It also plays important role in the China accounting standards reform.

- Political

As stated in the empirical part, though there are many factors to influence on the China's accounting standards reform, the Party still keeps its control over China's reform.

The government was and is still playing the leading role in China's accounting development. With governmental direction and macroeconomic policy, the Party still had a strong effect on standards setting. Thus political influence may still influence on the direction of China's accounting development.

- Economical

China's economy has developed more and more towards a market economic system during over 20 years of "reform and open door" policy. Now, the state-owned economy is decreasing year-by-year, however, the private economy is increasing with support from the government.

From 1992, the government emphasized that the destination of Chinese economic reform was to set up the socialist market economy system. Recent years, reforms of state-owned enterprises (SOE), enabled SOEs to run business according to international rules. And it reinforces SOEs' competitive advantage. Not only SOEs are permitted by the government to sell part of their stocks overseas, but also international

companies are permitted to buy the shares from the Chinese state-owned enterprises. The kind of communication promoted the Chinese companies listed overseas and gets abroad investment.

With the economic development turning more and more rapidly, new economic elements disclosed, such as the business combination, investment of real estate, and so on. In order to adapt to the new economic situation, it needs new accounting standards to meet and serve the new economic activity.

With the persistent development and new emerging economic appeared, economic factors also decide the accounting standards development. In the new economic situation, it needs new rules to sustain the development. Accounting as the “world commercial language”, IFRS/IAS has been widely accepted in the world scope. Convergence with international accounting standards, it is the easier method for China to find a way to solve and handle the new economic operation. For China, another purpose of convergence with IFRS/IAS is to cost less when preparing financial reporting for international investors and for international investments.

- Legal

There are a series of legal measurements to ensure the society and economy development. From 1949, the economy has been ongoing the several changes and reforms. Each time, the economic reform was companied by the accounting standards reforms. Now, in the global economic situation, there must have new accounting standards to adapt to the new emerging economic development.

In China, the Ministry of Finance (MOF) has been the responsibility to institute the accounting affairs. MOF is as the authorized department within the central government, it has full power to regulate and guide the development of accounting reforms. As the part of law, the accounting standards hold absolutely enforcement power in the view of enterprises. The enterprises must follow and implement the accounting law and

accounting standards. The governmental legal system ensures the coherence and uniform. China government holds huge state-enterprises and private enterprises located in different places, in the situation, so it is necessary for the government to connect the accounting standards with the law. The accounting standards are enforcement and regulation to the enterprises, which make all the enterprises implement it as the same time.

So, the analysis made above here showed that China's politics decided the direction of China's economic development and accounting; China legal system support the process of China's economic development and accounting system.

5.2.2 Compare with Traditional Harmonization Advantage

From the theory, it has presented the traditional advantages by international accounting harmonization. The global accounting harmonization will promote the global economy and eliminate the misunderstanding about the reliability of foreign company's financial statements, so as to increase the flow of international investments. Wong (2004) also described the benefit from the harmonization.

According to analyze the Chinese case, here will give another two benefits of accounting harmonization.

- “Window” to the international markets
- Solve the international disputes

In the new economic situation, global accounting harmonization turns to be the development trend. In China's case, the benefits from harmonization are not only “traditional” advantages, but also some “new” advantages, such as “window” to the international markets and solving the international disputes.

Firstly, the opinion from secondary data and interview respondents, they all emphasized if China's enterprises expect to further development in the global

economic situation and absorb more investment abroad, they must prepare and present the financial reporting more transparency and comparability. The reason facilitates the China's accounting change, which are convergence with IFRS/IAS. The harmonization is the way to take part in the international markets.

Secondly, the accounting harmonization will solve international disputes, for instance, anti-dumping complaint. The key method for replying the anti-dumping is accounting work. Whether dumping existing, it will be judged from investigating the accounting information by censorship. Therefore, China needs new accounting standards, which are convergence with IFRS/IAS and support to deal with the complaint about anti-dumping case from other countries.

5.2.3 Idea of Convergence with IFRS/IAS

With the accounting harmonization, there are different solutions from different countries, for example full adoption IFRS/IAS, adaptation (convergence with) IFRS/IAS, and persist in using national GAAP. Facing the different solution, China chose to be convergence with IFRS/IAS. That means translating IFRS/IAS to National CAS.

In empirical part, it has explained the China's specific economic characteristic. For example, China has a number of state-owned enterprises and they all controlled by the state. The standard about related party disclosure, first, IFRS/IAS requires the enterprises controlled by the same organization, they must disclose their business as related party. However, for China's state-owned enterprises, although they are controlled by the same state, most of them are no stock-right relationship and business relationship. Thus, in new CAS, China gave the different explanation on "related party disclosure". That is if there is no stock-right relationship and business transaction relationship between the enterprises, the enterprises don't need to present their financial reporting as "related party". Meanwhile, the relationship between bank and enterprises is a good example. Bank fund loan to state-owned enterprises, and

state-owned enterprises pay the loan back to bank. They are all controlled by the state. There are only the debit and credit relationship, but no business transaction and stock-right relationship between each other. So, they don't need disclose as related party.

Based on the analysis above, if China blindly carried out full adoption IFRS/IAS, it must be harm to the benefit of enterprises in some specific characteristic. Therefore, China's CAS is convergence with IFRS/IAS, but not equal to the IFRS/IAS. In some aspects, China keeps its difference.

5.3 Institutionalization Approach Analysis

The opinion from Meyer and Rowan (1977), in order to gain legitimacy and survival, organizations adopt to myth of environment or wider culture. According to Pawan Adhikari (2005) opinion, the institutional factors exercising pressure on organizations vary from a broader social-cultural norm to political ideology and from resource dependency and to legitimacy. Accounting is institutionalized by a national culture, economic environment and legal system. The liberation of China since 1949, Chinese accounting strongly depends upon its political, economical and culture. Zhang (1992) stated that Chinese modern culture which was created in the light of the socialist structure where the relationship of production and economic basis have changed radically after the founding of the People's Republic of China. In China's case, for example, the uniform accounting system was established in 1952, which was due to the establishment of the new social political and economic system; the simplification of accounting methods in 1958, which resulted from new political and economic policies; and the announcing of Accounting Standards for Business Enterprises (ASBE) in 1992 came from responding to a newly established socialist market economy system; the promulgating of new accounting standards in 2006, which came from the new international worldwide trade and global economic development.

Accounting as the product of the society, the accounting standards are seen as the part of regulation law in China. The enterprises must attend to adopt the institutionalization (accounting standards), in order to dominate the environment and keep the purpose of survival. Even from the beginning time to presence, sometimes, the organizations will cause to lose some efficient.

China has a strong central government. And the government has dominant strength to carry out the reform. The Ministry of Finance within the central government is authorized department and plays a central role in the reform programme. Therefore, in china's context, the accounting reform will start from "top" to "down", and from "macro-level" to "micro-level". First, according to the economic and political situation, the government will discuss with enterprises and professional experts to constitute a draft, and unofficially announce it to obtain feedbacks, which will be used for the revisal. Second, after the amending and modification time, the government publishes the formal standards officially, and all related institutions required must implement it. It will be a constitutional agreement and be enforcement to the organizations. Third, IFRS/IAS and China new accounting standards will interact with each other about the content of the standard, for example the standard about related party disclosures.

According to the description in the empirical part above, I summarized a picture about China accounting reform. Related to the internal environment, first, The figure will show the process how the government instituted the new accounting standards, and how listed companies implement the new accounting standards in the beginning time, and how the professional experts involved in the reforming process, and what kind of different positions held by the different participants in the China accounting reform. Second, the figure will represent the relationships between government, experts and companies in China accounting standards reform. Third, in regard to the external environment, the figure will describe the relationship between IFRS/IAS and China accounting system.

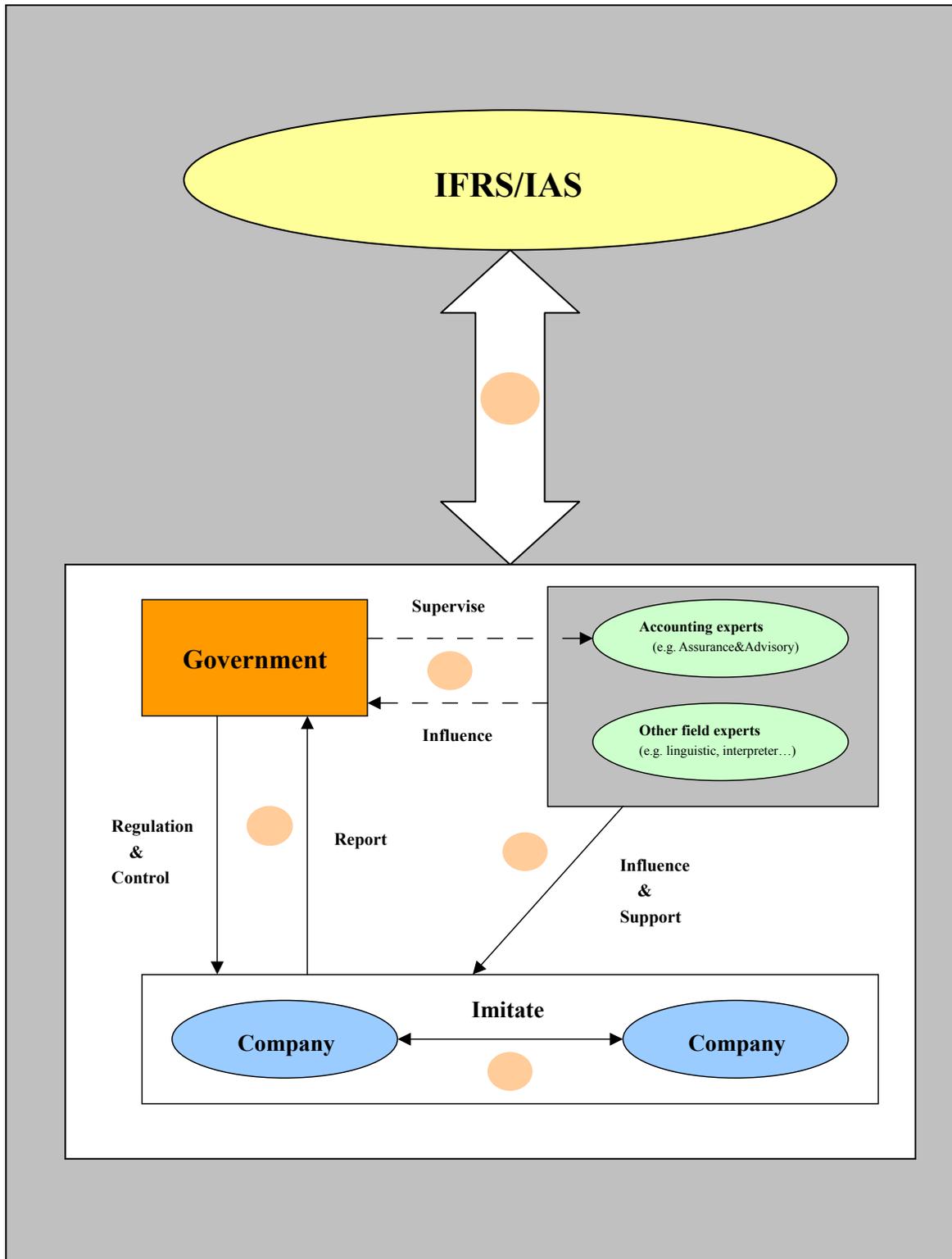


Figure 5.1: The Process, Relationship and Environment in China Accounting Reform

5.3.1 Mechanisms of Institutionalization

DiMaggio and Powell (1983) propose three major ways in which an organization conforms to the symbolic order. The three mechanisms are coercive, mimetic, and normative processes. Based on the theory and combine with the empirical part, the thesis analyze the current situation of accounting reform in China

According to the figure (3) above, China's accounting reform is involved with four parties (government, experts, company, and IFRS/IAS) and five link-processes between each other. Based on DiMaggio and Powell (1983), the relationship can be analyzed and explained as follows:

- **The process I:** The process discloses such a kind of enforcement and obedience relationship between government and companies in the reform. China government constitutes and regulates the accounting standards in the reform process. And the new accounting standards, as the part of law, the government enforces all the listed companies to implement. The companies must implement it and report to the government as the requirement. If the listed companies refuse implementing, they will be punished. So, the relationship can be seen as a coercive process.
- **The process II:** The process describes such a kind of imitating relationship between companies and companies when they implement the new accounting standards. From the respondent of "YATAI GROUP", in the new standards, which increased some new rules, for example the new standards to real estate business. To some companies, they have never managed it before, in the situation, they will imitate or learn the preparing and presenting experience from the advanced companies. So, such a relationship can be explained as a mimetic process.
- **The process III:** The process presents such a kind of supporting and influencing relationship between professional experts and companies. According to the

respondents' opinion of "FAW SIHUAN" and "YATAI GROUP", new accounting standards are more complicated and difficult to use and understand. Therefore, they need to ask for the support from the external experts. For example, the professional experts will provide support and assistance to the companies by training and education system. In the process, the experts will influence on the enterprises' accounting practice. So, the relationship can be recognized as normative process.

● **The process IV:** The process represents such a kind of interactional supervising and influencing relationship between the government and professional experts. The part looks like no pure relationships between government and experts. It looks like neither totally control influence nor supervising relationships between each other. That is difference from the other process mentioned above. However, from the official public speech documentary (2006) and respondent of interview, the officer stated that China government organized an advisory group to discuss the detail information of accounting reform before MOF established the new standards. The experts of the advisory group are coming from the different field, for instance the professional accounting organization (like Big 4), academic institutions, linguistic organization, and enterprises, etc. In the process, it seems like a normative process. The experts are influence on the standards establishing by their professional knowledge and experience. But, from the other sides, the government will supervise the behavior of the professional accounting experts. For example, the auditors of "Big 4" or national assurance companies hold the tasks of auditing financial information of the listed companies. Auditor as the part of professional experts, the government will supervise their audit behavior. The purpose is to ensure that they provide the authentic and effective audit financial results to the public. In the opinion, it seems like government holding coercive relationship to the professional experts. So, from my opinion, I identified the process is both coercive and normative process. The coercive and normative degree is weaker than the process I and III.

● **The process V:** The process illuminates such a kind of interaction relationship

between IASB and China (IFRS/IAS and CAS). According to the respondents of MOF and professional experts, they stated that China new accounting standards are convergence with IFRS/IAS, and the China accounting standards also affect the revision of IFRS/IAS. For example, based on the China's specific situation of own-stated enterprises and requirement of China accounting standards, IASB has revised the content of standard about related party disclosure. Therefore, the relationship can be explained the normative process, and they influence on each other.

5.3.2 Epistemic Community Analysis

Laughlin and Pallot identified a group as “epistemic community”, which is the linkage between the world of idea and the world of action. The “epistemic community” holds the professional knowledge and technique to affect the development of the reality. In China's accounting reform case, there are some professional experts (e.g. Big 4) to be the role of “epistemic community”. They connected with both the central government and enterprises to influence on the reform process.

In China accounting reform, the professional accounting experts are the representatives of “epistemic community”. They link with government and enterprises, and utilize their professional knowledge and experience to influence on the accounting development. To the government, the professional experts are facing policy decision makers; to the companies, they are facing the policy-implementing actors. Their unique position is dependent on their professional ability to convince that they can suggest good solution to the government, when the government meet the particular problems in the reform; and their professional ability also convince that they can help the companies to solve the practice accounting problems, when the companies implement the new accounting standards.

Therefore, the professional experts as the specific community, they play the linkage role in China accounting reform. Their ability will promote the accounting standards

development.

5.4 Accounting System Analysis

High quality accounting standards need high education and professional people to understand and implement. Now, China requires a number of professional accountants with international perspective. From Ian Ball, MOF and professional experts' opinions, how to train the professional accountants, how to carry out the high accounting education to the people, how to use the new technique to promote the accounting development, and how to change the attitude of the companies has been the major challenges for China to implement the high quality norm system.

Based on the model (figure 2.2) in the theoretical part, it presents all possible relationship of the accounting system change. According to the data of empirical part, both MOF officer and listed companies' respondents mentioned that the current global economic environment cause the new accounting standards reform in China. The enterprises require going into global capital market and acquiring more investment abroad, in the current situation, they must implement convergence accounting standards and present their financial reporting more transparency and comparability. So, the environment will affect the China accounting reform, both norm system and action system.

Context and environment are one of the influence factors in accounting reform process. The accounting system itself also will learn from its own experience and innovate. For instance, the implementation time goes by, both the government and enterprises will aware the problems; they will improve and innovate from themselves. And the different part in accounting systems will also learn from each other. In China's current situation, there is an important element involving with the accounting system change---it is the "professional experts".

Based on the description of above, the thesis illustrates the current accounting system and discloses the relationship between each other. The process I in the summarized figure 5.1, there is a “bridge” of accountants, who are recognized as the “professional medium” and links with the government and companies. And, the competence of accountants inside the companies will strongly affect the development of China new accounting standards.

According to Mellempvik’s accounting process model, norm system, practice system and user system will influence each other. Norm producers always hold the good expectation to constitute the efficient norms, however, actions will drive the result.

5.5 Consequence of Accounting Change in China

In the new situation, the new accounting standards increase the difficulty of accounting practice, and more depend on the professional technique of accountants. The influences from accountants are stronger than before. In the new situation, professional accountants seem like an independent group. They hold very important linkage position between norm and user. Now, the accountants more like a bridge, medium or agency to connect the norm system and user system. Based on the analysis, the thesis summarizes the gap in China accounting reform, and the figure is as follows:

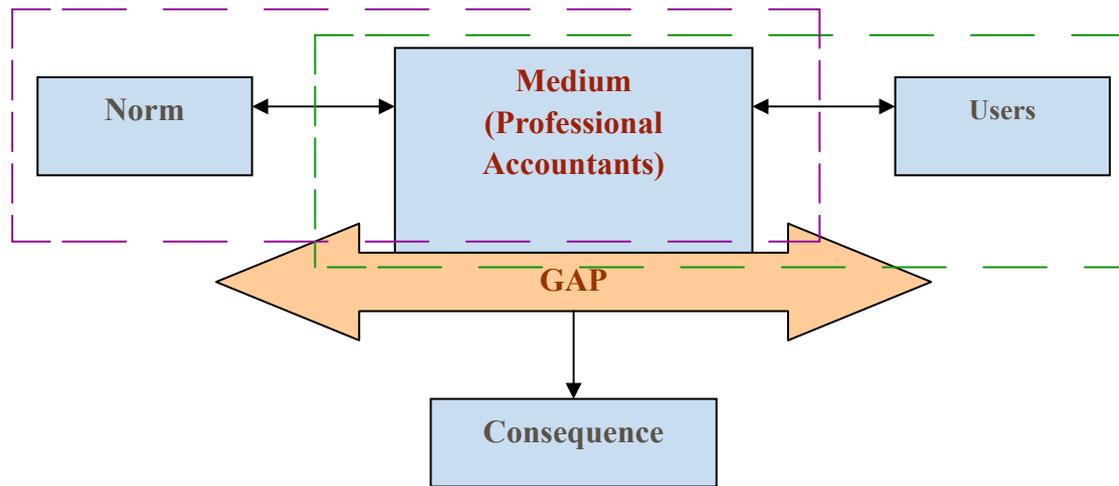


Figure 5.2: The Gap in China Accounting Reform

Therefore, solving the gap (professional accountants) will be the core problem for China to develop its accounting systems. In the new situation, the big gap for China is short of professional accountants with international perspectives and it will cause the root of the challenges arisen.

6. CONCLUSION

6.1 Summary of the Study

The purpose of the thesis is to explore challenges for Chinese companies to implement IAS/IFRS and its implication relation between IAS/IFRS and China New Accounting Standards. Meanwhile, the research to Norwegian experts and company, the aim is to help to find out what is the similar and difference issues happened in the accounting reform process.

The thesis has chosen the following problem statement for the study:

How is IFRS/IAS Adopted in China?

The thesis described and analyzed all the relevant data, based on the theoretical framework chosen. In the theoretical part, the thesis mainly chose the theories from three aspects: accounting technology, institutionalization approach and rationales for global accounting. These theories chosen are mainly based on my research purpose and the problems I want to solve in the research. Using rationales for global accounting, the purpose is to use the theory to explain the context of China accounting reform and analyze the issue how the global harmonization influence to China; Choosing the technology perspective from several main aspects such as the accounting activity, accounting function and accounting system, it analyzes and solve what is the key actors in the reform and how the accounting system reform; Adopting the institutionalization approach, the purpose is to analyze the institutional environment, the implementing process, and relationship between the different parts in China's accounting reform.

In the empirical part, it collected data from three hierarchical, such as the standards constitutor, accounting professional experts, and three typical listed companies. The

data from Macro-level to Micro-level, it analyzed and answered the main questions in China accounting standards reform process: How has the environment of Chinese accounting changed? What are reasons for convergence with IFRS/IAS in China? What is the new finding in new accounting standards from perspective of accounting as technology? How can we understand the process of accounting institutionalization in China?

According to the analysis conducted, the thesis analyzed the different aspects to reveal the challenges and problems in China accounting reform. And, based on the empirical data, the thesis summarized the two figures: one is to illuminate the process and different relationships in China accounting reform; and the other one is, in current situation, to present the gap of China accounting reform.

- Implementation process and relationship in China accounting reform (figure 5.1)
- The Gap in China new accounting reform (figure 5.2)

Via the two summarized picture, the thesis systematically explains the situation, process, relationship and problem in China new accounting reform.

Enclosing the problem statement and combining with the research data, it answered the questions presented in the introduction part of the thesis.

- Firstly, from the external environment, the trend in development of global economy and capital markets has affected the process of China accounting norm setting and accounting practices. Global accounting harmonization influenced on China new accounting standards convergence with IFRS/IAS. From the internal environment, China government encourages the domestic enterprises enrolling the global capital markets to seek the further development. In order to absorb investment abroad and solve the economic trade inconsistency (e.g. anti-dumping), China government started to reform the accounting standards and to make enterprises' financial information more

transparency and comparability. With the external and internal environment situation, it is the main motivation and reason for China government to do the accounting reform.

- Secondly, about the relationship between IFRS/IAS and new CAS, the new CAS is convergence with IFRS/IAS. However, the convergence is not totally equal to IFRS/IAS. The standards on “related party disclosure” (IAS 24 vs. CAS 36) and “impairment of assets” (IAS 36 vs. CAS 8) are difference between IFRS/IAS and CAS.

- Thirdly, different communities play the different roles in the reform process and they have interaction relationship between each other. Between government (Macro-level) and companies (Micro-level), they have the enforcement and obedience relationship. As the part of law, the government set accounting standards, and the listed companies implement it. Between government and professional experts, they have influence and supervise relationship. Government constitutes accounting standards; meanwhile it will absorb the suggestion and advise from professional experts. Afterward, auditor as the part of professional experts, government will supervise their audit behavior. The purpose is to ensure that they provide the authentic and effective audit results. Between professional experts and companies, they have the influence and assistance relationship. The professional experts will provide support and assistance to the companies by training and education system. This will help companies knowing and understanding new accounting standards. So, the professional experts will influence the practice behavior of companies. Between companies and companies, they have imitation relationship. Due to the first time to implement new accounting standards, the companies will learn and copy from the advanced companies when they prepare and present their financial reporting. Between the internal (CAS) and external (IFRS/IAS) environment, they have the interaction relationship. Based on the IFRS/IAS, China government reforms its new accounting standards. However, the China new accounting standards also influenced on the revisal of IFRS/IAS, for example the standard content about related party disclosure.

- Finally, in the accounting reform, the companies will face the challenges and

problems. The professional accountants will be the most important factor to decide the companies implementing the new accounting standards. The accountant with high accounting education and international perspective, the efficient training and retraining system, and high-tech assistance system, these are all influence the further development of China accounting reforms.

6.2 Limitation of the Research

To any case study, the existence of limitation is a common feature, and it will not be avoided. It also has the study limitation in the thesis. The feature will be influence on the empirical finding. About methodology part, it is also involved in the choice for the research. The thesis presents and analyzes how IFRS/IAS adopted in China. In the current situation, shaping the picture of IFRS/IAS implementation in China, while the thesis also mentioned the potential limitations in the research.

Firstly, the thesis investigated changes in accounting practice and use based on small number of cases. The interview respondents in China part are chosen from MOF (Ministry of Finance), Ernst&Young, PwC, and three Chinese listed companies. Due to the research limitation of number, the thesis tried to choose the representative companies involved in the new accounting change.

Secondly, the research of thesis covers rather short implementing time in China. It is only a short time for China listed companies to start to implement new accounting standards. And the accounting reform is a dynamic process. With the accounting reform and implementation going deeper and longer, the new data and new facts will come out. It will enrich the study of the thesis.

Thirdly, there are also some limitations coming from the choice of the methodological approach. For example, the thesis chose interview as one of the research method. The

kind of method will bring strong subjectivity. So, each method will have its own advantage and disadvantage. The methodological choice will also bring the limitation into study.

6.3 Proposals for Further Research

Based on the limitation of the study represented above, the proposals for further research can be suggested. With the implementation of Chinese new accounting standards going deeper and longer, the more actual facts and problems will emerge and need to be researched and explored. Therefore, the further research can trace the track of China new accounting implementation to study.

First, the further study suggestion is to solve the issues how interaction between IFRS/IAS and CAS in the future. In the dynamic accounting development process, both national and international accounting standards will seek the further development. How will they influence on the changing of accounting harmonization? It needs to further explore.

With the implementation time going, the second opinion about further research is to study whether it facilitates the Chinese companies' development or not, when the companies implemented the new accounting standards convergence with IFRS/IAS. The purpose is to study whether such a kind of accounting harmonization is fit for the economic development of each country.

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Appendix 1

Interview Guide for Institutional constitutor

General information about China accounting context

Part 1. Motivation for Constitute and Implement IFRS

1. Why China government reforms new accounting standards, convergence with IFRS?
2. Why listed companies have to implement IFRS?
3. Would the companies like to implement new accounting standards or not? Why?

Part 2. Standards difference from IFRS

4. What are major differences between China new accounting standards and IFRS? (e.g. Which standards are convergence with IFRS? Which are having big difference from IFRS? Which are not described in IFRS?)
5. How the difference will effect on the financial reporting of companies?

Part 3. Practice problem of IFRS implementation

6. What are the challenges that companies will face in the process of implementing IFRS? (e.g. in norm—translation, understanding; in practice—registration, measurement; in use—reporting, decision-making)
7. Which standards are most difficult for companies to implement? Why?

Part 4. Consequences of implementation

8. How do IFRS influence practice and use of accounting: techniques of registration and measurement, reporting structure, content of reports, and decision-making process from your point of view?
9. Government constituting new accounting standards, from your point, what is the

advantage and disadvantage?

Appendix 2

Interview Guide for Experts

When did Chinese companies start to use IFRS?

Part 1. Motivation for Implementation of IFRS

1. Why did enterprises implement IFRS in China?
2. Did all Chinese companies implement IFRS? (If not, what kind of companies implemented?)
3. Is it their strategy? Is it enforcement?

Part 2. Scope and Process of implementation of IFRS

4. How did Chinese enterprises implement IFRS? (e.g. responsibility allocation, team work, more individual way of implementation, specific reports, meetings, professional programs for implementing step by step)
5. What kind of implementation way did in China?

Part 3. Practical Problems with Implementing of IFRS

6. What are major differences between Chinese accounting standards and IFRS?
7. - Did Chinese companies meet some problems (troubles) in interpretation (translation, understanding), in practice (registration, measurement), in use (reporting, decision-making)?

- What are the problems (troubles) that Chinese companies faced in the process of IFRS implementations? (e.g. first to use IFRS, and now)

Part 4. Consequences of implementation

8. How did IFRS influence practice and use of accounting in China? (Techniques of registration and measurement, reporting structure, content of report, decision-making

process)

Part 5. Suggestion and Prediction

9. What is your suggestion to China when Chinese companies implement the IFRS?
10. Predict from your opinion, what is the major difference of implementing IFRS from Norway and China?
11. Implementing IFRS, what is the advantage and disadvantage for both Norway and China to do the business and trade in the future?

Appendix 3

Interview Guide for Case Company

Part 1. Motivation for Implementation of IFRS

1. When and why did your company implement IFRS? Is it enforcement or not?
2. Where does the IFRS idea come from?
3. IFRS and Chinese GAAP, which one does your company prefer to use? Why?

Part 2. Process of implementation of IFRS

4. How did your company implement IFRS? (e.g. team work, more individual work, external support, or some special process, etc)
5. What standards are most relevant and important for your company to use? Why?
6. Did your company prepare and present any reports concerning the process of IFRS implementation? What did the report consist of?

Part 3. Practical problems of implementing IFRS

7. So far, what are the major problems for your company when your company implemented IFRS? (e.g. interpretation, language, expression, the competence of implemental person, etc)
8. What kind of problems did your company have in practice part: registration, measurement, etc?
9. What kind of problems did your company have in use part (management): communication, decision-making, budgeting?

Part 4. Consequences of implementation

10. Due to implement IFRS, for your company, what consequences are caused in accounting practice part? (e.g. registration, measurement, etc) Did your company get

benefit from the change?

11. Due to implement IFRS, for your company, what consequences are caused in use part? (e.g. decision-making, different external and internal reporting, etc) Did your company experience any changes in reporting structure?

12. What consequences does IFRS cause for the process of managements decision-making? Are there some changes?

13. How do you evaluate the process of IFRS implementation? Is it new and better way for making decisions and reporting? Why yes / or why not?