

**IFRS ADOPTION IN CHINA AND ITS IMPLICATION. THE
CASE OF CHINESE LISTED COMPANIES**

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List of Abbreviations

IFRS: International Financial Reporting Standards

IASB: International Accounting Standards Board

IASC: International Accounting Standards Committee

EU: European Union

GAAP: Generally Accepted Accounting Principles

FASB: Financial Accounting Standards Board

SEC: Securities and Exchange Commission

FPI: Foreign Private Issuer

CAS: Chinese Accounting Standards

CPA: Certified Public Accountants

CASB: Chinese Accounting Standards Board

ASBJ: Japan Accounting Standards Board

IMF: International Monetary Fund

WB: World Bank

IBRD: International Bank for Reconstruction and Development

APEC: Asia - Pacific Economic currency

WTO: World Trade Organization

ISAR: International Standards Accounting and Reporting

CICPA: Chinese Institute of Certified Public Accountants

CSRC: China Securities Regulatory Commission

M&A: Merger and Acquisition

MOF: Ministry of Finance

Accounting Standards for Business Enterprises

IAS: International Accounting Standard

Abstract

This thesis investigates how the International Financial Reporting Standard (IFRS) is adopted in China and its implications. The main studied questions are: How had the accounting industry changed in China due to IFRS? What are the reasons for China's convergence of IFRS? What are the new accounting standards for China? What is the difference between the new Chinese Accounting Standards (CAS) and IFRS? Most representative listed companies in China were selected for analyzing their relationship with CAS in different factors. Such as political environmental factors, motivation of the reform, challenges during the implementation, ect.

In light of the development of the global accounting unification. To minimize the impact of difference between the environmental and culture, the Chinese government had to choose to adopt part of IFRS and implement the new CAS to take part in the economic globalization. Thus, minor differences between the new CAS and IFRS still exist. From 2007 onwards, all listed companies in China are required to implement the new CAS. Facing with the new accounting standards and practice, the lack of professional accountants with international vision became a major stumbling block of China's accounting reformation.

Keywords: IFRS adopted in China; Accounting Industry; Difference between IFRS and New CAS; Convergence.

JEL Classification:M140; M480

Resumo

Este estudo explora a aplicação das IFRs na China e suas implicações. As principais questões de pesquisa são: Como é que mudou o contexto contabilístico na China? Qual é o motivo da convergência da China com as IFRS? Quais são os novos padrões contabilísticos na China? Qual a diferença entre as novas normas contabilísticas da China (CAS) e as IFRS? Para analisar os diferentes fatores na adopção das CAS foram analisadas as empresas listadas chinesas. Dos fatores ambientais, a reforma inclui o processo de implementação, os problemas e os desafios. Este estudo analisa as CAS e compara-as com as IFRS de acordo com o desenvolvimento global da contabilidade. Devido às grandes diferenças na cultura, o governo chinês optou por convergir com as IFRS na definição das novas CAS de modo a permitir uma abertura da economia chinesa à globalização económica. No entanto, a diferença entre CAS e IFRS ainda existe. Desde 2007, todas as empresas listadas chinesas solicitaram a implementação das novas CAS. Em face de novos padrões de contabilidade e novas tecnologias, a falta de auditores profissionais com uma perspectiva internacional tornou-se um obstáculo para a reforma contabilística na China.

Palavras-chave: IFRS adotadas na China; Indústria da Contabilidade; Diferença entre IFRS e Normas Contabilísticas Chinesas; Convergência.

Classificação JEL: M140; M480

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1 INTRODUCTION

1.1 Background of the Study

In modern information network, communications and other high-tech rapid development prospects, economic globalization has become one of the most obvious features under the current international economic development. Economic globalization urgently requires accounting standards to be unified and comparable globally. In order to achieve this goal, the International Accounting Standards Board (IASB) in April 2001 proposed the development of a set of high-quality, understandable, and enforceable strategic objectives of global accounting standards. Uniform accounting standards on a global scale can improve the transparency and comparability of communication, significantly reduce the costs and errors of “adjustment and translation”, reduce transaction costs, improve the credibility of financial information, and promote the footsteps of global economic integration.

Prior to the IFRS, different countries followed different accounting standards. This difference in standards greatly increased the transaction cost for transnational investments. Because the countries did not have relevant professional talents, lead to many errors in the process of correction and evaluation. These factors became intangible obstacles to transnational investments. As a result, enterprises found efficient, quality, transparent, and comparable investments are required to be based on the same “accounting language” (Wang Qinggang et al., 2004).

Due to its rapid promotion and recognition around the world, the IFRS gradually became a set of global accounting standards. Since 2005, the European Union (EU) has required all companies listed in EU to adopt the IFRS. The U.S. Financial Accounting Standards Board (FASB) in October 2002 also signed an agreement with the IASB which called the “Norwalk Agreement”. The two parties reached a consensus that the Generally Accepted Accounting Principles (U.S. GAAP) will converge with the IFRS. On November 15, 2007, the Securities and Exchange Commission (SEC) voted for a new law. In the year after 2009, companies listed in the United States Foreign Private Issuer (FPI) can choose whether to follow the IFRS or the U.S. GAAP to prepare its financial statements. The FPI who chose to adopt the IFRS do not need to adjust the information under the U.S. GAAP.

The establishment of the IFRS was focused in developed countries with a mature market

economy. However, China as a developing country had a difficult time to fully convert into the IFRS. As a result, China has chosen to converge with IFRS to join in the process of global integration. In February 2006, China developed a new set of accounting standards in accordance with IFRS, including the new NO.1 basic standard, the new NO.38 Chinese Accounting Standards (CAS) and related guidelines. With a few exceptions, the main provisions were broadly the same as IFRS. Celerye (2008) shows that according to the provision of financial ministry, the new accounting standards since 2007 is suitable for the merge and single financial statements of listed companies. Different countries have different cultural and environmental characteristics. China has a specific environment feature that created enormous difficulties and challenges for the Chinese listed companies in the implementation of the new CAS.

1.2 Purpose of the Study and Problem Statement

This paper explores the challenges that the Chinese listed companies faced when implementing the new CAS and the relationship between the new CAS and IFRS. Using European listed companies as a comparative study. I will identify similarities and differences between the Chinese listed companies and the Western countries in their implementation of the IFRS.

“How IFRS is adopted in China and its implications?”

This thesis will ask questions and collect data from different areas. It will also elaborate and answer the main questions in China’s accounting standards reform process: What is the accounting environment in China and how has it changed due to the new CAS? Why China needed to converge with the IFRS to form the new CAS? The relationship between IFRS/IAS and the new CAS? What challenges did the Chinese listed companies face in implementing IFRS?

1.3 Scope of Study

This paper is divided into three parts of the study, the first part will be from the point of view of the policy maker, the country. From the national level, we will be able to clearly understand the motivation and process of the reform based on the changes in the new

standards. The second part of this study will be from the user's point of view, the business or listed companies' research on special listed companies will help us understand the specific implementation process of the new accounting standards and help us analyze the specific issues from the practical application. Major issues include challenges and obstacles in the implementation process. The third part will be from the expert's point of view. such as a relevant accounting consulting firm. These consulting firms connect the state with the companies acting as the role of a link. They objectively comment on the reform of the guidelines from a professional perspective, helping us to analyze the strengths and weaknesses of the new accounting standards.

Under the environment of socialism with Chinese characteristics, local listed companies that implemented the new accounting standards had to face many challenges. Thus, I chose "Sichuan Changhong Electric Co.,Ltd." "AVIC REAL ESTATE HOLDING Co.,Ltd." "Haier Group CO., Ltd." as the Chinese listed companies for my case study to analyze the main question of "How IFRS is adopted in China and its implications."

1.4 Structure of the Thesis

This thesis is organized into five chapters. Chapter 1 describes the overall framework of the paper. Chapter 2 provides theoretical reference and will help analyze the empirical data. Chapter 3 and Chapter 4 introduce the research methods used in the paper and the collection of empirical data. After that, based on reliable and effective data and related references that use the research methods such as qualitative and quantitative analysis to explore specific cases and objective analysis It will also summarize the role of the new accounting standards in practice and the problems faced by enterprises. The last part is a summary of the full text and draws the relevant conclusions.

2 THEORETICAL FRAMEWORKS

2.1 Accounting

Accounting is an economic management work that reflects and supervises the entity's activities.

—Management activities: Accounting is an economic event, it can use currency measured, recorded, classified, summarized, analyzed and evaluated in a specific way.

—Management instrument: Accounting is a kind of technical means, it is a way to reflect and supervise the production process. It is a tool to manage the economy.

—Information system: Accounting is an information system, it transfers important financial and other economic information to relevant organizations for information users to judge and make decisions.

—Art perspective: Accounting is the combination of science, skill and ability, it is communicated in the meaningful form that has or at least has part of the financial characteristics of the transaction. Accounting uses money to explain classify, record, summarize and explain the results.

2.1.1 What is Accounting?

“A Significant purpose of accounting is to provide some kind of meaningful information about the economic activities of an enterprise (Ananias Charles Littleton, 1953).”

“Essentially, accounting is an information system. Accounting helps operators to determine their honor’s responsibility and help partners calculate simple records of their respective responsibility of the other partners (American Accounting Association, 1966).”

“Accounting is a systematic representation of the rules and choices that describe or define a series of phenomena, it can help organizations to explain the phenomenon, and as a framework to predict related behavior (Kenneth Most,1978).”

“Accounting can be used to illustrate the current practice, in order to obtain a better understanding to them” (Eldon S. Hendriksen, 1980).

2.1.2 Activity- (Registration, Measurement, Control, Communication and Decision-Making)

Initially, accounting was only used for registration. It can be recognized as a set of rules that records the business transactions and reports. In enterprises, employers use accounting reports for analysis the profit situation and determine their next working goals.

With the development of the economy, accounting reports are no longer limited to registration data. It used to measure, control, communicate and influence decision-making in companies. “This is an explicitly technical-mechanical view that understands and defines accounting as a mere technological solution for the technological problem of measurement and control of business operations (Gomes, 2008).” Accounting is used as a basic factor, for rational and independent market participants to provide the economic information needed for their decision-making. Within the management accounting framework, it provides relevant information, such as business operations analysis, business planning and budget management support. In other words, accounting is primarily seen as an economic decision-making model.

At the same time, accounting is a “communicator” between enterprises. Investors usually based their investment on companies’ financial statements to determine the investment objective, and whether it is a beneficial investment. “The functionalist paradigm is the dominant perspective for looking at accounting, as well as the dominant one in social science. The language in which we think about, and communicate, accounting is that of functionalism (Dillard, F. J. 1991).”

2.1.3 Functions

2.1.3.1 Real Function

Jesse F. Dillard (1991) explains that the main purpose of accounting is to provide financial information for entities that help relevant parties to make a decision. Decision-makers can review an enterprise financial accounting report to obtain reliable accounting information for the company and understand the relevant accounting information. The enterprises’ managers can review the financial accounting data analysis to make right decisions and take appropriate risk aversions. Enterprises need to depend on accounting information to make right decisions.

2.1.3.2 Predictive Function

Financial accounting reports can make predictions for future development trends. It is the designed language to reduce information uncertainty and improve then control and decision making. Managers use the predictability of accounting to link the decision making with target responsibility. Now China has implemented the new financial accounting standards which adopted the IFRS. It means that China has gradually grown closer to the global economic environment and has chosen to join into the global economic integration. This globalized "commercial language" of the IFRS is beneficial to make the right decisions for businesses and reduce the loss from uncertainty economic integration.

2.1.4 System and Process

Accounting systems are consisted by rules. Their aims based on specific accounting environments and specific accounting standards to provide real and complete accounting information. It uses the data from accounting assumptions, accounting objectives, accounting statements and others of practical application. Under the accounting system's supervision, the accounting information has authenticity and reliability playing a guiding role. It could predict the organization's future development and affect the organization's decision and action. From the process-oriented perspective to research accounting processes have three different types: the accounting standards formulating process; the process of accounting application in practice, and how to use the accounting process.

In the process of establishing accounting standards, different environments can influence the accounting norm setting. Changes in the accounting norms will affect the accounting application in practice and the use of accounting. At the same time, practical applications and the use of accounting need to apply in a suitable environment, Thus, there are three different types of processes influenced by the environment. The relationship between the three processes is shown in figure 1:

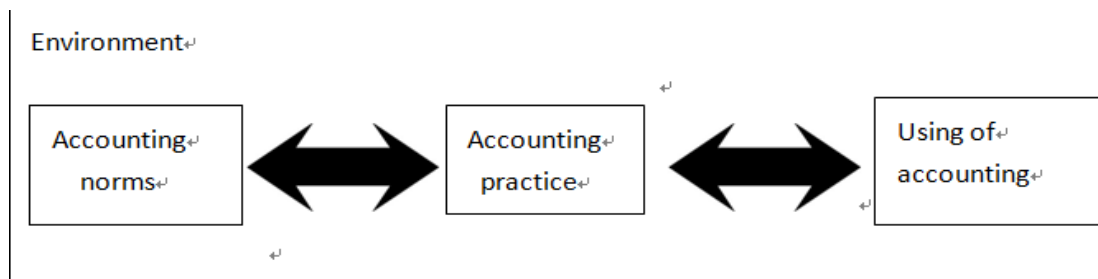


Figure 1

2.2 Rationale in Accounting Reforms and Accounting Environment

Accounting is the main part of the global economic integration; it is a “common language”. Accounting also plays an important role in the economic communication between countries

2.2.1 Global Environment of Accounting

Globalization is the inevitable trend in today’s world economic development. The main process is the internationalization of trade and the internationalization of production. Global integration is made up of trade internationalization and economic and political liberalization. Zhang, Cunping (1997) says that today’s world economic integration has become a basic pattern, every regional and each country’s economy increase mutual penetration and interdependence. Zhang, Cunping (1997) explains that along with the international trade growth and regional scopes evolution, competition between regions are increasingly enhanced. Global economic integration will promote regional economic, the regional economic structure will accelerate the transform, the economic level escalating it to further promote the economic integration. The rapid development of the globalization has a great effect on each nation’s financial. The fiscal department of all countries has adjusted to the relevant policies. For example, China has deepened its international cooperation and strengthened and improved its fiscal policy. This has improved the government’s ability to control the overall economic operations such as fiscal revenue, expenditure structure, change tax policy, and other fiscal policies.

The development of international accounting is a new development of enterprise accounting. The main promoting factor is the vigorous development of transnational

corporations. International trade has become increasingly frequent and capital investment has grown to become internationalized. These two factors, both promote the international growth of accounting. Its ultimate goal is to establish a set of accounting standards and methods to be applied all over the world and for every nation to become fertilizer with each other's accounting standardization. Chang,Xun (1990) says that International accounting is a new field of accounting, the main content of it belongs to the extension of financial accounting. The research emphasis should be focused on multinational company's accounting rules and financial reporting standards. The development of international accounting is influenced by the local social, cultural, economic, and legal aspects. There are similarities and differences in formulating a new accounting policy in different environments.

The process of accounting policy formulation and implementation are constrained by the economic, political and legal aspects, Different national environments will have different obstacles to formulation and implementation of the new accounting standards. The specific implementation of new accounting standard follows these four approaches:

Accounting for macroscopic approach: At the beginning, the macro accounting policy did not have legal effects. Thus, some enterprises reacted to the accounting standards only when it involved their vital interests. This was why some Western countries' accounting standards only worked in large companies. Some countries take various measures to strengthen the legal effects and binding of accounting standards. Such as gradually establishing the government departments' position in the standards-making institutions, or having government sectors gradually participate in the development of accounting standards in order to enhance its legal effect.

Accounting for microcosmic approach: Micro accounting system is under the guidance and constraint of the macro-accounting system, Microscopic accounting's actual subject is to make the institutional arrangements, that are impacted by the corporate governance structure. At first, there existed a time delay between accounting standards and accounting practice, so there appeared the phenomenon of "had not legislation can be relied" when enterprise practice new accounting treatment.

Huang,Wenfeng (2004) shows that with the macro-accounting system to enhance its legal effects, the enterprise's internal accounting standards for the selection and development

is also gradually standardized. This strengthened the implementation of the accounting standards.

Accounting as an independent discipline: Accounting as an applied discipline is an important economic management tool. It is independent in existence and is not supported and influenced by other factors. It is an important means to strengthen economic management and improve economic benefit.

Uniform accounting treatment: A uniform accounting system enables enterprises to provide real and complete accounting information, and maintenance of national policies and laws and regulations. Especially when dealing with the relationship for various kinds of interests. It can also be used as a guarantee to maintain social economic order and market rules.

The above four methods seem to be independent. But actually, they are interdependent, and mutually influence and constrain each other. Thus, the new accounting standards' formulation and implementation have a reliable guarantee under the influence of globalization.

2.2.2 International Accounting and Harmonization

Internationalization: Mueller.G (1967) thought that the internationalization is that countries and countries communicate with each other and find the differences. Countries seeking common ground while reserving differences, which in order better to promote international relationship. This development process drew the attention from all governments showing, that a country's efforts to reduce the existence of difference is beneficial to enhance their competitiveness and also the inevitable trend in the communication between countries.

International harmonization: Choietal (1982) said that international harmonization is when related organizations try to reduce the differences between countries and finding the content of what makes different countries have a consensus. Its goal is to seek the commonality between countries, as far as possible to reduce the differences between countries in order to achieve international comparability and homogeneity of relevant matters. Now, international investment activities increased and capital exports are more frequent, the expansion of multinational corporations and international development of capital market both

need high comparability of financial information. These developments influenced the international accounting committee to reform to the international accounting standards that enhance the homogeneity and comparability of financial statements.

International standardization: The International Accounting Standards Board received high attention due to the demand of certain economic factors. These factors include the global development of capital markets, strengthening of regional economic cooperation, push of academia, reducing transaction costs, and improving accounting information transparency and comparability. The International Accounting Standards Board had undergone a series of reforms both from organizational structure and the work target. Under the current global environment, unified accounting standard has become a goal for international organizations and countries.

Accounting internationalization compares and coordinates different countries' accounting systems around the world. It gradually develops and adopts the practice of international accounting standards to find an accounting model that countries can apply and accept. "Van der Tas (1998) refers that "Harmonization is a kind of adjustment, which is to reconcile two or more targets." Accounting harmonization can be understood as an increase in accounting comparability and the process to avoid diversity. But the standard is a kind of measurement, standardization is the process to realize this unified standard. Tay&Parker (1990) said that standardization is the process to realize the unity of accounting. It means that the need to perform the rules and methods is strict, and the optional range is very small, it lacks flexibility. Harmonization is a process. This process can reduce the differences in accounting practice and promote the comparability of accounting information. Compared with harmonization, standardization couldn't accommodate the differences between countries. It means that there are many difficulties in implementing internationally. "Choi (2000) refers that "harmonization is a process of setting limits on accounting practice differences and increases its comparability. " The harmonized standards reduce international conflicts and improve the comparability of inter-countries financial information (Zhang, Guohua et al., 2007).

The establishment of the International Accounting Standards Board represents the establishment of the accounting system in a global network. IASB members are from

Australia, Germany, Canada, Britain, Japan, the United States and other countries. The establishment of the new standards emphasizes the fusion of national conditions to seek common ground and increase the compatibility.

2.2.2.1 Reasons and Obstacles for Harmonization

As trade on an international scale become more detailed, the economic ties between different countries become increasingly closer. Thus, differences in accounting standards and methods will become more noticeable as problems emerge. The inevitable outcome of this phenomenon is producing a “common language” in accounting, that can facilitate the communication, reduce transaction costs, and improve the global accounting information transparency and comparability.

But there are also numerous obstacles that arose in the process of harmonization. Localization accounting and the internationalization accounting are in opposite relations. The accounting system of different countries is based on their individual political environments, the level of economic development, and the legal systems. Different countries need to establish a set of institutional frameworks that suitable with their economic development needs. Accounting internationalization is closely related to the specific social systems, economic system, cultural environments, and the productivity level. However, the goal of internationalization of accounting is to realization of global accounting standard, that will replace each countries’ individual accounting standards. The original accounting standards of the countries undoubtedly will coincide with the political, economic, legal and cultural factors of their countries. This will increase the resistance of the international accounting harmonization. For example, the wide range of financial information users will have different information needs; different countries have different accounting harmonization starting points; the inter-organizational conflict and professional accounting group capacity differences.

2.2.2.2 Advantages for Harmonization

Li,Xiaoli (2007) concludes that economic globalization, capital market internationalization and information technologies are developing rapidly. Strengthening the

globalization is beneficial to promote the global economy and develop in the specific advantages shown in the following aspects:

1. Promotion of the international economic cooperation and the development of international trade.
2. Promotion of the development of international investment.
3. Strengthen the management of multinational companies and promote the development of multinational companies.
4. Save the cost of merging different financial statements.

The harmonization of international accounting could speed up the development of global economic integration. It is conducive to effective communication between countries, and to promote the transparency and comparability of financial information report. Harmonization will also seek the common ground that will reduce the cost of different financial reporting assessments and reduce the time needed for evaluation reporting.

2.2.2.3 Disadvantages for Harmonization

Docin (2010) explains that the purpose of formulating the international accounting standards is harmonizing the socio-economic activities between countries. But in the process of harmonization worldwide, it also has limitations:

The international harmonization of accounting falls under the international capital flow. If enterprises want to realize the unified international financial system, they must adapt to the uniformed international accounting standards, this will increase the cost investments. And then, the development of economic globalization will also affect the legal, social, economic, and business practices of countries, which will be a huge challenge.

The international harmonization of accounting had more stringent requirements for certified public accountants (CPA) that requires the CPAs to perform specific operations or to be proficient in international accounting standards. But the CPA organizations and internal audit organizations in different countries have different education levels. Thus, it was hard to achieve the goal of adapting to the IFRS in the short term.

The international harmonization of accounting will also require some countries who don't have the global standard to accept the harmonization and follow the international

accounting standards; therefore, these countries will lose their rights to localization. Some international standards are not suitable for individual countries, thus making them vulnerable to be impacted by the world economy and not conducive to protecting their own economic security.

In some countries, the international accounting standards only applied to certain large enterprises, especially the multinational companies. Due to limitations in various aspects, certain local enterprises do not possess the conditions to use the international accounting standards. Thus, the IFRS has not been widely adopted.

2.2.3 Defining of IFRS

2.2.3.1 History of IFRS

The unification movement of the international accounting standards started in 1904 after the international accounting meeting. The eighth international accounting convention was held in New York in 1962 titled “Accounting, Auditing, Financial Reporting, and the World Economy”. At the meeting, Mr. Hoff (The seventh congress President, the president of the accountants’ association in Netherlands) expounded his own views about the “Accounting International Challenges”. The main content of his speech included: the meaning and possibility of international accounting unification, countries need to have the basic conditions to adapt for unification of accounting standards, and the research situation of each country’s accounting principles, etc. Since the 1960s, the movement of accounting internationalization developing at a faster speed. In 1966, the international discussion group of accountants started by Sir H.Edge (the President of the Chartered Accountants in England and Wales) and was composed of the association of certified public accountants in the America and Canada. This discussion group was making a comparative study of accounting practices and accounting standards of the United States, Britain, and Canada, and published the research report. In 1972, after the international accounting conference in Sydney, the accounting profession’s international harmonization council was made. The representative persons from major countries part of the international organization consulted together. In June 1973 the accounting profession groups from USA, Australia, Canada, France, Germany, Japan, Mexico, Netherlands, UK, and Ireland jointly established the International Accounting Standards

Committee (IASC). Afterwards, the IASC established the IAS, which is the former of the IFRS. The first uniform international accounting standards in the world had appeared. But at the beginning of the establishment of the international accounting standards board, there had not been a strong political and economic background. The chosen main accounting item was to make a mutual fusion of each country's norms after the basis of the comparison. The organization only abolished some improper accounting conventions, and allowed the various accounting treatments to be parallel. Accounting practices were selected among multiple alternative accounting procedures and accounting methods to form the international accounting standards that is easily accepted and respected by different countries. The earliest establishment of the international accounting standards also emphasized that it was "in the public interest as the goal" and "in order to improve and harmonize the financial statements related regulations and modify accounting standards and procedures to carry out a wide range of work". But the main purpose of the organization was getting the support from members who in the international accounting standards board. And then, establishing the international accounting standards which acceptable to the various countries' accounting professions. Thus, these kinds of standards were not the highest quality standards. Different country governments when assessing international accounting standards have often shown different opinions. When one party wishes to accept a standard, another party may express unhappiness.

Economic globalization has become one of the most obvious characteristics in contemporary society. As the relationship between markets become closer, the investors and companies are looking for more cross-border opportunities, Companies from all over the world are transforming from domestic capital markets to the international capital markets. Globalization demands increased which lead to the establishment of the international accounting harmonization. Everyone looked forward to publishing high quality and unified international accounting standards. In May 2000 International Accounting Standards Committee (IASC) was reorganized, In April 2001, the IASC reorganized into the international accounting standards board (IASB). Thus, the IASB formulation and issued the IFRS immediately. This reorganization of the IASC changed it identify as the accounting standards "coordinator" into the global accounting standards "maker".

2.2.3.2 Definition of the IFRS

IFRS (International Financial Reporting Standards) is a standard accounting system formulated by the International Accounting Standards Board (IASB) that is easy for different countries to implement cross-border economic transactions. The IFRS is a globally unified set of financial rules. It is a set of financial management rules in accordance with operations by international standards, and used to standardize enterprises or other economic organizations in the worldwide setting. These standards can protect all countries' economic interests based on the same standard. Whereas different rules in different countries will lead to different calculations resulting in unnecessary economic losses (Ankarath,N et al., 2015).

2.2.3.3 Usage of the IFRS

With the development of economic globalization, the economic ties between countries are becoming more and more closer. IFRS has been implemented on a global scale due to the request of its development. Currently, all countries in the world work in both the reform or convergence with the IFRS. The chairman of the international accounting standards board Mr. Hoogervorst (2006) points that recently in a survey of accounting standards makers in 66 countries around the world, there are 95% of countries and region's commitment to adopt IFRS/IAS as the unified global accounting standards. And more than 80% of the nations and regions have been adopted IFRS for their listed companies.

In 2002, the European Union passed an accounting rule, that required all listed companies in the European Union since 2005 to use the IFRS as the consolidated financial statements. Non-EU companies listed in the European Union could continue to use their national accounting standards until 2007. At the end of April, 2008, except for IAS 2, IAS23 and some others new revisions, the European commission has voted to approve of all the existing IFRS.

The FASB and IASB signed an agreement in October 2002 at the FASB's Norwalk Municipal Office. The agreement was to combine the IFRS with the US.GAAP to achieve the best possible integration of existing financial reporting standards. The SEC announced in mid-2005 that the US would eliminate the Foreign Direct Investment (FPI) before 2009. It needs to prepare for a difference reconciliation sheet for using the IFRS. The SEC has voted on and

passed the new law on November 15,2007. The law stated that the “future in the United States listed FPI can choose IFRS or US.GAAP to draw up their accounting statements.” It was meaning that it was no longer necessary to prepare a reconciliation table for its differences with the US GAAP.

In addition to Europe and the United States, the IFRS convergence trend was also spreading rapidly in the Asia-Pacific region. The Chinese Accounting Standards Board (CASB) in February 2006 formulated a new set of accounting standards and related guidelines in accordance with the IFRS. These new standards have been applied to all domestic listed companies since 2007. In Japan, the ASBJ and IASB jointly issued the “Tokyo Agreement” in August 2007. It declared that Japan will accelerate the speed of convergence with the IFRS. The ASBJ chairman pointed out that the future Japanese companies will need to use the generally accepted accounting principles to draw up their financial statements (Zheng,Ruying, 2008).

2.2.3.4 Impact of the IFRS

K, Ikeda (2012) says that adoption of IFRS could facilitate the development of multinational corporations and improve companies' efficiency of operations. Aside from the benefits to multinational companies, it also enables the domestic enterprises the ability to raise funds smoothly. In the process of globalization, adopting the international general commercial language (i.e., international unified accounting standards) is the important conditions to ensure that the enterprises develop indispensably. The use of the IFRS had a positive effect on preventing financial crises and promoting economic development, and also accelerate the process of global economic integration. The use of convergence of to the IFRS enhanced the comparability and transparency of financial reporting, that reduces the cost of investments and financial. Thus, popularizing the IFRS was an important part of the globalization development.

2.3 Accounting Institutionalization

Accounting is an indispensable part of enterprise development. The improvement of the accounting system will help to improve the transparency of enterprises, standardize corporate

behavior and improve economic benefits. Accounting is mainly linked to the economy and policy. The accounting system is formulated in accordance with the demand of the economic interests and relevant reference policies, that is conducive to the rational development of enterprises.

China has an old saying that is: “Nothing can be accomplished without norms or standards.” The meaning of the rules here is the same as the institution. Xin Ming (2005) reports that one of the most important principles in the economy is that people will react to incentives. Different institutional arrangements will produce different incentives to a person and thus people will have a different behavioral response. From the developments in the society and human process, we can feel the value and significance of the system. The institution has promoted the progress of society and promoted the development of human beings.

Institution for the development of society, enterprises, and humans provides the specific management framework, that is a reliable guarantee to achieve organizational goals. In the development process, the establishment of institution enables enterprises to avoid the creation of responsibility and unnecessary claims. The rapid development of modern society and rapid advancement of global integration will highlight the institution indispensable status.

2.3.1 Environment Institutionalization

Institutional environment refers to laws, regulations and customs that are relevant to politics, economics, and culture. An important part of the institutional environment is the concept of culture. This viewpoint of culture does not often appear in the artificial form, but the formation of a worshipped things, that we have to accept. Meyer sees this phenomenon as a rationalized myth.

Accounting behavior does not exist independently, but it is affected by the institutional environment of politics, law, social norms, cultural and other factors. The institutional environment through external and internal factors on the organization's formulated accounting standards has influences and restrictions. European Union countries, due to their own institutional environment, which allowed them could directly transition into the IFRS. But in China, because of the limit from its national institutional environment, China had to adopt the

convergence approach. This is the reason for why China cannot transition directly into the IFRS and needed to adjust the relevant standards.

Institutionalized organizations require the institutions to be legitimate. The organizational institution process requires organizations to constantly accept and adopt the globally recognized practices in the form of basic “social facts”. If organization behavior violates these social facts, it will result in the crisis of "legitimacy" and cause social outrage, and cause great difficulty in the organization's future development. Drazin and Van de Ven (1985) show that environment plays the dominant role between the organization and the environment. It is mainly because the organizational behaviors are decided, restricted by the environment. Hence, the organization must adapt to the needs of the environment and correspond with the environment. Institutional environment requires the organization to obey "legitimacy". According to the study shown, few environment rebels have achieved better than the performance of the environmental compliance, and most of them have been assimilated. The organization developments need to follow the institutional environment, the organizational institution formulation needs to be surrounded by the legitimacy of the institutional environment (Asley, W.Graham et al., 1983; Kondra, Alex Z et al., 1998).

2.3.2 Process Institutionalization

Friedrich August von Hayek said" institution is an order", Ronald h. Coase said" institution is a kind of structural arrangement", Douglass c. North defined institution as “the rules of games.” Ingram and Karen (2000) say that the properties of the institution are not only a social order or state, the same is a process, it is institutionalized process.

2.3.2.1 Mechanism of institutionalization

The ultimate goal of institutions is to create a set of rules of the interaction between individuals or collectives. It aims to improve the stability of human activities. (DiMaggio & Powell 1983) There are three main ways to organize the process from non-institutionalization to institutionalization: coercive isomorphism, mimetic isomorphism and normative isomorphism.

Coercive isomorphism states that the organization must comply with the laws and

regulations formulated by the government, Otherwise the organization will be punished. Mimetic isomorphism states that in the organizations of the same field imitates the behaviors and practices of the successful organization in the field to reduce uncertainty. Normative isomorphism refers to the idea of sharing, such as sharing the thinking mode.

DiMaggio et al. (1983) defined that coercive isomorphism originates from the formal and informal pressures exerted by other organizations on which an organization depends on. It also originates from the cultural expectations pressure in which social environment operates on. Mimetic isomorphism originates from having a well-recognized response to uncertainty. Whenever an organization is faced with uncertain aspects, they may refer to other organizations as a reference model to set up their own institutional structure. Normative isomorphism originates from a specialized process and it includes two aspects. The first is where a university expert provides the legalization on the cognitive level with formal education. The other is the growth of the talent network, which with the rapid spread of new organizational models across organizations. In actuality, these three kinds of institutional isomorphism are interwoven and are not separate entities.

D'Aunno T et al. (1991) explains that organizational institutionalization convergence is not achieved overnight, it needs to have a long process and advance step by step to complete the goal. Organizations need to change their ideas to fit with the direction of convergence and according to their specific institutional environment. Under the pressure of the institution, the organizations could gain recognition from general society if it chooses a similar investment structure and behavior. Doing this allows the organizations to increase its legitimacy and survival prospects. The institutional requirements faced by the organizations are diversified, and different institution requirements often contradict or conflict with each other. Under this case the organization needs to combine the three convergent forms, and as much as possible to meet the needs of different institution to achieve the goal of convergence.

2.3.2.2 Epistemic Community

“Epistemic Community” is composed of interconnected behavior in a field of knowledge. Epistemic community defines its members and constructs the specific realities. Haas said that epistemic community as an independent variable for international policy

coordination and international cooperation. Peter Haas (1992) introduces that epistemic community is the network composed of recognized experts in a particular field and professionals with authoritative knowledge. There are four main characteristics of an epistemic community:

(1) A set of shared norms and principles of beliefs. This is the epistemic community members' common values for social behavior; (2) Shared causal beliefs. Derived from research practice in related fields, and is used to link the possible policy actions and expectations; (3) Shared set of legitimacy standards, that is within the epistemic community. This is used to relate knowledge; (4) A common policy practices process. The epistemic community has explanations and suggestions on uncertain issues. The fundamental characteristics of the epistemic community are the authorities in a field and the ability to convince policy makers.

Haas contrasted the variables that influenced policy coordination and introduced four contrast standards: principled beliefs, casual beliefs, validity tests, and policy enterprise. The opinion from Andreas Antoniadis (2003) say that by contrast, it was found that only the policy coordination on the basis of the knowledge community approach could establish a clear set of ideas, and a roadmap that is expected to influence the organization convergence process of institutionalization. Its impact on decision making is a systematic process. It provides information to decision makers and tested the validity of this information to accept the inspection from the policy practice process. Peter Haas (1992) says the biggest difference between the epistemic community and other organizations is the link between rules and practice and also its influence on policymakers.

Whether from a management perspective or practice demand perspective, changes in accounting both needs a motivation, and a suitable time to allow this change to occur. At the same time, it also needs the relevant epistemic community to give a proposal to standards makers that help them to solve the problems that arose in the process of change. In the institutionalization process, the epistemic community is equivalent to a special group. They have professional knowledge and experience while their views also affect the development of the process.

3 METHODOLOGY

3.1 Introduction

The main content of this chapter is to describe the selection method and the source of data collection. The main focus is reasoning behind these kinds of methods, the source of data collection, and the reliability of data.

Methodology is a system aimed to solve the problem. It usually involves the analysis of the problem stage, tasks, tools, methods, and techniques. There is no distinction between good and bad methods. In order to achieve the ultimate goal, the appropriate method of study and demonstration will be dependent on the research content.

The article chose the methods to study and demonstrate: the quantitative and qualitative analysis, case analysis and literature study.

3.2 Choice of Research Methods

Research design needs depend on a wide range of requirements to design. The research project will determine the basic process of research design and master the research variables. This includes determining the target organization, putting forward the research hypothesis, and finally from practices to make a literature search and data collection to analyze. The thesis research problem is "How IFRS is adopted in China and its implications?" The topic will directly affect the selection of specific research methods and the use of data. First, according to the topic requirements, "exploratory" is more suitable for the discussion of this article than the "descriptive" approach. Second, the new accounting standards are implemented in China now, so I will use the case study method to collect relevant data and analyze its use in practice.

3.2.1 Qualitative Method and Quantitative Method

The discussion of the article combines the views of different areas (government, experts, listed companies, IFRS, etc.) to get the conclusion. Thus, the article needs to collect and integrate data from these different areas, and then do an analysis of it. But it could not base on single text description or single data presented to make a conclusion, so combination the qualitative analysis and quantitative analysis will be essential.

Qualitative analysis and quantitative analysis described in digital language are two methods that people use to understand new things. Qualitative research is divided into three processes: analysis synthesis, comparison and abstraction, and generalization. Its main use is to use language to describe. Quantitative analysis is a method that is based on statistical data to establish mathematical models, and use the mathematical model to calculate the various indicators of the analyzed object and its numerical value. Quantitative research analyzes the number characteristics, such as quantity relationship and quantity changes of social phenomenon. Qualitative analysis and quantitative analysis should be used together to complement each other. Qualitative analysis is the basic premise of quantitative analysis. Without qualitative analysis, quantitative analysis is blind and has no value. Quantitative analysis makes qualitative analysis more scientific and accurate, and it can lead qualitative analysis to extensive and in-depth conclusions.

In this article, I used the qualitative analysis method in the theoretical direction part of the case study. First, I determined the target research enterprise. Then I used the target research enterprise's data collection and enterprise executives' interviews to make a summarized report. I will comprehend the enterprise executives' viewpoints about adopting the new accounting standards, and the enterprises' situations of the new accounting standards in the past few years. From these I will make a theoretical report analysis. However, such a simple subjective analysis is slightly one-sided, so I will make the data collection from the annual reports, data presentation and related financial statements of the target enterprise. After that, I will use the quantitative analysis to build a data model and data integration, to compare the enterprises' data changes in recent years. Finally, I will modify the qualitative analysis based on the results to achieve a more accurate conclusion.

3.2.2 Case Study

In this thesis, the main research topic is "How IFRS is adopted in China and its implications". In response to the argumentative needs of this topic, I will use the case study method to conduct practical development.

Case study is an empirical research. Case studies research the local ongoing phenomenon under the real environments. Case studies need to guide data collection and analysis based on

the theoretical assumptions. It relies on multiple data sources and the triangular mutual evidence to get the consistent conclusion.

Case studies not only describes a phenomenon in detail, but it also makes a more in-depth analysis of the reasons behind the phenomenon. It helps researchers to grasp the context and the nature of the event. It is comprehensive and true reflection of the objective facts.

Thus, it can be seen as a necessary process of for researchers to explore problems in depth.

This thesis explores "how to adopt IFRS in China and its implication in China". The implementation of the IFRS in China was a long process and not achieved overnight. Thus, China needs a strong demonstration of the practice. I will use the case study method to carry out an in-depth analysis of this situation. I chose three Chinese listed companies (Traditional state-owned enterprise, Multiple company holding real estate business, and Transnational listed enterprises) as research samples. Then I will go through the research and analysis of three different companies to draw a general conclusion.

In the selection process of the target research firms, I chose the listed companies which have representatives in China as the samples. The target unit of the case study should reflect the phenomenon of mass popularization. The impact of using the new accounting standards on enterprises and the problems arising in the process should also exist in other companies. The study sample represents a group, rather than an individual phenomenon. Thus, only the target companies have representative that can effectively be used as case studies to obtain reliable and rigorous research conclusions.

3.2.3 Literature

Literature research method is based on the established research purposes or research topics through the investigation of literature to obtain information. The method takes a comprehensive and objective point of view to understand the research problem. Literature research helps us to understand the history and current situation of the topic and form a basic impression of the research topic. After the literature research, the researchers will gain a basic understanding of the relevant background about the research topic, which is conducive to the next observation and research.

I used the literature research method in the second chapter theory part of this article to aim at the history and background of IFRS to explore. I will use the following questions to make an extended discussion: "the cause of formulating IFRS", "the organization that formulated the IFRS", "why countries around the world need to apply or convergence with IFRS", "the application situation of IFRS in the world". This chapter lets me have a basic understanding of the IFRS. Under a solid theoretical basis, I will carry out the practical exploration in the next chapters.

3.3 Data Collection

I finished my data collection from the following resources:

(1) Government documents (Relate accounting policies)

China Finance Departments official website issued certain documents about the New Accounting Standards. This included the concrete implementation plan of the new accounting standards, and related finance directors published their opinions about "China's new accounting standards convergence with IFRS", etc. Then I collected data and integrated information from this content.

(2) Experts' opinions (PwC, KPMG, E&Y act authority institutions)

I will use to the interview content of PwC, E&Y, KPMG and some others institutions of authority to make a data collection and arrangement. At the same time, I will collect and summarize the experts' opinions.

(3) Case study company's data presentation over a few years

First, I will refer to the annual reports from 2005 to 2009 of the case study company and make a data collection and analysis of relevant information. And then contrast the changes of the company in recent years between their use of the original accounting standards and the new accounting standards. This includes logging into the company's website to download the relevant financial information and data charts in recent years. And finally, I will draw the conclusion from the above materials. The three chosen companies are listed below.

1. Sichuan Changhong Electric Co.,Ltd. (Traditional state-owned enterprise)
2. Avic Real Estate Holding Co.Ltd. (Real estate company)
3. Haier Group Co., Ltd. (Transnational enterprise)

(4) In-depth with company directors' view

Integrating the case companies' finance directors' interview content, and show their real opinions (influence, questions) to the public about the actual situation of the company.

3.4 Data Evaluation

Since this thesis has a higher demand for data, the data collection will occupy a larger portion in the process of completing the thesis. Therefore, an objective evaluation of the data is also a very important part. If the collected data is only based on a single aspect or focused on an individual's view, it will produce a conclusion biased towards subjectivity or personal bias. In the process of data collection and integration, the validity and reliability of data need to be evaluated.

3.4.1 Validation Study

In order to ensure the validity of the data, researchers should not choose the data from a single source. They should collect data in a wide range of areas in contrasting moods. This will increase the effectiveness of the data. Based on this principle, I chose to build a contrast group. The contrast group's information from the French official website and some listed companies' official websites. France started to implement the IFRS in 2005. At the start of implementation, EU companies had many problems, that most problems the same as China companies faced now. These similarities are why I chose an EU country to be a contrasting group for qualitative analysis.

Firstly, I will extract relevant information from the EU finance department leaders' speeches that revolve around the influence of IFRS and its implementation process. Then I will make a classification of problems that occurred after the implementation of the IFRS in EU country. Finally, I will contrast the situations in EU area and China. Although the main research topic of this thesis is the situation of the new CAS developed from the IFRS, the contrast group role of France is also a very important part to increase the validity of data.

3.4.2 Reliability Study

In addition to improving the validity of data, the reliability of the data is also very

important. Compared with the data validity evaluation, determining the reliability of data is not very easy. In the process of data collection, researchers are easy to depend on the personal views of the speakers, the special corporate cultural background of the selected companies, the unique geographical locations of the companies or other causes to choose the unreliability data.

In order to avoid the occurrence of such problems, I chose to collect information from different speakers to analyze the view of relevant government officials, the views of relevant experts, and the views of chief financial officers of enterprises.

I have chosen two points to consider when determining the target case study companies.

(1) Whether the enterprise is representative or not. The impacts and problems that emerge in the new CAS implementing process should be widespread in China and in most Chinese listed companies. Accordingly, my scope will include the Chinese traditional state-owned enterprise, multiple company holding real estate business, and transnational listed enterprises.

(2) The location of target company. In order to avoid the geography bias, I chose the three companies that are located in the central south, southwest, and east China. These three places are big economic areas of China, and belong to China's different geographical locations. Choosing these locations will avoid the data bias caused by the centralization of enterprises or enterprises from a single geographical background.

3.5 The Adoption of IFRS in China

This part can be seen as the main point of the paper. According to the paper, relevant data and information will be provided to conduct an empirical analysis.

First of all, I started to analyze China's accounting environment. The environment in China can be divided into two parts external and internal. External environment part is from the position of China facing the international accounting environment. The internal environment is the analysis of the accounting environment within China. From the development of history to the global integration in the modern society, the convergence of accounting standards has become the focus of each country's efforts and China is no exception.

I will carry out the substantive exploration of the IFRS adoption in China and summarize the problems and challenges in this process from the government, experts and representative listed companies' perspectives.

3.6 Accounting Environment and Change in China

With the development of globalization, the road to the unity of the international accounting standards is also in progress. The accounting environment has become one of the factors that promotes China's accounting reform.

3.6.1 International Environment (China)

Today, the development trend of globalization has become a focus in many countries around the world. All countries are driven to globalization by their environment. China is no exception. Convergence to the internationalization of accounting reform development is also one of the important measures of globalization.

As one of the founder members, China resumed the International Monetary Fund (IMF) lawful seat in 1980. In 1981 the World Bank (WB) followed with the first loan to China as students supported the development projects. Up to today, China is the largest borrower of WB, and is also the third largest shareholder in WB with a 4.42% stake. There is not need to take part in the election, they can be directly appointed a person in the International Bank for Reconstruction and Development (IBRD) as one of the executive directors. In 1991, China entered into the Asia – Pacific Economic currency (APEC). In 2001, China entered into the World Trade Organization (WTO), and become one of WTO members. From the perspective of the development of events, China gradually began to join into the globalization and international footsteps, Naturally, the development of the new became one of the paths of this development.

International Accounting environment requires countries to unify their accounting standards. In 1976, “Group of Experts on International Standards Accounting and Reporting (ISAR)” was established. ISAR is mainly composed of “International Accounting Standards Committee (IASC)” and “International Federation of Accountants (IFAC)”, two big International Accounting organizations. ISAR and IASC are composed of organizations of

different countries. This allowed for non-governmental, non-political fair to discuss and work out the international accounting standards that became suitable on a global scale to use. The Chinese institute of certified public accountants (CICPA) joined the IFAC in 1997 to become a formal member. At the same time, it has also become members of the IASC. Zhang Weiguo, a former chief accountant of the China Securities Regulatory Commission (CSRC) who began his five-year term as director of the IASB on July 1, 2007. Until today, Zhang is the second director in IASB who is from Asia and emerging markets, he was also the first Chinese representative of IASB. If China continued to insist on its original accounting standards, it would eventually impede China's internationalization development effort. Following the development of international environment, China's ministry of finance accounting standards board began to reference the IAS and combined it with their own situation to formulate the new CAS.

3.6.2 Adopting IFRS (EU case)

The Council of Europe in June 2000 began to formulate the “financial reporting strategy”. In 2002, the European Union passed an accounting regulation, that required all listed companies in the EU since 2005 to follow the IFRS in preparation of their consolidated financial statements.

At the beginning of using the IFRS, several professional institutions (public accounting firms, audit firms, consulting firms, financial experts) faced difficulty to change their accounting standards. Compared to the local GAAP, the IFRS is much more complicated. Due to the novelty and differences of the IFRS, the related industries needed innovation to train professional accountants. The “big four” accounting firm's accountants needed systematic training, become familiar with IFRS and its specific implementation methods, and better to assist the listed company to implement the new guidelines.

Haller (2002) argued that the IFRS enforcement in Europe relied heavily on external auditors. The EU's most listed companies needed external help to convert from the local GAAP into IFRS. Hoogendoorn (2006) noted that the IFRS were too complex for companies involved in the application of these standards, and even for auditors and other specialists. It is clear that the cost of adopting the IFRS will increase with the gap between the local GAAP

and IAS and practices. Due to IFRS demand increase transparency, which will increase the company's auditors working strength. In order to produce the higher quality financial statements under the new guidelines, the company's internal audit committee had to seek the assistance of external professional institutions, thus had to increase the cost (Simunic. D.A et al.,1996).

Although there are many difficulties in the process of implementing the IFRS, compared the difference between using or not using IFRS, the profitability reports of the EU's listed companies showed that the IFRS had absolute advantage. Aussenegg et al. (2009) shows that countries belonging to the German legal system and some countries belonging to the French legal system experienced a significant decline in performance management of their businesses. Compared to their counterparts who used the IFRS, they do observe neither a significant time effect nor a firm size effect. After implementation the IFRS, managers of the EU's listed companies are no longer able to manipulate accounting numbers as before to increase false income. This change makes the company's account more transparent and reduced the behavior of irregularities. At the same time, the implement of the IFRS is beneficial to the development of multinational companies within the EU. For example, Chanel, a France multinational company, was listed in Paris and New York at the same time. Before adopted the IFRS, Chanel needed to prepare and present two financial statements, one is based on France GAAP's, and another one is based on the US GAAP.

Now, they only need to present one financial statement that according to the IFRS and note the individual difference with the US GAAP. It reduced the workload of company's financial personnel, improved the working efficiency, and beneficial to the development of multinational companies (Nafti, O. Boumediene et al 2013).

According to the investigation and study of the process of EU's adoption of the IFRS, I will make a simple comparison between China and the EU. In 2005, the EU required the listed companies in EU to fully adopt the IFRS. In 2007, China completed to formulate the New Accounting Standards and implement it in China's listed companies. Based on the two different accounting environment backgrounds, I summed up the similarities and differences in the following. Similarities: First, accounting industries in both areas need to have a professional training in the IFRS and innovation in a new way to fully understand the IFRS

policies. Second, at the beginning of using IFRS, all listed companies, whether from China or EU need to seek the external professional accounting firms to help them better to apply the IFRS. Third, they both need to translate of languages. The IFRS's official language is English, countries need to translate English into their local languages, it could be more efficient to study and implement. There are also many differences. First of all, the EU countries had a relatively flexible GAAP with no fixed framework. Thus, after the IFRS published, they just need a process to adapt constraints. In China, the old accounting standards had a complete set of frameworks of regulations and constraints, which means it's difficult to change the current frameworks and replace the new one. Second, although both parties need to translate the language, the European languages belonging in the same language family as English. Thus, the process of translation in the EU is not difficult. By contrast, translating the language in China is a huge obstacle. This translation process needs professional books and translators. Finally, the huge differences between the accounting environments caused China could not completely adopt the IFRS, so the government decided to formulate the new accounting standards to converge with the IFRS. Whether it is a full adoption or convergence, there is only one purpose of the IFRS, that is to promote the development of globalization and facilitate efficient financial communication between countries.

3.6.3 China's Environment

The EU can fully adopt the IFRS, but China needs to combine their old system with the IFRS to create the new CAS. The main reason for this is the listed companies in China have a closely tied with the local accounting environment and cultural background.

3.6.3.1 The Accounting Background and History for China

Different from the western capitalist countries, China took the socialist road until its reform. 1949 to 1978 was the early stage of China's reform and opening up, after the third plenary session eleven meeting, China's leading group decided to implement the planned economy system. In order to practice and develop the planned economy system, China began to improve, rebuild, and reform the unified accounting system under the planned economic system. During 1978 to 1984, with the development of economy, the planned economy has

been unable to meet the demand of development in China. So, Deng Xiaoping put forward a special approach to the development "planned economy give priority, market economy is auxiliary". In 1984, after the third plenary session of twelve meeting, it decided to transition the planned economy into the socialist commodity economy. With this change, the accounting system also had a transformation. Since 1985, China gradually presented the "Sino-Foreign Joint Venture Enterprise Accounting System ", and "Foreign Investment Enterprise Accounting System". These new accounting standards are the major sign of China's reformation of its accounting systems. Until 1992, China canceled the commodity economy and fully transitioned into the socialist market economy. Hence, relevant departments restructured their original accounting systems and set up the new accounting standards to promote the development of the market economy, which laid a solid foundation for the development of internationalization in China.

In the late 1990s, China completed to establish the socialist market economic system and start to develop in the capital market. In order to adapt the process of modern enterprise system reform, China accelerated the process of reforming accounting system to join into the internationalization. The changes included the "cash flow statement" and a series of specific accounting standards that meet the needs of Chinese enterprises participate in the international economic circulation. In 2001, China joined into the WTO. It is a stage for China participate into international cooperation. With the development of China's capital market, the accounting information transparency and the usefulness became increasingly urgent for the capital market regulators and investors. In February of 2006, the ministry of finance issued the new accounting standards. On 1st January 2007, the new standards were first executed in the listed companies. The new standards not only adapted to China's national conditions, but also fully converged with the IFRS. The implementation of the new accounting standards increases the enterprises' accounting information quality and transparency. It also brought enterprises' accounting information into the scope of international communication, using, and judgment.

3.6.3.2 Chinese Accounting Environment

China is a one-party rule communist state; the Communist Party of China is the highest

leadership of China. Different with Western multi-party ruling capitalist countries, China has the highest unity of power. All aspects of policy, economy, or law have socialist perspectives. I will analyze these factors and their influences on the Chinese accounting environment.

3.6.3.2.1 Policy Factor

Political factor is the first point and the head point of the overall environment situation. Political environment, in addition to the direct impacts on accounting, also influence a country's economic, legal, cultural, and geographical aspects. These influences can indirectly impact accounting.

In China, the basic accounting laws and regulations are formulated by the state. These regulations are unity and standardization. According to the different social situation, nations will modify a series of accounting rules. But the state has the strongest right to intervention in the accounting aspect. However, in Europe, the government will not make specific laws or regulations. These are mostly decided by personal depending situation. The United States took the federal system, where government power is not fully concentrated. This leads the United States market economy into a state of freedom. Thus, the United States' accounting pattern is under the influence from the improvements, changes, and developments of the market economy.

However, China under the highly standardized political environment, the full adoption of the market economy to generate the IFRS is impossible. Hence, China chose to converge its accounting system with the international accounting system.

3.6.3.2.2 Economic Factor

The economic factor is a critical factor in impacting accounting; it has the power to decide the direction of accounting. In China, the state as the owner of the state-owned enterprises, has the largest power. Thus, the enterprises' accounting information is important for national interests. By contrast, the capitalist countries with private ownership as the main body, the accounting information is only in the interests of the capitalists.

The reform from the economic system to the planned economy lead China 's accounting

pattern gave birth to the concept of "accounting theory", and has carried on the unification of accounting. From 1984 to 1992, the socialist commodity economy made the changes of accounting pattern. Finally, since 1992, China implemented the socialist market economy, the major target of building an accounting mode was compatible with the socialist market economic system and meet the international practice requirement.

From macro management aspect of accounting, the new accounting management system caused China scattered the highly concentrated management system and clear the accounting supervision.

From the micromanagement aspect of accounting, China reduced the interference from outside for accounting activities, and gave corporate accounting more rights. China's capital market is still at an early stage. Some investors lack of rationale and markets lack of financing functions. The disclosure of listed companies' accounting information lacks fairness. These factors meant that the Chinese accounting standards need to improve and modify the original international accounting theoretical method. China could not copy the IFRS that was created based on foreign mature capital market countries. The government need to research the actual situation of China and determine the convergence with the IFRS, which could solve practical problems in China. Economic factor interacts with accounting and common development. The change of the economy must lead to the development of accounting.

3.6.3.2.3 Legal System

The law is the key for a country's governance. Each country's attitude about accounting is different and the requirements also different. Hence, the legal system in different countries is different. In the aspect of accounting, China established many relevant laws, the "accounting law" is the dominant. In European countries, governments do not establish laws to make specific provisions for accounting. But in China, the establishment of related economic laws and regulations provided the legal basis to standardize enterprise's economic activities. It also played a vital role in standardizing the accounting behavior.

In China, the government owns an exclusive department and responsible for all matters of accounting affairs. The department is called the "Ministry of Finance". The Ministry of Finance belongs to the state departments and direct under the jurisdiction, it is one of the most

important departments. The purpose of setting up the Ministry of Finance (MOF) is to formulate China “accounting law”, tax provisions of writing, related accounting practices drawn up and decision making.

In 1985, China promoted the "accounting law", and modified it many times. Until today, the modifications included cancellation of the Certificate of Accounting Professional, writing Management Accounting into the "accounting law", etc. The MOF will add more comprehensive content, giving accounting and financial reporting more direct legal basis and guarantees. On July 1, 2001, due to the change of the economic situation, the MOF issued “accounting law of the People's Republic of China” and “enterprise accounting system” for foreign enterprises and foreign capital, it provides the basic specification of accounting for them to enter the Chinese market (Qiu, Lijing, 2005; Chen, Yugui, 1999; Yu, Yulin, 2005).

3.7 Reason for Introducing the New Accounting Standard

In 2005, the MOF completed the basic accounting standards, the 38 specific accounting standards formulated and revised work. The Chinese Institute of Certified Public Accountants (CICPA) had completed to formulate and revise of the 48 auditing standards. On 1st January 2007, China started to implement the new accounting standards in listed companies. At the same time, all certified in public accountants’ firms also need to implement the new auditing standards.

With the development of global economic integration and international capital markets, the international coordination and convergence of accounting standards has become an inevitable trend. In 2001, China’s entry to the WTO, signified its formal entry into the internationalization development path. In the process of China blend into the international economic system, accounting as a common commercial language of must be standardized, one of the keys is the internationalization of accounting standards. In addition, in order to continue development Chinese national economy and improvement Chinese economic position, satisfied enterprises, investors and other accounting information users' higher demand for accounting information. Whether from the perspectives of international development or from the requirements of domestic economic growth, the traditional accounting standards had been difficult to meet the needs of the modern market reforms.

Hence, the introduction of a new accounting standard has become the inevitable trend.

3.7.1 International Influence

3.7.1.1 Integration into the International Economic System

Zhao, Qifeng (2014) reports that after China entry into the WTO, enterprises transnational operations, cross-border listings, transnational investments, and international financing has increased. Accounting information as the international general commercial language, which promoted China attract overseas investments and strengthen the process of international economic exchanges. Along with the development of economic globalization, international communication is becoming more and more closely. In this era, formulating the domestic enterprise accounting standards that converge with international accounting standards is necessary. It makes China rapidly join into the international economic system. The internationalization of accounting standards not only improved the international comparability of accounting information in China, but also reduced China's enterprise information report costs and financing costs.

3.7.1.2 Improve the International Trade Relations

Accounting as an international common language, it plays the central role of analyzing an enterprise's financial status and evaluating an enterprise asset strength, financial status, risk status, or other problems. Under the original system of accounting standards, Chinese enterprise's financial accounting reports could not be recognized by other countries, especially in European and American countries. This seriously affects the efficiency of Chinese global cooperation. The new accounting standards converge with the IFRS that significantly changed the adverse situation, it reduced the economic communication obstacles between countries, and made the enterprise's communication of financial information become more convenient. The New CAS also prompted resources to optimize the configuration between countries, which benefit to improve China foreign trade relations. For example, Chinese export enterprises' financial statements were accepted and approved by customers overseas.

3.7.1.3 Establish Full Market Economy Status

For a long time, the Chinese Ministry of Commerce negotiated with the European and American governments, promotion and implementation of a new accounting standard is the keyword in the negotiation process. After the implementation of new accounting standards in China, in April 2008, the European commission issued a formal report to accept the Chinese accounting standards. Following China and the United States reached a memorandum on the new CAS. This signified that the European and American countries begin to give China's full market economy an affirmation.

3.7.1.4 Promote International Investment and Multinational Enterprise Development

Wang, Tao and Liu, Guowen (2007) investigates that since the 1990s, the trend of world economic globalization sped up, the international investment and multinational companies present a good development momentum. The capital markets grew quickly, transnational merger and acquisition (M&A) activities were increased frequency, and capital flows also grew rapidly. In this case, the requirement of convergence with the international accounting standards has become more and more urgent. According to the data at the end of 1998, the London stock exchange 70% of the total stock market value came from Non-British companies; on the German stock exchange listed companies, about 80% of them came from 60 countries both the Non-German companies; the United States securities and exchange commission (SEC) had among 13000 companies registered and there were more than 1000 foreign companies; on the Toronto stock exchange there were 58 foreign companies listed. This data prompted China's need to speed up the footsteps of converging with the international accounting standards.

Wang, Tao and Liu, Guowen (2007) report that nowadays a large number of multinational companies entered the Chinese market, foreign investors are enthusiastic to invest in China. But with the original accounting standards, these foreign companies or investors were unable to produce an accurate evaluation of the Chinese enterprises. The differences in accounting standards made it difficult for foreigners to understand the company's financial position and operating condition. The new accounting standards not only converged with the IFRS, but also made the accounting information more transparent and higher quality. This reflected in

financial statements, performance appraisal, decision making, and business management aspects. The new CAS helps multinational companies to reduce operating costs and facilitate the pursuit of profit maximization. For foreign investors, their understanding ability and comparability of accounting information all improved, Investors are able to optimize their decisions and reduce the investment risks. It dismissed the threats from the prior uncertainty accounting information.

According to the data in 2006, China had 1440 listed companies. In 2015, that number increased to 2827. Overseas listed companies from 2006 to 2014 increased from 65 to 92 companies. In these listed companies, it had 72 companies from Hong Kong, 15 companies from the United States, and 9 companies from other countries. In nearly 10 years, the growth of transnational investment and the number of multinational companies in China was on a linear growth pattern. The new accounting standards and its implementation has become an important integral part of China's opening-up strategy.

3.7.2 Domestic influence

3.7.2.1 Establishing and Perfecting the Modern Enterprise System

China is working on establishing the scientific management of modern enterprise system. The corporate governance mechanism needs to improve the accounting information reporting system. Establishing and perfecting modern enterprise systems need the high-quality accounting information. But current accounting standards are not in place, then it is impossible to have high quality accounting information. The new accounting standard system will carry out the advanced scientific idea of accounting. Starting from Chinese actual conditions, it will learn from the IFRS, and choice the suitability standards for Chinese situation accounting policies and procedures. It aims to provide the system guarantee for enterprises and help them to produce the high-quality accounting information. (ASKCI Consulting, 2014; Finance SINA, 2014).

3.7.2.2 Improving the Level of Accounting Report and Enhancing the Scientific Decision-Making

The traditional accounting standards did not have clear regulations for certain economic

activities. It leads accounting personnel have freedom to manipulate some brokerage business accounting reports. Therefore, on a certain extent, the information could not reflect the enterprise's operation conditions or prevent the risks of decisions. This phenomenon made the information asymmetry reinforced on the market, it is not conducive to guide the market economy to make the right decisions. The new CAS has cleared the regulations and strengthen the systems, it's increasing the transparency and authenticity of the accounting report. And then, it on the basis of certain laws to regulate enterprise behavior.

3.7.2.3 Improving the Accountants' Professional Level

Sheng, Hongsheng (2016) shows that the national accounting development level has a direct relationship and their national accounting personnel occupation level. Exercise and practice are necessary to improve accounting personnel's professional capabilities. Promotion and implementation of the new accounting standard system is necessary to train accounting personnel. Training accounting personnel advanced international ideas and accounting methods will be conducive to improve the level of accounting personnel. Implementing the new accounting standard system allowed Chinese professional accountants have opportunity to exercise and improve their ability of professional judgment in accounting practice.

3.8 Differences between the New CAS and IFRS

In February 2006, the MOF had completed formulating the new Chinese Accounting Standards. The new CAS included one basic guideline and 38 specific standards. Compared with the old accounting standards, the new CAS added a number of new standards, and also made the significant modification of the original standards. These modifications made the accounting standard system more perfect and formed a relatively complete accounting system.

3.8.1 Basic Explanation for the New Chinese Accounting Standards

China's market economy had been successful through its efforts over the past few years, but there were also existing certain unsatisfactory aspects. The asymmetry of accounting information, and big differences between accounting standards and IFRS are both important factors hindering the construction of China's market economy. From 1978 to 2005, Chinese

accounting system and the international accounting system were quite different. The original Chinese accounting standard system was poor and resulted in many problems in accounting. The accounting information was unreliable and not comprehensive, which led to the asymmetry of accounting information. The accounting calculation rules were not clear that enabled enterprises to manipulate their profits and other financial information. Aimed at these issues, the new accounting standards made some additions and modifications to improve the quality and transparency of corporate accounting information. At the same time, the new standards also benefit in international communication. The implementation of the new accounting standards not only enhanced the communication between Chinese markets and international markets, but also promoted the development of multinational corporations, multinational investment, and other international business.

The NO.50 of the "Accounting Law" stipulates that: "The unified national accounting standards is formulated by the MOF. The accounting standards are the system related to accounting calculation, accounting supervision, accounting institutions, accounting personnel and accounting management." The new Chinese Accounting Standards is part belonging to the national "Accounting Law" and has the same legal effects. The new accounting standards promoted by the MOF, which is an important manifestation of accounting characteristics in China. From the legal environment, the system form, the system content and other aspects of the new accounting standards, it is in line with the actual situation in China. In China, the new accounting standards are a normative document that belongs to the administrative regulations and bounded by law. The Chinese famous accountant Professor Ge Jiacheng pointed out: Since the founding of the People's Republic China, China's accounting standards always take the form of "formulate", this kind of form not only developed in our country for a long time and accepted by people, but it also has been considered as an integral part of the regulation, that has a clear uniformity and coercion.

The new accounting standards have the basic guideline and 38 specific criteria. Compared with the old one, the new accounting standards modified the original 16 criteria, and also added 22 new standards. The original 16 specific criteria focused on industrial and commercial enterprises, the new accounting standards extended to the incorporate financial, insurance, agriculture, oil and many other areas. It also covers the stock, debt restructuring,

investment real estate, fixed assets, enterprise annuities and many other economic businesses. Under the conditions of the Chinese market economy, the new accounting standards fill the blank of the new economic business accounting treatment, and more detailed to regulate the behavior of corporate accounting.

Finance Minister's assistant Wang,Jun (2006) stated that high-quality accounting and auditing standards are beneficial to improve the quality of accounting information and economic operation, regulating the capital market development and market economic order, and promoting foreign economic exchanges. Chinese Accounting Committee Chairman Lou,Jiwei (2006) stated that the construction of Chinese new accounting standards is related to the Chinese historical process, and promotion to establish the socialist market economic system. The new accounting standards system has promoted the Chinese enterprises to obtain a higher market share in the international scope.

3.8.2 Relationship with IFRS

The formulation of Chinese new accounting standards is mainly based on the IFRS's existing guidelines. Due to China's environment differences, they developed a modified version of the IFRS. Wang,Jun (2006) pointed out that the new accounting standards have created a set of accounting standards that have adhered to both Chinese actual condition and international standards, that is a set of guideline which not only recognized by the populace, but also a convergence platform to be recognized internationally. Lou,Jiwei (2006) pointed out that the construction of new accounting and auditing standards system, that not only considers the development of Chinese socialist market economy and China current economic, legal and accounting development levels, but also needs to meet the convergence with the international audit standards requirements. The new accounting standards should be in line with both Chinese specific circumstances and adapt to the trend of international convergence.

February 15, 2006, the MOF formally promoted the new Accounting Standards for Business Enterprises (ASBE), the new accounting standards contain the most of the current IFRS contents. According to the IFRS, China made a comprehensive revision of the original accounting standards. For example, the new accounting standards changed the "non-monetary exchange" name to "non-monetary assets exchange", which directly updated the original

content based on the IFRS. The "income tax" standard in the new accounting standards has been fundamentally changed same with "IFRS 12 - Income Tax". The most noteworthy is that the new accounting system leads the "fair value" concept into the Chinese accounting system which in accordance with international practices. The application of fair value has become one of the most major highlights of the revision guidelines. Of course, this is only a small part of the new accounting standards revised process. In actuality, the new accounting standards only had very few individual parts that need to be modified based on China's actual economic environment. Almost 90%-95% of the new accounting standard's content is the same as the IFRS.

Of course, the new accounting standards is not totally the same as the IFRS. The Vice Minister of MOF, Wang Jun said, "the new accounting standards not only converged with IFRS, but also adapted to China's national conditions, it had maintained the" Chinese characteristics". According to the comparison, I found that "Related Party Disclosures ", " Impairment of Assets", "Accounting for Government Grants and Disclosure of Government Assistance" these three aspects in Chinese new accounting standards are different from the IFRS, and the other contents between the new CAS with IFRS are almost the same. I will be do a detailed analysis of these three points in the next section.

—— Impairment of Assets IAS36 VS CAS38

IAS 36 states that at every balance sheet, you need to ensure impairment loss for assets have been reduced, but the impairment loss shall be reversed if the carrying amount of the subsequent assets is increased. The reversed impairment losses shall be recognized immediately in the income statement as profit and loss confirmation, unless the assets are recorded in revaluation amounts required by other criteria. But CAS 38 provides that if the asset impairment loss had been recognized, it cannot be reversed in subsequent accounting periods (MOF, 2006; Wen,Huaiyuan, 2002).

China has made this change mainly to consider the actual situations of the nation. The reasons are the following:

First, it prevented someone from utilizing asset impairment losses to artificially adjust profits. Companies used asset impairment to reverse the manipulation of profit that change the original intention of improving the quality of accounting information. This leads to the new

standard to have the mandatory provision of "asset impairment losses shall not be reversed".

Second, China still not have the condition of reverse impairment loss of the assets. In accordance with the provisions of IAS36, the impairment loss of assets if confirmed needs to ensure the assets may or may not be reversed. First, it is necessary to determine whether there was any indication of partial impairment has recovered of the asset impairment loss in the previous year. Then, estimate the amount bribes of assets, and compare with the book value of the asset. After these steps, confirm the loss assets of the impairment maybe or may not be reversed. This process requires the use of fair value, future cash flow, and other factors that both need artificial decision. However, China's current accounting staff's professional judgment level cannot comprehend it. In addition, the market mechanism is not perfect enough, the related asset market price data is difficult to obtain. Thus, China did not have the condition of reversing the assets impairment loss (MOF, 2006; Wen,Huaiyuan, 2002; Yu,Jingjing, 2006).

—— Related Party Disclosures IAS24 VS CAS 36

IAS24 defined "related party" as: in financial and operational decisions process, if a party has the ability to control the other party or to exert a significant influence on the other party, they are treated as a related party. IAS24 used the lists way to limit the relationship of "related parties" in the standard, and disclosure of transactions.

Such as:

- (1) Enterprises are directly or indirectly controlled by other enterprises
- (2) Associated enterprises
- (3) Those individuals and their family members who have direct or indirect ownership of the shares with voting rights or have a significant impact on the enterprise.
- (4) The important managers or those who have the power and responsibility to make plan, direct and control the reporting of corporate activities. Includes the directors and high-level officers in the company and their close family members.
- (5) The "related companies" are that have the person that has directly or indirectly voting rights that to decide on company's important events or have the people who could influence the companies (such as the listed in 3 and 4).

According from the above regulations, IFRS has detailed regulations to judge the

"related parties", even the related enterprises are both controlled by the state. Their related party information is still required to disclose.

In CAS36, it does not have a specific definition of "related parties", its judgments on "related parties" are more flexible than IAS24. This should be in line with the complicated relationship between enterprises in China's real environment. For example: In China, the state-owned enterprises have not "related parties". Article 6 of CAS36 expressly states that "state-owned enterprises are only controlled by the state and they do not have any other party relationships, that do not constitute in "related party". The state-controlled enterprises are just subject to national control and do not have other related party relations, the transactions between them do not need to be disclosed.

Li,Ling (2007) explains the reason for China to modify the standard is because China has a lot of state-owned enterprises, many of these transactions are produced between the state-owned enterprises or state-owned holding enterprises, if the transactions between these enterprises are regarded as related parties, it will greatly increase the burden on these enterprises. If the state-owned enterprises are regarded as related parties, the transactions between them both need to disclose. This level of disclosure is neither realistic nor meaningful. This would also increase the unnecessary costs and workload on the enterprises.

China's market economy system is running on the socialist market economy line. The nature of state-owned enterprises is different from western enterprises. In China, there is a large number of enterprises controlled by state. Due to this large scale of state-owned economy, disclosure of the transactions between state-controlled enterprises do not have any meaning and will only be a waste of financial manpower.

Therefore, in this criterion, China has integrated its own real environment and the complex relationship between enterprises, which based on international norms. After the modification, the new standards are suitable for the actual situations of the Chinese market. It also benefits to the future development of enterprises.

——Accounting for Government Grants and Disclosure of Government Assistance
IAS20 VS CAS16

In the "Accounting for Government Grants and Disclosure of Government Assistance" standard, the new CAS and the IFRS have the following differences:

(1) The definition of terminology is different, CAS16 defined the recipient as "enterprise", the content of the subsidy is defined as "monetary assets or non-monetary assets", IAS20 defined the recipient as "subject", the content of the subsidy is defined as "resources". Thus, IAS20 terminology definition is broader than the CAS16 and is considered more detailed.

(2) The scope of application is different, CAS 16 regulation states that debt relief and income tax relief are not suitable to apply this criterion. At the same time, in the definition and application of government, it emphasized that the government's capital investment cannot be used as a government subsidy. But IAS 20 regulation states that except the following three points, all others belong to government subsidy:

1. Financial statements that reflect the effects of price changes such as types of supplementary materials, due to an accounting treatment for the government subsidy.
2. Using the form of profit to provide the government subsidy to enterprises.
3. Government participation in corporate ownership.

According to the details, it can be seen that CAS16 does not apply to debt relief problem between an enterprise and the government. However, IAS20 does not have this provision. At the same time, IAS20 was clear to define that under the influence of price change, there is a special treatment about accounting issues for the government subsidies (Ge, Jiafeng et al., 2005; MOF, 2006).

(3) Accounting measurement comparison; CAS16 divided the government subsidies into asset-related government subsidies and benefits-related government subsidies. It uses different accounting treatments for these two cases. But IAS20 first distinguishes government subsidies and government assistance. Government assistance only requires its subject to be disclosed in the financial statements. Government subsidies continue to be divided into asset-related government subsidies and benefits-related government subsidies.

With respect to the recognition of subsidized assets, IAS20 only used fair value measurement attributes, while CAS16 used historical cost measurement and fair value measurement. This change is because the development of China's economic market is not mature enough. A lot of capitals haven't been securitized, so there isn't the norm and active markets as the western developed countries. Fair value is the need to be cautious.

(4) Differences in government subsidy disclosure, CAS16 stipulates that "the enterprises need to disclose the following information in the notes that relate to the government subsidy: the type of government subsidy and the amount of government subsidy; the amount of government subsidy that's included in the current profits and losses; the returned amount of government subsidy in the current period and its reason."

IAS 20 regulation states that "the enterprises need to disclose the following information in the notes that relate to the government subsidy: the accounting policy adopted for the government subsidy, the nature and scope of the government subsidy recognized in the financial statements; and under the government assistance which has been confirmed, what still have not fulfilled the additional conditions and other contingencies.

Through the above comparison, about disclosure requirements IAS20 is more standardized than CAS16, CAS16 modified the standard to suit China national conditions and avoid fraudulent accounts of fake local listed companies and local governments. Hence the reason for the special emphasis on the disclosure of return of government subsidies.

China's new accounting standards and the IFRS almost the same except the three criteria list above. The new CAS has fully converged with the IFRS and participate in the international accounting environment.

3.9 Implementation Process

China new accounting standards first implemented in the listed companies. In this section, I will analyze the implementation of the new accounting standards in China from the Ministry of Finance's aspect, the relevant experts' aspect and the specific listed companies' aspect.

3.9.1 Financial Officers' Opinions

Finance Minister Jin Renqing on the new CAS release conference said that "From January 1, 2007, China started to implement the new accounting standards in the listed companies. The listed companies implement the accounting laws and the new accounting standards system will become the focus point in financial quality supervision work." MOF vice minister Lou Jiwei said that "The new accounting standards have strengthened the

concept of accounting information. It provides useful decisions for investors and the public, and has achieved convergence with international practice.” Converged with the IFRS to formulate a new CAS was the first time for China to build a complete organism, and unified system. It improved the Chinese enterprise’s accounting report standards and became a breakthrough in the development route.

At the press conference, Lou Jiwei(2006) pointed out that the main reason for the listed companies implementing the new accounting standards first is because the listed companies’ have a better financial basis than other companies. The listed companies are the public companies, they’re more urgent in needing the authenticity and transparency financial report.

3.9.2 Experts’ Opinion

E&Y partner Fan Xun said that enterprises need a process to adapt the new accounting standards, there are existing some unexpected problems in the process. The MOF had taken this into consideration, so they decided that the new accounting standards should be implemented in the listed companies first. He suggests that “Enterprises must start to put enough time and money to train their financial staff from now on, or the financial system may face a great deal of incongruity when the new standards are in force.”

PwC partner in the audit department Zhao,Boji(2007) says that the implementation of the new accounting standards puts forward the higher requirements for the management ability of the listed companies. A good management team will provide a better information reference for overseas investors.

PwC consulting services partner Jin,Yiwen(2011) points that Chinese new accounting standards have been gradually achieved convergence with the IFRS. But in the listed companies trial implementation process, there is still existing the question of "how to use the new CAS?"

Yuan,Yonghui(2006)explains that the new accounting standards will conform to capital market demand for accounting information. It can provide high-transparent and comparable financial information to global investors. But it required companies need to improve transparency and comparability of accounting information in a short time based on the new accounting standards. Since the staff are not familiar with the new standards, they may have

underestimated the difficulties and challenges of the application.

The “Big Four” accounting firm partners and the industry professionals said that using the new accounting standards will benefit the future development and reduce huge transaction costs of the Chinese listed companies. However, the listed companies still faced difficulties and challenges that cannot be underestimated.

3.9.3 The Specific Case of Chinese Listed Companies

In the process of studying the case study companies, I find that the accountants in all three companies are not familiar with the new accounting standards. They had not been professionally trained the new CAS. When they started to use the new accounting standards, they always encounter a lot of problems and have no idea to deal with them. Some accountants said that they only know the difference between the new and old criteria, but they did not understand the IFRS. Thus, when faced with difficult problems, the accountants prefer to fall back and using the old standards to deal with the questions. However, about 80% to 90% of the new accounting standards are very similar to the IFRS, this phenomenon greatly affected the accuracy of financial report. Hence, this problem has become one of the major difficulties in enterprises. China’s Ministry of Finance said that: China must increase the training efforts to solve this urgent question.

Based on the differences between IFRS and the new CAS, I chose three representative Chinese listed companies to conduct research. In addition to introduce the company's basic situation, I will take interviews with their finance ministers, and analysis the data on their annual report.

3.9.3.1 Sichuan Changhong Electric Co.,Ltd.

Sichuan Changhong Electric Co.,Ltd is a listed company position in Mianyang, SiChuan province. It was founded in 1985. The company’s predecessor was one of China’s early 156 key projects, and also was the only base for airborne fire control radar production. The company became listed on the Shanghai Stock Exchange on March 1, 1994. It is a large listed company in China. The primary business scope is military electronics, IT, information appliances and so on.

2005 – 2009 Annual Report Data Analysis:

According to the annual reports presented of Sichuan Changhong Electric Co., Ltd. From 2005 to 2009, the return of net asset was 2.09%, 2.45%, 3.66%, 4.01% and 4.92% respectively (Finance, 2005; Finance, 2006; Finance, 2007; Finance, 2008; Quotes-Money, 2009). According to the trend of the data, we found that when the company used old accounting standards, the enterprise's net asset growth rate was relatively flat. But in 2007 after implementing the new accounting standards, the growth rate of net assets greatly improved. We can see that the new accounting standards have played a catalytic role in the economic part of Sichuan Changhong Electric Co., Ltd.

Implementation process

The former CFO of Sichuan Changhong Electric Co., Ltd., said at the press conference “Sichuan Changhong Electric Co., Ltd's transition from the old standards to the new standards will mainly rely on the professional accounting team within the company. The company has a dedicated internal financial service center to control the accounting affairs and related matters. However, compared with the old criteria, the new accounting standards had changed considerably, we also need to apply the external professional advisory bodies to assist,” It can be seen that the financial team in Sichuan Changhong Electric Co., Ltd. is combined by the internal team and external assistance to achieve the goal of successfully using the new CAS.

Problems encountered in the implementation process

—Lack of experience

The new accounting standards were promoted in 2006 and implemented on January 1, 2007. In the interview process, the financial manager told me that their accountants did not have sufficient time to study the new accounting standards due to the hasty timeline. The accounting personnel did not have the perfect theoretical knowledge and practice basis. Thus, at the beginning of implementation, they did not know how to solve the problems that they encountered.

—Company accounting structure and system software configuration

The implementation of the new accounting standards need enterprise to restructure its internal resource, which can meet the requirements of the new accounting standards. This

included re-setting and adjusting the accounting subjects, installing the supporting financial software and the financial statement compiling systems. However, at the beginning of implementation the CAS, parent company did not configure the matching software system, and did not complete the re-setting of the accounting structure. Thus, most of the work required the accounting staff to manually complete. This increased the error rate of results and the work difficulty.

Changes in the enterprise

Because of the differences between the two standards, the current Vice Chairman of Sichuan Changhong Electric Co., Ltd. Liu Tibin said, “The new CAS converges with IFRS that added a lot of new standards, we lack of practical experience for the new CAS, so we have to fumble to execute.”

According to the differences between the old and new criteria, I made a summary according to the annual reports of Sichuan Changhong Electric Co., Ltd

(1) Long-term equity investment – According to the requirements of the new standards, Sichuan Changhong’s 2007 interim report disclosed at the beginning of the year, it uses cost method to re-calculate its ten subsidiaries For example, the long-term equity interest on December 31, 2006 was RMB65, 104,282.00, which was fully reversed on Jan. 1, 2007, and also made an equally scope down on parent company retained earnings on January 1, 2007. The balance after the long-term equity adjudication was 242,855,763.60 and as the recognized cost in 2007. The result shows that the change had a direct impact on the net profit of Sichuan Changhong parent company.

(2) Impairment of assets – In the operation of the old standards, the legitimacy of the “impairment” was not strict, it means that the listed companies can manipulate their performance and profits. The new accounting policy is the converged with IFRS, it clearly stipulates that it is not allowed to be reversed after the provision for impairment of assets. This closed the main channel for manipulating profits of listed companies. At the end of 2006, Sichuan Changhong fixed assets after the year end processing was 169,366,547.45 yuan. Compared with the same time in last year (381,186,339.60 yuan), this was reduced by more than half. The result shows us that the development of the new standards has power to limit the listed companies. Companies no longer rely on “impairment” to adjust the profit, and

making corporate governance more standardized.

(3) Income tax – The modification of income tax directly affected the Sichuan Changhong financial indicators, and is also closely related to corporate cash flow. If the enterprise did not improve the cash flow, then the increasing in income tax will increase the burden on enterprises. In order to maintain the normal capital operation under the new income tax clause, Sichuan Changhong has increased its credit management. This includes adopting measures of shortening the collection period of accounts receivable and accelerating capital withdrawal. Subsequently, it was observed that the cash position was significantly improved, operating cash flow increased by 107.17% over the same period in 2006.

(4) The balance sheet – The new standards for the balance sheet has a variety of changes. There are many puzzles associated with preparing the new balance sheet, such as the categorization of individual accounts and how to deal with bad debt.

Accounting Liberty – Ye Honglin said that “in the past accounting standards, the classification of the subjects did not have a certain limit. Accounting subjects had a certain degree of freedom. But after using the new accounting standards, the new added guidance has strict management of these parts. The choice of the projects needed to be studied carefully. Because once selected, it may not be able to change in the future account processing.

Consequence of implementation

Although there are existing some difficulties in the short-term, the new accounting standards not only regulated the management of SiChuan Changhong, but also promoted its economic growth. For example, the implementation of the new standards has promoted the economic development of Sichuan Changhong, and also increased its overseas investment. After using the new accounting standards in 2007, the overseas business of Sichuan Changhong increased steadily. It has successfully achieved entry into Europe, US, Southeast Asia, Australia and other than 100 other countries and regions. The overseas sales revenue accounted for 30% of the total revenue of Changhong Group. The implementation of the new accounting standards let Sichuan Changhong provide a higher degree of transparent financial report for the investors, and promoted the effective exchange between each other.

3.9.3.2 AVIC REAL ESTATE HOLDING Co.,Ltd.

AVIC REAL ESTATE HOLDING Co., Ltd., is located in Shenzhen, Guangdong, it was established in 1985 and listed on the Shenzhen Stock Exchange in 1994. The company after more than 20 years efforts, has developed into an integrated group, including estate development, property management, hotel management and other business. Now it has more than 25 subsidiaries. The main business of the company is real estate, hotels and other business. It has businesses around the Pearl River Delta region as the core business, and also deep into China's southwest, northwest, south and other regions. It has a comprehensive development layout.

2005 – 2009 Annual Reports Data Analysis

Xu, Maihua (2010) studies the annual reports of AVIC REAL ESTATE HOLDING Co., Ltd. which presentation the return of net assets of AVIC REAL ESTATE HOLDING Co., Ltd. from 2005 to 2009 is 17.74%, 19.86%, 0.48%, 1.95%, 3.70% respectively. According to the data, before to use the new accounting standards, the corporate net assets yield floated increased sharply, but in the first year after they used the new accounting standards, the net assets yield dropped significantly. Until two years later, it only had a slight growth. The data shows us that the implementation of the new accounting standards have a direct impact on China's real estate industry.

Implementation process

The CFO of Financial Street Holdings Co., Ltd Zhang Xiucheng said that, at the early stage of using the new CAS, the company mainly relied on the headquarters to adjust their financial department structure. However, due to the lack of understanding of the new CAS, they needed to seek an external professional consulting firm to provide assistance in the reform process. The main job of the professional consulting firms was explain the new CAS in detail and help the company to complete the accounting sector rectification.

Problems encountered in the implementation process

—Lacking experience

Due to the pressing timeline to implement the new accounting standards, enterprises accounting personnel did not have enough time to have a systematic training on the new CAS. Thus, there were a lot of difficulties in the operation process.

—Companies System Configuration and Structure Reorganization

Before 2007, all companies used old accounting standards, Thus, all the companies' financial systems and financial statement structures all match with the old format. The implementation of the new accounting standards requires companies to install the new software to replace the old software, and re-build the company's financial structure. But the company couldn't complete this requirement due to the time urgency and thus hindered the actual work.

—Difficulty in unified management

AVIC belongs to the group type company and owns more than 20 subsidiaries. The previous financial management model was the "fragmented" type. Each subsidiary has their own financial system and managed by their owners. However, the new accounting standards had modified the original criteria of the cost accounting system, earnings management and content. It required all subsidiaries' finances should be managed by the parent company with unified accounting. These will need AVIC to re-build a new financial management model, which increased their operational difficulties.

Changes in the enterprises

The "Accounting Standard for Enterprises No. 3 – Investment Real Estate" is one part of new accounting standards. It is introducing the "fair value". The content of "fair value" has a direct impact on the value of real estate listed companies, accounting performance, accounting policies, information disclosure. Especially to the real estate industry surplus. Since 2009, the investment real estate was measured by the "fair value". According AVIC annual report, it shows that, compared with 2008, the net profit in 2009 had increased by 293.76%, while in the 2006 to 2008 which the years hadn't used the "fair value" measurement, the net profit growth rate just only 66%. It can be seen that, after introducing the fair value measurement, the value of investment real estate increased significantly.

Consequence of implementation

AVIC Finance Director Zhang Xiucheng said, "Parts of the new accounting standards focus on the adjustment of real estate industry, which let us produced a strong correlation with our investment real estate partners. When the real estate was in an upward trend, the used of the fair value measurement will significantly increase the surplus. Otherwise, it will affect the

profits shrink them dramatically. “Although in the early time of using the new CAS, the operation of AVIC produced a short-term obstacle and the decline in yields. However, from a long-term perspective, the application of new CAS will give the real estate industry considerable prospects for development in future.

3.9.3.3 Haier Group CO., LTD.

Haier Group was established in 1984, it is the first brand of large household electrical appliances in the China. The Headquartered of Haier is located in Qingdao, Shandong Province. It is also a large multinational company in China. November 19 1993, Haier became listed in the Shanghai Stock Exchange, and in 1999 established the United States Haier Industrial Area in the United States South Carolina that started the first step to out of the country.

2005 - 2009 Annual Reports Data Analysis

According to Haier Group 2005-2009 annual reports, the return of net assets from 2005 to 2009 was 4.19%, 5.63%, 10.29%, 11.72% and 15.83% respectively. According to the data presented, the Haier Group’s return on net assets rise dramatically during the transition to the new accounting standards.

Implementation process

The CFO of Haier Group Gong Wei said that Haier is a transnational enterprise. In 1999, 2001, 2005 it built Haier factory in the United States, Italy and the United Kingdom. Before the new accounting standards, the Haier Group needed to prepare financial reports based on different national standards. Through this, Haier has built a strong professional financial team. Thus, during the implementation of the new CAS, the Haier Group used their own financial team to aid in this transition.

Problems encountered in the implementation process

Haier Group is an early multinational company. Before the implement of the new accounting standards, their preparation of financial reports needed to be based on different national accounting standards. Therefore, the accounting staffs of enterprises are very familiar with the IFRS and did not have much difficulty implementing the new CAS.

Consequence of implementation

The director of Haier Group presented that the implementation of the new accounting standards played a full role in promoting the multinational companies (such as Haier). It increased the transparency and comparability of the financial statements in enterprises, and effectively showed the financial situation of the enterprises to the multinational investment enterprises. After implementing the new accounting standards, Haier did not need to create different types of financial reports anymore. This was able to reduce transaction costs, reduce workload of the accounting staff, and promoted the effective exchange between countries.

3.10 The main Problems and Challenges for Companies to Reform

The new accounting standards is a complete accounting standards system in China; The new standards is the basis for all companies to prepare their financial statements. Accordingly, companies need to change the original criteria into the new standards. For example, companies need to assess the possible impacts from the new accounting standards, and develop their own accounting policy system to conform the new standards requirements. The companies should try their best to embed the new standards into the financial statements process and their day-to-day management processes.

According to the study, we can see that the challenges faced by enterprises are mainly come from two aspects: the first is the accounting professional expertise; the second is practical operation.

3.10.1 Enterprise managers' professional knowledge ability

The implementation of the new accounting standards is a huge challenge for the management employees in the enterprise. Management employees need to have the appropriate knowledge, ability, and experience to decide the relevant operational methods, foundations, and assumptions. For example, from the financial instruments' aspect, enterprises' management employees need to identify financial assets and financial liabilities, including its complicated derivative. Then, they can make a proper classification of financial assets and select the right method to do the follow-up measurement. But these steps are only the preparatory work for the selection of financial instruments. If the management employees do not have the relevant professional knowledge, there will arise mistakes in the process of

choosing financial instruments. These mistakes can be costly and lead to a stoppage in work. The implementation of the new accounting standards requires the enterprises' management employees to deep understand the accounting knowledge and familiar to apply the new accounting tools. But in the short term, enterprises are difficult to satisfy these requirements.

3.10.2 Accounting personnel professional quality and professional judgment

Zou, Yutao (2008) reports that enterprises accounting personnel are the core of effective to implement the new standards. They've deeply understood and rational use the new accounting standards will directly affect the implementation process. On the one hand, most of the accounting personnel in Chinese companies have a limited knowledge. The accounting staffs' professional knowledge structure still remains at the previous level, which do not allow them to meet the requirements of accounting work in the new situation. On the other hand, the new accounting standards only have principle regulations for the accounting business treatment, it increases the accounting free ruling power. This type of accounting standards requires accounting personnel to hold their own professional judgment and solve specific accounting problems. But in the past experience, the Chinese accounting staffs only needed to follow the clear accounting system and make the simple judgment. The accounting staffs lack independent judgments ability and enthusiasm to deal with accounting matters. In addition, the original accounting standards have a limitation on the accounting policy and accounting estimates, it also limits the scope that the accounting staffs make their judgments. To sum up, the company accounting staffs are accustomed to using the old accounting standards. They are not good at using professional judgment to deal with complex accounting matters. The whole accounting staffs' professional judgment ability are not good enough, which restricted the implementation of the new accounting standards.

3.10.3 Enterprise information systems and financial software

1st Jan, 2017, the new accounting standards has been started to implement in the listed companies, central enterprises and securities companies. The implementation of the new accounting standards is largely reliant on financial software. Therefore, the new CAS required these institutions to install the new software. The implementation of the new accounting

standards will bring about changes in the accounting process. This will put forward higher requirements for the corresponding internal control system and internal control process implementation.

3.11 Summary of the Findings

In this chapter, I discussed the process of IFRS adoption in China and provided a detailed description of Chinese old and new accounting standards. First, through comparing the differences between the new CAS and the IFRS, I explain the reasons for why it has difference between the two standards. Second, from the opinions from officials, I explain the motivation for China formulated the new CAS. Third, from the professional institutions and experts' views, I investigate the challenges and changes in enterprises when they implement the new CAS. Finally, with the case analysis of the three representative listed companies, I summed up the difficulties and challenges of the new accounting standards in the actual implementation process.

4 ANALYSIS

4.1 Accounting change follows Social and Economic development in China

From the empirical part of Chapter 3, it is not difficult to see that Chinese economic development and social progress need to integrate into globalization. In the globalization development process, the "common language" is playing an important role. Because the accounting standards is one of the "common languages". Therefore, Chinese economic and social development cannot be separated from accounting reform.

4.1.1 External Environment Influence

With the rapid development of computer, communication and network technology, the process of economic globalization is an accelerated development. In order to facilitate the communication between countries, the relevant policy systems and the official language are also gradually integrated.

The IFRS as the global common accounting language had an important impact on the international scale. In the international market scale, the IFRS not only facilitates exchanges

between countries, but it also enhances the transparency and comparability of financial information. This was indispensable in the development of globalization.

After joining into the WTO, China's economic market accelerated to integrate into the world. With the starting develop of the capital market, foreign capitalists begin to invest into the Chinese market. In this situation, the new CAS help local companies to provide high quality financial reports which benefit for foreign investors to understand the real situation about the company and decide to invest. On the other hand, the new CAS also greatly reduced the translation cost.

Except of attracting investments, in the opening international market, the same "accounting language" make lots of China's enterprises gain the opportunity to develop overseas, and laid a foundation for introducing the overseas investment.

4.1.2 Internal Environment Influence

China is a one-party ruling country. This high-degree of centralization is the special institutional environment China. It mainly reflects from three major aspects: policy, economy, and law. Any reforms in China should be in line with its own institutional environment. Thus, in the reformation of the accounting standards, policy, economy, and law also play the important roles.

Political:

China is a socialist country that government has the highest control power. Due to this socialist nature, China's reformation of its accounting standards should be suitable its national unique institutional nature. It is to say that the reformation needs to reflect the national will. Therefore, the establishment of new accounting standards must be supervised by the government. The political environment directly affected the development of the new accounting standards. This is also one of the reasons for why China chose to converge with IFRS rather than fully apply it.

Economical:

China resumed its legal seat in the International Monetary Fund and the World Bank in 1980, it joined the World Trade Organization in 2001, and it developed the strategy of "going out and coming in". For China to integrate into the world economy, it needed to operate in

accordance with the international economic system. The activities relevant to foreign economic need to follow the international rules, and in accordance with international rules to make some necessary reforms.

The rapid economic development prompted the traditional state-owned enterprises to join into the transformation process. With the recent estimates, in the late 1990s, the state-owned ratio in the Chinese economic system is 70%. Until 2008, it almost declined to the half of it. The reform of state-owned enterprises in the late 1990s caused many state-owned enterprises to privatize or cooperate with private enterprises, which in order to enhance their market competitiveness. The reformation of state-owned enterprises has increased the proportion of their overseas investment.

The overseas investments of state-owned enterprises have increased to 81% in the China's total overseas investment proportion. The state-owned enterprises even allowed overseas investors to buy and hold their shares. From these aspects, China is opening the door to promote economic development and integrate into the world economic environment (OECD, 2010; The World Bank, 2010).

The IFRS is an influential standard on the internationally level. It is also a "common language" that connects all the countries. The emergence of the IFRS not only provided a fair and efficient communication platform for countries, it also reduced the high translation costs incurred by different countries' that used different types accounting standards. Therefore, convergence with IFRS was the necessary way to integrate into the world economic environment, and it also promoted China's economic development.

Legal:

In China, the economic and social development are regulated by a series of laws. Economic development must be linked to the reformation of accounting laws.

The MOF is the authoritative institution in China that can formulate the accounting law. It belongs to the core department of the government. It is directly responsible for the reformation of accounting laws and the formulation of the new accounting standards.

The new accounting law formulated by the MOF that have mandatory and uniformity. China's government holds the highest control right. After promoting the new accounting laws and the new accounting standards, the government required China's companies to implement

the new laws and standards at the same time. This put the enterprises under a fair and open law environment to develop and compete. This management model was not only easy to state governance, but also conducive to building a benign competitive market.

Through analyzing the impacts of policy, economy, and law aspects, we can conclude that China's political environment directly regulated the social and economic development in China. The law is constantly being revised in the course of economic and social development process.

4.2 Idea of convergence with IFRS

The emergence of the IFRS enabled the world to have comprehensive and generic international accounting standards. Different countries have adopted the IFRS in different ways. Certain countries' markets were mature enough to fully adopt and use the IFRS. Developing countries like China had to formulate new accounting standards and converge with the IFRS. The US chose to simultaneous use the IFRS and national GAAP. China's national conditions were more suited to the convergence with IFRS. Because China has its own special environment and immature markets which do not allow it to fully adopted the IFRS. There were only few modifications according to own national conditions, the rest have almost the same with IFRS.

In 1949, China after finished the reformation, the economic pattern was defined as a socialist economy. China's enterprises structure was around the state-owned holding model. Even today, China need to follow the market economic route. On the other hand, China's market economy was still not mature enough. Thus, fully adopting the IFRS would not have benefited the Chinese economy. From the previous section we can find that even if China is striving to reform the internal corporate structure, long-term development caused the special route for the Chinese socialist national conditions and cannot be easily replaced. The state-owned enterprises market share even accounted for about two-thirds of the total. In western countries, most companies are controlled by the organizations or individuals, and have little relationship with the government. According to IAS 24, they are considered to be related parties as long as they have the ability to control the other party or exert significant influence on the other party. But in China, the majority of enterprises are owned by state, if following to

IAS24, it defines that the two companies controlled by the government would be constituted as related parties. this behavior will hurt the state's benefit and hinder national development. CAS36 clearly stipulates that "the state-owned enterprises only both controlled by the state and not related to other are not considered as a related party. For example, a state-owned enterprise has loans from a bank. In the international standards, they are related parties. But in China, due to the special circumstances, they are only in a cooperative relationship and the transactions do need not to be disclosed.

From the above, I analyzed China's special national conditions and described the reasons for why they could not fully adopt the IFRS. Whether from the market economy maturity level, or from the special environment in China's national conditions, formulated the new accounting standards which converge with the IFRS and is in line with China's national conditions. This was the best way for China's integration into the international accounting environment.

4.3 Consequence of accounting change in China

The new accounting standards converged with the IFRS can enhance the transparency and comparability of corporate accounting information. In addition, it also can enhance China's competitiveness in the international market. But it has not been able to show good results in the early stages of its implementation. After the new accounting standards were promoted, the Chinese government issued an order, that in January 1, 2007, the new accounting standards would be first implemented in listed companies. Due to the accounting policy and the accounting structure are not perfect in SMEs, they do not have the conditions to implement the new accounting standards. Even only the listed companies had implemented the new CAS, the China's economic situation still decline in early years.

The enterprises' long-term operation under the original accounting rules suddenly turned into high disclosure and high transparency that according to the new accounting standards. Whether due to a time urgency or the companies' structure operations, it was incompatible. When some social phenomena arise, the accounting firms, accounting service centers, and other industry experts are particularly important. Due to the expert groups, it became easier to familiar with the IFRS. Thus, the expert groups were involved in the process of formulating

the new accounting standards. This will benefit to establish a set of improved accounting standards that are closer to national conditions and also converges with the IFRS. When the new CAS was completed and promoted, the expert groups were also the first to master it. So at this time, the expert groups acted as a bridge to connect the criteria and users. As figure 2 shows:



Figure 2

Experts act as a "bridge" between two the parties that played an important role in the group. This was through learning the new CAS and gradually spreading the new concept to various enterprises. But when using this method to implement the new CAS, there was still many existing challenges. Since most of the experts grew up in the Chinese accounting environment, they were also not familiar enough with the international accounting guidance. Even though the experts had a good basis understanding the theoretical aspect and was able to quickly learn and process, the practical aspect was still not very smooth. This was thus a major problem from China’s accounting reform.

The reformation of the accounting standards had both advantages and disadvantages. From a long-term perspective, the new accounting standards converged with the IFRS can help China to enhance the competitiveness in the international markets. It will be able to attract a large number of overseas investments that the future economic developments can take advantage of. Due to the characteristics of China’s social environment and its domestic accounting system defects, it leads to the new CAS and faced greater challenges in its implementation. These difficulties were also the reason for its economic short-term economic recession. Global integration is the world’s bench mark for future developments. Thus, overcoming these short-term difficulties is needed to meet a victorious future.

5 CONCLUSION

5.1 Summary of the Study

The main research objective of this paper is “IFRS ADOPTION IN CHINA AND ITS IMPLICATIONS. THE CASE OF CHINESE LISTED COMPANIES”, and the main question is “why did China need to make the new accounting policy reform and the necessity of new accounting standards convergence with IFRS.” The main research problem in the thesis is "How IFRS is adopted in China and its implications?"

In the theoretical part of this article, I divided the discussion into three parts : accounting environment, reformation process, and accounting institutionalization. At the beginning of the paper, I have defined the accounting concept, to give readers a certain understanding for the concept of accounting. Economic integration is the main point in globalization. With frequent exchanges between countries, transnational investments have become a common trade phenomenon. The accounting language plays a key role in the process of choosing the effective investment. The common accounting language enhances the effectiveness of communication and provided a fair and transparent accounting platform for asset valuation and future development forecasts, that is also one of the important factors in China’s accounting reform. If China wanted to integrate into globalization and promote the development of capital market, the first step was to adapt into the international accounting environment and gradually to spread into the international market.

Based on the theory, the third chapter belongs to the core content in the thesis. I choose to perform a one-to-one entity analysis based on each important point in the theoretical section.

Firstly, I chose to set up a comparative group (EU vs China) to briefly analyze how the regions accepted the IFRS under different conditions such as accounting maturity and cultural environment. I looked at the difficulties and challenges in the implementation process and explained the reasons for why China could not fully adopt the IFRS.

Secondly, I explained why China modified the standards to converge with the IFRS in accordance with its domestic market maturity and local policy requirements.

The specific content is for China’s accounting reform, the influence of Chinese market after implementing the new accounting standards, the challenges and difficulties of listed

companies faced. Respectively, I drew a conclusion based on the short-term impacts and long-term developments. The implementation of new accounting standards will whether benefit China's economic development or not.

Finally, I combined the theoretical and empirical research content to start a multi-angled balance analysis from macro and micro on these two aspects. Then I will draw an objective conclusion which includes the development of the current market, the changes in the Chinese market's environment, and the share in the international market. In this chapter, I focused on the relationship between norms, professional institutions and users. And then, I have mainly introduced the experts' important role in the relationship.

5.2 Limitation of the Research

First is the actual cases and data limitation. Due to the urgent time, I had to limit the scope of the search. In the thesis, the only data presented is from the perspectives of the MOF responsible person, "Big Four" accounting firms, and three representative listed companies. This research scope for the thesis is not open enough. Thus, these conclusions presented only exist in the general existing problems and challenges and do not correspond at the individual cases.

Secondly, it's the limitations of methodology. Each of the argumentation methods both have its advantages and disadvantages, so the inadequacies of the method itself also limit the argument of the thesis. The paper chose the argument method was that combined the different methods to analysis. That can maximize the various argumentation methods to complete each other, which help to minimize the limitations caused by method defects.

Third, the implementation time of the new accounting standards is in a shorter time. The new CAS implemented in China only less than a decade, so the available data is limited, and in the long-term development effect is also not significant. Even in the individual aspects appeared the negative growth phenomenon. Due to the short implementation time, the available data used for comparison is not sufficient, which cause the process of argumentation that cannot easily to set the conclusion. In the future, enterprise will be familiar and effectively use it, and then this research will continue to be analyzed with using the future available data.

5.3 Proposals of Further Research

According to the above limitation factors, in the future research process, I will continue to analyze the different problems that arose with the accomplishments of the deepening of the new accounting standards. The subsequent research will be more rigorous, and draw a more representative conclusion. That will be effectively estimated its development trends and practical results.

In addition, I will choose to work in a listed company, and participate in the actual accounting policy reform. Due to the arguments in this article are derived from third parties, it lacks the personal practical experience. Therefore, if as a participant, I will be able to better analyze the specific problems, and better clarify the new CAS development level in China. At same time, the advantages and disadvantages belong of the new CAS implantation will be clear.

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