Adoption of IFRS in the Chinese accounting standards
- Effects on accounting quality and economic growth
Abstract

The aim of this thesis is to describe and analyse the adoption of International Financial Reporting Standards (IFRS) in the Chinese accounting standards and its possible effects on the accounting quality in financial reports and the economic growth of China. The accounting quality will be examined through five chosen quality aspects: value relevance, faithful representation, comparability, earnings management and transparency. In addition, the view on the level of foreign direct investments will indicate if there has been any effect on economic growth. In order to fulfil this aim a field study has been conducted, which involves interviews with people within the Chinese accounting industry.

The theoretical framework contains an introduction to accounting and its connection to economic growth; background on IFRS and PRC GAAP; an outline of the chosen quality aspects; and finally a commentary on previous research and evidence in IFRS adoption and its effects on accounting quality and foreign direct investments. The empirical findings include the respondents’ view on the adoption of IFRS, accounting quality aspects, FDI and economic growth.

The analysis deals with the respondents’ views in the empirical findings, and shows that these views differ on some of the quality aspects such as earnings management and are more consistent when it comes to other aspects such as value relevance. There is belief in the adoption of IFRS and its effects on the accounting quality and economic growth. However, the analysis further demonstrates current obstacles within the new PRC GAAP, such as the use of the fair value, which may problematize the accounting quality.

The conclusion demonstrates that the majority of the respondents have experienced an improved overall accounting quality, which they believe has contributed to an enhanced level of foreign direct investment. Moreover, the results reveal a general view among the respondents that the adoption of IFRS also has contributed to the economic growth of China, through the increased level of foreign direct investments.

Keywords
Accounting standards, accounting quality, adoption of IFRS, China, Chinese accounting standards, economic growth, financial accounting, IFRS, PRC GAAP.
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Shanghai 25th of May 2014.

Johanna Forsberg       Johanna Ojala
MFS-scholarship

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Given the opportunity to choose among developing countries, we chose China. We found this nation particularly appealing to study mainly due to its remarkable economic growth over the last decades. As we both have accounting as our field of specialization within our bachelor degree, and since China is and have been adapting to international accounting standards, we found it an interesting and applicable topic for our thesis.
List of Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>PRC GAAP</td>
<td>People’s Republic of China Generally Accepted Accounting Principles</td>
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<td>SIDA</td>
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1 Introduction

This chapter sets of with an introduction and background on the topics of this thesis, followed by a problem discussion. Thereafter, we present the purpose of this thesis and outline the chosen research questions, concluding with a short description of the delimitations.

Accounting standards may not be the first factor that is mentioned when discussing crucial necessities to improve economic growth and development in a nation. Neither has there been substantial research on accounting as a contributing factor, up until just a decade ago. Today, however, accounting is increasingly recognised as an essential aspect to development (Hopper, Tsamenyi, Uddin and Wickramasinghe 2012). In addition, there is research that shows how accounting regulations affect growth not only directly but also indirectly through their effect on financial statements (Akisik 2013). The connection between accounting and economic development, along with the rapid internationalisation of markets and firms, increases the need for international accounting standards. After the hit of the financial crisis in 2008, international accounting standards were claimed by the G20 nations (the world’s most powerful economies) to be an important prerequisite to rebuild the economy and to prevent future crises. This aims to be reached through financial sector reforms and convergence between the European and US standards (Mirza & Ankarath 2013).

“One globalised world, one set of accounting and financial reporting standards”
(Mirza & Ankarath 2013, p.3)

1.1 Background
The role of financial accounting information is to aid in the making of various decisions by many parties, both external and internal, such as investors, suppliers, employees and creditors. With many parties in need of the financial accounting information with various demands, it tends to be difficult for the firms to present financial reports which satisfy the needs of all parties. It can therefore only be expected of the financial reports to sufficiently meet the common information needs of the wide range of users. This complication is further increased as globalisation has created a need for accounting standards that can serve and provide the general purpose of the firms to a vast range of investors, across borders (IASB 2008; Deegan & Unerman 2011). International accounting standards is also needed to improve comparability, but also to smooth information flows, widen the spread of high quality accounting and to increase market efficiency (Mirza & Ankarath 2013). Not only must the financial reports meet the needs of several different users; the different parts, such as income statements, statements of cash flows, balance sheets and statements of financial positions, are directly affected by
the accounting regulations and standards used in a nation. Financial accounting tends to be heavily regulated in most countries through accounting standards, which govern how transactions are to be acknowledged, measured and displayed (Deegan & Unerman 2011). Throughout history, differences in legal and political systems have created a diversity of accounting systems and standards, which complicates the comparison of financial results across borders and prevents the needs of all investors to be met (Söderström & Sun 2008).

By the decision of Australia, Canada, France, Germany, Japan, the Netherlands, Ireland, UK and the U.S., a common board was established by the name International Accounting Standards Board (IASB), which main mission is to produce the International Financial Reporting Standards (IFRS) (Mirza & Ankarath 2013). Countries throughout the world have directly adopted the IFRS, while other countries have converted their own reporting standards with IFRS (Nie, Collins & Wang 2013). The goal of the IASB is to develop and promote accounting standards that can be acceptable around the world in order to improve financial reporting across borders. As of the 1st of January 2005, all European listed companies within the European Union are required to follow IFRS when producing their financial statements, which is considered a huge step in the right direction. Today, more than 100 countries worldwide have adopted IFRS (Mirza & Ankarath 2013).

When acknowledged as one of the world’s largest economies, China plays a great part in the harmonisation of accounting standards. Nevertheless, China is transitioning into an industrial country and, as such, the country still has a few obstacles to tackle. For the last two decades China has tried to develop accounting standards that would be in line with international standards and thereby more globally accepted. Before this the country only had accounting rules instead of standards. Ever since 1988 the Chinese accounting reform has progressed, with gradual convergence to the IFRS. In 2006 China adopted new accounting standards that became compulsory to certain companies. These new accounting standards were mainly adopted from IFRS, and play an important part in China's steps towards globalisation of its financial reporting. The main reasons behind the internationalisation of the Chinese GAAP were to favour the Chinese development towards a market-based system and for Chinese companies to be able to build stronger relationships with multinational firms, as well as to solve difficulties with the old accounting regulatory framework (Ding & Su 2008).

1.2 Problem discussion
Through the use and implementation of accounting standards, financial reports are produced which ought to reflect and provide sufficient, honest information of the firms (Alivar 2001; Kordlouie, Mohammadi, Naghshineh and Tozandejani 2014). In this regard, the accounting information should be considered a product, which quality is
determined on how well it serves its customers (Penman 2012). This quality is crucial for the users of the reports, such as investors, creditors and managers, especially within the process of decision-making (Pounder 2013). Changed accounting quality has economic consequences such as on cost of capital (Bushman & Smith 2001; Hussain, Hussain & Sen, 2012), on efficiency of capital allocation (Pounder 2013) and on the level of foreign direct investment (Amiram 2012). When discussing accounting quality, international financial reporting standards such as IFRS play a central role. IFRS is claimed by the IASB to be high-quality standards, which according to Mirza and Ankarath (2013) can improve information flows and result in better functioning capital markets.

According to IASB (2010), accounting quality can be measured through different aspects such as comparability and transparency. These aspects show if the information in the financial statements is useful for investors, creditors and other users of the information. To be considered useful the financial information must display two fundamental qualitative characteristics: relevance and faithful representation. The usefulness of the financial information increases when the information contains the enhancing qualitative characteristics: comparability, verifiability, timelessness and understandability. Although today, there is no conclusive evidence that IFRS have contributed to improvement of accounting quality. IFRS are principle-based rather than rule-based – and thus include more flexibility – which may result in different interpretations (Barth, Landsman & Lang 2008). Barth et al. (2008) stress that this provides greater space for earnings management within firms and thereby deteriorates accounting quality. Another concern is that when IFRS are global, markets and political systems still remain local and unique to each nation. These cultural differences affect how governments, managers and auditors influence the implementation of the international standards in their own market. This can cause different outcomes, especially with regards to the fair value usage that is included in IFRS (Ball 2006). Fair value measurement means asset and liabilities are to be valued in accordance with the price they would sell at the market on the measurement date (Deloitte 2013). For fair value measurement to be effective, liquid and efficient markets are a necessity. If markets are illiquid, the use of fair value can result in manipulation and imperfect estimates to mention some (Ball 2006).

As an increasing number of countries worldwide are adopting IFRS it is important to examine the effects and results of the adoption. Several countries that have adopted IFRS in recent years hold cultural characteristics that differ from the Asian nations (Kao 2014). In China the new accounting standards called PRC GAAP are almost in convergence with IFRS, except for a few adjustments to the Chinese unique environment and circumstances (Deloitte 2006). Other developing countries with intentions to adopt IFRS can learn from the Chinese experience and it is therefore
essential to study the impact of the adoption of IFRS in China (Kao 2014). Another important aspect is that China’s market is still in an early stage of development. China’s market, like other emerging markets, differs from the mature markets where IFRS originated and can therefore be seen as less compatible with IFRS (He, Wong & Young 2009). The Chinese accounting standards history and development parallel the past thirty years’ expansion of the republic (Grayham 1998; Peng & Laan 2009). Nevertheless, the institutional environment in China is still counteracting high quality financial reporting, through the strong political roles of the army and government in the economy and the lack of shareholder litigation rights (Ball 2006). So the question remains; if the development towards internationally converged standards has affected the accounting quality and if it is considered improved, has it contributed to China’s economic development?

1.3 Purpose
This study aims to examine the view within the Chinese accounting profession on whether the implementation of IFRS to Chinese accounting standards has affected accounting quality in China. To answer this, the study looks at three of the qualitative characteristics according to IFRS: faithful representation, comparability, and value relevance. In addition to these characteristics, general aspects such as earnings management and transparency have also been chosen as factors to examine the accounting quality.

Additionally, the study intends to find the general impression among the respondents on whether they see a connection between the new Chinese Accounting Standards and China’s economic growth. The study therefore asks for the respondents’ view on whether they believe that the new accounting standards have had an impact on the level of foreign direct investments (FDI) to the Chinese economy.

1.4 Research Questions
Primary research question:
• What is the view among professionals within the accounting sector, has the adoption of IFRS in PRC GAAP affected accounting quality in China? If so, what is the result?

Secondary research question:
• What is their view on whether the adoption of IFRS in PRC GAAP has played a role in China’s economic growth?
1.5 Delimitations
As a limited number of interviewees will be chosen for this thesis, it will only reflect their views on the subjects. Therefore, their views cannot be generalised and applied to the whole accounting profession in China. Accounting quality can be measured through several different aspects; however, our thesis is delimited to the five previously mentioned quality aspects. Even though the chosen quality aspects give a sufficiently complete understanding of the view on an overall accounting quality, it is possible other results could bring a different view if other or more aspects were taken into consideration.
2 Method

This chapter provides an outline of the proceeding of this thesis and the methodological selections, which have been made to fulfil the purpose and to answer the research questions of the thesis. The explanations are primarily concentrated on the selections made and why these selections are considered appropriate for this thesis. This chapter initially introduces the research approach and research method, which are followed by the research strategy, data collection and analysis model. Finally the research quality, ethics and source criticism are presented.

2.1 A hermeneutic perspective and an abductive approach
This thesis is based on the interpretation and understanding by professionals within the accounting sector of the IFRS implementation in China. With this in mind, a hermeneutic perspective was kept throughout the study. This scientific perspective focuses on understanding and sees interpretation as the main source of knowledge (Gustavsson 2003).

The link between theory and practice can, according to Dubois and Gadde (2002), be explained by three different research approaches; induction, deduction and abduction. When conducting research, one has to choose between the three (Bryman & Bell 2005). For our study the abductive approach was found most suitable. Dubois and Gadde (2002) describe it as an approach that is characterised by flexible movements between theoretical framework and empirical findings. This means that this approach allows new theoretical sources to be found and to be used during the process. Given our initially broad research question, we acknowledge the need for narrowing the focus through flexible adjustments. This is yet another reason why an abductive approach was highly suitable for our research. Previous studies have been made on our topic of study, mostly quantitative, and there are also many articles debating the implementation of IFRS in China, thus the idea of our qualitative research is to add to the discussion rather than open a new one. Since the abductive approach aims at refining existing theories rather than inventing new ones, we believe it is best applied to our study (Dubois & Gadde 2002).

2.2 A qualitative method
In order to design and develop research studies there are two main research methods: quantitative and qualitative (Bryman and Bell 2005). For studies within the subject of accounting, a quantitative research method is normally used. Given that our study aims to get the views of some professionals, in order to retrieve valuable results and to take advantage of being in the studied culture, a more practical approach was found appropriate. With the belief that our findings would have been distinctly different if we
would have been separated from the field, and in order to reveal the complexity of the implementation of IFRS in China, a qualitative method was chosen. The qualitative method concentrates on words and aims at analysing the research question to provide an understanding of a social structure and how the participants in the given social structure understand that particular reality. The method also focuses on the participants’ perspective of how things are, which provides a deeper understanding of the research question. Semi-structured or unstructured interviews, observations and ethnographies are the main tools for collecting raw data when using a qualitative method as these tools can contribute to a more descriptive research (Bryman & Bell 2005). Since the purpose of our study is to understand the Chinese accounting professionals’ views on the subject we found the qualitative method with semi-structured interviews most useful.

2.3 A field study strategy
Andersen, Borum, Hull-Kristensen and Karnoe (1995) argue that what distinguishes a field study from any other method, is the advantage for the researcher to experience local perspectives. The process of a field study usually starts with the researcher’s establishment of expectations about the people, things and other phenomena in the local environment, by using relevant theoretical themes as a base. It is important that the researcher develops an ability to reject these initial expectations if necessary, which requires the researcher to fight his/her natural, human tendency to confirm his/her expectations. To be able to do this the researcher must develop techniques that limit or eliminate this propensity. When collecting the data we tried to keep an open mind and not to develop expectations of what responses the interviewees would give to the interview questions. Since some of the further studies we used as theory have been consolidated in other parts of the world and our study focuses on China, it was clear to us that our study therefore could result in different outcomes, which helped us keep a more open mind.

By choosing China with its business regulation and environment as our object of study, it was of great importance to us to come close to the field in order to interpret, understand and take part of the Chinese culture. Culture is one of the factors influencing regulations in a nation, and as such also affecting the implementation of international regulations (Chow, Chau & Gray 1995). The strategy of a field study was chosen since our study aims to get an insight into the respondents’ views on the subject and it was therefore important for us to meet as many of the interviewees as possible face-to-face. To meet the interviewees was also of great importance for us to overcome potential obstacles like language barriers since neither the respondents nor we have English as a native language.
2.4 Data collection
In this thesis, both primary and secondary data collection methods have been utilised. Primary data has been gathered from semi-structured interviews, which plays the role of first hand data in our study. In order to enhance the saturation of our study and build a reliable theoretical framework, secondary data was collected from books, articles, journals and newspapers, through our university database, the Shanghai Library and Google Scholar.

2.4.1 Semi-Structured interviews as primary data
Flexibility within our empirical research was a clear need from the start, since we interviewed both company representatives and specialists within the area of accountancy and therefore felt a need to adjust the interviews based on who was being interviewed. Bryman and Bell (2005) argue that semi-structured interviews keep a clear framework for the subject to be discussed in the interview. The researcher follows an interview guide, which is a list of the subjects he or she would like to see addressed in the interview. This list need not be followed to the letter, but the order can be changed during the interview and questions be removed or added. Unstructured interviews would have been the alternative, which are even more flexible where the researcher only uses notes that control the theme and context of the interview. Early on, semi-structured interviews were chosen. This choice was made because it gave us a moderately flexible and clearer framework than unstructured interviews. The semi-structured interview is also believed to give a higher quality in empirical findings because it tends to hold a stronger connection to the theme.

2.4.2 Selection of interviewees
Within our study empirical data collection have been delimited in many aspects. First, the respondents were chosen due to their geographical location – nearby or in Shanghai – to enable us to conduct personal interviews. The primary idea was to interview Chinese firms that have to apply the Chinese accounting standards, to see how they view the potential difference since IFRS has been adopted. But after discussion with Hubert Fromlet, professor within Economics at Linnaeus University and accustomed to research in China, it became clear to us that interviewing Chinese firms would not bring satisfactory findings. Professor Fromlet mentioned the main reason for this is the lack of transparency in China, which results in insufficient answers. So secondly, with this in mind, the decision was made to target auditors at internationally acknowledged audit firms, as well as accountants at major Swedish firms in China and other specialists in the sector of accounting and finance (professors, etc.). This decision better suited the study’s purpose: to provide the reader with a general insight to accounting professionals’ perspective on the given topic. According to Andersen et al. (1995), a field study requires many interviews partially because many interviews are better than a few but also because it enables the researchers to describe the subject from different
perspectives. Given the limitations of time, our ambition was to conduct as many interviews as possible. Though the aim was set on conducting multiple interviews, focus lay on extracting qualitative information from the interviewees selected rather than to retrieve insufficient information from a large number of respondents. In total seven interviews were conducted with different professionals within the accounting profession, which was found to be a fair amount to retrieve satisfying answers to the research questions. Except from being professionals within accounting, our main criteria when choosing the interviewees was that they preferably had been in the profession since at least 2006 when the adoption of the new accounting standards took place or held significant knowledge of accounting and experience with IFRS.

2.4.3 The conduct of interviews
The initial goal was to meet as many interviewees as possible in person, in order to receive their personal view of the questions. Through face-to-face interviews, the opportunity to guide the respondents through the questions was improved, which in many cases proved to be essential. Very often the interviewees had to be reminded that the aim was their view on the subject, and not what they thought was correct answers to the questions. Six out of the total seven interviews were held face-to-face but the last interview was conducted through email. As was learned from the interviews held in person, it was important to inform the email-respondent about the purpose of our study to avoid unnecessary feedback but also to not waste the respondent’s time. The face-to-face interviews were held in private so that the respondents could feel confident to answer the questions freely. The interviews that were held in person were recorded, and to further ensure the respondents would present their own view, all respondents were given the option to be anonymous. The major topics of the interview questions were sent to the respondents one day ahead of the interviews to give them the opportunity to reflect and go over the topics beforehand. This could result in the respondent giving answers that were not their actual view. However, since many of the respondents had a tight schedule we believe that giving them a chance to look at the topics before the interview resulted in richer answers. To provide the topics beforehand was found to be an advantage, as the interviews remained focused on the primary subjects.

2.4.4 Access of data
Andersen et al. (1995) describe the often time-consuming aspect to get access to the field as crucial. Today, organisations and institutions are quite limited and keep a restrictive policy to whom they are willing to grant access. This is partially a consequence of previous sensational research findings being publicly acknowledged, which can taint an organisation’s reputation. The matter of access is something that influenced our study mainly with regards to the empirical findings. China is known to be hierarchic within its business culture and academic sphere, which became clear to us when we contacted people whom were found suitable to be our respondents. This
resulted in a highly time-consuming respondent-research, even though it commenced one and a half months before the departure date. In our pursuit for auditors and accountants as respondents, the issue of their availability arose. Since most companies have their due dates of annual reports in May and June, when our study was conducted, it meant that the audit firms had their busiest time of the year.

Our access was however improved with aid from different people and organisations. Among them Småland’s China Support Office in Shanghai, an office that is stationed in China with the main purpose of making it easier for Swedish companies from the region of Småland to enter the Chinese market and to encourage the cooperation between Linnaeus University of Småland and universities in China. Through one of the managers, Henrik Edlund, we received aid to reach professors at Guangdong University in Guangzhou. To further improve our access, efforts were focused on contacting human resource service centres or student coordinators at large audit firms in Sweden for further contact with someone at the company in China without any luck. Further access was finally reached through our contact people in Shanghai and by ringing and emailing firms in China directly.

The access of secondary data was limited due to technical issues. Even though preparations were made before we left for China, the Internet access was limited during our whole time in the field, which made it more challenging for us to retrieve compatible theory on our subject.

2.5 Analysis model
This thesis begins with the introduction of two research questions: the result of the adoption of IFRS in PRC GAAP on accounting quality and its connection to economic development in China. The introduction is then followed by the theoretical frame, built of secondary data retrieved mainly from books and articles, collected from newspapers, our university database, Shanghai Library, Linnaeus University library and Google Scholar. The theoretical framework provides a background of the Chinese accounting standards, the IASB and IFRS and stresses the connection between accounting standards and financial development. It also contains an outline of each accounting quality aspect that has been chosen. After the theoretical base follows our empirical findings of seven semi-structured interviews. Through these interviews the aim was to find the respondents’ view on the research questions by using interview questions concerning each chosen quality aspect. If the empirical data did not correspond to the theoretical framework the theory was expanded gradually while conducting the interviews. Their answers on each quality aspect were then analysed with the presented theoretical base, followed by a summary to find their view on whether there has been any effect on accounting quality and the economic growth of China. Lastly, the results are presented and the research questions answered in a final conclusion.
2.6 Research quality
In order to produce high research quality within our thesis, focus lay on trustworthiness. To assure that the study is trustworthy a respondent validity check has been conducted, which enables the respondents to confirm that our impression of their answers reflects their actual view (Bryman & Bell 2005). The respondent validation was carried out through sending to the respondents our interpretations of their answers, to give them the chance to comment or change the presented empirical findings. The respondent validation also helps to meet obstacles such as language barriers as it guarantees that the respondents’ answers have been understood correctly. Focus has also been given to present an honest and descriptive explanation about the process of the thesis, the problems we have faced and how these problems were tackled. This increases the confidence in the conclusion of a field study since it enables the readers to evaluate the findings (Schutt 2012). Additionally, in order to enhance the research quality further we tried to distance ourselves from the subject of this thesis by keeping an objective mind throughout the process.

2.7 Ethics
In accordance with Bryman and Bell (2005), there are several ethical principles a researcher should keep in mind during a study. As for our thesis focus lay on two principles and below follows an outline of how:

*Informed consent* equals the right for partakers to receive enough information about the research’s purpose and process before deciding to participate. In order for us to find suitable participants, we had to make sure they knew about our subject of study, clearly explaining what our study is about and what our questions might look like. The respondents were notified about the conduct of the interview, including our wish to record their answers. Thus, the principle has been achieved.
Confidentiality and privacy stress the importance of partakers’ right to be given respect for their need of privacy, the researcher should not intrude on sensitive matters for the participant without his or her consent. Although our research questions ask for the views of our respondents, we claim that these are fairly neutral and unloaded questions, simply searching for their professional perception of the accounting quality in China. This principle was followed through giving our respondents right to anonymity, if asked for.

2.8 Source criticism
There is a need to clarify to our readers that as this is a qualitative study, the interpretations of the empirical findings are presented from our own understanding. As China is a country characterised with rapid growth and consistent change it is important to acknowledge that some sources may be obsolete. The sources used in this thesis are therefore mainly recently published articles, which provide up-to-date facts. However, it is essential to acknowledge that the articles based on research in other countries with different environments and circumstances than China, may not be ideal but because of the lack of research conducted on China this was the best substitute. Another important aspect to keep in mind is that China is a Communist country with unique circumstances and limited freedom of speech (SIDA 2009), which can affect the interviewees’ responses, even though they had the option to remain anonymous. Sources from websites are to be treated and used carefully, as the question of faithfulness arise. In this study the only websites used are those owned and managed by institutional bodies such as IASB and reliable audit firms like Deloitte and KPMG.
3 Theoretical framework

This chapter presents the necessary theory for the purpose of the thesis. In order to describe accounting’s connection to economic development, several different views and evidence are outlined. Background on IFRS and Chinese accounting standards is the base of our study; it shows the development on both sides and describes the convergence process between the two. For accounting quality, focus lies upon the IFRS accounting quality characteristics, and previous research and findings work as theoretical framework for the measurement of earnings management and transparency. Finally we outline previous studies conducted on how IFRS adoption affects accounting quality and foreign direct investments, with evidence from both China and other countries.

3.1 The role of accounting

Accounting and auditing are considered to play an important role in the achievement of the Millennium Development Goals (MDGs). A well-working accounting framework enables enterprises to easier conduct their business, but also for governments to efficiently manage their resources to further implement their development policies (Hopper et al. 2012). Bloomfield (2008) describes accounting as the language of business, since accounting changes and evolves for the same reasons as a natural language; through interaction with other cultures and through changes in communication technology. As claimed by Biondi (2013), the accounting system performs multiple functions in the economy and society. It provides information for the share market, constructs operational costs and managerial indicators for performance evaluation and keeps dividends, taxes, prudential ratios regulated. Because of this, Biondi also proclaims accounting to be a common language of business. According to Alivar (2001; Kordlouie et al. 2014) there are four goals of financial accounting information:

- To provide the information that could aid investors and creditors in making financial decisions in an effective way.
- To supply evaluations and timings on the expected return of firms to investors and creditors.
- To serve information on the economic resources and liabilities of business firms.
- To reflect the financial achievements of business firms in any given financial cycle.

Financial accounting information is considered highly important not only because of its four goals, but also because financial reporting is linked to the performance of capital
markets. In order to liberalise developing countries, the capital markets need to be reliable with regards to delivering high-quality financial information from firms (Hopper et al. 2012). Capital markets work as a channel between investors and entrepreneurs, scarce resources being allocated between them. This is occasionally complicated, due to imperfect information and moral hazard problems. For example, a firm wanting to raise capital may indicate and present a bright future and optimistic figures in their prospectus, and the investors may lack enough skills to interpret the financial statement. Therefore, financial economists denote that among other factors, financial accounting systems can contribute to improve efficient capital allocation, by facilitating the control of financial statements (Healy & Palepu, 2001; Hussain et al. 2012).

Greenwood and Jovanovic (1990; Levine 1997) argue that if investors are better at selecting the most promising investments it will induce profitable resource allocation and faster growth. Furthermore, in the course of transitioning from a developing country to a developed one, attracting foreign direct investment (FDI) has been one of the key ambitions of the governments in the transitioning countries. The governments therefore try to remove and adjust legal barriers and regulatory obstacles (such as accounting standards) to foreign capital inflows and focus on building financial institutions to work as public agencies to promote an attractive environment for foreign investors (Schwartz, 2006; Mehic, Silajdzic & Babic-Hodovic 2013). According to a study made by Bushman and Smith (2001; Hussain et al. 2012) on financial accounting information and its connection to corporate governance, a well-working financial accounting system can affect economic performance in the way that both estimation risk and information asymmetry are reduced by faithful financial accounting information. The greater disclosure, the lower an investor’s cost of capital.

3.2 Background on IASB and IFRS

IFRS is the result and accomplishment of the IASB; a board that consists of members with various backgrounds, such as auditors, accountants, academics, and preparers and users of financial reports. The first standards were established by the IASC, International Accounting Standards Committee, in 1973 and back then the standards were called IAS (International Accounting Standards). As of 2001, a new body called IASB was appointed as the successor to the IASC. The reason for the oppression of the IASC and the rise of the new Board (IASB), was due to many reasons, the main one being that IASC were assumed to lack enough resources and independence to be acknowledged as a global standard setter. Therefore, the IASB were formed of members that were not part of the accounting bodies IASC or IFAC (International Federation of Accountants). The Board was however established for the same reason as the IASC; to develop, in the public interest, accounting standards that would be acceptable around the
world in order to improve financial reporting across borders. Today, IASB consists of 143 members from 104 countries around the world (Mirza & Ankarath 2013).

The IFRS are principle-based standards, meaning they work as guidance rather than rules. This means interpretations are necessary for whoever implements them, but one aspect is common for all IFRS standards; they focus on the business or economic intent of a transaction as well as its underlying rights. Out of the 41 former IAS standards by the IASC, 34 were kept and renamed IFRS. Since IASB was established, five new IFRS have been issued. Nowadays IFRS are the only globally accepted accounting standards, which partly has to do with the adoption of IFRS by the European Union in 2002. The EU adoption meant that all listed companies within the EU had to use IFRS. By the year 2005 that accounted for 8000 companies using IFRS, spread across 30 countries. And in accordance with the G20’s goal, the IFRS are becoming the standards that meet the needs of the world’s increasingly integrated capital market (Mirza & Ankarath, 2013). The main advantage and promise of the IFRS is to result in accurate and timely financial statement information, leading to better-informed valuation and thus lower risk for investors. Improved financial quality is likely to allow smaller investors to better compete with professionals. The wider spread of IFRS eliminates and decreases the adjustments analysts historically have had to make in order to easier compare financial reports across borders. When the cost and time to process financial information are reduced, it is likely to generate more efficient markets, as stock markets can be expected to faster incorporate new information into stock prices. Greater opportunity for mergers and acquisitions across countries is another expected advantage (Ball 2006).

3.2.1 The fair value usage within IFRS

With the adoption of IFRS follows the concept of fair value as a measurement of certain transactions, assets and liabilities. According to Deloitte (2013), IFRS defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. In other words, fair value implies that financial assets and liabilities are measured at their market value, and as such the concept of fair value will only be sufficient in a liquid and efficient market, meaning that the market prices reflect a complete picture of the firms (He, Wong & Young 2012). The rise of this measurement method is due to that previous methods, such as historical cost accounting, were unable to meet the information needs of the users. However, Penman (2012) finds that it is unfair to state that fair value accounting can and should replace historical cost accounting, when each approach is well suited for different parts of the financial statements. Historical cost accounting views the income statement, were revenues and costs are matched, as the main source of information to shareholders. Meanwhile, fair value is mainly used to improve the balance sheet value and information relevance, by matching assets and liabilities.
3.3 The obstacles of implementing IFRS

Although there are many advantages with IFRS, as presented earlier, sceptics provide different disadvantages, risks and implications necessary to keep in mind when discussing IFRS:

**Fair value**

The main idea of fair value is to ensure more comparable financial statements and make balance sheets reflect ‘real’ values (Wallison 2008). Wallison (2008) however blames the fair value method to create financial instability and asset bubbles and puts it as one of the core parts of the latest financial crisis in 2008. He explains how the mark-to-market valuation caused sound assets to shrink way below their real values, in a downward spiral, which worsened the liquidity problems. Many of these assets generated cash flows, which were not taken into account by fair value measurements whilst the falling market prices made them lose value to an unreasonable low point. The markets today do not function normally enough, meaning asset values do not reflect discounted cash flows, as is the idea of fair value. Market prices today are affected by liquidity consideration and distressed sales, resulting in a diversion from the value of the cash flows.

Another drawback mentioned by Wallison (2008) is the definition of fair value in itself, which states that assets/liabilities should be valued at a specific measurement date. With the exception of assets held for trading purposes, the measurement does not provide a fair picture of assets held for other reasons, for example assets held for sale, where cash flows might give a more realistic value. The final disadvantage mentioned is the opportunities for management manipulation that rise with fair value. The fair value method consists of a three level hierarchy into where assets can be put, and choice of level depends on whether there is an observable price in the market for the asset in question. Those assets that have this are measured in level 1. If assets do not have a quoted price, level 2 applies, which means their valuation can be based on similar assets that do have a quoted price. For assets where no active market or similar market can be found (level 3) the management’s own assumptions and expectations is used for valuation (Wallison 2008). In IFRS’s defence, since 2008 IASB and FASB have been working together to create greater convergence between each other and a clearer definition of fair value. In 2011, *IFRS 13: Fair Value Measurement* was released, a standard that solely covers how to use fair value. However this new standard does not cover when to use it, since this is explained within other standards for different assets and liabilities (IASB 2011).
**Cultural implications**

Even though a wide spread of IFRS is in progress; one consistent obstacle is the issue of national culture. The discussion includes the worry that IFRS may not be suitable for all countries, as it could be found irrelevant to some countries’ financial accounting information needs (Deegan & Unerman 2011). In a study concerning the advantages and disadvantages of IFRS, Ball (2006) illustrates how it is easier to achieve uniformity of accounting standards across nations than to achieve uniformity of actual accounting reporting behaviour. For this he claims radical change in economical and political forces is needed, which determines this behaviour. Although the increasing internationalisation of markets and politics may reduce some diversity in reporting behaviour, nations keep their own politics and market structures, which slows the effect of internationalisation. Ball (2006) therefore underlines that due to these political and economic reasons IFRS enforcement can be expected to be uneven around the world. Cieslewicz (2013) further discusses the influence of a nation’s culture on accounting standards, and through using data from the World Bank Worldwide Governance Indicators and the Financial Standards Foundation; the results show that aspects of culture have a direct effect on accounting as well as on institutions. The findings more specifically show that institutions cannot escape the influence of the economic culture shared by those who operate and maintain the institutions. Furthermore, accounting cannot escape the influence of the institution’s effect on the environment where accounting is used. These results indicate and add to the view that financial accounting across borders will continue to not be uniform, as underlying cultures and institutions affect how international accounting standards such as IFRS are implemented either fully, partially or to a small extent.

3.4 Background on the Chinese accounting standards

The revolutionary shift in China’s economic policy – when the system changed from a socialist-planned economy to a socialist-market economy in the late 1980s – enhanced the need for a high-quality accounting (Grayham 1998; Peng & Laan 2009). New accounting standards were important for China to integrate with the international market and to attract foreign investors and foreign capital. With the establishment of Chinese stock markets in the early 1990s, the foreign investors had trouble interpreting the financial statements of Chinese companies. China divided the markets into A-shares and B-shares, to be able to attract foreign capital but also to control foreign exchange. Initially, domestic investors mainly traded A-shares and international investors mainly traded B-shares. China also adopted a dual system in which IFRS and CAS co-exist. A-share listed companies are required to prepare financial reports following Chinese Accounting Standards PRC GAAP, whereas B-share listed companies report using solely IFRS. The companies issuing both A-shares and B-shares have to prepare financial reports in accordance with both sets of accounting standards. China opened the

The last step in the development took place in 2006 when 38 new accounting standards were implemented from IFRS and were defined as the Accounting Standards for Business Enterprises (Peng & Laan Smith 2009). It was the Ministry of Finance of the People’s Republic of China that issued these new accounting standards, which were approved and affirmed by IASB. The Accounting Standards for Business Enterprises are commonly known as the new PRC GAAP and became mandatory to apply for listed Chinese companies on 1 January 2007. The new PRC GAAP cover almost all of the topics of the present IFRS and are almost in accordance with IFRS except for a few adjustments to the Chinese circumstances (Deloitte 2006). The convergence towards IFRS has been a process where four successive Chinese GAAPs (the years 1992, 1988, 2001 and 2006) have been implemented with additional adoptions of standards from IFRS for each implementation. The convergence with IFRS has been through both gradual changes in Chinese GAAP and through direct import of standards from IFRS (Peng & Laan 2009). The new Chinese standards are international and familiar to investors worldwide which aims to increase the investors’ confidence in China’s capital markets and financial reporting. The intention behind the implementation of the new accounting standards are that companies should produce the same financial reports regardless of which accounting standard, Chinese or IFRS, the company applies (Deloitte 2006).

3.5 Accounting Standards for Business Enterprises: The new PRC GAAP

Deloitte (2006) acknowledges that the new PRC GAAP has a great impact on the results and the net assets of enterprises but also on the presentation of the financial statements. Some of the main changes in the new PRC GAAP that were predicted to have an impact are for example that Goodwill are now tested annually for impairment and are no longer amortised, minority holdings are presented besides equity, and development costs should be capitalised when they meet certain criteria.

According to KPMG (2011) the new PRC GAAP differ from the old PRC GAAP mainly in the following ways:

- **More principle-based**
  The new PRC GAAP is more principle-based compared to the previous PRC GAAP and contains an implementation guidance that demands people working within finance and accounting to make more judgments. Criteria and guidelines on how to judge will be found in the new PRC GAAP, but to make specific conclusions is up to the enterprise’s own judgement and application of the standards to their circumstances.
• **Increased use of fair value**
  The new PRC GAAP contain a wider use of fair value measurement. As the former PRC GAAP generally adopted the historical cost method as its measurement principle, the new PRC GAAP initiate more of the concept of fair value as measurement for assets.

• **More disclosure requirements**
  Increased disclosure requirements are now mandatory under the new PRC GAAP as an achievement to move closer to IFRS. These requirements include, for example, the disclosure of a risk and sensitivity analysis for financial instruments. There also has to be a disclosure of the methods used to determine fair values.

• **Convergence with IFRS**
  As mentioned before, new accounting standards are in convergence with IFRS. The old PRC GAAP are significantly different from IFRS while the new standards were developed to achieve convergence with IFRS so far as the structure and presentation of financial statements and recognition and measurement of financial statement line items are concerned. Even though there is an explicit convergence between IFRS and PRC GAAP, China has to take its specific situation into consideration, which results in a few differences between IFRS and PRC GAAP.

### 3.6 Main differences between IFRS and PRC GAAP today

Although PRC GAAP are substantially in line with IFRS, a convergence is a dynamic process and since the new set of the Chinese accounting standards is not a direct adoption of IFRS it leaves a few differences between IFRS and the PRC GAAP. These differences include the standards within IFRS that have not been implemented into the PRC GAAP since they are considered inappropriate for the Chinese market. The differences are also due to the specific requirements on certain issues that PRC GAAP have where IFRS are silent and due to the time lag between modifications in IFRS to PRC GAAP (KPMG 2011). Two key differences are that PRC GAAP does neither contain standards of the disclosure of related party relationships for state-owned companies nor the reversal of impairment loss. Another difference is that PRC GAAP allow the cost model for measurement of fixed assets and intangible assets where the historical cost is being used, while IFRS allow the revaluation model where these assets can be valued to fair value (Deloitte 2011). Since the adoption of IFRS in 2006 there has been a gradual introduction of fair value in China which is now used on some assets, for example on investment property and biochemical products. Though, regulators in China are unwilling to fully adopt fair value, as the prices in unsophisticated markets may not be a good basis for fair value. For assets where fair value is allowed an active market has to exist from which fair value can be reliably determined and verified (Wang 2007; Ding & Su 2008).
3.7 Accounting quality
The quality of financial accounting is the main factor that determines its value. The central idea with accounting quality is that “some accounting information is better than other accounting information at communicating what it purports to communicate” (Pounder 2013, p. 18). Due to this the accounting quality is of great importance for all users of the financial information. Among these users, there are for example reporting entities that can lower the cost of capital and investors who can make more profitable allocations of their capital thanks to better accounting information. There is no clear or well-recognised definition of accounting quality and in practice it can vary significantly (Pounder 2013).

3.7.1 IFRS Qualitative characteristics of useful information
According to IASB (2010) there are qualitative characteristics that help to identify useful information about an entity based on information in its financial reports for investors, lenders and other creditors that use the financial reports as basis for decision-making. Relevance and faithful representation are the two fundamental qualitative characteristics that financial information must withhold in order to be considered useful (IASB 2010). The purpose of the fundamental characteristics is to separate useful information from misleading and not useful information (KPMG 2011). Comparability, verifiability, timelessness and understandability are referred to as enhancing qualitative characteristics, which increase the usefulness of relevant and faithfully represented information. A financial report can still be useful even though it does not have all the enhancing qualitative characteristics (IASB 2010). This makes the enhancing characteristics desirable but less critical than the fundamental characteristics (KPMG 2011). In this thesis focus lies on the two fundamental characteristics and one of the enhancing characteristics: comparability.

3.7.1.1 Value Relevance
Relevant information makes a difference to decisions made by investors, lenders or other creditors by having predictive value, confirmatory value or both. Financial information has predictive value if it can be used to predict future outcomes and has confirmatory value if it can be used to provide feedback on former predictions. Findings made by Barth et al. (2008) suggest that adoption of IFRS results in higher value relevance. By a comparison of accounting quality metrics between firms that adopted IAS (previous IFRS) and those who did not, out of a broad sample of 21 firms from different countries, they found less earnings smoothing, management of earnings, more timely loss recognition and a higher association between accounting amounts and share prices. They come to a similar conclusion when comparing the same accounting quality metrics before and after the adoption of IAS for the IAS firms alone, but with less significance.
3.7.1.2 Faithful representation

IASB (2010) means that financial information is faithfully represented if it is complete, neutral and free from error. If the user of the information understands all the represented information that is necessary for the user to understand, the information is considered complete. A complete presentation may also include explanations of substantial facts and more detailed information about some items such as “the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction” (IASB 2010, p. 18). The financial information is neutral if it is not predetermined in its selection or presentation. This means that the information is not intentionally overstated, understated, emphasised or de-emphasised or in any other way manipulated to meet the expectations of the users of the financial statements. This does not mean that the information has to be free from influence; even though the information is neutral it still has an impact on decisions. The fact that financial information can be free from errors does not mean that it is perfectly correct, but that there are no errors in the description of different circumstances, in processing of the financial information (IASB 2010).

There is scarce research on how adoption of IFRS affects faithful representation of financial information, considering the importance that faithful representation has been given within financial reporting (Lai, Li, Shan & Taylor 2013). However, Lai et al. (2013) have examined the impact of mandatory adoption of IFRS on faithful representation by studying the adoption of IFRS in Australia, where no early adoption was allowed. Lai et al. (2013) found that faithful representation declined significantly after the adoption of IFRS. As mentioned before, IFRS require asset and liability measures to reflect economic transactions, with a preference to fair value accounting. The evidence of decreased faithful representation combined with existing research evidence of increased value relevance due to adoption of IFRS indicates that fair value orientated IFRS may have improved the value relevance of accounting information at the expense of faithful representation. This signifies that there can be a trade-off between value relevance and faithful representation. (Lai et al. 2013)

3.7.1.3 Comparability

Comparability is achieved when the financial information can be comparable either from period to period within one entity or across entities during one specific period. Comparable information enables users to identify and understand similarities and differences among entries and items, which is important in the decision-making process. Consistency is related to comparability and signifies the use of the same method in one company over time or between companies. Thereby, consistency can help to achieve comparability of financial information. Approving alternative accounting methods for the same economic phenomenon may however reduce the comparability (IASB 2010).
Yip and Young (2012) have examined whether the mandatory adoption of IFRS in the European Union significantly improves information comparability in the European countries. They looked at financial statements of similar companies in different countries before and after the adoption and came to the conclusion that the comparability between the countries has increased due to the implementation of IFRS. Although, when IFRS allow fewer accounting choices than the local accounting standards, the adoption could force firms to treat different economic phenomena, such as different assets, in a more similar way, which also could lead to a decrease in comparability (Yip & Young 2012). In accordance, Lang, Maffett and Owens (2010) argue that comparability can be hard to define but that true comparability is desirable since it increases the usefulness of the financial information and reduces costs for following firms, but up to the point when international accounting standards result in different events being treated equally. However, the research of Lang, Maffett and Owens (2010) showed no increase in the cross-country comparability through adoption of IFRS. Their study examines financial statements from companies that have to adopt IFRS with non-adopting companies by looking at co-variation in earnings and the similarity of mapping between earnings and stock returns across companies.

3.7.2 Earnings management
Earnings management refers to attempts by management to affect or manipulate reported earnings by different methods in order to report accounting results that meet the expectations of the shareholders. The management can manage the earnings by using or changing specific accounting methods, by recognising one-time non-recurring items, postpone or accelerate expense or revenue transactions to influence short time earnings. Earnings management is also related to the concept of earnings quality, which indicates the overall fairness of an entity’s reported earnings that helps to predict future earnings. When management does not try to affect the earnings there is a positive effect on the earnings quality. However, the absence of earnings management does not guarantee higher earnings quality as the information that affects future earnings may not always be disclosed in the financial reports (Akers, Giacomino & Bellovary 2007).

As accountants generate information that is used to guide the actions of many people through society and since much of the language used in business is directly tied to that information, it makes accountants powerful. There is a view of accounting being objective and that it provides a correct reflection of a pre-existent reality, however this does not have to be the case. Rather than objectively reflect the reality, accountants can, in a sense, create different realities depending on the particular judgement taken and the accounting standards available. An accountant may make accounting assumptions and judgements that lead to a profit being reported where another accountant makes other assumptions and judgments that lead to a reported loss for the same company. This means that accountants can by their judgements, within the accounting standards,
choose how different items are being reported and thereby manage the earnings. A reported loss can cause negative reactions from shareholders, which may generate real negative cash-flow consequences for the entity, which increases the management’s incentives for earnings management (Deegan & Unerman 2011).

Previous studies argue that accounting standards with a principle-based approach, like IFRS, can generate increased earnings management due to the flexibility it allows. Kao (2014) has made a quantitative research on whether the adoption of IFRS provides the companies greater flexibility to manage their earnings and whether there is a connection between earnings management and the companies’ result. The research consists of a total of 172 observations in each year over the period 2002–2009. The results of the research show that the adoption of IFRS has not increased the extent of earnings management by companies as a whole. However, when companies record earning losses the management and accountants are more likely to take advantage of the flexibility that IFRS allow and adjust their earnings upwards, as has been made possible through the adoption of IFRS. Kao (2014) therefore argues that there are incentives for the regulators to implement more in-depth supervision to prevent the increase of earnings management for these companies.

### 3.7.3 Transparency

Many research studies support that transparency is a desirable characteristic to enhance the quality of financial statements. It has long been known, although increased in the last decade, that investors put much weight into where their investments go (Barth & Schipper 2008). Transparency can be defined as: “the extent to which financial reports reveal an entity’s underlying economics in a way that is readily understandable by those using the financial reports” (Barth & Schipper 2008, p. 174). Underlying economics is explained as the entity’s resources (assets), claims to these resources (liabilities and equity) and changes in these resources and claims and cash flows. They also chose to include the risks faced by the entity and how the entity manages these. The second component is readily understandable, which means the information presented about the entity’s economic ways ought to be understandable to its users. The users are further defined by the IASB as those who keep a reasonable knowledge of business, economic activities and financial reporting (IASB 2006; Barth & Schipper 2008).

Several benefits can be reached through increased transparency, the main being reduced information risk. Previous theoretical research has found that larger disclosure means more relevant information is open for investors, and as such information asymmetry between producers and users is decreased. Transparent financial reports can help increase precision of investors’ assessments of firms’ future cash flows, which also lowers the cost of capital. In fact, empirical research on the subject finds strong correlation between transparency and cost of capital. For example Easley and O’hara (2004) show that, through an asset-pricing model, investors demand a higher return
when holding stocks with greater private information. This required rate of return of investors directly determines an entity’s cost of capital. The higher return in the model of Easley and O’hara (2004) reflects that private information held by few investors increases the risk of holding the stock for less-informed investors. For bearing this systematic risk, investors require compensation, thus a higher rate of return. Lambert, Leuz and Verrecchia (2007) however add another view to the research and state that if information transparency ought to have an effect on firms’ or investors’ cost of capital depends on the market’s condition: whether it is efficient and perfectly competitive or not. Their findings show that within a perfectly competitive market, no matter if all investors hold the same information or some are better informed; cost of capital depends on the average precision of investors’ information. In a perfectly efficient market where prices reflect all the information about firms, they come to a conclusion that less informed investors might in fact decrease their uncertainty when other investors acquire more information. This is because this information is partially communicated through the price changes of the stock, which is due to the better-informed investors’ eagerness to buy. However, in an imperfect competitive market, information asymmetry is more likely to appear and the level of it affects the investors’ average precision, and thus the cost of capital. Hirst and Hopkins (1998) add to the benefits of increased transparency, through showing in their study that there is a connection between transparency and earnings management. The results imply that more transparent disclosure leads to easier detection of earnings management and therefore less of it.

Even though IASB promotes IFRS to enhance transparency within financial statements, there is little empirical evidence suggesting that IFRS provide higher transparency than previous accounting regimes or local GAAP (Horton, Serafeim & Serafeim 2010). However, Horton, Serafeim and Serafeim (2010) find that by comparing firms’ actual earnings with their consensus forecasts before and after IFRS adoption, forecast accuracy can be improved through mandatory IFRS enforcement. This is mainly due to enhanced information quality, disclosure and comparability.
3.8 Previous studies on IFRS adoption and its effects

3.8.1 Accounting Quality

Söderström and Sun (2008) compare several previous studies on IFRS’s effect on accounting quality, and come to the conclusion that when a nation converges to IFRS or directly adopts IFRS, it is only one determinant of many that affects the overall accounting quality. The different determinants they find are presented in the model below, with the main determinant being the political and legal system of a country.

![Diagram](Source: Söderström & Sun 2008)

This system affects a nation’s capital structure, financial market, ownership, taxes and finally the accounting standards chosen, and since these determinants will continue to vary across countries, the accounting quality will also continue to differ. Chua and Taylor (2008) stress that there is a concernedly low level of empirical research that support the economic rationales for the spread of IFRS. They blame these rationales to focus too much on economic benefits, such as comparability, quality and transparency, while they ignore strong social and political factors that influence the spread and implementation of IFRS, which is similar to the conclusions of Söderström and Sun (2008). While many argue the importance of transparency in financial reports to evaluate the performance of publicly listed firms, it is actually just one component of several. As for comparability, the authors insist on the lack of evidence to support the rationale that results reported under different accounting standards than IFRS lack comparability. For the third rationale, improved quality, research generally shows that the quality of financial reporting process has more to do with what way the standards are enforced than variation between standards.

Liu, Yao, Hu and Liu (2011) examine accounting quality for listed Chinese firms mandated to use the new IFRS-convergent PRC GAAP as of 2006, by measuring
changes in earnings management and value relevance on firms with available financial data from the year 2005 to 2008. In their research they include firms from different industries, but exclude firms of the finance and insurance sector. Their results show direct evidence that the new PRC GAAP compared to the old standards has decreased earnings management and increased value relevance of financial reports, further claiming that IFRS adoption is relevant to markets controlled by regulators rather than market mechanisms.

3.8.2 Foreign Direct Investments
Defond, Gao, Li and Xia (2012) conducted a similar study as Liu et al. (2011), using available data between the years 2005 and 2008 from Chinese publicly listed companies, but for a different purpose: to find the change of FDI in to Chinese companies pre-adoptions period of IFRS on to PRC GAAP (2005–2006) compared to post-adoptions period of IFRS (2007–2008). To answer this they include 50 Qualified Institutional Investors (QFIIs) from 13 different countries to their study and measure foreign investments using three levels: if the QFII holds stock in the Chinese firm, how many QFIIs hold stock in the firm and the percentage of the firm’s shares held by QFIIs. Their results show a significant decline of foreign investments to the Chinese firms following the IFRS adoption, and they underline how the adoption of IFRS not only fails to attract foreign direct investments but also results in a decline compared to the pre-adoptions period. The decline is the largest and most significant among the Chinese firms that have weak incentives to correctly implement IFRS and greater opportunity to manipulate fair value estimations. This is due to the investors’ concern about the financial reporting quality, where they fear increased earnings manipulation. Although the results accounts for all QFIIs included, the researchers find that foreign investors from countries with weaker legal and economic institutions (as in China) reduce their investments by a greater amount than those foreign investors from countries with strong institutions. This is explained as being in accordance with previous research: that the investors from countries with weaker institutions have less confidence in IFRS, due to their own countries’ experience. The authors express their concern that previous studies on IFRS adoption that show positive effects have only been conducted in the EU, where the institutions are better and development has progressed much further than in China and suggest their own study as contributing to the empirical evidence for less developed countries.
3.9 Theoretic synthesis
In the following model we will define and summarise our theoretical framework, to clarify the presented concepts’ connection to each other and how they can be applied in order to analyse the empirical findings. The model is the theory understood from our point of view, which must be kept in mind.

Figure 3: Theoretic synthesis

As shown in the model, the theory points out that globalisation affects accounting standards in the sense that a need arises for international standards. When accounting standards are changed, for example through an implementation of IFRS, previous studies show how it affects different quality aspects. The theoretical base presents five quality aspects that have been chosen: value relevance, faithful representation, comparability, earnings management and transparency. Altogether they can indicate the effect on the overall accounting quality. This quality is essential for the users, such as domestic and foreign investors. The accounting quality therefore in turn affects the level of foreign direct investments. FDI is viewed to be connected to economic growth, in other words if it increases, it contributes to economic development.
4 Empirical findings & analysis

This chapter presents the empirical findings of this thesis, which were retrieved through interviews. First we provide a short introduction to all the interviewees and their working positions. The empirical findings are then divided into each quality aspect, which is analysed one by one, followed by the respondents’ general view on IFRS and accounting quality and a concluding analysis. Finally, this falls into the empirical findings and analysis of Foreign Direct Investments (FDI) and economic growth.

4.1 Introduction of the interviewees

Jane Zhou
Finance Director, Volvo Cars Corporation China, Shanghai (China)

Tracy Chan
Professor in Accounting, Guangdong University of Finance, Guangzhou (China)
Research area: Environmental accounting & social responsibility
Previous position: auditor, PWC
Certified Public Accountant (CPA)

Rebecca Yuan
Due Diligence, RongSheng Financial Leasing Ltd, Shanghai (China)
Previous position: auditor, Mazars and BDO
Certified Public Accountant (CPA)

Bernard Chen
Lecturer in Accounting, Guangdong University of Finance, Guangzhou (China)

Anonymous source
Senior Manager, Grant Thornton, Guangzhou (China)
Certified Public Accountant (CPA)

Summer Li
Senior Manager, Big Four audit firm, Shanghai (China)
Certified Public Accountant (CPA)

Peter Fu
Senior Manager, Grant Thornton, Guangzhou (China)
Certified Public Accountant (CPA)
4.2 Value relevance

4.2.1 Empirical findings of value relevance

Mrs Zhou uses the valuation of inventories as an example to describe how she finds value relevance improved. The old PRC GAAP held fewer details on how to revaluate these assets, but today many methodologies are provided thanks to the adoption of IFRS. One option is to use market price by the fair value method, a method that some years ago was impossible for the Chinese market. Although China since many years has developed from a planned economy towards a market economy it takes time for a market to become completely liquid, which is why fair value has not been implemented until now. The fair value usage today generates better assessments.

Mrs Chan addresses that the value relevance has been improved from the investors’ point of view since the issuing of the new PRC GAAP. This is because the new PRC GAAP allows the use of the fair value method for some assets such as financial instruments and investment properties, which reflects the assets actual value better than the historical cost they used to valuate these assets before, according to Mrs Chan. Despite this she mentions that there is a concern on how they will be able to recognise fair value.

Mrs Yuan simply states the value relevance has been increased within financial reports, making reference to her previous statement that the IFRS adoption on the PRC GAAP encourages managers to present more reliable representations.

Mr Chen clarifies that the new PRC GAAP is more value relevant, especially within the valuation of inventories and the introduced use of fair value. He points out how this contributes to better understanding especially for foreign investors who are more used to the fair value measurement.

The anonymous respondent has seen a major difference in the value relevance since the fair value method on assets like financial instruments was allowed with the new PRC GAAP, which according to anonymous makes the financial information more relevant.

Mrs Li argues that adoption of IFRS to the PRC GAAP can both improve and worsen the value relevance in the financial information. She explained that on one hand, the new PRC GAAP requires more detailed information, which increases the value relevance. On the other hand the new PRC GAAP allows the management to make more judgements, which they can do either properly or badly. She believes that leaving judgements to the managers without proper guidelines might lower the relevance of the financial statements and the financial information they produce. Due to this, she believes value relevance is the quality aspect that has seen the least change since 2006.
Mr Fu once again takes in the aspect of the accounting profession, claiming many accountants are unqualified to use the new standards, which instead may lead to impaired accounting quality within financial reports compared to before.

**Table 1: empirical findings of value relevance**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Mrs Zhou</th>
<th>Mrs Chan</th>
<th>Mrs Yuan</th>
<th>Mr Chen</th>
<th>Anonymous</th>
<th>Mrs Li</th>
<th>Mr Fu</th>
</tr>
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<tbody>
<tr>
<td>Value relevance</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
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*+ Increased  - Decreased  +/-: Uncertain if increased or decreased  0: No change  D: Depends on something else  -/-: No comments*

4.2.2 Analysis of value relevance

As claimed by Barth et al. (2008), adoption of IFRS improves value relevance, which five of the respondents agree with when discussing PRC GAAP. Four of the respondents who can see increased value relevance, view fair value measurement as the cause for this and the opportunity to use more valuation methods than before when they were very limited to historical cost measurements. This is in accordance with the IFRS (2014) goal with fair value: to meet the increased information needs of the users. Mrs Chan is however the only respondent who expresses a concern regarding the fair value usage when discussing value relevance, as she in consistency with Wallison (2008) worries that there is space for management manipulation within this measurement.

Two respondents, Mrs Li and Mr Fu, hold different views from the majority. Mrs Li emphasises how value relevance is hard to conclude whether it has seen a decrease or increase, as she believes PRC GAAP is more detailed which enhances value relevance, but there is always the concern of the increased level of judgements required of the management. This view is in alignment with the claim of Deegan and Unerman (2011) regarding the power of accountants to affect and create a reality. Mr Fu stresses his concern of the unqualified accounting profession within China, which he believes worsens the value relevance since the adoption of IFRS, as it is too complex for the accountants to use correctly. This can also be linked to the power of accountants as expressed by Deegan and Unerman (2011). When accountants are the primary judgement-makers, and their experience and knowledge is not enough, it may result in wrong estimations and transaction recording.

To summarise the empirical findings on value relevance, the majority of our respondents have seen increased value relevance within financial reports since the adoption of IFRS in PRC GAAP. This is in accordance with the findings of Barth et al.
(2008). Nevertheless, it is important to acknowledge the concern expressed by Mr Fu that IFRS is too complex for the accounting profession in China.

4.3 Faithful representation

4.3.1 Empirical findings of faithful representation
Mrs Zhou, claiming the IFRS to be fair and widely accepted international financial guidelines, believes the adoption has improved faithful representation, since the IFRS for these reasons can be trusted. She has experienced the difference, especially with regards to reading and understanding other companies’ financial statements. When the gap between PRC GAAP and IFRS has decreased, the issue of understandability has diminished.

Mrs Chan argues that the faithful representation does not depend on which standards the country uses because it rather has to do with the consciousness of the company and how strictly regulated the companies are. She points out that the faithful representation of the financial reports has a lot to do with how the companies manage their earnings.

Mrs Yuan means that it is more faithful today, with the use of more principles than before. She emphasises that especially the cancellation of the LIFO method when measuring inventory in the new PRC GAAP has increased the faithfulness, as she believes that other methods provide a more ‘true’ picture of the stock.

Mr Chen underlines the connection between earnings management and faithful representation, and stresses how the financial reports were less faithful before the adoption, due to higher earnings management. Some companies were fined for earnings management before 2006, because of their very poor and illegal presentation of their financial positions and operations.

Anonymous accentuates how faithful representation depends more on the management itself than the standards, therefore it has seen little change since 2006. The respondent argues that faithful representation existed in Chinese financial statements before the latest adoption of IFRS, and that it relies on how the management chooses to present the financial statements.

Mrs Li emphasises that faithful representation is the quality aspect that has seen the greatest change since the adoption of IFRS due to the implementation of standards that include regulation for especially other comprehensive income (OCI) and financial instruments. Through new standards the measurement of contingent liabilities is clearer. She argues that the adoption of new PRC GAAP in general creates more detailed financial information, which per se increases the faithful representation of the financial reports.
Mr Fu believes that the adoption of IFRS does not affect the faithful representation within financial statements since he believes that this has nothing to do with the accounting standards and that this is more related to the management and how they present their financial information.

Table 2: empirical findings of faithful representation

<table>
<thead>
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<th>Mr Chen</th>
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<th>Mrs Li</th>
<th>Mr Fu</th>
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<tbody>
<tr>
<td>Faithful representation</td>
<td>+</td>
<td>D</td>
<td>+</td>
<td>+</td>
<td>D</td>
<td>+</td>
<td>D</td>
</tr>
</tbody>
</table>

* + Increased, - Decreased, +/- Uncertain if increased or decreased, 0 No change, D Depends on something else, -- No comments

4.3.2 Analysis of faithful representation

Four of the respondents hold the perception that the adoption of IFRS has increased faithful representation within financial statements, but due to different reasons. Mrs Zhou emphasises on the improved understandability and that the worldwide trust in IFRS enhances the faithfulness. This is consistent with the definition of IASB (2010) that if the user can fully understand the financial information, it is complete. IASB (2010) also states that complete information should be detailed and contain explanations of substantial facts about some assets, which go in line with Mrs Yuan’s and Mrs Li’s view of faithful representation. They both believe that there are a lot more principles used in the financial reports today but that they include more details that better reflect the companies’ financial situation. KPMG (2011) also shares this view and states that the new PRC GAAP is more principle-based, and that it holds more disclosure requirements than the old PRC GAAP. Finally Mr Chen adds the aspect of the decreased earnings management he has seen since the last convergence in 2006 and how this has resulted in increased faithful representations. This is also in line with the IFRS request of financial reports to be neutral to be considered faithfully represented. In contrast to these four respondents’ view, Lai et al. (2013) argue that a mandatory adoption of IFRS rather decreases faithful representation as an expense for the increase of value relevance due to the IFRS preference of fair value accounting. However, the other three respondents argue that the faithful representation depends more on the management of the companies than the accounting standards themselves. From their view, the adoption of IFRS has not had a significant impact on the faithful representation aspect.

The majority of the respondents believe that the financial information in China is more faithfully represented today compared to when the old PRC GAAP was used. The remaining three respondents argue that faithful representation has little to do with which
financial standards the companies have to apply. To summarise, the general view is that the faithful representation has not decreased, but rather increased since the adoption of IFRS. If the financial standards have an effect on accounting quality, the general view among our respondents is that the adoption of IFRS has improved the faithfulness of financial reports in China, but due to different reasons. As argued above, this is the opposite of the findings that Lai et al. (2013) had in their research for Australia. Lia et al. (2013) also argues that the faithful representation decreases as a cost for the increase of value relevance that comes with an adoption of IFRS. Neither this view is in line with the respondents view on the impact of the adoption of IFRS in China as they have seen an increase in both aspects.

4.4 Comparability

4.4.1 Empirical findings of comparability
Mrs Zhou argues that the comparability within the domestic Chinese companies may have seen a change, but it is not something she dares to give a conclusion. However, when looking at the comparability towards the international market Mrs Zhou believes the financial statements today is a better tool than before to use for comparison.

Mrs Chan believes that the comparability has seen a very small change for domestic companies since the convergence between IFRS and PRC GAAP. She points out that the implementation of IFRS in the PRC GAAP has made the financial information more detailed and transparent but she does not believe that this affects the comparability for the users of the financial reports. As long as all the domestic companies use the same accounting standards among themselves it will not affect the comparability between them. On the contrary the comparability between Chinese companies and international companies has seen a greater change. Hence today it is easier for foreign investors to value Chinese companies, as a result of the implementation of international standards in China.

Mrs Yuan holds the view that since the convergence PRC GAAP has become very alike IFRS, it has made domestic, listed companies more comparable towards the international market. As an example she explains how the new PRC GAAP still classify expenses by function, as in the old PRC GAAP, but with detailed breakdown by nature, which is more similar to IFRS. Mrs Yuan cannot justify which method is better, as she claims it depends on the users of the information (investors and creditors).

The anonymous respondent emphasises that the greatest benefit from implementing IFRS in the Chinese GAAP is the increased comparability it has brought. However, there are still some limits to comparability as different industries adopt different
accounting policies, use different methods for valuation of certain assets for example the stock which can be valued by FIFU or Weighted Average method.

Mr Chen addresses comparability in short, his perception is that because PRC GAAP now is very similar to IFRS compared to before, this increases comparability as it makes it easier for insiders and outsiders to compare the international market.

Mrs Li accentuates that the comparability is the quality aspect that has improved the most since 2006, but mainly for international companies with a desire to invest in China and for large Chinese entities. For these companies, thanks to the improved comparability, they can more easily expand their branches. However she points out that this is not the case for smaller domestic companies in China, which she believes do neither care nor feel the difference.

Mr Fu underlines that PRC GAAP’s convergence to IFRS has enhanced the comparability of financial statements both between domestic and international companies due to the similarities between the accounting standards.

Table 3: empirical findings of comparability

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Mrs Zhou</th>
<th>Mrs Chan</th>
<th>Mrs Yuan</th>
<th>Mr Chen</th>
<th>Anon.</th>
<th>Mrs Li</th>
<th>Mr Fu</th>
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<tbody>
<tr>
<td>Comparability:</td>
<td></td>
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<tr>
<td>Domestic</td>
<td>---</td>
<td>+</td>
<td>---</td>
<td>+</td>
<td>+</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>International</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
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<td>+</td>
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4.4.2 Analysis of comparability
The respondents’ view on whether the adoption of IFRS has had an effect on comparability is very consistent, as they all believe that comparability towards the international market has increased. The anonymous source and Mrs Li point out that the comparability towards the international market is the greatest improvement with the adoption of IFRS. Mrs Chan adds that the increase in comparability makes it easier for foreign investors to value Chinese companies as a result of the implementation. Mrs Li agrees with this and also states it has made it easier for large international Chinese companies to expand globally. The respondents’ general view of an increased comparability towards the international market is in accordance with the research of Yip & Young (2012) where they found that the implementation of IFRS in the European Union increased the comparability between the countries.

Only two of the respondents, Mr Chen and Mr Fu, argue that the comparability between domestic companies also has improved due to the implementation. The other
interviewees either did not leave a comment on the comparability between Chinese companies or they state that they just see a slight or no change at all on the domestic market. The majority of the respondents have not seen a significant change in the comparability between the financial reports of domestic companies. This view is in line with the findings of Lang, Maffett and Owens (2010) research, which showed no increase in the cross-country comparability after the adoption of IFRS. In addition, the empirical findings show that the general view of the respondents is that the adoption of IFRS in PRC GAAP has caused a greater improvement on the comparability towards the international rather than the domestic market.

4.5 Earnings Management

4.5.1 Empirical findings of earnings management
Mrs Zhou has in her own experience not seen any difference concerning earnings management since the adoption of IFRS. She thinks that within all accounting standards there is space for earnings management and that increase or decrease of earnings management has nothing to do with which standards the companies have to apply. She gives the expense or capitalisation of the cost for intangible assets as an example where this can be done.

Mrs Chan emphasises the fair value measurement on assets and its impact on earnings management, pointing out that fair value measurement provides more space for companies to manage their earnings. So within this area, there has been a deterioration compared to before the latest change of PRC GAAP, which is something she believes needs to be recognized and solved in the near future.

Mrs Yuan stresses that the convergence to IFRS has had an impact on the earnings management but believes it is hard to say if it has increased or decreased. She argues that the use of fair value endorses more space for earnings management since the Chinese market operation systems and market economy are not as developed as in many western countries and because of the quality of the accountants who use fair value needs to improve a lot. She also takes the development of intangible assets as an example for when it is easier for management and accountants to manipulate the earnings since the adoption of IFRS because it is hard to say which cost should be expensed or which cost should be capitalised. On the other hand, the PRC GAAP has prohibited revaluing assets impairment losses, which decreases the possibilities to earnings management. In addition, Mrs Yuan argues that there should be a stricter regulation on fair value in China in order to further decrease the possibilities for managers to use fair value to manage their earnings. She also believes that there should be a listing of the conditions of using the fair value and further explanations of how to measure fair value in China since it is hard in an unfair market.
Mr Chen stresses that before the adoption, earnings management was more common and more heard of. He denotes that several companies were fined for earnings management because they went too far. Mr Chen states that IFRS make it more difficult for companies to manage their earnings.

The anonymous respondent does not see a significant difference within earnings management since the convergence; although there may be some impact due to the fair value usage, it depends on how management regards this.

Mrs Li believes that the reason China has not fully adopted fair value measurement to all areas, is mainly due to the opportunity this method provides for managers to control their earnings. Another example she states is impairment reversal, which is used within IFRS but not in PRC GAAP; for the same reason, it can add opportunity for earnings management.

Mr Fu underlines that he has not seen any difference concerning earnings management. Although, he points out that fair value method may have some impact.

### Table 4: empirical findings of earnings management

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Mrs Zhou</th>
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<th>Mrs Yuan</th>
<th>Mr Chen</th>
<th>Anonymous</th>
<th>Mrs Li</th>
<th>Mr Fu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings Management</td>
<td>0</td>
<td>+</td>
<td>+/-</td>
<td>-</td>
<td>0</td>
<td>D</td>
<td>0</td>
</tr>
</tbody>
</table>

- Increased
- Decreased
+/- Uncertain if increased or decreased
D Depends on something else
- No comments
0 No change

### 4.5.2 Analysis of earnings management

There is a mixed view among the respondents on whether the adoption of IFRS in the new PRC GAAP has had an impact on earnings management. Four of our respondents believe that the adoption does not have an impact, just a slight impact or are uncertain of the impact on earnings management. Mrs Zhou is one of the respondents who have not seen a difference regarding earnings management since the adoption. Mrs Zhou argues that earnings management has to do with how the management uses the standards, rather than the standards themselves. Anonymous believes there might have been a slight increase in earnings management due to the adoption of IFRS, but shares the view with Mrs Zhou that it depends on the management. That the management and accountant has a large impact on the level of earnings management is in alignment with the theory of Deegan and Unerman (2011), about accountants being powerful through their ability to create different realities by their judgements within the standards depending on what they want to present. Kao (2014) found in his research that the
adoption of IFRS has not increased the level of earnings management as a whole. However, the findings of Kao (2014) do show an increase in the earnings management when companies record earnings losses, following that management and accountants are likely to take advantage of the flexibility within IFRS. The view among the respondents that it depends more on management than the standards themselves, can be explained through the results of Kao (2014): as earnings management is likely to depend on the level of flexibility for the managers within the standards, that means in these cases that the standards indirectly have an effect.

Almost all of the other respondents believe that the adoption of fair value to the Chinese accounting standards has provided opportunity for managers to manipulate the earnings. Mrs Yuan explains how it is easier since it is based on the managements’ and accountants’ own judgements today, instead of the actual costs of the assets, as when the historical cost methods were used before. That fair value leaves opportunities for earnings management is one of the disadvantages with fair value that Wallison (2008) highlights in his article. From Mrs Yuan the fair value usage is pointed out as one of her main concerns, as she believes that the Chinese market operation system is not as developed and that the quality of the accountants who use fair value needs to improve. Mrs Yuan argues that further regulations are needed in this area, and Mrs Chan agrees with this. One of the conclusions of Kao (2014) sides with this view as he underlines the importance of implementing more depth supervision on earnings management for companies who have higher incentives of manipulating their earnings. Mrs Li on the other hand believes that China has not adopted fair value on all assets by the lack of prices in sophisticated markets and to be able to control earnings management. Through this she argues that China’s circumstances have already been taken into consideration. For assets where fair value is allowed, an active market has to exist from which fair value can be reliably determined and verified (Wang 2007; Ding & Su 2008).

Since almost all of our respondents, except for Mr Chen, either have seen no change or a slight increase in earnings management, the general view is that earnings management has at least not decreased since the implementation of IFRS. The main reason for this is the implementation of fair value. There has been an increased use of fair value since the implementation of the new accounting standards and the new accounting standards are also more principle based according to KPMG (2011), which can leave space for earnings management. However, since almost all respondents in some way mentioned or criticised the use of fair value, the view shows a need for further regulations on how to use fair value, despite the actions already being taken to decrease earnings management.
4.6 Transparency

4.6.1 Empirical findings of transparency
Mrs Zhou believes that with the cost of capital is similar to earnings management; it does not have to do with what standards the company has to apply, it rather has to do with how the company chooses to use the standards within the regulation. As long as you follow the standards you can convince the user of the financial reports that they reflect the true situation and the transparency of the reports is therefore not affected by the standards themselves.

Mrs Chan states that through more disclosure thanks to the IFRS adoption, it provides investors with more relevant values of the companies, which reduces the investors’ risk and thus their cost of capital. Disclosure revelation is stricter nowadays, both accounting principles and accounting estimation has to be disclosed in more detail in the financial statements, which is different from before. However, she once again points out that there is increased space for management of earnings, so it could go both ways with cost of capital.

Mrs Yuan addresses that the accounting information is more transparent today since the convergence between PRC GAAP and IFRS significantly lower the cost of capital for investors. Both required return on investments and the cost of attaining accounting information has decreased since before.

Mr Chen emphasises the fact that the difference in transparency is difficult to define, since he believes that the Chinese market held another view of transparency before, so in their eyes it might have been transparent according to that view. Today, the view of IFRS on transparency is used in China, which of course is different and transparent in its own way. Mr Chen underlines that he believes IFRS has a positive impact on cost of capital for investors, since they find it easier to understand the financial statements now, especially for foreign investors. He however does not draw any connection to the transparency.

The anonymous source states that as China adopts similar accounting standards as the rest of the western world, it makes the financial information more comparable and transparent, which in turn makes it easier for the investor to assess the information for their decisions. This decreases the cost of capital. Anonymous gives another note concerning transparency, claiming that it depends on more factors than just the standards, as for example the national supervision and legal system. For them as auditors, especially since the financial crisis in 2008, financial information has become very strict and it has increased their workload.
Mrs Li announces that the PRC GAAP today compared to the old PRC GAAP discloses more information and increased details, and as such reflects the reality better. She makes no comment on whether there has been any difference on investors’ cost of capital.

Mr Fu believes that the adoption of IFRS in PRC GAAP will affect the cost of capital in a positive sense, thanks to the adoption of fair value. As for transparency, his perception is that it depends more on the management than the standards.

Table 5: empirical findings of transparency

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<tr>
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<th>Mrs Yuan</th>
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<tbody>
<tr>
<td>Transparency Cost of capital</td>
<td>+/-</td>
<td>+/-</td>
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<td>D</td>
<td>+/-</td>
<td>D</td>
<td>D</td>
</tr>
</tbody>
</table>

4.6.2 Analysis of transparency

The view among four of our respondents is that transparency has improved since the latest convergence with IFRS in 2006. With emphasis on increased disclosure as the main reason, their perception is consistent with the findings of Horton et al. (2010) that greater disclosure leads to enhanced transparency. Three of the respondents who can see increased transparency also argue that the cost of capital for investors has decreased thanks to this, which is in accordance with the findings of Easley and O’hara (2004). As Mrs Chan previously denoted: China’s market is imperfect and with her view that lower cost of capital is a result from the increased transparency, her perception is also in accordance with the findings of Lambert et al. (2007) that in an imperfect market there is a connection between cost of capital and transparency. The fourth respondent who believes transparency is enhanced is Mrs Li but she makes no comment on the connection to cost of capital.

Of the remaining three respondents, Mrs Zhou and Mr Fu underline their previously mentioned view that the quality depends on the management rather than the accounting standards for the aspect of transparency as well. Mr Fu however sees a decreased cost of capital for investors, but draws the fair value usage as the reason for this, which corresponds with the idea of fair value by IFRS (2012) for it to reflect real values. At last, Mrs Chan clearly defines the connection between earnings management and transparency, as did Hirst and Hopkins (1998). Mrs Chan emphasises her belief that the new accounting standards create more space for earnings management due to the
flexibility and that if this is increased, cost of capital will increase by the lesser transparency.

To summarise, the majority can see increased transparency within financial reports, followed by decreased cost of capital, as presented in previous results by Easley and O’Hara (2004). It is once again interesting how some respondents argue for the importance of management over the accounting standards as causing the greater effect, in this case on transparency. This belief is in minority, which can be explained through the theoretical framework that claims management, through its use of accounting standards, affects the accounting quality.

4.7 General impression of the adoption of IFRS and accounting quality

4.7.1 Empirical findings of the overall accounting quality

Mrs Zhou claims that from her point of view, the implementation of IFRS has been positive. From her working perspective, the allowance of more international standards is advantageous, as the new accounting standards have decreased the workload. Before the change in 2006, her financial department had to produce financial statements in accordance with two different standards: PRC GAAP and IFRS. This resulted in many discussions, especially relating to when to capitalise or when to expense costs. However, she adds that the quality of financial statements depends more on the managers and their view of the report, rather than the standards themselves as the standards do not affect business decisions. Mrs Zhou expresses how she has witnessed the change of PRC GAAP during the last two decades and that she can sense the difference, pointing out that the convergence has taken a long time. Several times she emphasises the overall improvement, claiming that part of the old PRC GAAP did not make as much sense as it does today with the use of IFRS. Although, at some point China’s environment puts a stop to the convergence since in some areas adoption of IFRS might not be suitable. The special circumstances in China are the reason to why she believes that there will always be some minor differences compared to IFRS. For example regarding the fair value method, which is used on some assets in Chinese accounting, China’s illiquid market being the reason why it has not been entirely implemented.

Mrs Chan stresses that the most obvious difference between IFRS and PRC GAAP today is that PRC GAAP has not implemented the IFRS standard regarding related party transactions. The government holds multiple companies’ holdings in China and the transactions between these companies would according to IFRS be related party transactions, but this is not the case in PRC GAAP. She also points out that there is a difference in fixed assets impairment between PRC GAAP and IFRS. IFRS allow
impaired fixed assets to be reversed, which is not allowed in the PRC GAAP. However, she believes these differences are important since the situation in China is different compared to western economies and she therefore thinks that it needs to take some time to realise a complete convergence. Given the Chinese circumstances she underlines that a complete convergence may not be possible. Yet she does believe that basic rules such as asset and liabilities valuation should be fully converged. As an example, IFRS regulate environmental assets and liabilities where PRC GAAP has no regulation and Mrs Chan argues that China should comply with these rules. Mrs Chan adds that the disclosure form of the Chinese listed companies is far from perfect in the environmental and social responsibility reporting. She mentions that there are voluntary disclosures for this in China, such as the social responsibility reports, but that not enough Chinese companies do this. Mrs Chan believes that these voluntary disclosures have to be further regulated as the environmental conditions in China are getting worse – through disclosure, companies will have to take responsibility for their environmental impact. Standards need to be added on how to quantify the environmental assets and liabilities in order to make the companies realise and change their behaviour. She believes that further implementation of IFRS can improve this area.

Mrs Yuan emphasises on the huge difference the adoption of IFRS has made, both regarding the focus of the Chinese standards and their effect on the financial statements. The previous PRC GAAP, before 2006, mainly focused on commercial enterprises, not bearing in mind the differences between industries and also kept a more macroeconomic view. The new standards reach more industries, for example financial institutions and insurance companies and focus on the interest of the Chinese public. They also generate more reliable accounting information, and as such meet the requirements of investors, creditors, governments and company managers. Thanks to the development towards a market economy, China has been able to slowly implement the fair value method on some assets and liabilities, which is found by Mrs Yuan as a well-fitted alternative to the historical cost measurement that was used before. Although, Mrs Yuan points out that one main obstacle within the latest implementation has been fair value. She states that the use of fair value requires transparent, liquid markets for it to be relevant and that China’s market is neither as mature nor as developed as the western markets that fair value is based on. Fair value implementation also requires improvement within the accounting profession in China in order for it to be successful. She believes a complete convergence to IFRS will take time, since “accounting standards are based on development and the situation of our economy and also depends on the extent of the interconnection to the global market.”

Mr Chen believes that by the use of the new accounting standards in China, the financial information quality has improved, mainly through increased comprehension for the readers and better ways to attain the essential information about the Chinese
companies. Stricter and better financial reports are another improvement according to Mr Chen. As for companies’ communication and ability to compare financial information, there has also been an improvement through the IFRS adoption. Mr Chen denotes how some of the larger companies in China already started to use IFRS in the late 90’s, by order of the Chinese government, so that they would ease in to the new ways and gradually adopt IFRS. Thanks to this gradual implementation, China decided in 2006 to almost fully converge their accounting standards to IFRS. Mr Chen does not particularly see a need for change in today’s PRC GAAP, but believes there might be some tiny changes in the future. He even suggests the change may be reversed, meaning China may adopt something IFRS does not contain. For example the LIFO-method (Last-In-First-Out), which has been removed both in IFRS and in PRC GAAP. Mr Chen also argues that when keeping today’s fast changing commodity prices in mind, in order to ease the impact of inflation, the LIFO-method may be preferable. Should the China Accounting Standards Committee (CASC) feel that LIFO is reasonable to implement again, and if the market is ready for it, it may be applied once more.

The anonymous source favours the adoption of IFRS and holds the perception that the new PRC GAAP both reflects the international market and takes into consideration the national conditions of China. IFRS provide incentives for the companies to produce higher accounting quality within their statements, but remind us that the legal system of China also influences the accounting quality. The respondent claims that it is the environment as a whole, including legal systems and other factors that affect the quality. Anonymous believes that eventually the PRC GAAP will be completely converged to IFRS, but today the Chinese environment and unique culture need to be taken into consideration in order for this to happen. As an auditor, anonymous stresses how they often have to explain to their clients why PRC GAAP is not completely converged and that it is because of the different culture in East Asia. Anonymous also mentions one difficulty due to the adoption of IFRS: the use of fair value measurement. The source argues that fair value is difficult to obtain in the Chinese market and that the accounting standards, through this is, not that well adjusted. Although, Anonymous hopes this will change when China adopts the newly issued IFRS standard called IFRS 13: Fair Value Measurement on the 1st of July 2014, which provides clearer objectives.

Mrs Li remarks that the adoption of IFRS has improved some of the accounting quality aspects, but that the accounting quality depends on other factors such as other regulations and laws. However, she does believe that the implementation of international accounting standards in China has a positive impact for the companies who do business with other companies worldwide and that it makes it easier for international companies to do business in China. Thereby, she believes the adoption improves the comparability between countries. Mrs Li also mentions that one of the obstacles with the implementation process is that accountants and businesses preferred
the old GAAP since they were accustomed to this, which resulted in the implementation taking time. She also states that the implementation of fair value is difficult for China to adopt, as the Chinese market is not as mature. She also believes that China has not adopted some accounting standards such as impairment loss and fair values on all assets, since those allow managements and accountants to make their own judgement on how things are presented in the financial reports. She argues that this could increase earnings management, especially if there is a lack of support and instructions on how to use it.

Mr Fu underlines that although most of PRC GAAP is similar to IFRS, there are still some accounts that differ which has resulted in incorrect recording of some business transactions. The new PRC GAAP is complex for many accountants in China and there is a need for improvement within this area, according to Mr Fu. In some cases either the standards need to be made easier to understand and adopt, for example the use of fair value measurement, or the general quality of the accounting profession in China needs to enhance.

Table 6: empirical findings of the overall accounting quality

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Mrs Zhou</th>
<th>Mrs Chan</th>
<th>Mrs Yuan</th>
<th>Mr Chen</th>
<th>Anonymous</th>
<th>Mrs Li</th>
<th>Mr Fu</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value relevance</strong></td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Faithful representation</strong></td>
<td>+</td>
<td>D</td>
<td>+</td>
<td>+</td>
<td>D</td>
<td>+</td>
<td>D</td>
</tr>
<tr>
<td><strong>Comparability: Domestic</strong></td>
<td>0</td>
<td>0</td>
<td>---</td>
<td>+</td>
<td>+</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td><strong>Earnings Management</strong></td>
<td>0</td>
<td>+</td>
<td>+/-</td>
<td>-</td>
<td>0</td>
<td>D</td>
<td>0</td>
</tr>
<tr>
<td><strong>Transparency Cost of capital</strong></td>
<td>---</td>
<td>+/-</td>
<td>+</td>
<td>D</td>
<td>+</td>
<td>+</td>
<td>D</td>
</tr>
</tbody>
</table>

* Increased  * Decreased  * +/- Uncertain if increased or decreased  * 0 No change  * D Depends on something else  * +/- No comments

4.7.2 Analysis of the overall accounting quality

The majority of the respondents have faith in the adoption of IFRS and they can see improvement of the accounting quality in several aspects since the adoption. The respondents acknowledge and show awareness of the unique culture, environment and circumstances in China and believe this is the reason that PRC GAAP is not completely converged with IFRS. This corresponds to the findings of Cieslewicz (2013), that a nation’s culture has an effect on its accounting standards. The majority of the
respondents also believe in further convergence to IFRS but conclude that due to the special culture and framework of China, a complete convergence may take time or may never be accomplished. As shown by Ball (2006), the difference between countries’ politics and market structures slows internationalisation in general and the convergence of accounting standards. As IFRS and PRC GAAP are not fully converged it leaves a few differences between them. KPMG (2011) mentions that one of these differences is that PRC GAAP have not adopted the standard about related party transactions for state-owned companies which is something that Mrs Chan argues needs further convergence. She also adds an interesting point of view by stating that as China’s environment worsens, she believes that PRC GAAP needs to develop environmental and social responsibility accounting in order to make the companies aware of this issue. This is especially interesting because there are little if any previous studies on this aspect in China even though the issue should be obvious.

Some of the respondents express concerns over the implementation and the new concepts that have followed, especially regarding the concept of fair value. Although China has gradually and cautiously implemented the concept of fair value and not yet allowed the measurement on all assets (Wang 2007; Ding & Su 2008), it is currently used on several assets, implying accountants and managers to seek this ‘fair’ value in the Chinese market. He, Wong and Young (2012) claim that in order for fair value accounting to be successful, markets need to be liquid and well-functioning. In accordance with this claim, the respondents realise that the Chinese market is not yet as liquid and mature as necessary for the fair value measurement to be sufficient.

Another recurring matter in our respondents’ responses is the view that accounting quality is dependent on more than accounting standards, for example legal systems. This is consistent with the model of Söderström and Sun (2008), which shows how political and legal systems affect accounting standards, markets structures and taxes (among others), which in turn altogether affect the accounting quality. It is also in alignment with Chua and Taylor (2008), who stress the fact that too much focus is laid on economic benefits such as transparency, when there are other, larger political factors which affects the enforcement of IFRS.

One respondent, Mr Fu, adds an alternative view: the accountant’s perspective. He is concerned over the complexity of the new IFRS-convergent PRC GAAP, as he believes the Chinese accountants are not qualified enough to interpret and use it correctly. This concern is repeated and shown throughout several of Mr Fu’s answers and coincides with the findings of Ball (2006) that though it is not difficult to have uniform accounting standards across nations, obstacles arise when attempting to achieve uniformity of actual accounting reporting behaviour. As Mr Fu is well aware of the
needs for improvement within the Chinese accounting profession, his answer shows little if any faith in the adoption of IFRS.

As has been mentioned from several respondents, the quality depends on management more than the accounting standards. But as has been stated by Kao (2014), the IFRS provide flexibility for managers and even clearer defined by Wallison (2008) when discussing fair value, it is made clear that the actions of the management depends on the flexibility within the accounting standards they have to follow. Thus out of these respondents’ views, the standards indirectly affect the quality.

Firstly, our results imply that the general view among our respondents is that the implementation of IFRS to the Chinese accounting standards PRC GAAP has improved the accounting quality of the financial information. Secondly, the results display a general view that value relevance, comparability towards the international market and faithful representation are the main aspects – out of those chosen for this thesis – that have contributed to the improvement, as the majority of the respondents have seen an increase in these. Thirdly, the majority of the respondents have faith in the adoption of IFRS and believe in further convergence, although in alignment with the cultural implications stated by Cieslewicz (2013) agree that this must be kept in mind. Lastly, it should be pointed out that several of the respondents believe accounting quality to depend on more than just standards.

4.8 FDI and Economic Growth

4.8.1 Empirical findings of FDI and economic growth
Mrs Zhou remarks that the main reason behind the most recent reform of the Chinese accounting standards was to attract foreign investors to the Chinese market. To convince outsiders, they aim to present more comparable and comprehensible reports and to prevent foreign investors from having to spend time on converting Chinese financial reports to their own standards and measurements. She adds that she has seen statistics showing that FDI has increased partially thanks to the adoption of IFRS and she believes it has helped China’s economic growth.

Mrs Chan emphasises that the adoption of IFRS to PRC GAAP has had a large positive influence on the FDI in China since it makes it easier for foreign investors to evaluate the Chinese companies. The regulation is also stricter in the new PRC GAAP, which also has improved the trustworthiness of the investors and therefore contributed to more FDI and to China’s economic growth.

Mrs Yuan holds the perception that the adoption of IFRS in the PRC GAAP increases the understanding between foreign investors and domestic Chinese companies, and
therefore attracts more FDI to the Chinese economy – specifically through the enhanced transparency and comparability, which lower foreign investors’ risk. With increased FDI, she sees the Chinese economy grow faster. She also adds that the adoption of IFRS provides more opportunity and incentive for the Chinese companies to go public and abroad, meaning the obstacle for this before was the greater difference between PRC GAAP and IFRS.

Mr Chen states that as with cost of capital for domestic investors, the cost of capital will decrease for foreign investors and the incentive to invest in China will increase through this. And from their investments, both companies and the Chinese market will grow better.

According to anonymous the implementation of IFRS to PRC GAAP has had a positive impact on FDI since it has given the investors higher confidence to invest in China. Anonymous believes that the implementation through the increased FDI has had an impact on the economic growth in China but that this is not the main reason.

Mrs Li states that the convergence has increased FDI in China due to the increased comparability of financial statements. However, she believes that the accounting standards only support the companies and that the convergence therefore has not had a great impact on China’s economic growth.

Mr Fu believes that the implementation might have affected the FDI to China but that the connection is not obvious. He points out that the convergence of IFRS and PRC GAAP only plays a small part in China’s economic growth and that the convergence mainly is for multinational enterprises’ consolidation purpose.

Table 7: empirical findings of FDI

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Mrs Zhou</th>
<th>Mrs Chan</th>
<th>Mrs Yuan</th>
<th>Mr Chen</th>
<th>Anonymous</th>
<th>Mrs Li</th>
<th>Mr Fu</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

**4.8.2 Analysis of FDI and economic growth**

All the respondents hold the perception that FDI has increased indirectly from the implementation of IFRS in 2006, and directly through the lowered risks and cost of capital for foreign investors through the use of the new IFRS-convergent PRC GAAP. The majority of the respondents argue that the adoption of IFRS has played a role in the economic growth of China through the increased FDI. This corresponds to the statement
of Greenwood and Jovanovic (1990; Levine 1997); that if investors are better at selecting promising investments it leads to profitable resource allocation and faster growth. Their belief that the adoption of IFRS in the PRC GAAP contributes to attract FDI, springs from their view that many problems within the previous PRC GAAP have been solved and produced better accounting quality. This view is in accordance with Ball (2006) who argues that one of the main advantages with IFRS is that they result in accurate and timely financial statement information, leading to better-informed valuation and lower risk for investors.

To the contrary, the research conducted by Defond et al. (2012) found that FDI actually declines in China in the post-adoption period of IFRS. That the view of our respondents and the findings of Defond et al. (2012) differ may have to do with the fact that Defond et al. (2012) used data only up until 2008, whilst our respondents compare from before the adoption in 2006 up until our time of writing in May 2014. On the other hand, there is no any statistical evidence that FDI has increased in recent years. Therefore it is also found that the respondents’ view may depend on what they have learned to be the result of the adoption of IFRS, as many studies argue for this to be the result of implementing international accounting standards. Schwartz (2006; Mehic et al. 2013) is one of them and he explains that attracting FDI by removing and adjusting legal barriers and regulatory obstacles, for example by implementing international accounting standards, is one of the key ambitions of the governments in countries like China, who are transitioning into developed countries. Adhikari & Wang (1995; Peng & Laan 2009) back this view by stating that the new accounting standards were important for China in order to integrate with the international market and to attract foreign investors and foreign capital. In partial agreement, Deloitte (2006) argues that since the new Chinese Accounting Standards are international and familiar to investors worldwide they will increase the investors’ confidence in China’s capital markets and financial reporting. We find that these arguments are in alignment with what six out of seven respondents argue: through the increased FDI, IFRS contribute to China’s economic growth.
5 Conclusions

In this final chapter the conclusions of this thesis are outlined. First, the purpose of the thesis is repeated in order to remind the reader of the aim of the study. Then follows a discussion and conclusion regarding each quality aspect and FDI, which leads to the conclusions and answers of the two research questions. The chapter ends with a summary of the limitations of the thesis, followed by suggestion for further research on accounting quality and IFRS.

5.1 Reconnection to the purpose
As an increased number of countries worldwide are adopting IFRS, either directly or by adjusting their local accounting standards towards IFRS, it is important to examine the effects and the outcome of the adoption. IFRS have their basis in developed and mature markets, which has to be taken into consideration when the standards are being implemented in less mature and illiquid markets such as in China. Other countries with emerging markets can learn from the experiences of China if they intend to implement IFRS.

Previous studies, mainly quantitative and on mature markets, have been conducted on the effects of IFRS and the purpose of this thesis is to add a qualitative approach to the discussion by exploring the general view within the accounting profession. To find their view, well-recognised accounting quality aspects such as value relevance, faithful representation, comparability, earnings management, and transparency have been examined. Our additional purpose has been to find whether the respondents believe that there is a connection between the adoption of IFRS and China’s economic growth by examining their view on whether the adoption of IFRS in the new PRC GAAP has an impact on the level of foreign direct investments.

5.2 Answering the research questions

Conclusions of each quality aspect
Our analysis shows that the majority of the respondents can see increased value relevance since the adoption of IFRS, mainly due to the concept of fair value. The analysis further shows how a minority of the respondents are concerned by the increased judgement given to management and accountants, as this may affect value relevance if not executed correctly. As a conclusion we hereby acknowledge that the respondents general view is that, as a result of the adoption, value relevance is enhanced. However, the increased judgement given to management and accountants needs to be taken into consideration.
As the majority of the respondents believe the adoption of IFRS has had a positive impact on faithful representation, our analysis determines improvement in this aspect. Although three out of seven respondents point out their belief that faithful representation depends on other factors than the standards, our theoretic model along with other theories illustrates that the standards do affect the quality and we therefore conclude that the convergence between PRC GAAP and IFRS has led to greater faithfulness within financial reports.

Our empirical findings along with our analysis imply that comparability also has increased since the implementation of IFRS on to the PRC GAAP, but mainly between the Chinese and international market. Almost all the respondents argue there is insignificant change of comparability within the domestic Chinese market.

As for earnings management, the majority of our respondents deviate from our theoretical model, in the sense that many of the respondents believe earnings management depends on other factors than the accounting standards. The responses that point out that there is increased space for earnings management since the adoption, however correspond with previous acknowledgement that IFRS provide great flexibility and thus opportunity for the management of earnings. The fair value measurement is provided as the main reason behind possibly increased earnings management. This leads us to the conclusion that earnings management has not decreased since the implementation and rather seen no change or a slight increase as it has been given more space.

The analysis of transparency shows that the greater part of our respondents emphasise the enhanced transparency they have witnessed since the adoption of IFRS to PRC GAAP in 2006. However, it is important to once again acknowledge the minority’s view that management rather than accounting standards affects the transparency. From this we conclude that as the management’s actions in part depend on the accounting standards, the minority believes the transparency is affected by the standards. But as they make no comment on whether there has been any change, little can be drawn from their answer. Through the majority we can however conclude that transparency is increased. The result of the analysis also leads to the conclusion that cost of capital is connected to transparency, and the majority believes it is reduced through the increased transparency.
• Answer to question 1: What is the view among professionals within the accounting sector, has the adoption of IFRS in PRC GAAP affected accounting quality in China? If so, what is the result?

The views among our respondents have been rather split when discussing some of the chosen quality aspects and more consistent when it comes to other. Even though the respondents were consistent in their responses to some aspects, their views tended to depend on different matters. It is clear that the view can vary among the accounting professions due to the respondents’ positions as they answer from their own point of view. However, after summarising and concluding each quality aspect, the results show that all respondents believe that the adoption of IFRSs in PRC GAAP has affected the accounting quality in China. The effect has been either directly from the standards, or indirectly from the standards through the management. If the respondents argue that the effect of the accounting quality has been through management rather than through accounting standards we can conclude that as management is dependent on the accounting standards when conducting the financial reports, the standards in these cases indirectly affect the accounting quality. In addition and in alignment with previous studies made on different accounting quality aspects, the view among our respondents sometimes differs on whether IFRS have a positive, negative or zero impact. The analysis on their general view of the adoption of IFRS however shows faith in the adoption and its effects. Along with the findings that the majority sees an increase in most of the quality aspects, we conclude that the general view among our respondents is that the effect of the implementation of IFRS on the accounting quality in China is positive.

The analysis clearly shows that the concept of fair value is one of the main factors that have affected the accounting quality in China since the adoption of IFRS. It is repeatedly mentioned both as an issue when used within the unique circumstances of China and as a contributor to enhanced accounting quality through its positive impact on value relevance. The view among our respondents shows that there is a connection between the use of fair value and the aspects of earnings management and value relevance. If the fair value is used correctly this will further enhance the value relevance but if used wrongly, due to a lack of information on how to use it, it could leave more space for earnings management. However, the respondents are more consistent in their view of an increase in value relevance and most of the respondents have not seen a change or just a slight increase in earnings management. This leads us to the conclusion that the majority of the respondents are positive towards the use of fair value, but although it has been carefully implemented in China, it is in need of improvement. It is expected that this will be achieved through the implementation of the newly issued IFRS standard concerning fair value measurement, which will be released on the 1st of July 2014.
Although there have been obstacles within the implementation and still are some today, mainly due to the Chinese market condition, there is belief in the IFRS adoption and China’s future.

Conclusions of FDI and economic growth
The empirical findings show that through the increased accounting quality aspects and improved accounting quality, the foreign direct investments have increased due to the adoption of IFRS. It also shows that the general view among the respondents is that the increase in FDI contributes to the economic growth in China.

- Answer to question 2: What is their view on whether the adoption of IFRS in PRC GAAP has played a role in China’s economic growth?

The general view of the respondents shows that when the accounting quality is enhanced it attracts foreign direct investments, which they trust contributes in part to the economic growth in China. As their general view shows that there has been an improvement of the accounting quality in China since the adoption of IFRS in PRC GAAP it can be concluded that their general view is that the adoption also has played a role in China’s economic growth. This differs from previous research of the actual result on FDI in China since the adoption of IFRS, which shows a decrease in investments from foreigners. However, as shown in our analysis this difference may have arisen due to the use of different time aspects. There is no statistical evidence of this in the findings of this thesis, as it does not show the actual impact of how the adoption of IFRS in PRC GAAP affects the economic growth through FDI. However, the results clarify that our respondents have faith in the adoption of IFRS and its impact on further economic growth.

Much is yet to be accomplished in order for IFRS to work perfectly in the Chinese market. The increased judgement laid on accountants through the principle-based PRC GAAP leads to the suggestion for China to put time and effort into the training and education of its accountants. This would improve the overall profession and better the use of the new standards. Focus must also lie on establishing supervisory institutions that can help guide the implementation and ensure more efficient markets. With increased substantial implementation, and obstacles like the fair value tackled, the trust in the Chinese market is likely to be enhanced and thus attract more investors both domestically and internationally.

5.3 Limitations of the thesis
This thesis is limited to the small sample of interviewees chosen and to their view on the subjects. Therefore, it is not possible to generalise onto the whole accounting profession in China. However, this was never our intention as that would be an almost impossible task to achieve. The thesis also has limitations due to time aspects and that a
proportion of the thesis had been given to us beforehand. This has had an impact throughout the process on, for example, the number of respondents. As we only have taken a few out of many accounting quality aspects into consideration the thesis is therefore limited to these quality aspects. Nonetheless, we do believe that the chosen quality aspects give a sufficiently complete understanding of the respondents’ views but that it might be able to be further developed if more or different aspects are taken into consideration.

5.4 Suggestion for further research
The area of IFRS’s effect on accounting quality is in need of further research, especially for emerging markets within transitioning nations. This need is shown throughout the theory we compose, and the results our study implies. As obstacles arise, for example regarding the use of fair value, which has emerged from more mature markets, it ought to be further explored in the emerging markets and how well it works. Moreover, we recommend researchers who aim to conduct similar studies to gather a larger empirical data collection, preferably including other users of the financial reports, as well as including other quality aspects, as our study is limited to five. Another interesting concept that has been mentioned is environmental accounting regulations and the lack of it in China; this could also be included in further research. Finally, we would like to add that when exploring the effect of IFRS adoption on economic growth, other factors to measure with than just FDI should be used.
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Literature


Articles


Websites and Electronic Reports


Interview respondents

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Chan, Tracy, Professor in Accounting, Guangdong University of Finance, Guangzhou, 25th of April 2014.

Chen, Bernard, Lecturer in Accounting, Guangdong University of Finance, Guangzhou, 25th of April 2014.

Fu, Peter, Senior Manager, Grant Thornton, Guangzhou, 6th of May 2014.

Li, Summer, Senior Manager, Big Four audit firm, Shanghai, 6th of May 2014.
Zhou, Jane, Finance Director, Volvo Cars Corporation China, Shanghai, 18th of April 2014.

Yuan, Rebecca, Due Diligence, Rong Sheng Financial Leasing Ltd., Shanghai, 17th of April 2014.
Appendices
Appendix A Interview Guide

1. Please tell us about your professional background:
   - Which company/organisation/academic unit do you work for?
   - What are your current and previous positions?
   - For how long have you been working at the company/organisation/academic unit?

2. What is your general impression of the PRC GAAP now when it is almost fully adopted in IFRS? How do you interact with the difference?

3. Do you believe the adoption of IFRS has an impact on the quality of financial statements in China? If so, in what way?

4. How do you think the adoption of IFRS affects the accounting quality in China? Please explain in comparison to previous Chinese accounting standards.

5. Since the convergence between PRC GAAP and IFRS, has there been a difference concerning earnings management in Chinese companies? Has earnings smoothing decreased or increased?

6. How do you think the adoption of IFRS affects value relevance of financial reports in China? Please explain with regards to predictive value (meaning forecasts as investment decisions) and confirmatory value (meaning feedback on previous forecasts).

7. Does the adoption of IFRS affect faithful representation within financial statements? Why do you think so?

8. Do you think the adoption of IFRS affects the cost of capital? Why?

9. Does the enforcement of IFRS affect transparency (full disclosure) of financial statements in China? Why?

10. Do you believe that the adoption of IFRS has an impact on the comparability of financial statements between Chinese companies? Does it affect the comparability towards the international market? How?

11. Do you think China should keep its current national accounting regulation, which is very similar to IFRS, or continue to converge to IFRS? Why?

12. Do you believe that the adoption of IFRS has an impact on the level of foreign direct investments (FDI) to the Chinese economy?

13. Has the adoption of international accounting standards played a part in China’s economic growth?

14. Is there anything further you would like to add, develop or emphasise of your answers?