Insights from Accounting Practitioners on China's Convergence with IFRS

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Abstract

This study provides insights from accounting practitioners on China's convergence with International Financial Reporting Standards (IFRS). Through a survey of 33 senior financial executives of Chinese listed companies in 2014, the study reports their perceptions on the following issues: first, the degree of convergence between IFRS and Chinese accounting standards (CAS); second, the choice between fair value and historical cost accounting, and the usefulness of fair value accounting for Chinese companies' financial reporting; third, challenges in the process of China's harmonisation with IFRS; and finally, essential capabilities of Chinese accounting professionals in the process of China's harmonisation with IFRS. Multivariate regression was used for further analysis.

The survey findings reveal that in general CAS has converged with IFRS, with a few exceptions that reflect the unique Chinese context. Historical cost accounting is the preferred measurement base to fair value accounting. Exercising professional judgment was identified as a challenge for China's full convergence with IFRS. The ownership structure and the expertise of accounting practitioners were found to affect respondents' judgments on China's convergence with IFRS. This study has policy implications for international accounting standard setters and accounting educators to consider the contextual issues of implementing IFRS in an emerging economy.

***Keywords*:** China, emerging economy, IFRS convergence, practice

1. Introduction

China entered into its new accounting regime marked by the announcement of Chinese Accounting Standards for Business Enterprises (CAS) – substantially convergent with International Financial Reporting Standards (IFRS) – by the Ministry of Finance of China (hereafter MOF)[1] on 15 February 2006 (ICAS, 2010). China's IFRS convergence process is a result of responding to various international and domestic institutional actors. Convergence with IFRS (at least at the structural level) is an efficient way to establish the legitimacy of Chinese accounting standards. However, like other emerging economies, China faces challenges relating to the local context when implementing IFRS-converged CAS at the national and the organisational level (Ding and Su, 2008; Liu, 2010; MOF, 2010a).

There has been a growing body of research noting (see, for example, Carlin et al., 2014; Mısırlıoğlu et al., 2013; Nobes, 2008; 2015) that convergence with IFRS at accounting standards' level does not necessarily result in harmonised (and improved) accounting practices globally. There are contextual issues pertinent to the implementation of IFRS in emerging economies such as China. The contextual issues include the political and economic environment of emerging economies, national culture, under-developed equity markets (Ding and Su 2008; Tang, 2000), the use (and usefulness) of fair value (He et al., 2012; MOF, 2010b), and the pressing need for educating and training qualified accounting professionals to develop the capability of professional judgement when applying principle-based IFRS in a government-controlled market (Ding and Su, 2008; ICAS, 2010; Schipper, 2012; Xiao et al., 2004; Zhang et al., 2014). Those contextual factors have impact on the success or failure of IFRS implementation in emerging economies. Convergence with IFRS in emerging countries will only become a reality as a result of joint efforts by the regulators, standard setters, financiers, business community, and most importantly, the accounting practitioners (Chand, 2005). Hence, research into accounting practitioners in the process of IFRS convergence in the context of emerging countries deserves more serious attention.

Despite growing research interest in China's convergence with IFRS (e.g. Baker, et al., 2010; Chen and Cheng, 2007; Ding and Su, 2008; He et al., 2012; Lee et al., 2013;

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[1] Ministry of Finance (MOF) is an influential government body in China. They assume the sole responsibility for accounting standard-setting and implementation.

Peng et al., 2008; Peng and van der Laan Smith, 2010; Qu and Zhang, 2010; Wu et al., 2014; Xiao et al., 2004 no prior study has investigated the contextual issues of China's convergence with IFRS from the accounting practitioners' perspective. This limitation will be addressed in this study. The objective of this research is to ascertain the extent to which the financial reporting of listed companies in China has been converged with IFRS with a particular focus on the contextual issues of implementing IFRS in China. Specifically, through a survey of Chinese accounting practitioners (senior financial executives) of listed companies in 2014, the study seeks the view of Chinese accounting practitioners on four key issues: first, the degree of convergence between IFRS and Chinese accounting standards; second, the use of fair value and historical cost accounting in accounting practice; third, challenges in the process of China's harmonisation with IFRS; and finally, essential capabilities of Chinese accounting professionals in the process of China's internationalisation of accounting practice.

Study of Chinese accounting practitioners' views on IFRS convergence is important because accounting practitioners are deeply involved in the application of IFRS converged CAS. Their views offer timely first-hand information on issues in the convergence process in practice in an emerging economy. The increasing internationalisation of the Chinese economy, and with an average GDP growth rate of 10% per annum between 2003 and 2014 (World Bank, 2015), and having become the second largest economy in the world, makes China a prime candidate for research, particularly with an increasing number of Chinese companies in the global market.

The strong economic relationship between Australia and China necessitates Australian accounting professionals and academics having an in-depth understanding of financial reporting practices in China. China currently ranks as Australia's largest trading partner and services market. The recently signed China-Australia Free Trade Agreement will take the already strong relationship between the two countries to an even higher level (Australia's Department of Foreign Affairs and Trade, 2015). More research into China's convergence with IFRS in accounting practice also has implications for members of CPA Australia, as a large accounting professional body with strong representation of its 13,000 members in China (Yang and Clark, 2011). This has become more relevant to Australian accounting professionals with the increasing number of Chinese enterprises operating in Australia in the past decade (KPMG & University of Sydney, 2016).

Australian universities' deeper engagement with the Chinese higher education system (through international education programs) in the past decade has promoted the continued growth of international Chinese students in Australian universities, with the majority of them enrolled in commerce and management (which includes the accounting discipline) courses (Australia's Department of Education, 2015). However, international Chinese students have educational and cultural backgrounds and experiences derived from life in China. They are also looking to their education in this professional area to support later professional work in China after they graduate from Australian universities. This special context presents a serious challenge to Western academics - how do they effectively engage international Chinese students with a program designed in Australia and to attain Australian learning outcomes, while allowing them to appreciate its applications in the Chinese context (Yang, 2012)? More research into the contextual issues of financial accounting practices in China will better inform Australian accounting academics on how to develop comparative accounting curriculum that effectively engages international Chinese students.

This study finds Chinese accounting standards have achieved convergence with IFRS on measurement concepts, with a few exceptions that reflect the unique Chinese financial reporting environment. However, in practice, historical cost accounting is regarded as the preferred measurement method to fair value accounting, while recognising the usefulness of fair value accounting. Exercising professional judgement remains a challenge to implementing IFRS. Additional multivariate regression analysis shows the experience of Chinese accounting practitioners and the different ownership structures of their firms affect their views/judgements on issues in China's IFRS convergence in practice. Findings of the study support the view of examining IFRS implementation in the institutional context of emerging economies.

This study contributes to the dialogue between accounting practitioners, regulators and academics/researchers from the West and the East. The study, jointly conducted by Western and Chinese accounting researchers, is among the first to investigate China's convergence with IFRS from the perspective of practitioners from Chinese listed companies. This study responded to recent calls for working 'more closely with practitioners' or 'partnering with researchers in other countries' to strengthen accounting researchers' understanding of IFRS effects in practice in a different institutional environment since many academics 'conduct their research independently of practice' (e.g. Brown and Tarca, 2012, p. 325).

The study helps to better inform Australian accounting professional bodies (e.g. CPA Australia) to identify business opportunities (e.g. education and training of accounting practitioners) in China and enhance more in-depth engagement with China in financial reporting practice. Chinese and Australian accounting practitioners may also take the opportunity to review the accounting practice of his/or her own enterprise and/or may consider taking further actions. The study informs the Australian business community and international investors in general of the special issues in financial reporting by Chinese companies. The study can be repeated periodically in future research to monitor China's progress in implementation of IFRS over time.

Findings of the study provide timely empirical evidence on IFRS harmonisation in China, ten years after IFRS and China jointly announced Chinese Accounting Standards for Business Enterprise were substantially converged with IFRS in November 2005. The study helps to better inform accounting standard setters at the international (i.e. IASB) and national level to review the implementation of IFRS in emerging economies, and hence give due consideration of contextual issues in emerging economies when developing international accounting standards, and when assessing the effectiveness of IFRS implementation in those countries.

This study has pedagogical value for Australian (and other Western) accounting academics to better engage with international Chinese accounting students. This paper provides a reference point of summarising the practical issues of IFRS convergence in emerging economies, in particular China. Accounting academics can incorporate IFRS implementation issues in their teaching (for example, see Brown and Tarca, 2012; Jackling, et al., 2012). This would add value to the internationalisation of accounting curriculum.

This paper also differs from prior studies in the following ways. First, the analysis of China's institutional reform of the accounting system is provided in the context of an institutional theoretical framework. This helps to gain a more systematic understanding of China's convergence with IFRS standards. Second, this paper provides the source and the original Chinese language title of the landmark policies issued by the Chinese accounting regulator –MOF pre and post 1978 economic reform. This ensures a more accurate translation of those key policies into English language (which has not been adequately addressed in prior literature and on occasions even misinterpreted, an exception being Xiao et al., 2004). Additionally, this paper updates previous study by providing the most current development of China's IFRS convergence since 2007.

The remainder of this paper is structured as follows: Section 2 reviews the issues of IFRS convergence in emerging economies in the context of institutional theory. Section 3 outlines the research method. Section 4 presents the results and analysis, and Section 5 concludes the study.

2. Literature review

2.1 An institutional theoretical perspective

This study is informed by institutional theory (see DiMaggio and Powell, 1983; Hoffman, 1999; Oliver, 1991; Scott, 2008). Institutional theory has been used to investigate IFRS convergence (and divergence) by, for example, Albu et al, (2014) in Romania, Irvine (2008) in UAE countries, and Ghio and Verona (2015) in BRIC countries. The usefulness of applying an institutional theoretical perspective to research into Chinese companies has also been acknowledged in the extant literature. Scott (2002) suggests that institutional theory provides a better view of economic, social and organizational change in China, and leads to a better understanding of the behaviour (e.g accounting practice) of Chinese companies. More recently, studies based in China (e.g. Yang et al., 2015; Yang and Farley, 2016; Zhang et al., 2014) point to the strong potential of applying institutional theory to accounting research in the Chinese context. Institutional theory allows for multiple levels of analysis: from the macro political and economic level to micro firm level practices. It thus enables a broader and longer-term view of organisational and social change in China (Yang et al., 2015, pp. 37-38). Hence, this study adopts an institutional theoretical perspective to investigate China's IFRS convergence with a particular focus at the practice level.

Institutional theory is concerned primarily with an organisation's interaction with the political and economic institutional environment, the effects of institutional pressures on the organisation, and the incorporation of these expectations into organisational practices and characteristics (Dillard et al., 2005). Institutions are composed of coercive (or regulative), normative and mimetic (cultural cognitive)[2] elements that together provide 'authoritative guidelines' (e.g. IFRS) for social behaviour (e.g. corporate financial reporting). Coercive (regulative) institutions result from pressures exerted on organizations by powerful institutional actors that an organisation depends on, and by cultural expectations in the society (both domestic and global) within which organizations operate (DiMaggio and Powell, 1983, p.150). Normative institutions rely on mutually enforced prescriptions, obligations, and expectations (Scott, 2002, p. 61). Organizations comply with them in conformance to norms established by universities, professional training institutions, and trade associations (Hoffman, 1999, p. 352). Mimetic (or cultural cognitive) institutional aspects form a culturally supported and conceptually correct basis of legitimacy that becomes unquestioned (Hoffman, 1999, p. 353).

Institutional theory considers the three aspects of institutional influences (i.e. coercive, normative and mimetic) are not static. They are evolving and relative to the social and political context of a country where an entity operates. Through responding to coercion (e.g. World Bank, international capital markets), expectations of norms (e.g. Big Four international accounting firms) and imitation (e.g. trade partners, multinational companies), emerging economies demonstrate structural isomorphism[3] that conform to IFRS (based on the accounting systems of Western developed countries), and thus gain and maintain the legitimacy of emerging economies and the financial statements of companies from those countries. However, as institutional theory suggested, institutional contexts - the combination of formal rules and informal constraints - may not necessarily reflect true efficiencies in a rational economic sense (DiMaggio and Powell, 1983). Organisations don't passively conform to institutional pressures, instead they respond strategically to those pressures (Oliver, 1991; Scott, 2008). This has led to divergence and variation in organisational practice. A growing literature has revealed that the structural convergence with IFRS in emerging economies at the 'accounting standard' level (i.e. symbolic conformance to the structure) does not automatically

[2] See DiMaggio and Powell (1983) and Scott (2008) for in-depth discussion of the three institutional elements.

[3] Isomorphism is defined as 'a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions' (DiMaggio and Powell, 1983, p.149)

translate into converged accounting practices and improved information quality (Abd-Elsalam and Weetman, 2003; Ali, et al., 2006; Carlin et al., 2014; Chand et al., 2010; Joshi, et al., 2008; Nobes, 2015). There have been mixed findings on the effects of IFRS harmonisation on the information quality of financial reporting across countries. Some documented that IFRS has improved earnings quality (e.g., Horton et al., 2013; Lee et al., 2013; Peng et al., 2008). Some, however, have found the principle-based IFRS and the complicated nature of some IFRS standards (such as financial instruments, fair value accounting, the tax-orientation of national accounting systems) have resulted in unintended outcomes and compromised the quality of accounting information (e.g. Alali and Cao, 2010; Jeanjean and Stolowy, 2008; Kabir et al., 2010; Larson and Street, 2004). The mixed findings resulting from contextual issues pertinent to IFRS implementation keep challenging the international accounting standard setter, the International Accounting Standards Board (IASB), and IFRS technically and politically (e.g. McGregor, 2012).

Institutional theory suggests 'the networks and interests of actors are locally constructed' and 'trigger different responses to proposed institutional changes' (e.g. IFRS convergence) within the local context (Albu et al., 2014, p. 491). The following subsections will pay specific attention to the institutional process of China's convergence with IFRS (Section 2.2) and the contextual issues pertinent to IFRS implementation in emerging economies (Section 2.3).

2.2 Institutional transition of China's accounting system to IFRS

China's high level of economic growth since 1978 has a positive effect on the development of accounting systems and practices (Zeghal and Mhedhbi, 2006). However, China differs from Western developed countries in the political and economic institutional environment. China is experiencing 'institutional transitions' that are 'fundamental and comprehensive changes introduced to the rules of the game that affect organisations as players' (Peng, 2003). Peng and Heath (1996) provide a useful summary of institutional frameworks *before* and *during* the transitions:

> Before the transition, a national plan was developed by the central government and then was incrementally decomposed into a set of targets and orders for specific (state-owned) firms (p.501)

> During the transition, the state gradually relinquishes its role in policing economic exchanges, state firms are granted more autonomy… however, the lack of an adequate legal framework to define and protect property rights has resulted in a sharp rise in opportunistic behaviour (p.503)

When applying the above description to institutional frameworks in China, one finds the coexistence of *before* transition and *during* transition institutional frameworks. China's economic reform from 1978 has occurred 'in the form of fundamental changes to its economic systems in ways that do not undermine its centrist political regime' (Scott, 2002, p. 59). Although China has moved towards a more market-oriented economy, central planning still plays an important role in the country's economic development under the rule of the Communist Party of China (CPC). The convergence process with IFRS has been tightly controlled by MOF.

Prior to the economic reform, China adopted a socialist accounting system (borrowed from the former Soviet Union), known as *Unified Accounting System* (UAS, Tongyi Kuaiji Zhidu 统一会计制度) to support its planned economy, where nearly all enterprises were state-owned (see Xiao et al., 2004 for further information). However, the UAS became a barrier for China to attract foreign investment. This is because the UAS could not reflect the capital gain and profit distribution of foreign investment. Consequently, foreign investors struggled to understand the financial reports prepared by Chinese companies. Reform of the Chinese accounting system was placed high on the agenda of the MOF (Liu, 2009; Wang, 2006). As a result, in March 1983, the Accounting Division of MOF issued the *Accounting System for Sino-Foreign Joint Ventures for Trial* (*zhongwai hezi jingying qiye kuaijizhidu caoan*,中外合资经营企业会计制度草案, hereafter 1983 Joint-venture Accounting System).

The 1983 Joint-venture Accounting System for the first time in China introduced internationally commonly used key accounting elements including assets, liabilities, capital (formerly regarded as the symbol of the 'sinful' capitalism and thus rejected under the socialist accounting system, see Ezzamel, et al., 2007), income, cost, and profit and loss. It also followed international conventions to introduce financial position statement (balance sheet), income (profit and loss) statement and statement of changes to financial conditions (currently cash-flow statement), and relevant notes. The 1983 Joint Venture Accounting System was later amended and formally issued by the MOF in 1985, as the *Accounting System for Sino–Foreign Joint Ventures (zhongwai hezi jingying qiye kuaijizhid*, 中外合资经营企业会计制度, hereafter the 1985 Joint-venture Accounting System). The 1985 Joint Venture Accounting System marked a fundamental institutional change to China's socialist accounting system. It was the first accounting system that modelled international accounting concepts (commonly used in capital market economies) since 1949 when the CPC took office in China.

The 1985 Joint Venture Accounting System informed China's first nationwide reform of accounting systems in the1990s, known as *General Financial Standard for Business Enterprise (Qiye Caiwu Tongze* 企业财务通则) and *Accounting Standards for Business Enterprise (Qiye kuaiji zhunze* 企业会计准则) promulgated in November 1992 by MOF (effective in 1993, hereafter 1992 Accounting Standards). Subsequently, based on the 1992 Accounting standards, the MOF issued rules for industry-specific accounting standards (13 industries) and general financial principles (10 industries). The 1992 Accounting standards and the industry-specific accounting rules are commonly referred to as '*Two Standards and Two Rules*' (*Liang Ze Liang Zhi*, 两则两制) in the Chinese language accounting literature. The 'Two Standards and Two Rules' (both effective from July 1993) marks the deinstitutionalisation of UAS that had been used for 43 years in China. It signalled China's commitment to converging with international accounting standards (Liu, 2009). In the same year, MOF issued *Accounting System for Companies Experimenting with a Shareholding System (Gufengzhi shidian qiye kuaijizhidu* 股份制试点企业会计制度), a new accounting system tailored for the newly formed listed companies (formerly state-owned enterprises) in the two newly established stock exchanges (Shanghai Stock Exchange, and Shenzhen Stock Exchange).

China's access to the World Trade Organisation (WTO) from 2001 accelerated China's accounting regulation reform and stimulated China's desire to converge with IFRS (formerly IAS). With the help of the World Bank and a Big 4 international accounting firm, Deloitte, a new set of *Chinese Accounting Standards for Business Enterprises (Xinqiye kuaiji zhunze tixi*, 新企业会计准则体系) was released in February 2006 by the MOF (hereafter the 2006 CAS). The 2006 CAS substantially converged with IFRS except for unique Chinese contextual issues (see Ding and Su, 2008), and applied first to listed companies from 2007 (MOF, 2010b). The 2006 CAS for the first time more thoroughly introduced the concept of fair value accounting. However, the Basic Standard (as part of the 2006 CAS, equivalent to the IASB Framework) urges Chinese business to use fair value accounting with caution because of the nature of China's transition economy. The required active market for certain assets or liabilities may not be established in China (MOF, 2010b).

Prior to the release of the 2006 CAS, IASB and MOF made a joint announcement recognising the substantial convergence of the 2006 CAS with IFRS in November 2005. Since then, China has been successful in seeking international markets' recognition (e.g. Hong Kong and the European Union countries) of the equivalence of CAS to the financial reporting standards of the host country of Chinese companies. The international recognition of CAS has helped to lower the cost of raising capital in international markets, and hence contributes to Chinese companies' global expansion (HKTDC, 2009; Liu, 2009).

In April 2010, MOF (MOF, 2010a) announced the *Roadmap of Continuously Converging China Accounting Standards for Business Enterprise with the International Financial Reporting Standards" (Zhongguo qiye kuaijizhunze yu guoji caiwubaogao zhunze chixu quanmian qutong luxiantu*, 中国企业会计准则与国际财务报告准则持续全面趋同路线图, hereafter Convergence Roadmap 2010). While announcing China will keep its commitment to continuous convergence with IFRS, the Convergence Roadmap 2010 emphasizes the need for taking into account the contextual issues pertinent to emerging countries, and the need for professional development for Chinese accounting professionals to ensure the effective implementation of new accounting standards. Recently, the IFRS Foundation and the MOF (IFRS, 2015) announced the formation of a joint working group to advance the use of IFRS Standards within China, especially for internationally-oriented Chinese companies.

Similar to studies in other emerging economies, such as Romania (Albu et al., 2014), South Asian countries – India, Pakistan, and Bangladesh (Ali et al., 2006), South Pacific Island countries (Chand, 2005), United Arab Emirates (Irvine, 2008), Turkey (Mısırlıoğlu et al., 2013), and South Africa and Mexico (Prather-Kinsey, 2006), the driving force behind China's converging with IFRS is the country's economic reform and increasing international business activities of Chinese companies (MOFb, 2010;

Tang 2000). The motives for the Chinese government to converge with IFRS were to assist Chinese companies to reduce cost of raising capital in a foreign market as they do not need to prepare a separate set of financial statements (Liu, 2009). Financial statements prepared based on IFRS help Chinese companies (most of which are controlled by Chinese Central or Provincial governments) to gain legitimacy in the international capital market, and enable international investors to better understand the financial reports of companies from China (Xiao et al., 2004; Larson and Street, 2004). Convergence with IFRS could also contribute to the reduction in the cost of setting accounting standards if international accounting standards exist and are widely adopted by other countries.

However, as argued in Irvine (2008), IFRS have not been developed with due consideration of unique countries in mind, and hence 'individual actual organisation behaviour could be significantly different from the image portrayed by the adoption of institutionally legitimizing practices' (p.137). China's Convergence Roadmap 2010 also recognised the need for considering the local contextual issues during the harmonisation process in China. The following subsection will turn to the challenges (contextual issues) pertinent to IFRS implementation in emerging economies. Issues of IFRS convergence in practice faced by other (small or large) emerging economies provide a useful context of understanding the challenges of IFRS convergence in China

2.3 Challenges pertinent to IFRS implementation in emerging economies

Prior studies based in emerging economies have identified the following contextual factors that challenge the successful IFRS implementation in practice. They are national culture (including the political and economic environment, legal system, history, and language), the use of fair value accounting, the preparedness of the accounting profession to exercise judgements in practice, and education and training of accounting professionals.

Culture is defined as 'the collective programming of the mind which distinguishes the members of one human group from another' (Hofstede, 1980, p. 25). Gray (1988) conceptualises the relationship between national cultural dimensions (i.e. individualism versus collectivism, power distance, uncertainty avoidance, and masculinity, see Hofstede, 1980) and accounting values at the level of the accounting subculture, i.e.

professionalism versus statutory control; uniformity versus flexibility; conservatism versus optimism; and secrecy versus transparency (pp. 8-11). Researchers (e.g. Abd-Elsalam and Weetman, 2003) found IFRS favour countries similar to the Anglo-American cultural dimension (i.e. individualism, low power distance, high uncertainty tolerance) because of the predominant Anglo-American influence in the development of IFRS and also because English is the official language of communication within the IASB.

There have been consistent findings revealing that a rule-based institutional environment that focuses on uniformity and secrecy (such as China) presents an obstacle to the implementation of principle-based IFRS. This is because the accounting profession in those countries tends to focus more on accounting technical rules and less on judgements, which were not required in formerly socialist accounting systems (Albu, et al., 2014; Ding and Su, 2008; Mısırlıoğlu et al., 2013; Nobes and Parker, 2010). In the Chinese context, accountants had little training in making professional judgements and were rarely called on to exercise judgment prior to 1992 reform due to the prescriptive nature of UAS. However, in the process of converging with international accounting standards, judgement is required and allowed, which has resulted in opportunistic behaviour by some companies to manipulate earnings (Ding and Su, 2008).

Translation of IFRS into other languages has also been identified as a factor influencing the convergence and the divergence in accounting practices (Abd-Elsalam and Weetman, 2006; Evans et al., 2015; Zeff, 2007; Zeff and Nobes, 2010; Zeghal and Mhedhbi, 2006). This is because the equivalent interpretation and application of (foreign) concepts is problematic in accounting practice (Ho, 2004, p. 223). ‘Where new concepts are introduced, new terms may have to be created. However, because the concepts are alien, these new terms might not be meaningful in the respective accounting tradition’, as argued in Evans et al. (2015, p. 17). Despite the translation efforts by the IASB and countries involved, there have been consistent findings that those outside the Anglo-American culture remain generally less familiar with IAS/IFRS and have to commit significant resources to overcome this situation through training courses and the availability of technical support (Abd-Elsalam and Weetman, 2003; Zeghal and Mhedhbi, 2006).

Studies on IFRS implementation in emerging economies (mentioned above) have consistently found the challenge of applying fair value accounting[4], a new measurement concept in the regulated and less developed markets, where the accounting profession is not well developed and trained, and hence struggles with exercising professional judgement. Research into implementation of fair value in China (e.g. He et al., 2012; Wu et al., 2014) found fair value accounting led to unintended consequences such as earnings management, and distorted financial information. A similar concern is also shared by researchers based in developed countries (for example, see Nobes, 2015).

3. Research design

3.1 Survey questionnaire

A survey questionnaire was used to ascertain Chinese accounting practitioners' perceptions on China's convergence with IFRS with a particular focus on contextual issues pertinent to China. The survey instrument was initially developed after an extensive review of relevant literature (see Sections 1&2) including the published Chinese government policies and documents. It was then modified after seeking feedback on the survey instrument from accounting practitioners of Chinese listed companies, auditors of Chinese accounting firms, and Chinese accounting academics. The refined survey questionnaire better captured contextual issues of implementation of IFRS in China. To enhance participation opportunities from Chinese accounting professionals, the survey instrument was translated into Chinese by the lead author, who speaks and writes Chinese and English at a professional level, and has experience as a professional translator. The translation was verified by an independent professional translator to ensure the accuracy of translation.

Survey questions were related to four themes: first, the degree of convergence between IFRS and Chinese accounting standards (CAS); second, the use of fair value and historical cost accounting; third, challenges in the process of China's harmonisation with IFRS; and finally, required key capabilities of Chinese accounting professionals in the context of internationalisation of Chinese accounting practice. Most questions used a five point Likert response scale with "1" representing the highest level of

[4] See He et al., 2012 and Peng and Van der Laan Smith (2010) for further details about the use of fair value accounting in China.

familiarity/agreement/usefulness. Where a five point scale was used a sixth option of 'impossible to say' was also included. Chinese companies listed on mainland China's stock exchanges were selected because they were the first that the Chinese government required to implement the CAS, starting in 2007. Senior financial executives (SFE's) of Chinese listed companies were selected as the survey population because they were in the best position to provide a practitioners' perspective on China's convergence with IFRS.

The ideal group to survey for this research would be senior financial executives responsible for overseeing the preparation of a complex set of accounts. Targeting Senior Financial Managers (SFM) meets the first aspect while targeting listed companies meets the second aspect. In Western countries the survey might be conducted across all listed companies on one of the many available databases that contain contact details for such companies, with the expectation of an acceptable response rate. However, as noted by a number of researchers (for example, see Albu et al., 2014; Razae, et al., 2010; Xiao, 1999) there is often limited access to data, including responding to surveys, in emerging economies, which is a notable barrier to conducting research. One way to overcome this issue in China is through the use of personal networks. Through the use of the personal network of one author based in China access was gained to the SFM's of all listed companies in one province of China. The survey was sent in 2014 to SFM's of the 45 listed companies based in that one province. A total of 33 listed companies responded to the survey. Prior research (Yang et al., 2015) has found that there are not provincial differences in accounting practice or attitudes hence this sample can be used with reasonable confidence as representative of surveying the broader national population of SFM's of listed companies. Survey participants were guaranteed confidentiality, and hence their identities are kept anonymous in the report. Table 1 presents a summary of the characteristics of respondents.

Insert **Table 1** about here

Table 1 shows types of ownership identity in the 33 sample listed companies were made up of five central state shareholders (CSC), six provincial state shareholders (PSC), five municipal (local) state shareholders (MSC), two institutional shareholders (ISC), 12 private natural person controlled owners (PC), and 3 others. The respondents had an average of 16 years work experience in accounting. They all received accounting qualifications in China. Their education background, work experience, as well as their senior financial management position in the listed companies surveyed, offered valuable first-hand insight into the topics of the survey questions from a practitioner's perspective in China. Such insight would be very hard to gain any other way.

3.2 A supplementary analysis

A regression analysis is conducted as a supplement to the survey results. This additional analysis (informed by institutional theory) helps to better understand how actors at the individual organisational level respond to the institutional influences of IFRS convergence in China. Prior studies based in other emerging economies have found ownership structure and accounting practitioners' experiences and familiarity with IFRS (Abd-Elsalam and Weetman, 2003; Ding et al., 2007; Joshi et al. 2008; Mısırlıoğlu,et al, 2013; Zeghal and Mhedhbi, 2006) affect IFRS implementation in practice. Hence, this additional analysis will examine if the type of factors at individual organisational level such as ownership structure, accounting professionals' work experience and the experience in using the fair value measurement in Chinese companies could influence the participants' responses (judgements) to survey questions. All questions/statements shown in Tables 2 to 5 that have Likert scale responses are used as separate dependent variables. The only question/statement in the tables which is not used as a dependent variable is question 1 in Table 3B, which is used as an explanatory variable.

The analysis is conducted using the following model:

$$Y = \alpha + \sum_{i=1}^{5} \beta_i OWN_i + \beta_6 Exp + \beta_7 FV + \varepsilon$$

Where *Y* is one of the dependent variables; OWN_i represents the six types of controlling shareholders (see Table 1): *CSC, PSC, MSC, ISC, PC,* and *Others*; *Exp* is the reported number of years of work experience in accounting by respondents; and *FV* is the reported use of fair value accounting in the respondent's company.. However, only five controlling shareholder variables are included in any one model. An ownership type at one of the extremes was dropped to allow a test of the greatest controlling ownership differences. Results of the empirical tests are provided in Table 6.

Where descriptive statistics are presented for individual Likert scale questions the associated means and standard deviations are calculated using only responses 1 to 5. Response 6 (Impossible to say) is excluded in calculating the means and standard deviations and in all dependent variables in regressions.

4. Results and analysis

4.1 Convergence with the measurement concepts of IFRS

Table 2 presents results to two related survey questions. The first question is how familiar are you with the measurement concepts? The second question is what do you understand to be the degree of convergence between IFRS and CAS with regard to the measurement concepts?

Insert **Table 2** about here

The first question is to gauge survey respondents' general understanding of the four measurement methods described in the *IASB Framework*, i.e. historical cost accounting, replacement cost accounting, fair value and present value. As indicated in Table 2 Subsection A, Chinese accounting professionals in general reported a high level of familiarity with all four measurement bases, with a mean value from 1.33 to 1.70. However, historical cost accounting was the most familiar measurement method (22 responses to the familiarity rating "1 very familiar") when compared to the other three alternatives.

The second question is to ascertain the perceptions of Chinese accounting professionals on the progress of China's harmonisation with IFRS, with a particular focus on measurement concepts. As reported in Table 2 Subsection B, the majority of respondents (30 out of 33) chose Statement (2) *CAS converged with IFRS, with a few exceptions that reflect the unique Chinese circumstances*. This important finding provides timely evidence to the current positive progress of China's harmonisation with IFRS (when applied to listed companies).

4.2 Fair value versus historical cost accounting

Table 3A and Table 3B present results related to the survey questions on the choice between fair value and historical cost accounting (T3A) and the usefulness of fair value accounting for Chinese companies (T3B).

Insert **Table 3A** about here

Results show historical cost accounting is the preferred measurement base compared to fair value accounting by survey respondents. This is evidenced by 26 respondents agreeing to Statement (1) 'All assets and liabilities should be reported at historical cost, with fair value information presented in the notes'. In contrast, only nine respondents agreed to Statement (2) 'All assets and liabilities should be reported at fair value, with historical cost information presented in the notes'. Results show 15 respondents disagreed with the use of fair value accounting. A majority of the respondents (23) disagreed with Statement (3) 'Enterprise should be permitted to choose among alternative measurement concepts for different classes of assets and liabilities'. This indicates the Chinese accounting professionals' preference for a regulated (structured) financial accounting practice. This finding validates the view that even for principle-based IFRS, 'rules are necessary to provide the principles with a structure' (Carmona and Trombetta, 2008, p.457). Respondents (21) agreed to Statement (4) that implementation of fair value accounting is a fundamental change to Chinese accounting practice, however, responses to Statement (5) on the compatibility of fair value accounting with Chinese accounting practice varied among respondents.

Insert **Table 3B** about here

Table 3B is related to the questions on whether the respondent's company uses fair value accounting and the perceived usefulness of fair value accounting for Chinese companies. The results show that only seven respondents reported the use of fair value accounting in their company. Most of the survey respondents' companies (26) did not use fair value accounting, consistent with the accounting practice in the European Union observed by Nobes (2015). The reported use of fair value accounting was related to the financial assets for sale. In general, respondents agreed to Statement (3) 'Fair value accounting provides Chinese companies with more opportunities than historical cost accounting for earnings management', and Statement (4) 'Fair value accounting has improved the comparison and consistency of Chinese companies' financial reports with international companies'. However, more respondents either chose to disagree (n=9) or be neutral (n=9) with Statement (5) 'Fair value accounting has promoted transparency and credibility of Chinese companies' financial reports'.

The findings indicate survey respondents are not in support of the view fair value has promoted the transparency and credibility of Chinese companies financial report (Statement 5), although they agreed that fair value accounting improved the comparison and consistency of Chinese companies' reports with international companies (i.e. Statement 4). Responses to Statement 3 show Chinese practitioners agree with the view that fair value accounting led to unintended opportunistic behaviour of earnings management. Fair value measurement was introduced to 2006 CAS in China in a very cautious way by the Chinese government in its efforts to harmonise with IFRS standards. It is a new accounting concept (translated from English language) in the Chinese accounting system. The underlying assumptions of fair value are based on the existence of free efficient capital market. However, China is in transition from planned economy to market economy. Blindly transplanting Western fair value accounting to China 'risks unintended and dysfunctional consequences' because 'if the key assumptions underlying those (Western accounting) theories written in English language are not relevant to the Chinese context, then the factors identified, and the predicted relationships between the factors, are less compelling in explaining Chinese accounting practice' (Yang et al., 2015, p.33). The findings of this study lends support to the argument in recent studies (e.g. He et al., 2012; Wu, et al., 2014) that the intended benefits of improved transparency through implementation of fair value accounting may not be achieved in China due to the country's special institutional context.

4.3 Challenges or obstacles of China's full convergence with IFRS

Table 4 presents results of the survey question 'What are the challenges or obstacles in the process of harmonising IFRS with Chinese GAAPs for Chinese companies?'

Insert **Table 4** about here

As shown in Table 4, respondents had a shared view on China's unique institutional context as a challenge for the full convergence with IFRS, with a mean score of 1.88 for Statement (1). Respondents expressed a similar view on the following specific IFRS implementation issues in China, which include exercising sound professional judgement (i.e. Statement 4, mean score 1.88), lack of experience in international financial reporting practice (Statement 2, mean score 2.09), translation (Statement 3, mean score 2.13), related party transactions (Statement 6, mean score 2.16), and the time allowed for convergence with IFRS (Statement 5, mean score 2.34).

It is notable that of the five statements (i.e. 2 - 6) on the specific challenges for China's full convergence with IFRS, professional judgement appears to be the challenge that respondents rated highest. This indicates the challenge of implementing principle-based IFRS in an institutional environment of a heavily regulated market by an authoritative government such as China. This finding supports the view (Ding et al., 2005; Gray, 1988) that China's history of rule-based authoritative culture (institution) has an influence on the level of professional judgement.

4.4 Professional development and training

Table 5 presents results related to the question 'What do you regard as being the key capabilities that accountants need to have in internationalisation of Chinese accounting practice?'

Insert **Table 5** about here

Accounting specialisation knowledge (Statement 2, with a mean score 1.22) and professional and ethical judgement (Statement 1, with a mean score 1.38) are the two key capabilities that survey respondents rated highest, followed by effective communication skills (mean score 2.03), critical analysis of Western accounting concepts and their adaptability to the Chinese context (mean score 2.16) and English language proficiency (mean score 2.33).

Professional judgement is a distinctive element of the accounting process in a principle-based accounting system such as IFRS. Hence, having a sound professional judgement capability is essential for the implementation of IFRS globally. However, China's institutional environment means accounting professionals may not have the equivalent level of flexibility in exercising professional judgement as their counterparts who implement principle-based systems in other countries (e.g. Australia or UK). Therefore, substantial changes are required in the current professional training and accounting education programs to strengthen the professional judgement capability of accounting professionals (and accounting students) who practice (or intend to practice) in China.

4.5 Multivariate regression results

Insert **Table 6** about here

Table 6 presents the regression results for only those questions involving an overall statistically significant relationship (F test). As indicated in Table 6, ownership structure is related to accounting practitioners' judgements on the following statements T3A(3), T3A(4), T4(1), T4(2), T4(3), T4(5), T5(1), and T5(4). A common result is that respondents from companies with Provincial State shareholders are more likely to have responses closer to the "disagree" end of the scale. Accounting practitioners' experience (Exp) and the experience in the use of fair value accounting are related to the statement T4(2). Our results are consistent with the findings based in other emerging economies (e.g. Joshi, et al., 2008), while recognising the differences in institutional context between China and other emerging economies.

5. Conclusion

This study provides a current report on issues in implementing IFRS in China through the perceptions of Chinese accounting practitioners of listed companies. The study found Chinese accounting standards have converged with IFRS except for some areas that are unique to China's institutional environment. Historical cost accounting dominates accounting practice. Not many companies surveyed chose to use fair value accounting. This is consistent with the guidance on the use of fair value provided by MOF. Obstacles to implementing IFRS in China identified by Chinese practitioners are consistent with international studies in other emerging economies. The study highlights the challenge of exercising professional judgement in implementing IFRS in China, among other contextual issues faced by Chinese accounting practitioners.

This study provides support to use institutional theory in interpreting China's IFRS convergence. At the political and economic level, China's increased integration with global capital markets has led to the deinstitutionalization of China's old socialist accounting system UAS, and the emergence of a new institution of accounting systems modelled on Western developed countries. At the micro level, Chinese companies are facing growing global and domestic institutional pressures on producing quality financial reports deemed to be useful for investors. Chinese companies have to respond strategically to institutional pressures in financial reporting practice. However, the contextual factors continue to challenge the successful harmonisation of IFRS in Chinese accounting practices.

This study has several limitations that can be addressed in future research. First, the study investigates the perceptions of one particular group of accounting practitioners in China. Future research could survey broader stakeholder's perceptions on China's implementation of IFRS, such as auditors and financial analysts, investors, regulators, and accounting researchers. Given overseas qualifications are a relatively recent occurrence in China it is not certain how many people with such qualifications would have already reached the level of CFO in a major Chinese company. Future study could investigate if accounting practitioners that received accounting education from Australia or other Western countries behave differently in implementing IFRS standards from Chinese accounting practitioners who did not receive Western accounting education. Such study would add an additional and valuable dimension to the results of this study. Future study can be extended to other types of Chinese companies (e.g. state-owned enterprises, and/or small and medium Chinese companies). Future study may also include a comparative study on the perceptions of accounting practitioners between developed countries (e.g. Australia) and developing countries (e.g. China).

Despite the limitations, this study contributes positively to current debate on the implementation of IFRS in emerging economies. The study has engaged with accounting practitioners in an emerging economy in identifying issues in implementing IFRS in practice. The survey results are informative because they 'reflect a rich knowledge and first-hand experience of IFRS' (Brown and Tarca, 2012, p.321) in China. The study responded to the calls for more 'engagement' and 'connection' with the business community in academic research (Knott, 2015; also see Brown and Tarca, 2012). Findings of the study point to the importance of having continuous review of accounting curriculum and incorporating practical issues of IFRS implementation in educating and training current and future accounting professionals.

This study also has policy implications for international and national accounting standard setters. Principle-based IFRS requires interpretation and judgements in practice. If accounting professionals are not well trained and educated or are inexperienced and/or unfamiliar with IFRS, then IASB may consider more technical support by developing more guidance on the application of IFRS, or reduce the scope of free-choice in IFRS. Similarly, accounting standard setters in emerging economies may also consider mandating 'a set of accounting standards with a greater focus on rules as opposed to principles that require the exercise of professional judgement' (Joshi, et al., p. 42).

It is a long journey to achieve harmonised accounting practice globally. Structural convergence with accounting standards has started the 'first step' on this long journey. Future research will continue to monitor the impact of IFRS on accounting practice in China and other countries.

Table 1 Characteristics of respondents	n=33
Ownership type of listed companies	
(1) Central state-controlled (CSC)	5
(2) Provincial state-controlled (PSC)	6
(3) Municipal state-controlled (MSC)	5
(4) Institutional shareholder controlled (ISC)	2
(5) Private natural person controlled (PC)	12
(6) Others	3
Years of work experience in accounting	
(1) Less than 5 years	2
(2) 5- less than10 years	5
(3) 10- less than15 years	8
(4)15- less than 20 years	7
(5) 20 and more years	11
Accounting education	
(1) Accounting qualification obtained in China	33
(2) Accounting education and/or training obtained from overseas	0

Table 2 Perceptions on the degree of convergence with the measurement concepts of IFRS (n=33)

Key: 1=Very familiar; 2=Familiar; 3=Somewhat familiar; 4=Slightly familiar; 5=Unfamiliar; 6= Impossible to say (ITS)

A. General understanding of measurement concepts	1	2	3	Mean	SD
(1) Historical cost	22	11	0	1.33	0.47
(2) Replacement cost	16	15	2	1.58	0.60
(3) Fair value	13	17	2	1.70	0.63
(4) Present value	14	17	2	1.64	0.59

B. Statement on the degree of convergence between CAS and IFRS on measurement concepts	Frequency
(1) There is no difference between CAS and IFRS	1
(2) CAS converged with IFRS, with a few exceptions that reflect the unique Chinese circumstance	30
(3) Chinese CAS and IFRS are not at all converged	1
(4) Impossible to say	1

Table 3A Choice between fair value and historical cost

Key: 1SA = strongly agree; 2A=Agree; 3N=Neutral; 4D=Disagree; 5SD=Strongly Disagree; 6ITS=Impossible to say

Statements	1SA	2A	3N	4D	5SD	6ITS	Mean	SD
(1) All assets and liabilities should be reported at historical cost, with fair value information presented in the notes	13	13	2	4	0	1	1.91	0.98
(2) All assets and liabilities should be reported at fair value, with historical cost information presented in the notes	5	4	8	14	1	1	3.06	1.14
(3) Enterprises should be permitted to choose among alternative measurement concepts for different classes of assets and/or liabilities	1	6	3	20	3	0	3.55	0.99
(4) Implementation of fair value accounting is a fundamental change in China's accounting practice	8	13	6	0	1	5	2.04	0.91
(5) Implementation of fair value accounting is incompatible to the unique Chinese institutional environment where the 'active market' is rarely available	7	10	4	11	0	1	2.59	1.17

Table 3B Usefulness of fair value accounting

(1) Does your company use fair value in reporting assets and liabilities?	Yes				No			
Number of response	7				26			
(2) How useful are fair value accounting (when compared to historical cost accounting) for improving relevant and reliable accounting information when applied to Chinese companies?								
Rating from 1 (very useful) to 5 (not useful)	1	2	3	4	5	6ITS	Mean	SD
Number of response	7	11	2	6	3	4	2.55	1.33
Statements on the usefulness of FV	1SA	2A	3N	4D	5SD	6ITS	Mean	SD
(3) Fair value accounting provides Chinese companies with more opportunities than historical cost accounting for earnings management	9	15	6	3	0	0	2.09	0.90
(4) Fair value accounting has improved the comparison and consistency of Chinese enterprises financial reports with international enterprises	7	17	5	1	0	3	2.00	0.73
(5) Fair value accounting has promoted transparency and credibility of Chinese companies' financial reports	6	7	9	8	1	3	2.63	1.08

Table 4 Challenges of China's convergence with IFRS
Key: 1SA = strongly agree; 2A=Agree; 3N=Neutral; 4D=Disagree; 5SD=Strongly Disagree; 6ITS=Impossible to say; SD= Standard Deviation

Statements	1SA	2A	3N	4D	5SD	6ITS	Mean	SD
(1) The unique Chinese economic context makes it difficult to fully implement IFRS	11	17	1	3	0	1	1.88	0.86
(2) Lack of professional accountants with practical experience in international financial reporting	9	16	2	5	0	1	2.09	0.98
(3) The difficulty of understanding some technical concepts of IFRS translated from English language	7	17	5	3	0	1	2.13	0.86
(4) The difficulty in performing sound professional judgement of full tax implications due to the unique environment of the Chinese capital market	9	19	3	1	0	1	1.88	0.70
(5) The process of IFRS convergence in China occurred too fast with inadequate preparation for the transition	8	13	3	8	0	1	2.34	1.11
(6) The difficulty of measuring the fair value of assets and liabilities in Chinese market where related party transactions still pervade in market	7	17	4	4	0	1	2.16	0.91

Table 5 Key capabilities of accounting professionals
Key: 1SA = strongly agree; 2A=Agree; 3N=Neutral; 4D=Disagree; 5SD=Strongly Disagree; 6ITS=Impossible to say; SD= Standard Deviation

Statements	1SA	2A	3N	4D	5SD	6ITS	Mean	SD
(1) Professional and ethical judgement	20	12	0	0	0	1	1.38	0.48
(2) Accounting specialisation knowledge	25	7	0	0	0	1	1.22	0.41
(3) English language proficiency	4	15	9	1	1	3	2.33	0.87
(4) Critical analysis of Western accounting concepts and their adaptability to the Chinese context	9	13	5	3	1	2	2.16	1.05
(5) Effective communication skills	6	20	5	1	0	1	2.03	0.68

Table 6 Summary of regression results

	Estimated Coefficients							
Explanatory Variables	T3A(3)	T3A(4)	T4(1)	T4(2)	T4(3)	T4(5)	T5(1)	T5(4)
Intercept	*1.222*	*1.968*	*-0.851*	*4.979******	*4.207******	*0.387*	*1.286******	*1.255*
CSC		0.722	1.369*		-1.442***	0.972	0.4	0.4
PSC	1.12*		2.204**	1.299**		2.163**	0.073	1.914***
MSC	0.406	0.287	1.226	1.043*	-1.78***	1.435		
ISC	1.709*	2.887***		1.338	-1.714**		0.06	0.314
PC	0.818*	0.658	1.056	1.109**	-1.339***	1.275	0.675***	0.262
Others	1.21*	0.293	1.783**	0.992	-1.028*	3.165***	1.007***	0.386
Exp	0.031	-0.023	0.028	-0.09***	0.004	0.012	0.001	0.000
FV	0.596	-0.095	0.53	-1.371***	-0.547	0.132	-0.187	0.216
R^2	0.424	0.496	0.443	0.543	0.465	0.432	0.525	0.383

** Significance level p ≤ 0.10, **Significance level p ⩽ 0.05, ***Significance level p ⩽ 0.01*

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