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The impact of international accounting standards on China's economic

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Abstract

This article discusses the impact of international accounting standards and Chinese standards on the Chinese economy. By adopting international accounting standards and local accounting standards in China, we can conclude that the information adopted by international accounting standards is not significantly different from the information adopted by Chinese accounting standards. The main manifestation is that the interpretation of future cash flows by international accounting standards is not different from the accrued items in China. After analysis of relevant factors, we believe that the reasons for the failure of international accounting standards data to dominate Chinese data are: China lacks effective control over international accounting standards; due to imperfect infrastructure and the special nature of the economic system, international standards' compatibility is not very strong. But China is trying to adapt to international standards as one of the important tools to survive the economic transition.

Key words: *Accounting standards, PRC accounting standards, Future cash flow, Accruals.*

JEL Classification: *G17, G18, G23, M16, M41.*

1. Introduction

Compared with developed western countries, developing Southeastern countries often suffer from financial difficulties due to inadequate economic systems, unequal treatment in international trade, and inability to develop international markets. As a result, the call for the adoption and adaptation of Global Accounting Standards (IAS) in these Southeast Asian countries is growing. At the same time, through Minsky's "financial instability hypothesis" to explain the financial crisis in Southeast Asia, the country's closed economic environment will threaten the growth of the financial sector and increase employment, which will greatly increase the impact on developing economies. (Arestis, P. 2002). According to a report assessing companies that use international accounting standards internationally and the degree of compliance of the standards in their financial statements, it can be concluded that companies listed in the United States clearly comply with the disclosure requirements of international accounting standards, while China , Switzerland, France, Germany and other Western European countries have not significantly complied with the disclosure requirements of the Code. (Donna L. Streeta, Sidney J. Grayb, 2002). Therefore, in order to expand an open and free economy and help the country improve its economic system, financial liberalization is an important factor. In addition, by reviewing the development history of International Accounting Standards (IAS), we can know that the Group of Seven countries approved this standard as a globally applicable financial reporting standard in 1998. (Parker, R H. 2008)

Because the accounting standards used in different countries are different, to a certain extent, the ability of the capital market to attract investment is limited, so it has a certain adverse effect on the growth of the world economy. Therefore, some economists and makers of international accounting standards believe that this standard helps provide a globally accepted

standard for comparing the financial statements of companies in various countries in order to improve the efficient allocation of resources in the capital market. However, because international accounting standards are developed by the International Regulatory Commission, the International Accounting Standards Committee (IASC), this body mainly refers to the economic levels and corporate statements of developed countries such as the United States and Europe. For developing countries or countries with economies in transition, there are obvious lags and deficiencies in financial reporting infrastructure and professional skills of personnel. Therefore, whether such standards are also applicable to developing countries needs to be verified.

This paper selects the accounting data of the People's Republic of China to test the usefulness of IAS standards for the economies of developing countries. The reason why China can serve as a sample is because this country's economic system is quite special. Unlike traditional capitalist countries, China's economic system is called a socialist market economy. At the same time, after the reform and opening in 1997, the Chinese government required domestic and international investments to be market-separated, that is, to use different prices for the same assets in different markets. In addition, the Chinese government also requires domestic companies to use two types of accounting standards: when reporting to domestic investors, use domestic accounting standards; when reporting to international investors, use international accounting standards.

Some economists believe that the financial data derived from using international accounting standards is more effective than the data derived from using Chinese standards. The following two main reasons are summarized: First, international accounting standards can provide management when reflecting economic differences in enterprises More relevant data for reference. However, Chinese standards only have basic content and cannot provide more detailed reference data. Secondly, the financial statements using international accounting standards allow

international auditing companies to perform analysis, while the use of Chinese standard financial statements cannot meet the requirements of international auditing.

However, some economists have questioned the applicability of international accounting standards in China. The reasons are summarized as follows: First, China is a developing country with a transitional economy. The economic structure and infrastructure are not complete. Weak. Second, there are fewer professionals in accounting and auditing in China than in developed countries. Third, due to the special socialist market economy system, the government has limited supervision of the market, so it cannot ensure the effective implementation of international accounting standards. Because of these issues, in some respects, local Chinese standards may produce more reliable information than using international accounting standards.

This article selects the financial statements (mainly income statements and cash flow statements) obtained by Chinese companies using local standards and international accounting standards from January 1998 to July 2015, respectively. For this sample data, the research in this paper mainly adopts a method to measure the usefulness of accounting information: the correlation between corporate income and accrued items to predict future cash flows. In the analysis of the results of the article, it can be known that when the variable cash flow is stable, whether using the Chinese standard or international accounting standards, the calculated accrual variable and the future cash flow show positive Related relationships. When examining the explanatory power of the variable accrual item to future cash flows under these two criteria, it can be found that neither of the two results has a clear advantage. Taken together, these findings indicate that international accounting standards are no more effective than local Chinese accounting standards.

2. Literature Review

In order to study the different functions of these two accounting standards, it is first necessary to understand how these two standards can change the company's financial data. The information generated by IAS and the information produced by the Chinese standard are not very similar. Mainly reflected in the international accounting standards and Chinese standards for future cash flow explanatory power has no difference. Moreover, for stocks that can only be held by international investors, the return and accrual items of International Accounting Standards (IAS) and PRC are like the annual stock return. Finally, for stocks that can only be held by domestic investors, the relationship between PRC returns and annual stock returns is higher than IAS returns. (Eccher, Elizabeth Angela and Healy, Paul M. June 2000). In valuing assets, PRC standards require strict adherence to historical cost, making no provision for mark- to-market or lower-of-cost-or-market. (Chen, Gui and Sui, 1999) Overall, Chinese Accounting Standards have reflected the methods required for Chinese tax accounting; they have therefore been closer to a cash or tax system of reporting than International Standards. (Winkle, Huss and Xi-Zhu,1994) From the viewpoint of these articles, it can be concluded that the international accounting standards data fail to dominate China's data and fail to monitor the additional reporting judgment that can be obtained by management under the international accounting standards. China's accounting standards have more advantages in information.

However, when companies use their own financial reports, it is not enough to simply read the information above. Therefore, it is not enough to understand the difference in information between the two accounting standards. We need to know more about the difference between Chinese accounting standards and international accounting standards in practical application. Conclusions can be drawn by comparing IAS with other countries' accounting standards.

Compared with GAAP in the United States, the use of IAS can make the correlation between amount and price per share higher, but the correlation between amount and securities income is not used, while GAAP in the United States is higher. (Harris, M.S. and K. Muller. 1998.) However, does International Accounting Standards (IAS) also convey better information to investors than Continental-Oriented Accounting Standards (such as the EC Directive)? According to the information content of Switzerland's earnings announcement, that is, the abnormal earnings caused by unexpected earnings. The results show that the information content of earnings announcement based on IAS is much higher in statistics. It shows that for investors in Swiss capital market, IAS increases the information content of financial statements and is conducive to their investment. (Auer, K. V. 1996) In addition, in order to study what caused the differences between domestic accounting standards (DAS) and international accounting standards (IAS). After collecting 2001 sample data from 30 countries, the researchers used the differences between DAS and IAS to establish two indexes, *Absence* and *Divergence*. A larger divergence from IAS is associated with richer firm-specific information in capital markets. (Yuan Ding, Ole-Kristian Hope, Thomas Jean and Herve Stolowy. 2007) The above three studies directly compare the practicability of IAS with other national or local standards. For example, the differences between U.S GAAP and IAS are examined, the differences between EU standards and IAS are also examined. It is concluded that in different regions and countries, the relevance of IAS to market value and earnings is not the same and is affected by many factors. Therefore, it is not clear whether such benefits are applicable to developing or transforming economies, and China, which is in the period of economic transformation, provides a unique opportunity to study these issues.

The reason why China is selected as a sample is that after the reform and opening up, China's economic system has undergone a significant change, from a public ownership economy

to a market economy, and as the core of the national economic development strategy, and this reform has been done in many economic areas. Innovations have been created to provide China with more possibilities as a part of China's new economic system. (Chow, G. 1997). At the same time, according to the Chinese government's policy of "opening up to the outside world, combining Chinese and Western", international accounting standards as a new standard can bring new impetus and opportunities to China's economic development. It is undeniable that China is a well-known success story of economic transformation. Almost all economic indicators (productivity, employment rate, GDP, national per capita income, exports, etc.) have significantly increased in the 20 years after reform and opening-up. increase. (Rawski, T. G, 1999) This fact proves that China's reform measures that began in the 1980s have indeed successfully changed the economic growth trajectory of China and made China a unique case of research and development and transition economics. China's reform is based on replacing the country's macro-control with the independent allocation of resources by the market. The government continued to adjust the economic policies at that time in order to consolidate this foundation. This also allowed each stage of the reform. Notable features and contradictions. These contradictions are precisely the important contributions China has made to economic research.

To a certain extent, the market will erode the scope and influence of government decision-making. In order to prevent market allocation and macro-control from coordinating, maintaining official actions will still have sufficient impact on economic development. (Rawski, T. G, 1999) Therefore, in addition to the reasons for China's economic system reform and greater openness to the world, the Chinese government's new requirements for domestic enterprises are also an important reason. As mentioned in the first part, the Chinese government requires the financial reporting of domestic enterprises to be divided into domestic and foreign models. Compared to

international accounting standards, local standards are more in line with China's tax accounting requirements and closer to reporting requirements on cash flows. (Winkle, Huss and Xi-Zhu, 1994) Because of this characteristic, Chinese standards pay more attention to historical costs when calculating assets and differ from international standards in the valuation of inventory. Second, Chinese standards ignore the company's economic situation. In addition, Chinese standards fail to identify complex liabilities, resulting in limited disclosure. It is also reported that the main shortcomings of China's audit are lack of independence, low level of auditors, and a corrupt environment. (Xiao, Zhang, and Xie, 2000) As external financial reports are audited by professional companies, these problems have led to China Businesses lack good financial reporting and therefore cannot reach international markets, and financial reporting using international accounting standards is unlikely to be affected by these issues.

Then, we need to analyze the impact of different accounting standards on economic income and the relationship between stock return and foreign generally accepted accounting principles. Compared with foreign GAAP, the stock returns in the same period are more closely related to GAAP in the United States. Moreover, the reason for this result may be driven by the system of a foreign market. (Chan, K. C., & Seow, G. S. 1996.) Therefore, the difference of earnings management level based on different accounting standards is also one of the factors to be considered. By comparing the consolidated accounts compiled according to German GAAP, IAS or American GAAP. The results show that the level of earnings management under the German General Accounting Standards and the International Accounting Standards is roughly the same, but the level of earnings management of the companies reported under the American Generalized Accounting Standards is obviously lower. This result is close to the conclusion that different amount of accounting embedded in different accounting standards will choose to affect the level

of earnings management. (Zimmermann, J., & Goncharov, I. 2003) Moreover, as for the difference in earnings between Chinese accounting standards and international accounting standards (IAS). Accounting earnings based on China's current accounting standards are significantly different from accounting earnings based on accounting standards. To be specific, the accounting earnings determined by the Chinese accounting standards are 20 to 30% higher than those published under international accounting standards. (Charles J. P. Chen, Ferdinand A. Gul, and Xijia Su. 1999) By introducing and comparing the relationship between the stock returns and the differences of earnings management level between countries with and without GAAP, the differences between China's accounting standards and international accounting standards (IAS) on earnings, the differences between China's current accounting standards and international accounting standards, and the effects of these differences on earnings, the paper draws a conclusion that different standards of accounting principles will have an impact on national economic returns. China as a developing country with its own unique accounting standards, will its economic development also be affected by the internationally accepted accounting principles? The answer is yes. There is a significant difference between the accounting earnings based on China's current accounting standards and the accounting earnings based on international accounting standards (IAS). In fact, the accounting earnings determined by Chinese accounting standards are higher than those published under international accounting standards (IAS).

Finally, how to compare the information content and timeliness of accounting earnings in several countries? The first method is an investment strategy based on unexpected income ranking. The second one is a regression model for estimating 15-month stock returns at the same level and earnings changes. (Alford, A., J. Jones, R. Leftwich, and M. Zmijewski. 1993.) These two methods can also be used to analyze the differences between capital market accounting standards, disclosure

practices and corporate governance, and whether they lead to differences in the usefulness of accounting earnings information content.

Hypothesis:

H1: International Accounting Standards (IAS) will affect Chinese corporate earnings reporting, especially the forecast of future cash flow.

H2: Compared with the accounting information prepared by Chinese standards, international accounting standards (IAS) has not significantly improved the effectiveness of financial reporting by Chinese enterprises to investors.

H3: There is little difference in the data of financial statements of Chinese companies when using Chinese standards and international accounting standards (IAS).

3. Research Design:

Based on the theme of the entire article, the following research will explore the usefulness of international accounting standards for the Chinese economy. As stated in the literature review section, international accounting standards are based on accounting standards in the United States and European developed regions, and their function is to enable company operators to reflect their company's business level to investors with intuitive, clear and concise data. Moreover, academic research proves that international accounting standards can play this role, especially in terms of cash flow and stock returns, which can convince investors the most. However, studies have shown that this information is not very useful in developing countries.

According to relevant studies comparing international accounting standards and local standards, it is found that international accounting standards also have their own limitations and

are not suitable for all countries and regions. Therefore, in order to prove the role of international accounting standards in developing countries, this article will use China as a sample and take future cash flow as the main research variable to analyze the factors affecting international accounting standards.

After obtaining the cash flow of the sample company by obtaining the data, using the International Accounting Standards and the Chinese local standards respectively, it can be tested whether the current accruals provide more effective information on the future cash flow performance. At the same time, this test helps to assess the relative value of international accounting standards and the criteria based on bright-line rules in a transitional economy. (Elizabeth Eccher and Paul M. Healy, 2000)

Regarding the method for predicting future cash flows, reference is made to the accrual model proposed by Nelson et al., Which is used to consider the impact of the accrual factor in predicting future cash flows. According to this model, it is found that different content of accrued items can reflect different information of future cash flow. (Such as changes in accounts receivable, changes in inventory, and other major components in accruals). These accruals can improve the accuracy of the forecast, and the content of each accrual has a significant correlation when predicting future cash flows. In this model, the increment is the current cash flow, and a lag is used to improve the accuracy of the current cash flow and accrued items' predictions of future cash flows. At the same time, the model also guarantees the stability of other factors, such as the control of the two variables of cycle and industry. (Barth, M. E., Cram, D. P., & Nelson, K. K. 2001)

This model used in this paper is based on the "accrual model" of Nelson et al. And is used to test the impact of the accrual variable on predicting future cash flows. In this model, the sub-items of each accrued item are associated with different content of future cash flow (excluding

total revenue). Specifically, the model decomposes accruals into major components such as changes in accounts receivable, changes in inventory, operating cash flows, financing cash flows, and investment cash flows. These variables can help improve the accuracy of forecasts. At the same time, the sub-items of each accrued item are unique symbols in predicting future cash flows. The local increment in the model is the current cash flow. In order to improve the prediction accuracy of the current cash flow for future cash flow, the model uses data with a lag of two years and controls the two variables of the operating cycle and the industry to ensure the result. Of stability.

The model shows as follows:

$$CF_{it+j} = \alpha + \beta_1 CF_{it} + \beta_2 ACC_{Kit} + \beta_3 \Delta INV_{Kit} + \beta_4 \Delta REC_{Kit} + V_{it+j} \quad j=1, \dots, 2;$$

$$K = IAS, PRC \quad (1)$$

CF is the operating cash flow of the sample company for the year, ACC_K is the accrued item after changes in inventory and accounts receivable, ΔINV_K is the change in inventory, and ΔREC_K is the change in accounts receivable. The model also uses correlation results with a lag of 2 years. It should be noted that the coefficient of variation between the accounts receivable and the inventory itself should not be zero.

4. Sample and Results:

Because this paper studies the differences between the data of the company's financial statements under Chinese standards and international standards, we selected a total of 12,257 companies from 1997 to 2015 as sample data, of which 3135 companies used Chinese standards. There are 9122 IAS companies. These sample companies are selected from the China Stock Market Accounting Research Database-CSMAR. The main content of the data is the accounting data of listed companies on the China Stock Exchange, including earnings as net income, accrued items (calculated by the company's net income less operating cash flow for the current year), operating cash flow, investment cash flow and financing cash flow Used to calculate total cash flow, because total cash flow = operating cash flow + investment cash flow + financing cash flow), changes in inventory and changes in accounts receivable. In order to explore the differences between Chinese accounting standards and international accounting standards, and then find out the different impacts of these two accounting standards on the Chinese economy. By studying the relationship between the current international accounting standards and the cash flow and accrued profits of the sample enterprises in China, and the results of testing the future cash flow performance.

The differences in the financial statements of the sample companies are detailed in "Descriptive Statistics" (Table 1). In this table, data using international accounting standards and Chinese standards are listed, all data are in RMB (yuan). The table lists the observations, averages, maximums, minimums, and variances of all variables in the sample to observe the completeness and variability of the data. According to descriptive statistics (Table 1), the mean value of "Changes in accounts receivable" under PRC standards is 0.581 higher than similar data under international accounting standards(IAS), and it is 0.432 higher than the mean of all samples, but all three data are negative. The mean value of the "Change in inventory " data under PRC standards

is 1.14 higher than similar data under international standards, and it is 0.849 higher than the mean of all samples, all three data are still negative. The mean of PRC standard data is 0.146 lower than that of the international standard of "Total accrual" items, this time the all three data are negative, but the mean value of the data under the PRC standard is 0.109 lower than the mean value of all samples. The mean data of "Earnings" under PRC standards is 1.556 lower than similar data under international standards, 1.158 lower than the data of all samples, and all three data are positive. In addition, in the comparison of the "Operating cash flow" data set, the mean values under the PRC standard are still the lowest, which are 1.467 and 1.092 lower than the international standard and all samples, respectively. Finally, in the comparison of the "Cash flow" data set, the mean values under the PRC standard are the lowest among three data, which are 0.688 and 0.512 lower than the international standard and all samples respectively. Therefore, we can find that under these two standards, the data of the sample companies are different. Most of the data under PRC standards are higher than international standards, but some of them are lower than international standards.

After roughly comparing the data of the three categories of standard deviation, maximum value, and minimum value, we can find that most of the data under the Chinese standard have values that are smaller than the international standard. We know that standard deviation is a set of commonly used detection standards for the degree of data dispersion, and it is also an important indicator of data accuracy, so it should be smaller and more stable. By comparison, we can conclude that the data stability under Chinese standards is better. This shows that we need to conduct a deeper analysis of the sample data.

Table 1
Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
All Sample					
Cash flow	12257	.735	4.642	-11.9	28.6
Operating Cash flow	12257	2.251	6.624	-15.7	41.9
Total accruals	12257	-.491	5.469	-27.1	24.6
Earnings	12257	1.757	4.273	-6.49	27.9
Change in receivable	12257	-.535	2.266	-14.1	5.05
Change in inventory	12257	-1.273	5.374	-38.7	7.73
PRC data					
Cash flow	3135	.223	2.187	-11.9	28.6
Operating Cash flow	3135	1.159	3.289	-15.7	41.9
Total accruals	3135	-.6	2.597	-27.1	20.5
Earnings	3135	.599	2.065	-6.49	27.9
Change in receivable	3135	-.103	1.629	-14.1	5.05
Change in inventory	3135	-.424	2.228	-38.7	7.73
IAS data					
Cash flow	9122	.911	5.215	-11.9	28.6
Operating Cash flow	Cash 9122	2.626	7.395	-15.7	41.9
Total accruals	9122	-.454	6.154	-27.1	24.6
Earnings	9122	2.155	4.739	-6.49	27.9
Change in receivable	in 9122	-.684	2.43	-14.1	5.05
Change in inventory	9122	-1.564	6.064	-38.7	7.73

Next, we need to analyze the correlation between variables, which is a step that must be completed to verify the data. After several tests, we have obtained the correlation analysis table of each independent variable and the dependent variable "total cash flow". From the results in the table, we can find that there is a high correlation between each variable and the dependent variable, and there is also a certain correlation between the four independent variables ("Total accruals", "Operating Cash flow", "Change in receivable" and "Change in inventory"). Among them, "Operating Cash flow" is positively correlated with the dependent variable, and the correlation between the two is the highest, reaching 0.295. The three independent variables of "Total accruals", "Changes in receivables" and "Changes in inventory" are negatively related to the dependent variables, which are -0.084, -0.133 and -0.237, respectively. This shows that the "Operating Cash

flow" factor has a significant impact on forecasting future cash flows. The impact of "Changes in inventory", " Total accruals" and " Changes in receivables" on forecasting future cash flows may have a negative impact, of which the impact of " Changes in inventory" is probably the most significant. The correlation analysis table is shown below:

Table 2
Correlation Analysis

Variable	Cash flow	Operating Cash flow	Total accruals	Change in receivable	Change in inventory
Cash flow	1				
Operating Cash flow	0.295***	1			
Total accruals	-0.084***	-0.705***	1		
Change in receivable	-0.133***	-0.065***	-0.187***	1	
Change in inventory	-0.237***	-0.007	-0.322***	0.217***	1

In Table 3 (ANOVA Analysis Result), the data sources are from “between” group, “within” group and “total”. The variance analysis of sample data under Chinese and international standards is also carried out by using ANOVA analysis to determine whether the control variables have significant influence on the observation variables. Then, determine the type of regression model that should be used for the research sample data. In Table 3, except for the P value of "Total accruals", which is 0.1994 (>0.1), the P values of other variables (operating Cash flow, change in receivables and change in inventory) are all <0.01 , so these P values are reasonable. Therefore, the rationality and relevance of the model are determined. Moreover, we can find that the correlation of the variable "Total accruals" is not significant enough. Regarding model selection: From the results of the F test, it is shown that the P value is greater than 0.05, indicating that the original hypothesis accepts mixed regression, and a mixed regression model should be used. From the results of the LM test, it is shown that the P value is greater than 0.05, which also indicates that the null hypothesis accepts mixed regression, and a mixed regression model should be used. It can therefore be determined that a mixed regression model should be used.

Table 3
ANOVA Analysis Result

Variable	Source	Partial SS	Df	MS	F	P
Cash flow	Between	1102.9262	1	1102.9262	51.39	0.0000
	Within	263005.45	12255	21.4611		
	Total	264108.38	12256	21.5493		
Operating Cash flow	Between	5023.9839	1	5023.9839	115.57	0.0000
	Within	532748.92	12255	43.4720		
	Total	537772.91	12256	43.8783		
Total accruals	Between	49.2741	1	49.2742	1.65	0.1994
	Within	366580.14	12255	29.9127		
	Total	366629.41	12256	29.9143		
Change in receivables	Between	786.4664	1	786.4664	155.03	0.0000
	Within	62170.056	12255	5.0730		
	Total	62956.523	12256	5.1368		
Change in inventory	Between	3030.6986	1	3030.6986	105.83	0.0000
	Within	350949.99	12255	28.63729		
	Total	353980.69	12256	28.8822		

As mentioned earlier when explaining the model we used, in order to ensure that the accrued items can help to predict the future cash flow to the maximum, the accrued item coefficients before the two variables of inventory changes and changes in accounts receivable, as well as the coefficients of change of these two variables should be guaranteed to be not zero. We use the F test and LM test in the mixed regression model to test and evaluate which standard (Chinese or international standard) provides a better explanation for predicting future cash flows. In addition, the p value of each variable is calculated in this paper, which is used for correlation test to optimize the results.

Table 4 shows the analysis results of model (1) in STATA. See the IAS group for the results of using the international accounting standards test and see the PRC group for the results of using the Chinese accounting standards test. The regression results for the IAS group show that the estimated operating cash flow in the mixed model is positive, representing that the value is statistically significant, with a coefficient of 0.0476. Although the estimated values of changes in

accounts receivable and changes in inventory are negative, -0.1019 and -0.1396, respectively, the coefficients of these two variables are positive, 0.0229 and 0.0100, respectively, indicating a clear correlation. Moreover, these coefficients of change indicate that the future cash flow of companies with increased receivables will also increase; similarly, companies with increased inventory will also increase future cash flows. This model explains 16.69% of the changes in cash flow of Chinese companies in a year under international standards. For the regression results of the PRC group, the estimated operating cash flow and accrued items are also very important: Similarly, the estimated operating cash flow in the mixed model is positive with a coefficient of 0.3267. Estimates of accrued items for changes in accounts receivable and changes in inventory are negative, respectively -0.0039 and -0.1241. Finally, the coefficients of changes in accounts receivable and inventory changes are also positive, being 0.0233 and 0.0181, respectively, indicating that only the effects of inventory changes are significant. The model explains 17.53% of the change in cross-sectional cash flows of Chinese companies in a year under local standards.

Table 4

Panel A: PRC accruals	(1)	(2)	(3)	(4)
VARIABLES	Mixed model	Fixed effect model	Random effects model	Mixed model
Operating Cash flow	0.3210*** (0.0502)	0.3882*** (0.0578)	0.3210*** (0.0502)	0.3267*** (0.0508)
Total accruals	0.0830* (0.0476)	0.0549 (0.0559)	0.0830* (0.0476)	0.0743 (0.0482)
Change in receivables	-0.0086 (0.0230)	0.0060 (0.0251)	-0.0086 (0.0230)	-0.0039 (0.0233)
Change in inventory	-0.1289*** (0.0177)	-0.0768*** (0.0209)	-0.1289*** (0.0177)	-0.1241*** (0.0181)
Industry	NO	NO	NO	YES
F-test		1.0 (p=0.5121)		
LM-test			0.00 (p=1.0000)	
Observations	3,135	3,135	3,135	3,135
R-squared	0.1623	0.1627	0.1505	0.1753
Number of stkcd	510	510	510	510

Panel B: IAS accruals	(1)	(2)	(3)	(4)
VARIABLES	Mixed model	Fixed effect model	Random effects model	Mixed model
Operating Cash flow	0.0315 (0.0213)	0.0939*** (0.0242)	0.0315 (0.0213)	0.0476** (0.0215)
Total accruals	-0.1227*** (0.0222)	-0.1293*** (0.0246)	-0.1227*** (0.0222)	-0.1298*** (0.0222)
Change in receivables	-0.0930*** (0.0221)	-0.0902*** (0.0266)	-0.0930*** (0.0221)	-0.1019*** (0.0229)
Change in inventory	-0.1471*** (0.0095)	-0.0901*** (0.0121)	-0.1471*** (0.0095)	-0.1396*** (0.0100)
Industry	NO	NO	NO	YES
F-test		0.97 (p=0.7328)		
LM-test			0.00 (p=1.0000)	
Observations	9,122	9,122	9,122	9,122
R-squared	0.1592	0.0904	0.0811	0.1695
Number of stkcd	1004	1,004	1,004	1004

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

After comparing the two sets of data, it can be found that the interpretation of future cash flows using the Chinese standard sample is slightly lower than the sample data using the International Accounting Standards. Here are some possible explanations: First, the limited sample size results in a test that lacks the ability to clearly distinguish between the two standards. By observing the value of R-squared, we find that the model can explain that under international standards and Chinese standards, the percentage of cash flow changes of Chinese companies within one year is not high, respectively 17.53% and 16.95%. Therefore, we can indicate that the representativeness is not strong enough. Second, after 2006, Chinese companies are more inclined to use international accounting standards. Comparing the data under international standards with the data under Chinese standards, there is a clear gap between the two in quantity. More precisely, the former has 5,987 more sets of data than the latter. Differences in observations may also affect the results of regression analysis. Finally, due to the reform of China's economic system, the government has promoted the use of international accounting standards by domestic companies

through a series of policies. Therefore, the two indicators of "Year" and "Industry" have also become influential factors.

5. Conclusion:

With the development of globalization, economic integration has become a major trend in the development of the world economy. As a result, the International Accounting Standards Board (IASB) has proposed the universalization of international accounting standards in various countries. The IASB claims that this approach will increase the scope and effectiveness of financial reporting. In order to justify this proposal, we studied the impact of international accounting standards and Chinese accounting standards on Chinese companies and analyzed the specific situation of Chinese companies' financial reporting in both domestic and foreign directions. The results show that international standards can help Chinese companies have more discretion in financial reporting, especially in terms of inventory and accounts receivable. However, in China's market economy, the reports of auditors, the judgment of managers, and the ultimate execution of the company will have varying degrees of impact, so the increase in effective information provided to investors by international accounting standards is not obvious.

The test results in this article further show that, to a certain extent, Chinese companies can provide investors with information that is more relevant and functional than Chinese local standards. However, in the two accounting standards, operating cash flow, accrued items, changes in inventory and changes in accounts receivable are all highly correlated with total cash flow, and the coefficients between the variables are very close. Therefore, there is no significant difference between the results of the two accounting standards in predicting cash flow in the next two years.

The three assumptions put forward by our research results are: 1: International Accounting Standards (IAS) will affect the earnings reports of Chinese companies, especially the prediction of

future cash flows. 2: Compared with the accounting information prepared in accordance with Chinese standards, international accounting standards have not significantly improved the effectiveness of Chinese companies' financial reporting to investors. 3: When Chinese companies use Chinese Standards and International Accounting Standards (IAS), there is not much difference in the financial statement data. Because the p-values of the full sample regression test results are less than 0.05, we can reject these three original hypotheses. In other words, international accounting standards have improved the effectiveness of Chinese companies' financial reporting to investors to a certain extent.

In view of the similarity between the data obtained under the two standards, but because the basic principles of the two standards are completely different. Therefore, a possible explanation for the result is that Chinese companies intentionally avoid the differences in financial reporting under the two systems. Another possible explanation is that Chinese companies are gradually distinguishing between international accounting standards and Chinese standards and allowing both standards to be effectively implemented in financial reporting. Another possible explanation is that with the development of China's economy and the improvement of education, there has been some progress in the training of professional auditors, which has solved the problems of lack of professional skills of auditors and unhealthy industry practices. Coupled with the rapid development of audit institutions, commercial publishing houses, financial analyst groups, and legal systems, it is quite reasonable for Chinese companies to improve the implementation of the two accounting standards.

Although these explanations are largely based on guesses that predict future cash flows, they provide a reasonable perspective for studying such issues. There are still many developing countries like China in the world undergoing economic transformation. For these countries, what

kind of standards (international accounting standards or local rules) can be more effective and need to be studied. Because on the surface, enforcement of local rules is easier compared to international accounting standards. But in fact, analyzing the role of accounting standards requires more consideration. Studies have pointed out that the role of international accounting standards in economic transformation can be explored from the annual returns and accruals of stocks held by investors. This needs to consider the variable return on stock investment. In addition, in order to study the best accounting standards applicable to countries where economic development is in its infancy or early stage of development, the subjective judgment of managers in financial reporting should be limited in the research. Therefore, considering the diversity of economic structures in various countries, the International Accounting Standards Committee (IASC) should strive to improve the existing international accounting standards so that it can be accepted by the world.

The model shows as follows:

$$CF_{it+j} = \alpha + \beta_1 CF_{it} + \beta_2 ACC_{Kit} + \beta_3 \Delta INV_{Kit} + \beta_4 \Delta REC_{Kit} + V_{it+j} \quad j=1, \dots, 2;$$
$$K = IAS, PRC \quad (1)$$

Variable Definitions:

CF is operating cash flows for the fiscal year,

ACC_K is accruals before changes in inventory and receivables computed using PRC or IAS accounting standards,

ΔINV_{IAS} : is the change in inventory computed using PRC or IAS accounting standards,

ΔREC_{IAS} : is the change in receivables computed using PRC or IAS accounting standards.

^a Standard error used to estimate the t statistics are computed using the White adjustment for heteroskedasticity.

^b Significant at the 0.01 level using a two-tailed test.

^c Significant at the 0.05 level using a two-tailed test.

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