

The Influence of *Language, Personality, and Accountability* on Accountants' Aggressive Financial Reporting Judgments: Experimental Evidence from China

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by

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ABSTRACT

Aggressive financial reporting, which refers to accountants' preference for reporting disclosure that portrays events favourably when accounting treatments are not clearly indicated by the facts, accounting standards and relevant literature, has long been recognized as a critical ethical issue for the accounting profession. The aim of the dissertation is to examine the influence of three factors, namely *language*, *personality*, and *accountability* on Chinese accountants' aggressive financial reporting judgments. These three factors have been selected for examination in the three papers comprising this dissertation because of their importance and relevance both globally and in China. This dissertation is based on the 'thesis by publication', and comprises three separate experimental studies. This dissertation includes an introduction (Chapter 1), three separate experimental studies (Chapter 2-4), and a conclusion (Chapter 5). Specifically, the three papers comprising this dissertation are as follows.

The first paper is entitled, "The Influence of Native versus Foreign Language on Chinese Subjects' Aggressive Financial Reporting Judgments". Researchers have suggested that ethical judgments about "right" and "wrong" are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors, such as language. As long as an ethical scenario is understood, individuals' resolution should not depend on whether the ethical scenario is presented in their native language or in a foreign language. Given the forces of globalization and international convergence, an increasing number of accountants and accounting students are becoming proficient in more than one language and they are required to interpret and apply complex ethical pronouncements issued by various global standard setters both in their native language and in English. There have been calls in the literature to examine whether subjects make systematically different ethical judgments in a foreign language than in their native language. This paper contributes to the literature by drawing on culture, linguistics and psychology research to provide empirical evidence that Chinese subjects are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in Simplified Chinese. This paper applied 2x2 within-subject and between-subject randomized experimental design using a sample of Chinese final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Simplified Chinese and English. Students in this study are proxy for entry-level accounting practitioners. This paper provides empirical evidence that Chinese accounting students are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in their native language.

The second paper is entitled, “Construal of Self and Chinese Accountants’ Aggressive Financial Reporting Judgments”. This study responds to calls in the literature to examine personality variables which may provide sharper insights into accountants’ judgments in applying principles-based International Financial Reporting Standards (IFRS). This paper contributes to the literature on the global convergence of financial reporting by examining the influence of an important personality variable, *construal of self*, on Chinese accountants’ aggressive financial reporting judgments. A between-subjects quasi-experiment was applied. One hundred and twenty-two Chinese professional accountants were categorized as either *independents* or *interdependents*, on the basis of their scores on construal of self scales. Subjects made their consolidation reporting judgments in the manipulated situations based on the financial performance of the investee entity, which refers to the situation where the investee entity makes a significant profit or a significant loss in the reporting period. The findings of this study show that compared to interdependent accountants, independent accountants used the flexibility allowed in the principles-based standards to make more aggressive consolidation reporting judgments. Also, adoption of IFRS may not necessarily ensure consistent judgments even within China.

The third paper is entitled, “The Influence of Formal and Felt Accountability on Chinese Accountants’ Aggressive Reporting Judgments”. This paper extends the literature on accountability by providing causal experimental evidence to show the competing importance of *formal* and *felt accountability* in influencing Chinese professional accountants’ aggressive financial reporting judgments. Specifically, a between-subject randomized experiment was conducted to examine whether *felt accountability* influences ethical judgments under two conditions, namely, when formal accountability is imposed and when formal accountability is not imposed. This paper uses a cultural lens to draw on the literature on *Confucianism* and *interdependence* to suggest that the Chinese cultural values of *harmony within hierarchy* and *interdependence* provide useful insight in understanding accountability. However, faced with intense globalization and international convergence of accounting and accountability, the intensity of these cultural values is changing particularly among professionals in contemporary China. The results show that both accountants who experience greater felt accountability and those who experience lesser felt accountability coexist *within* contemporary China. The findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. The findings further show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in

providing their financial reporting judgments, compared to those who experience greater felt accountability.

The implications of each paper are as follows. The findings of the first paper have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual's ethical judgment is consistent in different languages. The findings suggest that systematically different ethical judgments in native and foreign languages needs to be recognized. The second paper provides empirical evidence of the importance of construal of self in examining accountants' aggressive judgments. The findings suggest that it may be premature to assume that adoption of IFRS will lead to comparable financial reporting. The findings are relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries. Companies and organizations may incorporate appropriate strategies to recruit and train independent and interdependent accountants, particularly by addressing the influence of construal of self on aggressive financial reporting judgments. The findings of the third paper have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. The findings also have implications for global standard setters, national regulators and researchers who are interested in examining accountability and cultural influences on accountants' ethical judgments and behaviour both *within* and *between* countries.

This dissertation makes significant and original contributions to the literature by providing causal experimental evidence on the influence of three important and relevant factors, namely *language*, *personality*, and *accountability* on accountants' aggressive financial reporting judgments in the Chinese national context. The first paper has been published in the *Journal of Business Ethics*, which is ranked A by the Australian Business Deans Council (ABDC) Journal ranking. The second paper has been accepted for publication in a forthcoming issue of the *Accounting, Auditing & Accountability Journal*, which is ranked A by the ABDC. The third paper is under peer review in the *Accounting, Organizations and Society* journal, which is ranked A* by the ABDC.

STATEMENT OF CANDIDATE

The work presented in this thesis has not been submitted for a higher degree to any other university or institution. The source of information used and the extent to which the work of others has been utilized is acknowledged in the thesis. The Ethics Committee's approval has been obtained (Ethics Reference Number: 5201000670(D)).

Peipei Pan

DEDICATION

This thesis is dedicated to my parents, Wangjie Pan(潘望阶) and Hanzhen Lian(连汉珍) .

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CHAPTER 1

OVERVIEW OF THE DISSERTATION

1.1. INTRODUCTION

Aggressive financial reporting, which refers to accountants' preference for reporting disclosure that portrays events favourably when accounting treatments are not clearly indicated by the facts, accounting standards, and relevant literature, has long been recognized as a critical ethical issue for the accounting profession (Cuccia *et al.*, 1995; Psaros and Trotman, 2004; Psaros, 2007; Agoglia *et al.*, 2011; Shafer, 2015; Patelli and Pedrini, 2015; Pan and Patel, 2016a, 2016b). This dissertation contributes to the literature by providing causal experimental evidence on the influence of three important and relevant factors, namely *language*, *personality*, and *accountability* on accountants' aggressive financial reporting judgments in the Chinese national context.

Aggressive financial reporting is implicated in the global financial crisis and major corporate collapses both in China and internationally (Kaplan *et al.*, 2007; Li *et al.*, 2014; Borst and Lardy, 2015). Extensive coverage of aggressive financial reporting is found in both scholarly and professional journals and in other media (Kaplan *et al.*, 2007; Borst and Lardy, 2015). Largely driven by the forces of globalization, more than 130 jurisdictions have adopted the principles-based International Financial Reporting Standards (IFRS)¹ (IASB, 2016). Accountants are required to extensively exercise their professional judgments in interpreting a significant number of vague and indeterminate accounting concepts and 'uncertainty expressions' contained in IFRS, such as 'control', 'probable', 'substantial', 'reliably', 'reasonably certain', and 'absolute certainty' (Wustemann and Wustemann, 2010; Douppnik and Richter, 2004; Douppnik and Riccio, 2006; Tsakumis, 2007; Douppnik and Perera, 2009; Nobes, 2009; Alali and Cao, 2010; Wehrfritz and Haller, 2014). Prior studies have shown that accountants may often use the flexibility allowed in the principles-based IFRS to justify and legitimize their preferred stand (Fiske and Berdahl, 2007; Jamal and Tan, 2010; Fornaro and Huang, 2012; Pan and Patel, 2016a, 2016b). There have been calls in the literature for more rigorous research to examine various factors that may influence accountants' judgments in applying the principles-based IFRS, which may result in aggressive financial reporting,

¹ For this study, IFRS represent both International Financial Reporting Standards, which were issued by the International Accounting Standards Board (IASB), and International Accounting Standards (IAS), which were issued by the IASB's predecessor, the International Accounting Standards Committee (IASC).

especially in non-Anglo-American countries (Trotman *et al.*, 2011; Zhang *et al.*, 2012; Heinz *et al.*, 2013; Mertins *et al.*, 2013; Abernathy *et al.*, 2013; Tsunogaya, 2016). Responding to these calls, three factors, namely *language*, *personality*, and *accountability* have been selected for examination in the three papers comprising this dissertation. These three factors have been selected for their relevance and importance in influencing accountants' aggressive financial reporting judgments in the unique Chinese national context.

The first paper draws on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making to provide causal experimental evidence that Chinese subjects use the flexibility inherent in IFRS to make more aggressive financial reporting judgments when they face an ethical scenario in English as opposed to their native language. Researchers have suggested that ethical judgments about 'right' and 'wrong' are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors such as language (Costa *et al.*, 2014b, p. 1). As long as an ethical scenario is understood, individuals' resolution should not depend on whether the ethical scenario is presented in their native language or in a foreign language. Given the forces of globalization and international convergence, an increasing number of accountants and accounting students are becoming proficient in more than one language and they are required to interpret and apply complex ethical pronouncements issued by various global standard setters both in their native language and in English. However, little attention has been given to whether subjects who are proficient in using two or more languages make consistent ethical judgments in their native and foreign languages. An examination of the literature shows that this issue has not been examined adequately in business ethics and accounting. There have been calls in the literature to examine more rigorously whether subjects make systematically different ethical judgments in a foreign language than in their native language in business ethics (McDonald, 2000; Costa *et al.*, 2014a; Pan and Patel, 2016a). Responding to these calls by using a controlled 2x2 within-subject and between-subject randomized experimental design, this paper provides experimental evidence that Chinese accounting students are more *aggressive* in providing their consolidation reporting recommendations in English than in their native language. Students in this study are a proxy for entry-level accounting practitioners. The findings have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual's ethical judgment is consistent in different languages. The findings suggest that systematically different ethical judgments in native and foreign languages need to be recognized.

The second paper draws on relevant psychology, sociology, and business literature to examine the influence of an important personality variable, namely *construal of self*, on Chinese accountants' aggressive financial reporting judgments. This study responds to calls in the literature to examine personality variables that may provide sharper insights into accountants' judgments in applying principles-based IFRS. Construal of self, which distinguishes between *independent* and *interdependent* self-construal, is selected in this study because this important and fundamental personality variable captures complex cognitive processes in explaining individual differences in judgments and decisions at both cultural and personality levels (Markus and Kitayama, 1991; Singelis and Brown, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). In prior research, *national culture* has often been considered the dominant factor in explaining cross-cultural differences in accountants' judgments in interpreting and applying IFRS (Schultz and Lopez, 2001; Douppnik and Richter, 2004; Douppnik and Riccio, 2006; Tsakumis, 2007; Curtis *et al.*, 2012; Wehrfritz and Haller, 2014; Karabrahimoglu and Cangarli, 2015). However, it is important to note that national culture may not be able to explain considerable individual variability (Patel, 2004; Church, 2008; Higgins, 2008; Funder and Fast, 2010; Heidhues and Patel, 2011; Heinz *et al.*, 2013). Individuals' personalities may be consistent or inconsistent with the cultures of the group of which they are members (Rohner, 1984, p. 124; Harrison, 1993; Burger, 1993; Pervin, 1996; Funder, 2001; Church, 2010). Personality has been recognized as one of the most important factors resulting in individual variability in judgments and behaviours (Malloy *et al.*, 2004; Taggar and Parkinson, 2007; Church, 2008; Funder and Fast, 2010; Stankov, 2010; LePine *et al.*, 2011). Researchers have long recognized the value of examining the importance of personality in the workplace (McGhee *et al.*, 1978; Taggar and Parkinson, 2007; Shafer and Simmons, 2008; LePine *et al.*, 2011; Heinz *et al.*, 2013). However, limited rigorous research has been conducted to examine the influence of relevant personality variables on accountants' judgments. This paper contributes to the literature by providing experimental evidence that, compared to *interdependent* accountants, *independent* accountants use the flexibility allowed in the principles-based standards to make more aggressive consolidation reporting judgments. Also, adoption of IFRS may not necessarily ensure consistent judgments even within China. This paper provides empirical evidence of the importance of construal of self in examining accountants' aggressive judgments. The findings suggest that it may be premature to assume that adoption of IFRS will lead to comparable financial reporting. The findings are relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries. Companies and organizations may incorporate appropriate strategies to recruit and train

independent and interdependent accountants, particularly by addressing the influence of construal of self on aggressive financial reporting judgments.

The third paper complements and extends prior research by using a cultural lens to examine whether *felt accountability* influences Chinese accountants' ethical judgments under two conditions, namely, when *formal accountability* is imposed and when *formal accountability* is not imposed. Accountability, as an important factor in influencing individuals' ethical judgments and behaviours, is ubiquitous in organizations and social systems (Unerman and Bennett, 2004; Steinbauer *et al.*, 2014; O'Dwyer and Boomsma, 2015; Chen *et al.*, 2016). Research shows that the relationship between accountability and individuals' ethical judgments is often complicated (Beu and Buckley, 2001; Hoogervorst *et al.*, 2010; Steinbauer *et al.*, 2014). Extensive attention has been paid to traditional formal or imposed accountability systems within organizations, which represents a relationship that requires individuals to justify their judgments to superiors who have the power to instigate rewards or punishments (Beu and Buckley, 2001; DeZoort *et al.*, 2006; Unerman and O'Dwyer, 2006; Chang *et al.*, 2013; Peecher *et al.*, 2013). However, individuals may not behave the same way when presented with identical accountable or unaccountable situations (Steinbauer *et al.*, 2014). It has been argued that individuals are driven by a sense of responsibility with an ethical and value-based dimension which is largely absent from formal accountability regimes (Roberts, 2001; Messner, 2009; Hall *et al.*, 2006, 2015). The individual-level felt or perceived accountability, which stimulates individuals' intrinsic motivations for their ethical judgments and behaviour, has not been rigorously examined in prior accounting and business ethics literature (Hall *et al.*, 2006, 2015; Steinbauer *et al.*, 2014; O'Dwyer and Boomsma, 2015). In practice, formal and felt accountability co-exist to varying degrees and operate in tension within organizations (Hall *et al.*, 2007; O'Dwyer and Boomsma, 2015). An important issue that needs to be examined is whether the imposition of formal accountability overrides individuals' intrinsic felt accountability in influencing their ethical judgments. Importantly, prior research shows that the cultural perspective on accountability is important and critical for both theoretical and practical reasons amidst increasing globalization (Gelfand *et al.*, 2004, 2006; Hall *et al.*, 2015). There have been calls in the literature for further studies to explore the construction of formal and felt accountability in specific cultural contexts (O'Dwyer and Boomsma, 2015). Responding to these calls, this study draws on the literature on *Confucianism* and *interdependence* and suggests that the values of *harmony within hierarchy* and *interdependence*, which are embedded in China's highly hierarchical structures, provide useful insights for understanding the competing importance of formal and felt accountability on accountants' ethical judgments. The

results of this paper show that both accountants who experience greater felt accountability and those who experience lesser felt accountability coexist within contemporary China. The findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. The findings also show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their financial reporting judgments, compared to those who experience greater felt accountability. The findings have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. The findings also have implications for global standard setters, national regulators, and researchers.

China's unique cultural, social, legal, political, and economic environment provides an appropriate national context for this dissertation. Specifically, over the past three decades, China has experienced an unprecedented transition from a centrally planned economy to a quasi-state capitalist and semi-democratic authoritarian economy, where capitalism and free enterprise operate under the watchful eye and some direct intervention of the state (Graham and Li, 1997; Lee, 2001; Shambaugh, 2009; Perera, 2009). China's accounting reforms have mirrored its socio-economic reforms. The traditional Chinese accounting system was highly legalistic, and the accountants' main task was to report to the central government information required for planning and control purposes (Tang *et al.*, 1996; Tang, 2000; ICAS, 2007, 2010; Ezzamel *et al.*, 2007). Accountants' judgments were not required under this uniform and rigid accounting system (Ezzamel *et al.*, 2007). Given the forces of globalization and a sustained increase in international trade investments since its adoption of the 'open-door' policy in 1978, China has become the second largest economy after the United States, and the world's largest trading economy since 2010 (Morrison, 2014). Moreover, studies have shown that contemporary China has become a multifaceted and complex modernizing society (Kolstad and Gjesvik, 2014). The accounting profession is emerging and has undergone substantial reforms. For example, the promulgation of the Basic Standard of Accounting for Business Enterprises in 1992 was seen as a clear signal to "standardize the financial behaviour of Chinese enterprises and bring China's accounting system in line with international practice" (Xinhua General Overseas News Service, 1992). Furthermore, largely reacting to the forces of globalization and the international convergence of financial reporting, Chinese Accounting Standards for Business Enterprises (ASBE) were adopted by all listed companies from 1 January 2007. The

ASBE are substantially in line with IFRS, which provide ‘content equivalence’². Importantly, the adoption of IFRS has brought great challenges because extensive exercise of accountants’ professional judgments is required in applying these principles-based standards. Whether Chinese accountants use the flexibility inherent in IFRS to make aggressive financial reporting judgments needs to be examined. Indeed, Chinese regulators, such as the Ministry of Finance (MOF), the China Securities Regulatory Commission (CSRC), and accounting professional bodies such as the Chinese Institute of Certified Public Accountants (CICPA), have raised concerns regarding the challenges and problems caused by aggressive financial reporting (MOF, 2011; CSRC, 2012; CICPA, 2015). The regulatory pressures are becoming more intense after China’s President Xi Jinping initiated an anti-corruption campaign from 2011 onwards, attracting extensive attention from the media, companies, organizations, and individuals. Aggressive financial reporting is therefore an important issue to be examined within the Chinese context.

Accountants’ aggressive financial reporting judgments are examined through an accounting scenario related to consolidated financial reporting. Accounting for business combinations is considered an important and difficult topic by Chinese regulators (Deloitte, 2006). Prior research has found inconsistencies between the business combinations standards and actual financial reporting by Chinese reporting entities (Biondi and Zhang, 2007; Baker *et al.*, 2010; Heng and Noronha, 2011; Taplin *et al.*, 2014). Additionally, Taplin *et al.* (2014, p. 324) report that Chinese reporting entities are resistant to implement the principles-based IFRS relating to business combinations mainly because the entities are concerned about inconsistencies in accountants’ judgments. As such, Chinese accountants’ aggressive financial reporting judgments are examined through a relevant and appropriate experimental scenario relating to business combinations. Specifically, the concept of *control* in business combinations is selected here for examination because *control*, as the consolidation criterion, is probably one of the most important and controversial indeterminate accounting concepts that requires accountants’ judgments (Biondi and Zhang, 2007; Baker *et al.*, 2010; Stenka and Taylor, 2010; Nobes, 2014). *Control*³ is defined as “the power to govern the financial and operation policies of an entity so

² Content equivalence refers to “the equivalence of accounting rules and concepts at issue among the countries being studied, and is a prerequisite for cross-cultural theory development and hypotheses formulation” (Patel, 2003, p. 67).

³ The concept of *control* in ASBE 33 *Consolidated and Separate Financial Statements* is a word-for-word translation from IAS 27 *Consolidated and Separate Financial Statements* (IAS 27). *Control* has been word-for-word translated as ‘控制’ in Simplified Chinese and the definition of *control* has been translated as ‘指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利’.

as to obtain benefits from its activities” (IAS 27 *Consolidated and Separate Financial Statements*,⁴ para. 4). The quantitative supplementary guideline provided in IAS 27 states that the concept of *control* is usually reflected through the investor entity’s ownership of more than half of the voting power of the investee entity. However, IAS 27 further states that *control* can also exist when the investor entity owns half or less than half of the voting power of the investee entity if *control* can be otherwise demonstrated. Specifically, several indications of the existence of *control* are provided in IAS 27 (para. 13), such as the investor entity’s power over more than half of the voting rights by virtue of an agreement with other investors, the investor entity’s power to govern the financial and operating policies of the investee entity under a statute or an agreement, and the investor entity’s power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee entity. Indeed, the principles-based IFRS emphasize that financial statements should reflect the *economic substance* of transactions rather than merely their legal form, such as the percentage threshold of voting power to define *control*. Preparers are required to exercise their judgments interpreting *control*. However, whether consistency in preparers’ judgments on the concept of *control* can be achieved is questionable.

This dissertation advocates using multi-disciplinary approaches by drawing on literature from diverse areas and disciplines such as sociology, linguistics, psychology, and organizational behaviour to provide holistic insights into the influence of *language*, *personality*, and *accountability* on Chinese accountants’ aggressive financial reporting judgments in interpreting and applying the principles-based IFRS. The remainder of the chapter is organized as follows. Section 1.2 establishes the background of this research by providing relevant insights into globalization, international convergence of accounting and accountability, and aggressive financial reporting in China. Section 1.3 explains the reasons for selecting the three factors – *language*, *personality*, and *accountability* – in this dissertation. Section 1.4 outlines the research questions and objectives of this dissertation and provides a brief summary of the three projects incorporated therein. In Section 1.5, a summary of the methodology used in the three papers is provided. Finally, the contributions made by this research to international accounting and accountability research and practice are outlined in Section 1.6.

⁴ Three experiments in this dissertation were conducted in 2013 and January 2014 when ASBE 33 was based on IAS 27. Importantly, the definition of *control* in ASBE 33 is the word-for-word translation of IAS 27.

1.2.GLOBALIZATION, INTERNATIONAL ACCOUNTING CONVERGENCE, AND AGGRESSIVE FINANCIAL REPORTING IN CHINA

1.2.1 Globalization and international accounting convergence

Globalization is the dominant force driving the convergence of financial reporting across countries. The globalization of the world's economies has inevitably brought with it moves to establish a single set of financial reporting standards (Choi and Mueller, 1992; Hoogvelt, 1997; Lehman, 2005; Chand and White, 2007; Doupnik and Perera, 2009). A comprehensive definition of accounting convergence is provided by Whittington (2005, p. 133):

‘Convergence’ means reducing international differences in accounting standards by selecting the best practice currently available, or, if none is available, by developing new standards in partnership with national standard setters. The convergence process applies to all national regimes and is intended to lead to the adoption of the best practice currently available.

Reflecting the increasing authority of the International Accounting Standards Board (IASB) as the international standard setter, international convergence is commonly used in the context of countries adopting IFRS. There is an increasing number of countries that have adopted or intend to adopt IFRS for their domestic listed and unlisted entities. IFRS have been adopted by more than 130 countries and, importantly, IFRS and the related supporting materials have been translated into more than 40 languages, including 23 languages in the European Union (Deloitte, 2016). The current rush towards global convergence of IFRS is largely driven by the IASB's implicit assumption that a single set of accounting standards will enhance international comparability of accounting information across countries. Indeed, the IASB framework identifies comparability as one of the essential qualities that financial reporting data must possess in order to be useful to information users. Specifically, users must be able to “compare the financial reports of different entities in order to evaluate their relative financial position, financial performance and cash flows” (IASB, 2016, para. 39). As such, one of the main objectives of the IASB is:

... to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets for the world and other users of the information to make economic decisions. (IASB, 2016, Preface, para. 6)

It is important to note that accounting standards are not neutral and value-free. Adoption of a single set of accounting standards may not be sufficient to ensure that accountants in different

countries consistently interpret and apply standards in the same way (Patel, 2006; Hellmann *et al.*, 2010). Consequently, the IASB's main objective of enhancing comparability across countries by adopting a single set of accounting standards has been challenged. Concerns have been raised about the difficulties in achieving global convergence of accounting in countries that have significant cultural, legal, political, and economic differences (Schultz and Lopez, 2001; Hoogendoorn, 2006; Douppnik and Perera, 2009; Nobes, 2009). Prior research provides evidence that consistent accounting regulations or standards (known as formal or *de jure* accounting) may not necessarily lead to consistent application of standards in practice across countries (known as material or *de facto* accounting) (Tay and Parker, 1990; Meek and Saudagaran, 1990; Douppnik and Salter, 1995; Pownall and Schipper, 1999; Canibano and Mora, 2000; Schultz and Lopez, 2001; Chen *et al.*, 2002; Rahman *et al.*, 2002; Douppnik and Perera, 2009; Nobes, 2009; Chen and Zhang, 2010).

Moreover, the development of IFRS has largely been influenced by Anglo-American accounting and accountability. The IASB acknowledges the major influence of the Anglo-American models, policies, and practice for the purpose of international convergence of IFRS (Chen and Zhang, 2010). Implicit in the drive for worldwide adoption of a single set of accounting standards is the belief that IFRS are superior, represent best practices, and are equally applicable and relevant to all countries. It is important to note that the US Financial Accounting Standard Board (FASB) appears to have significant influence on the development of IFRS and the process of convergence. For example, the 'Norwalk agreement', which was issued in 2002 between the FASB and the IASB, acknowledged commitment of the two boards to the development of high-quality and comparable accounting standards (Nobes and Zeff, 2008). The two boards also pledged to use their best efforts to ensure that US Generally Accepted Accounting Principles (GAAP) and IFRS do not conflict (IASB, 2016; Deloitte, 2016). Additionally, the IASB and the FASB released a 'roadmap' in February 2006, which identified short- and long-term convergence projects with steps and milestones toward achieving convergence (IASB, 2016; Deloitte, 2016). The recent exposure draft of an IFRS on fair value measurement replicates word-by-word the definition of fair value from the FASB standards (FASB, 2007; IASB, 2016). A number of countries have expressed their concerns about this 'Americanisation' of the convergence process (Heidhues and Patel, 2011). For example, the IASB is currently subject to unrelenting attack from European politicians who are questioning whether the IFRS Foundation is 'best suited' for developing global standards, and who have severely criticized the IASB "for poor governance structures, a lack of transparency and its close links with the accounting industry" (Armitstead, 2014). This allows this

dissertation to contribute to the debate on whether the Anglo-American-focused IFRS are relevant and best suited in a transitional economy such as China. There are calls in the literature for more rigorous research to examine various factors influencing accountants' judgments in applying the principles-based IFRS, which may result in aggressive financial reporting, especially in non-Anglo-American countries (Trotman *et al.*, 2011; Zhang *et al.*, 2012; Heinz *et al.*, 2013; Mertins *et al.*, 2013; Abernathy *et al.*, 2013; Tsunogaya, 2016).

Countries such as China, Germany, and Japan have traditionally used a quantified legalistic approach to develop rules-based accounting standards before converging to IFRS (Tang, 2000; Ezzamel *et al.*, 2007; Heidhues and Patel, 2011; Tsunogaya *et al.*, 2011). Rules-based accounting standards based on the legalistic approach concentrate on providing specific quantitative criteria and numerical thresholds and require very little exercise of preparers' judgments (Humphrey *et al.*, 2009; Collins *et al.*, 2012). In contrast, IFRS are principles-based accounting standards, extensively relying on the *substance over form* approach and containing a number of 'uncertainty expressions', such as 'probable', 'control', 'sufficient certainty', 'substantial', 'reliably', 'reasonably certain', and 'absolute certainty'. Accountants are extensively required to exercise their professional judgments to interpret uncertainty expressions and assess the economic reality of business transactions (Agoglia *et al.*, 2011; McEnroe and Sullivan, 2013). Accountants in countries such as China have been facing great challenges to exercise consistent judgments in interpreting IFRS (Ezzamel *et al.*, 2007; Tsunogaya *et al.*, 2011). It is questionable whether IFRS are also optimal for countries that may lack the infrastructure to monitor account preparers' judgments (Chen and Zhang, 2010). This concern is accentuated in emerging economies since they may not have the accountants, auditors, and regulators with appropriate experience to support compliance with IFRS, which have primarily been designed for countries with highly developed capital markets (Chen and Zhang, 2010).

A deeper understanding of the worldwide adoption of IFRS with a focus on the factors that influence accountants' judgments can help identify potential limitations, challenges, and constraints to the future development of IFRS and the IASB. As such, international accounting researchers, standard setters, practitioners, and educators would benefit from a contextual analysis with an interdisciplinary focus. This dissertation contributes to the literature by providing experimental evidence on the influence of three factors, namely, *language*, *personality*, and *accountability* on Chinese accountants' aggressive financial reporting judgments.

1.2.2 *Aggressive financial reporting in China*

Aggressive financial reporting has long been recognized as a critical ethical issue for the accounting profession (Agoglia *et al.*, 2011; Shafer, 2015; Patelli and Pedrini, 2015). There is a debate on whether aggressive reporting can be reduced by moving from rules-based accounting standards to principles-based IFRS (Kennedy *et al.*, 1997; Psaros and Trotman, 2004; Psaros, 2007; Fiske and Berdahl, 2007; Bennett *et al.*, 2006; Jamal and Tan, 2010; Agoglia *et al.*, 2011). Countries such as China, Germany, and Japan have traditionally used a legalistic approach to develop rules-based accounting standards before converging to IFRS (Tang, 2000; Ezzamel *et al.*, 2007; Heidhues and Patel, 2011; Tsunogaya *et al.*, 2011). These rules-based accounting standards based on a legalistic approach concentrate on providing specific quantitative criteria and numerical thresholds and require very little exercise of preparers' judgments (Humphrey *et al.*, 2009; Collins *et al.*, 2012). Researchers have suggested that rules-based standards offer a 'bright line' for preparers to aim for in structuring transactions (Libby *et al.*, 2015, p. 27). Preparers may manipulate financial reporting under the guise of complying with the rules and requirements for particular accounting treatments, even if such treatments do not reflect the true *economic substance* of the transactions (Bennett *et al.*, 2006; Jamal and Tan, 2010).

However, researchers have also argued that the adoption of principles-based IFRS may invite more aggressive financial reporting through the liberal exercise of professional judgments (Kennedy *et al.*, 1997; Psaros and Trotman, 2004; Psaros, 2007; Fiske and Berdahl, 2007; Agoglia *et al.*, 2011; Fornaro and Huang, 2012). The principles-based IFRS contain a number of vague and indeterminate concepts, such as, 'materiality', 'significant influence', and 'control'. Accountants are extensively required to exercise their professional judgments to interpret these concepts and assess the economic reality of business transactions (Agoglia *et al.*, 2011; McEnroe and Sullivan, 2013). Evidence shows that, driven by self-interest and unethical motives, preparers may start with a predetermined position of what they would like to see disclosed in the financial statements and will then use all available discretion to arrive at the disclosure, irrespective of the intent of the standards (Hackenbrack and Nelson, 1996; Phillips, 1999; Cruz *et al.*, 2000; Shafer *et al.*, 2004; Fiske and Berdahl, 2007; Kaplan *et al.*, 2007; Psaros, 2007; Jamal and Tan, 2010; Patelli and Pedrini, 2015). Indeed, the principles-based accounting standards serve as a source of negotiation power, in that preparers often use the freedom of exercising judgments allowed in standards to justify and legitimize their preferred stand (Hackenbrack and Nelson, 1996; Phillips, 1999; Fiske and Berdahl, 2007; Jamal and Tan, 2010;

Fornaro and Huang, 2012). The principles-based IFRS, translated in over 40 languages, add further complexity to the *substance over form* approach, such as the possibility that individuals may make systematically different judgments in interpreting the principles-based IFRS in their native and foreign languages.

China's adoption of IFRS has brought great challenges because accountants must exercise their professional judgment extensively in applying these principles-based standards. Whether Chinese accountants use the flexibility inherent in IFRS to make aggressive financial reporting judgments needs to be examined. Indeed, Chinese regulators, such as the Ministry of Finance (MOF), the China Securities Regulatory Commission (CSRC), and accounting professional bodies such as the CICPA, have raised concerns regarding the challenges and problems caused by aggressive financial reporting (MOF, 2011; CSRC, 2012; CICPA, 2015). Aggressive financial reporting in China has been implicated in audit failures, earnings volatility, corporate fraud, and major corporate collapses (Frank *et al.*, 2009; Lee *et al.*, 2013; Taplin *et al.*, 2014). Chinese regulatory bodies such as the CSRC have continuously strengthened governance mechanisms to monitor accounting practice and provide regulatory guidance and restraints on aggressive financial reporting (Fleming *et al.*, 2010, p. 353). Importantly, the findings of this dissertation have implications for other transitional economies, in which accountants were not required to exercise their professional judgments before converging to the principles-based IFRS.

1.3. SELECTION OF LANGUAGE, PERSONALITY, AND ACCOUNTABILITY

1.3.1 Language

Language, as an important factor in influencing accountants' aggressive financial reporting judgments, has been selected for examination in Paper 1 (Chapter 2) of this dissertation. Researchers have suggested that ethical judgments about 'right' and 'wrong' are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors such as language (Costa *et al.*, 2014b, p. 1). As long as an ethical scenario is understood, an individual's judgment should not depend on whether the ethical scenario is presented in his/her native language or in a foreign language. Little attention has been given to whether subjects who are proficient in using two or more languages make consistent ethical judgments in their native and foreign languages. There have been calls in the literature to examine more rigorously whether subjects make systematically different ethical judgments in a foreign language than in

their native language in business ethics (McDonald, 2000; Costa *et al.*, 2014a; Pan and Patel, 2016a).

Responding to calls in the literature, this paper examines whether Chinese subjects make more aggressive financial reporting judgments in English than in Simplified Chinese. The English language has acquired a status as the business *lingua franca* that enables people from diverse backgrounds and ethnicities to communicate on a more or less equitable basis (Kankaanranta and Lu, 2013). Importantly, given the increasing focus on globalization and international convergence, an increasing number of accountants and accounting students are becoming proficient in more than one language. Accountants and accounting students are required to interpret and apply complex ethical pronouncements issued by various global standard setters, such as the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), and the International Federation of Accountants (IFAC) in both English and in their native languages (Baskerville and Evans, 2011; Hellmann *et al.*, 2013; Evans *et al.*, 2015). An examination of the literature shows that accountants' ethical judgments in their native and foreign languages has not been examined adequately in business ethics and accounting.

China provides a particularly appropriate national context in this study. English is seen as “a bridge to the future” in China (Jin and Cortazzi, 2002, p. 52). An increasing number of Chinese accountants and accounting students learn and practise English in both formal and informal contexts (Jin and Cortazzi, 2002; Li and Zhu, 2013). Chinese university accounting students are extensively exposed to the global multicultural environment, in which English is used as the business *lingua franca* (Jin and Cortazzi, 2002; Kankaanranta and Lu, 2013). An increasing number of Chinese leading universities teach accounting courses both in Chinese and English (Jin and Cortazzi, 2002; Li and Zhu, 2013). Simplified Chinese, which is the official written language and is used in all government sectors, businesses, schools, and universities, is selected for examination in this study because it significantly contrasts with English and it is one of the most complex languages in the world (Bökset, 2006; Ding and Saunders, 2006; Breslin, 2009). It is considered one of the most fast-developing commercial languages commonly used in the Pacific Basin (Ding and Saunders, 2006; Breslin, 2009). Additionally, the Chinese Accounting Standards for Business Enterprises (ASBE) in Simplified Chinese are substantially in line with the principles-based IFRS. The ASBE were adopted by all listed companies from 1 January

2007, which provides ‘content equivalence’⁵ in this study. The findings of this study also have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual’s ethical judgment is consistent in different languages.

1.3.2 Personality

Construal of self, as an important and relevant personality variable in influencing accountants’ aggressive financial reporting judgments, has been selected for examination in Paper 2 (Chapter 3) of this dissertation. Construal of self is selected in this study because this important and fundamental personality variable captures complex cognitive processes in explaining individual differences in judgments and decisions at both cultural and personality levels (Markus and Kitayama, 1991; Singelis and Brown, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Originating in the literature on self-concept, construal of self is defined as “the relationship between the self and others and, especially the degree to which they (people) see themselves as separate from others or as connected with others” (Markus and Kitayama, 1991, p. 226). Specifically, construal of self distinguishes between *independent* and *interdependent* self-construal⁶ (Markus and Kitayama, 1991, p. 230). Independents are motivated by taking action to promote their own goals and express their unique needs, rights, and capacities. They are more likely to exercise their individual judgments to convey positive and favourable financial information to enhance optimism and potential gains (Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). In contrast, interdependents are motivated by taking action to maintain connectedness with others and ensure harmonious social interactions. They are more likely to adopt the legalistic approach, rely on rules, and be more cautious in exercising their individual judgments to reduce possible inconsistencies with their peers (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Patel

⁵ Content equivalence refers to “the equivalence of accounting rules and concepts at issue among the countries being studied, and is a pre-requisite for cross-cultural theory development and hypotheses formulation” (Patel, 2003, p. 67). In this study, content equivalence refers to the equivalence between IAS 27 *Consolidated and Separate Financial Statements* in English and ASBE 33 *Consolidated and Separate Financial Statements* in Simplified Chinese. However, given the limitations of translation methodology, exact content equivalence of accounting standards is unlikely to be attained.

⁶ *Independent* and *interdependent* self-construal represent two distinct dimensions, rather than being end-points on a single dimension (Singelis, 1994). It has been recognized that there are important differences in defining the self that cannot be easily classified as either independents or interdependents. However, the purpose of this study is to highlight the degree to which the two groups see themselves as separate from others or as connected with others. In this study, the term ‘independents’ are used to represent both independent individuals and independent accountants. Similarly, the term ‘interdependents’ is used to represent both interdependent individuals and interdependent accountants. A summary of the major differences between independents and interdependents is provided in Appendix 2.1.

and Psaros, 2000; Kurman, 2001; Kim and Yi, 2006; Zhang and Mittal, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012).

National culture has often been considered the dominant factor in explaining cross-cultural differences in accountants' judgments in interpreting and applying IFRS in prior research (Schultz and Lopez, 2001; Doupnik and Richter, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007; Curtis *et al.*, 2012; Wehrfritz and Haller, 2014; Karaibrahimoglu and Cangarli, 2015). However, it is important to note that *national culture* may not be able to explain considerable individual variability (Patel, 2004; Church, 2008; Higgins, 2008; Funder and Fast, 2010; Heidhues and Patel, 2011; Heinz *et al.*, 2013). It is problematic to evoke *national culture* to explain cross-cultural differences in individuals' judgments, irrespective of individual variability (Harrison, 1993; Patel, 2004; Church, 2008, 2010). Personality⁷ has been recognized as one of the most important factors resulting in individual variability in judgments and behaviours (Malloy *et al.*, 2004; Taggar and Parkinson, 2007; Church, 2008; Funder and Fast, 2010; Stankov, 2010; LePine *et al.*, 2011). Although cultural psychologists have suggested that culture and personality are mutually constitutive and deeply intertwined in nature, they are not coterminous (Markus and Kitayama, 1991; Harrison, 1993; Church, 2008; Heine, 2001; Malloy *et al.*, 2004; Matsumoto, 2007; Higgins, 2008; Funder and Fast, 2010). Individuals' personalities may be consistent or inconsistent with the cultures of the group of which they are members (Rohner, 1984, p. 124; Harrison, 1993; Burger, 1993; Pervin, 1996; Funder, 2001; Church, 2010). Indeed, evidence shows that personality provides sharper insights into individuals' judgments in various contexts (Markus and Kitayama, 1991; Heine, 2001; Taggar and Parkinson, 2007; Matsumoto, 2007; Heinz *et al.*, 2013). Researchers have long recognized the value of examining the importance of personality in the workplace (McGhee *et al.*, 1978; Taggar and Parkinson, 2007; Shafer and Simmons, 2008; LePine *et al.*, 2011; Heinz *et al.*, 2013). However, limited rigorous research has been conducted to examine the influence of relevant personality variables on accountants' judgments. Drawing on relevant psychology, sociology, and business literature, this study examines the influence of an important personality variable, *construal of self*, on Chinese accountants' aggressive consolidation reporting recommendations.

⁷ Personality generally refers to "the dynamic and organized set of characteristics possessed by a person that uniquely influences his or her cognitions, motivations, and behaviors in various situations" (Ryckman, 2012, p. 4).

Independent and interdependent self-construal are theoretically and empirically linked to *collectivist* and *individualist* cultures, which are the most widely used dimensions by which researchers categorize *national cultures* (Markus and Kitayama, 1991; Singelis, 1994; Singelis *et al.*, 1999; Kacen and Lee, 2002; Lockwood *et al.*, 2002). *Collectivist* and *individualist* cultures are often measured by aggregating individual responses within cultural groups so that each group receives a single score on these two culture values (Singelis *et al.*, 1999). As such, *collectivist* and *individualist* cultures are seen as “opposite poles of a single continuum” (Singelis and Brown, 1995, p. 358; Singelis *et al.*, 1999, p. 316). Prior cross-cultural studies often consider countries to be homogeneous and categorize them as either *collectivist* or *individualist* cultures (Hofstede, 1980; Schultz and Lopez, 2001; Clements *et al.*, 2009). This paper rejects such a simplistic categorization of culture values and suggest that more emphasis should be placed on the importance of within-group differences. Indeed, individuals may not necessarily match the culture of the group of which they are members (Rohner, 1984, p. 124; Harrison, 1993; Singelis *et al.*, 1999; Funder, 2001; Church, 2010). Construal of self captures the complexity of individual differences in judgments and decisions at both cultural and personality levels (Singelis *et al.*, 1999).

Studies have shown that at the culture level, independent and interdependent self-construal is linked to *collectivist* and *individualist* cultures. Specifically, *individualist* culture in Anglo-American countries, such as the US and Australia, emphasizes individual achievements and self-interest (Kashima *et al.*, 2006; Martinsons and Davison, 2007; Jia and Rutherford, 2010). People in *individualist* cultures are more likely to construe the self as independent (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002). By contrast, *collectivist* culture, in countries such as China, focuses on placing group goals and collective actions ahead of self-interest, maintaining *harmony within hierarchy* and a strong social network (Kashima *et al.*, 2006; Martinsons and Davison, 2007; Jia and Rutherford, 2010). Values connected to maintaining connectedness and harmonious social interactions with others, which are reflected in interdependent self-construal, are prevalent in China (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002, p. 165).

At the individual level, independent and interdependent self-construal are orthogonal and coexist (Singelis and Brown, 1995, p. 358; Singelis *et al.*, 1999, p. 316). Researchers have started to view the self in all cultures as incorporating both independent and interdependent self-construal in varying degrees (Singelis *et al.*, 1999; Church, 2008; Zhang, 2009; Alter and Kwan, 2009; Kolstad and Gjesvik, 2014). Evidence shows that under the forces of globalization,

individuals in China are becoming more independent (Wong and Hong, 2005; Wan *et al.*, 2007; Zhang, 2009; Alter and Kwan, 2009). It has been suggested that “for the contemporary Chinese, the independent self may be nurtured, developed, elaborated and even emphasized in certain domains of life” (Kolstad and Gjesvik, 2014, pp. 268–269). Tajfel’s (1978, 1982) contribution to social psychology is also relevant in explaining the changing nature of social realities and the influence of the group on individuals’ behaviour. Tajfel and Turner’s (1979) social identity theory suggests that individuals’ perceived ability to move from one social group to another has a substantial influence on group dynamics and intergroup relations. Additionally, the theory suggests that increasing global interdependence has enormously increased the diversity and complexity of intergroup relations (Tajfel, 1982, p. 32). Consistent with Tajfel (1978, 1982), more recent psychology research also reinforces the importance of the changing nature of social reality on the behaviour of individuals in various social groups (Reicher, 2004; Reicher and Haslam, 2013; Jenkins, 2014). This changing nature of social reality, which is largely the result of globalization, is particularly relevant in contemporary China because this provides a theoretical underpinning between explanations of behaviour based on *national culture* and those based on individual psychology and personality. As such, China provides an appropriate context for examining financial reporting judgments of independents and interdependents in a fast-paced globalized society.

1.3.3 Accountability

Accountability, as an important factor in influencing individuals’ ethical judgments and behaviours, is ubiquitous in organizations and social systems (Unerman and Bennett, 2004; Steinbauer *et al.*, 2014; O’Dwyer and Boomsma, 2015; Chen *et al.*, 2016). Research shows that the relationship between accountability and individuals’ ethical judgments is often complicated⁸ (Beu and Buckley, 2001; Hoogervorst *et al.*, 2010; Steinbauer *et al.*, 2014). Prior accountability research has produced mixed results, suggesting that accountability has both constructive and deleterious consequences for individuals and organizations when facing ethical issues (Beu and Buckley, 2001; Hall *et al.*, 2015). Extensive attention has been paid to traditional *formal or imposed accountability* systems within organizations, which represents a relationship in which individuals are required to justify their judgments to superiors who have the power to bestow rewards or instigate punishments (Beu and Buckley, 2001; DeZoort *et al.*, 2006; Unerman and O’Dwyer, 2006; Chang *et al.*, 2013; Peecher *et al.*, 2013). However, it has

⁸ Accountability has been extensively examined in prior literature in various contexts, such as auditing (DeZoort *et al.*, 2006; Peecher *et al.*, 2013; Messier *et al.*, 2014; Kang *et al.*, 2015); business negotiations (Chang *et al.*, 2013); human resource management (Hochwarter *et al.*, 2007; Hall and Ferris, 2010; Chen *et al.*, 2016); and social sustainability (O’Dwyer *et al.*, 2011; O’Sullivan and O’Dwyer, 2015).

been argued that individuals are driven by a sense of responsibility, which encompasses an ethical and value-based dimension that is largely absent from formal accountability regimes (Roberts, 2001; Messner, 2009; Hall *et al.*, 2006, 2015). However, the individual-level *felt or perceived accountability*, which stimulates individuals' intrinsic motivations for their ethical judgments and behaviours, has not been rigorously examined in prior accounting and business ethics literature (Hall *et al.*, 2006, 2015; Steinbauer *et al.*, 2014; O'Dwyer and Boomsma, 2015). An important issue that needs to be examined is whether the imposition of formal accountability overrides individuals' intrinsic felt accountability in influencing their ethical judgments.

In practice, formal and felt accountability co-exist to varying degrees and operate in tension within organizations (Hall *et al.*, 2007; O'Dwyer and Boomsma, 2015). Implementing a formal accountability mechanism in organizations is not "universally positive" (Hall *et al.*, 2007, p. 411). For example, a number of studies show that through the implementation of the control mechanisms, formal accountability makes individuals act in a more ethical manner because they may have a strong aversion to being evaluated in a negative manner by others (De Cremer and Sedikides, 2008; Steinbauer *et al.*, 2014). However, it has been shown that formal accountability may be less successful in situations where individuals may personally benefit from their or others' unethical behaviour (Hoogervorst *et al.*, 2010). Felt accountability represents the state in which individuals are intrinsically motivated to voluntarily take responsibility for opening themselves up to scrutiny, and for assessing their performance in relation to goals aligned to their organizational mission (Lewis and Madon, 2004; Ebrahim, 2009). In recent years, the importance of felt accountability has been increasingly recognized by scholars in various contexts, including human resource management, psychology, non-governmental organizations, and business (Steinbauer *et al.*, 2014; O'Dwyer and Boomsma, 2015; Cohen, 2016; Chen *et al.*, 2016). One of the important issues raised is how to manage and balance the tensions between formal and felt accountability in organizations (O'Dwyer and Boomsma, 2015; Cohen, 2016; Hall *et al.*, 2015; Chen *et al.*, 2016). For example, in a case study, O'Dwyer and Boomsma (2015) unveil the multifaceted and dynamic nature of accountability in the Dutch social and political context and emphasize the importance of balancing externally imposed formal accountability and individuals' felt accountability in organizations. Importantly, O'Dwyer and Boomsma (2015) call for further studies to explore the construction of formal and felt accountability in other institutional environments and cultural contexts. This paper responds to this call by using a between-subject randomized

experimental design, which provides sharper causal evidence to address the gap in literature in the Chinese cultural context.

Evidence shows that the influence of accountability on individuals' ethical judgments depends on cultural contexts, which provide important insights into how individuals may behave in order to be socially acceptable (Liu *et al.*, 2012, p. 3). Importantly, prior research shows that the cultural perspective on accountability is important and critical for both theoretical and practical reasons in an era of increasing globalization (Gelfand *et al.*, 2004, 2006; Hall *et al.*, 2015). Given China's unique cultural, social, political, and economic environment, this paper suggests that both formal and felt accountability are likely to influence accountants' ethical judgments. To provide holistic and comprehensive insights into cultural values that are relevant to accountability, this paper draws on the literature on *Confucianism* and *interdependence* to extend studies in accounting that have largely focused on simplistic and quantified-based approaches, such as Hofstede (1980), Hofstede and Bond (1988), and Gray (1988). It is suggested that the values of *harmony within hierarchy* and *interdependence*, which are embedded in China's highly hierarchical structures, provide useful insights for understanding the competing importance of formal and felt accountability on accountants' ethical judgments. Importantly, and largely because of globalization, increasing attention has been drawn to *within-country* cultural differences⁹ and the possible influence of these differences on individuals' ethical judgments and behaviours (Taras *et al.*, 2016; Pan and Patel, 2016a, 2016b). In response to the rapid globalization in contemporary China, individuals are likely to experience cognitive changes in their intrinsic values on factors such as felt accountability (Gudykunst and Lee, 2003). It is suggested that, in contemporary China, the intensity of *harmony within hierarchy* and *interdependence* varies among individuals who experience greater felt accountability and those who experience lesser felt accountability. This paper uses a cultural lens to complement and extend prior research by providing causal experimental evidence to show the competing importance of *formal* and *felt accountability* in influencing Chinese professional accountants' aggressive financial reporting judgments. The research model developed in this dissertation is shown in Figure 1.1.

⁹ For example, Taras *et al.* (2016) compare the extent of variation in four work-related values *between* 32 countries versus the extent of variation in these values *within* each country. Their findings show that approximately 80% of variation in these work-related values resides *within* countries, rather than *between* countries. The four work-related values examined in Taras *et al.* (2016) are individuals vs. groups, hierarchy and status in organizations, having as much certainty as possible at work and material wealth, and assertiveness and competition vs. societal welfare and harmony in relationships.

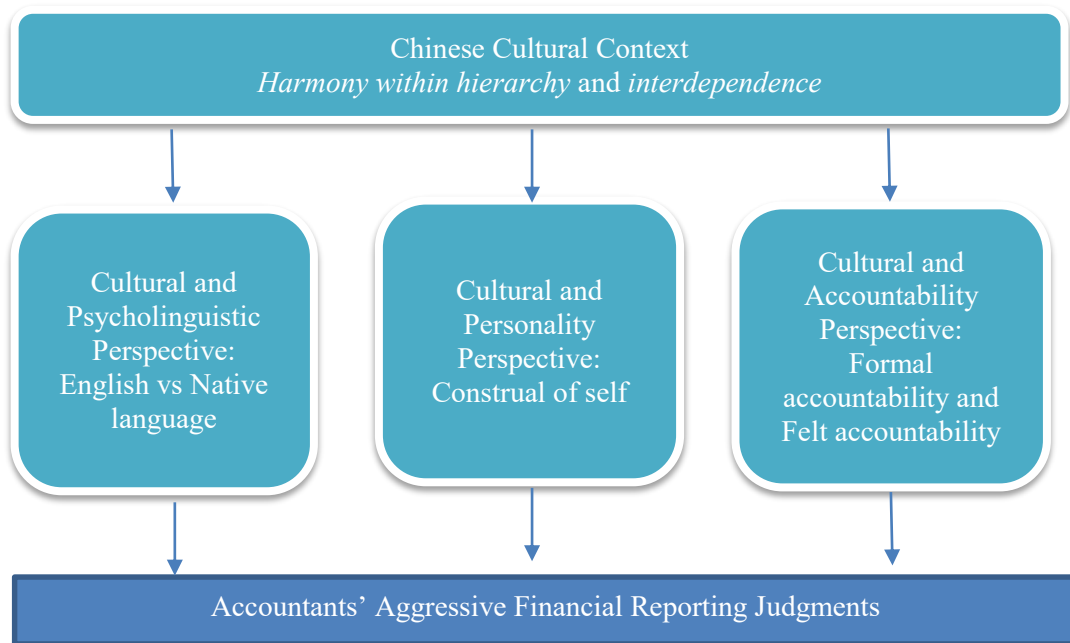


Figure 1. 1: Theoretical Model of this Dissertation Based on the Chinese National Context

1.4.AIM AND OBJECTIVES

This dissertation uses the ‘thesis by publication’ format and includes three empirical studies. The aim of the dissertation is to examine the influence of three factors, namely *language*, *personality*, and *accountability* on Chinese accountants’ aggressive financial reporting judgments. This aim is achieved through the three papers that comprise this dissertation. Three factors have been selected for examination in this dissertation because of their particular importance and relevance to the Chinese unique national context. Specifically, the three research projects in this dissertation have the following objectives:

1. to provide causal experimental evidence that Chinese accounting students make more aggressive financial reporting judgments in English than in their native language. Accounting students in this study are a proxy for entry-level accounting practitioners;
2. to provide experimental evidence on the influence of an important personality variable, namely *construal of self*, on Chinese accountants’ aggressive financial reporting judgments;
3. to provide experimental evidence on the competing importance of *formal* and *felt accountability* in influencing Chinese accountants’ aggressive financial reporting judgments.

A summary of the aim of this dissertation and the objectives of the three empirical studies that comprise the main part of this dissertation is shown in Figure 1.2.

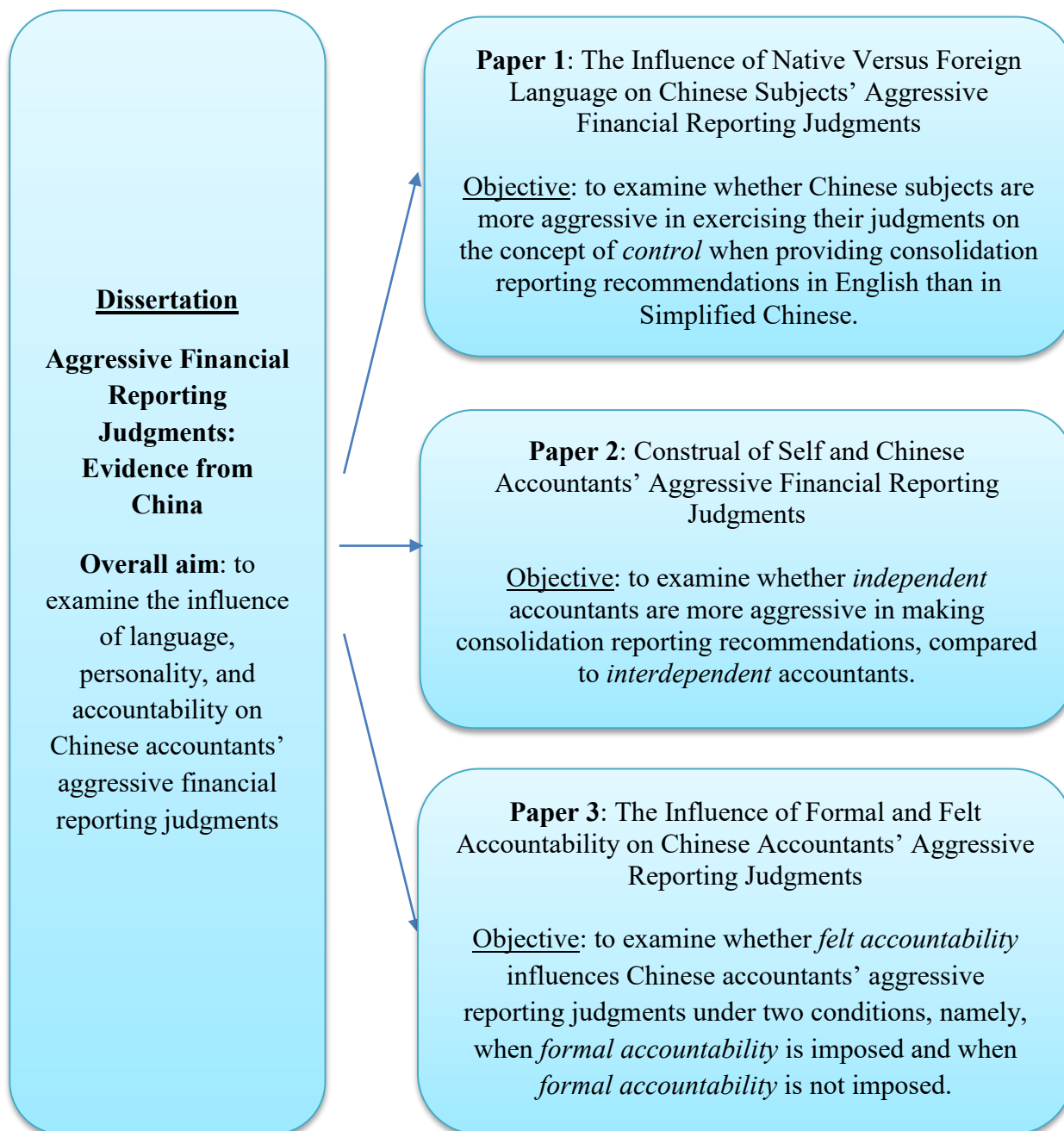


Figure 1. 2: Aim of the Dissertation and Objectives of the Three Studies

1.4.1 Chapter 2: The influence of native versus foreign language on Chinese subjects' aggressive financial reporting judgments

This study responds to the calls for empirical research on whether an individual, specifically in the business ethics domain, makes systematically different ethical judgments in his/her native and foreign languages (McDonald, 2000, p. 95). Using a controlled 2x2 within-subject and between-subject randomized experimental design, this paper contributes to the literature by providing empirical evidence that Chinese accounting students are more aggressive in

interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in their native language.

The theory development is based on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making. Evidence from the culture and linguistics literature shows that language and culture are undeniably intertwined (Briley *et al.*, 2005; Chen and Bond, 2010; Dahlgren and Nilsson, 2012; Kankaanranta and Lu, 2013; Evans *et al.*, 2015). Prior studies have shown that compared to Simplified Chinese, which primes an *interdependent* cultural mindset, English primes an *independent* cultural mindset and is likely to motivate individuals to take actions to promote their own goals and express their unique needs (Kankaanranta and Lu, 2013). When communicating in English, individuals are likely to foster a bias towards providing positive and favourable information to enhance optimism and potential gains, which may lead them to make aggressive judgments (Chen and Bond, 2010; Kankaanranta and Lu, 2013).

Findings from psychology research complement and provide sharper insights into an individual's ethical judgments in his/her native and foreign languages (Favreau and Segalowitz, 1983; Pavlenko, 2005; Kahneman, 2011; Keysar *et al.*, 2012; Costa *et al.*, 2014a, 2014b). Three factors contribute to individuals' systematically different judgments in English and in their native language, namely *psychological distance*, *cognitive fluency* and '*heuristic biases*' (Pavlenko, 2005; Kahneman, 2011; Keysar *et al.*, 2012; Costa *et al.*, 2014a, 2014b; Cipolletti *et al.*, 2016). Evidence shows that increased *psychological distance*, reduced *cognitive fluency* and reduced *heuristic biases* in a foreign language induces *utilitarianism*. Utilitarianism is a form of *consequentialism* and is based on a normative ethical theory holding that the moral action is the one that maximizes economic well-being (Costa *et al.*, 2014b). For example, Costa *et al.* (2014b) and Cipolletti *et al.* (2016) show that a foreign language promotes 'cost-benefit' considerations and leads to an increase in utilitarian judgments. It has also been shown that when communicating in their native language, individuals are more likely to engage in "intuitive processes" (Costa *et al.*, 2014a, p. 236). Intuitive processes generally support "characteristically *deontological*" judgments based on adherence to rules (Greene, 2014, p. 699). As such, it is suggested that when an ethical scenario involves economic gains and losses, subjects are likely to make more aggressive judgments in a foreign language than in their native language. Based on these two strands of research, the following hypotheses are formulated:

H: Chinese subjects are likely to be more aggressive in exercising their judgments on the concept of control to provide consolidation reporting recommendations in English than in Simplified Chinese.

Specifically, it is hypothesized that:

Ha) Chinese subjects are more likely to recommend including a profit-making investee entity in the group's reporting in English than in Simplified Chinese.

Hb) Chinese subjects are less likely to recommend including a loss-making investee entity in the group's reporting in English than in Simplified Chinese.

Data to test the hypotheses were collected using a 2x2 within-subject and between-subject randomized experiment since the inferences about cause and effect are important in this study. Subjects were selected from final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Chinese and English. A total of 100 subjects were selected for this experiment and they were randomly assigned into two equal groups (i.e., 50 subjects in each group). Subjects in the profit group only received the case of the investee entity making a profit, while subjects in the loss group only received the case of the investee entity making a loss. The usable responses from 47 subjects in the profit group and the usable responses from 42 subjects in the loss group were used for data analysis. The findings of this paper show that subjects were more aggressive in exercising judgments on the concept of *control* when providing consolidation reporting recommendations in English than in Simplified Chinese, and that this condition held in both cases when the investee entity made either a profit or loss in the reporting period. The findings have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual's ethical judgment is consistent in different languages. The findings suggest that systematically different ethical judgments in native and foreign languages needs to be recognized.

This paper has been published in the *Journal of Business Ethics*, which is ranked A by the Australian Business Deans Council (ABDC) Journal ranking¹⁰. An earlier version of this paper was presented at the 36th Annual Congress of the European Accounting Association in May, 2013, and the 7th Asia Pacific Interdisciplinary Research in Accounting Conference in July, 2013.

¹⁰ The citation information of the paper is: Pan, P. and Patel, C. (2016), "The influence of native versus foreign language on Chinese subjects' aggressive financial reporting judgments", *Journal of Business Ethics*, doi:10.1007/s10551-016-3165-z.

1.4.2 Chapter 3: Construal of self and Chinese accountants' aggressive financial reporting judgments

This study responds to calls in the literature to examine personality variables that may provide sharper insights into accountants' judgments in applying principles-based IFRS. Using a between-subjects quasi-experiment, this paper examines the influence of an important personality variable, *construal of self*, on Chinese accountants' aggressive financial reporting judgments. Construal of self, which distinguishes between *independents* and *interdependents*, captures complex cognitive processes in explaining individual judgments at both cultural and personality levels (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Independents are motivated by taking action to promote their own goals and express their unique needs, rights, and capacities. They are more likely to exercise their individual judgments to convey positive and favourable financial information to enhance optimism and potential gains (Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). In contrast, interdependents are motivated by taking action to maintain connectedness with others and ensure harmonious social interactions. They are more likely to adopt the legalistic approach, rely on rules, and be more cautious in exercising their individual judgments to reduce possible inconsistencies with their peers (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Patel and Psaros, 2000; Kurman, 2001; Kim and Yi, 2006; Zhang and Mittal, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Specifically, the following hypotheses are formulated:

H1: Compared to interdependent accountants, independent accountants are more likely to make aggressive consolidation reporting recommendations.

Specifically, this hypothesis is reflected in the following two situations:

H1a): Compared to interdependent accountants, independent accountants are more likely to recommend including a profit-making investee entity in the group's reporting.

H1b): Compared to interdependent accountants, independent accountants are less likely to recommend including a loss-making investee entity in the group's reporting.

To test the hypotheses, a between-subjects quasi-experiment was conducted with eight accounting firms located in Shanghai, Beijing, and Wuhan. A total of 176 research instruments were randomly distributed, with an equal number of the two versions based on the financial performance of an investee entity, that is, the financial performance of the investee entity was manipulated as making either a significant profit or a significant loss in the previous 12 months. 136 usable responses were received for the statistical analysis. The findings of this study provide empirical evidence that, compared to interdependent accountants, independent accountants use the flexibility allowed in the principles-based standards to make aggressive

consolidation reporting recommendations by recommending including (excluding) a profit-making (loss-making) investee entity in the group's reporting. This paper therefore provides empirical evidence of the importance of construal of self in examining accountants' aggressive judgments. The findings suggest that it may be premature to assume that adoption of IFRS will lead to comparable financial reporting. The findings of this paper are relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries. Companies and organizations may incorporate appropriate strategies to recruit and train independent and interdependent accountants, particularly by addressing the influence of construal of self on aggressive financial reporting judgments.

This paper has been accepted for publication in a forthcoming issue of the *Accounting, Auditing & Accountability Journal*, which is ranked A by the Australian Business Deans Council (ABDC) Journal ranking¹¹. An earlier version of this paper was presented at the 50th British Accounting and Finance Association Annual Conference in April 2014, and the 26th Asian-Pacific Conference on International Accounting Issues in October 2014.

1.4.3 Chapter 4: The influence of formal and felt accountability on Chinese accountants' aggressive reporting judgments

This paper provides causal experimental evidence on the competing importance of *formal* and *felt accountability* in influencing Chinese professional accountants' aggressive financial reporting judgments. Specifically, using a cultural lens, this paper examines whether *felt accountability* influences ethical judgments under two conditions, namely, when formal accountability is imposed and when formal accountability is not imposed. Drawing on the literature on *Confucianism* and *interdependence*, it is suggested that the values of *harmony within hierarchy* and *interdependence* provide useful insights for understanding accountability. However, faced with intense globalization and convergence, while *harmony within hierarchy* and *interdependence* are still important, it has been argued that the intensity of these cultural values are changing, particularly among professionals in contemporary China.

Specifically, formal accountability imposes control mechanisms for individuals' actions and entails pressures that require individuals to justify their judgments to their superiors for potential positive evaluations (Buhr, 2001; Shearer, 2002; DeZoort *et al.*, 2006; Bovens, 2007; Peecher *et al.*, 2013; O'Dwyer and Boomsma, 2015). Evidence shows that when formal

¹¹ The citation information of the paper is: Pan, P. and Patel, C. (forthcoming), "Construal of self and Chinese accountants' aggressive financial reporting judgments", *Accounting, Auditing & Accountability Journal*, doi:10.1108/AAAJ-12-2015-2321.

accountability is imposed, irrespective of their own intrinsic values, subjects are likely to be *more cautious* and *more conservative* in exercising their judgments because of justification pressure (Tetlock, 1985; DeZoort *et al.*, 2006; Peecher *et al.*, 2013). These externally imposed justification pressures are likely to lead organizational participants to invoke legalistic rules to justify and defend their ethical position. Compliance with legalistic rules provides defensible grounds of justification when questioned by superiors (Dubnick, 2003; Rossi, 2010). In the light of the Chinese regulatory pressures that discourage engagement in aggressive financial reporting, the cultural values of maintaining *harmony within hierarchy* and *interdependence* are likely to impose even greater and more intense justification pressures. When formal accountability is imposed, individuals' priority is likely to be maintaining *harmonious relationships* and *interdependence*, and avoiding being perceived or identified as unethical by their superiors or the Chinese regulatory bodies. It is suggested that formal accountability may override subjects' intrinsic felt accountability in making their ethical judgments. Therefore, the following hypothesis is developed:

H1: When formal accountability is imposed, accountants are not likely to make aggressive consolidation reporting recommendations, irrespective of their scores on felt accountability measures.

When formal accountability is not imposed, compared to those who experience lesser felt accountability, individuals who experience greater felt accountability are more likely to intrinsically feel accountable for their actions and still perceive intrinsic pressures that their actions may possibly be scrutinized by their superiors or others. In order to maintain *harmony within hierarchy* and *interdependence*, individuals who experience greater felt accountability are likely to be more concerned about being perceived as unethical and questioned by their superiors. It is suggested that individuals who experience greater felt accountability are likely to be *prevention focused* and demonstrate their willingness to engage in *risk-avoidance* behaviours. They are likely to be more *cautious* and more *conservative* in their ethical judgments by invoking legalistic rules. In contrast, when formal accountability is not imposed, individuals who experience lesser felt accountability are likely to be less concerned about being questioned by their superiors because maintaining *harmony within hierarchy* and *interdependence* may not be their priority. It is suggested that individuals who experience less felt accountability are likely to be *promotion focused* and engage in *risk-taking* behaviours. When the ethical issues involve economic gains, they are likely to be more *opportunistic* and more *aggressive* in their ethical judgments. Therefore, following hypothesis is developed:

H2: When formal accountability is not imposed, accountants who experience lesser felt accountability are likely to be more aggressive in providing their consolidation reporting recommendations, compared to those who experience greater felt accountability.

To test the hypotheses, a between-subject randomized experimental design was administered to a total of 80 Chinese professional accountants who attended a training program at a leading Chinese university. Subjects were randomly assigned to two equal groups and then located in two separate rooms for the experiment (i.e., 40 subjects in one room with an imposition of formal accountability, and 40 subjects in another room without formal accountability). A total of 37 usable responses in the formal accountability imposed room and a total of 30 usable responses in the room without formal accountability were used for data analysis. The findings of this study show that both accountants who experience greater felt accountability and those who experience lesser felt accountability coexist within contemporary China. The findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. The findings also show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their financial reporting judgments, compared to those who experience greater felt accountability. The findings have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. The findings also have implications for global standard setters, national regulators, and researchers.

This paper is under peer review in the *Accounting, Organizations and Society* journal, which is ranked A* by the Australian Business Deans Council (ABDC) journal ranking.

1.5. RESEARCH METHODOLOGY

To provide sharper insights into the influence of language, personality, and accountability on Chinese accountants' aggressive financial reporting judgments, three experimental designs were conducted in the three empirical studies comprising this dissertation. The advantages of using survey questionnaires to investigate accountants' judgments is acknowledged in previous accounting research, such as that by Schultz and Lopez (2001), Doupnik and Richter (2004), Doupnik and Riccio (2006), and Tsakumis (2007). However, research on accountants' judgments has reached the stage of moving from survey-based research to experimental research designs, which "are useful to see whether there is an effect and identify what causes the effect" (Trotman *et al.*, 2011, p. 339; see also Nelson, 2003; Pownall and Schipper, 1999; Kachelmeier, 2010; Charness *et al.*, 2012; Mertins *et al.*, 2013). Additionally, experiments in

accounting research may test the effects of “conditions that already exist but not in sufficient volume to examine archivally” (Trotman *et al.*, 2011, p. 339).

Importantly, researchers suggest that experimental designs allow researchers to create the experimental setting that subjects may encounter in the real world (Kachelmeier, 2010; Charness *et al.*, 2012; Mertins *et al.*, 2013). An accounting scenario relating to consolidated financial reporting that was developed based on Psaros and Trotman (2004) and subsequently applied by Psaros (2007), is included in the three studies comprising this dissertation. In the scenario, all respondents were asked to presume that they are the financial controller of an investor company (Dunball Electrical) which has acquired a stake in an investee company (Tonens Finance) in the previous 12 months. All respondents were also informed that Dunball Electrical intends to raise funds via a share float during the next financial year. The financial performance of Tonens Finance was also provided in the scenario. Importantly, the following business information was provided in the scenario, where the concept of *control* was not clearly demonstrated and the respondents were required to exercise their judgments on *control* to provide their consolidation recommendation:

1. Tonens Finance has 11 members on its board of directors. Of these, five are senior management of Dunball Electrical.
2. Dunball Electrical owns 33% of Tonens Finance’s voting shares. The remainder of the shares are held by a wide range of investors.
3. An arrangement exists that gives Dunball Electrical the right to approve Tonens Finance’s future borrowings and terms of operations.

Specifically, Paper 1 (Chapter 2) draws on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making to test the hypothesis that Chinese subjects are likely to be more aggressive in exercising their judgments on the concept of *control* to provide consolidation reporting recommendations in English than in Simplified Chinese. A 2x2 within-subject and between-subject randomized experiment was conducted in this study because the inferences about cause and effect are important. Subjects were selected from final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Chinese and English. This research selected final year undergraduate accounting students as subjects in this study to minimize the possible influence of subjects’ professional experience and organizational culture on judgments. Prior research has shown that professional experience and organizational culture influences subjects’ judgments (Patel, 2003; Chow *et al.*, 2002; Chand, 2012). The other reason for selecting

students as subjects is that the judgments of final year undergraduate accounting students are important to different stakeholders, especially graduate employers. In this study, final year undergraduate accounting students are a proxy for entry-level accounting practitioners.

Specifically, the within-subject experimental design was manipulated on the basis of the language of the research instrument (English or Simplified Chinese). The between-subject experimental situations were manipulated on the basis of the financial performance of the investee entity, which refers to the investee entity making either a significant profit or a significant loss in the reporting period. The method of translation and back-translation, which is considered a well-established and widely applied translation methodology, has been used in designing this instrument in English and Simplified Chinese (Brislin, 1970, 1986; Polsa, 2007; Usunier, 2011). Additionally, the research instrument was pilot tested to improve the readability and understandability and to ensure the realism of the accounting case in the instrument.

A total of 100 subjects were selected for this experiment. The subjects were randomly assigned to two equal groups (i.e., 50 subjects in each group). Subjects in the profit group only received the case of the investee entity making a profit, while subjects in the loss group only received the case of the investee entity making a loss. The within-subject experimental design, which largely controls the potential '*sample effect*' was conducted with both groups. Subjects were required to complete the research instrument in English and the same instrument translated into Simplified Chinese. It is important in this study to identify each subject's responses to the research instrument in English and Simplified Chinese. Subjects were required to write their student numbers on the cover pages of the research instrument in both languages. The usable responses from 47 subjects in the profit group and the usable responses from 42 subjects in the loss group were used for data analysis. Additionally, details regarding the design and pilot test of the research instrument, as well as the administration procedure, are described in the 'Research Method' section of Chapter 2.

Data to test the hypotheses proposed in Paper 2 (Chapter 3) were collected by using the between-subjects quasi-experimental design administered to a sample of Chinese professional accountants from eight accounting firms, located in the cities of Shanghai, Beijing, and Wuhan. The participating firms were categorized as being in the top 100 Chinese accounting firms by the Chinese Institute of Certified Public Accountants (CICPA) and professional accountants in the range from 21 to 80. In order to enable differences in subjects' judgments to be linked to differences in *independents* or *interdependents*, the potentially confounding factors, such as

organizational culture and industry conditions, were controlled by selecting accountants at leading accounting firms because evidence shows that there are many similarities in the organizational culture of leading accounting firms (Patel, 2006). Moreover, individual respondents for this experiment were randomly selected by partners of the participating accounting firms, in conformity with the selection criteria that the respondents should be members of the CICPA and, importantly, had work experience in the area of consolidated financial reporting.

The research instrument consists of a detailed accounting scenario relating to consolidated financial reporting, respondents' demographic information, and a revised 24-item scale developed by Markus and Kitayama (1991) and Singelis (1994) to measure respondents' *interdependent* and *independent* construal of self. Two versions of the research instrument were developed based on the financial performance of an investee entity, which refers to the investee entity making either a significant profit or a significant loss in the reporting period. Respondents were then required to provide their judgment on whether they would recommend to senior management that consolidated reports be prepared based on the concept of control in ASBE 33. Each respondent was only required to complete one version of the instrument.

The partners of the participating accounting firms agreed to randomly distribute equal numbers of the two versions of the research instrument to the respondents working in their firms. Each respondent received one version of the instrument and were only required to complete one version of the research instrument. The research instrument included a cover letter, one copy of the research instrument, and a self-addressed envelope. The cover letter clearly stated the purpose of the study and assured participants that their replies were anonymous and information obtained would be kept confidential. After completing the research instrument, respondents were required to seal the completed instrument in the self-addressed envelope provided and leave it with the partners. The researchers personally collected the completed instrument from the partners. A total of 176 research instruments were randomly distributed, with an equal number of the two versions. A total of 136 usable responses were received and used for data analysis. Additionally, details regarding the design and pilot test of the research instrument as well as the administration procedure are described in the 'Research Method' section of Chapter 3.

A between-subject randomized experimental design to show inferences about cause and effect was conducted in Paper 3 (Chapter 4). The between-subjects randomized experimental design

was administered to a sample of Chinese professional accountants who attended a training program at a leading Chinese university. All selected subjects had at least two years' accounting-related work experience. The research instrument consists of a detailed accounting scenario relating to consolidated financial reporting, subjects' demographic information, and an eight-item scale developed by Hall *et al.* (2003) and Hochwarter *et al.* (2005) to measure subjects' felt accountability.

Pre-experiment semi-structured interviews with six Chinese accounting academics and ten Chinese professional accountants were conducted to gather academic and accounting practitioners' insights into the concept of accountability. These insights assure that the accountability manipulation and measures are relevant and applicable in China's unique cultural context. Two versions of the research instrument were developed based on whether the formal accountability mechanism was imposed. Consistent with prior research on formal accountability, this study manipulated the formal accountability condition by including a statement that subjects would be chosen at random to explain and justify their judgment to a panel of instructors (including the researcher and supervisors) and the chosen subjects would be moved to a separate room to explain their judgment. As a check of this manipulation, subjects were asked two questions. The first manipulation check question sought to identify how motivated the subjects were to complete the tasks required in the instrument. The second manipulation check question required the subjects to answer how much effort they exerted to complete the tasks in the instrument.

The experiment was conducted at a training session at a leading Chinese university. The researchers attended the session to conduct the experiment. A total of 80 subjects participated in the experiment. After the researcher's introduction, the subjects were randomly assigned to two equal groups and then located in two separate rooms for the experiment (i.e., 40 subjects in each room). Subjects in one room received the research instrument with the statement to specify imposition of formal accountability, while subjects in the other room received the research instrument without such a statement. The responses of 37 subjects in the room with formal accountability imposed and the responses of 30 subjects in the room without formal accountability imposed were used for data analysis. Additionally, details regarding the design and pilot test of the research instrument, as well as the administration procedure, are described in the 'Research Method' section of Chapter 4.

In summary, this dissertation aims to provide causal experimental evidence on the influence of language, personality, and accountability on Chinese accountants' aggressive financial reporting judgments, with a particular emphasis on cultural and personality perspectives. Corresponding to this aim, the three empirical studies comprising this dissertation use experimental design because the inferences about cause and effect are particularly important. The experimental design allows researchers to examine certain variable(s) while controlling other variables, which may also influence subjects' judgments and decisions (Trotman, 1996). These three empirical studies contribute to international accounting research by using multidisciplinary approaches and emphasizing China's unique cultural, social, political, economic, and legal environment.

Ethics approval for the three empirical studies comprising this dissertation was granted by the Human Research Ethics Committee, Macquarie University [Reference No. 5201000670(D)]. The English versions of the research instrument used in each of the three studies are provided in Appendices 1, 2, and 3 respectively. The final ethics approval letter is provided in Appendix 4.

1.6.CONTRIBUTIONS

This dissertation makes several theoretical and methodological contributions to international accounting research by using a cultural lens and adopting multidisciplinary approaches to examine the influence of three important and relevant factors, namely language, personality, and accountability on Chinese accountants' aggressive financial reporting judgments. Specifically, Paper 1 (Chapter 2) contributes to the literature by drawing on culture, linguistics, and psychology research to provide empirical evidence that Chinese accounting students are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in their native language. An examination of the literature shows that individuals' ethical judgments in their native and foreign languages has not been examined adequately in business ethics and accounting. However, given the focus on globalization and international convergence, English has become the business *lingua franca*. Making ethical judgments in both English and a native language are unavoidable in international multilingual forums, such as global accounting standard-setting bodies, the United Nations, the European Union, the Asia-Pacific Economic Cooperation, and the Association of Southeast Asian Nations, as well as large investment firms and multinational enterprises in general. The findings of this paper challenge this commonly held assumption by various standard setters, such as the IASB and the IFAC that an individual makes consistent judgments

in English and in his/her native language, and demonstrate that systematically different ethical judgments need to be recognized. Additionally, the findings challenge the uncritical and continued application of translation and back-translation methodology and suggest that cross-cultural researchers may pay greater attention to individuals' systematically different ethical judgments in native and foreign languages.

Paper 2 (Chapter 3) provides casual experimental evidence that compared to interdependent accountants, independent accountants use flexibility allowed in principles-based standards to make more aggressive consolidation reporting recommendations. This study contributes to the literature by enlarging the context of accounting judgment research. National culture has often been considered the dominant factor in explaining differences in accountants' judgments relating to IFRS. However, significant within-country differences have not been rigorously examined in prior research. The findings of this paper establish the importance of examining construal of self in explaining differences in accountants' judgments within China. Moreover, the findings challenge the implicit assumption by the IASB that worldwide adoption of the principles-based IFRS can enhance comparability of financial information (Pacter, 2014, p. 10; IASB, 2016). The results of this study demonstrate that consistency in accountants' judgments is difficult to attain even within China. It is suggested that it may be premature for the IASB and various standard setters of countries adopting IFRS to assume that adoption of IFRS will lead to comparable financial reporting. Furthermore, awareness of the influence of construal of self on accountants' judgments may help companies and organizations improve their selection and training of accountants to better understand their judgments and behaviours.

Paper 3 (Chapter 4) responds to calls for more rigorous studies to explore the construction of formal and felt accountability in specific cultural contexts. Using a cultural lens, this study draws on the literature on *Confucianism* and *interdependence* to extend studies in accounting that have largely focused on simplistic and quantified-based approaches, such as Hofstede (1980), Hofstede and Bond (1988), and Gray (1988). It is suggested that the values of *harmony within hierarchy* and *interdependence*, which are embedded in China's highly hierarchical structures, provide useful insights for understanding the competing importance of formal and felt accountability on accountants' ethical judgments. The findings of this paper provide causal experimental evidence to support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. When formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their

consolidated financial recommendations, compared to those who experience greater felt accountability. The findings show that consistency in accountants' ethical judgments is difficult to achieve even *within* a country. Regulators and various global standard setters may provide additional evidence on the role of formal and felt accountability in influencing accountants' judgments. Moreover, enterprises may design and develop culturally appropriate accountability mechanisms and invest in ethics training and mentoring programs to encourage greater employee commitment to ethical behaviour. The tensions between external pressures imposed by formal accountability and internally driven felt accountability need to be recognized and continually managed at workplaces.

1.7.STRUCTURE OF THE DISSERTATION

The remainder of the dissertation is comprised of four chapters. Chapter 2 presents Paper 1, which examines whether Chinese subjects are more aggressive in exercising their judgments on the concept of *control* when providing consolidation reporting recommendations in English than in Simplified Chinese. Chapter 3 presents Paper 2, which examines whether *independent* accountants are more aggressive in making consolidation reporting recommendations, compared to *interdependent* accountants. Chapter 4 presents Paper 3, which examines whether *felt accountability* influences Chinese accountants' aggressive reporting judgments under two conditions, namely, when *formal accountability* is imposed and when *formal accountability* is not imposed. Chapter 5 concludes the dissertation by summarizing and synthesizing the three studies and discussing the implications of the findings along with the limitations of the research.

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CHAPTER 2

THE INFLUENCE OF NATIVE VERSUS FOREIGN LANGUAGE ON CHINESE SUBJECTS' AGGRESSIVE FINANCIAL REPORTING JUDGMENTS

ABSTRACT

Researchers have suggested that ethical judgments about “right” and “wrong” are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors, such as language (Costa et al., 2014b, p. 1). As long as an ethical scenario is understood, individuals’ resolution should not depend on whether the ethical scenario is presented in their native language or in a foreign language. Given the forces of globalization and international convergence, an increasing number of accountants and accounting students are becoming proficient in more than one language and they are required to interpret and apply complex ethical pronouncements issued by various global standard setters both in their native language and in English. There have been calls in the literature to examine whether subjects make systematically different ethical judgments in a foreign language than in their native language. We contribute to the literature by drawing on culture, linguistics and psychology research to provide empirical evidence that Chinese subjects are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in Simplified Chinese. We applied a 2x2 within-subject and between-subject randomized experimental design using a sample of Chinese final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Simplified Chinese and English. Students in our study are proxy for entry-level accounting practitioners. Our findings have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual’s ethical judgment is consistent in different languages. We suggest that systematically different ethical judgments in native and foreign languages needs to be recognized.

Keywords: ethics, utilitarianism, globalization, Simplified Chinese, aggressive financial reporting

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2.1.INTRODUCTION

Individual and organizational factors have received most attention in empirical research on ethical judgment and decision making (Ford and Richardson, 1994; O'Fallon and Butterfield, 2005; Craft, 2013). For example, prior research has shown that inconsistent ethical judgments are attributable to individual factors, such as gender (Bampton and MacLagan, 2009; Eweje and Brunton, 2010), personality (Watson and Berkley, 2008; Marquardt, 2010), religion (Oumlil and Balloun, 2009; Fernando and Chowdhury, 2010), cultural values and nationality (Su, 2006; Ho, 2010), as well as organizational factors, such as organizational reward/ sanction systems (Premeaux, 2004; Hayibor and Wasieleski, 2009), code of ethics (Deshpande, 2009) and organizational culture (O'Leary and Stewart, 2007). However, little attention has been given to whether subjects, who are proficient in using two or more languages, make consistent ethical judgments in their native and foreign languages. Researchers have suggested that ethical judgments about "right" and "wrong" are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors, such as language (Costa, Foucart, Hayakawa, Aparici, Apesteguia, Heafner and Keysar, 2014b, p.1). As long as an ethical scenario is understood, an individual's judgment should not depend on whether the ethical scenario is presented in his/her native language or in a foreign language.

Individuals' ethical judgments in their native and foreign languages have been discussed in a number of disciplines and paradigms, such as psychology (Caldwell-Harris and Ayçiçeğ'i-Dinn, 2009; Geipel, Hadjichristidis and Surian, 2015) and health-related disciplines (Roberts, Kent, Prys and Lewis, 2003; Koenigs, Kruepke, Zeier and Newman, 2012). Importantly, an examination of the literature shows that this issue has not been examined adequately in business ethics and accounting. There have been calls in the literature to examine more rigorously whether subjects make systematically different ethical judgments in a foreign language than in their native language in business ethics (McDonald, 2000; Costa, Foucart, Arnon, Aparici and Apesteguia, 2014a; Pan, Patel and Mala, 2015). We applied a 2x2 within-subject and between-subject randomized experimental design to provide empirical evidence that Chinese subjects use the flexibility inherent in the International Financial Reporting Standard (IFRS) on consolidated financial reporting to make more aggressive judgments when they face an ethical scenario in English than in their native language. Aggressive financial reporting is defined as preparers' preference for reporting disclosure that portrays events favorably when accounting treatments are not clearly indicated by the facts, accounting standards and/or relevant literature (Cuccia, Hackenbrack and Nelson, 1995; Psaros and Trotman, 2004; Psaros, 2007; Jamal and Tan, 2010). The ethical scenario in our study examines whether subjects are likely to make

more aggressive consolidation reporting judgments by including (excluding) profit-making (loss-making) investee entity in the group reporting in English than in their native language.

Our theory development is based on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making. Evidence from the culture and linguistics literature shows that language and culture are undeniably intertwined (Briley, Morris and Simonson, 2005; Chen and Bond, 2010; Dahlgren and Nilsson, 2012; Kankaanranta and Lu, 2013; Evans, Baskerville and Nara, 2015). Prior studies have shown that compared to Simplified Chinese, which primes an *interdependent* cultural mindset, English primes an *independent* cultural mindset and is likely to motivate individuals to take actions to promote their own goals and express their unique needs (Kankaanranta and Lu, 2013). When communicating in English, individuals are likely to foster a bias towards providing positive and favorable information to enhance optimism and potential gains, which may lead them to make aggressive judgments (Chen and Bond, 2010; Kankaanranta and Lu, 2013).

Psychology research provides sharper insights into individuals' ethical judgments and decision making in their native and foreign languages. Specifically, evidence shows that when facing an ethical dilemma, individuals are likely to make systematically different judgments in a foreign language than in their native language (Pavlenko, 2005; Keysar, Hayakawa and An, 2012; Costa et al., 2014a, 2014b). We suggest that three factors contribute to systematically different judgments in native and foreign languages, namely, *psychological distance*, *cognitive fluency* and '*heuristic biases*' (Pavlenko, 2005; Kahneman, 2011; Keysar et al., 2012; Costa et al., 2014a, 2014b; Cipolletti, McFarlane and Weissglass, 2016). Specifically, evidence shows that increased *psychological distance*, reduced *cognitive fluency* and reduced *heuristic biases* in a foreign language induces *utilitarianism*. *Utilitarianism* is a form of *consequentialism* based on a normative ethical theory holding that the moral action is the one that maximizes economic well-being (Costa et al., 2014b). For example, Costa et al. (2014b) and Cipolletti et al. (2016) show that a foreign language promotes "cost-benefit" considerations and leads to an increase in *utilitarian* judgments. It has also been shown that when communicating in their native language, individuals are more likely to engage in "intuitive processes" (Costa et al., 2014a, p. 236). Intuitive processes generally support "characteristically *deontological*" judgments based on adherence to rules (Greene, 2014, p. 699). As such, we suggest that when an ethical scenario involves economic gains and losses, subjects are likely to make more aggressive judgments in a foreign language than in their native language. Our findings have implications for the

globalized business world by challenging the commonly held assumption that an individual's ethical judgment is consistent in his/her native and foreign languages.

The remainder of the paper is organized into six sections. Section two explains the reasons for selecting China and provides the background of aggressive reporting and consolidated financial reporting. Section three reviews culture and linguistics, and psychology literature on judgments and decision in native and foreign languages. Section four provides theories and hypotheses development. Section five explains the research design and data collection. Section six presents the results of the study. Conclusions and implications are in the final section.

2.2.BACKGROUND

2.2.1 Reasons for selecting China

China provides a particularly appropriate national context in this study. English, as the business *lingua franca*, has been progressively linked to China's 'open-door' policy, the intensity of globalization, rapid economic development and the recognition of China's significant role in global business (Jin and Cortazzi, 2002). Before the adoption of the 'open-door' policy in 1978, China had very limited international trade and only a few foreign direct investments under the centrally planned economy (Lou, Wang, and Enthoven, 1987; Lee, 2001). Over the past three decades, China has undertaken an unprecedented transition from a centrally planned economy to a quasi-state capitalist and semi-democratic authoritarian economy, where capitalism and free enterprise operate under the watchful eye and intense direct intervention of the state (Lee, 2001; Shambaugh, 2009). Given the forces of globalization and a sustained increase in international trade and foreign trade investments, China has become the second largest economy after the United States, and the world's largest trading economy since 2010 (Morrison, 2014). Moreover, studies have shown that contemporary China has become a multifaceted and complex modernizing society (Kolstad and Gjesvik, 2014). English is seen as "a bridge to the future" in China (Jin and Cortazzi, 2002, p. 52). An increasing number of Chinese accountants and accounting students learn and practise English in both formal and informal contexts (Jin and Cortazzi, 2002; Li and Zhu, 2013). Chinese university accounting students are extensively exposed to the global multicultural environment, in which English is used as the business *lingua franca* (Jin and Cortazzi, 2002; Kankaanranta and Lu, 2013). An increasing number of Chinese leading universities teach accounting courses both in Chinese and English (Jin and Cortazzi, 2002; Li and Zhu, 2013). Simplified Chinese which is the official written language and is used in all government sectors, businesses, schools and universities is selected for examination in this study because it significantly contrasts with English and it is one of the most complex

languages in the world (Bökset, 2006; Ding and Saunders, 2006; Breslin, 2009). It is considered as one of the most fast-developing commercial languages commonly used in the Pacific Basin (Ding and Saunders, 2006; Breslin, 2009). Additionally, the Chinese Accounting Standards for Business Enterprises (ASBE) in Simplified Chinese are substantially in line with the principles-based International Financial Reporting Standard (IFRS). The ASBE were adopted by all listed companies from 1 January 2007, which provides ‘content equivalence’¹² in this study.

2.2.2 *Globalization and aggressive financial reporting*

The increasing focus on globalization and concomitant adoption of IFRS by more than 120 English-speaking and non-English-speaking countries has increasingly been recognized as an important and controversial topic (Schipper, 2010; Hellmann, Perera and Patel, 2013; Evans et al., 2015). IFRS aim to “...provide world capital markets with a common language for financial reporting” and have been translated into more than forty languages, including Simplified Chinese (IASB, 2015b). It has been shown that the essential characteristics of IFRS developed by the International Accounting Standards Board (IASB) have been substantially influenced by the Anglo-American dominance of the world political economy, in which English is the main language (Gallhofer and Haslam, 2007). The English language has acquired a status as the business *lingua franca* that enables people from diverse background and ethnicities to communicate on a more or less equitable basis (Kankaanranta and Lu, 2013). An increasing number of accountants and accounting students are becoming proficient in more than one language and they are required to interpret and apply complex ethical pronouncements issued by various global standard setters, such as the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), and the International Federation of Accountants (IFAC) in both English and in their native languages (Baskerville and Evans, 2011; Hellmann et al., 2013; Evans et al., 2015).

Largely based on the Anglo-American model, IFRS are principles-based standards, which include a number of vague and indeterminate concepts, such as, ‘*materiality*’, ‘*significant influence*’ and ‘*control*’. Preparers are required to extensively exercise their judgments in applying these concepts contained in IFRS to practice (Nobes, 2009; Alali and Cao, 2010; Pan

¹² Content equivalence refers to “the equivalence of accounting rules and concepts at issue among the countries being studied, and is a pre-requisite for cross-cultural theory development and hypotheses formulation (Patel, 2003, p. 67)”. In our study, content equivalence refers to the equivalence between IAS 27 Consolidated and Separate Financial Statements in English and ASBE 33 Consolidated and Separate Financial Statements in Simplified Chinese. However, given the limitations of translation methodology, exact content equivalence of accounting standards is unlikely to be attained.

et al., 2015). The term *substance over form* has been used by the IASB to describe the importance of accounting judgments in interpreting the principles-based IFRS, which requires business transactions to be accounted for and presented in accordance with their nature and economic reality and not merely by their legal form (IASB, 2015a, Framework, para. 35). Prior research has examined whether aggressive reporting can be reduced by moving from the rules-based accounting standards to the principles-based IFRS (Psaros and Trotman, 2004; Psaros, 2007; Bennett, Bradbury and Prangnell, 2006; Jamal and Tan, 2010; Agoglia, Doupnik and Tsakumis, 2011). Countries such as China, Germany and Japan have traditionally used the legalistic approach to develop the rules-based accounting standards before converging to IFRS (Tang, 2000; Ezzamel, Xiao and Pan, 2007; Heidhues and Patel, 2011; Tsunogaya, Okada and Patel, 2011). The rules-based accounting standards based on the legalistic approach concentrate on providing specific quantitative criteria and numerical thresholds and require very little exercise of preparers' judgments. It has been argued that rules-based standards provide preparers the opportunity to manipulate financial reporting under the guise of complying with the rules and requirements for particular accounting treatments, even if such treatments do not reflect the true *economic substance* of the transactions (Bennett et al., 2006; Jamal and Tan, 2010). However, researchers have also argued that the adoption of the principles-based standards IFRS may invite more aggressive financial reporting through the liberal exercise of professional judgments (Psaros and Trotman, 2004; Psaros, 2007; Fornaro and Huang, 2012).

Evidence shows that driven by self-interest and unethical motives, preparers may start with a predetermined position of what they would like to see disclosed in the financial statements and will then use all available discretion to arrive at the disclosure, irrespective of the intent of the standards (Hackenbrack and Nelson, 1996; Phillips, 1999; Shafer, Ketchand and Morris, 2004; Kaplan, McElroy, Ravenscroft and Shrader, 2007; Psaros, 2007; Jamal and Tan, 2010; Patelli and Pedrini, 2015). The principles-based accounting standards serve as a source of negotiation power, in that preparers often use the freedom of exercising judgments allowed in standards to justify and legitimize their preferred stand (Hackenbrack and Nelson, 1996; Phillips, 1999; Jamal and Tan, 2010; Fornaro and Huang, 2012). The principles-based IFRS, translated in over forty languages, add further complexity to the *substance over form* approach, such as the possibility that individuals may make systematically different judgments in interpreting the principles-based IFRS in their native and foreign languages.

The concept of *control*, which is the criterion applied in preparing consolidated financial reports, is perhaps one of the most important and controversial accounting concepts (Biondi and Zhang,

2007; Bhimani, 2008; Baker, Biondi and Zhang, 2010; Stenka and Taylor, 2010). *Control*¹³ is defined as “the power to govern the financial and operation policies of an entity so as to obtain benefits from its activities” (IAS 27 *Consolidated and Separate Financial Statements*¹⁴, para. 4). The quantitative supplementary guideline provided in IAS 27 states that the concept of *control* is usually reflected through the investor entity’s ownership of more than half of the voting power of the investee entity. However, IAS 27 further states that *control* can also exist when the investor entity owns half or less of the voting power of the investee entity if *control* can be otherwise demonstrated. Specifically, several indications of the existence of *control* are provided in IAS 27 (para. 13), such as the investor entity’s power over more than half of the voting rights by virtue of an agreement with other investors, the investor entity’s power to govern the financial and operating policies of the investee entity under a statute or an agreement, and the investor entity’s power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee entity. Indeed, the principles-based IFRS emphasize that financial statements should reflect the *economic substance* of transactions rather than merely their legal form, such as the percentage threshold of voting power to define *control*. Preparers are required to exercise their judgments interpreting *control*. However, whether consistency in preparers’ judgments on the concept of *control* can be achieved is questionable.

Prior studies have shown that incentives may stimulate the motivation of individuals to aggressively exercise their judgments (Libby and Luft, 1993; Psaros and Trotman, 2004; Psaros, 2007; Bhimani, 2008; Piercey, 2009; Jamal and Tan, 2010; Kerler and Brandon, 2010). The financial performance of the investee entity has been recognized as an incentive to motivate preparers to make aggressive financial reporting (Psaros and Trotman, 2004; Psaros, 2007; Klassen and Laplante, 2012; Hope, Thomas and Vyas, 2013). For example, Psaros and Trotman (2004) provided evidence that preparers may use the flexibility inherent in IFRS to aggressively interpret the concept of *control* in order to reach their favorable financial position when both consolidation and non-consolidation judgments are possible. Specifically, they showed that a greater proportion of preparers who received the case of an investee entity making a profit

¹³ The concept of *control* in ASBE 33 ‘*Consolidated and Separate Financial Statements*’ is a word-for-word translation from IAS 27 *Consolidated and Separate Financial Statements* (IAS 27). *Control* has been word-for-word translated as ‘控制’ in Simplified Chinese and the definition of *control* has been translated as, ‘指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利’.

¹⁴ Our experiment was conducted in January, 2014 when ASBE 33 was based on IAS 27. Importantly, the definition of *control* in ASBE 33 is the word-to-word translation from IAS 27.

recommended consolidation compared to those who received the case of an investee entity making a loss. In our study, the financial performance of the investee entity is manipulated as either making a significant profit or loss in the reporting period.

2.3.LITERATURE REVIEW

Global standard setters, national regulators and researchers have assumed that equivalent meanings of texts can be achieved by adopting appropriate translation methodologies, such as the well-established translation and back-translation methodology¹⁵ (Doupnik and Richter, 2004; Abernethy and Vagnoni, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007; Shafer, 2008; O'Connor, Vera-Munoz and Chan, 2011). The possible limitations of translation have not been addressed adequately in the business ethics or accounting literature. Indeed, translation can never completely reproduce a text faithfully without changing meaning (Joseph, 1998; Evans et al., 2015; Pan et al., 2015). It has been argued that language has to be used in the context of the corresponding culture (Briley et al., 2005; Kocbek, 2008; Pan et al., 2015). Translation is always a shift, not between two languages, but between two cultures (Eco, 2001, p. 17; Evans, 2004; House, 2006, p. 347; Dahlgren and Nilsson, 2012). No two languages are sufficiently similar to be considered representative of the same culture (Lucy, 1997; Evans, 2004; Chen and Bond, 2010; Evans et al., 2015). Linguistic and cultural barriers make it virtually impossible to achieve exact equivalence, or an exact transfer of meaning in translation from one language to another (Zeff, 2007; Kocbek, 2008; Evans et al., 2015).

The findings of Pan et al. (2015) are relevant to our study because it challenged the continued and uncritical application of translation and back-translation methodology, which is extensively applied in accounting. They provided evidence that subjects made inconsistent judgments on the concept of *control* when preparing consolidated financial reports in the research instrument in English and the same instrument translated into Simplified Chinese. They argued that the 'invisible power' of the Chinese government's authority in the process of social control may be embedded in the connotative meaning of the concept of *control*, which come through in the language of Simplified Chinese. Our study complements and extends Pan et al. (2015) by

¹⁵ Translation and back-translation methodology requires an expert translates the texts from the source language into the target language and a second expert blindly (without access to the original language texts) back-translates the texts in the target language into the source language. If any discrepancies are found in the back-translated version compared to the original, the terms and conceptions in question are re-translated and again blindly back-translated by another expert. This iterative process is repeated until all identified discrepancies are eliminated (Brislin, 1970, 1986; Polsa, 2007; Usunier, 2011).

examining an important issue in business ethics, namely, whether Chinese subjects make more aggressive financial reporting judgments in a foreign language than in their native language.

Recall from the earlier discussion that our theory development is based on two strands of research, namely, culture and linguistics, and psychology research on judgments and decision making. First, culture and linguistics literature has shown that languages are fundamentally linked to culture (Kay and Kempton, 1984; Hoosain, 1986; Lucy, 1997; Evans, 2004; Kocbek, 2008; Dahlgren and Nilsson, 2012; Kankaanranta and Lu, 2013; Evans et al., 2015). Language is viewed as the verbal expression of a culture (Sapir, 1929/49; Belkaoui, 1978; Doupnik and Richter, 2003). Culture underlying a specific language defines the codes for interpreting messages conveyed by using the language through the specific norms and conventions governing the culture in the variety of its contexts (Kocbek, 2008; Evans et al., 2015). It has been suggested that speakers of different languages think in different ways because the real world is to a large extent unconsciously built up on the language habits of the group (Sapir, 1929/49, p. 162; Belkaoui, 1978; Ji, Zhang and Nisbett, 2004). The ways of speaking are indicative of a culture and language is an active determinant of thought and judgments (Sapir, 1929/49; Belkaoui, 1978; Lucy, 1997; Ji et al., 2004; Chen and Bond, 2010; Lee, Oyserman and Bond, 2010, Kankaanranta and Lu, 2013). Language is an essential and powerful communication tool in shaping thought about abstract domains and influencing individuals' judgments and behaviors (Belkaoui, 1978; 1980; Evans, 2004; Ji et al., 2004). Given that language and culture are undeniably intertwined, our theory development is based on the possible influence of language and culture on judgments.

Specifically, prior studies have provided empirical evidence to demonstrate the link between language, culture and judgments (Lau and Ranyard, 1999; Ross, Xun and Wilson, 2002; Ji et al., 2004; Chen and Bond, 2010). For example, Ross et al. (2002) found that Chinese-born students living in Canada wrote more positive self-descriptions and reported higher self-esteem in English than Chinese. Ji et al. (2004) showed that subjects, who were randomly assigned to use English, tended to group objects on the basis of category membership (i. e. similarity of attributes), whereas those, who were assigned to use Chinese, grouped objects more on the basis of causal, spatial and temporal relationships among objects. Their research findings suggested that linguistic patterns in different languages have impact on subjects' habitual thinking and behavior. Chen and Bond (2010) suggested that when responding in Chinese, subjects would exhibit traits consistent with their own perceptions of typical Chinese speakers; in English, they would exhibit traits consistent with their perceptions of typical English speakers. They argued

that language activates perception of differences in cultural norms, which then guide judgments and behaviors (Chen and Bond, 2010). Holthoff, Hoos and Weissenberger (2015) conducted between-subject experiments among German accounting students to examine the influence of language on their judgments in a series of cases relating to related party disclosures. They provided evidence that subjects who used their native German language reported higher-quality decisions than those using English. However, little research in business ethics has been conducted to examine individuals' systematically different ethical judgment in their native and foreign languages. McDonald (2000, p. 95) calls for research on an individual's judgment in his/her native and foreign languages in the business ethics domain and suggested that when "...subjects are observed using two languages, the results may differ depending on differences in the two cultures associated with the languages." Narvaez and Lapsley (2009, p.4) further suggest the possible linkage between the use of native and foreign languages and individuals' ethical judgments. Our study provides empirical evidence to support this claim.

Psychology research provides sharper theoretical and empirical insights into possible systematic differences in individuals' judgments in their native and foreign languages. Caldwell-Harris and Ayçiçeğ'i-Dinn (2009) argued that individuals experienced reduced emotion resonance when using their second language. Specifically, their ratings of how strongly Turkish subjects felt showed that lies told in Turkish were more strongly felt than lies told in English. Moreover, Keysar et al. (2012) argued that processing native language is often tied to "intuitive system" and various *heuristic biases*, which may activate individuals to take emotional cognitive shortcuts to make their judgments. They provided empirical evidence that Korean subjects exhibited less *heuristic biases* when using English. They further argued that this arises because a foreign language provides greater *psychological distance* (Keysar et al., 2012, p. 661). Costa et al. (2014a) extended Keysar et al.'s (2012) study and provided additional evidence that subjects' choices are less subject to *heuristic biases* when problems are presented in a foreign language. They argued that using a foreign language may reduce cognitive fluency. Cognitive fluency is an important determinant of the extent to which "intuitive" processes influence judgments and lead to *heuristic biases* (Costa et al., 2014a, p. 238). In another study, Costa et al. (2014b) provided evidence that individuals using a foreign language make substantially more *utilitarian* choices when faced with moral dilemmas by placing greater focus on the outcomes and consequences of their choices. They argued that the reduced emotional response elicited by the foreign language may promote *psychological distance*, which may induce *utilitarianism* (Costa et al., 2014b, p. 5). Furthermore, Cipolletti et al. (2016, p. 25) argued that the foreign-language effect is the activation of "deliberate mode of thinking" in a

foreign language. They demonstrated that engaging in a “deliberate mode of thinking” leads to an increase in *utilitarian* moral judgments. In summary, these findings show that subjects make systematically different judgments in their native and foreign languages when faced with ethical scenarios. Therefore, we invoke these arguments and findings in formulating our theory development in the next section.

2.4.THEORY AND HYPOTHESES DEVELOPMENT

As discussed earlier, our theory development is based on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making. Culture and linguistics literature has suggested that when individuals receive a communication in a particular language, the cultural values that are embedded in the language may become more salient and influence their thought and judgments (Briley et al., 2005; Chen and Bond, 2010; Kankaanranta and Lu, 2013). Individuals may interpret the language as a cue or reminder of a cultural context (Briley et al., 2005; Chen and Bond, 2010; Kankaanranta and Lu, 2013). Exposure to a particular language can influence individuals’ behavior not only by increasing the accessibility of cultural values but also by increasing the motivation to behave in a way that is consistent with these values (Briley et al., 2005; Kankaanranta and Lu, 2013). As such, it has been suggested that individuals perceive their communication and make their judgments and decisions somewhat differently depending on the language that they use (Briley et al., 2005; Chen and Bond, 2010; Kankaanranta and Lu, 2013).

Specifically, Simplified Chinese is described as *indirect*, *implicit* and *circular* (Li and Liu, 2006; Lee et al., 2010; Chen and Bond, 2010; Kankaanranta and Lu, 2013). Simplified Chinese that primes an *interdependent* cultural mindset is likely to trigger individuals taking actions to maintain connectedness with others and ensure harmonious social interactions (Li and Liu, 2006; Lee, Aaker and Gardner, 2000; Kankaanranta and Lu, 2013). Evidence also shows that Simplified Chinese may place stronger personal relationship above pertinent business issues than other languages, such as English (Ding, 2006; Trimarchi and Liesch, 2006). This *indirect* and *implicit* communication style, shown in Simplified Chinese, has been attributed to the core cultural values which emphasize *collectivism*, *maintaining harmony within hierarchy and interdependent relationships* (Worm and Frankenstein, 2000; McSweeney, 2002; Li and Liu, 2006; Kankaanranta and Lu, 2013). Guided by these core cultural values embedded in Simplified Chinese, individuals tend to perceive themselves as similar to their peers and evoke caution in exercising their judgments (Elliot, Chirkov, Kim, and Sheldon, 2001; Lee et al., 2000; Uskul, Sherman and Fitzgibbon, 2009). Inconsistent judgments with their peers may cause

organizational disruptions and may impair harmonious relationship with their peers. As such, when communicating in Simplified Chinese, individuals are more likely to be *risk averse* by adopting a legalistic approach and rely on rules to reduce inconsistencies with their peers (Ammeter, Douglas, Ferris and Goka, 2004; Hamilton and Biehal, 2005).

In contrast, it has been shown that Chinese perceive their own communication as more *open* and *direct* when they use English for work purposes (Kankaanranta and Lu, 2013). English is described as *direct* and *explicit* (Lee et al., 2010; Kankaanranta and Lu, 2013). English that primes an *independent* cultural mindset is likely to motivate individuals to take actions to promote their own goals and express their unique needs, rights and capacities (McSweeney, 2002; Li and Liu, 2006; Kankaanranta and Lu, 2013). This *direct* and *explicit* communication style in English places greater emphasis on the core cultural values of *individualism*, *independence*, *individual achievement* and *self-interest* (Chen, Chen and Meindl, 1998; Liu, Friedman and Hong, 2012; Kankaanranta and Lu, 2013; Moser, 2014). It has been shown that English may be the cue for individuals to behave according to their personal attitudes and preferences, which make them unique compared to others (Sivadas, Bruvold and Nelson, 2008; Uskul, et al., 2009; Lin, Chang and Lin, 2012). Guided by these core cultural values embedded in English, Chinese tend to foster a bias towards providing positive and favorable information in order to enhance optimism and potential gains, when communicating in English (Herzog, Franks, Markus and Holmberg, 1998; Lee et al., 2000; Elliot et al., 2001; Hamilton and Biehal, 2005; Bond, 2010; Kankaanranta and Lu, 2013).

Drawing on culture and linguistics literature, we predict that when communicating in Chinese, individuals are more likely to exercise their ethical judgments that align with their core cultural values. In contrast, when communicating in English, they are more likely to be influenced by the cultural values embedded in the English language. In the context of consolidated financial reporting, although subjects are required to exercise their judgments to interpret *control*, accounting standards also provide quantitative supplementary guidelines, which specify that *control* is usually reflected through the investor entity's ownership of more than half of the voting power of the investee entity. When communicating in Simplified Chinese, it is expected that subjects are more likely to be cautious and *risk averse* by adopting a legalistic approach and rely on quantitative guidelines to interpret *control*. The financial performance of the investee entity is less likely to influence their consolidation recommendations in Simplified Chinese. In contrast, when communicating in English, it is expected that subjects are likely to place greater emphasis on conveying positive economic information to enhance potential gains

in the situations where both consolidation and non-consolidation recommendations are possible. To reach their favorable financial situation, their judgments in English are more likely to be influenced by the financial performance of the investee entity, which may potentially result in aggressive reporting recommendations.

Findings from psychology research complement and provide sharper insights into an individual's ethical judgments in his/her native and foreign languages (Favreau and Segalowitz, 1983; Pavlenko, 2005; Kahneman, 2011; Keysar et al., 2012; Costa et al., 2014a, 2014b). In our earlier discussion, we suggest that three factors contribute to individuals' systematically different judgments in English and in their native language. First, using a foreign language is likely to lead to increased *psychological distance*, that may shift individuals from their immediate "intuitive processes" (fast, automatic and emotionally driven) to a more "deliberate mode of thinking" (analytic, careful and logical) (Hicks and Kluemper, 2010, p. 297; Trope and Liberman, 2010, p. 1; Keysar et al., 2012, p. 661; Costa et al., 2014b, p. 1). Individuals engaging in the "deliberate mode of thinking" in a foreign language are likely to place greater emphasis on "cost-benefit" aspects of their ethical judgments, which may induce *utilitarianism*, particularly in context where it involves economic gains and losses (Costa et al., 2014b, p. 5; Cipolletti et al., 2016, p. 25). In their native language, individuals are likely to use their automatic and emotionally driven "intuitive processes" in their judgments (Geipel et al., 2015). They are more likely to adhere to rules, which may induce "characteristically *deontological*" ethical judgments (Greene, 2014, p. 699). Second, processing a foreign language may cause a disruption of *cognitive fluency*, which is an important determinant of the extent to which intuitive processes influence decision making (Kahneman, 2011; Schwarz, 2004). Evidence shows that reduced *cognitive fluency* in a foreign language may reinforce individuals' emphasis on "cost-benefit" aspects of their *utilitarian* judgments (Keysar et al., 2012, p. 661; Cipolletti et al., 2016, p. 25). The third factor relates to *heuristic biases*. *Heuristics* are simple, efficient rules which people often use to form judgments and make decisions (Gigerenzer and Gaissmaier, 2011). They are cognitive shortcuts that usually involve focusing on one aspect of a complex problem and ignoring others (Gigerenzer and Gaissmaier, 2011; De Neys and Bonnefon, 2013). In native language, the engagement of intuitive processes may lead to *heuristic biases* by focusing more on *deontological* aspect of their judgments (Costa et al., 2014a; Greene, 2014). Evidence shows that *heuristic biases* may be reduced when individuals make decisions in a foreign language (Keysar et al., 2012, p. 661; Costa et al., 2014b, p. 4). When using a foreign language, individuals are likely to engage in a more "deliberate mode of

thinking” and focus more on *utilitarian* aspects of their ethical judgments (Keysar et al., 2012, p. 661; Costa et al., 2014b, p. 5; Cipolletti et al., 2016, p. 25).

In the context of consolidated financial reporting, it is expected that when communicating in Simplified Chinese, subjects are more likely to adhere to rules in interpreting the concept of *control*. The financial performance of the investee entity is less likely to influence their consolidation recommendations in Simplified Chinese. When communicating in English, increased *psychological distance*, reduced *cognitive fluency* and reduced *heuristic biases* are likely to engage Chinese subjects in a more “deliberate mode of thinking” in interpreting the concept of *control*. We suggest that they are likely to place greater emphasis on “cost-benefit” and *utilitarian* aspects of their consolidation reporting recommendations in English. Specifically, it is expected that where the investee entity makes a significant profit (or loss), Chinese subjects are likely to include (or exclude) such entity in the group when reporting in English in order to convey more positive financial information compared to when reporting in their native language. Based on the above reasoning, the following hypotheses are formulated:

H: Chinese subjects are likely to be more aggressive in exercising their judgments on the concept of control to provide consolidation reporting recommendations in English than in Simplified Chinese.

Specifically, we hypothesize that:

Ha) Chinese subjects are more likely to recommend including profit-making investee entity in the group’s reporting in English than in Simplified Chinese.

Hb) Chinese subjects are less likely to recommend including loss-making investee entity in the group’s reporting in English than in Simplified Chinese.

2.5.RESEARCH METHOD

To test the hypotheses, we apply a 2 x 2 within-subject and between-subject randomized experiment since the inferences about cause and effect are important in our study. Additionally, these experimental designs allow researchers to create the experimental setting which subjects may encounter in the real world. Specifically, the within-subject experimental design was manipulated on the basis of the language of the research instrument (English or Simplified Chinese). The between-subject experimental situations were manipulated on the basis of the financial performance of the investee entity, which refers to the investee entity making either a significant profit or a significant loss in the reporting period.

2.5.1 Sample selection

Subjects were selected from final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Chinese and English. The following criteria were used to select subjects. First, subjects had to be Chinese native speakers and educated in China. The official language in schools in China is Simplified Chinese. As such, subjects were able to understand the research instrument in Simplified Chinese. Second, subjects should have passed the College English Test (CET) Band 4. The CET is mandatory for university students in China. The vocabulary requirement for CET Band 4 is 4000 words. Subjects who had passed CET Band 4, had met the language requirement to understand the research instrument in English. Third, subjects had to be enrolled in an undergraduate professional accounting degree and to be currently undertaking the auditing course, which is the final compulsory course for their degree at the selected university. In order to take this auditing course, students had to complete a number of accounting courses as prerequisites, including the course relating to consolidated financial reporting. Given the accounting courses are taught in both Chinese and English in the selected university, all subjects had a satisfactory understanding of accounting standards relating to consolidated financial reporting in both Chinese and English. More importantly, semi-structured interviews were conducted with 20 randomly selected subjects during the recruitment phase. Subjects were asked questions in English about their understanding of the requirements of business combinations contained in IAS 27 and ASBE 33, including the concept of *control*. We were satisfied with the interviewed subjects' competence to complete the experimental tasks.

We selected final year undergraduate accounting students as subjects in this study to minimise the possible influence of subjects' professional experience and organizational culture on judgments. Prior research has shown that professional experience and organizational culture influences subjects' judgments (Patel, 2003; Chow, Harrison, McKinnon and Wu, 2002; Chand, 2012). The other reason for selecting students as subjects is that the judgments of final year undergraduate accounting students are important to different stakeholders, especially graduate employers. In our study, final year undergraduate accounting students are proxy for entry-level accounting practitioners. Indeed, 87.6% of the respondents in our study had the intention to become members of accounting professional bodies, such as CPA China (see details in Table 2.1).

2.5.2 Research instrument design

The research instrument consists of two parts. Part 1 contains a detailed accounting scenario relating to consolidated financial reporting. Part 2 collects respondents' demographic information. The importance of designing an appropriate and relevant scenario is important in business research (Mertins, Salvador and Long, 2013). The appropriate scenarios enable our study to frame the research questions to incorporate complex issues, reflecting judgment making in the real world. The accounting scenario in Part 1 is based on Psaros and Trotman (2004) and subsequently applied by Psaros (2007). In the scenario, all respondents were asked to presume that they are the financial controller of an investor company (Dunball Electrical) which has acquired a stake in an investee company (Tonens Finance) in the previous twelve months. All respondents were also informed that Dunball Electrical intends to raise funds by way of a share float during the next financial year. Importantly, the following business information was provided in the scenario, where the concept of *control* was not clearly demonstrated and the respondents were required to exercise their judgments on *control* to provide their consolidation recommendation:

1. Tonens Finance has 11 members on its board of directors. Of these, 5 are senior management of Dunball Electrical.
2. Dunball Electrical owns 33 percent of Tonens Finance's voting shares. The remainder of the shares are held by a wide range of investors.
3. An arrangement exists that gives Dunball Electrical the right to approve Tonens Finance's future borrowings and terms of operations.

Apart from the above summary information provided to all respondents, the financial performance of Tonens Finance was also provided in the scenario. Our earlier discussion shows that the financial performance of the investee entity is important because it is likely to influence preparers' judgments in providing reporting recommendations. As such, subjects' judgments were examined in two situations based on the financial performance of Tonens Finance, which refers to Tonens Finance making either a significant profit or a significant loss in the previous twelve months¹⁶. Each subject was required to provide their judgments on whether they would recommend to senior management to include (exclude) Tonens Finance in their group reporting based on the concept of *control* in both an English version of research instrument and the same instrument translated into Simplified Chinese.

¹⁶ To assist with respondents' judgments, two sets of summarized financial statements were provided to respondents. One set was prepared on the assumption that consolidation occurs. The other set was prepared on the assumption that consolidation does not occur, but supplementary equity accounting information is provided.

As a check of this manipulation¹⁷, a debriefing question was included to determine respondents' perceptions of the financial impact of the inclusion of Tonens Finance in its consolidated accounts. Specifically, respondents were required to indicate their answers to whether they believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts on a ten-point Likert scale (1 = very much worsened, to 10 = very much improved).

In Part 2, subjects' demographic information was collected, including gender, age, education background, nationality, native language, familiarity with accounting standards relating to consolidated financial reporting, their relevant working experience in accounting and whether they plan to become a member of professional accounting bodies.

The method of translation and back-translation, which is considered as a well-established and widely used translation methodology, has been used in designing this instrument (Brislin, 1970, 1986; Polsa, 2007; Usunier, 2011). Specifically, this research instrument was initially designed in English. A bilingual expert translated the instrument from English into Simplified Chinese. A second bilingual expert blindly (without access to the original instrument in English) back-translated the instrument in Simplified Chinese into English. When comparing the back-translated version with the original version of the instrument, several discrepancies were identified and discussed in a group, including the authors and the two bilingual experts to get the best possible translation until all identified discrepancies were eliminated¹⁸.

The research instrument was pilot tested in two steps. The first step involved administering the research instrument to sixteen accounting academics and ten professional accountants with expertise in the area of consolidated financial reporting. Importantly, they were specifically asked to evaluate the instrument with the objective of improving its understandability and to comment on the realism of the accounting case in the instrument. Each participant in this pilot test was interviewed to gain further insight into their responses. Based on their feedback,

¹⁷ Similar manipulation check questions were used by Psaros and Trotman (2004) and Psaros (2007).

¹⁸ We applied translation and back-translation methodology in translating research instruments from English to Simplified Chinese. Despite its limitations, translation and back-translation methodology is still the most widely used methodology by global standard setters and researchers. However, linguistic and cultural barriers make it virtually impossible to achieve exact equivalence, or an exact transfer of meaning in translation from one language to another (Kocbek, 2008; Evans et al., 2015). We acknowledge that there may still be discrepancies in the English version and the Simplified Chinese version of research instruments.

content and questions were refined to improve the readability and understandability. After making several editorial changes to the research instrument based on the feedback that was received, the instrument was further administered to ten final year accounting students, who had completed the course on consolidated financial reporting and were fluent in both English and Simplified Chinese. They were asked to complete the instrument and comment on the readability and understandability of the research instrument. A few minor editorial suggestions from students' feedback were incorporated into the research instrument¹⁹.

2.5.3 Implementation of the within-subject and between-subject experiment

The between-subject experimental situations were manipulated on the basis of the financial performance of Tonens Finance. Specifically, a total of 100 subjects were selected for this experiment. The subjects were randomly assigned into two equal groups (i. e. 50 subjects in each group). Subjects in the profit group only received the case of Tonens Finance making a profit, while subjects in the loss group only received the case of Tonens Finance making a loss.

The within-subject experimental design was conducted with both groups. Subjects were required to complete the research instrument in English and the same instrument translated into Simplified Chinese. The within-subject experimental design largely controls the potential '*sample effect*'²⁰ (Greenwald, 1976; Charness, Gneezy and Kuhn, 2012; Tyler, Mueller and Ho, 2011; Tosun, Vaid and Geraci, 2013). The method of '*counterbalancing*', which consists of reversing the sequence of the experimental conditions, has been identified in prior studies as the principal method to control for '*order effect*' that the observed changes may be due to the sequencing or the order of distributing the research instruments (Singleton and Straits, 2005; Cozby, 2009; Brooks, 2012). Importantly, counterbalancing of the experimental condition is also essential to minimize any potential '*carry-over effect*'²¹ from one condition to the other in

¹⁹ Despite extensive pilot testing, two possible errors in the research instrument were identified. First, the word "complement" was mistakenly written as "compliment". Second, the expression "the loss of Tonens Finance" may not be clear to the subjects. However, the earlier sentence in the research instrument states that, "Tonens Finance returned a loss of \$ 7.3 million". Additionally, the loss made by Tonens Finance was further shown in the summarised draft financial statements provided in the research instrument. As such, it is very unlikely that subjects did not understand that Tonens Finance made the loss of \$7.3 million. However, we acknowledge this as a possible limitation of the study.

²⁰ If subjects in one experimental condition are noticeably different from subjects in another condition, any observed differences may be explained by the individual subject's differences, rather than the experimental conditions. Within-subject design can reduce this variance since the same subjects are required to experience and react to different experimental conditions (Singleton and Straits, 2005).

²¹ The within-subject experiment should be used with caution due to the '*carry-over effect*' (Greenwald, 1976; Singleton and Straits, 2005; Charness et al., 2012). *Carry-over effect* refers to the possibility that participating in one condition of an experiment may influence how subjects respond to another condition.

a sequence of experimental design (Brooks, 2012). As such, to control for the *order effect* and minimize the *carry-over effect*, we reversed the distribution sequence of the English and the Simplified Chinese versions of the research instrument. Specifically, for both groups, half of the subjects received the Simplified Chinese version of the instrument, while the other half received the English version. Each subject completed the research instrument, and then the researchers collected their completed instrument. After seven days²², each subject completed the research instrument in the other language, then the researchers collected them back.

It is important in our study to identify each subject's responses to the research instrument in English and Simplified Chinese. Subjects were required to write their student numbers on the cover pages of the research instrument in both languages. After checking the completeness of the subjects' responses and their responses to manipulation questions, three subjects in the profit group, who failed the manipulation check were excluded from the data analysis. In the loss group, five subjects, who failed the manipulation check and three subjects, who failed to provide all required information were excluded from the data analysis. As such, the usable responses from 47 subjects in the profit group and the usable responses from 42 subjects in the loss group were used for data analysis.

2.6.RESULTS

The demographic details of the subjects are shown in Table 2.1. Overall, 58.4% of the subjects were male and 41.6% were female. 88.8% of the subjects were in the age group of 20 to 24 years and the majority of the subjects (88.76% of the subjects) had no accounting related working experience. A total of 87.6% of the subjects had the intention to become members of professional bodies, such as CPA China. Additionally, the Chi-square (χ^2)-test results show that subjects' recommendations were not significantly influenced by their gender and the distribution sequence of the research instrument in English and in Simplified Chinese.

To examine whether each subject's response is different in English and in Simplified Chinese, Chi-square (χ^2) tests were conducted. The results are shown in Table 2.2. The consolidation reporting recommendation (recommendation to include or exclude Tonens Finance in the group reporting) was the dependent variable. The language of the research instrument (English or Simplified Chinese) was the within-subject independent variable. The between-subject

²² In order to minimize the 'carry-over effect', researchers have suggested that a reasonable time delay between two experimental conditions should be implemented (Greenwald, 1976; Holcombe, Wolery and Gast, 1994; Singleton and Straits, 2005). In our study, a reasonable delay was enacted as seven days.

experimental variable was manipulated on the basis of the financial performance of Tonens Finance, which refers to the situation where Tonens Finance makes either a significant profit or a significant loss in the reporting period.

Specifically, when Tonens Finance made a profit, the percentage of subjects recommending including Tonens Finance in the group's reporting in English was 95.7%, while the percentage of subjects who made this recommendation in Simplified Chinese was 34.0% (See Table 2.2). The result of the χ^2 -test shows that this difference was significant ($p = 0.000$), that is, with respect to profit-making investee entity, subjects were significantly more aggressive in English than in Simplified Chinese.

When Tonens Finance made a loss, the percentage of subjects recommending excluding Tonens Finance from the group's reporting in English was 88.1%, while the percentage of subjects who made this recommendation in Simplified Chinese was 64.3% (See Table 2.2). The result of the χ^2 -test shows that this difference was significant ($p = 0.01$), that is, with respect to loss-making investee entity, subjects were significantly more aggressive in English than in Simplified Chinese.

Our findings show that subjects were more aggressive in exercising judgments on the concept of *control* when providing consolidation reporting recommendations in English than in Simplified Chinese, and that this condition held in both cases when the investee entity made either a profit or loss in the reporting period. Additionally, the effect seems to be stronger when the investee entity made a profit than when the investee entity made a loss. However, established theories on aggressive financial reporting do not provide adequate insight into this finding. Our findings may only be supported with the type of incentives manipulated in the paper, namely, the financial performance of the investee entity.

2.7.CONCLUSIONS AND IMPLICATIONS

Our study responds to the calls for empirical research on whether an individual makes systematically different ethical judgments in his/her native and foreign languages specifically in the business ethics domain (McDonald, 2000, p. 95). Using a controlled 2x2 within-subject and between-subject randomized experimental design, we contribute to the literature by providing empirical evidence that Chinese accounting students are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in their native language. Our findings have implications for

the globalized business world where proficiency in more than one language is predominant and also have implications for cross-cultural accounting and business ethics research.

Given the focus on globalization and international convergence, English has become the business *lingua franca*. Our findings have implications for the *substance over form* approach adopted by the IASB to develop the principles-based IFRS, which often requires preparers to extensively exercise their judgments in English and in their native language. Importantly, complex ethical pronouncements issued by global standard setters, such as the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), and the International Federation of Accountants (IFAC) and national regulators are translated into various languages. The current rush towards global accounting convergence is largely driven by the ‘implicit assumption’ by various global and national standard setters that a single set of accounting standards will enhance international comparability of accounting information across countries (Heidhues and Patel, 2011; Hellmann et al., 2013). Additionally, various standard setters have not examined the possibility that individuals may make inconsistent ethical judgments in English and in their native language. Making ethical judgments in both English and a native language are unavoidable in international multilingual forums, such as global accounting standard setting bodies, the United Nations, the European Union, the Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN), as well as large investment firms and multinational enterprises in general. Prior literature has placed emphasis on individual and organizational factors, which induces differences in individuals’ ethical judgment and decisions, and has ignored the possible influence of individuals’ native and foreign languages on ethical judgments (Ford and Richardson, 1994; O’Fallon and Butterfield, 2005; Craft, 2013). Our findings suggest that inconsistencies in ethical judgments are potentially even more intractable. Our findings challenge this commonly held assumption by various standard setters, such as the IASB and the IFAC that an individual makes consistent judgments in English and in his/her native language, and demonstrate that systematically different ethical judgments needs to be recognized.

Our findings also have implications for a strand of research that involves translation and back-translation methodology. Translation and back-translation methodology is considered as a well-established translation methodology, which has been widely used by the global standard setters, such as the IASB, the IAASB and the IFAC, national regulators and cross-cultural accounting researchers (Doupnik and Richter, 2004; Abernethy and Vagnoni, 2004; Doupnik and Riccio,

2006; Tsakumis, 2007; Shafer, 2008; O'Connor et al., 2011). It has been assumed that technical equivalence of texts in different languages by implementing this methodology can ensure consistency in judgments. Our findings challenge the uncritical and continued application of translation and back-translation methodology and suggest that cross-cultural researchers may pay greater attention to individuals' systematically different ethical judgments in native and foreign languages.

The limitations of experimental design apply to this study. The scenario used in this study may not depict real world examples and may not be representative of complex judgments preparers may encounter in practice. Despite following all possible steps of translation and back-translation methodology to enhance the quality of the translation, we acknowledge that there may still be discrepancies in the English version and the Simplified Chinese version of research instruments. Moreover, there is a possibility that subjects' judgments may have been influenced by the language or translation of the research instrument in unintended ways. This study selected final year undergraduate accounting students, who were proxy for entry-level accounting practitioners as subjects. The results may not be generalizable to other subjects, such as professional accountants. There is a possibility that professional experience and organizational culture may reduce the differences in ethical judgments identified among university accounting students in our study. We acknowledge that ethical judgment is complex and may be influenced by various factors, such as culture, personality, language and translation. Other factors which may influence ethical judgments are beyond the scope of our study. Future studies may extend our study by selecting more experienced subjects, such as accountants, auditors and managers. Future studies may also select other contexts and languages to examine possible differences in individuals' ethical judgments in their native and foreign languages.

Table 2. 1: Subjects' profile

Gender	N=89	Percentage
Female	37	41.6%
Male	52	58.4%
Age		
Under 20	10	11.2%
20-24	79	88.8%
Years of accounting experience		
None	79	88.76%
Less than 1 year	7	7.87%
1-4 years	3	3.37%
Plan to join accounting professional bodies		
Yes	78	87.6%
No	11	12.4%

Table 2. 2: Subjects' consolidation reporting recommendations by language

		Languages		χ^2 significance level*:
		<i>English</i>	<i>Simplified Chinese</i>	
<i>Profit-making case</i>	Including the investee entity	45 (95.7%)	16 (34.0%)	$\chi^2=39.272$ p=0.000
	Excluding the investee entity	2 (4.3%)	31 (66.0%)	
	Total	47	47	
<i>Loss-making case</i>	Including the investee entity	5 (11.9%)	15 (35.7%)	$\chi^2=6.563$ P=0.01
	Excluding the investee entity	37 (88.1%)	27 (64.3%)	
	Total	42	42	

*Significant level ≤ 0.01

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CHAPTER 3

CONSTRUAL OF SELF AND CHINESE ACCOUNTANTS' AGGRESSIVE FINANCIAL REPORTING JUDGMENTS

ABSTRACT

Purpose – This study responds to calls in the literature to examine personality variables which may provide sharper insights into accountants' judgments in applying principles-based International Financial Reporting Standards (IFRS). This paper contributes to the literature on the global convergence of financial reporting by examining the influence of an important personality variable, *construal of self*, on Chinese accountants' aggressive financial reporting judgments.

Design/methodology/approach – A between-subjects quasi-experiment was applied. One hundred and twenty-two Chinese professional accountants were categorized as either *independents* or *interdependents*, on the basis of their scores on construal of self scales. Subjects made their consolidation reporting judgments in the manipulated situations based on the financial performance of the investee entity, which refers to the situation where the investee entity makes a significant profit or a significant loss in the reporting period.

Findings – Compared to interdependent accountants, independent accountants used the flexibility allowed in the principles-based standards to make more aggressive consolidation reporting judgments. Also, adoption of IFRS may not necessarily ensure consistent judgments even within China.

Originality/value – This paper provides empirical evidence of the importance of construal of self in examining accountants' aggressive judgments. We suggest that it may be premature to assume that adoption of IFRS will lead to comparable financial reporting. Our findings are relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries. Companies and organizations may incorporate appropriate strategies to recruit and train independent and interdependent accountants, particularly by addressing the influence of construal of self on aggressive financial reporting judgments.

Keywords: China; Construal of self; Consolidated financial reporting; Aggressive reporting judgment

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3.1.INTRODUCTION

This study contributes to the literature on the global convergence of financial reporting by examining the influence of an important personality variable, *construal of self*, on Chinese accountants' aggressive financial reporting judgments. Largely driven by the forces of globalization, more than 130 jurisdictions have adopted International Financial Reporting Standards (IFRS)²³ (IASB, 2015). Accountants are required to extensively exercise their professional judgment in interpreting and applying the principles-based IFRS, which contain a significant number of vague and indeterminate concepts and 'uncertainty expressions' such as 'control', 'probable', 'substantial', 'reliably', 'reasonably certain', and 'absolute certainty' (Wustemann and Wustemann, 2010; Douppnik and Richter, 2004; Douppnik and Riccio, 2006; Tsakumis, 2007; Douppnik and Perera, 2009; Nobes, 2009; Alali and Cao, 2010; Wehrfritz and Haller, 2014). Prior studies have shown that accountants may often use the flexibility allowed in the principles-based IFRS to make aggressive reporting, which refers to accountants' preference for reporting disclosure that portrays events favourably when accounting treatments are not clearly indicated by the facts, accounting standards, and relevant literature (Cuccia *et al.*, 1995; Psaros and Trotman, 2004; Psaros, 2007; Fiske and Berdahl, 2007; Bhimani, 2008; Jamal and Tan, 2010; Pan and Patel, 2016). As a result, consistent accounting standards (known as formal or *de jure* accounting) may not necessarily ensure consistent application of standards (known as material or *de facto* accounting) (Douppnik and Salter, 1995; Schultz and Lopez, 2001; Pacter, 2005; Nobes, 2006; Chand and White, 2007; Douppnik and Perera, 2009; Alali and Cao, 2010; Navarro-Garcia and Bastida, 2010; Peng and Bewley, 2010; Wehrfritz and Haller, 2014; Tsunogaya, 2016). There are calls in the literature for more rigorous research to examine various factors influencing accountants' judgments in applying the principles-based IFRS, which may result in aggressive financial reporting especially in non-Anglo-American countries (Trotman *et al.*, 2011; Zhang *et al.*, 2012; Heinz *et al.*, 2013; Mertins *et al.*, 2013; Abernathy *et al.*, 2013; Tsunogaya, 2016).

National culture has often been considered the dominant factor in explaining cross-cultural differences in accountants' judgments in interpreting and applying IFRS in prior research (Schultz and Lopez, 2001; Douppnik and Richter, 2004; Douppnik and Riccio, 2006; Tsakumis, 2007; Curtis *et al.*, 2012; Wehrfritz and Haller, 2014; Karaibrahimoglu and Cangarli, 2015). However, it is important to note that *national culture* may not be able to explain considerable

²³ For this study, IFRS represents both International Financial Reporting Standards, which were issued by the International Accounting Standards Board (IASB), and International Accounting Standards (IAS), which were issued by the IASB's predecessor, the International Accounting Standards Committee (IASC).

individual variability (Patel, 2004; Church, 2008; Higgins, 2008; Funder and Fast, 2010; Heidhues and Patel, 2011; Heinz *et al.*, 2013). It is problematic to evoke *national culture* to explain cross-cultural differences in individuals' judgments, irrespective of individual variability (Harrison, 1993; Patel, 2004; Church, 2008, 2010). Personality²⁴ has been recognized as one of the most important factors resulting in individual variability in judgments and behaviours (Malloy *et al.*, 2004; Taggar and Parkinson, 2007; Church, 2008; Funder and Fast, 2010; Stankov, 2010; LePine *et al.*, 2011). Although cultural psychologists have suggested that culture and personality are mutually constitutive and deeply intertwined in nature, they are not coterminous (Markus and Kitayama, 1991; Harrison, 1993; Church, 2000, 2008; Heine, 2001; Malloy *et al.*, 2004; Matsumoto, 2007; Higgins, 2008; Funder and Fast, 2010). Individuals' personalities may be consistent or inconsistent with the cultures of the group of which they are members (Rohner, 1984, p. 124; Harrison, 1993; Burger, 1993; Pervin, 1996; Funder, 2001; Church, 2010). Indeed, evidence shows that personality provides sharper insights into individuals' judgments in various contexts (Markus and Kitayama, 1991; Heine, 2001; Taggar and Parkinson, 2007; Matsumoto, 2007; Heinz *et al.*, 2013). Researchers have long recognized the value of examining the importance of personality in the workplace (McGhee *et al.*, 1978; Taggar and Parkinson, 2007; Shafer and Simmons, 2008; LePine *et al.*, 2011; Heinz *et al.*, 2013). However, limited rigorous research has been conducted to examine the influence of relevant personality variables on accountants' judgments. Drawing on relevant psychology, sociology, and business literature, this study examines the influence of an important personality variable, *construal of self*, on Chinese accountants' aggressive consolidation reporting recommendations.

Construal of self is selected in this study because this important and fundamental personality variable captures complex cognitive processes in explaining individual differences in judgments and decisions at both cultural and personality levels (Markus and Kitayama, 1991; Singelis and Brown, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Originating in the literature on self-concept, construal of self is defined as "the relationship between the self and others and, especially the degree to which they (people) see themselves as separate from others or as connected with others" (Markus and Kitayama, 1991, p. 226). Specifically, construal of self

²⁴ Personality generally refers to "the dynamic and organized set of characteristics possessed by a person that uniquely influences his or her cognitions, motivations, and behaviors in various situations" (Ryckman, 2012, p. 4).

distinguishes between *independent* and *interdependent* self-construal²⁵ (Markus and Kitayama, 1991, p. 230). Independents are motivated by taking action to promote their own goals and express their unique needs, rights, and capacities. They are more likely to exercise their individual judgments to convey positive and favourable financial information to enhance optimism and potential gains (Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). In contrast, interdependents are motivated by taking action to maintain connectedness with others and ensure harmonious social interactions. They are more likely to adopt the legalistic approach, rely on rules, and be more cautious in exercising their individual judgments to reduce possible inconsistencies with their peers (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Patel and Psaros, 2000; Kurman, 2001; Kim and Yi, 2006; Zhang and Mittal, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012).

Independent and interdependent self-construal are theoretically and empirically linked to *collectivist* and *individualist* cultures, which are the most widely used dimensions by which researchers categorize *national cultures* (Markus and Kitayama, 1991; Singelis, 1994; Singelis *et al.*, 1999; Kacen and Lee, 2002; Lockwood *et al.*, 2002). *Collectivist* and *individualist* cultures are often measured by aggregating individual responses within cultural groups so that each group receives a single score on these two culture values (Singelis *et al.*, 1999). As such, *collectivist* and *individualist* cultures are seen as “opposite poles of a single continuum” (Singelis and Brown, 1995, p. 358; Singelis *et al.*, 1999, p. 316). Prior cross-cultural studies often consider countries to be homogeneous and categorize them as either *collectivist* or *individualist* cultures (Hofstede, 1980; Schultz and Lopez, 2001; Clements *et al.*, 2009). We reject such a simplistic categorization of culture values and suggest that more emphasis should be placed on the importance of within-group differences. Indeed, individuals may not necessarily match the culture of the group of which they are members (Rohner, 1984, p. 124; Harrison, 1993; Singelis *et al.*, 1999; Funder, 2001; Church, 2010). Construal of self captures the complexity of individual differences in judgments and decisions at both cultural and personality levels (Singelis *et al.*, 1999). China provides a particularly appropriate national context in this study. Studies have shown that individuals in *collectivist* culture, such as China,

²⁵ *Independent* and *interdependent* self-construal represent two distinct dimensions, rather than being end-points on a single dimension (Singelis, 1994). We recognize that there are important differences in defining the self that cannot be easily classified as either independents or interdependents. However, the purpose of this study is to highlight the degree to which the two groups see themselves as separate from others or as connected with others. In this study, we use the term “independents” to represent both independent individuals and independent accountants. Similarly, the term “interdependents” is used to represent both interdependent individuals and interdependent accountants. A summary of the major differences between independents and interdependents is provided in Appendix 2.1.

are more likely to construe the self as interdependent (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002, p.165). However, globalization inevitably influences construal of self in both *collectivist* and *individualist* cultures (Alter and Kwan, 2009; Kolstad and Gjesvik, 2014). Contemporary China has become a multifaceted and complex modernizing society, where globalization is shifting Chinese individuals from *interdependence* towards greater *independence* (Wong and Hong, 2005; Wan *et al.*, 2007; Zhang, 2009; Alter and Kwan, 2009; Kolstad and Gjesvik, 2014). Values connected to individual achievements, which are consistent with independent self-construal, are increasingly reflected in China, especially after China's socio-economic reforms (Yan, 2006; Kolstad and Gjesvik, 2014). As such, examination of accountants' judgments in a rapidly globalized country is likely to contribute to the current debate on global accounting convergence.

We selected Chinese accountants from eight of the top 100 Chinese accounting firms. Importantly, all subjects were members of the Chinese Institute of Certified Public Accountants (CICPA). A between-subjects quasi-experiment was conducted to show inferences about cause and effect (Singleton and Straits, 2005). Accountants' judgments in this study were examined through an accounting scenario related to consolidated financial reporting. Prior research shows that financial performance of the investee entity is an important incentive to examine account preparers' aggressive judgments when providing their consolidation recommendations (Psaros and Trotman, 2004; Psaros, 2007; Pan and Patel, 2016). The experimental variable was manipulated on the basis of the financial performance of the investee entity, which refers to the situation where the investee entity makes either a significant profit or a significant loss in the reporting period. Specifically, we test the hypothesis that compared to interdependent accountants, independent accountants are more likely to make aggressive consolidation reporting recommendations by recommending including (excluding) a profit-making (loss-making) investee entity in the group's reporting.

The remainder of this paper is organized as follows. The next section provides the background of the study, including the reasons for selecting China and aggressive financial reporting, with special reference to consolidated financial reporting. Section 3 formulates the hypotheses and section 4 explains the research design. Section 5 presents the results of the study, followed by an analysis and discussion of the results. The final section concludes the paper.

3.2.BACKGROUND

3.2.1 Reasons for selecting China

China has been selected in this study for two reasons. First, construal of self has been proven to be valid and relevant to capture the characteristics of Chinese subjects at both cultural and personality levels (Markus and Kitayama, 1991; Higgins, 2008; Heinz *et al.*, 2013). As shown in our earlier discussion, at the culture level, independent and interdependent self-construal is linked to *collectivist* and *individualist* cultures. Specifically, *individualist* culture in Anglo-American countries, such as the US and Australia, emphasizes individual achievements and self-interest (Kashima *et al.*, 2006; Martinsons and Davison, 2007; Jia and Rutherford, 2010). People in *individualist* culture are more likely to construe the self as independent (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002). By contrast, *collectivist* culture, in countries such as China, focuses on placing group goals and collective actions ahead of self-interest, maintaining *harmony within hierarchy* and a strong social network (Kashima *et al.*, 2006; Martinsons and Davison, 2007; Jia and Rutherford, 2010). Values connected to maintaining connectedness and harmonious social interactions with others, which are reflected in interdependent self-construal, are prevalent in China.

At the individual level, independent and interdependent self-construal are orthogonal and coexist (Singelis and Brown, 1995, p. 358; Singelis *et al.*, 1999, p. 316). Researchers have started to view the self in all cultures as incorporating both independent and interdependent self-construal in varying degrees (Singelis *et al.*, 1999; Church, 2008; Zhang, 2009; Alter and Kwan, 2009; Kolstad and Gjesvik, 2014). Evidence shows that under the forces of globalization, individuals in China are becoming more independent (Wong and Hong, 2005; Wan *et al.*, 2007; Zhang, 2009; Alter and Kwan, 2009). It has been suggested that “for the contemporary Chinese, the independent self may be nurtured, developed, elaborated and even emphasized in certain domains of life” (Kolstad and Gjesvik, 2014, p. 268-269). Tajfel’s (1978, 1982) contribution to social psychology is also relevant in explaining the changing nature of social realities and the influence of the group on individuals’ behaviour. Tajfel and Turner’s (1979) social identity theory suggests that individuals’ perceived ability to move from one social group to another has a substantial influence on group dynamics and intergroup relations. Additionally, the theory suggests that increasing global interdependence has enormously increased the diversity and complexity of intergroup relations (Tajfel, 1982, p. 32). Consistent with Tajfel (1978, 1982), more recent psychology research also reinforces the importance of the changing nature of social reality on the behaviour of individuals in various social groups (Reicher, 2004; Reicher and Haslam, 2013; Jenkins, 2014). This changing nature of social reality, which is largely the result

of globalization, is particularly relevant in contemporary China because this provides a theoretical underpinning between explanations of behaviour based on *national culture* and those based on individual psychology and personality. As such, China provides an appropriate context for examining financial reporting judgments of independents and interdependents in a fast-paced globalized society.

The second reason relates to the implications of this study's findings on other transitional countries, which have adopted or plan to adopt IFRS. Over the past three decades, China has undertaken an unprecedented transition from a centrally planned economy to a quasi-state capitalist and semi-democratic authoritarian economy, where capitalism and free enterprise operate under the watchful eye and some direct intervention of the state (Graham and Li, 1997; Lee, 2001; Shambaugh, 2009; Perera, 2009). China's accounting reforms have mirrored its socio-economic reforms. Specifically, the traditional Chinese accounting system was highly legalistic, under which the accountant's main task was to report to the central government information required for planning and control purposes (Tang *et al.*, 1996; Tang, 2000; ICAS, 2007, 2010; Ezzamel *et al.*, 2007; Zhang *et al.*, 2012). Accountants' judgments were not required under this uniform and rigid accounting system (Ezzamel *et al.*, 2007). Given the forces of globalization and a sustained increase in international trade investments since the adoption of the "open-door" policy in 1978, the accounting profession is emerging and has undergone substantial reforms. For example, the promulgation of the Basic Standard of Accounting for Business Enterprises in 1992 was seen as a clear signal to "standardize the financial behavior of Chinese enterprises and bring China's accounting system in line with international practice" (Xinhua, 1992). Furthermore, the Chinese Accounting Standards for Business Enterprises (ASBE), which are substantially in line with the principles-based IFRS, were adopted by all listed companies from 1 January 2007. The Chinese Accounting Standards for Business Enterprises No. 33 *Consolidated Financial Statements* (ASBE 33) is a word-for-word translation of its international equivalent, IAS 27 *Consolidated and Separate Financial Statements*. The adoption of IFRS has brought great challenges because accountants must exercise their professional judgment extensively in applying these principles-based standards. Whether Chinese accountants use the flexibility inherent in IFRS to make aggressive financial reporting judgments needs to be examined. Indeed, Chinese regulators, such as the Ministry of Finance (MOF), the China Securities Regulatory Commission (CSRC), and accounting professional bodies such as the CICPA, have raised concerns regarding the challenges and problems caused by aggressive financial reporting (MOF, 2011; CSRC, 2012; CICPA, 2015). Aggressive financial reporting in China has been implicated in audit failures, earnings volatility,

corporate fraud, and major corporate collapses (Frank *et al.*, 2009; Lee *et al.*, 2013; Taplin *et al.*, 2014). Therefore, aggressive financial reporting is an important issue to be examined within the Chinese context.

3.2.2 *Aggressive reporting and consolidated financial reporting*

Prior research has examined whether aggressive reporting can be reduced by moving from rules-based accounting standards to principles-based IFRS (Kennedy *et al.*, 1997; Psaros and Trotman, 2004; Hartmann, 2005; Psaros, 2007; Fiske and Berdahl, 2007; Bennett *et al.*, 2006; Jamal and Tan, 2010; Agoglia *et al.*, 2011). It has been argued that rules-based standards provide accountants with the opportunity to manipulate financial reporting under the guise of complying with the rules and requirements for particular accounting treatments, even if such treatments do not reflect the true economic substance of the transactions (Bennett *et al.*, 2006; Jamal and Tan, 2010). However, it has been argued that the principles-based IFRS may invite more aggressive financial reporting through the liberal exercise of professional judgments. The principles-based standards often do not provide a sufficient structure to frame the judgments that must be made and, hence, extensive judgments are required (Kennedy *et al.*, 1997; Psaros and Trotman, 2004; Psaros, 2007; Fiske and Berdahl, 2007; Weisbrod, 2009; Agoglia *et al.*, 2011; Fornaro and Huang, 2012; Nobes, 2014). For example, Piercey (2009) provides empirical evidence that the uncertainty expressions contained in principles-based accounting standards appear to be more biased than the percentage threshold used in rules-based accounting standards. Indeed, the principles-based accounting standards serve as a source of negotiation power, in that accountants, managers, or auditors often use the freedom of exercising judgments allowed in standards to justify and legitimize their preferred stand, which may result in obtaining gains (Hackenbrack and Nelson, 1996; Phillips, 1999; Fiske and Berdahl, 2007; Jamal and Tan, 2010; Fornaro and Huang, 2012).

The principles-based IFRS include a number of vague and indeterminate concepts, such as, “materiality”, “significant influence”, and “control”, which require accountants to extensively exercise their judgments (Nobes, 2009; Alali and Cao, 2010). Importantly, countries such as China, which has historically used rules-based standards, are facing difficulties in monitoring and enforcing principles-based standards largely because of a perceived lack of confidence in the ability and experience of accountants and auditors to ethically and consistently exercise their judgments (Zhang *et al.*, 2012; Taplin *et al.*, 2014, p. 311). In the rush towards global convergence, accounting for business combinations is considered an important and difficult topic by Chinese regulators (Deloitte, 2006). Prior research has found inconsistencies between

business combinations standards and actual financial reporting by Chinese reporting entities (Biondi and Zhang, 2007; Baker *et al.*, 2010; Heng and Noronha, 2011; Taplin *et al.*, 2014). Additionally, Taplin *et al.* (2014, p. 324) report that Chinese reporting entities are resistant to implementing principles-based IFRS relating to business combinations mainly because the entities are concerned about inconsistencies in accountants' judgments. As such, we selected a relevant and appropriate experimental scenario to examine Chinese accountants' aggressive financial reporting judgments.

Specifically, we selected the concept of *control* in business combinations for examination because control, as the consolidation criterion, is probably one of the most important and controversial indeterminate accounting concepts that requires accountants' judgments (Biondi and Zhang, 2007; Baker *et al.*, 2010; Stenka and Taylor, 2010; Nobes, 2014). According to IAS 27 (para. 4), the concept of control has been defined as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities". It is stated in IAS 27 that the concept of legal control is usually reflected through the investor entity's ownership of more than half of the voting power of the investee entity. However, control can also exist when the investor entity owns half or less of the voting power of the investee entity if control can be demonstrated. Specifically, several indications of the existence of control are provided in IAS 27 (para. 13), such as the investor entity's power over more than half of the voting rights by virtue of an agreement with other investors, the investor entity's power to govern the financial and operating policies of the investee entity under a statute or an agreement, and the investor entity's power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee entity. Indeed, principles-based IFRS emphasize that financial statements should reflect the economic substance of transactions rather than merely their legal form, such as the percentage threshold of voting power to define control. Accountants are required to exercise their professional judgments in interpreting control. However, whether consistency in accountants' judgments on the concept of control in business combinations can be achieved is questionable.

Prior studies have shown that incentives may stimulate the motivation of individuals to aggressively exercise their judgments (Libby and Luft, 1993; Psaros and Trotman, 2004; Taggar and Parkinson, 2007; Piercey, 2009; Kerler and Brandon, 2010). Financial performance of the investee entity has been recognized as an incentive to motivate accountants to make aggressive financial reporting (Psaros and Trotman, 2004; Psaros, 2007; Pan and Patel, 2016). For example, Psaros and Trotman (2004) provide evidence that financial performance of the

investee entity influences accountants' consolidation recommendations. They show that a greater proportion of accountants who received the case of the investee entity making a profit recommended consolidation than those who received the case of the investee entity making a loss. As such, in this study, the financial performance of the investee entity is manipulated as either making a significant profit or loss in the reporting period.

3.3.THEORY DEVELOPMENT AND HYPOTHESES FORMULATION

Recall from our earlier discussion that the two dimensions of self-construal, independents and interdependents, capture complex cognitive processes in explaining individual judgments at both cultural and personality levels (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Specifically, independents view the self as being separate from their social context and thus emphasize autonomy and independence (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Patel and Psaros, 2000; Kacen and Lee, 2002; Lu and Gilmour, 2007; Zhang and Mittal, 2007; Uskul *et al.*, 2009; Lin *et al.*, 2012). They are motivated by taking actions to promote their own goals and express their unique needs, rights, and capacities (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009). Evidence also shows that independents foster a bias towards providing positive and favourable information in order to enhance optimism and potential gains (Herzog *et al.*, 1998; Lee *et al.*, 2000; Elliot *et al.*, 2001; Hamilton and Biehal, 2005; Bond, 2010; Uskul *et al.*, 2009; Lin *et al.*, 2012). For example, Lee *et al.* (2000) show that compared to interdependents, independents place greater emphasis on the information which may lead to potential gains. Lin *et al.* (2012) further demonstrate that compared to interdependents, independents focus on distinguishing themselves from others by attaining greater gains; they are also willing to take more risks to achieve favourable outcomes.

With regards to consolidated financial reporting, ASBE 33 provides flexibility in interpreting control. It is expected that when both consolidation and non-consolidation recommendations are possible, independents are likely to place greater emphasis on conveying positive economic information to enhance potential gains. Their consolidation reporting recommendations are more likely to be influenced by the financial performance of the investee entity. As such, independents are more likely to exercise their individual judgments to provide aggressive reporting recommendations to reach a favourable financial situation. Specifically, it is expected that where the investee entity makes a significant profit or loss, independents are likely to

include or exclude such an entity in the group reporting because the group financial reports may convey more positive financial information.

In contrast, interdependents view the self as a constituent of a broader social context, which emphasizes connectedness and interdependence with others and with the social context (Markus and Kitayama, 1991; Kim and Sharkey, 1995; Kacen and Lee, 2002; Kim and Yi, 2006; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). They are motivated by taking action to maintain connectedness with others, and ensure harmonious social interactions. Belonging to, attending to, and fitting in with others is emphasized. Self-esteem is gained through harmonious interpersonal relationships, the ability to adjust and restrain the self, to be indirect, and to “read other’s mind” (Markus and Kitayama, 1991; Singelis, 1994; Lu and Gilmour, 2007; Zhang and Shrum, 2009; Uskul *et al.*, 2009; Lin *et al.*, 2012). Evidence shows that interdependents tend to perceive themselves as similar to their peers and are more cautious in exercising their individual judgments (Markus and Kitayama, 1991, p. 240; Kim and Sharkey, 1995; Patel and Psaros, 2000; Uskul *et al.*, 2009; Lin *et al.*, 2012; Ferenczi *et al.*, 2015). For example, Lin *et al.* (2012) show that, compared to independents, interdependents emphasize the goal of connecting themselves with others by fulfilling obligations and responsibilities; they are also more risk-averse. Importantly, interdependents are more likely to adopt the legalistic approach and rely on rules that may reduce inconsistencies with their peers (Hamilton and Biehal, 2005).

In the context of consolidated financial reporting, although accountants are required to exercise their judgments to interpret control, ASBE 33 also provides a quantitative supplementary guideline, which states that control is usually reflected through the investor entity’s ownership of more than half of the voting power of the investee entity. It is expected that when both consolidation and non-consolidation recommendations are possible, interdependents are likely to be more cautious in exercising their individual judgments to provide consolidation reporting recommendations because their judgments may not be consistent with their peers. Compared to independents, interdependents are more likely to adopt a legalistic approach and rely on the quantitative guideline to interpret control. Financial performance of the investee entity is less likely to influence interdependents’ consolidation recommendations because conveying positive economic information may not be interdependents’ major concern. This leads to the following hypotheses:

H1: Compared to interdependent accountants, independent accountants are more likely to make aggressive consolidation reporting recommendations.

Specifically, this hypothesis is reflected in the following two situations:

H1a): Compared to interdependent accountants, independent accountants are more likely to recommend including the profit-making investee entity in the group's reporting.

H1b): Compared to interdependent accountants, independent accountants are less likely to recommend including the loss-making investee entity in the group's reporting.

3.4.RESEARCH METHOD

Data to test the hypotheses were collected using a between-subjects quasi-experimental design. We acknowledge the advantages of using survey questionnaires to investigate accountants' judgments in previous accounting research, such as that by Schultz and Lopez (2001), Douppnik and Richter (2004), Douppnik and Riccio (2006), and Tsakumis (2007). However, research on accountants' judgments has reached the stage of moving from survey-based research to experimental research designs, which "are useful to see whether there is an effect and identify what causes the effect" (Trotman *et al.*, 2011, p. 339; see also Nelson, 2003; Pownall and Schipper, 1999; Kachelmeier, 2010; Charness *et al.*, 2012; Mertins *et al.*, 2013). Additionally, experimental designs allow researchers to create the experimental setting that subjects may encounter in the real world (Mertins *et al.*, 2013).

Specifically, the between-subjects quasi-experimental design was administered to a sample of Chinese professional accountants from eight accounting firms, located in Shanghai, Beijing, and Wuhan. These cities are the most important commercial centres in China. The participating firms were included in the top 100 Chinese accounting firms by the Chinese Institute of Certified Public Accountants (CICPA) and have professional accountants in the 21 to 80 range.²⁶ In order to enable differences in subjects' judgments to be linked to differences in independents or interdependents, we controlled the potentially confounding factors, such as organizational culture and industry conditions, when selecting the professional accountants. Prior research has shown that subjects' judgments are influenced by organizational culture (Chow *et al.*, 2002; Patel, 2006; Chand, 2012) and industry conditions (Gullkvist and Jokipii, 2013; Kadous *et al.*, 2013). To control for these variables, accountants at companies were not selected for our study because their judgments may possibly be influenced by their organizational culture and their industry conditions. We selected accountants from the leading accounting firms because evidence shows that there are many similarities in the organizational

²⁶ None of the selected accounting firms are the Big Four firms in China. The results show that there is no significant difference in responses among respondents from these eight accounting firms.

culture of leading accounting firms (Patel, 2006). Additionally, Patel (2006, p. 94) notes that “similarities in organizational culture arise largely because of the standardization of activities such as hiring and promotion criteria and the implementation of a firm’s code of professional conduct”. As such, by selecting accountants at leading accounting firms, we control for the possible influence of organizational culture and industry conditions on subjects’ judgments.

Individual respondents for our experiment were randomly selected by partners of the participating accounting firms, in keeping with the selection criteria that the respondents should be the members of the CICPA and have work experience in the area of consolidated financial reporting. The respondents were informed that their participation in our experiment was voluntary and all information would be treated as anonymous and confidential. Respondents were required to provide their demographic data in the research instrument, including gender, age, familiarity with accounting standards on consolidated financial reporting, and their relevant work experience in accounting. To confirm that we had selected the appropriate respondents, we also asked them to score their familiarity with accounting standards on consolidated financial reporting on a seven-point Likert scale (1 = not familiar at all to 7 = very familiar).

The research instrument consists of three parts. Part 1 contains a detailed accounting scenario relating to consolidated financial reporting. Part 2 collects respondents’ demographic information, and Part 3 includes a revised 24-item scale developed by Markus and Kitayama (1991) and Singelis (1994) to measure respondents’ interdependent and independent construal of self.

Specifically, in Part 1, a detailed accounting scenario relating to consolidated financial reporting was included in the research instrument. The importance of designing the appropriate scenario is considered important in business and economic research (Florack *et al.*, 2013). The appropriate scenarios allow studies to frame the research questions to incorporate complex issues, reflecting judgment-making in the real world. The accounting scenario used in the study is based on that developed by Psaros and Trotman (2004) and subsequently used by Psaros (2007) and Pan and Patel (2016). In this scenario, all respondents were asked to presume that they are the financial controller of an investor company (Dunball Electrical) which has acquired a stake in an investee company (Tonens Finance) in the previous 12 months. All respondents were also informed that Dunball Electrical intends to raise funds by way of a share float during the next financial year. Importantly, the following business information was provided in the

scenario, where the concept of control was not clearly demonstrated and the respondents were required to exercise their judgments on control to provide their consolidation recommendation:

1. Tonens Finance has 11 members on its board of directors. Of these, five are senior management of Dunball Electrical.
2. Dunball Electrical owns 33% of Tonens Finance's voting shares. The remainder of the shares are held by a wide range of investors.
3. An arrangement exists that gives Dunball Electrical the right to approve Tonens Finance's future borrowings and terms of operation.

Apart from the above summary information provided to all respondents, the financial performance of Tonens Finance was also provided in the scenario. Our earlier discussion shows that the financial performance of the investee entity is likely to influence accountants' judgments in providing a reporting recommendation. As such, two versions of the research instrument were developed based on the financial performance of an investee entity, that is, the financial performance of Tonens Finance was manipulated as making either a significant profit or a significant loss in the previous 12 months.²⁷ Respondents were then required to provide their judgment on whether they would recommend to senior management that consolidated reports be prepared based on the concept of control in ASBE 33. Each respondent was only required to complete one version of the instrument.

As a manipulation check,²⁸ a debriefing question was included to determine respondents' perceptions of the financial impact of including Tonens Finance in its consolidated accounts. Specifically, respondents were required to indicate whether they believed that Dunball Electrical's financial position would be worsened or improved by including Tonens Finance in its consolidated accounts on a 10-point Likert scale (1 = very much worsened to 10 = very much improved).

The second part of the research instrument collected respondents' various demographic data, including gender, age, familiarity with accounting standards relating to consolidated financial

²⁷ To assist with respondents' judgments, two sets of summarized financial statements were provided to the respondents. One set was prepared on the assumption that consolidation occurs. The other set was prepared on the assumption that consolidation does not occur, but supplementary equity accounting information was provided.

²⁸ Similar manipulation check questions were used by Psaros and Trotman (2004), Psaros (2007), and Pan and Patel (2016).

reporting, and their relevant work experience in accounting. In Part 3, a revised 24-item scale developed by Markus and Kitayama (1991) and Singelis (1994) was used to measure respondents' independent and interdependent construal of self.²⁹ Of these 24 items, 12 items measured independent construal of self and the other 12 items measured interdependent construal of self. The scale utilized a five-point format with 1 denoting strongly disagree and 5 denoting strongly agree as endpoints. Cronbach's alpha (α) is a relevant measure of scale reliability and internal consistency which describes the extent to which all the items in the test measure the same construct (Field, 2005; Tavakol and Dennick, 2011). Prior studies, such as Nunnally (1978, p. 245) and Field (2005, p. 668) specify that Cronbach's α above 0.7 is acceptable. In our study, Cronbach's α meets this requirement with the α value of 0.764 for independents and the α value of 0.778 for interdependents. Additionally, these results are acceptable when compared to prior research using the same construal of self research instrument (see Singelis and Brown, 1995, p. 368; Hook *et al.*, 2012, p. 113).

To enhance the readability and relevance of the experimental scenario, the research instrument was pilot-tested in two steps. The first step involved administering the instrument to ten accounting academics and ten Chinese professional accountants with expertise in the area of consolidated financial reporting. After several editorial changes were made as a result of their feedback, the instrument was then administered to another ten Chinese professional accountants. Two additional minor editorial changes were made to further enhance the readability of the instrument. Additionally, each participant was interviewed to specifically comment on the readability and understandability of the research instrument. Our pilot tests show that the experimental scenario is realistic, free from bias, and relevant for examining accountants' judgments on consolidated financial reporting.

The partners of the participating accounting firms agreed to randomly distribute equal numbers of the two versions of the research instrument to the respondents working in their firms. Each respondent received one version of the instrument and was only required to complete one version of the research instrument. The research instrument included a cover letter, one copy of the research instrument, and a self-addressed envelope. The cover letter clearly stated the purpose of the study and assured participants that their replies would remain anonymous, and information obtained would be kept confidential. It also instructed respondents that in a real work situation they would normally require more information than was available in the

²⁹ The 24-item scale is provided in Appendix 2.2.

accounting scenario, but for the purposes of the study they were requested to make their judgments based on the limited information provided. After completing the research instrument, respondents were required to seal the completed instrument in the self-addressed envelope provided and leave it with the partners. The researchers personally collected the completed instrument from the partners. A total of 176 research instruments were randomly distributed, with an equal number of the two versions. The researchers received a total of 140 completed research instruments. One incomplete research instrument and three responses that failed the manipulation check³⁰ were excluded from the data analysis, providing 136 usable responses.

Personal financial incentives or personal rewards were not provided to the subjects in our experiment. Positive Accounting Theory (PAT) has been dominant in capital market research and PAT is based on the assumption that all individuals' actions are driven by self-interest and that individuals will always act in an opportunistic manner to the extent that their actions are likely to increase their personal wealth (Watts and Zimmerman, 1978, 1986). More recently, based on PAT, Beaudoin *et al.* (2015) provide experimental evidence to show that in the presence of personal financial incentives, CFOs engage in more self-interested earnings management. However, our objective was not to invoke PAT to examine how personal financial incentives or personal rewards influence accountants' judgments. Our study examines the influence of construal of self on accountants' aggressive financial reporting judgments in an experimental setting without any personal financial incentives or personal rewards. To simulate subjects' motivation to aggressively exercise their judgments, we manipulated the financial performance of the investee entity as either making a significant profit or a significant loss in the reporting period. Such non-personal incentives have been used to examine aggressive financial reporting judgments in prior studies, including Psaros and Trotman (2004), Psaros (2007), and Pan and Patel (2016). Our findings are based on examining accountants' aggressive financial reporting judgments when there are no personal financial incentives or personal rewards and therefore our findings provide useful cognitive insights.

³⁰ Recall from our earlier discussion that respondents were required to indicate whether they believed that Dunball Electrical's financial position would be worsened or improved by including Tonens Finance in its consolidated accounts on a ten-point Likert scale (1 = very much worsened to 10 = very much improved). One respondent provided a score of 3, which indicated that Dunball Electrical's financial position would be worsened by including the profit-making Tonens Finance in the consolidated accounts. Two respondents provided scores of 8 and 9 respectively, which indicated that Dunball Electrical's financial position would be improved by including the loss-making Tonens Finance in the consolidated accounts. These three respondents were excluded from further data analysis because they failed the manipulation check question and their responses suggested that they did not understand the scenario in the research instrument.

3.5.RESULTS AND ANALYSIS

The demographic details of the subjects are shown in Table 3.1. Overall, 51.9% of the subjects were female and 48.1% of the subjects were male. The majority of subjects (77.2%) were aged between 25 and 39. All subjects had at least one year of accounting-related work experience, 69.1% of the subjects had more than three years' accounting-related working experience, 29.4% of the subjects had worked in one of the Big Four accounting firms in China, while 70.6% of the subjects had never worked for any of the Big Four accounting firms. Additionally, all subjects provided scores of 5 or above on the question of whether they were familiar with the accounting standards on consolidated financial reporting on a seven-point Likert scale (1 = not familiar at all to 7 = very familiar). This result indicates that all subjects in the experiment were familiar with the relevant accounting standards on consolidated financial reporting. The statistical results confirm that there are no significant differences in subjects' aggressive consolidated financial reporting recommendations based on gender, age, length of accounting-related experience, Big Four/non-Big Four experience, and familiarity with the accounting standards on consolidated financial reporting. Therefore, subjects' responses were aggregated for the purpose of further statistical testing.

Insert Table 3.1 near here

Subjects were divided into two groups, independents and interdependents, by z-standardizing each of the two subscales and computing the difference between the *independence* subscale and interdependence subscale for each subject. This classification is consistent with the computation rule used in previous studies (for example, Hannover *et al.*, 2006). Specifically, the subjects with a difference score below zero were classified as independents (for the profit-making case, $n=16$; for the loss-making case, $n=15$; total $n=31$), whereas the subjects with a difference score above zero were classified as interdependents (for the profit-making case, $n=48$; for the loss-making case, $n=43$; total $n=91$). Fourteen subjects with a difference score of zero were excluded from further statistical analysis because these subjects could not be classified as either independents or interdependents. This provided a total of 122 usable responses for further analysis.

There is a significant difference in the number of subjects that are classified as independents (for both the profit-making and loss-making cases, total $n=31$) and interdependents (for both the profit-making and loss-making cases, total $n=91$). This difference is expected because our earlier discussion shows that individuals in *collectivist* culture are likely to view themselves as

connected with social contexts and groups. They are likely to construe themselves as interdependents (Markus and Kitayama, 1991; Kacen and Lee, 2002). However, evidence shows that the rapid pace of globalization is moving Chinese individuals from interdependence towards greater independence (Kolstad and Gjesvik, 2014). Independence is increasingly reflected, particularly among younger employees in contemporary China (Yan, 2006).

To assess the degree of consensus in respect of judgments of independents and interdependents, Chi-square (χ^2) tests were conducted. The results are shown in Table 3.2. The consolidation reporting recommendation (recommendation to include or exclude Tonens Finance in the group reporting) was the dependent variable. The subjects' self-construal (independents or interdependents) was the between-subjects independent variable. The between-subjects experimental variable was manipulated on the basis of the financial performance of Tonens Finance, which refers to the situation where Tonens Finance makes either a significant profit or a significant loss in the reporting period.

Insert Table 3.2 near here

Specifically, when Tonens Finance made a profit, the percentage of independent subjects recommending Tonens Finance be included in the group's reporting was 87.5%, while the percentage of interdependent subjects who made this recommendation was 45.8% (see Table 3.2). The results of an χ^2 -test and Fisher's exact test³¹ show that this difference was significant ($p=0.004$), that is, compared to interdependent subjects, independent subjects made significantly more aggressive consolidation reporting recommendations by recommending including the profit-making investee entity in the group's reporting. The results provide support for H1a).

When Tonens Finance made a loss, the percentage of independent subjects recommending excluding Tonens Finance from the group's reporting was 93.3%, while the percentage of interdependent subjects who made this recommendation was 58.1% (see Table 3.2). The results

³¹ The requirement for a Chi-square test is that the expected frequencies in any of the cells of the contingency table should be greater than 5 (Field, 2005, p. 686). If the expected frequencies are below 5, Fisher's exact test is conducted (Yates *et al.*, 1999; Ryman and Palm, 2006). When Tonens Finance made a profit, the minimum expected frequencies in the 2 x 2 table was 7, and therefore the number of the subjects in each cell of the 2 x 2 table satisfied the requirement for the Chi-square testing. To complement the Chi-square results, we also conducted Fisher's exact test and the p values were consistent.

of an χ^2 -test and Fisher's exact test³² show that this difference was significant ($p=0.012$), that is, compared to interdependent subjects, independent subjects made significantly more aggressive consolidation reporting recommendations by recommending excluding the loss-making investee entity from the group reporting. The results provide support for H1b). Additional χ^2 -tests and Fisher's exact tests were conducted to examine the possible influence of gender, Big Four/non-Big Four experience, and familiarity with the accounting standards on consolidated financial reporting on subjects' aggressive reporting judgments for both the independent and interdependent groups. The results show that these demographical variables do not have a significant influence on subjects' consolidation reporting recommendations. In summary, we have taken appropriate statistical approaches to rule out the possible confounding influences on our findings. As such, the hypothesis that, compared to interdependent accountants, independent accountants are more likely to make aggressive reporting recommendations is supported in both cases when the investee entity made either a profit or loss in the reporting period.

We also need to address the issue of whether our findings simply show that *aggressive people do aggressive things*. The psychology literature shows that there are marked differences between independents and aggressive people. Evidence shows that an aggressive personality is demonstrated by anger, hostility, physical, and verbal abuse (Buss and Perry, 1992; Dill *et al.*, 1997). Aggressive people exhibit biased and hostile perceptions of the social world and they chronically interpret ambiguously behaviours as intentionally hostile (Denson *et al.*, 2012; Wilkowski and Robinson, 2012). Additionally, aggressive people tend to have difficulty controlling their impulses following provocation, and this behaviour is consistent over time and across situations and contexts (Dill *et al.*, 1997; Denson *et al.*, 2012). In contrast, we are not familiar with any research that links independents with aggressive personality. As discussed earlier, independents are closely linked to *individualist* culture values that emphasize autonomy, uniqueness, and independence (Markus and Kitayama, 1991). Independents are motivated by taking action to promote their own goals and express their unique needs, rights, and capacities (Lu and Gilmour, 2007; Zhang and Shrum, 2009). As such, the core features of independents do not overlap with aggressive personality. Independent construal of self and aggressive personality are two separate and distinct theoretical constructs.

³² When Tonens Finance made a loss, the expected frequencies in each cell of the 2 x 2 table are greater than 5, except in one cell, in which the expected frequency is 4.91. Therefore, as suggested in prior research, Fisher's exact test was conducted to strengthen the statistical power of the tests (Yates *et al.*, 1999; Ryman and Palm, 2006). Fisher's exact test provides consistent p value with Chi-square test.

Our findings have been generated from a sample of accountants where a majority of the subjects (81.6%) were below the age of 35. Additionally, 62.5% of the subjects had no more than five years of accounting work experience. It is important to note that our findings may not be applicable to partners of accounting firms. Prior research shows that partners of accounting firms have lower moral reasoning ability than their junior counterparts (Ponemon, 1990, 1992). For example, Ponemon (1992) provides experimental evidence that staff who progress to partner positions tend to possess lower and more homogeneous levels of ethical reasoning. Bernardi and Arnold (1997, p. 665) also raise concerns about the diminishing level of ethical sensitivity at the upper staff levels at accounting firms. In contrast, using a multivariate approach, Conroy *et al.* (2010) provide empirical evidence that rank and positions within a firm do not appear to have any systematic predictive power in explaining ethical attitudes. Given the contradictory evidence provided in prior research, our findings based on younger and less experienced accountants may not be generalizable to partners. Future studies may consider selecting both partners and less experienced accountants to examine whether there are any differences in their aggressive financial reporting judgments.

3.6.CONCLUSIONS AND IMPLICATIONS

Drawing on relevant psychology, sociology, and business literature, this study examines the influence of construal of self on Chinese accountants' aggressive judgments relating to consolidated financial reporting. Construal of self is considered an important and relevant personality variable to capture complex cognitive processes in explaining individual differences at both cultural and personal levels. The findings of this study provide empirical evidence that, compared to interdependent accountants, independent accountants used flexibility allowed in the principles-based standards to make aggressive consolidation reporting recommendations by recommending including (excluding) a profit-making (loss-making) investee entity in the group's reporting.

The findings of this study have a number of implications. First, our study contributes to the literature by enlarging the context of accounting judgment research. *National culture* has often been considered the dominant factor in explaining differences in accountants' judgments relating to IFRS (Schultz and Lopez, 2001; Doupnik and Richter, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007; Curtis *et al.*, 2012; Wehrfritz and Haller, 2014; Karaibrahimoglu and Cangarli, 2015). However, significant within-country differences have not been rigorously examined in prior research (Harrison, 1993; Heidhues and Patel, 2011; Heinz *et al.*, 2013). Our

findings establish the importance of examining construal of self in explaining differences in accountants' judgments within China. Our findings may be relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries.

The findings challenge the implicit assumption by the IASB that worldwide adoption of the principles-based IFRS can enhance comparability of financial information (Pacter, 2014, p. 10; IASB, 2015). Consistency in accountants' judgments is crucial for this implicit assumption. The results of this study demonstrate that consistency in accountants' judgments is difficult to attain even within China. Our findings confirm that worldwide adoption of IFRS (*de jure* accounting) may not necessarily lead to consistent application of IFRS (*de facto* accounting) in China. Our findings show that compared to interdependent accountants, independent accountants use flexibility allowed in the principles-based IFRS to make aggressive reporting recommendations. Together with the findings from cross-cultural studies, such as Douppnik and Riccio (2006), Tsakumis (2007), Curtis *et al.* (2012), Wehrfritz and Haller (2014), Karaibrahimoglu and Cangarli (2015), we suggest that it may be premature for the IASB and various standard setters of countries adopting IFRS to assume that adoption of IFRS will lead to comparable financial reporting. Regulators and various global standard setters may provide additional attention to various factors which influence accountants' judgments in applying the principles-based IFRS.

Moreover, our findings show that independents were engaged in aggressive financial reporting even when there were no personal financial incentives or personal rewards in the experiment. This leads us to the conclusion that independents are cognitively wired to engage in aggressive financial reporting judgments without any personal financial incentives or personal rewards. We suggest that the accounting profession and regulators need to examine independents' cognitive motivation towards aggressive financial reporting judgments.

Awareness of the influence of construal of self on accountants' judgments may help companies and organizations improve their selection and training of accountants to better understand their judgments and behaviours. Projections of independents and interdependents clearly indicate the need to adapt to a rapidly changing workforce. Independents and interdependents may not reach consensus on the appropriate choice of strategies in culturally diverse business organizations. We suggest that companies and organizations may incorporate appropriate strategies to work with independents and interdependents to reduce inconsistencies in their judgments. For

example, companies and organizations may involve both independent and interdependent accountants in the complex process of exercising judgments and making decisions to balance any possible differences in their financial reporting recommendations.

The limitations of quasi-experimental design apply to this study. The scenario used in this study may not depict real-world examples or represent the complexity of consolidation reporting judgments accountants encounter in practice. We acknowledge that aggressive reporting judgments are complex and may be influenced by various other factors, such as organizational culture and staff levels. Future studies may consider selecting both partners and less experienced accountants to examine whether there are any differences in their aggressive financial reporting judgments. We also acknowledge that the sample of Chinese professional accountants in our study may not be the decision makers who have the authority to ultimately decide the adoption of accounting policies in their organizations. Future studies may select subjects who actually have the authority to implement accounting policies in organizations. Moreover, the Chinese government continues to have a strong influence in developing and enforcing accounting policies and standards. Future studies may also examine the role of the government in reducing aggressive financial reporting practices.

Appendix 2.1

A summary of the major differences between independents and interdependents, which are relevant to this research, is provided in the following table (Markus and Kitayama, 1991, p. 230):

Summary of key differences between independents and interdependents

Feature compared	Independents	Interdependents
Definition	Separate from social context	Connected with social context
Structure	Bounded, unitary, stable	Flexible, variable
Important features	Internal, private (abilities, thoughts, feelings)	External public (status, roles, relationships)
Tasks	Be unique; Express self; Realize internal attributes; Promote own goals; Be direct; Say what is on your mind	Belong, fit-in; Occupy one's proper place; Engage in appropriate action; Promote others' goals; Be indirect; Read others' minds
Role of others	Self-evaluation: others important for comparison, reflected appraisal	Self-definition: relationships with others in specific contexts define the self
Basis of self-esteem	Ability to express self, validate internal attributes	Ability to adjust, restrain self, maintain harmony with social context

Appendix 2.2

The revised 24-item scale developed by Markus and Kitayama (1991) and Singelis (1994) was used to measure the respondents' independent and interdependent construal of self. Among these 24 items, 12 items measure independent construal of self and the other 12 items measure interdependent construal of self, shown as in the following table.

The scale utilized a five-point format with 1 denoting strongly disagree and 5 denoting strongly agree as endpoints. Cronbach's α has been used to measure the reliability of the construct of independent and interdependent construal of self. The average of the 12 items to measure independent construal of self was calculated to represent the index of independent (Cronbach's $\alpha=0.764$). The average of the 12 items to measure interdependent construal of self was calculated to represent the index of interdependent (Cronbach's $\alpha=0.778$). Both Cronbach's α values are considered acceptable because prior studies, such as Nunnally (1978, p. 245) and Field (2005, p. 668) specify that Cronbach's α above 0.7 is acceptable.

Measurement of independent and interdependent construal of self

Independent construal of self	Interdependent construal of self
Q5: I'd rather say "No" directly, than risk being misunderstood.	Q1: I have respect for the authority figures with whom I interact.
Q6: Speaking up during a class is not a problem for me.	Q2: It is important for me to maintain harmony within my group.
Q7: Having a lively imagination is important to me.	Q3: My happiness depends on the happiness of those around me.
Q8: I am comfortable with being singled out for praise or rewards.	Q4: I would offer my seat in a bus to my boss.
Q13: I am the same person at home that I am at work.	Q9: I respect people who are modest about themselves.
Q14: Being able to take care of myself is a primary concern for me.	Q10: I will sacrifice my self-interest for the benefit of the group I am in.
Q15: I act the same way no matter who I am with.	Q11: I often have the feeling that my relationships with others are more important than my own accomplishments.
Q16: I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.	Q12: I should take into consideration my parents' advice when making education/career plans.
Q21: I prefer to be direct and forthright when dealing with people I've just met.	Q17: It is important to me to respect decisions made by the group.
Q22: I enjoy being unique and different from others in many respects.	Q18: I will stay in a group if they need me, even when I am not happy with the group.
Q23: My personal identity independent of others is very important to me.	Q19: If my brother or sister fails, I feel responsible.
Q24: I value being in good health above everything.	Q20: Even when I strongly disagree with group members, I avoid an argument.

Table 3. 1: Participants' profiles

Gender	Total (N=136)	Percentage
Female	70	51.9%
Male	65	48.1%
Age	Total (N=136)	Percentage
20–24	22	16.2%
25–29	57	41.9%
30–34	32	23.5%
35–39	16	11.8%
40–49	9	6.6%
Years of working experience	Total (N=136)	Percentage
1–2 years	42	30.9%
3–5 years	43	31.6%
6–10 years	26	19.1%
more than 10 years	25	18.4%
Big Four experience	Total (N=136)	Percentage
Big Four experience	40	29.4%
Non-Big Four experience	96	70.6%
Familiarity with the accounting standards on consolidated financial reporting (ASBE 33)	Total (N=136)	Percentage
Extremely familiar (Scale 7)	31	22.8%
Very familiar (Scale 6)	77	56.6%
Familiar (Scale 5)	28	20.6%

Table 3. 2: Consolidation reporting recommendations of independent and interdependent accountants

		Construal of Self		χ^2 and Fisher's exact test*:
		<i>Independents</i>	<i>Interdependents</i>	
<i>Profit-making case</i>	Including the investee entity	14 (87.5%)	22 (45.8%)	$\chi^2=8.466$ p=0.004
	Excluding the investee entity	2 (12.5%)	26 (54.2%)	
	Total	16	48	
<i>Loss-making case</i>	Including the investee entity	1 (6.7%)	18 (41.9%)	$\chi^2=6.253$ P=0.012
	Excluding the investee entity	14 (93.3%)	25 (58.1%)	
	Total	15	43	

*Significant level ≤ 0.05

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CHAPTER 4
THE INFLUENCE OF FORMAL AND FELT ACCOUNTABILITY ON CHINESE
ACCOUNTANTS' AGGRESSIVE FINANCIAL REPORTING JUDGMENTS

ABSTRACT

This paper extends the literature on accountability by providing causal experimental evidence to show the competing importance of *formal* and *felt accountability* in influencing Chinese professional accountants' aggressive financial reporting judgments. Specifically, we conducted a between-subject randomized experiment to examine whether felt accountability influences ethical judgments under two conditions, namely, when formal accountability is imposed and when formal accountability is not imposed. We use a cultural lens to draw on the literature on *Confucianism* and *interdependence* to suggest that the Chinese cultural values of *harmony within hierarchy* and *interdependence* provide useful insights for understanding accountability. However, faced with intense globalization and international convergence of accounting and accountability, the intensity of these cultural values is changing, particularly among professionals in contemporary China. Our results show that both accountants who experience greater felt accountability and those who experience lesser felt accountability coexist within contemporary China. Our findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. Our findings further show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their financial reporting judgments, compared to those who experience greater felt accountability. Our findings have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. Our findings also have implications for global standard setters, national regulators and researchers.

Keywords: formal accountability; felt accountability; aggressive financial reporting judgments; culture; China

4.1.INTRODUCTION

The objective of our paper is to complement and extend the literature on accountability³³ by providing causal experimental evidence to show the competing importance of *formal* and *felt accountability* in influencing accountants' aggressive financial reporting judgments in the Chinese cultural context. Specifically, we conducted a between-subject randomized experiment to examine whether felt accountability influences Chinese accountants' ethical judgments under two conditions, namely, when formal accountability is imposed and when formal accountability is not imposed. Accountability, as an important factor in influencing individuals' ethical judgments and behaviors, is ubiquitous in organizations and social systems³⁴ (Unerman & Bennett, 2004; Steinbauer, Renn, Taylor, & Njoroge, 2014; O'Dwyer & Boomsma, 2015; Chen et al., 2016). Research shows that the relationship between accountability and individuals' ethical judgments is often complicated (Roberts, 1991, 2009; Beu & Buckley, 2001; Hoogervorst, De Cremer, & van Dijke, 2010; Steinbauer et al., 2014). The extant accountability research has produced mixed results, suggesting that accountability has both constructive and deleterious consequences to individuals and organizations when facing ethical issues (Beu & Buckley, 2001; Hall, Frink, & Buckley, 2015).

Extensive attention has been paid to traditional *formal* or *imposed accountability* systems within organizations, under which individuals are required to justify their judgments to superiors who have the power to instigate rewards or punishments (Beu and Buckley, 2001; DeZoort, Harrison, & Taylor, 2006; Unerman & O' Dwyer, 2006; Chang, Cheng, & Trotman, 2013; Peecher, Solomon, & Trotman, 2013). However, it has been argued that individuals are also driven by an innate sense of responsibility constituting an ethical and value-based dimension which is largely absent from formal accountability regimes (Roberts, 1991, 2001; Messner, 2009; Hall, Royle, Brymer, Perrewe, Ferris, & Hochwarter, 2006; Hall et al., 2015). The individual-level *felt* or *perceived* accountability, which has been identified as an important intrinsic motivation for individuals' ethical judgments and behavior requires more rigorous examination in the accounting discipline (Fry, 1995; Hall et al., 2006, 2015; Steinbauer et al., 2014; O'Dwyer & Boomsma, 2015).

³³ This includes mostly case based studies on accountability in non-governmental organizations, such as those by Unerman and Bennett (2004), O'Dwyer, Owen, and Unerman (2011), O'Sullivan and O'Dwyer (2015), and O'Dwyer and Boomsma (2015).

³⁴ Accountability has been extensively examined in prior literature in various contexts, such as auditing (DeZoort et al., 2006; Peecher et al., 2013; Messier Jr., Quick, & Vandervelde, 2014; Kang, Trotman, & Trotman, 2015), business negotiations (Chang, Cheng, & Trotman, 2013) and human resource management (Hochwarter, Ferris, Gavin, Perrewe, Hall, & Frink, 2007; Hall & Ferris, 2010; Chen, Yuan, Cheng, & Seifert, 2016).

In practice, formal and felt accountability co-exist to varying degrees and operate in tension within organizations (Hall, Bowen, Ferris, Royle, & Fitzgibbons, 2007; O'Dwyer & Boomsma, 2015). Implementing a formal accountability mechanism in organizations is not “universally positive” (Hall et al., 2007, 411). For example, some empirical research shows that through the implementation of control mechanisms, formal accountability makes individuals act in a more ethical manner because they have a strong aversion to being evaluated in a negative manner by others (De Cremer & Sedikides, 2008; Steinbauer et al., 2014). However, it has also been shown that formal accountability may be less successful in situations where individuals may personally benefit from their or others' unethical behavior (Hoogervorst et al., 2010).

Compared to formal accountability, felt accountability refers to an individual's perception of his or her own accountability (Frink & Klimoski, 1998; Hall et al., 2015). Prior studies show that individuals' felt accountability is derived from various motivations. For example, felt accountability is seen as a state of mind where individuals feel an intrinsic responsibility to be accountable or “answerable” to themselves in the form of their own values (Lewis & Madon, 2004; Shearer, 2002; Sinclair, 1995; O'Dwyer & Boomsma, 2015). Felt accountability is also closely linked to individuals' motivation to voluntarily expose themselves to scrutiny, and their perceived expectation that rewards or sanctions are contingent on an evaluation of their performance (Lewis & Madon, 2004; Ebrahim, 2009; Hall et al., 2015; Chen et al., 2016). In recent years, the importance of felt accountability has been increasingly recognized by scholars in various contexts, including human resource management, psychology, non-governmental organizations, and business (Steinbauer et al., 2014; O'Dwyer & Boomsma, 2015; Cohen, 2016; Chen et al., 2016). One of the important issues raised is how to manage and balance the tensions between formal and felt accountability in organizations (O'Dwyer & Boomsma, 2015; Cohen, 2016; Hall et al., 2015; Chen et al., 2016). For example, O'Dwyer and Boomsma (2015) unveil the multifaceted and dynamic nature of accountability in the Dutch social and political context through a case study, and emphasize the importance of balancing externally imposed formal accountability and individuals' felt accountability in organizations. Importantly, O'Dwyer and Boomsma (2015) call for further studies to explore the construction of formal and felt accountability in other institutional environments and in other cultural contexts. Using a between-subject randomized experimental design, we respond to this call by providing causal evidence on whether the imposition of formal accountability overrides accountants' felt accountability in influencing their ethical judgments.

Evidence shows that the influence of accountability on individuals' ethical judgments depends on the cultural context in which the judgments take place. The cultural context provides important insights into how individuals behave to be socially acceptable in that context (Liu, Friedman, & Hong, 2012, 3). Importantly, prior research shows that the cultural perspective on accountability is important and critical for both theoretical and practical reasons in the increasing era of globalization (Gelfand, Lim, & Raver, 2004; Gelfand, Nishii, & Raver, 2006; Hall et al., 2015). Our study examines the cultural context of China because of its economic and political significance in the globalized business world. More importantly, China's unique cultural, social, political, and economic environment provides a particularly appropriate national context for this study. To provide insights into cultural values that are relevant to accountability, we draw on the literature on *Confucianism* and *interdependence* to extend studies in accounting that have largely focused on simplistic and quantified-based approaches, such as Hofstede (1980), Hofstede and Bond (1988) and Gray (1988). We suggest that the values of *harmony within hierarchy* and *interdependence*, which are embedded in China's highly hierarchical organizational structures, provide useful insights for understanding the competing importance of formal and felt accountability on accountants' ethical judgments. Importantly, largely because of globalization, increasing attention has been drawn to *within-country* cultural differences³⁵ and the possible influence of these differences on individuals' ethical judgments and behaviors (Taras, Steel, & Kirkman, 2016; Pan & Patel, 2016). It is important to note that culture, which is dynamic and evolving, is inseparable from economic, political, religious, and psychological conditions, and is changing with economic and social changes (Kleinman & Benson, 2006; Markus & Kitayama, 2010). In response to the rapid globalization occurring in contemporary China, we suggest that the intensity of *harmony within hierarchy* and *interdependence* varies among individuals who experience greater felt accountability and those who experience lesser felt accountability.

Aggressive financial reporting as an ethical issue is selected for examination because of its substantial global, national, organizational, and societal consequences. Aggressive financial reporting refers to accountants' preference for reporting disclosure that portrays events favorably when accounting treatments are not clearly indicated by the facts, accounting

³⁵ For example, Taras et al. (2016) compare the extent of variation in four work-related values *between* 32 countries versus the extent of variation in these values *within* each country. Their findings show that approximately 80% of variation in these work-related values resides within countries, rather than between countries. The four work-related values examined in Taras et al. (2016) are individuals vs. groups, hierarchy and status in organizations, having as much certainty as possible at work, and material wealth, assertiveness and competition versus societal welfare and harmony in relationships.

standards, and relevant literature (Cuccia, Hackenbrack, & Nelson, 1995; Psaros & Trotman, 2004; Psaros, 2007; Pan & Patel, 2016). Aggressive financial reporting is implicated in the global financial crisis and major corporate collapses both in China and internationally (Kaplan, McElroy, Ravenscroft, & Shrader, 2007; Li, Hsu, & Qin, 2014; Borst & Lardy, 2015). Extensive coverage of aggressive financial reporting is found in both scholarly and professional journals and in other media (Kaplan et al., 2007). Chinese regulatory bodies such as the China Securities Regulatory Commission (CSRC) have strengthened governance mechanisms to monitor accounting practice and restrain aggressive financial reporting, especially after the anti-corruption campaign, which was instigated by the Chinese Government in 2011 (Manion, 2016). In the light of regulatory pressures, companies are likely to discourage aggressive financial reporting practices because they are concerned about being perceived as unethical and being targeted by the regulatory authorities (Shafer and Wang, 2011).

Given the worldwide adoption of the principles-based International Financial Reporting Standards (IFRS), aggressive financial reporting is becoming more important and controversial (Jamal and Tan, 2010; Agoglia, Douppnik, & Tsakumis, 2011; Libby, Rennekamp, & Seybert, 2015). Accountants are required to extensively exercise their professional judgments in interpreting a significant number of vague and indeterminate accounting concepts contained in IFRS (Douppnik & Riccio, 2006; Wustemann & Wustemann, 2010; Wehrfritz & Haller, 2014). Evidence shows that accountants may use flexibility inherent in IFRS to make aggressive financial reporting judgments (Psaros & Trotman, 2004; Psaros, 2007; Pan & Patel, 2016). In our study, accountants' aggressive judgments are examined through an accounting scenario related to consolidated financial reporting. The key criterion applied in preparing consolidated financial reports is the vague and indeterminate concept of *control*. Accountants' judgments on the concept of *control* are recognized as one of the most important and controversial accounting topics by various standard setters, regulators, and researchers, including Hopkins, Houston, & Peters (2000), Biondi & Zhang (2007), Bhimani (2008), Baker, Biondi, & Zhang (2010), and Stenka & Taylor (2010).

Our findings support two hypotheses. First, our results support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. This implies that the external justification pressures imposed by formal accountability override individuals' intrinsic felt accountability in influencing their ethical judgments. Second, our results support the hypothesis that when formal accountability is not imposed, accountants who experience lesser

felt accountability are likely to be more aggressive in providing their financial reporting judgments, compared to those who experience greater felt accountability. Specifically, when formal accountability is not imposed, compared to those who experience lesser felt accountability, individuals who experience greater felt accountability are more likely to intrinsically feel accountable for their actions and still perceive intrinsic pressures that their actions may possibly be scrutinized by their superiors or others. We suggest that when formal accountability is not imposed, individuals who experience greater felt accountability are likely to be *prevention-focused* and demonstrate their willingness to engage in *risk-avoidance* behaviors. They are likely to be more *cautious* and more *conservative* in their ethical judgments by invoking legalistic rules. In contrast, when formal accountability is not imposed, individuals who experience less felt accountability are likely to be *promotion-focused* and engage in *risk-taking* behaviors. When the ethical issues involve economic gains, they are likely to be more *opportunistic* and more *aggressive* in their ethical judgments. Our findings suggest that it is only when formal accountability is not imposed that individuals' intrinsic felt accountability is activated and provides insights into their ethical judgments. The findings of our study have implications for designing and developing culturally appropriate accountability mechanisms by taking into account both formal accountability and individuals' felt accountability. The tensions between external pressures imposed by formal accountability and internally driven felt accountability need to be recognized and continually managed at workplaces.

The remainder of the paper is organized into eight sections. Section 2 provides the background for aggressive reporting and consolidated financial reporting and the reasons for selecting China as the case study. Section 3 reviews prior research on formal accountability and felt accountability. Section 4 explains the relationship between Chinese cultural values and accountability, and Section 5 provides the hypothesis formulation. Section 6 explains the research design and data collection. Section 7 presents the results of the study. Conclusions and implications are in Section 8.

4.2.BACKGROUND

4.2.1 Aggressive reporting and consolidated financial reporting

Aggressive financial reporting has been selected in this study because it has long been recognized as a critical ethical issue for the accounting profession (Agoglia et al., 2011; Shafer, 2015; Patelli & Pedrini, 2015; Luippold, Kida, Piercey, & Smith, 2015). Prior research shows that corporate fraud often originates from accountants' engagement in aggressive financial reporting (Chen, Kelly, & Salterion, 2012; Dyck, Morse, & Zingales, 2010, 2013; Luippold et

al., 2015). Aggressive financial reporting is implicated in audit failures, earnings volatility, corporate fraud, and major corporate collapses (Frank, Lynch, & Rego, 2009; Lee, Walker, & Zeng, 2013; Dyck et al., 2010, 2013; Luippold et al., 2015). Given the current focus on global convergence of financial reporting, the effect of rules-based versus principles-based standards on aggressive financial reporting is controversial and is becoming even more important to various standard setters, regulators, and researchers (Libby et al., 2015).

There is debate on whether aggressive reporting can be reduced by moving from rules-based accounting standards to principles-based IFRS (Kennedy, Kleinmuntz, & Peecher, 1997; Psaros & Trotman, 2004; Psaros, 2007; Fiske & Berdahl, 2007; Bennett, Bradbury, & Prangnell, 2006; Jamal & Tan, 2010; Agoglia et al., 2011). Rules-based accounting standards, based on the legalistic approach, concentrate on providing specific quantitative criteria and numerical thresholds and require preparers to exercise little judgment (Humphrey, Loft, & Woods, 2009; Collins, Pasewark, & Riley, 2012). Researchers have suggested that rules-based standards offer a “bright line” for preparers in structuring business transactions (Libby et al., 27). Preparers may manipulate financial reporting under the guise of complying with the rules and requirements for particular accounting treatments, even if such treatments do not reflect the true economic substance of the transactions (Bennett et al., 2006; Jamal & Tan, 2010).

However, researchers have also argued that the adoption of principles-based IFRS may invite more aggressive financial reporting through the liberal exercise of professional judgment (Kennedy et al., 1997; Psaros & Trotman, 2004; Psaros, 2007; Fiske & Berdahl, 2007; Agoglia et al., 2011; Fornaro & Huang, 2012). Largely driven by the forces of globalization, more than 130 jurisdictions have adopted principles-based IFRS, which contain a number of vague and indeterminate concepts, such as ‘materiality’, ‘significant influence’, and ‘control’. Accountants are required to exercise their professional judgment to interpret these concepts and assess the economic reality of business transactions (Agoglia et al., 2011; McEnroe & Sullivan, 2013). Evidence shows that, driven by self-interest and unethical motives, preparers may start with a predetermined position of what they would like to see disclosed in the financial statements, and then use all available discretion to arrive at the disclosure, irrespective of the intent of the standards (Hackenbrack & Nelson, 1996; Phillips, 1999; Cruz, Shafer, & Strawser, 2000; Shafer, Ketchand, & Morris, 2004; Fiske & Berdahl, 2007; Kaplan et al., 2007; Psaros, 2007; Jamal & Tan, 2010; Patelli & Pedrini, 2015). Indeed, principles-based accounting standards are a source of negotiation power, in that preparers often use the freedom of exercising judgments allowed in the standards to justify and legitimize their preferred stand

(Hackenbrack & Nelson, 1996; Phillips, 1999; Fiske & Berdahl, 2007; Jamal & Tan, 2010; Fornaro & Huang, 2012). Prior research provides evidence that the ability of the principles-based standards to constrain aggressive financial reporting is probably very limited (Quick, 2013; Messier Jr., Quick, & Vandervelde, 2014; Libby et al., 2015).

In our study, accountants' aggressive financial reporting judgments are examined through an accounting scenario relating to consolidated financial reporting. Consolidated financial reporting has been selected in this study because it is considered one of the most important and controversial topics by regulators and researchers (Hopkins et al., 2000; Baker & Hayes, 2004; Biondi & Zhang, 2007; Bhimani, 2008; Baker et al., 2010; Stenka & Taylor, 2010; Taplin, Zhao, & Brown, 2014). A number of researchers suggest that the interpretation of the concept of *control*, as the consolidation criterion, requires more attention and more rigorous examination (Psaros & Trotman 2004; Psaros 2007; Bhimani, 2008; Benston & Hartgraves, 2002; Pan & Patel, 2016). *Control*³⁶ is defined as “the power to govern the financial and operation policies of an entity so as to obtain benefits from its activities” (IAS 27 *Consolidated and Separate Financial Statements*,³⁷ para. 4). The principles-based IFRS emphasize that financial statements should reflect the *economic substance* of transactions rather than merely their legal form, such as the percentage threshold of voting power to define *control*. Although the legalistic indicator provided in IAS 27 states that the concept of *control* is usually reflected through the investor entity's ownership of more than half of the voting power of the investee entity, IAS 27 further states that *control* can also exist when the investor entity owns half or less of the voting power of the investee entity if *control* can be otherwise demonstrated.³⁸ As such, preparers' judgments are important in interpreting *control* when preparing consolidated financial reports.

³⁶ The concept of *control* in ASBE 33 *Consolidated and Separate Financial Statements* is a word-for-word translation of that in IAS 27 *Consolidated and Separate Financial Statements* (IAS 27). *Control* has been word-for-word translated as “控制” in Simplified Chinese and the definition of control has been translated as “指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利”。

³⁷ IFRS 10 *Consolidated Financial Statements* replaced IAS 27 in May 2011. IFRS 10 was further amended in 2012 and 2013. The experiment was conducted in early 2014, when IFRS 10 had not yet been adopted in China. Chinese accounting standards relating to consolidated financial reporting including the definition of control are word-for-word translated from IAS 27.

³⁸ Several indications of the existence of *control* are provided in IAS 27 (para. 13), such as the investor entity's power over more than half of the voting rights by virtue of an agreement with other investors, the investor entity's power to govern the financial and operating policies of the investee entity under a statute or an agreement, and the investor entity's power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee entity.

Prior research shows that aggressive financial reporting may occur when account preparers interpret the concept of *control* (Psaros & Trotman, 2004; Psaros, 2007; Pan & Patel, 2016). For example, Psaros & Trotman (2004) provide evidence that preparers may use the flexibility inherent in IFRS to aggressively interpret the concept of *control* in order to reach a favorable financial position when both consolidation and non-consolidation judgments are possible. Pan & Patel (2016) also provide experimental evidence that Chinese subjects are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in Simplified Chinese. We contribute to prior research on consolidated financial reporting by examining the influence of formal and felt accountability on Chinese accountants' aggressive consolidated financial reporting judgments.

4.2.2 Reasons for selecting China

China provides an appropriate national context for our study. Specifically, over the past three decades, China has experienced an unprecedented transition from a centrally planned economy to a quasi-state capitalist and semi-democratic authoritarian economy, where capitalism and free enterprise operate under the watchful eye of and some direct intervention from the state (Graham & Li, 1997; Lee, 2001; Shambaugh, 2009). China's accounting reforms have mirrored its socio-economic reforms. The traditional Chinese accounting system was highly legalistic, and accountants' main task was to report to the central government information required for planning and control purposes (Tang, Chow, & Cooper, 1996; Tang, 2000; ICAS, 2007, 2010; Ezzamel, Xiao, & Pan, 2007). Accountants' judgments were not required under this uniform and rigid accounting system (Ezzamel et al., 2007). Given the forces of globalization and a sustained increase in international trade investments since the adoption of the "open-door" policy in 1978, the accounting profession is emerging and has undergone substantial reforms. For example, the promulgation of the Basic Standard of Accounting for Business Enterprises in 1992 was seen as a clear signal to "standardize the financial behavior of Chinese enterprises and bring China's accounting system in line with international practice" (Xinhua General Overseas News Service, 1992). Furthermore, the Chinese Accounting Standards for Business Enterprises (ASBE), which are substantially in line with the principles-based IFRS, were adopted by all listed companies from 1 January 2007. The Chinese Accounting Standards for Business Enterprises No. 33 Consolidated Financial Statements (ASBE 33) is a word-for-word translation of its international equivalent, IAS 27 Consolidated and Separate Financial Statements. The adoption of IFRS has brought great challenges because extensive exercise of accountants' professional judgments is required in applying these principles-based standards. For example, evidence shows that Chinese reporting entities are resistant to implementing the

principles-based IFRS relating to business combinations mainly because the entities are concerned about inconsistencies in accountants' judgments, which may potentially result in aggressive financial reporting (Taplin et al., 2014, 324). Whether or not Chinese accountants use the flexibility inherent in IFRS to make aggressive financial reporting judgments needs to be examined.

Aggressive financial reporting in China has been implicated in audit failures, earnings volatility, corporate fraud, and major corporate collapses (Frank et al., 2009; Lee et al., 2013; Taplin et al., 2014). Chinese regulatory bodies such as the China Securities Regulatory Commission (CSRC) have strengthened governance mechanisms to monitor accounting practice and restrain aggressive financial reporting (Manion, 2016). Regulatory pressures have become more intense since China's President Xi Jinping initiated an anti-corruption campaign in 2011, which attracted extensive attention from the media, companies, and organizations as well as individuals (Manion, 2016). In light of these regulatory pressures, companies are likely to discourage aggressive financial reporting practices because they are concerned about being perceived as unethical and being targeted by regulatory bodies (Shafer & Wang, 2011). Prior research shows that formal accountability as a form of external intervention has played an important role in preparers' decisions about whether to report less or more aggressively (Gelfand & Realo, 1999; Liu et al., 2012; Cohen, Krishnamoorthy, Peytcheva, & Wright, 2013). An empirical question that has not been rigorously examined in the literature is how individuals' intrinsic felt accountability influences their ethical judgments when formal accountability is imposed and when formal accountability is not imposed.

4.3.ACCOUNTABILITY AND JUDGMENTS

Accountability, as a complex and multifaceted concept, has been extensively examined in the social psychology, sociological, management, and accounting literature (Lerner & Tetlock, 1999; Kennedy, 1993; Antonioni, 1994; Gelfand et al., 2004; Jermias, 2006; DeZoort et al., 2006; Liu et al., 2012; Chang et al., 2013; Peecher et al., 2013). Traditional investigations of accountability in the context of accounting and business ethics have concentrated on the formal accountability mechanism, considering accountability as an objective and external condition (Lerner & Tetlock, 1999; Frink & Klimoski, 1998; DeZoort et al., 2006; Liu et al., 2012; Chang et al., 2013; Peecher et al., 2013). Specifically, under a formal accountability mechanism, individuals are answerable to audiences for performing up to the prescribed standards that are relevant to fulfilling obligations, duties, expectations, and other charges (Schlenker, 1997; Hoffman & Patton, 1997; DeZoort et al., 2006). The imposed external pressure to justify

judgments and decisions to superiors is filtered through various processes and procedures that are explicitly implemented by an organization, such as a rewards-based policy of performance evaluation (Hall et al., 2015). Individuals are held responsible for their actions through the implementation of formal mechanisms of control and their behaviors largely rely on the extrinsic motivation of reward or punishment (Roberts, 2001; O'Dwyer & Boomsma, 2015).

Prior research has shown that a formal accountability mechanism is one of the fundamental factors driving individuals' ethical judgment and decision making (DeZoort & Lord, 1997; Hoffman & Patton, 1997; Lerner & Tetlock, 1999; DeZoort et al. 2006; Bovens, 2007; Hoogervorst et al., 2010). For example, Hoffman and Patton (1997) provide empirical evidence that holding auditors accountable results in more conservative fraud risk judgments, with the tendency to shift auditors' judgments toward what they anticipate will be defensible to their superiors. Additionally, DeZoort et al. (2006) manipulated formal accountability at four levels (i.e., anonymity, review, justification, and feedback) and found that auditors under higher levels of accountability pressure (i.e., justification, feedback) provided more conservative materiality judgments and had less judgment variability than auditors under lower levels of pressure (i.e., review, anonymity). Hoogervorst et al. (2010) provide experimental evidence that formal accountability puts social pressure on leaders to do the morally right thing by showing disapproval of followers' unethical behavior. However, formal accountability is less effective in facilitating a leader's disapproval when the leader personally benefits from followers' unethical behavior.

While a formal accountability mechanism focuses on the imposed external pressure on individuals to justify their judgments, some scholars have advocated a phenomenological view of accountability, which is known as *felt* or *perceived accountability*. The individual-level felt accountability represents a perspective that helps to explain individuals' "state of mind", as opposed to merely "state of affairs", represented in the regime of formal accountability (Hall, Zinko, Perryman, & Ferris, 2009; Royle & Hall, 2012). Indeed, within the regime of felt accountability, individuals feel an intrinsic responsibility to be accountable or "answerable" to themselves in the form of their own values (O'Dwyer & Boomsma, 2015).

Prior studies in the disciplines of sociology, psychology, and organizational behavior have demonstrated the importance of felt accountability in influencing individuals' work-related values and perceptions, such as job tension, job satisfaction, and perceived organizational politics. For example, Hochwarter, Ferris, Gavin, Perrewe, Hall, and Frink (2007) provide

empirical evidence of the positive relationship between felt accountability and individuals' perception of job tension. Moreover, Laird, Perryman, Hochwarter, Ferris, and Zinko (2009) demonstrate that as felt accountability increases, individuals with strong personal reputations perceive less job tension and depressed mood at work, as well as more job satisfaction. Additionally, Hall et al. (2009) demonstrate that accountability leads to greater job performance and satisfaction. Furthermore, Goodman, Evans, and Carson (2011) provide empirical evidence that individuals perceiving organizational politics and high levels of accountability perceive more quality concern stress, compared to individuals perceiving organizational politics and low levels of accountability. In accounting and auditing-related research, Kang, Trotman, and Trotman (2015) provide experimental evidence on the relationship between audit committee members' perceived accountability and their level of scepticism in monitoring the financial reporting process. Specifically, they find that the introduction of an 'Audit Judgment Rule' increases audit committee members' perceived accountability in ensuring the reasonableness of the financial statements. It is important to note that little rigorous research has been carried out to examine how felt accountability influences individuals' ethical judgments when formal accountability is imposed and when formal accountability is not imposed in the area of financial accounting. This study contributes to prior research and addresses this gap.

4.4.CHINESE CULTURAL VALUES AND ACCOUNTABILITY

Accountability, as a fundamental enforcement mechanism of societies, professions, and organizations, is rooted in a country's social, legal, political, and economic environments (Gelfand & Realo, 1999; Chen, Chen, & Meindl, 1998; Gelfand et al., 2004; Goodman et al., 2011; Liu et al., 2012; Hochwarter et al., 2007). Evidence shows that accountability elicits individuals' ethical behaviors that are normative in their cultural experience (Gelfand & Realo, 1999; Peng, Dunn, & Conlon, 2015). The concept of accountability binds individuals to society and individuals are motivated to comply with social expectations in their own culture (Hochwarter et al., 2007; Tetlock, 1992; Lerner & Tetlock, 1999).

Prior research shows that accountability is the social pressure to justify one's views to others and individuals tend to decide or behave in ways they think are socially acceptable (Roberts & Scapens, 1985; Roberts, 2001; Messner, 2009; Briley, Morris, & Simonson, 2000; Liu et al., 2012). There is an important link between individuals' cultural environment and accountability (Earley, 1989; Chen et al., 1998; Goodman et al., 2011; Liu et al., 2012). Several comparative studies provide evidence that individuals from Anglo-American countries respond differently to accountability, compared to individuals from non-Anglo-American countries (Earley, 1989;

Chen et al., 1998; Liu et al., 2012). For example, Earley (1989) shows differences in the *social loafing effect*³⁹ between American managers and Chinese managers under high and low accountability conditions. Earley (1989) finds that a high accountability condition induces greater cooperation in groups and reduces the social loafing effect among American managers. In contrast, Chinese managers did not show any social loafing effect and performed better in a group than when they were working alone, regardless of the level of accountability. In the context of negotiation, Liu et al. (2012) provide evidence that when negotiating under a high accountability condition, Chinese negotiators endorse a relationship-focused approach, focusing on interpersonal relationships, harmony, and concern for others, while American negotiators endorse a self-focused approach, emphasizing individual achievement, self-esteem, and self-interest. These findings suggest that cultural values are important in understanding accountability in specific contexts. Prior studies have largely focused on the influence of formal accountability on judgments and behaviors *between* countries. We suggest that given the current focus on globalization, it is also important to examine *within*-country cultural differences and understand how these differences influence individuals' ethical judgments when formal accountability is imposed and when formal accountability is not imposed.

Cross-cultural studies often categorize China as a *collectivist* culture, in which people are integrated into strong and cohesive "in groups" and act in the interests of the group to maintain harmonious relationships (Hofstede, 1980; Hofstede & Bond, 1988; Michailova & Hutchings, 2006; Hur, Kang, & Kim, 2015). To complement these cultural studies in accounting that have largely focused on simplistic and quantified-based approaches, such as Hofstede (1980) and Hofstede and Bond (1988), we draw on the literature on *Confucianism* and more recent research on *interdependence* to provide more focused and comprehensive insights into Chinese cultural values that are particularly relevant to accountability in contemporary China.

Chinese society as a whole is heavily influenced by *Confucian* ideology, such as *wu-lun* (五伦), literally meaning the five cardinal relationships, namely, emperor–subject, father–son, husband–wife, elder–younger brother, and friend–friend), and sheds light on the importance of hierarchy in interpersonal relationships (Xin & Pearce, 1996). *Confucianism*, as the traditional root of Chinese culture, continues to be prominent in contemporary Chinese society. For example, building *hexie shehui* (和谐社会 literally meaning harmonious society), which has

³⁹ *Social loafing effect* refers to the phenomenon whereby people exerting less effort when they work in a group than when they work alone.

been an official goal of China since 2004, is based on the traditional *Confucianism* concepts (Grumbine and Xu, 2011). *Confucianism* concentrates on hierarchical relationships to achieve harmony, which refers to a state of being in which there is no conflict and everything is balanced and at peace (Lam, 2003; Schaefer-Faix, 2008). An individual is an integral part of the collective to which he or she belongs (Bond & Hwang, 1986). Avoidance of conflict and maintenance of harmony are the cardinal virtues in the Chinese culture, which are presented in the *Confucianism* classic, the *Doctrine of the Golden Mean* (i.e., *zhong-yong*, 中庸) (Sun, 2002; Yang, 2012). The essence of *Zhong-yong* is to maintain balance and harmony among people in an organization (Yang, 2012). As a consequence, unity and harmony within the organization are highly valued. Furthermore, the maintenance of harmonious interpersonal relationships by acting in a manner appropriate to one's position in a hierarchical order is important (Sun, 2002; Leung, 2006).

Under the influence of *Confucianism*, which concentrates on hierarchical relationships to achieve harmony, Chinese are highly *interdependent* (Triandis, 1989; Markus & Kitayama, 1991). This fundamental concept of *interdependence* in *Confucianism* has profound influences on the way Chinese view themselves and interact with others. Specifically, Chinese individuals tend to be motivated by taking action to fit in with the standards and to maintain harmony in hierarchical relationships (Markus & Kitayama, 1991; Zhang & Shrum, 2009; Uskul et al., 2009; Lin et al., 2012). Each member of a group is cognizant of individual responsibility for group success and feels he or she has an indispensable part in the group's survival (Earley, 1989). Indeed, *harmony within hierarchy* and *interdependence* are embedded in the rigid hierarchical Chinese cultural values and these cultural values may impose even more intense justification pressures on individuals (Leung, 2006). As discussed earlier, the anti-corruption campaign initiated by President Xi Jinping in 2011 enforces regulatory pressures that discourage companies from engaging in aggressive financial reporting.

It is also important to note that, in China, culture is not seen as homogenous or static (Fan, 2000; Kleinman & Benson, 2006; Markus & Kitayama, 2010). Culture is inseparable from economic, political, religious, and psychological conditions (Kleinman & Benson, 2006). Culture is dynamic, evolving, and changing with economic and social changes (Markus & Kitayama, 2010). Faced with intense globalization and international convergence of accounting and accountability, evidence shows that the intensity of these cultural values is changing, particularly among professionals in contemporary China (Gudykunst & Lee, 2003; Pan & Patel, 2016). Research shows that accountants are experiencing cognitive changes in their cultural

values (Gudykunst & Lee, 2003; Yang, 2012; Pan & Patel, 2016). For example, prior studies often categorize individuals in *collectivist* culture, such as China, as *interdependents*⁴⁰ (Markus & Kitayama, 1991; Kacen & Lee, 2002). However, Pan & Patel (2016) challenge this simplistic assumption and show that both *independents* and *interdependents* coexist within China.⁴¹ Similarly, in this study, we provide empirical evidence that both accountants who experience greater felt accountability and accountants who experience lesser felt accountability coexist in contemporary China.⁴² While *harmony within hierarchy* and *interdependence* are still important, we suggest that the intensity of these cultural values varies among accountants who experience greater felt accountability and accountants who experience lesser felt accountability.

4.5.HYPOTHESES DEVELOPMENT

To examine the competing importance of *formal* and *felt accountability* in influencing accountants' ethical judgments, hypotheses are developed under two conditions, namely, when formal accountability is imposed and when formal accountability is not imposed.

4.5.1 When formal accountability is imposed

Formal accountability imposes control mechanisms on individuals' actions and entails pressure on individuals to justify their judgments to their superiors for a potential positive evaluation (Buhr, 2001; Shearer, 2002; DeZoort et al., 2006; Bovens, 2007; Peecher et al., 2013; O'Dwyer & Boomsma, 2015). As a form of external intervention, formal accountability represents an "objective and external" condition, which provides a common extrinsic motivation tool in business (Chen et al., 2016, 235). Researchers suggest that the justification pressures imposed by formal accountability provide individuals with "little opportunity to align, integrate or adapt their own values within the requirements" (O'Dwyer & Boomsma, 2015, 40; also see Brief, Dukerich, & Doran, 1991, 380–382). Evidence shows that when formal accountability is

⁴⁰ *Independent* and *interdependent* self-construal represents two distinct dimensions to show the degree to which individuals see themselves as separate from others or as connected with others (Markus & Kitayama, 1991; Pan & Patel, 2016). Research shows that construal of self captures the complexity of individual differences in judgments and decisions at both cultural and personality levels (Singelis, Bond, Sharkey, & Lai, 1999; Pan & Patel, 2016). Specifically, *independents* are motivated by taking actions to promote their own goals and express their unique needs, rights, and capacities to enhance optimism and potential gains (Zhang & Shrum, 2009; Uskul, Sherman, & Fitzgibbon, 2009). In contrast, *interdependents* are motivated by taking actions to maintain connectedness with others and ensure harmonious social interactions (Uskul et al., 2009; Lin et al., 2012).

⁴¹ Pan & Patel (2016) show that among a sample of 122 professional accountants, 25% of the sample are categorized as *independents*, and 75% as *interdependents*.

⁴² Our results show that among a sample of 67 professional accountants, 52% of the sample are categorized in the group who experience *greater* felt accountability and 48% of the sample are categorized in the group who experience *lesser* felt accountability.

imposed, irrespective of their own intrinsic values, subjects are likely to be *more cautious* and *more conservative* in exercising their judgments because of justification pressure (Tetlock, 1985; DeZoort et al., 2006; Peecher et al., 2013). When formal accountability is imposed, subjects are likely to choose “the most clearly defensible course of action open to them” in order to avoid being questioned by their superiors (Tetlock, 1985, 311; Hall et al., 2015, 5). Research shows that externally imposed justification pressures are likely to lead organizational participants to invoke legalistic rules to justify and defend their ethical position. Complying with legalistic rules provides defensible grounds of justification when questioned by superiors (Dubnick, 2003; Rossi, 2010).

Our earlier discussion shows the cultural values of maintaining *harmony within hierarchy* and *interdependence* provide additional insights into how individuals may act under justification pressures. We suggest that these cultural values are likely to impose even more intense justification pressures. As discussed earlier, in the light of strong regulatory pressures that discourage companies from engaging in aggressive financial reporting, we suggest that when formal accountability is imposed, irrespective of whether they experience greater or lesser felt accountability, subjects are likely to be concerned about being perceived as unethical and being targeted by their superiors and regulatory authorities, which may potentially affect their *harmonious* relationships and *interdependence*. As such, we further suggest that when formal accountability is imposed, subjects are likely to be *more cautious* and *more conservative* in exercising their ethical judgments. Being more cautious and more conservative is likely to lead them to invoke legalistic rules where possible, because by doing so, they can easily justify and defend their ethical position. We suggest that formal accountability may override subjects’ intrinsic felt accountability in making their ethical judgments.

With regard to consolidated financial reporting, as discussed earlier, Chinese Accounting Standards for Business No. 33 Consolidated Financial Statements (ASBE 33) requires accountants to exercise their judgments in interpreting the concept of *control* when recommending whether consolidated financial reports should be prepared. However, ASBE33 also provides the legalistic indicator that *control* is usually reflected through the ownership of more than half of the voting power of another entity. We suggest that irrespective of their intrinsic felt accountability, accountants are likely to be more cautious and more conservative in providing their consolidation reporting recommendations under imposed formal accountability. When both consolidation and non-consolidation recommendations are possible, we suggest that accountants are more likely to interpret *control* based on the legalistic indicator

provided in ASBE 33. By doing so, they can justify and defend their recommendations. We therefore suggest that when formal accountability is imposed, accountants are less likely to engage in aggressive financial reporting, irrespective of their intrinsic felt accountability. This leads to the following hypothesis:

H1: When formal accountability is imposed, accountants are not likely to make aggressive consolidation reporting recommendations, irrespective of their scores on felt accountability measures.

4.5.2 When formal accountability is not imposed

Prior evidence on accountability shows that when there are no externally imposed justification pressures, individuals are driven by their own intrinsic values and motivations in arriving at their ethical judgments (Brief et al., 1991; Lewis & Madon, 2004; Hochwarter et al., 2007; Seinbauer et al., 2014; O'Dwyer & Boomsma, 2015). Felt accountability represents individuals' subjective perceptions of being accountable or "answerable" to themselves and others (Sinclair, 1995; Hall et al., 2015; O'Dwyer & Boomsma, 2015). Researchers have suggested that compared with "objective and external" formal accountability, felt accountability is "subjective and internal" in essence, and drives individuals' cognitive activities (Hochwarter et al., 2007, 227; Hall & Ferris, 2010, 134; Chen et al., 2016, 235).

We use the measures of felt accountability⁴³ developed by Hochwarter, Perrewe, Hall, and Ferris (2005) and Hochwarter et al. (2007) to categorize subjects into two groups, namely, subjects who experience *greater* felt accountability and subjects who experience *lesser* felt accountability. Evidence shows that individuals who experience greater felt accountability are more likely to intrinsically feel accountable for their actions and may still perceive intrinsic pressures that their actions may possibly be scrutinized by their superiors or others (Hochwarter et al., 2007; Hall & Ferris, 2010; Chen et al., 2016). Evidence shows that individuals who experience greater felt accountability are likely to be *prevention-focused* (Gelfand et al., 2006, 6). *Prevention-focused* individuals are likely to be oriented toward meeting their duties and responsibilities with the objective of preventing mistakes and avoiding undesirable outcomes (Higgins, Shah, & Friedman, 1997; Higgins & Siberman, 1998; Lockwood, Jordan, & Kunda, 2002; Liang, Xue, & Wu, 2007; Halamish, Liberman, Higgins, & Idson, 2008; Uskul et al., 2009). To avoid making mistakes and being potentially questioned by their superiors, they are more likely to show their willingness to engage in *risk-avoidance* behaviors, even when formal

⁴³ Additional information on how felt accountability is measured is provided in the research design and data collection section.

accountability is not imposed (Gelfand et al., 2006, 11). Importantly, the cultural values of maintaining *harmony within hierarchy* and *interdependence* are likely to strengthen the risk-avoidance behaviors of individuals who experience greater felt accountability. In the light of the Chinese regulatory pressures that discourage engagement in aggressive financial reporting, in order to maintain *harmony within hierarchy* and *interdependence*, individuals who experience greater felt accountability are likely to be more concerned about being perceived as unethical and questioned by their superiors or regulatory authorities. As such, individuals who experience greater felt accountability are likely to be *more cautious* and *more conservative* in exercising their judgments. Being more cautious and more conservative is likely to lead them to invoke objective and legalistic rules. Therefore, their ethical judgments are likely to be *less aggressive*, even when formal accountability is not imposed (Dubnick, 2003; Rossi, 2010).

In contrast, individuals who experience lesser felt accountability are less likely to intrinsically feel accountable for their actions and they are likely to be *promotion-focused* (Gelfand et al., 2006, 6). *Promotion-focused* individuals are likely to be oriented towards fulfilling their own aspirations and ideals with the objective of gaining desirable outcomes (Higgins et al., 1997, Higgins & Siberman, 1998; Lockwood et al., 2002; Liang et al., 2007; Halamish et al., 2008; Uskul et al., 2009). Individuals who experience lesser felt accountability are likely to be more *opportunistic* and *sensitive* to any opportunities to enhance optimism and engage in more *risk-taking* behaviors (Gelfand et al., 2006, 11; Coule, 2015, 93). As such, individuals who experience lesser felt accountability are likely to be *more aggressive* in their ethical judgments when they are not required to justify and defend their judgments to their superiors.

With regard to consolidated financial reporting, when formal accountability is not imposed, we suggest that accountants who experience greater felt accountability are likely to be *prevention-focused* and engage in risk-avoidance behaviors to prevent making mistakes and possibly being questioned by their superiors. As such, even when formal accountability is not imposed, accountants who experience greater felt accountability are likely to be *more cautious* and *more conservative* in interpreting the concept of *control* when recommending whether the investee entity should be included in the group reporting. Being more cautious and more conservative is likely to lead them to invoke the legalistic indicator of ownership of more than half of the voting power as the benchmark to interpret *control*, irrespective of the profitability of the investee entity. Their consolidation reporting recommendations are likely to be *less aggressive*. In contrast, when formal accountability is not imposed, we suggest that accountants who experience lesser felt accountability are likely to be *promotion-focused*, *more opportunistic*,

and use the flexibility provided in ASBE33 to provide their consolidation reporting recommendations. Where both consolidation and non-consolidation are possible, accountants who experience lesser felt accountability are likely to be *more aggressive* in interpreting the concept of *control*. When they are not required to justify and defend their recommendations to their superiors, accountants who experience lesser felt accountability are more likely to include the profit-making investee entity in the group reporting to present a better financial position. Their consolidation reporting recommendations are likely to be more aggressive. This leads to the following hypothesis:

H2: When formal accountability is not imposed, accountants who experience lesser felt accountability are likely to be more aggressive in providing their consolidation reporting recommendations, compared to those who experience greater felt accountability.

4.6. RESEARCH DESIGN AND DATA COLLECTION

To examine the hypotheses, we applied a between-subject randomized experimental design to show inferences about cause and effect (Singleton & Straits, 2005; Tosun, Vaid, & Geraci, 2013). The between-subject randomized experimental design was administered to a sample of Chinese professional accountants who attended a training program at a leading Chinese university. All selected subjects had at least two years' accounting-related work experience. The research instrument consists of three parts. Part 1 contains a detailed accounting scenario relating to consolidated financial reporting. Part 2 collects subjects' demographic information. Part 3 contains an eight-item scale developed by Hall, Frink, Ferris, Hochwarter, Kacmar, & Bowen (2003) and Hochwarter et al. (2005) to measure subjects' felt accountability.

The accounting scenario in Part 1 is based on Psaros and Trotman (2004) and subsequently applied by Psaros (2007). In the scenario, all subjects were asked to presume that they were the financial controller of a company (Dunball Electrical), which had acquired a stake in another company (Tonens Finance) in the previous 12 months. All subjects were informed that Dunball Electrical intended to raise funds by way of a share float during the next financial year and Tonens Finance had made a significant profit in the previous 12 months. Importantly, the following business information was provided in the scenario, where the concept of *control* was not clearly demonstrated and the subjects were required to exercise their judgments on *control* to provide their consolidation recommendation:

1. Tonens Finance has 11 members on its board of directors. Of these, five are senior management of Dunball Electrical.

2. Dunball Electrical owns 33% of Tonens Finance's voting shares. The remainder of the shares are held by a wide range of investors.
3. An arrangement exists that gives Dunball Electrical the right to approve Tonens Finance's future borrowings and terms of operations.

To ensure that subjects understood the scenario, all subjects were required to answer a debriefing question as to whether they believed that Dunball Electrical's financial position was worsened or improved by including Tonens Finance in its consolidated accounts. Importantly, subjects' consolidation reporting recommendations were collected through two questions. The first question related to subjects' preference for using the quantified legalistic approach or exercising their judgments to interpret the concept of *control* when providing their consolidation reporting recommendations. The second question related to whether subjects would recommend to senior management to include (exclude) Tonens Finance in their group reporting based on the concept of *control*.

Two versions of the research instrument were developed based on whether the formal accountability mechanism was imposed. Consistent with prior research on formal accountability, we manipulated the formal accountability condition by including a statement that subjects would be chosen at random to explain and justify their judgment to a panel of instructors (including the researcher and supervisors) and the chosen subjects would be moved to a separate room to explain their judgment. As a check of this manipulation, subjects were asked two questions. The first manipulation check question sought to identify how motivated the subjects were to complete the tasks required in the instrument, using a seven-point scale anchored "not at all motivated" (coded as 1) and "extremely motivated" (coded as 7). The second manipulation check question required the subjects to answer how much effort they exerted to complete the tasks in the instrument, using a seven-point scale anchored "very little effort" (coded as 1) and "a great deal of effort" (coded as 7).

In Part 2, subjects' demographic information was collected, including gender, age, education background, nationality, relevant working experience in accounting, and familiarity with accounting standards relating to consolidated financial reporting. In Part 3, an eight-item scale developed by Hall et al. (2003) and Hochwarter et al. (2005) was used to measure subjects' felt accountability.⁴⁴ Prior studies used Cronbach's α to measure internal consistency and reliability

⁴⁴ The scale utilized a seven-point format, including items, "I am held very accountable for my actions at work", "I often have to explain why I do certain things at work", "Top management holds me

of this eight-item felt accountability scale (Hall et al., 2003; Hochwarter et al., 2005). The Cronbach's α in our study is 0.823, which is considered acceptable.⁴⁵

Pre-experiment interviews were conducted to gather academic and accounting practitioners' insights into the concept of accountability; these ensured that the accountability manipulation and measures were relevant and applicable in China's unique cultural context. Semi-structured interviews⁴⁶ were conducted with six Chinese accounting academics and 10 Chinese professional accountants, who had at least two years' accounting-related work experience. Each interview lasted between 15 and 20 minutes. The feedback and comments received from the interviews confirm the relevance and applicability of the formal accountability manipulation and felt accountability measures used in China's cultural context.

Additionally, the research instrument was pilot tested in two steps. The first step involved administering the research instrument to 10 accounting academics and 10 Chinese professional accountants with expertise in the area of consolidated financial reporting. Importantly, they were specifically asked to evaluate the instrument with the objective of improving its understandability and to comment on the realism of the accounting case in the instrument. Based on their feedback, content and questions were refined to improve readability and understandability. After making several editorial changes to the research instrument based on the feedback that was received, the instrument was further pilot tested with 10 Chinese professional accountants. A few minor editorial suggestions from their feedback were incorporated into the research instrument.

The experiment was conducted at a training session at a leading Chinese university. One of the researchers attended the session to conduct the experiment. Before the experiment, the researcher provided a brief introduction about the study and emphasized that participation was

accountable for all of my decisions", "If things at work do not go the way that they should, I will hear about it from top management", "To a great extent, the success of my immediate work group rests on my shoulders", "The jobs of many people at work depend on my success or failures", "In the grand scheme of things, my efforts at work are very important", and "Co-workers, subordinates, and bosses closely scrutinize my efforts at work".

⁴⁵ Prior studies, such as Nunnally (1978, 245) and Field (2005, 668) specify that Cronbach's α above 0.7 is acceptable. Cronbach's α value of 0.8 or above is often seen as acceptable in prior studies on felt accountability (Hall et al., 2003; Hochwarter et al., 2005, 2007).

⁴⁶ The interview guide included open-ended questions such as "What does accountability mean to you?", "Have the accountability mechanisms been included in the performance evaluation in the organization which you work for?", "If yes, how does the accountability mechanisms influence your judgments in accounting practice?", and "If not, do you feel any obligation or pressure from your boss when you make judgments?"

voluntary and responses would be treated with strict confidence. A total of 80 subjects participated in the experiment. After the researcher's introduction, subjects were randomly assigned to two equal groups and then located in two separate rooms for the experiment (i.e., 40 subjects in each room). Subjects in one room received the research instrument with the statement to specify the imposition of formal accountability, while subjects in the other room received the research instrument without such a statement. After excluding three incomplete responses and 10 responses that failed the debriefing question,⁴⁷ the responses of 37 subjects in the room with formal accountability imposed and the responses of 30 subjects in the room without formal accountability imposed were used for data analysis.

4.7.RESULTS

The demographic details of the subjects are reported in Table 4.1. In summary, 79.1% of the subjects were female and 20.9% were male; 35.8% of the subjects were aged 20 to 29 and 49.3% of the subjects were aged 30 to 39. All subjects had at least three years' accounting-related working experience and, importantly, 26.9% of the subjects had more than 10 years' accounting-related work experience. Only 10 subjects had work experience in Big 4 accounting firms. Additionally, all subjects provided scores of 5 or above on the question of whether they were familiar with the accounting standards on consolidated financial reporting on a seven-point Likert scale (1 = not familiar at all to 7 = very familiar). This result indicates that all subjects in the experiment were familiar with the relevant accounting standards on consolidated financial reporting. The statistical results confirm that there are no significant differences in subjects' aggressive consolidated financial reporting recommendations based on gender, age, length of accounting-related experience, Big 4/non-Big 4 experience and familiarity with the accounting standards on consolidated financial reporting. Therefore, subjects' responses were aggregated for the purpose of further statistical testing.

Insert Table 4.1 near here

Recall from our earlier discussion, judgments of subjects who experienced greater felt accountability and those who experienced less felt accountability were examined under two

⁴⁷ Recall from our earlier discussion that respondents were required to indicate whether they believed that Dunball Electrical's financial position would be worsened or improved by including Tonens Finance in its consolidated accounts on a 10-point Likert scale (1 = very much worsened to 10 = very much improved). Ten subjects provided a score below 4, which indicated that Dunball Electrical's financial position would be worsened by including the profit-making Tonens Finance in the consolidated accounts. These 10 subjects were excluded from further data analysis because their responses suggested they did not understand the scenario presented in the research instrument.

conditions, namely, when formal accountability was imposed and when formal accountability was not imposed. To access the efficacy of formal accountability manipulation, two questions were included in the research instrument. The first question related to the degree of subjects' motivation to complete the task required in the experiment.⁴⁸ The results show that the subjects in the room where the formal accountability mechanism was imposed ($mean=4.86$) were significantly more motivated ($p=0.000$) to complete the task required in the experiment, compared to those in the room where formal accountability was not imposed ($mean=3.67$) (see Panel A in Table 4.2). The second question related to the degree of subjects' effort to complete the task required in the experiment.⁴⁹ The results show that the subjects in the room where formal accountability mechanism was imposed ($mean=5.22$) exerted a significantly higher level of effort ($p=0.000$) in completing the task, compared to those in the room where formal accountability was not imposed ($mean=4.03$) (see Panel B in Table 4.2). The results are consistent with findings in prior literature that imposition of formal accountability leads individuals to be more motivated and exert greater effort to complete the required tasks. As such, the results confirm that the subjects in the room where formal accountability was imposed were aware of the justification pressures imposed by formal accountability.

Insert Table 4.2 near here

Subjects were further divided into two groups as subjects who experienced greater felt accountability and those who experienced lesser felt accountability, based on their scores on the felt accountability measure. Subjects' scores on felt accountability scales were z-standardized. Then the subjects with scores above the mean were classified as subjects who experience greater felt accountability ($n=35$), whereas the subjects with scores below the mean were classified as *subjects who experience lesser felt accountability* ($n=32$).⁵⁰

To access the degree of consensus in respect of consolidation reporting recommendations of subjects who experienced greater felt accountability and those who experienced lesser felt accountability, Chi-square (χ^2) tests were conducted. The results are shown in Table 4.3. The consolidation reporting recommendation (recommendation to include or exclude Tonens Finance in the group reporting) was the dependent variable. Recall from our earlier discussion

⁴⁸ We used a seven-point scale anchored "not at all motivated" (coded as 1) and "extremely motivated" (coded as 7).

⁴⁹ We used a seven-point scale anchored "very little effort" (coded as 1) and "a great deal of effort" (coded as 7).

⁵⁰ This classification is consistent with the computation rules in prior studies.

that two questions were included in the instrument to determine accountants' consolidation reporting recommendations, namely subjects' preference for using the quantified legalistic approach or exercising their judgments (see Panel A in Table 4.3) and subjects' consolidation reporting recommendations (recommendations to include or exclude Tonens Finance in the group reporting) (see Panel B in Table 4.3). The imposition of formal accountability (imposed or not imposed) and the subjects' felt accountability (experienced greater or lesser felt accountability) were the between-subject independent variables.

Insert Table 4.3 near here

Specifically, when formal accountability was imposed, 77.3% of the subjects who experienced greater felt accountability preferred using quantitative legalistic methods when providing their consolidation recommendations and 73.3% of the subjects who experienced lesser felt accountability had this preference. The result of the χ^2 -test shows that there is no significant difference ($p=0.541$) in the preference for using quantitative legalistic methods among subjects who experienced greater felt accountability and those who experienced lesser felt accountability (see Panel A in Table 4.3). Regarding subjects' consolidation reporting recommendations, when formal accountability was imposed, 72.7% of the subjects who experienced greater felt accountability recommended excluding Tonens Finance from the group's reporting and 73.3% of the subjects who experienced lesser felt accountability provided this recommendation. The result of the χ^2 -test shows that consolidation reporting recommendations did not significantly differ ($p=0.635$) among subjects who experienced greater felt accountability and those who experienced lesser felt accountability (see Panel B in Table 4.3). The results provide support for H1 that when formal accountability is imposed, accountants are not likely to make aggressive consolidation reporting recommendations, irrespective of their scores on felt accountability measures.

When formal accountability was not imposed, 46.2% of the subjects who experienced greater felt accountability preferred using quantitative legalistic methods, while only 11.8% of the subjects who experienced lesser felt accountability had this preference. The majority of subjects who experienced lesser felt accountability (i.e., 88.3%) preferred exercising their judgments when providing consolidation reporting recommendations. The result of the χ^2 -test shows that this difference was significant ($p=0.045$) (see Panel A in Table 4.3). Regarding subjects' consolidation reporting recommendations, when formal accountability was not imposed, 69.2% of the subjects who experienced greater felt accountability recommended excluding Tonens

Finance from the group's reporting, while only 11.8% of the subjects who experienced lesser felt accountability provided this recommendation. Of the subjects who experienced lesser felt accountability, 88.2% recommended including Tonens Finance in the group's reporting. The result of the χ^2 -test shows that this difference was significant ($p=0.002$) (see Panel B in Table 4.3), that is, when formal accountability was not imposed, compared to those who experienced greater felt accountability, accountants who experienced lesser felt accountability made significantly more aggressive consolidation reporting recommendations by recommending including the profit-making investee entity in the group's reporting. The results provide support for H2.

4.8.CONCLUSIONS AND IMPLICATIONS

Our study addresses the research gap in the literature by examining the competing importance of formal and felt accountability in influencing accountants' aggressive judgments relating to consolidated financial reporting in the Chinese cultural context. The importance of recognizing within-country cultural differences has been identified in recent research (Taras et al., 2016; Pan & Patel, 2016). While the cultural values of *harmony within hierarchy* and *interdependence* are still important in China, we suggest that largely because of globalization, the intensity of these cultural values varies among accountants who experience greater felt accountability and those who experience lesser felt accountability. Our results show that both accountants who experience greater felt accountability and those who experience lesser felt accountability coexist within contemporary China. Our findings provide experimental evidence to support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive consolidation reporting recommendations, irrespective of their scores on felt accountability measures. Additionally, our findings show that when formal accountability is not imposed, felt accountability becomes of greater importance in providing insights into accountants' aggressive judgments. Specifically, we find support for the hypothesis that when formal accountability is not imposed, accountants who experience lesser felt accountability are likely to be more aggressive in providing their consolidated financial recommendations, compared to those who experience greater felt accountability.

The findings of this study have three specific implications. First, our findings have implications for multinational enterprises and enterprises operating in China in particular. In the globalized business world, enterprises are recognizing the business case for greater diversity among employees, which may allow them to better understand clients and come up with more culturally appropriate business solutions (Tadros & King, 2016). It is critical for companies and

organizations to be aware of the possible variations in employees' intrinsic felt accountability and its possible influence on their ethical judgments especially when formal accountability is not imposed. We suggest that managers and organizations continually manage and balance the externally imposed formal accountability demands with internally driven felt accountability. Enterprises may design and develop culturally appropriate accountability mechanisms and invest in ethics training and mentoring programs to encourage greater employee commitment to ethical behavior. For example, organizations may formally support ethical behavior through reward systems as well as informally through socialization and communication. The tensions between external pressures imposed by formal accountability and internally driven felt accountability need to be recognized and continually managed at workplaces.

Our findings have implications for both global standard setters in general and Chinese regulators in particular. The current rush towards global convergence of accounting and accountability is largely driven by the implicit assumption that worldwide adoption of the principles-based IFRS improves accountability and enhances comparability of financial information (Heidhues & Patel 2011; Hellmann, Perera, & Patel, 2013). Consistency of accountants' judgments both between countries and within a country is crucial for the worldwide adoption of IFRS. However, various factors that influence accountants' judgments are often ignored by global standard setters and national regulators. Our findings show that consistency in accountants' ethical judgments is difficult to achieve even within a country. We suggest that it may be premature for the IASB and standard setters of countries adopting IFRS to assume that adoption of IFRS will lead to greater accountability and comparability of financial reporting practices. Regulators and global standard setters need to address the within-country differences in accountants' judgments in interpreting accounting concepts contained in the principles-based IFRS before moving to the next step of making them globally acceptable. We recommend that regulators and global standard setters may take into account the role of formal and felt accountability in influencing accountants' judgments.

Our findings may be relevant to researchers who are interested in examining accountability and cultural influences on accountants' ethical judgments and behavior both within and between countries. Future studies may use case studies and surveys to provide more holistic insights into the competing importance of formal and felt accountability in influencing accountants' judgments in specific cultural contexts.

The limitations of experimental design apply to this study. The scenario used in this study may not depict real world examples and may not be representative of complex judgments preparers may encounter in practice. We acknowledge that ethical judgment is complex and may be influenced by various factors, including culture, personality, and language. Other factors that may influence accountants' judgments are beyond the scope of our study. Future studies may select the Anglo-American cultural context, choosing countries such as the US, the UK, and Australia to examine the competing importance of formal and felt accountability on accountants' aggressive financial reporting judgments.

Table 4. 1: Respondents' profile

Gender	Total (<i>n</i> =67)	Percentage
Male	14	20.9%
Female	53	79.1%
Age	Total (<i>n</i> =67)	Percentage
20–29	24	35.8%
30–39	33	49.3%
40–49	8	11.9%
50–59	2	3.0%
Years of accounting and related experience	Total (<i>n</i> =67)	Percentage
3–5 years	27	40.3%
6–10 years	22	32.8%
More than 10 years	18	26.9%
Experience at Big 4	Total (<i>n</i> =67)	Percentage
Yes	10	14.9%
No	57	85.1%

Table 4. 2: Manipulation checks of formal accountability**Panel A: Manipulation check 1: accountants' motivation**

	Formal accountability		
Source of variance	<i>Yes</i>	<i>No</i>	Significance level: <i>p</i> =
Mean	4.86	3.67	F=39.651
SD	0.887	0.606	<i>p</i> =0.000
N	37	30	

A 7-point scale was used. 1 denoted "not at all motivated" and 7 denoted "extremely motivated".

Panel B: Manipulation check 2: accountants' effort

	Formal accountability		
Source of variance	<i>Yes</i>	<i>No</i>	Significance level: <i>p</i> =
Mean	5.22	4.03	F=28.303
SD	0.854	0.964	<i>p</i> =0.000
N	37	30	

A 7-point scale was used. 1 denoted "very little effort" and 7 denoted "a great deal of effort".

Table 4. 3: Felt accountability and accountants' judgments

Panel A: Accountants' preference for using quantified approach or exercising their judgments					
			Felt accountability		χ^2 significance level:
			High	Low	
Formal accountability	Yes	I prefer using quantitative method	17 (77.3%)	11 (73.3%)	$\chi^2=0.075$ p=0.541
		I prefer exercising my judgments	5 (22.7%)	4 (26.7%)	
		Total	22	15	
	No	I prefer using quantitative method	6 (46.2%)	2 (11.8%)	$\chi^2=4.455$ p= 0.045
		I prefer exercising my judgments	7 (53.8%)	15 (88.2%)	
		Total	13	17	

Panel B: Accountants' consolidation reporting recommendations					
			Felt accountability		χ^2 significance level:
			High	Low	
Formal accountability	Yes	Including the investee entity	6 (27.3%)	4 (26.7%)	$\chi^2=0.002$ p=0.635
		Excluding the investee entity	16 (72.7%)	11 (73.3%)	
		Total	22	15	
	No	Including the investee entity	4 (30.8%)	15 (88.2%)	$\chi^2=10.476$ p= 0.002
		Excluding the investee entity	9 (69.2%)	2 (11.8%)	
		Total	13	17	

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CHAPTER 5

CONCLUSIONS

5.1 INTRODUCTION

This dissertation makes original contributions to accounting behavioural research by providing causal experimental evidence on the influence of three important and relevant factors, namely *language*, *personality*, and *accountability* on Chinese accountants' aggressive financial reporting judgments. Aggressive financial reporting has long been recognized as a critical ethical issue for the accounting profession (Agoglia *et al.*, 2011; Shafer, 2015; Patelli and Pedrini, 2015). Extensive coverage of aggressive financial reporting is found in both scholarly and professional journals and in other media (Kaplan *et al.*, 2007; Li *et al.*, 2014; Borst and Lardy, 2015). Given more than 130 jurisdictions have adopted the principles-based International Financial Reporting Standards (IFRS), whether accountants use the flexibility allowed in IFRS to make aggressive reporting is becoming particularly important to countries such as China, which traditionally used rules-based standards (Pan and Patel, 2016a, 2016b). Prior research has shown that consistent accounting standards (known as formal or *de jure* accounting) may not necessarily ensure consistent application of standards (known as material or *de facto* accounting) (Doupnik and Salter, 1995; Schultz and Lopez, 2001; Pacter, 2014; Doupnik and Perera, 2009; Alali and Cao, 2010; Navarro-Garcia and Bastida, 2010; Peng and Bewley, 2010; Wehrfritz and Haller, 2014; Tsunogaya, 2016). However, prior research has neglected *language*, *personality*, and *accountability* as important factors when examining accountants' judgments in interpreting and applying principles-based IFRS.

This dissertation has clearly identified a gap in the existing literature and responds to calls in the literature for more rigorous research to examine various factors influencing accountants' judgments in applying principles-based IFRS, which may result in aggressive financial reporting, especially in non-Anglo-American countries. China provides a particularly appropriate national context for this dissertation because of its unique social, cultural, economic, political, and legal environment. The findings of this dissertation may also have implications for other transitional countries, which have adopted or plan to adopt IFRS. This dissertation draws on the literature from diverse disciplines such as sociology, linguistics, psychology, and organizational behaviour to provide holistic insights into the influence of *language*, *personality*, and *accountability* on Chinese accountants' aggressive financial reporting judgments. Specifically, the three experimental studies comprising this dissertation have the following objectives:

1. to provide causal experimental evidence that Chinese accounting students make more aggressive financial reporting judgments in English than in their native language;
2. to provide experimental evidence on the influence of an important personality variable, namely *construal of self*, on Chinese accountants' aggressive financial reporting judgments;
3. to provide experimental evidence on the competing importance of *formal* and *felt accountability* in influencing Chinese accountants' aggressive financial reporting judgments.

Paper 1 (Chapter 2) addresses the first objective by drawing on two strands of research, namely, culture and linguistics, and psychology literature on judgments and decision making to provide causal experimental evidence that Chinese subjects use the flexibility inherent in IFRS to make more aggressive financial reporting judgments when they face an ethical scenario in English than in their native language. The findings have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual's ethical judgment is consistent in different languages. The findings suggest that systematically different ethical judgments in native and foreign languages need to be recognized.

This paper has been published in the *Journal of Business Ethics*, which is ranked A by the Australian Business Deans Council (ABDC) journal ranking.⁵¹ An earlier version of the paper was presented at the 36th Annual Congress of the European Accounting Association in May 2013, and the 7th Asia Pacific Interdisciplinary Research in Accounting Conference in July 2013.

Paper 2 (Chapter 3) addresses the second objective of this dissertation by examining the influence of an important personality variable, namely *construal of self*, on Chinese accountants' aggressive financial reporting judgments. *Construal of self*, which distinguishes between *independent* and *interdependent* self-construal is selected in this study because this important and fundamental personality variable captures complex cognitive processes in explaining individual differences in judgments and decisions at both cultural and personality levels. This paper contributes to the literature by providing experimental evidence that, compared to *interdependent* accountants, *independent* accountants use the flexibility allowed

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in the principles-based standards to make more aggressive consolidation reporting judgments. Adoption of IFRS may not necessarily ensure consistent judgments, even within China. This study also contributes to the literature by enlarging the context of accounting judgment research. *National culture* has often been considered the dominant factor in explaining differences in accountants' judgments relating to IFRS. However, significant within-country differences have not been rigorously examined in prior research. The findings of this paper establish the importance of examining construal of self in explaining differences in accountants' judgments within China.

This paper has been accepted for publication in a forthcoming issue of the *Accounting, Auditing & Accountability Journal*, which is ranked A by the Australian Business Deans Council (ABDC) journal ranking.⁵² An earlier version of the paper was presented at the *50th British Accounting and Finance Association Annual Conference* in April 2014, and the *26th Asian-Pacific Conference on International Accounting Issues* in October 2014.

Finally, Paper 3 (Chapter 4) addresses the third objective of this dissertation by using a cultural lens to examine whether *felt accountability* influences Chinese accountants' ethical judgments under two conditions, namely, when *formal accountability* is *imposed* and when *formal accountability* is *not imposed*. The results of this paper show that accountants who experience greater felt accountability and those who experience lesser felt accountability coexist within contemporary China. The findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. The findings also show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their financial reporting judgments, compared to those who experience greater felt accountability. The findings have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. The findings also have implications for global standard setters, national regulators, and researchers.

This paper is under peer review in the *Accounting, Organizations and Society* journal, which is ranked A* by the Australian Business Deans Council (ABDC) journal ranking.

⁵² The citation information of the paper is: Pan, P. and Patel, C. (forthcoming), "Construal of self and Chinese accountants' aggressive financial reporting judgments", *Accounting, Auditing & Accountability Journal*, doi:10.1108/AAAJ-12-2015-2321.

By addressing and examining the aforementioned objectives through three separate experimental studies, this dissertation contributes to the literature on the global convergence of financial reporting. Largely driven by the forces of globalization and international convergence of accounting and accountability, regulatory pressures to discourage aggressive financial reporting have become even more intense in China, especially after the anti-corruption campaign that was launched in 2011. Whether accountants use the flexibility allowed in the principles-based IFRS to justify and legitimize their preferred stand is particularly important in the Chinese context. However, the current rush towards global convergence of IFRS is largely driven by the implicit assumption by various standard setters that a single set of accounting standards will enhance international comparability of accounting information across countries. The influence of relevant contextual factors, including countries' cultural, social, political, economic, and legal environments on accountants' judgments are often ignored by global and national standards setters, regulators, and cross-cultural researchers. There have been calls in the literature for more rigorous research to examine various factors that may influence accountants' judgments in applying principles-based IFRS, which may result in aggressive financial reporting, especially in non-Anglo-American countries such as China (Trotman *et al.*, 2011; Zhang *et al.*, 2012; Heinz *et al.*, 2013; Mertins *et al.*, 2013; Abernathy *et al.*, 2013). Prior research has suggested that factors of *language*⁵³, *personality*⁵⁴ and *accountability*⁵⁵ are closely linked to a country's unique contextual environment and may influence individuals' judgments and decisions. By using multidisciplinary approaches, this dissertation responds to these calls and contributes to the literature by providing in-depth holistic insights into the importance of *language*, *personality*, and *accountability* in influencing accountants' aggressive financial reporting judgments in the Chinese national context.

The remainder of this chapter is organized as follows. Section 5.2 provides summaries and contributions of the three empirical studies comprising the main part of this dissertation. Section 5.3 draws general conclusions and implications for accounting behavioural research and accounting practice. The final section outlines the limitations of this research and provides suggestions for future research.

⁵³ This includes the literature, such as Ross *et al.* (2002), Ji *et al.* (2004), Chen and Bond (2010), and Pan and Patel (2016a).

⁵⁴ This includes the literature, such as Taggar and Parkinson (2007), Shafer and Simmons (2008), LePine *et al.* (2011), Heinz *et al.* (2013), Pan and Patel (2016b).

⁵⁵ This includes the literature, such as DeZoort *et al.* (2006), Liu *et al.* (2012), Chang *et al.* (2013), and Peecher *et al.* (2013).

5.2 SUMMARIES AND CONTRIBUTIONS OF THE THREE EXPERIMENTAL STUDIES

5.2.1 *Chapter 2: The influence of native versus foreign language on Chinese subjects' aggressive financial reporting judgments*

Researchers have suggested that ethical judgments about 'right' and 'wrong' are the result of deep and thoughtful principles and should therefore be consistent and not influenced by factors such as language (Costa *et al.*, 2014, p. 1). As long as an ethical scenario is understood, individuals' resolution should not depend on whether the ethical scenario is presented in their native language or in a foreign language. Given the forces of globalization and international convergence, an increasing number of accountants and accounting students are becoming proficient in more than one language and they are required to interpret and apply complex ethical pronouncements issued by various global standard setters both in their native language and in English. There have been calls in the literature to examine whether subjects make systematically different ethical judgments in a foreign language than in their native language. This paper contributes to the literature by drawing on culture, linguistics, and psychology research to provide empirical evidence that Chinese subjects are more aggressive in interpreting the concept of control when providing their consolidation reporting recommendations in English than in Simplified Chinese. This research applied a 2x2 within-subject and between-subject randomized experimental design using a sample of Chinese final year undergraduate accounting students at a leading Chinese university, where accounting courses are taught in both Simplified Chinese and English. Students in our study are a proxy for entry-level accounting practitioners. The findings of this paper have implications for the globalized business world and cross-cultural research by challenging the commonly held assumption that an individual's ethical judgment is consistent in different languages. The findings suggest that systematically different ethical judgments in native and foreign languages need to be recognized.

5.2.2 *Chapter 3: Construal of self and Chinese accountants' aggressive financial reporting judgments*

This study responds to calls in the literature to examine personality variables that may provide sharper insights into accountants' judgments in applying principles-based International Financial Reporting Standards (IFRS). The paper contributes to the literature on the global convergence of financial reporting by examining the influence of an important personality variable, construal of self, on Chinese accountants' aggressive financial reporting judgments. A between-subjects quasi-experiment was applied. One hundred and twenty-two Chinese professional accountants were categorized as either *independents* or *interdependents*, on the

basis of their scores on construal-of-self scales. Subjects made their consolidation reporting judgments in the manipulated situations based on the financial performance of the investee entity, which refers to a situation in which the investee entity makes a significant profit or a significant loss in the reporting period. The findings of this study show that, compared to interdependent accountants, independent accountants use the flexibility allowed in the principles-based standards to make more aggressive consolidation reporting judgments. Also, adoption of IFRS may not necessarily ensure consistent judgments even within China. This paper provides empirical evidence of the importance of construal of self in examining accountants' aggressive judgments. The findings suggest that it may be premature to assume that adoption of IFRS will lead to comparable financial reporting. The findings are relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries. Companies and organizations may incorporate appropriate strategies to recruit and train independent and interdependent accountants, particularly by addressing the influence of construal of self on aggressive financial reporting judgments.

5.2.3 Chapter 4: *The influence of formal and felt accountability on Chinese accountants' aggressive reporting judgments*

The objective of our paper is to complement and extend prior research by providing causal experimental evidence to show the competing importance of *formal* and *felt accountability* in influencing Chinese professional accountants' aggressive financial reporting judgments. Specifically, a between-subject randomized experiment was conducted to examine whether felt accountability influences ethical judgments under two conditions, namely, when formal accountability is *imposed* and when formal accountability is *not imposed*. This paper uses a cultural lens to draw on the literature on Confucianism and interdependence to suggest that the cultural values of *harmony within hierarchy* and *interdependence* provide useful insights for understanding accountability. However, faced with intense globalization and international convergence of accounting and accountability, the intensity of these cultural values are changing, particularly among professionals in contemporary China. The results show that both accountants who experience *greater* felt accountability and those who experience *lesser* felt accountability coexist within contemporary China. The findings support the hypothesis that when formal accountability is imposed, accountants are not likely to make aggressive financial reporting judgments, irrespective of their scores on felt accountability measures. The findings further show that when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their financial reporting judgments,

compared to those who experience greater felt accountability. The findings have implications for enterprises when designing and developing culturally appropriate accountability mechanisms. The findings also have implications for global standard setters, national regulators, and researchers.

5.3 IMPLICATIONS

This dissertation contributes to the literature by providing causal experimental evidence on the influence of three important and relevant factors, namely *language*, *personality*, and *accountability* on accountants' aggressive financial reporting judgments in the Chinese national context. This section provides the implications of each of the three experimental studies comprising this dissertation.

5.3.1 Chapter 2: The influence of native versus foreign language on Chinese subjects' aggressive financial reporting judgments

Paper 1 (Chapter 2) contributes to the literature by providing empirical evidence that Chinese accounting students are more aggressive in interpreting the concept of *control* when providing their consolidation reporting recommendations in English than in their native language. The findings have implications for the globalized business world where proficiency in more than one language is predominant and also for cross-cultural accounting and business ethics research.

Given the current focus on globalization and international convergence, English has become the business *lingua franca*. The findings have implications for the *substance over form* approach adopted by the IASB to develop principles-based IFRS, which often require preparers to extensively exercise their judgments both in English and in their native language. Importantly, complex ethical pronouncements issued by global standard setters such as the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), and the International Federation of Accountants (IFAC) and national regulators are translated into various languages. The current rush towards global accounting convergence is largely driven by the 'implicit assumption' by various global and national standard setters that a single set of accounting standards will enhance international comparability of accounting information across countries (Heidhues and Patel, 2011; Hellmann *et al.*, 2013). Additionally, various standard setters have not examined the possibility that individuals may make inconsistent ethical judgments in English and in their native language. Making ethical judgments in both English and a native language is unavoidable in international multilingual forums such as global accounting standard-setting bodies, the United Nations, the

European Union, the Asia-Pacific Economic Cooperation, and the Association of Southeast Asian Nations, as well as large investment firms and multinational enterprises in general. Prior literature has placed emphasis on individual and organizational factors, which induces differences in individuals' ethical judgment and decisions, and has ignored the possible influence of individuals' native and foreign languages on ethical judgments (Ford and Richardson, 1994; O'Fallon and Butterfield, 2005; Craft, 2013). The findings suggest that inconsistencies in ethical judgments are potentially even more intractable. The findings challenge this commonly held assumption by various standard setters, such as the IASB and the IFAC, that an individual makes consistent judgments in English and in his/her native language, and demonstrate that systematically different ethical judgments need to be recognized.

The findings also have implications for a strand of research that involves translation and back-translation methodology. Translation and back-translation methodology is considered a well-established translation methodology, and has been widely used by global standard setters such as the IASB, the IAASB and the IFAC, national regulators and cross-cultural accounting researchers (Doupnik and Richter, 2004; Abernethy and Vagnoni, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007; Shafer, 2008; O'Connor *et al.*, 2011). It has been assumed that technical equivalence of texts in different languages by implementing this methodology can ensure consistency in judgments. The findings challenge the uncritical and continued application of translation and back-translation methodology and suggest that cross-cultural researchers may pay greater attention to individuals' systematically different ethical judgments in native and foreign languages.

5.3.2 *Chapter 3: Construal of self and Chinese accountants' aggressive financial reporting judgments*

Paper 2 (Chapter 3) contributes to the literature by providing empirical evidence that, compared to interdependent accountants, independent accountants use the flexibility allowed in principles-based standards to make aggressive consolidation reporting recommendations by recommending including (excluding) a profit-making (loss-making) investee entity in the group's reporting. The findings of this study have a number of implications.

First, this study contributes to the literature by enlarging the context of accounting judgment research. National culture has often been considered the dominant factor in explaining differences in accountants' judgments relating to IFRS (Schultz and Lopez, 2001; Doupnik and Richter, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007; Curtis *et al.*, 2012; Wehrfritz and

Haller, 2014; Karaibrahimoglu and Cangarli, 2015). However, significant within-country differences have not been rigorously examined in prior research (Harrison, 1993; Heidhues and Patel, 2011; Heinz *et al.*, 2013). The findings establish the importance of examining construal of self in explaining differences in accountants' judgments within China. The findings may be relevant to researchers who are interested in examining personality and cultural influences on accountants' judgments both within and across countries.

The findings challenge the implicit assumption by the IASB that worldwide adoption of principles-based IFRS can enhance comparability of financial information (Pacter, 2014, p. 10; IASB, 2015). Consistency in accountants' judgments is crucial for this implicit assumption. The results of this study demonstrate that consistency in accountants' judgments is difficult to attain even within China. The findings confirm that worldwide adoption of IFRS (*de jure accounting*) may not necessarily lead to consistent application of IFRS (*de facto accounting*) in China. The findings show that, compared to interdependent accountants, independent accountants use the flexibility allowed in the principles-based IFRS to make aggressive reporting recommendations. Together with the findings from cross-cultural studies, such as Doupnik and Riccio (2006), Tsakumis (2007), Curtis *et al.* (2012), Wehrfritz and Haller (2014), and Karaibrahimoglu and Cangarli (2015), it is suggested that it may be premature for the IASB and various standard setters of countries adopting IFRS to assume that adoption of IFRS will lead to comparable financial reporting. Regulators and various global standard setters may provide additional attention to various factors that influence accountants' judgments in applying principles-based IFRS.

Moreover, the findings show that independents engaged in aggressive financial reporting even when there were no personal financial incentives or personal rewards in the experiment. This leads to the conclusion that independents are cognitively wired to engage in aggressive financial reporting judgments without any personal financial incentives or personal rewards. It is suggested that the accounting profession and regulators need to examine independents' cognitive motivation towards aggressive financial reporting judgments.

Awareness of the influence of construal of self on accountants' judgments may help companies and organizations improve their selection and training of accountants to better understand their judgments and behaviours. Projections of independents and interdependents clearly indicate the need to adapt to a rapidly changing workforce. Independents and interdependents may not reach consensus on the appropriate choice of strategy in culturally diverse business organizations. It

is suggested that companies and organizations may incorporate appropriate strategies to work with independents and interdependents to reduce inconsistencies in their judgments. For example, companies and organizations may involve both independent and interdependent accountants in the complex process of exercising judgments and making decisions to balance any possible differences in their financial reporting recommendations.

5.3.3 *Chapter 4: The influence of formal and felt accountability on Chinese accountants' aggressive reporting judgments*

Paper 3 (Chapter 4) contributes to the literature by providing causal experimental evidence that, when formal accountability is imposed, accountants are not likely to make aggressive consolidation reporting recommendations, irrespective of their scores on felt accountability measures. When formal accountability is not imposed, then felt accountability becomes of greater importance in providing insights into accountants' aggressive judgments. Specifically, when formal accountability is not imposed, accountants who experience lesser felt accountability are more aggressive in providing their consolidated financial recommendations, compared to those who experience greater felt accountability. The findings of this study have three specific implications.

First, the findings have implications for multinational enterprises and enterprises operating in China in particular. In the globalized business world, enterprises are recognizing the business case for greater diversity among employees, which may allow them to better understand clients and come up with more culturally appropriate business solutions (Tadros and King, 2016). It is critical for companies and organizations to be aware of the possible variations in employees' intrinsic felt accountability and its possible influence on their ethical judgments, especially when formal accountability is not imposed. It is suggested that managers and organizations continually manage and balance externally imposed formal accountability demands with internally driven felt accountability. Enterprises may design and develop culturally appropriate accountability mechanisms and invest in ethics training and mentoring programs to encourage greater employee commitment to ethical behaviour. For example, organizations may formally support ethical behaviour through reward systems, as well as informally through socialization and communication. The tensions between external pressures imposed by formal accountability and internally driven felt accountability need to be recognized and continually managed within workplaces.

The findings have implications for both global standard setters in general and Chinese regulators in particular. The current rush towards global convergence of accounting and accountability is largely driven by the implicit assumption that worldwide adoption of principles-based IFRS improves accountability and enhances comparability of financial information (Heidhues and Patel 2011; Hellmann *et al.*, 2013). Consistency of accountants' judgments both *between* and *within* countries is crucial for the worldwide adoption of IFRS. However, various factors that influence accountants' judgments are often ignored by some global standard setters and national regulators. The findings show that consistency in accountants' ethical judgments is difficult to achieve even *within* a country. It is suggested that it may be premature for the IASB and standard setters of countries adopting IFRS to assume that adoption of IFRS will lead to greater accountability and comparability of financial reporting practices. Regulators and global standard setters need to address the *within*-country differences in accountants' judgments in interpreting accounting concepts contained in principles-based IFRS before moving to the next step to make them globally acceptable. It is recommended that regulators and global standard setters provide additional evidence on the role of formal and felt accountability in influencing accountants' judgments.

The findings may be relevant to researchers who are interested in examining accountability and cultural influences on accountants' ethical judgments and behaviour both *within* and *between* countries. Future studies may use case studies and surveys to provide more holistic insights into the competing importance of formal and felt accountability in influencing accountants' judgments in specific cultural contexts.

5.4 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The findings of this dissertation should be considered in light of their limitations. First, this dissertation is based on a single country, China, to provide causal experimental evidence on the influence of the influence of *language*, *personality*, and *accountability* on accountants' aggressive financial reporting judgments. The findings of this dissertation demonstrate the importance of understanding a country's unique social, cultural, economic, political, and legal environment in examining accountants' aggressive financial reporting judgments. While China is often used to represent a collectivist cultural setting, it should not be assumed that all collectivist cultures are homogeneous. Researchers need to exercise caution and take countries' unique contextual factors into account when generalizing the findings of this dissertation to other countries.

Second, to provide inferences about cause and effect, an experimental research method was adopted in the three empirical studies. Experimental research may only provide reliable and valid findings if appropriately prepared and rigorously executed. This dissertation has aimed to address these potential limitations by ensuring rigour in the development of the research instrument, sample selection, and implementation of experiments. For example, selection criteria were strictly followed to select appropriate subjects. Pre-experimental interviews were also carried out in order to ensure the appropriateness of the samples and ensure the subjects' competence to complete the experimental tasks. The research instrument was pilot-tested in all three studies to improve the readability, realism, and understandability of the research instrument. Particular emphasis was placed on ensuring the consistency of the different language versions by utilizing translation and back-translation methodology in Paper 1 (Chapter 2). In addition, Paper 1 utilized a number of experimental techniques, such as 'counterbalancing',⁵⁶ to control possible *sample effect*,⁵⁷ *order effect*,⁵⁸ and *carry-over effect*,⁵⁹ when implementing the 2x2 within-subject and between-subject randomized experiment.

Despite following all essential and appropriate procedures in conducting the three experiments, the limitations of the experimental research method need to be recognized. Specifically, the use of the scenario to elicit responses from subjects may be a limitation. It is important to note that the scenario has been tested in prior research, such as Psaros and Trotman (2004), Psaros (2007), and Pan and Patel (2016a, 2016b). Moreover, more attempts were made to make the scenario as realistic as possible. However, the scenario may not fully depict real-world examples or represent the complexity of consolidation reporting judgments accountants encounter in their practice.

Moreover, given that only a limited number of factors associated with the hypothesized relationships are examined in this dissertation, the experimental research method does not help the researcher identify other factors that may influence accountants' aggressive financial

⁵⁶ Counterbalancing consists of reversing the sequence of the experimental conditions. This method has been identified in prior studies as the principal method to control for 'order effect' (Singleton and Straits, 2005; Cozby, 2009; Brooks, 2012).

⁵⁷ If subjects in one experimental condition are noticeably different from subjects in another condition, any observed differences may be explained by the individual subject's differences, rather than the experimental conditions. Within-subject design can reduce this variance since the same subjects are required to experience and react to different experimental conditions (Singleton and Straits, 2005).

⁵⁸ 'Order effect' refers to the situation in which observed changes may be due to the sequencing or the order of distributing the research instruments.

⁵⁹ 'Carry-over effect' refers to the possibility that participating in one condition of an experiment may influence how subjects respond to another condition.

reporting judgments. Three relevant factors, namely *language*, *personality*, and *accountability* were selected as the focus of this dissertation. Other factors, such as gender, age, educational background, and accounting-related work experience were controlled by including these factors in the research instrument. However, the list of variables is not exhaustive. Other relevant environmental factors, as well as individual characteristics, may provide further explanations for differences in accountants' aggressive financial reporting judgments. Future studies may select other relevant factors for examining accountants' aggressive financial reporting judgments.

Furthermore, the sample of Chinese accounting students in Paper 1 (Chapter 2) and the sample of Chinese professional accountants in Paper 2 (Chapter 3) and Paper 3 (Chapter 4) may not be the decision makers who have the authority to ultimately decide the adoption of accounting policies in their organizations. Future studies may select senior accountants or partners who actually have the authority to implement accounting policies in organizations. Moreover, the Chinese Government continues to have a strong influence in developing and enforcing accounting policies and standards. Chinese regulatory bodies such as the China Securities Regulatory Commission have strengthened governance mechanisms to monitor accounting practice and restrain aggressive financial reporting, especially after China's President Xi Jinping initiated an anti-corruption campaign in 2011. Future studies may also examine the role of the Government in reducing aggressive financial reporting practices.

The findings of this dissertation warrant future research on the influence of language, personality, and accountability on accountants' aggressive financial reporting judgments. Future studies may conduct comparative studies to explore cross-cultural differences in the extent to which various factors influence accountants' aggressive financial reporting judgments between Anglo-American countries such as the United States and Australia and other countries such as China and India. Future studies may use qualitative methods such as interviews and narratives to gain additional insights into the complexity and dynamics associated with the influence of *language*, *personality*, and *accountability* on accountants' aggressive financial reporting judgments.

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Appendix 1 Research Instrument of Study 1

Research Instrument of Study 1

English Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Profit
in the Past 12 Months**



Survey on Professional Judgments and Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in the survey relating to the preparation of consolidated financial statements.

The questionnaire consists of two parts. In the first part, I would like you to provide your judgment in an accounting scenario. Part two collects demographic data about the respondents. The accounting scenario is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the scenario to make such recommendation. However, for the purpose of this study, you are required to make your recommendation based on the relevant information provided in the scenario.

Please note that participation in this survey is voluntary and questionnaires are anonymous. Any information you provide will be treated in strict confidence. The results of data analysis will be reported in aggregate form for research purposes only, and they may be published in form of a journal article or a conference paper. Participants may also request a summary of the results directly from me.

Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

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Prof. Chris Patel
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The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

SECTION 1: ACCOUNTING CASE STUDY

Please respond to the following questions before accounting case study:

(For question 1, 2 and 3, please indicate your answer by circling the relevant number).

1. How familiar are you with International Financial Reporting Standards (IFRS)?

Very familiar				Not familiar at all
1	2	3	4	5

2. How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Very familiar				Not familiar at all
1	2	3	4	5

3. How familiar are you with ASBE 33 Consolidated financial statements?

Very familiar				Not familiar at all
1	2	3	4	5

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no “*right*” or “*wrong*” answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical
- Chinese Accounting Standards for Business Enterprises 33 (ASBE 33): Consolidated Financial Statements (Page 8 for the summarized version of ASBE 33).

Summary information on Dunball Electrical

Dunball Electrical Ltd is a listed company. As a result of its successful retail operations, Dunball Electrical has traded profitably for the last twelve years. On 16 January, 2014, Dunball Electrical purchased shares in Tonens Finance Pty Ltd, for \$ 38 million. Dunball Electrical's senior management consider their stake in Tonens Finance to be an important compliment to the retail side of their activities.

The following is a summary of Dunball Electrical's stake in Tonens Finance.

- Dunball Electrical owns 33 percent of the voting shares in Tonens Finance. The remaining shares are held by a wide range of diverse investors.
- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings.

Tonens Finance Pty Ltd 2014 Financial Performance

In previous years Tonens Finance had operated profitably, during the current financial year (ending 31 December 2014) it continued to perform well and returned a profit of \$ 7.3 million. Further, the senior management of Dunball Electrical believes that in the long term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

In the past the senior management of Dunball Electrical have preferred to show an *aggressive* position in their financial statements. They believe that it makes good sense to adopt an aggressive, yet legitimate position in the resolution of grey areas of accounting standards. As an important part of Dunball Electrical's plans it intends to raise funds by way of a share float before 31 December, 2015.

Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 31 December 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 8 for the summarized version of ASBE33).

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages:

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of RMB

As at 31 December	Dunball's Consolidated accounts 2014	Dunball's accounts 2014	2013
Total Operating Revenue	142.9	78.5	72.8
Operating Profit (loss) after Income Tax	21.9	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	47.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	58.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	121.3	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	136.0	61.6	24.6
Total Liabilities	194.9	93.4	50.1
Net Assets	160.2	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Shareholders' equity attributable to members of the chief entity	100.5	98.1	85.5
Outside equity interests in controlled entities	59.7	0.0	0.0
Total Shareholders' Equity	160.2	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens Finance

All amounts are in millions of RMB

	Dunball's Group's accounts	Dunball's accounts	
As at 31 December	2014	2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	17.0	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	40.4	38.0	0.0
Total Non-current assets	138.7	136.3	85.4
Total assets	193.9	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	100.5	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Total Shareholders' Equity	100.5	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 8 for the summarized version of ASBE 33) to answer the following questions related to accounting case study.

1. Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened					Very much improved				
1	2	3	4	5	6	7	8	9	10

2. Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the percentage of Dunball Electrical's capacity to control Tonens Finance? Please state a percentage amount.

_____ %

3. Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response.

☐ Yes

☐ No

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

1. Are you:

☐Male

☐Female

2. How old are you?

☐Under 20

☐20-24

☐25-29

☐30-34

3. How many years of formal education (or their equivalent) did you complete (starting with primary school)?

☐10 years or less

☐11 years to 17 years

☐18 years or over

4. In which country did you complete

Primary education

Secondary education

Tertiary education

5. What is your nationality?

☐Chinese

☐Other, please specify _____

6. In which country were you born?

☐China

☐Other, please specify _____

7. What is your first language?

☐Chinese

☐Other, please specify _____

8. Have you ever studied overseas?

☐ Yes, please specify which country

☐ No

9. How many years of work experience in accounting do you have?

☐None

☐Less than 1 year

☐1-4 years

☐4 years and above

10. Do you plan to become a member of any of the following professional accounting bodies:

☐CPA China

☐Other professional accounting body, please specify

☐ Non-accounting professional bodies _____

Summarised Version of Chinese Accounting Standards for Business Enterprises 33 (ASBE 33): Consolidated Financial Statements

Definitions

1. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
2. A parent is an entity that has one or more subsidiaries.
3. A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).
4. A group is a parent and all its subsidiaries.
5. Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:

- a) power over more than half of the voting rights by virtue of an agreement with other investors;
- b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants' judgments, or if there are any other comments you would like to make, please do so in the space provided.

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Thank you for your participation!

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

Research Instrument of Study 1

Chinese Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Profit
in the Past 12 Months**



关于对编制合并财务报表作出专业判断的问卷

您好，

我是潘培培，来自澳大利亚的麦考瑞大学。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。

这份问卷由两部分组成：第一部分包括一个会计案例，需要您运用您的专业知识和经验作出判断；第二部分是您的个人信息。会计案例是关于如何确定一个企业是否控制另外一个企业，从而决定是否编制合并财务报表。在实际工作中，您可能需要更多的相关信息来作出这个判断，但是对于这份问卷，我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析，分析结果只用做于学术研究。结果将会可能被发表在学术刊物和学术交流会议上。如果您对这个研究项目感兴趣，您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问，或者关于这个研究项目,需要更多信息,请随时联系我。您的帮助对我们的研究项目的成功非常重要。

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Macquarie University
NSW 2109

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第一部分：会计案例

在回答案例问题之前，请您首先回答以下的问题
(问题 1, 2 和 3, 请您在您选择的答案上画圈)

1. 您熟悉国际财务报告准则么？

非常熟悉					完全不熟悉
1	2	3	4	5	

2. 您熟悉中国的企业会计准则么？

非常熟悉					完全不熟悉
1	2	3	4	5	

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么？

非常熟悉					完全不熟悉
1	2	3	4	5	

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。对于所有关于这个案例的问题，您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息：

- 度百电器公司的基本情况
- 企业会计准则第 33 号—合并财务报表（参见第 8 页）

度百有限公司的基本情况

度百电器有限责任公司是一家上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2014 年 1 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，在 2014 财务年度，通能公司账面盈利 730 万人民币。度百公司认为从长远来看，通能公司是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准备的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 8 页）来做出此项决定。

为了帮助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的合并财务报表（通能公司作为子公司）
单位：百万元

	度百公司的合并 账目	度百公司账目	
	2014	2014	2013
营业收入	142.9	78.5	72.8
税后净利润	21.9	14.6	13.3
流动资产			
现金	8.2	2.3	2.2
应收帐款	50.2	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	92.6	55.2	50.2
非流动资产			
长期应收款	134.0	0.0	0.0
固定资产	117.5	98.3	85.4
长期股权投资	0.0	38.0	0.0
商誉	11.0	0.0	0.0
非流动资产合计	262.5	136.3	85.4
资产合计	355.1	191.5	135.6
流动负债			
短期借款	47.5	24.6	18.6
短期减值准备	11.4	7.2	6.9
流动负债合计	58.9	31.8	25.5
非流动负债			
长期借款	121.3	53.5	16.9
长期减值准备	14.7	8.1	7.7
非流动负债合计	136.0	61.6	24.6
负债合计	194.9	93.4	50.1
净资产	160.2	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
股东损益	100.5	98.1	85.5
少数股东损益	59.7	0.0	0.0
所有者权益合计	160.2	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目	度百公司账目	
	2014	2014	2013
营业收入	78.5	78.5	72.8
税后净利润	17.0	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	40.4	38.0	0.0
非流动资产合计	138.7	136.3	85.4
资产合计	193.9	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	100.5	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
非分配利润	53.5	51.1	38.5
所有者权益合计	100.5	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 8 页）回答下列跟案例有关的问题。

1. 如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化					很大程度上的改善				
1	2	3	4	5	6	7	8	9	10

2. 根据你对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的可能性有多大？请用百分比回答。

_____ %

3. 您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾并对您的建议做出解释。

☐ 会，因为 _____

☐ 不会，因为 _____

第二部分：个人信息

请回答以下关于您的个人信息.

1. 性别： ☐男 ☐女

2. 年龄
☐20 岁以下 ☐20-24 ☐25-29 ☐30-34

3. 从小学算起，您受了多少年的正规教育？
☐10 年 ☐11 年到 17 年 ☐18 年以上

4. 您在那个国家完成教育？
小学： _____ 中学： _____
大学： _____

5. 您的国籍：
☐中国 ☐其他国家 _____

6. 出生地：
☐中国 ☐其他国家 _____

7. 第一语言：
☐中文 ☐其他语言 _____

8. 您曾经有过留学经历吗？
☐有 _____ ☐没有

9. 您有过会计相关的工作经验吗？
☐没有 ☐不到一年 ☐1-4 年 ☐4 年以上

10. 您有打算将来成为注册会计师吗？
☐中国注册会计师 ☐其他会计专业认证 _____
☐其他会计之外专业认证 _____

定义

1. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。
2. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
3. 子公司，是指被母公司控制的企业。
4. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
5. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。

合并范围

母公司应当将其全部子公司纳入合并财务报表的合并范围。

合并财务报表的合并范围应当以控制为基础予以确定。母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （一）通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （二）根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （三）有权任免被投资单位的董事会或类似机构的多数成员。
- （四）有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。

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Thank you for your participation!

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

Research Instrument of Study 1

English Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Loss
in the Past 12 Months**



Survey on Professional Judgments and Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in the survey relating to the preparation of consolidated financial statements.

The questionnaire consists of two parts. In the first part, I would like you to provide your judgment in an accounting scenario. Part two collects demographic data about the respondents. The accounting scenario is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the scenario to make such recommendation. However, for the purpose of this study, you are required to make your recommendation based on the relevant information provided in the scenario.

Please note that participation in this survey is voluntary and questionnaires are anonymous. Any information you provide will be treated in strict confidence. The results of data analysis will be reported in aggregate form for research purposes only, and they may be published in form of a journal article or a conference paper. Participants may also request a summary of the results directly from me.

Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

Yours sincerely

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Email:

Chris Patel
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The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

SECTION 1: ACCOUNTING SCENARIO

Please respond to the following questions before the accounting scenario:

(For question 1, 2 and 3, please indicate your answer by circling the relevant number).

1. How familiar are you with International Financial Reporting Standards (IFRS)?

Very familiar				Not familiar at all
1	2	3	4	5

2. How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Very familiar				Not familiar at all
1	2	3	4	5

3. How familiar are you with ASBE 33 Consolidated financial statements?

Very familiar				Not familiar at all
1	2	3	4	5

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no “*right*” or “*wrong*” answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical
- Chinese Accounting Standards for Business Enterprises 33 (ASBE 33): Consolidated Financial Statements (Page 8 for the summarized version of ASBE 33).

Summary information on Dunball Electrical

Dunball Electrical Ltd is a listed company. As a result of its successful retail operations, Dunball Electrical has traded profitably for the last twelve years. On 16 January, 2014, Dunball Electrical purchased shares in Tonens Finance Pty Ltd, for \$ 38 million. Dunball Electrical's senior management consider their stake in Tonens Finance to be an important compliment to the retail side of their activities.

The following is a summary of Dunball Electrical's stake in Tonens Finance.

- Dunball Electrical owns 33 percent of the voting shares in Tonens Finance. The remaining shares are held by a wide range of diverse investors.
- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings.

Tonens Finance Pty Ltd 2014 Financial Performance

While in previous years Tonens Finance had operated profitably, during the current financial year (ending 31 December 2014) it wrote off a significant number of bad debts. As a result, Tonens Finance returned a loss of \$ 7.3 million. The senior management of Dunball Electrical claim that the write-off of bad debts and consequent loss of Tonens Finance was not entirely unexpected. It believes further that in the longer term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

In the past the senior management of Dunball Electrical have preferred to show an *aggressive* position in their financial statements. They believe that it makes good sense to adopt an aggressive, yet legitimate position in the resolution of grey areas of accounting standards. As an important part of Dunball Electrical's plans it intends to raise funds by way of a share float before 31 December, 2015.

Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 31 December 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 8 for the summarized version of ASBE33).

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages:

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of RMB

As at 31 December	Dunball's Consolidated accounts	Dunball's accounts	
	2014	2014	2013
Total Operating Revenue	142.9	78.5	72.8
Operating Profit (loss) after Income Tax	7.3	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	57.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	68.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	125.9	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	140.6	61.6	24.6
Total Liabilities	209.5	93.4	50.1
Net Assets	145.6	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	48.7	51.1	38.5
Shareholders' equity attributable to members of the chief entity	95.7	98.1	85.5
Outside equity interests in controlled entities	49.9	0.0	0.0
Total Shareholders' Equity	145.6	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens

Finance

All amounts are in millions of RMB

As at 31 December	Dunball's Group's accounts 2014	Dunball's accounts 2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	12.2	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	35.6	38.0	0.0
Total Non-current assets	133.9	136.3	85.4
Total assets	189.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	95.7	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	48.7	51.1	38.5
Total Shareholders' Equity	95.7	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 8 for the summarized version of ASBE 33) to answer the following questions related to the accounting scenario.

1. Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened					Very much improved				
1	2	3	4	5	6	7	8	9	10

2. Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the probability that Dunball Electrical has the capacity to control Tonens Finance? Please state a percentage amount.

_____ %

3. Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response.

☐ Yes

☐ No

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

1. Are you:

☐Male

☐Female

2. How old are you?

☐Under 20

☐20-24

☐25-29

☐30-34

3. How many years of formal education (or their equivalent) did you complete (starting with primary school)?

☐10 years or less

☐11 years to 17 years

☐18 years or over

4. In which country did you complete

Primary education

Secondary education

Tertiary education

5. What is your nationality?

☐Chinese

☐Other, please specify _____

6. In which country were you born?

☐China

☐Other, please specify _____

7. What is your first language?

☐Chinese

☐Other, please specify _____

8. Have you ever studied overseas?

☐ Yes, please specify which country _____

☐ No

9. How many years of work experience in accounting do you have?

☐None

☐Less than 1 year

☐1-4 years

☐4 years and above

10. Do you plan to become a member of any of the following professional accounting bodies:

☐CPA China

☐Other professional accounting body, please specify _____

☐ Non-accounting professional bodies _____

Summarised Version of Chinese Accounting Standards for Business Enterprises 33 (ASBE 33): Consolidated Financial Statements

Definitions

1. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
2. A parent is an entity that has one or more subsidiaries.
3. A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).
4. A group is a parent and all its subsidiaries.
5. Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:

- e) power over more than half of the voting rights by virtue of an agreement with other investors;
- f) power to govern the financial and operating policies of the entity under a statute or an agreement;
- g) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- h) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants' judgments, or if there are any other comments you would like to make, please do so in the space provided.

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Ph:
Email:

Thank you for your participation!

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

Research Instrument of Study 1

Chinese Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Loss
in the Past 12 Months**



关于对编制合并财务报表作出专业判断的问卷

您好,

我是潘培培, 来自澳大利亚的麦考瑞大学。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。

这份问卷由两部分组成: 第一部分包括一个会计案例, 需要您运用您的专业知识和经验作出专业判断; 第二部分是您的个人信息。会计案例是关于如何确定一个企业是否控制另外一个企业, 从而决定是否编制合并财务报表。在实际工作中, 您可能需要更多的相关信息来作出这个判断, 但是对于这份问卷, 我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析, 分析结果只用做于学术研究。结果将会可能会被发表在学术刊物和学术交流会议上。如果您对这个研究项目感兴趣, 您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问, 或者关于这个研究项目, 需要更多信息, 请随时联系我。您的帮助对我们的研究项目的成功非常重要。

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第一部分：会计案例

在回答案例问题之前，请您首先回答以下的问题
(问题 1， 2， 和 3， 请您在您选择的答案上画圈)

1. 您熟悉国际财务报告准则么？

非常熟悉					完全不熟悉
1	2	3	4	5	

2. 您熟悉中国的企业会计准则么？

非常熟悉					完全不熟悉
1	2	3	4	5	

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么？

非常熟悉					完全不熟悉
1	2	3	4	5	

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。对于所有关于这个案例的问题，您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息：

- 度百电器公司的基本情况
- 企业会计准则第 33 号—合并财务报表（参见第 8 页）

度百有限公司的基本情况

度百电器有限责任公司是一家上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2014 年 1 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，不过在 2014 财务年度，通能公司冲销了很大一部分坏账，这一举措导致通能公司账面有 730 万人民币的亏损。度百公司的管理层声称通能公司冲销的坏账和由此导致的亏损完全是在预期之外的。度百公司认为从长远来看，通能公司还是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准备的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 8 页）来做出此项决定。

为了协助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的合并财务报表（通能公司作为子公司）

单位：百万元

度百公司的合并账目	度百公司账目		
	2014	2014	2013
营业收入	142.9	78.5	72.8
税后净利润	7.3	14.6	13.3
流动资产			
现金	8.2	2.3	2.2
应收帐款	50.2	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	92.6	55.2	50.2
非流动资产			
长期应收款	134.0	0.0	0.0
固定资产	117.5	98.3	85.4
长期股权投资	0.0	38.0	0.0
商誉	11.0	0.0	0.0
非流动资产合计	262.5	136.3	85.4
资产合计	355.1	191.5	135.6
流动负债			
短期借款	57.5	24.6	18.6
短期减值准备	11.4	7.2	6.9
流动负债合计	68.9	31.8	25.5
非流动负债			
长期借款	125.9	53.5	16.9
长期减值准备	14.7	8.1	7.7
非流动负债合计	140.6	61.6	24.6
负债合计	209.5	93.4	50.1
净资产	145.6	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	48.7	51.1	38.5
股东损益	95.7	98.1	85.5
少数股东损益	49.9	0.0	0.0
所有者权益合计	145.6	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目	度百公司账目	度百公司账目
	2014	2014	2013
营业收入	78.5	78.5	72.8
税后净利润	12.2	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	35.6	38.0	0.0
非流动资产合计	133.9	136.3	85.4
资产合计	189.1	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	95.7	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
非分配利润	48.7	51.1	38.5
所有者权益合计	95.7	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 8 页）回答下列跟案例有关的问题。

1. 如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化					很大程度上的改善				
1	2	3	4	5	6	7	8	9	10

2. 根据你对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的可能性有多大？请用百分比回答。

_____ %

3. 您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾并对您的建议作出解释。

☐会，因为 _____

☐不会，因为 _____

第二部分：个人信息

请回答以下关于您的个人信息。

1. 性别： ☐男 ☐女
2. 年龄
☐20 或以下 ☐20-24 ☐25-29 ☐30-34
3. 从小学算起，您受了多少年的正规教育？
☐10 年 ☐11 年到 17 年 ☐18 年以上
4. 您在那个国家完成基础教育？
小学：_____ 中学：_____ 大学：_____
5. 您的国籍：
☐中国 ☐其他国家_____
6. 出生地：
☐中国 ☐其他国家_____
7. 第一语言：
☐中文 ☐其他语言_____
8. 您曾经有过留学经历么？
☐有 _____ ☐没有
9. 您有过会计相关的工作经历么？
☐没有 ☐不到一年 ☐1-4 年 ☐4 年以上
10. 您有打算将来成为注册会计师么？
☐中国注册会计师 ☐其他会计专业认证_____ ☐其他非会计专业认证_____

定义

6. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。
7. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
8. 子公司，是指被母公司控制的企业。
9. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
10. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。

合并范围

母公司应当将其全部子公司纳入合并财务报表的合并范围。

合并财务报表的合并范围应当以控制为基础予以确定。母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （五）通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （六）根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （七）有权任免被投资单位的董事会或类似机构的多数成员。
- （八）有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。

Peipei Pan
Associate Lecturer
Faculty of Business and Economics
Macquarie University
NSW 2109
Ph:
Email:

Thank you for your participation!

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

Appendix 2: Research Instrument of Study 2

Research Instrument of Study 2

English Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Profit
in the Past 12 Months**



Survey on Professional Judgments and Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in this survey. The purpose of this questionnaire is to examine various factors that influence judgments relating to the preparation of consolidated financial statements.

The questionnaire consists of three parts. In the first part, I would like you to provide your judgment on an accounting case study. Part two collects demographic data about the respondents, and part three comprises questions to measure personal values. The accounting case is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the case to make such decision. However, for the purpose of this study, you are required to make your judgment based on the relevant information provided in the case.

Please note that participation in this survey is voluntary and questionnaires are anonymous. Any information you provide will be treated in strict confidence. The results of data analysis will be reported in aggregate form for research purposes only. The results may be published in form of a journal article or a conference paper. Participants may also request a summary of the results directly from me.

Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

Yours sincerely

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SECTION 1: ACCOUNTING CASE STUDY

Please respond to the following questions before accounting case study:

(For question 1 to 3, please indicate your answer by circling the relevant number on the scale from 1 to 7, and state a percentage amount for question 4).

How familiar are you with International Financial Reporting Standards (IFRS)?

Not familiar at all

1 2 3 4 5 6 7

Very familiar

How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Not familiar at all

1 2 3 4 5 6 7

Very familiar

How familiar are you with ASBE 33 Consolidated financial statements?

Not familiar at all

1 2 3 4 5 6 7

Very familiar

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no “*right*” or “*wrong*” answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical
- Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 10 for the summarized version of ASBE 33).

Summary information on Dunball Electrical

Dunball Electrical Ltd is a company listed on the Australian Stock Exchange. As a result of its successful retail operations, Dunball Electrical has traded profitably for the last twelve years. On 16 January, 2014, Dunball Electrical purchased shares in Tonens Finance Pty Ltd, for \$ 38 million. Dunball Electrical's senior management consider their stake in Tonens Finance to be an important compliment to the retail side of their activities.

The following is a summary of Dunball Electrical's stake in Tonens Finance.

- Dunball Electrical owns 33 percent of the voting shares in Tonens Finance. The remaining shares are held by a wide range of diverse investors.
- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings.

Tonens Finance Pty Ltd 2014 Financial Performance

In previous years Tonens Finance had operated profitably, during the current financial year (ending 31 December 2014) it continued to perform well and returned a profit of \$ 7.3 million. Further, the senior management of Dunball Electrical believes that in the long term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

In the past the senior management of Dunball Electrical have preferred to show an *aggressive* position in their financial statements. They believe that it makes good sense to adopt an aggressive, yet legitimate position in the resolution of grey areas of accounting standards. As an important part of Dunball Electrical's plans it intends to raise funds by way of a share float before 31 December, 2015.

Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 31 December 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 10 for the summarized version of ASBE33).

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages:

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of dollars

	Dunball's Consolidated accounts	Dunball's accounts	
As at 31 December	2014	2014	2013
Total Operating Revenue	142.9	78.5	72.8
Operating Profit (loss) after Income Tax	21.9	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	47.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	58.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	121.3	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	136.0	61.6	24.6
Total Liabilities	194.9	93.4	50.1
Net Assets	160.2	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Shareholders' equity attributable to members of the chief entity	100.5	98.1	85.5
Outside equity interests in controlled entities	59.7	0.0	0.0
Total Shareholders' Equity	160.2	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens Finance

All amounts are in millions of dollars

	Dunball's Group's accounts	Dunball's accounts	
As at 31 December	2014	2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	17.0	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	40.4	38.0	0.0
Total Non-current assets	138.7	136.3	85.4
Total assets	193.9	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	100.5	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Total Shareholders' Equity	100.5	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 10 for the summarized version of ASBE 33) to answer the following questions related to accounting case study.

1. Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened					Very much improved				
1	2	3	4	5	6	7	8	9	10

2. Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the percentage of Dunball Electrical's capacity to control Tonens Finance? Please state a percentage amount.

_____ %

3. Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response.

☐ Yes

☐ No

Generally, will you prefer using your judgment to apply the concept of *control*, stated in ASBE 33 (Refer to Page 10); or using a quantitative method to determine the existence of *control* (i.e. accounting standards specify the minimum probability of one entity having the capacity to *control* another entity)?

- ☐ I prefer using my judgment.
- ☐ I prefer using the quantitative method.

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

Are you:

☐ Male

☐ Female

How old are you?

☐ Under 20

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 or over

What is your nationality?

☐ Chinese

☐ Other, please specify

In which country were you born?

☐ China

☐ Other, please specify

What is your first language?

☐ Chinese

☐ Other, please specify

Where did you complete your tertiary education?

☐ China

☐ China and other country, please specify

☐ Other country, please specify

How many years of accounting or accounting-related work experience do you have?

☐ 1-2 years

☐ 3-5 years

☐ 6-10 years

☐ 10 years above

Are you currently engaged in accounting related work?

☐ Yes

☐ No

How long have you been employed by your current employer?

What is your role in your current employment?

Are you currently working or have you ever worked for Big 4 accounting firms?

☐ Yes, I am working in Big 4 accounting firm, please specify

☐ Yes, I worked for Big 4 accounting firm before, please specify

☐ No, I have never worked for Big 4 accounting firms.

Are you a member of any of the following professional accounting bodies:

☐ CPA China ☐ Other professional accounting body, please specify

☐ Non-accounting professional bodies

SECTION THREE: CULTURAL AND PERSONAL VALUES

Personal Identity

Please indicate how much you agree or disagree with each of the following statements? (Please put only one “√” in each line across).

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
I have respect for the authority figures with whom I interact.					
It is important for me to maintain harmony within my group.					
My happiness depends on the happiness of those around me.					
I would offer my seat in a bus to my boss.					
I'd rather say “No” directly, than risk being misunderstood.					
Speaking up during a class is not a problem for me.					
Having a lively imagination is important to me.					
I am comfortable with being singled out for praise or rewards.					
I respect people who are modest about themselves.					
I will sacrifice my self-interest for the benefit of the group I am in.					
I often have the feeling that my relationships with others are more important than my own accomplishments.					
I should take into consideration my parents' advice when making education/career plans.					
I am the same person at home that I am at school.					
Being able to take care of myself is a primary concern for me.					
I act the same way no matter who I am with.					

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.					
It is important to me to respect decisions made by the group.					
I will stay in a group if they need me, even when I am not happy with the group.					
If my brother or sister fails, I feel responsible.					
Even when I strongly disagree with group members, I avoid an argument.					
I prefer to be direct and forthright when dealing with people I've just met.					
I enjoy being unique and different from others in many respects.					
My personal identity independent of others is very important to me.					
I value being in good health above everything.					

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants' judgments, or if there are any other comments you would like to make, please do so in the space provided.

Peipei Pan
Associate Lecturer
Faculty of Business and
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Ph:
Email:

**Summarised Version of Chinese Accounting Standards for Business Enterprises (ASBE) 33:
Consolidated Financial Statements**

Definitions

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

A group is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Whether an entity has control of another entity will always be a question to be decided in the light of the prevailing circumstances. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control will involve the preparer of the financial reports in exercising professional skill and judgments.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: †

- i) power over more than half of the voting rights by virtue of an agreement with other investors;
- j) power to govern the financial and operating policies of the entity under a statute or an agreement;
- k) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- l) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.

Research Instrument of Study 2

English Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Loss
in the Past 12 Months**



Survey on Professional Judgments and Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in this survey. The purpose of this questionnaire is to examine various factors that influence judgments relating to the preparation of consolidated financial statements.

The questionnaire consists of three parts. In the first part, I would like you to provide your judgment on an accounting case study. Part two collects demographic data about the respondents, and part three comprises questions to measure personal values. The accounting case is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the case to make such decision. However, for the purpose of this study, you are required to make your judgment based on the relevant information provided in the case.

Please note that participation in this survey is voluntary and questionnaires are anonymous. Any information you provide will be treated in strict confidence. The results of data analysis will be reported in aggregate form for research purposes only. The results may be published in form of a journal article or a conference paper. Participants may also request a summary of the results directly from me.

Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

Yours sincerely

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SECTION 1: ACCOUNTING CASE STUDY

Please respond to the following questions before accounting case study:

(For question 1 to 3, please indicate your answer by circling the relevant number on the scale from 1 to 7, and state a percentage amount for question 4).

How familiar are you with International Financial Reporting Standards (IFRS)?

Not familiar at all

Very familiar

1	2	3	4	5	6	7
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Not familiar at all

Very familiar

1	2	3	4	5	6	7
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

How familiar are you with ASBE 33 Consolidated financial statements?

Not familiar at all

Very familiar

1	2	3	4	5	6	7
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no “*right*” or “*wrong*” answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical
- Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 10 for the summarized version of ASBE 33).

Summary information on Dunball Electrical

Dunball Electrical Ltd is a company listed on the Australian Stock Exchange. As a result of its successful retail operations, Dunball Electrical has traded profitably for the last twelve years. On 16 January, 2014, Dunball Electrical purchased shares in Tonens Finance Pty Ltd, for \$ 38 million. Dunball Electrical's senior management consider their stake in Tonens Finance to be an important compliment to the retail side of their activities.

The following is a summary of Dunball Electrical's stake in Tonens Finance.

- Dunball Electrical owns 33 percent of the voting shares in Tonens Finance. The remaining shares are held by a wide range of diverse investors.
- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings.

Tonens Finance Pty Ltd 2014 Financial Performance

While in previous years Tonens Finance had operated profitably, during the current financial year (ending 31 December 2014) it wrote off a significant number of bad debts. As a result, Tonens Finance returned a loss of \$ 7.3 million. The senior management of Dunball Electrical claim that the write-off of bad debts and consequent loss of Tonens Finance was not entirely unexpected. It believes further that in the longer term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

In the past the senior management of Dunball Electrical have preferred to show an *aggressive* position in their financial statements. They believe that it makes good sense to adopt an aggressive, yet legitimate position in the resolution of grey areas of accounting standards. As an important part of Dunball Electrical's plans it intends to raise funds by way of a share float before 31 December, 2015.

Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 31 December 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 10 for the summarized version of ASBE33).

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages:

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of dollars

	Dunball's Consolidated accounts	Dunball's accounts	
As at 31 December	2014	2014	2013
Total Operating Revenue	142.9	78.5	72.8
Operating Profit (loss) after Income Tax	7.3	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	57.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	68.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	125.9	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	140.6	61.6	24.6
Total Liabilities	209.5	93.4	50.1
Net Assets	145.6	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	48.7	51.1	38.5
Shareholders' equity attributable to members of the chief entity	95.7	98.1	85.5
Outside equity interests in controlled entities	49.9	0.0	0.0
Total Shareholders' Equity	145.6	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens Finance

All amounts are in millions of dollars

	Dunball's Group's accounts	Dunball's accounts	
As at 31 December	2014	2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	12.2	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	35.6	38.0	0.0
Total Non-current assets	133.9	136.3	85.4
Total assets	189.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	95.7	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	48.7	51.1	38.5
Total Shareholders' Equity	95.7	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 10 for the summarized version of ASBE 33) to answer the following questions related to accounting case study.

1. Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened					Very much improved				
1	2	3	4	5	6	7	8	9	10

2. Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the probability that Dunball Electrical has the capacity to control Tonens Finance? Please state a percentage amount.

_____ %

3. Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response.

☐ Yes

☐ No

Generally, will you prefer using your judgment to apply the concept of *control*, stated in ASBE 33 (Refer to Page 10); or using a quantitative method to determine the existence of *control* (i.e. accounting standards specify the minimum probability of one entity having the capacity to *control* another entity)?

- ☐ I prefer using my judgment.
- ☐ I prefer using the quantitative method.

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

Are you:

☐ Male

☐ Female

How old are you?

☐ Under 20

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 or over

What is your nationality?

☐ Chinese

☐ Other, please specify

In which country were you born?

☐ China

☐ Other, please specify

What is your first language?

☐ Chinese

☐ Other, please specify

Where did you complete your tertiary education?

☐ China

☐ China and other country, please specify

☐ Other country, please specify

How many years of accounting or accounting-related work experience do you have?

☐ 1-2 years

☐ 3-5 years

☐ 6-10 years

☐ 10 years above

Are you currently engaged in accounting related work?

☐ Yes

☐ No

How long have you been employed by your current employer?

What is your role in your current employment?

Are you currently working or have you ever worked for Big 4 accounting firms?

☐ Yes, I am working in Big 4 accounting firm, please specify

☐ Yes, I worked for Big 4 accounting firm before, please specify

☐ No, I have never worked for Big 4 accounting firms.

Are you a member of any of the following professional accounting bodies:

☐ CPA China ☐ Other professional accounting body, please specify

☐ Non-accounting professional bodies

SECTION THREE: CULTURAL AND PERSONAL VALUES

Personal Identity

Please indicate how much you agree or disagree with each of the following statements? (Please put only one “√” in each line across).

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
I have respect for the authority figures with whom I interact.					
It is important for me to maintain harmony within my group.					
My happiness depends on the happiness of those around me.					
I would offer my seat in a bus to my boss.					
I'd rather say “No” directly, than risk being misunderstood.					
Speaking up during a class is not a problem for me.					
Having a lively imagination is important to me.					
I am comfortable with being singled out for praise or rewards.					
I respect people who are modest about themselves.					
I will sacrifice my self-interest for the benefit of the group I am in.					
I often have the feeling that my relationships with others are more important than my own accomplishments.					
I should take into consideration my parents' advice when making education/career plans.					
I am the same person at home that I am at school.					
Being able to take care of myself is a primary concern for me.					
I act the same way no matter who I am with.					

	Strongly agree	Agree	Undecided	Disagree	Strongly disagree
I feel comfortable using someone's first name soon after I meet them, even when they are much older than I am.					
It is important to me to respect decisions made by the group.					
I will stay in a group if they need me, even when I am not happy with the group.					
If my brother or sister fails, I feel responsible.					
Even when I strongly disagree with group members, I avoid an argument.					
I prefer to be direct and forthright when dealing with people I've just met.					
I enjoy being unique and different from others in many respects.					
My personal identity independent of others is very important to me.					
I value being in good health above everything.					

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants' judgments, or if there are any other comments you would like to make, please do so in the space provided.

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Summarised Version of Chinese Accounting Standards 33 (CAS 33): Consolidated Financial Statements

Definitions

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

A group is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Whether an entity has control of another entity will always be a question to be decided in the light of the prevailing circumstances. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control will involve the preparer of the financial reports in exercising professional skill and judgments.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: †

- m) power over more than half of the voting rights by virtue of an agreement with other investors;
- n) power to govern the financial and operating policies of the entity under a statute or an agreement;
- o) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- p) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.

Research Instrument of Study 2

Chinese Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Profit
in the Past 12 Months**



关于对编制合并财务报表作出专业判断的问卷

您好,

我是潘培培, 来自澳大利亚的麦考瑞大学。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。这份问卷考察各种可能影响专业意见的因素。

问卷由三部分组成: 第一部分包括一个会计案例, 需要您运用专业知识和经验作出专业判断; 第二部分是您相关的信息; 第三部分是关于您个人价值的问题。问卷中的会计案例是关于如何确定一个企业是否控制另外一个企业, 从而决定是否编制合并财务报表。在实际工作中, 您可能需要更多的相关信息来作出这个判断。这里, 我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析, 分析结果只用于学术研究。也可能被发表在相关学术刊物和学术交流会议上。如果您对这个研究项目感兴趣, 您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问, 或者想要了解更多关于这个研究项目的信息, 请随时联系我。

您的帮助对我们研究项目的成功非常重要。

Peipei Pan
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The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

第一部分：会计案例

在回答案例问题之前，请您首先回答以下四个问题

（问题 1， 2， 和 3， 请您在选择的答案上划勾；问题 4， 请您填写答案）

1. 您熟悉国际财务报告准则（International Financial Reporting Standards (IFRS)）么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

2. 您熟悉中国的企业会计准则么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。所有关于这个案例的问题，您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息：

- 度百电器公司的基本情况
- 企业会计准则第 33 号—合并财务报表（参见第 10 页）

度百有限公司的基本情况

度百电器有限责任公司是一家在中国的上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2014 年 1 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，在 2014 财务年度，通能公司账面盈利 730 万人民币。度百公司认为从长远来看，通能公司是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准备的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 10 页）来做出此项决定。

为了帮助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的合并财务报表（通能公司作为子公司）

单位：百万元

	度百公司的合并账目	度百公司账目	
	2014	2014	2013
营业收入	142.9	78.5	72.8
税后净利润	21.9	14.6	13.3
流动资产			
现金	8.2	2.3	2.2
应收帐款	50.2	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	92.6	55.2	50.2
非流动资产			
长期应收款	134.0	0.0	0.0
固定资产	117.5	98.3	85.4
长期股权投资	0.0	38.0	0.0
商誉	11.0	0.0	0.0
非流动资产合计	262.5	136.3	85.4
资产合计	355.1	191.5	135.6
流动负债			
短期借款	47.5	24.6	18.6
短期减值准备	11.4	7.2	6.9
流动负债合计	58.9	31.8	25.5
非流动负债			
长期借款	121.3	53.5	16.9
长期减值准备	14.7	8.1	7.7
非流动负债合计	136.0	61.6	24.6
负债合计	194.9	93.4	50.1
净资产	160.2	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
股东损益	100.5	98.1	85.5
少数股东损益	59.7	0.0	0.0
所有者权益合计	160.2	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目 2014	度百公司账目 2014	2013
营业收入	78.5	78.5	72.8
税后净利润	17.0	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	40.4	38.0	0.0
非流动资产合计	138.7	136.3	85.4
资产合计	193.9	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	100.5	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
非分配利润	53.5	51.1	38.5
所有者权益合计	100.5	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 10 页）回答下列跟案例有关的问题。

1. 如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化					很大程度上的改善				
1	2	3	4	5	6	7	8	9	10

2. 根据您对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的百分比？

_____ %

3. 您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾。

☐ 会，因为 _____

☐ 不会，因为 _____

一般来说，请问您比较喜欢运用自己的专业判断来确定一个企业控制另外一个企业(见第 33 号会计准则，第 10 页)，还是比较喜欢会计法作出百分比上的规定 (注：规定一个企业要控制另一个企业至少需要的股份比率)？

☐ 我喜欢用自己的专业判断

☐ 我喜欢有一个明确百分比的规定

第二部分：个人信息

请回答以下关于您的个人信息.

性别

☐ 男

☐ 女

年龄

☐ 20 以下

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 或者以上

您的国籍

☐ 中国

☐ 其他国家，请注明

出生地

☐ 中国

☐ 其他国家，请注明

母语

☐ 中文

☐ 英文

☐ 其他语言，请注明

您在哪里完成高等教育？

☐ 中国

☐ 中国和其他国家，请注明

☐ 其他国家，请注明

会计和财务相关经验？

☐ 1-2 年

☐ 3-5 年

☐ 6-10 年

☐ 10 年以上

您现在的工作是和财务相关的么？

☐ 是

☐ 不是

您在现在的企业工作了多久？

您现在的职务？

您有在四大会计事务所工作的经历么？

☐ 有， 我现在在四大会计所工作，请注明

☐ 有， 我曾经在四大会计所工作，请注明

☐ 没有， 我从来没有在四大会计所工作过

请问您是以下专业机构的会员么？

☐ 中国注册会计师协会

☐ 其他的会计专业机构，请注明

☐ 非会计专业机构，请注明

第三部分：个人价值

请阅读以下问题，在您选择的答案框内划勾“√”。

	完全同意	同意	中立	反对	完全反对
我尊重身边的权威人士。					
对我而言，维系团队和谐很重要。					
周围人的快乐，我就觉得快乐。					
跟上级一起乘车，我会给他让座。					
我宁愿说“不”，也不愿被他人误解。					
会议上发言，对我来说没有一点问题。					
拥有丰富的想象力，对我来说很重要。					
我能坦然面对和接受表扬和奖赏。					
我尊敬谦虚的人。					
我愿为团队的利益而牺牲自己的利益。					
我常常觉得我和其他人的关系比我自己的成就更重要。					
在我决定工作的规划时，应该考虑父母的意见。					
在家和公司，我的表现是一致的。					
我首要关心的事情是照顾好自己。					
无论跟谁在一起，我的表现都是一样的。					
对我认识的人，我习惯直接称呼名字。如果这个人的年纪比我大很多，我也喜欢直接称呼他的名字。					
尊重团体做出的决定对我来说很重要。					
如果团队需要我，我会一直留在团队中，即使我在这个团队工作的不愉快。					
如果与我同辈的家庭成员没有成功，我会觉得我有责任。					
即使当我的意见和团体其他人的意见很不一致，我也会避免争论。					
我倾向于直接的方式和人交往，即使是对刚刚认识的人也是如此。					
我很喜欢在各个方面和其他人不一样。					
我独立自主的个性对我很重要。					
我觉得健康比任何其他的东西都重要。					

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。



Peipei Pan
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Ph:
Email:

感谢您的参与！

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

定义

11. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。
12. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
13. 子公司，是指被母公司控制的企业。
14. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
15. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。

合并范围

合并财务报表的合并范围应当以控制为基础予以确定。

母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。

母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （九）通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （十）根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （十一） 有权任免被投资单位的董事会或类似机构的多数成员。
- （十二） 有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

母公司应当将其全部子公司纳入合并财务报表的合并范围。

Research Instrument of Study 2

Chinese Version

**For the Experimental Group with the Investee Entity (Tonens Finance) Making a Loss
in the Past 12 Months**



关于对编制合并财务报表作出专业判断的问卷

您好,

我是潘培培, 来自澳大利亚的麦考瑞大学。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。这份问卷考察各种可能影响专业意见的因素。

问卷由三部分组成: 第一部分包括一个会计案例, 需要您运用专业知识和经验作出专业判断; 第二部分是您相关的信息; 第三部分是关于您个人价值的问题。问卷中的会计案例是关于如何确定一个企业是否控制另外一个企业, 从而决定是否编制合并财务报表。在实际工作中, 您可能需要更多的相关信息来作出这个判断。这里, 我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析, 分析结果只用于学术研究。也可能被发表在相关学术刊物和学术交流会议上。如果您对这个研究项目感兴趣, 您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问, 或者想要了解更多关于这个研究项目的信息, 请随时联系我。

您的帮助对我们研究项目的成功非常重要。

Peipei Pan
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NSW 2109
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Email:

Chris Patel
Professor
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NSW 2109

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第一部分：会计案例

在回答案例问题之前，请您首先回答以下四个问题

（问题 1， 2， 和 3， 请您在选择的答案上划勾；问题 4， 请您填写答案）

1. 您熟悉国际财务报告准则（International Financial Reporting Standards (IFRS)）么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

2. 您熟悉中国的企业会计准则么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么？

完全不熟悉

非常熟悉

1

2

3

4

5

6

7

☐☐☐☐☐☐☐

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。所有关于这个案例的问题，您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息：

- 度百电器公司的基本情况
- 企业会计准则第 33 号—合并财务报表（参见第 10 页）

度百有限公司的基本情况

度百电器有限责任公司是一家在中国的上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2014 年 1 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，不过在 2014 财务年度，通能公司冲销了很大一部分坏账，这一举措导致通能公司账面有 730 万人民币的亏损。度百公司的管理层声称通能公司冲销的坏账和由此导致的亏损完全是在预期之外的。度百公司认为从长远来看，通能公司还是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准备的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 10 页）来做出此项决定。

为了协助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的合并财务报表（通能公司作为子公司）

单位：百万元

度百公司的合并账目	2014	度百公司账目	2013
营业收入	142.9	78.5	72.8
税后净利润	7.3	14.6	13.3
流动资产			
现金	8.2	2.3	2.2
应收帐款	50.2	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	92.6	55.2	50.2
非流动资产			
长期应收款	134.0	0.0	0.0
固定资产	117.5	98.3	85.4
长期股权投资	0.0	38.0	0.0
商誉	11.0	0.0	0.0
非流动资产合计	262.5	136.3	85.4
资产合计	355.1	191.5	135.6
流动负债			
短期借款	57.5	24.6	18.6
短期减值准备	11.4	7.2	6.9
流动负债合计	68.9	31.8	25.5
非流动负债			
长期借款	125.9	53.5	16.9
长期减值准备	14.7	8.1	7.7
非流动负债合计	140.6	61.6	24.6
负债合计	209.5	93.4	50.1
净资产	145.6	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	48.7	51.1	38.5
股东损益	95.7	98.1	85.5
少数股东损益	49.9	0.0	0.0
所有者权益合计	145.6	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目 2014	度百公司账目 2014	2013
营业收入	78.5	78.5	72.8
税后净利润	12.2	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	35.6	38.0	0.0
非流动资产合计	133.9	136.3	85.4
资产合计	189.1	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	95.7	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
非分配利润	48.7	51.1	38.5
所有者权益合计	95.7	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 10 页）回答下列跟案例有关的问题。

4. 如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化					很大程度上的改善				
1	2	3	4	5	6	7	8	9	10

5. 根据您对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的百分比？

_____ %

6. 您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾。

☐ 会，因为_____

☐ 不会，因为_____

一般来说, 请问您比较喜欢运用自己的专业判断来确定一个企业控制另外一个企业(见第 33 号会计准则, 第 10 页), 还是比较喜欢会计法作出百分比上的规定 (注: 规定一个企业要控制另一个企业至少需要的股份比率)?

☐ 我喜欢用自己的专业判断

☐ 我喜欢有一个明确百分比的规定

第二部分：个人信息

请回答以下关于您的个人信息。

性别

☐ 男

☐ 女

年龄

☐ 20 以下

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 或者以上

您的国籍

☐ 中国

☐ 其他国家，请注明

出生地

☐ 中国

☐ 其他国家，请注明

母语

☐ 中文

☐ 英文

☐ 其他语言，请注明

您在哪里完成高等教育？

☐ 中国

☐ 中国和其他国家，请注明

☐ 其他国家，请注明

会计和财务相关经验？

☐ 1-2 年

☐ 3-5 年

☐ 6-10 年

☐ 10 年以上

您现在的工作是和财务相关的么？

☐ 是

☐ 不是

您在现在的企业工作了多久？

您现在的职务？

您有在四大会计事务所工作的经历么？

☐ 有，我现在在四大会计所工作，请注明

☐ 有，我曾经在四大会计所工作，请注明

☐ 没有，我从来没有在四大会计所工作过

请问您是以下专业机构的会员么？

☐ 中国注册会计师协会

☐ 其他的会计专业机构，请注明

☐ 非会计专业机构，请注明

第三部分：个人价值

请阅读以下问题，在您选择的答案框内划勾“√”。

	完全同意	同意	中立	反对	完全反对
我尊重身边的权威人士。					
对我而言，维系团队和谐很重要。					
周围人的快乐，我就觉得快乐。					
跟上级一起乘车，我会给他让座。					
我宁愿说“不”，也不愿被他人误解。					
会议上发言，对我来说没有一点问题。					
拥有丰富的想象力，对我来说很重要。					
我能坦然面对和接受表扬和奖赏。					
我尊敬谦虚的人。					
我愿为团队的利益而牺牲自己的利益。					
我常常觉得我和其他人的关系比我自己的成就更重要。					
在我决定工作的规划时，应该考虑父母的意见。					
在家和公司，我的表现是一致的。					
我首要关心的事情是照顾好自己。					
无论跟谁在一起，我的表现都是一样的。					
对于我认识的人，我习惯直接称呼名字。如果这个人的年纪比我大很多，我也喜欢直接称呼他的名字。					
尊重团体做出的决定对我来说很重要。					
如果团队需要我，我会一直留在团队中，即使我在这个团队工作的不愉快。					
如果与我同辈的家庭成员没有成功，我会觉得我有责任。					
即使当我的意见和团体其他人的意见很不一致，我也会避免争论。					
我倾向于直接的方式和人交往，即使是对刚刚认识的人也是如此。					
我很喜欢在各个方面和其他人不一样。					
我独立自主的个性对我很重要。					
我觉得健康比任何其他的东西都重要。					

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。

Peipei Pan
Associate Lecturer
Faculty of Business and Economics
Macquarie University
NSW 2109
Ph:
Email:

感谢您的参与！

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定义

16. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。
17. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
18. 子公司，是指被母公司控制的企业。
19. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
20. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。

合并范围

合并财务报表的合并范围应当以控制为基础予以确定。

母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。

母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （十三） 通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （十四） 根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （十五） 有权任免被投资单位的董事会或类似机构的多数成员。
- （十六） 有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

母公司应当将其全部子公司纳入合并财务报表的合并范围。

Appendix 3: Research Instrument of Study 3

Research Instrument of Study 3

English Version

For the Experimental Group with Formal Accountability Imposed



Professional Judgments in Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in this survey. The purpose of this questionnaire is to examine various factors that influence judgments relating to the preparation of consolidated financial statements.

The questionnaire consists of three parts. In the first part, I would like you to provide your judgment on an accounting case study. Part two collects demographic data about the respondents, and part three comprises questions on personal identity and values. The accounting case is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the case to make such decision. However, for the purpose of this study, you are required to make your judgment based on the relevant information provided in the case.

Please note that participation in this survey is voluntary and questionnaires are anonymous. Any information you provide will be treated in strict confidence. The results of data analysis will be reported in aggregate form for research purposes only. The results may be published in form of a journal article or a conference paper. Participants may also request a summary of the results directly from me.

Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

Yours sincerely

Peipei Pan
Faculty of Business and
Economics
Macquarie University
NSW 2109
Ph:
Email:

Prof. Chris Patel
Faculty of Business and
Economics
Macquarie University
NSW 2109

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SECTION 1: ACCOUNTING CASE STUDY

Please respond to the following questions before accounting case study:

(For question 1 to 3, please indicate your answer by circling the relevant number on the scale from 1 to 7, and state a percentage amount for question 4).

How familiar are you with International Financial Reporting Standards (IFRS)?

Not familiar at all

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

Very familiar

7
☐

How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Not familiar at all

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

Very familiar

7
☐

How familiar are you with ASBE 33 Consolidated financial statements?

Not familiar at all

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

Very familiar

7
☐

In the application of ASBE 33 (Refer to Page 9 of this survey for the summarized version of ASBE 33), in your opinion, what should be the percentage threshold (i.e. the minimum percentage) of one entity's capacity to control another entity to make judgment on whether consolidated financial statement should be prepared?

_____ %

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no "right" or "wrong" answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical;
- Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 9 for the summarized version of ASBE 33).

Some of you will be chosen at random to explain and justify your judgment to a panel of instructors (including the researcher and supervisors). If you are chosen then you will be moved to a separate room to explain your judgment.

Summary information on Dunball Electrical

Dunball Electrical Ltd is a company listed on the Chinese Stock Exchange. As a result of its successful retail operations, Dunball Electrical has traded profitably for the last twelve years. On 16 July, 2013, Dunball Electrical purchased shares in Tonens Finance Pty Ltd, for \$ 38 million. Dunball Electrical's senior management consider their stake in Tonens Finance to be an important compliment to the retail side of their activities.

The following is a summary of Dunball Electrical's stake in Tonens Finance.

- Dunball Electrical owns 33 percent of the voting shares in Tonens Finance. The remaining shares are held by a wide range of diverse investors.
- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings and terms of operation.

Tonens Finance Pty Ltd 2014 Financial Performance

In previous years Tonens Finance had operated profitably, during the current financial year (ending 30 June 2014) it continued to perform well and returned a profit of \$ 7.3 million. Further, the senior management of Dunball Electrical believes that in the long term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

In the past the senior management of Dunball Electrical have preferred to show an *aggressive* position in their financial statements. They believe that it makes good sense to adopt an aggressive, yet legitimate position in the resolution of grey areas of accounting standards. As an important part of Dunball Electrical's plans it intends to raise funds by way of a share float before 30 June, 2015.

Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 30 June 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 9 for the summarized version of ASBE33).

Some of you will be chosen at random to explain and justify your judgment to a panel of instructors (including the researcher and supervisors). If you are chosen then you will be moved to a separate room to explain your judgment.

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages.

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of dollars

As at 30 June	Dunball's Consolidated accounts 2014	Dunball's accounts 2014 2013	
Total Operating Revenue	142.9	78.5	72.8
Operating Profit (loss) after Income Tax	21.9	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	47.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	58.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	121.3	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	136.0	61.6	24.6
Total Liabilities	194.9	93.4	50.1
Net Assets	160.2	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Shareholders' equity attributable to members of the chief entity	100.5	98.1	85.5
Outside equity interests in controlled entities	59.7	0.0	0.0
Total Shareholders' Equity	160.2	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens Finance

All amounts are in millions of dollars

As at 30 June	Dunball's Group's accounts 2014	Dunball's accounts 2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	17.0	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	40.4	38.0	0.0
Total Non-current assets	138.7	136.3	85.4
Total assets	193.9	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	100.5	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Total Shareholders' Equity	100.5	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 9 for the summarized version of ASBE 33) to answer the following questions related to accounting case study.

Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened		Very much improved
1 2 3 4 5 6 7 8 9 10		
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		

Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the percentage of Dunball Electrical's capacity to control Tonens Finance? Please state a percentage amount.

_____ %

Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response. *Some of you will be chosen at random to explain and justify your judgment to a panel of instructors (including the researcher and supervisors).*

☐ Yes

☐ No

Please indicate how motivated you were to perform well on this case on the following scale:

Not at all Motivated		Moderately Motivated		Extremely Motivated
1 2 3 4 5 6 7				
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>				

Please indicate how much effort you have expended on this case on the following scale:

Very Little Effort		Moderate Effort		A Great Deal of Effort
1 2 3 4 5 6 7				
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>				

Generally, will you prefer using your judgment to apply the concept of *control*, stated in ASBE 33 (Refer to Page 9); or using a quantitative method to determine the existence of *control* (i.e. accounting standards specify the minimum probability of one entity having the capacity to control another entity)?

☐ I prefer using my judgment.

☐ I prefer using the quantitative method.

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

Are you:

☐ Male

☐ Female

How old are you?

☐ Under 20

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 or over

What is your nationality?

☐ Chinese

☐ Other, please specify

In which country were you born?

☐ China

☐ Other, please specify

What is your first language?

☐ Chinese

☐ Other, please specify

Where did you complete your tertiary education?

☐ China

☐ China and other country, please specify

☐ Other country, please specify

How many years of accounting or accounting-related work experience do you have?

☐ 1-2 years

☐ 3-5 years

☐ 6-10 years

☐ 10 years above

Are you currently engaged in accounting related work?

☐ Yes

☐ No

How long have you been employed by your current employer?

What is your role in your current employment?

Are you currently working or have you ever worked for Big 4 accounting firms?

☐ Yes, I am working in Big 4 accounting firm, please specify

☐ Yes, I worked for Big 4 accounting firm before, please specify

☐ No, I have never worked for Big 4 accounting firms.

Are you a member of any of the following professional accounting bodies:

☐ CPA China ☐ Other professional accounting body, please specify

☐ Non-accounting professional bodies

SECTION THREE: CULTURAL AND PERSONAL VALUES

Please indicate how much you agree or disagree with each of the following statements? (Please put only one “√” in each line across).

	Strongly disagree			Neutral		Strongly agree	
	1	2	3	4	5	6	7
I am held very accountable for my actions at work.							
I often have to explain why I do certain things at work.							
Top management holds me accountable for all of my decisions.							
If things at work do not go the way that they should, I will hear about it from top management.							
To a great extent, the success of my immediate work group rests on my shoulders.							
The jobs of many people at work depend on my success or failures.							
In the grand scheme of things, my efforts at work are very important.							
Co-workers, subordinates, and bosses closely scrutinize my efforts at work.							

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants’ judgments, or if there are any other comments you would like to make, please do so in the space provided.

Thank you for your participation!

Summarised Version of Chinese Accounting Standards for Business Enterprises (ASBE)

33: Consolidated Financial Statements

Definitions

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

A group is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Whether an entity has control of another entity will always be a question to be decided in the light of the prevailing circumstances. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control will involve the preparer of the financial reports in exercising professional skill and judgments.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: †

- q) power over more than half of the voting rights by virtue of an agreement with other investors;
- r) power to govern the financial and operating policies of the entity under a statute or an agreement;
- s) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- t) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.

Research Instrument of Study 3

English Version

For the Experimental Group without Formal Accountability



Professional Judgments in Consolidated Financial Reporting

Dear participant,

My name is Peipei Pan from Macquarie University and I would like to invite you to participate in this survey. The purpose of this questionnaire is to examine various factors that influence judgments relating to the preparation of consolidated financial statements.

The questionnaire consists of three parts. In the first part, I would like you to provide your judgment on an accounting case study. Part two collects demographic data about the respondents, and part three comprises questions on personal identity and values. The accounting case is related to the important criterion to make consolidated financial reporting recommendation: one entity's '*capacity to control*' another entity. I appreciate that normally you would require more information than provided in the case to make such decision. However, for the purpose of this study, you are required to make your judgment based on the relevant information provided in the case.

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Thank you very much for your time and cooperation in this study. For any more details of this study, please do not hesitate to contact us. Your assistance will be very important and valuable for the successful completion of this research.

Yours sincerely

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Faculty of Business and
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Macquarie University
NSW 2109

Ph:

Email:

Prof. Chris Patel
Faculty of Business and
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SECTION 1: ACCOUNTING CASE STUDY

Please respond to the following questions before accounting case study:

(For question 1 to 3, please indicate your answer by circling the relevant number on the scale from 1 to 7, and state a percentage amount for question 4).

How familiar are you with International Financial Reporting Standards (IFRS)?

Not familiar at all

1

2

3

4

5

6

Very familiar

7

How familiar are you with Chinese Accounting Standards for Business Enterprises (ASBE)?

Not familiar at all

1

2

3

4

5

6

Very familiar

7

How familiar are you with ASBE 33 Consolidated financial statements?

Not familiar at all

1

2

3

4

5

6

Very familiar

7

In the application of ASBE 33 (Refer to Page 9 of this survey for the summarized version of ASBE 33), in your opinion, what should be the percentage threshold (i.e. the minimum percentage) of one entity's capacity to control another entity to make judgment on whether consolidated financial statement should be prepared?

_____ %

Instructions for accounting case study

In the following, there is a hypothetical accounting scenario about which you will be required a judgment regarding consolidated financial reporting. With regard to the questions posed in the scenario, there are no “right” or “wrong” answers.

Suppose that you are the financial controller of Dunball Electrical Ltd. As the financial controller of Dunball Electrical, you are asked to assess whether the company is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to consider:

- Summary information on Dunball Electrical;
- Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 9 for the summarized version of ASBE 33).

Summary information on Dunball Electrical

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- Tonens Finance's Board of Directors consists of 11 members, 5 of whom are also on the Board of Directors of Dunball Electrical.
- An arrangement exists which gives Dunball Electrical the right to approve Tonens Finance's future borrowings and terms of operation.

Tonens Finance Pty Ltd 2014 Financial Performance

In previous years Tonens Finance had operated profitably, during the current financial year (ending 30 June 2014) it continued to perform well and returned a profit of \$ 7.3 million. Further, the senior management of Dunball Electrical believes that in the long term the stake in Tonens Finance will be a good investment.

Dunball Electrical Pty Ltd Senior Management's Position

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Your Task

In your capacity as Financial Controller of Dunball Electrical, you are preparing financial accounts for the year ended 30 June 2014. Your task is to decide whether Dunball Electrical Ltd is required to prepare consolidated financial statements to reflect its stake in Tonens Finance. In making the decision, you are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Page 9 for the summarized version of ASBE33).

To assist you with the consolidation decision, your assistant accountant has provided you with two sets of summarised draft financial statements. One set is prepared on the assumption that Dunball Electrical consolidates its holding in Tonens Finance. The other set is prepared on the assumption that Dunball Electrical does not consolidate its holding in Tonens Finance (but provides equity accounting information). These are reproduced in the following two pages.

Dunball Electrical's Consolidated Accounts including Tonens Finance

All amounts are in millions of dollars

	Dunball's Consolida ted accounts	Dunball's accounts	
As at 30 June	2014	2014	2013
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Operating Profit (loss) after Income Tax	21.9	14.6	13.3
CURRENT ASSETS			
Cash	8.2	2.3	2.2
Receivables	50.2	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	92.6	55.2	50.2
NON-CURRENT ASSETS			
Receivables	134.0	0.0	0.0
Property, plant and equipment	117.5	98.3	85.4
Shares in controlled entities	0.0	38.0	0.0
Intangibles (Goodwill on Consolidation)	11.0	0.0	0.0
Total Non-current assets	262.5	136.3	85.4
Total assets	355.1	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	47.5	24.6	18.6
Provisions	11.4	7.2	6.9
Total Current Liabilities	58.9	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	121.3	53.5	16.9
Provisions	14.7	8.1	7.7
Total Non-current Liabilities	136.0	61.6	24.6
Total Liabilities	194.9	93.4	50.1
Net Assets	160.2	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Shareholders' equity attributable to members of the chief entity	100.5	98.1	85.5
Outside equity interests in controlled entities	59.7	0.0	0.0
Total Shareholders' Equity	160.2	98.1	85.5

Dunball Electrical's Group Accounts with its investment in Tonens Finance

All amounts are in millions of dollars

As at 30 June	Dunball's Group's accounts 2014	Dunball's accounts 2014	2013
Total Operating Revenue	78.5	78.5	72.8
Operating Profit (loss) after Income Tax	17.0	14.6	13.3
CURRENT ASSETS			
Cash	2.3	2.3	2.2
Receivables	18.7	18.7	16.9
Inventories	34.2	34.2	31.1
Total Current Assets	55.2	55.2	50.2
NON-CURRENT ASSETS			
Property, plant and equipment	98.3	98.3	85.4
Investment in associated company	40.4	38.0	0.0
Total Non-current assets	138.7	136.3	85.4
Total assets	193.9	191.5	135.6
CURRENT LIABILITIES			
Creditors and borrowings	24.6	24.6	18.6
Provisions	7.2	7.2	6.9
Total Current Liabilities	31.8	31.8	25.5
NON-CURRENT LIABILITIES			
Creditors and borrowings	53.5	53.5	16.9
Provisions	8.1	8.1	7.7
Total Non-current Liabilities	61.6	61.6	24.6
Total Liabilities	93.4	93.4	50.1
Net Assets	100.5	98.1	85.5
SHAREHOLDERS' EQUITY			
Share capital	32.0	32.0	32.0
Reserves	15.0	15.0	15.0
Retained Profits	53.5	51.1	38.5
Total Shareholders' Equity	100.5	98.1	85.5

Questions

You are required to comply with Chinese Accounting Standards for Business Enterprises (ASBE) 33: Consolidated Financial Statements (Refer to Page 9 for the summarized version of ASBE 33) to answer the following questions related to accounting case study.

Do you believe that Dunball Electrical's financial position is worsened or improved by including Tonens Finance in its consolidated accounts? Please show your response by circling the relevant number on the scale from 1 to 10.

Very much worsened	Very much improved
1 2 3 4 5 6 7 8 9 10	
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	

Based upon your interpretation of ASBE 33 and the specific information provided in the case study, what do you believe is the percentage of Dunball Electrical's capacity to control Tonens Finance? Please state a percentage amount.

_____ %

Will you recommend to the senior management of Dunball Electrical that consolidated accounts should be prepared? Please record your answer by ticking one box and provide reasons for your response.

☐ Yes

☐ No

Please indicate how motivated you were to perform well on this case on the following scale:

Not at all Motivated	Moderately Motivated	Extremely Motivated
1 2 3 4 5 6 7		
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		

Please indicate how much effort you have expended on this case on the following scale:

Very Little Effort	Moderate Effort	A Great Deal of Effort
1 2 3 4 5 6 7		
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		

Generally, will you prefer using your judgment to apply the concept of *control*, stated in ASBE 33 (Refer to Page 9); or using a quantitative method to determine the existence of *control* (i.e. accounting standards specify the minimum probability of one entity having the capacity to control another entity)?

☐ I prefer using my judgment.

☐ I prefer using the quantitative method.

SECTION TWO: DEMOGRAPHICS

Please respond to the following questions relating to your personal profile.

Are you:

☐ Male

☐ Female

How old are you?

☐ Under 20

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 or over

What is your nationality?

☐ Chinese

☐ Other, please specify

In which country were you born?

☐ China

☐ Other, please specify

What is your first language?

☐ Chinese

☐ Other, please specify

Where did you complete your tertiary education?

☐ China

☐ China and other country, please specify

☐ Other country, please specify

How many years of accounting or accounting-related work experience do you have?

☐ 1-2 years

☐ 3-5 years

☐ 6-10 years

☐ 10 years above

Are you currently engaged in accounting related work?

☐ Yes

☐ No

How long have you been employed by your current employer?

What is your role in your current employment?

Are you currently working or have you ever worked for Big 4 accounting firms?

☐ Yes, I am working in Big 4 accounting firm, please specify

☐ Yes, I worked for Big 4 accounting firm before, please specify

☐ No, I have never worked for Big 4 accounting firms.

Are you a member of any of the following professional accounting bodies:

☐ CPA China ☐ Other professional accounting body, please specify

☐ Non-accounting professional bodies

SECTION THREE: CULTURAL AND PERSONAL VALUES

Please indicate how much you agree or disagree with each of the following statements? (Please put only one “√” in each line across).

	Strongly disagree	Neutral				Strongly agree	
	1	2	3	4	5	6	7
I am held very accountable for my actions at work.							
I often have to explain why I do certain things at work.							
Top management holds me accountable for all of my decisions.							
If things at work do not go the way that they should, I will hear about it from top management.							
To a great extent, the success of my immediate work group rests on my shoulders.							
The jobs of many people at work depend on my success or failures.							
In the grand scheme of things, my efforts at work are very important.							
Co-workers, subordinates, and bosses closely scrutinize my efforts at work.							

Thank you for taking the time to complete this survey. Your assistance is very important to the success of the project and is greatly appreciated. All answers will be treated in strict confidence. If there is anything else relating to accountants’ judgments, or if there are any other comments you would like to make, please do so in the space provided.

Thank you for your participation!

**Summarised Version of Chinese Accounting Standards for Business Enterprises (ASBE) 33:
Consolidated Financial Statements**

Definitions

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A parent is an entity that has one or more subsidiaries.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

A group is a parent and all its subsidiaries.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.

Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

Whether an entity has control of another entity will always be a question to be decided in the light of the prevailing circumstances. The definition of control depends upon substance rather than form and, accordingly, determination of the existence of control will involve the preparer of the financial reports in exercising professional skill and judgments.

Scope of consolidated financial statements

Consolidated financial statements shall include all subsidiaries of the parent.

Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is: †

- u) power over more than half of the voting rights by virtue of an agreement with other investors;
- v) power to govern the financial and operating policies of the entity under a statute or an agreement;
- w) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
- x) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert such rights.

A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by IFRS 8 *Operating Segments* help to explain the significance of different business activities within the group.

Research Instrument of Study 3

Chinese Version

For the Experimental Group with Formal Accountability Imposed



关于对编制合并财务报表作出专业判断的问卷

您好,

我是潘培培, 来自澳大利亚的麦考瑞大学(Macquarie University)。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。这份问卷考察各种可能影响专业意见的因素。调查结果将会成为我博士论文的一部分。

问卷由三部分组成: 第一部分包括一个会计案例, 需要您运用专业知识和经验作出专业判断; 第二部分是您相关的信息; 第三部分是关于您个人价值观的问题。问卷中的会计案例是关于如何确定一个企业是否控制另外一个企业, 从而决定是否编制合并财务报表。在实际工作中, 您可能需要更多的相关信息来作出这个判断。这里, 我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析, 分析结果只用于学术研究。也可能被发表在相关学术刊物和学术交流会议上。如果您对这个研究项目感兴趣, 您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问, 或者想要了解更多关于这个研究项目的信息, 请随时联系我。

您的帮助对我们研究项目的成功非常重要

Peipei Pan
Faculty of Business and
Economics
Macquarie University
NSW 2109
Ph:
Email:

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

在回答案例问题之前，请您首先回答以下四个问题

(问题 1, 2, 和 3, 请您在选择的的答案上划勾; 问题 4, 请您填写答案)

1. 您熟悉国际财务报告准则 (International Financial Reporting Standards (IFRS)) 么?

完全不熟悉

1

☐

2

☐

3

☐

4

☐

5

☐

6

☐

非常熟悉

7

☐

2. 您熟悉中国的企业会计准则么?

完全不熟悉

1

☐

2

☐

3

☐

4

☐

5

☐

6

☐

非常熟悉

7

☐

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么?

完全不熟悉

1

☐

2

☐

3

☐

4

☐

5

☐

6

☐

非常熟悉

7

☐

4. 在运用企业会计准则第 33 号—合并财务报表的时候 (第 33 号准则摘要见第 9 页), 您认为一个企业 (企业 A) 至少要拥有另一个企业 (企业 B) 的多少表决权才可以认定企业 A 控制了企业 B, 从而把企业 B 纳入企业 A 的合并财务报表? (请用百分比表示)

_____ %

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。所有关于这个案例的问题, 您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息:

1. 度百电器公司的基本情况;
2. 企业会计准则第 33 号—合并财务报表 (参见第 9 页)

我们会随机的要求部分参与者向座谈小组解释您的专业判断。如果您被选中, 您将会单独邀请到不同的房间解释您的专业判断。

度百有限公司的基本情况

度百电器有限责任公司是一家在中国的上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2013 年 7 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，在 2014 财务年度，通能公司账面盈利 730 万人民币。度百公司认为从长远来看，通能公司是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准则的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 9 页）来做出此项决定。

我们会随机的要求部分参与者向座谈小组解释您的专业判断。如果您被选中，您将会单独邀请到不同的房间解释您的专业判断。

为了帮助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的合并财务报表（通能公司作为子公司）

单位：百万元

	度百公司的合并账目	度百公司账目	
	2014	2014	2013
营业收入	142.9	78.5	72.8
税后净利润	21.9	14.6	13.3
流动资产			
现金	8.2	2.3	2.2
应收帐款	50.2	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	92.6	55.2	50.2
非流动资产			
长期应收款	134.0	0.0	0.0
固定资产	117.5	98.3	85.4
长期股权投资	0.0	38.0	0.0
商誉	11.0	0.0	0.0
非流动资产合计	262.5	136.3	85.4
资产合计	355.1	191.5	135.6
流动负债			
短期借款	47.5	24.6	18.6
短期减值准备	11.4	7.2	6.9
流动负债合计	58.9	31.8	25.5
非流动负债			
长期借款	121.3	53.5	16.9
长期减值准备	14.7	8.1	7.7
非流动负债合计	136.0	61.6	24.6
负债合计	194.9	93.4	50.1
净资产	160.2	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
股东损益	100.5	98.1	85.5
少数股东损益	59.7	0.0	0.0
所有者权益合计	160.2	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目	度百公司账目	
	2014	2014	2013
营业收入	78.5	78.5	72.8
税后净利润	17.0	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	40.4	38.0	0.0
非流动资产合计	138.7	136.3	85.4
资产合计	193.9	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	100.5	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
所有者权益合计	100.5	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 9 页）回答下列跟案例有关的问题。

如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化									很大程度上的改善
1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

根据您对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的百分比？

_____ %

您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾。我们会随机的要求参与者向座谈小组解释您的专业判断。

☐ 会，因为

☐ 不会，因为

您有多大的动力完成以上的会计判断？

请在您的答案上划勾。

完全没有动力	中立				非常有动力	
1	2	3	4	5	6	7
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

您是否尽力完成以上的专业判断？

请在您的答案上划勾。

完全没有尽力	中立				非常尽力	
1	2	3	4	5	6	7
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

一般来说，您比较喜欢运用自己的专业判断来确定一个企业是否控制另外一个企业(见第 33 号会计准则，第 9 页)，还是比较喜欢会计法作出百分比上的规定（注：规定一个企业要控制另一个企业至少需要的股份比率）？

☐ 我喜欢用自己的专业判断

☐ 我喜欢有一个明确百分比的规定

第二部分：个人信息

请回答以下关于您的个人信息。

性别

☐ 男

☐ 女

年龄

☐ 20 以下

☐ 20-24

☐ 25-29

☐ 30-34

☐ 35-39

☐ 40-49

☐ 50-59

☐ 60 或者以上

您的国籍

☐ 中国

☐ 其他国家，请注明_____

出生地

☐ 中国

☐ 其他国家，请注明_____

母语

☐ 中文

☐ 英文

☐ 其他语言，请注明

您在哪里完成高等教育？

☐ 中国

☐ 中国和其他国家，请注明_____

☐ 其他国家，请注明_____

会计和财务相关经验？

☐ 1-2 年

☐ 3-5 年

☐ 6-10 年

☐ 10 年以上

您现在的工作是和财务相关的么？

☐ 是

☐ 不是

您在现在的企业工作了多久？_____

您现在的职务？_____

您有在四大会计事务所工作的经历么？

☐ 有，我现在在四大会计所工作，请注明_____

☐ 有，我曾经在四大会计所工作，请注明_____

☐ 没有，我从来没有在四大会计所工作过

请问您是以下专业机构的会员么？

☐ 中国注册会计师协会

☐ 其他的会计专业机构，请注明_____

☐ 非会计专业机构，请注明_____

第三部分：个人价值观

请阅读以下问题，在合适的框内划勾“√”。

	完全反对			中立		完全同意	
	1	2	3	4	5	6	7
我对我工作上的表现非常负责。							
我经常需要解释我在工作上做的决策。							
我的直属上司让我负责我工作上的所有决策。							
如果工作的情况和预期有些出入，我会从直属上司那里知道。							
在很大程度上，我所在的工作小组的成功落在我肩上。							
很多同事的工作取决于我所做决策的成功与失败。							
我在工作上的努力对公司的大计划非常重要。							
我的同事，下属和上司密切关注我的工作表现。							

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。

感谢您的参与！

定义

21. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。
22. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
23. 子公司，是指被母公司控制的企业。
24. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
25. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。

合并范围

合并财务报表的合并范围应当以控制为基础予以确定。

母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。

母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （十七） 通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （十八） 根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （十九） 有权任免被投资单位的董事会或类似机构的多数成员。
- （二十） 有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

母公司应当将其全部子公司纳入合并财务报表的合并范围。

Research Instrument of Study 3

Chinese Version

For the Experimental Group without Formal Accountability



关于对编制合并财务报表作出专业判断的问卷

您好,

我是潘培培, 来自澳大利亚的麦考瑞大学(Macquarie University)。我诚意邀请您参与这份关于如何对合并财务报表提供专业意见的问卷调查。这份问卷考察各种可能影响专业意见的因素。调查结果将会成为我博士论文的一部分。

问卷由三部分组成: 第一部分包括一个会计案例, 需要您运用专业知识和经验作出专业判断; 第二部分是您相关的信息; 第三部分是关于您个人价值观的问题。问卷中的会计案例是关于如何确定一个企业是否控制另外一个企业, 从而决定是否编制合并财务报表。在实际工作中, 您可能需要更多的相关信息来作出这个判断。这里, 我们仅要求您考虑我们提供的信息来作出您的专业判断。

这份问卷保持自愿和匿名的原则。您在问卷中提供的任何信息都会被严格保密。收集的数据只做整体分析, 分析结果只用于学术研究。也可能被发表在相关学术刊物和学术交流会议上。如果您对这个研究项目感兴趣, 您可以联系我索取调查结果。

非常感谢您参与我们的问卷和对我们研究的支持。如果您有任何疑问, 或者想要了解更多关于这个研究项目的信息, 请随时联系我。

您的帮助对我们研究项目的成功非常重要

Peipei Pan
Faculty of Business and
Economics
Macquarie University
NSW 2109
Ph:
Email:

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61 (0) 2 9850 7854; email: ethics@mq.edu.au). Any complaints you make will be treated in confidence and investigated, and you will be informed of the outcome.

第一部分：会计案例

在回答案例问题之前，请您首先回答以下四个问题

（问题 1，2，和 3，请您在选择的的答案上划勾；问题 4，请您填写答案）

1. 您熟悉国际财务报告准则 (International Financial Reporting Standards (IFRS)) 么？

完全不熟悉

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

非常熟悉

7
☐

2. 您熟悉中国的企业会计准则么？

完全不熟悉

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

非常熟悉

7
☐

3. 您熟悉中国的企业会计准则第 33 号—合并财务报表么？

完全不熟悉

1
☐

2
☐

3
☐

4
☐

5
☐

6
☐

非常熟悉

7
☐

4. 在运用企业会计准则第 33 号—合并财务报表的时候（第 33 号准则摘要见第 9 页），您认为一个企业（企业 A）至少要拥有另一个企业（企业 B）的多少表决权才可以认定企业 A 控制了企业 B，从而把企业 B 纳入企业 A 的合并财务报表？（请用百分比表示）

_____ %

会计案例的说明

以下是一个假设的会计案例。我们需要您对企业编制合并财务报表做出一个专业判断。所有关于这个案例的问题，您的答案没有正确和错误之分。

假设您是度百电器公司的财务主管。您需要确定如何编制公司年度财务报表来体现度百电器公司对通能公司的投资。您的判断需要参考以下的信息：

1. 度百电器公司的基本情况；
2. 企业会计准则第 33 号—合并财务报表（参见第 9 页）

度百有限公司的基本情况

度百电器有限责任公司是一家在中国的上市公司。度百电器公司拥有出色的零售业务。在过去的 12 年中，公司一直保持着盈利的销售记录。2013 年 7 月 16 号，度百公司花费 3800 万人民币购买了通能公司的部分股份。度百公司管理层认为此项购买会给度百公司的零售业务带来重大的利益。下面是这个购买决定的信息摘要：

- 度百公司拥有通能公司 33% 的表决权。通能公司剩余的表决权掌握在其他许多分散的投资者手中。
- 通能公司的董事会由 11 个成员组成，其中的 5 人同时也是度百公司董事会的成员。
- 根据投资合同，度百公司有权决定通能公司今后的财务借款政策。

通能公司 2014 年的财务状况

通能公司在过去的几年里一直保持盈利状态，在 2014 财务年度，通能公司账面盈利 730 万人民币。度百公司认为从长远来看，通能公司是一个很好的投资。

度百电器有限公司管理层的立场

在过去，度百公司管理层倾向于运用激进会计法来制定财务报表。他们认为在会计准则的灰色地带中合法运用激进的会计方法是可以接受的。度百公司目前有一个重要的计划，在 2015 财务年度之前，公司计划通过在公开市场发行额外股份来筹措资金。

您的任务

作为度百公司的财务主管，您正在准备公司 2014 财务年度的合并财务报表。您的任务是决定度百公司是否应该把通能公司纳入合并财务报表来反映他们买下的通能公司股份。您需要运用企业会计准则第 33 号—合并财务报表（准则摘要见第 9 页）来做出此项决定。

为了帮助您做出决定，您的会计助理拟定了两份财务报表（如下）。第一份数据来自度百公司编制的合并财务报表，度百公司把通能公司作为子公司纳入合并报表。第二份数据，度百公司仅把通能公司作为一项产权投资。通能公司没有作为子公司在度百公司的报表中披露。

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目	度百公司账目	
	2014	2014	2013
营业收入	78.5	78.5	72.8
税后净利润	17.0	14.6	13.3
流动资产			
现金	2.3	2.3	2.2
应收帐款	18.7	18.7	16.9
存货	34.2	34.2	31.1
流动资产合计	55.2	55.2	50.2
非流动资产			
固定资产	98.3	98.3	85.4
长期股权投资	40.4	38.0	0.0
非流动资产合计	138.7	136.3	85.4
资产合计	193.9	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
非流动负债合计	61.6	61.6	24.6
负债合计	93.4	93.4	50.1
净资产	100.5	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
所有者权益合计	100.5	98.1	85.5

度百电器有限公司的财务报表（通能公司作为一项投资）

单位：百万元

	度百公司集团账目	度百公司账目	
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固定资产	98.3	98.3	85.4
长期股权投资	40.4	38.0	0.0
非流动资产合计	138.7	136.3	85.4
资产合计	193.9	191.5	135.6
流动负债			
短期借款	24.6	24.6	18.6
短期减值准备	7.2	7.2	6.9
流动负债合计	31.8	31.8	25.5
非流动负债			
长期借款	53.5	53.5	16.9
长期减值准备	8.1	8.1	7.7
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负债合计	93.4	93.4	50.1
净资产	100.5	98.1	85.5
所有者权益			
实收资本	32.0	32.0	32.0
资本公积	15.0	15.0	15.0
未分配利润	53.5	51.1	38.5
所有者权益合计	100.5	98.1	85.5

问题

请根据企业会计准则第 33 号—合并财务报表（见第 9 页）回答下列跟案例有关的问题。

如果度百有限公司决定在合并财务报表中披露对通能公司的控制，您认为度百公司的资产情况会受到怎样的影响？请在您选择的答案上画圈。

很大程度上的恶化									很大程度上的改善
1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

根据您对企业会计准则第 33 号—合并财务报表的理解和这个会计案例提供的信息，请您判断度百公司能够控制通能公司的百分比？

_____ %

您会建议度百公司管理层把通能公司作为子公司纳入度百公司的合并财务报表么？请在您的答案上划勾。

- ☐ 会，因为
- ☐ 不会，因为

您有多大的动力完成以上的会计判断？

请在您的答案上划勾。

完全没有动力					中立			非常有动力
1	2	3	4	5	6	7		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

您是否尽力完成以上的专业判断？

请在您的答案上划勾。

完全没有尽力					中立			非常尽力
1	2	3	4	5	6	7		
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		

一般来说，您比较喜欢运用自己的专业判断来确定一个企业是否控制另外一个企业（见第 33 号会计准则，第 9 页），还是比较喜欢会计法作出百分比上的规定（注：规定一个企业要控制另一个企业至少需要的股份比率）？

- ☐ 我喜欢用自己的专业判断
- ☐ 我喜欢有一个明确百分比的规定

第二部分：个人信息

请回答以下关于您的个人信息。

性别

☐男

☐女

年龄

☐20 以下

☐20-24

☐25-29

☐30-34

☐35-39

☐40-49

☐50-59

☐60 或者以上

您的国籍

☐中国

☐其他国家，请注明_____

出生地

☐中国

☐其他国家，请注明_____

母语

☐中文

☐英文

☐其他语言，请注明

您在哪里完成高等教育？

☐中国

☐中国和其他国家，请注明_____

☐其他国家，请注明_____

会计和财务相关经验？

☐1-2 年

☐3-5 年

☐6-10 年

☐10 年以上

您现在的工作是和财务相关的么？

☐是

☐不是

您在现在的企业工作了多久？ _____

您现在的职务？ _____

您有在四大会计事务所工作的经历么？

☐有， 我现在在四大会计所工作，请注明_____

☐有， 我曾经在四大会计所工作，请注明_____

☐没有， 我从来没有在四大会计所工作过

请问您是以下专业机构的会员么？

☐中国注册会计师协会

☐其他的会计专业机构，请注明_____

☐非会计专业机构，请注明_____

第三部分：个人价值观

请阅读以下问题，在合适的框内划勾“√”.							
	完全反对			中立		完全同意	
	1	2	3	4	5	6	7
我对我工作上的表现非常负责。							
我经常需要解释我在工作上做的决策。							
我的直属上司让我负责我工作上的所有决策。							
如果工作的情况和预期有些出入，我会从直属上司那里知道。							
在很大程度上，我所在的工作小组的成功落在我肩上。							
很多同事的工作取决于我所做决策的成功与失败。							
我在工作上的努力对公司的大计划非常重要。							
我的同事，下属和上司密切关注我的工作表现。							

非常感谢您完成这份问卷，您的参与对我们的研究项目非常重要。您在这份问卷中的所有回答会严格保密。如果您对这份问卷，或者您对运用会计准则时的专业判断有什么评论，请留下您的宝贵意见。

感谢您的参与！

定义

- 26. 合并财务报表：是指反映母公司和其全部子公司形成的企业集团整体财务状况，经营成果和现金流量的财务报表。
- 27. 母公司，是指由一个或一个以上子公司的企业（或主体，下同）。
- 28. 子公司，是指被母公司控制的企业。
- 29. 企业集团，是指以企业之间的资本投资为主要特征，产权主体多元化的一种复杂的经济联合组织。
- 30. 控制，是指一个企业能够决定另一个企业的财务和经营政策，并能据以从另一个企业的经营活动中获取利益的权利。

合并范围

合并财务报表的合并范围应当以控制为基础予以确定。

母公司直接或通过子公司间接拥有被投资单位半数以上的表决权，表明母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外。

母公司拥有被投资单位半数或以下的表决权，满足下列条件之一的，视为母公司能够控制被投资单位，应当将该被投资单位认定为子公司，纳入合并财务报表的合并范围。但是，有证据表明母公司不能控制被投资单位的除外：

- （二十一） 通过与被投资单位其他投资者之间的协定，拥有被投资单位半数以上的表决权。
- （二十二） 根据公司章程或协议，有权决定被投资单位的财务和经营政策。
- （二十三） 有权任免被投资单位的董事会或类似机构的多数成员。
- （二十四） 有被投资单位的董事会或类似机构占多数表决权。

在确定能否控制被投资单位时，应当考虑企业和其他企业持有的被投资单位的当期可转换的可转换公司债券，但其可执行的认股权证等潜在表决权因素。

母公司应当将其全部子公司纳入合并财务报表的合并范围。

Appendix 4: Ethics Approval



23 July 2010

Dr Chris Patel
Professor
Department of Accounting and Finance
Faculty of Business and Economics
Macquarie University NSW 2109

Reference: 5201000670(D)

Dear **Dr Patel**

FINAL APPROVAL

Title of project: *"A comparative study of judgments of Chinese and Australian accountants in the context of consolidated financial reporting"*

Thank you for your recent correspondence. Your response has addressed the issues raised by the Human Research Ethics Committee and you may now commence your research. The following personnel are authorised to conduct this research:

Dr Chris Patel - Chief Investigator/Supervisor
Ms Peipei Pan - Co-Investigator
Miss Eva Heidhues - Co-Investigator

Please note the following standard requirements of approval:

1. The approval of this project is **conditional** upon your continuing compliance with the *National Statement on Ethical Conduct in Human Research (2007)*.
2. Approval will be for a period of five (5) years) subject to the provision of annual reports. **Your first progress report is due on 23 July 2011.**

If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report on the project.

Progress Reports and Final Reports are available at the following website:
http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).
4. Please notify the Committee of any amendment to the project.
5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that might affect continued ethical acceptability of the project.
6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at: <http://www.research.mq.edu.au/policy>

HUMAN RESEARCH ETHICS COMMITTEE
MACQUARIE UNIVERSITY

http://www.research.mq.edu.au/researchers/ethics/human_ethics

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide Macquarie University's Research Grants Officer with a copy of this letter as soon as possible. The Research Grants Officer will not inform external funding agencies that you have final approval for your project and funds will not be released until the Research Grants Officer has received a copy of this final approval letter.

Yours sincerely

Dr Karolyn White
Director of Research Ethics
Chair, Human Research Ethics Committee

HUMAN RESEARCH ETHICS COMMITTEE
MACQUARIE UNIVERSITY

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