

Cultural obstacles to the implementation of IFRS-converged Chinese Accounting Standards

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Gina Xu

Auckland University of Technology (AUT)

Auckland

New Zealand

Abstract

The purpose of this study is to investigate the cultural and educational issues affecting the implementation of the IFRS-based accounting standards in China.

The IASB has a goal to develop a single set of principle-based global accounting standards, which is the IFRS. China has embraced the principle-based regime and its accounting standards have converged substantially with the IFRS. However, research shows that accounting is influenced by the social, cultural and political environment. It is therefore questionable whether the IFRS-based standards can be implemented effectively in a different social and cultural environment.

The application of professional judgement is essential in order to operate within a principle-based regime. Therefore, the question is how effectively professional judgement can be exercised in China. Accounting professionals from different backgrounds may reach different judgements, because professional judgement is often influenced by education and cultural values.

The current study employed interviews to understand how a Confucian-heritage culture affects the judgement of Chinese accounting professionals within a contemporary backdrop. More specifically, the study analyses how Confucian teachings impact on Chinese accounting education and professional ethics respectively. The interviews were conducted with Chinese accounting professionals, accounting students, accounting academics and foreign practitioners who had worked in China. Their views and experiences on accounting education and the application of professional ethics are sought.

Findings reveal that Confucianism is still a substantial influence on Chinese accounting education, which is reflected through a teacher-centred pedagogy and an examination-orientated assessment structure. Under such a system, the critical thinking and analytical skills of accounting students are largely underdeveloped. Hence, students and practitioners are not well prepared for exercising

professional judgement. Moreover, Confucian teachings have a strong impact on professional ethics. Professional independence and objectivity are largely compromised under the influences of *wulun* (the notion of five relationships) and *guanxi* (interpersonal relationship, networks). Chinese professionals need to follow the obligations and expectations created by Confucian culture, which are not necessarily in line with the concepts of independence and objectivity.

The findings indicate that Chinese accounting professionals cannot exercise their judgements fairly and effectively within a Chinese cultural environment. This highlights the difficulties of implementing the IFRS principle-based standards in a country that has a different culture from that of Anglo-Saxon countries. Given these cultural obstacles, this study shows that the *de facto* convergence with IFRS has not been substantial. Both the IASB and Chinese policy makers need to be aware of the cultural obstacles that hinder practitioners from exercising fair judgements. Because Chinese practitioners operate under their own culture, Western ethical concepts may not be applied. Culture is therefore an inherent barrier to developing a set of global standards.

Introduction

With the globalisation of capital markets, there are a number of advantages for the adoption of a set of global accounting standards. International Financial Reporting Standards (IFRS), the successor of International Accounting Standards (IAS), was developed with such intent. There are over one hundred countries currently requiring, permitting or adopting International Financial Reporting Standards (IFRS), including large countries such as China, Canada, members of the EU, India and Brazil (Ohlgart & Ernst, 2011; Peng & van der Laan Smith, 2010; Zeghal & Mhedhbi, 2006).

In 2006, the Minister of Finance (MOF) of China issued the most recent Chinese Accounting Standard (CAS). This marks a significant convergence between CAS and IFRS. All listed companies have been required to use the 2006 CAS since 1 January 2007 (Deloitte, 2006). Other companies and enterprises gradually implemented the 2006 CAS over a period of time. According to *Liu, Yuting*, the Director-General of the Accounting Regulatory Department of MOF, almost all medium to large size entities need to use the new CAS by 2010 (Yuting Liu, 2010). China proposed a roadmap for “continuing and full convergence” and planned to complete the convergence by 2012 (Yuting Liu, 2010; Ministry of Finance, 2009; Yang, 2011).

Some studies show that the convergence with IFRS is substantial, through comparing the 2006 CAS with IFRS (Peng & van der Laan Smith, 2010; Qu & Zhang, 2010). However, other studies critically question the feasibility of the IFRS convergence in China because of unique Chinese circumstances. The obstacles identified in earlier studies regarding the convergence with IFRS include the Chinese economic structure, share-market structure, accounting traditions, culture and the quality of accounting professionals (Chen, Jubb, & Tran, 1997; Chow, Chau, & Gray, 1995; Olesen & Cheng, 2011; Peng & Bewley, 2010; Xiang, 1998; Xiao, Weetman, & Sun, 2004). Many

studies have looked into aspects of Chinese institutional environments such as economic and political influences on the convergence project. Few have examined the cultural influences on the implementation of the new CAS. The application of IFRS-based standards requires significant level of professional judgement and such judgement can be influenced by both accounting education and professional ethics. Thus through assessing how Confucianism impact on both accounting education and professional ethics in contemporary China, this study hopes to provide an understanding to bridge this gap. The research question is that how a Confucian-heritage culture may hinder the implementation of the IFRS-converged standards in China. If the IFRS-converged standards cannot be implemented effectively, the convergence project may defeat its purpose.

The outcome from this study challenges the goal of the “single-set” accounting standards of IASB. It critically evaluates the practical difficulties in implementing a set of accounting standards developed based on Anglo-American system in China, where political, economic and cultural environment are different.

The paper is organised in the following way. The next section gives a background of the IFRS convergence in China. Then it presents literature highlights the issues related to accounting education and professional ethics in China. Next, it documents the research method employed for data collection. Afterward, some Confucianism doctrines are introduced. Findings are then presented followed by a detailed discussion from a Confucian aspect. Finally, the paper touches on some recommendations before it concludes.

IFRS Convergence in China

Accounting is formed by and always adapts to its environment (Ding, 2000; Perera, 1989a). Many studies show that social, political and cultural environments have a strong influence on accounting

practices (Cooke & Wallance, 1990; Gray, 1988; Nobes, 1998; Perera, 1989b). IFRS are derived from an Anglo-Saxon economic and accounting background. The concepts and fundamental ideologies are rooted in those countries which have a large private sector, a well-developed capital market and a common law system (Perera, 1989a). Some researchers are critical about the feasibility of the adoption of IFRS in emerging countries where the aforementioned conditions are absent or different (Perera, 1989a).

The literature on the convergence of CAS with IFRS appears to show competing views. The convergence process appears to be successful as the CAS are very much similar with IFRS (Peng & van der Laan Smith, 2010; Qu & Zhang, 2010). The quality of accounting information has improved since 2007 in adopting entities, which is evident by a decrease in earning management and an increase in value relevance of accounting measures in China (C. Liu, Yao, Hu, & Liu, 2011). However, others find the substantial convergence with IFRS has not lead to a convergence in practice. Olesen & Cheng (2011) find that some dual-listed Chinese companies use different accounting measurements in their financial statements in the domestic share markets (A shares) and the share market in Hong Kong (H shares). For example, fair value is used on H share accounts, which is based on IFRS, whereas cost method is employed for A share accounts, which is based on the 2006 CAS. Moreover, He et al. (2012) find that fair value accounting (FVA) for securities is used as an earning management tool to meet the zero earning threshold so that delisting can be avoided. Peng and Bewley (2010) critically reviewed the limit adoption of FVA in measuring long-term non-financial investments in the 2006 CAS. The authors challenge the official claim of “substantial convergence” and question whether IFRS are suitable for an emerging economy.

... whether successful implementation of IFRS in emerging economies is truly possible given that IFRS was created in response to the needs of developed rather than emerging economies (Peng & Bewley, 2010, p. 1004).

Many studies have investigated the obstacles in Chinese accounting reforms. Earlier studies have shown some obstacles relating to the convergence with IFRS in China. This section presents these obstacles from political, economic and cultural perspectives.

First, State ownership is dominant in the Chinese economy and share markets. Since the market is not fully “free”, there is limited reference to fair value. For example, the exchanges of non-financial assets are often between related parties and price does not necessarily reflect fair value (Davidson, Gelardi, & Li, 1996; Graham & Li, 1997; He et al., 2012; ICAS, 2010; Xiao et al., 2004). Therefore, the benefits of fair value accounting cannot be fully utilised in China (Peng & Bewley, 2010). Because of the divergences related to adopting FVA, Peng & Bewley (2010) argue that in China the motivation to converge with IFRS appears to be political rather than for economic reasons.

The benefits from the IFRS convergence project in China may be seen as more political than economical... emerging economies can signal an image of improved financial quality by donning the brand name of IFRS (Peng & Bewley, 2010, p. 1005).

Furthermore, the Chinese equity markets feature strong government control, opacity, strong market speculation and weak investor protection (Piotroski & Wong, 2012; S. M. L. Wong, 2006; Xiao et al., 2004). These characteristics result in a low demand for high quality accounting information (Defond, Wong, & Li, 2000; Xiao et al., 2004).

Second, apart from the economic and political environment, accounting is strongly influenced by its cultural environment (Gray, 1988; Nobes, 1998; Perera, 1989b). Chow et al. (1995) analysed the adoption of IAS in China based on cultural dimensions identified in Hofstede (1980) and Gray (1988)’s models. They suggest that the Chinese accounting system reflects a conservative, strong uncertainty avoidance and a large power distance culture. Hence, it is designed to support

“statutory control, harmony, uniform practices, compliance to rules, conservative measurement approach and secrecy in disclosure” (Chow et al., 1995, p. 44). The authors argue that

...moving towards an Anglo- Saxon model of financial reporting which emphasises professional self-regulation and judgement will, on cultural considerations, be very difficult to achieve in practice (p. 44).

Chow et al (1995)’s study illustrates an overall picture of how Chinese culture influences the Chinese accounting system, which is contrary to what IFRS prescribed. Besides Chinese institutional factors, Chinese accounting professionals are considered inexperienced in applying principle-based standards.

A review of literature in Chinese accounting education and professional ethics

Chinese accounting professionals are unfamiliar with exercising professional judgement due to the majority of Chinese professionals being accustomed to the traditional rule-based accounting system (Ding, 2000; ICAS, 2010; Z. J. Lin & Chen, 2000; Z. J. Lin, Chen, & Tang, 2001; Xiao et al., 2004). Exercising professional judgement is crucial to the application of principle-based standards. Such judgements need to be made in the public interest, so that the financial statements can be useful for external users (ICAS, 2010). However, many writers show their concerns about the difficulties for Chinese accountants to exercise judgement because of (1) a rule-based accounting tradition, (2) a conservative culture and (3) accounting education. For example ICAS (2010) reports

Several interviewees noted that the culture was one in which accountants were strongly averse to making judgement of the kind that were needed to support a more principle-based accounting regime. When combined with a relative lack of education and experience of IFRS accounting, the significant challenges of implementing the new Chinese Accounting standards become clear (p. 5)

Lin et al (2001) find that both the users and providers of financial information support reducing the “free choice” of accounting alternatives in accounting standards. The authors argue that this desire for not to have free choice may reflect the fact that “most Chinese accountants are accustomed to mechanically follow the authoritative and detailed accounting regulations and rules... They lack the ability of professional judgement” (p. 41). This unfamiliarity with professional judgement is likely to hinder the implementation of the new CAS.

Similar concerns also apply to Chinese auditors. Under an IFRS regime, professional auditors need to independently exercise professional scepticism and judgement to evaluate the financial statements (IAASB, 2012). However, Lin & Chan (2000) find that although the Chinese auditing standards are very similar to ISA, Chinese auditors do not necessarily exercise their professional judgement during an audit. The authors suggest that the reasons can be two fold. First, Chinese conservative culture tends to avoid uncertainty from making judgements. Second, professional judgement is not emphasised in Chinese accounting education.

Chinese accounting education

The weaknesses and inexperience in exercising professional judgement may reveal some issues in the accounting education in China. Many writers share the view that the current accounting education places emphasis on the delivery of technical knowledge, but that the development of generic skills is largely ignored (M. W. Chan & W. Rotenberg, 1999; Z. J. Lin, 2008; Z Jun Lin, Xiong, & Liu, 2005; Tang, 1997b; Xiao & Dyson, 1999). For example,

The weakness in traditional Chinese teaching is that they are quite passive with one-way delivery of lectures and test-paper examinations at the end of each semester. Such teaching methods are ineffective at fostering the development of judgement in accounting professionals (M. W. Chan & W. Rotenberg, 1999, p. 46).

By contrast, according to the International Education Standards (IES) issued by the International Accounting Education Standards Board (IAESB), knowledge taught in professional accounting education programmes can be used to develop professional skills which are likely to benefit professionals in the long-run (IAESB, 2010a). The acquisition of these skills, as described in paragraph 10 IES 3, is a way to help students to

become broad-minded individuals who think and communicate effectively and who have the basis for conducting inquiry, carrying out logical thinking and undertaking critical analysis (p. 48).

Although some Chinese universities has introduced Western teaching methods and textbooks, many writers comment that a teacher-centred education approach is dominant in China (M. W. Chan & W. Rotenberg, 1999; Yongze Liu & Chi, 2008; Tang, 1997a; Xiao & Dyson, 1999). Under this teaching approach, teachers are responsible for the delivery of knowledge and students passively receive the knowledge without questioning (Yongze Liu & Chi, 2008; Xiao & Dyson, 1999). Classes are structured and communication is one-way from teacher to students (M. W. Chan & W. Rotenberg, 1999). Students are primarily assessed by end-of-semester examinations, which involve the regurgitation of the knowledge learnt. Rote learning and repetition is encouraged in order to pass examinations (Woodbine, 2007).

Professional ethics

In additional to accounting education, professional ethics play a very important role in exercising judgements. A strict adherence to professional ethical standards is crucial to make sound and fair judgements in order to deliver “true and fair” financial information. Therefore, professional ethics are considered the cornerstone for making sound professional judgements, particularly under a principle-based system.

The most challenging aspect of operating in a principles-based environment is the need to apply professional judgement effectively, consistently and fairly. To

support such an environment, accounting professionals have to be trained, ethics have to be upheld and additional guidance must be provided to make principles operational (ICAS, 2010, p. 3).

Culture is an influential factor to attribute to the differences in ethical decision-making (Fleming, Chow, & Su, 2010; Patel, Harrison, & McKinnon, 2002). A number of researchers investigate cultural influence on ethical judgements of Chinese accounting students and Chinese auditors (Dunn, 2006; Fleming et al., 2010; Ge & Thomas, 2008; Gul, Ng, & Wu Tong, 2003; Smith & Hume, 2005; J. Tsui & Windsor, 2001; S. L. Tsui, 1996). These studies have used cultural dimensions theory, developed by Hofstede (1980) and Hofstede and Bond (1988), to draw theoretical explanations between cultural differences and auditor judgement.

For example, Ge & Thomas (2008) find that Canadian accounting students exhibit higher deliberative ethical reasoning scores than Chinese accounting students in an auditing ethical dilemma case. The lower ethical reasoning of the Chinese accounting students is ascribed to the high power distance, high collectivism, and the long-term orientation prevailing in China. Furthermore, Fleming et al. (2010) used three cases to compare US accounting students' ethical reasoning with that of Chinese accounting students and Chinese auditors. Two of the three cases involve Chinese cultural attributes, namely power distance and collectivism. The third case is culturally neutral. They find that Chinese students show a lower level of ethical reasoning than their US counterparts in the two scenarios involving cultural characteristics. However, Chinese students score slightly higher on the third case. This reveals that culture affects Chinese students' level of ethical reasoning. Findings from these studies demonstrate that accounting professionals from different cultural backgrounds are likely to make different decisions in the same ethical dilemma scenarios.

The above studies, with a reliance on Hofstede's (1980) five cultural dimensions or one or two of the cultural dimensions, are useful to highlight cultural differences. However, reliance on this framework alone may limit understanding of the influence of culture in accounting phenomena (Harrison & McKinnon, 1999), because culture is much more complicated and richer than these five dimensions. For instance, Patel, Harrison & McKinnon (2002) investigated cultural influences on auditors' judgements in an auditor-client conflict resolution. They surveyed senior auditors in the Big-six (at time of data collection) accounting firms from Australia, India and Malaysia. They find that Australian auditors, in comparison to their Indian and Malaysian Chinese counterparts, are less likely to accede to clients in an auditor-client conflict situation and are less accepting of resolving conflicts in this way. They argue the findings reflect that Australian culture emphasises individual identity and equalitarianism. In contrast, both Indian and Malaysian Chinese cultures stress on maintaining harmony in interpersonal relationships through acting properly according to one's position in the hierarchical social order. This study shows that culturally, Asian respondents hold different values to Australian respondents. Therefore, to understand cultural influence on ethical reasoning, Harrison & McKinnon (1999) suggest that future research draw on the broader and richer descriptions of culture from historical and sociological literature about the countries under study.

In summary, the extant literature highlights the difficulties in exercising professional judgement by Chinese accounting professionals. Although earlier literature criticises Chinese accounting education, none has provided an in-depth understanding of the status quo of the Chinese accounting education system. Much literature has shown that culture is a very influential factor on professional judgement and the ethical decision-making process through comparing Asian

respondents and their Western counterparts. This study tries to analyses Chinese issues draw on a richer understanding of Confucian culture.

Research Method

To answer the research questions, semi-structured interviews were conducted with four groups of interviewees, namely Chinese accounting academics, students, practitioners and Western practitioners who had worked experience in China. Interviews enable participants to express themselves freely according to their own thinking (Ghauri & Gronhaug, 2005). The interviews were conducted in English and Mandarin. Thirty-four semi-structured interviews were conducted over the period June 2010 to July 2012 in various locations in China and overseas as per the table below. Within the semi-structured interviews, there were 32 interviewees because two interviewees had second interviews as show in the table below.

| Types of interviews | Accounting Students | Accounting Academics | Chinese Practitioners | Western Practitioners | Total |
|----------------------------|---------------------|----------------------|-----------------------|-----------------------|-------|
| Semi-structured interviews | 8 | 8 | 13 | 5 | 34 |

Some of the interviewees have multiple roles. For example, they were accounting students and then became practitioners, or they were previously accounting students and then became academics. The classification of interviewees is based on the primary role that they are interviewed for. Each interviewee is given a number when their quotations are presented in the findings. For example, accounting academics are referred as A1-A8, Chinese practitioners are referred as P1-P8, those practitioners who have accounting education background are labelled as SP9- SP13.

Practitioner interviewees include auditors in the Big 4 firms and domestic firms, accountants from listed entities and private companies across a range of industries. Their working experiences were

ranging from 6 years to 40 years. There are five interviewees who are auditors or who have had experience of auditing. Students were from different Chinese universities include both undergraduates and postgraduates. Chinese accounting academics interviewed are from national key universities and provincial universities and their working experiences were from 5 years to 20 years. Maximum variation sampling aims to recruit participants from different sources and backgrounds to diversify interviewees. It aims to capture central themes or outcomes that “cut across a great deal of participants” (Patton, 1990, p. 172).

Most of the semi-structured interviews lasted from 45 minutes to one hour. Although the interviews were recorded upon permission, the researcher still took notes of key points, interesting quotations and emerging themes that the interviewees shared (Ghauri & Gronhaug, 2005; Taylor & Bogdan, 1998). These notes were used later to assist data analysis. Open-ended questions are asked regarding interviewees experience and views on accounting education and professional ethics, their views on Chinese culture are also sought. The researcher allowed interviewees to lead the conversation as long as they stayed in the research topic. In this way, interviewees may bring up informations that are not anticipated.

Interview tapes were transcribed by professionals. To preserve the originality of the interview data, the tapes are transcribed in the language that the interviews were conducted. Translation of the recorded interview was therefore not required from the transcribers.

Interview data were coded through using NVIVO 9. A few main nodes were set up according to the research questions, such as accounting education, professional independence, Confucian culture. Within each of the main nodes, the researcher read the content interpretively (Mason, 2002) and assigned sub-nodes according to what the text meant or represented. The analysis of interview data was also conducted in the original language. When presenting the findings, the researcher

only translated selected quotations. Translations were checked by another accounting academic who is fluent in both Chinese and English.

Furthermore, different categories of interviewees have primary insights on different questions. For example, students and academic interviewees would have more to say on the accounting education theme, whereas practitioners have more experience on matters related to professional ethics. Moreover, some of the Chinese practitioners learn other majors in universities, others are qualified through distance learning and apprenticeship. They do not have first-hand experience of Chinese accounting education, therefore the researcher did not ask them to comment on the educational theme.

Theory

The ways in which people think and behave are heavily influenced and cultivated by their culturally shared values and beliefs (Y. Fan, 2000; Kirkbride, Tang, & Westwood, 1991). Confucianism has been influencing Chinese culture in the past two millennia. Although Confucianism appears to have lost its glory during the industrialisation of the modern world, “beneath the surface a way of life, a system of beliefs and a core for national resurgence could not be easily dislodged” (Rozman, 2002, p. 14). Many argue that the essence or foundation of Chinese culture is primarily shaped by Confucianism (Y. Fan, 2000; Kirkbride et al., 1991; Oh, 2012; J. Wang & Mao, 1996). Therefore, Confucianism is the best available philosophy to explain the professional ethics of professional accountants and the accounting education system.

The study examines the key themes of Confucianism that are most relevant to Chinese accounting education and professional ethics. The relevant themes of Confucianism in this study include the notion of five relationships (五伦, *wulun*), Confucian ethics (五常, *wuchang*), and the

applications of these doctrines in Chinese society, such as *guanxi* and *mianzi* (face). Because not many Chinese people would actually read Confucian classical texts (Bond, 1991), this section briefly introduces the philosophical ideal of Confucian doctrines as well as the social norms derived from them.

The most distinguishing feature of Confucianism is the emphasis on a harmonious society through and by appropriate social norms of interpersonal relationships (Hwang, 1987). A harmonious society is achieved through individuals conducting themselves according to their roles in the various relationships they are involved.

Wulun (the notion of five relationship)

The notion of the five relationships, or five cardinal relationships (*wulun*), prescribes a clear hierarchical structure within a family and a society, which enables people to apply appropriate conducts according to their roles (Ho & Ho, 2008; Hummel, 1960; Kirkbride et al., 1991; Yee, 2009). The five relationships are between: (1) Ruler and Subject, (2) Father and Son, (3) Husband and wife, (4) Elder brother and Younger brother, and (5) Elder friend and Younger friend (or friend and friend). The five types of relationships cover most social relations in Chinese society. Within the five relationships, three are family relationships, between parents and children, a husband and his wife, and between elder and younger siblings. This implies the importance of the role that families play in a Confucian society (Y. Fan, 2000). Although Confucius used the male versions of language in describing these relationships, this does not mean that females are excluded. A daughter needs to respect her parents and to do the same to her parents-in-law after she is married. She cares for her children and enjoys respect from them. Nevertheless, the social status of a female was considered lower than a male during Imperial China.

Confucians believe that hierarchy carries both privileges and duties within each pair of relationships. In general, the superior owes the subordinate a duty of benevolence and care, the subordinate owes the superior the duty of obedience or duty of filial piety (Yee, 2009). More specifically, the detailed duties that are attached to the individual's role are recorded in the *Book of Li* Chapter 9

What are the things which humans consider righteous (yi)? Kindness on the part of the father, and filial duty on that of son; gentleness on the part of the elder brother, and obedience on that of the younger; righteousness on the part of the husband, and submission on that of the wife; kindness on the part of the elders, and deference on that of juniors; benevolence on the part of the ruler, and loyalty on that of the minister. These are the ten things which humans consider to be right (as cited in Hwang, 1999, p. 169).

Confucian ethics are embedded in these relationships. There are Five Constant Virtues in Confucian classic text, namely, Ren (仁 humanity , benevolence, compassion), Yi (义 righteousness, rightness) , Li (礼 propriety , rites and rituals), Zhi (智, Wisdom) and Xin (信, fidelity) (Y. Fan, 2000; Tu, 2002; Yao, 2000). The most commonly referred to in literature are the first three core virtues: *ren*, *yi* and *li* (Cheung & King, 2004; Ip, 2009a; Lam, 2003). Overall, *ren* as benevolence, is the motivation or drive for people to act upon. *Yi* as righteousness is the principle to judge rights and wrongs. *Li* are rituals, which are prescribed codes of conduct. Such conduct is exemplified of the virtues of *ren* and *yi*. Confucian ethics involve both principle-based concepts and a series of practice-based conducts. While *ren* and *yi* are more intangible and abstract, *li* is the standard conducts of how to behave towards others. The Confucian virtues can be cultivated through a life-long commitment to learning, which will be discussed in the next section.

However, the Confucian ideal may not be what occurs in practice. Ideally, when superiors exercise power, it should be based on benevolence and for the benefit of inferiors. In reality, power can be misused, particularly when there is absence of benevolence. As Ip (2009b) points out

Hierarchy in loving family relationships may be benign. However, in less than loving situations, it can be a source of coercion and domination. When hierarchy is aligned with prescribed authority, domination and subjugation may be its natural consequences... (p. 466)

Hierarchical relationships facilitate conflict resolution through practising virtues and unequal power distribution. The “natural” order of power, derived from *wulun*, regulates people to submit to authority. If conflicts arise, the subordinates who possess less power in a relationship are expected to compromise and to accommodate their superiors’ wishes (Kirkbride et al., 1991). Therefore, many writers share the view that China has an authoritarian culture and is an authoritarian society (Bond, 1991; De Mente, 2009; G. Wang, 2004; Wright, Szeto, & Cheng, 2002).

Confucian education belief

Linked with Confucian ethics, Confucius was concerned about how to become a genuine, sincere, and humane person through learning (J. Li, 2003). Therefore, “learning is a lifelong effort of aiming for forging a morally excellent life and of becoming a virtuous person” (K. H. Kim, 2004, p. 117). The process of learning is to cultivate virtues.

Confucius recognised the differences in human intelligence, but he believed that everyone could be educated. Therefore education is considered to apply to everyone, regardless of social status, economic status, age, and level of intelligence (Lee, 1996). Confucius left a legacy of the equality of education, which is still influential in Chinese education today (W. Zhang, 2008). Because Confucian learning stresses effort rather than intelligence, failure reflects a lack of effort from a student (W. Zhang, 2008). Learning is perceived to be difficult and is sometimes a painful activity,

as reflected in a famous Chinese poem: “Diligence is the path to the mountain of knowledge, hard work is the boat through the endless sea of learning” (书山有路勤为径，学海无涯苦作舟). To succeed in learning, effort and diligence are considered to be key. The Chinese way of learning cultivates “learning virtues” including “diligence, endurance of hardship, steadfast perseverance and concentration” (J. Li, 2010, p. 48). These learning virtues enable Chinese students to develop humility and self-discipline. Consequently, Chinese people have a reputation of being hard-working (Y. Fan, 2000).

Because of the purpose of learning and the influence of *wulun*, Chinese pedagogy is teacher-centred. The “teacher-student relationship is modelled after the father-son relationship” (Ho & Ho, 2008, p. 73). This reflects the Chinese culture of respecting elders and teachers, which is derived from *wulun*. Teachers not only pass their knowledge to their students, but also “serve as moral embodiments that children are to emulate” (J. Li, 2001, p. 132). Teachers are highly regarded as role models who cultivate children on a journey of lifelong learning. A stern teacher with a caring heart is appreciated in Chinese culture as discipline is part of learning (J. Li, 2001). In return, respect for teachers reflects an attitude of filial piety. However, the teacher-centred pedagogy is criticised as being stifling of creativity.

Confucian thinking on morality and education believes that there is a fundamental difference between right and wrong. Humans are capable of learning and discerning right and wrong (Ho & Ho, 2008). Therefore, “children must be taught correct knowledge not to question it” (Ho & Ho, 2008, p. 78). The correct knowledge and truth are recorded in the sacred classics such as *Four Books and Five Classics*. Teachers, as the holders of such truths, are responsible for passing on the correct knowledge. Therefore these beliefs may lead to an education system based on the

delivery of correct knowledge, not the discovery or generation of new knowledge (Ho & Ho, 2008).

Knowledge is perceived as the complete truth.

Imperial Examination

Due to the purpose of Confucian learning is for moral development, educated people are considered to be wiser and more righteous and therefore should become government officials to govern the nation (K. H. Kim, 2004). Imperial Examination (IE) was an examination system which was established based on these beliefs and lasted for over one thousand years in Chinese history (H. Liu, 2008). It was a meritocratic system which aimed to select well-cultivated people to become state officials (J. Li, 2001). IE was open to every male adult, regardless of his background, which reflected Confucius' belief on equality of education. It offered a fair chance to every male to become a member of the gentry and promised a privileged life (*Ancient imperial exams with modern relevance* 2006). Success in IE brought the extrinsic reward of learning. It not only brought wealth and position, but also honour to one's family and ancestors (Lee, 1996).

However, IE was criticised for limiting the development of modern science and technology in China. The rigid examinations did not encourage individuals to further their own interests in other areas. While the West was studying natural science, sociology and engineering, Chinese intellectuals were focusing on the rote learning of Confucian texts (Crozier, 2002; J. Y. Lin, 2012). Candidates had to memorise numerous Confucian texts, but “never needed to demonstrate the ability to either theorise or challenge a particular premise” (T. Kim, 2009).

The influence of IE still predominates in the current Chinese education system. The Chinese examination-driven education system can be seen as a legacy of IE. For example, the National College Entrance Examinations (NCEE, *Gaokao* 高考) system is very much the contemporary

version of IE (Yu & Suen, 2005). The NCEE aims to select students for higher education and is open to every student nationwide. Through passing NCEE, students with a humble background can be recruited into top universities. The top universities are often associated with better career choices and so potentially, economic success. Thus success in NCEE directly links to upward mobility (Pratt, Kelly, & Wong, 1999; Yu & Suen, 2005).

Guanxi

Guanxi is derived from a collectivist society. Confucianism recognises that individuals are essentially relational beings. The concept of self is defined through a person's relationships with others, which Ho (1995) called the "relational self". A "relational self" is expected to behave according to virtues and obligations within the relationships in which they are bound in *wulun*.

Chinese society is set up based on families. Traditionally, an individual's needs were largely met within the extended family. Therefore, there was little need for them to rely on people outside the family. This develops a society where people trust and take care of others with whom they have *guanxi*. Such trust is not extended to strangers. Consequently, the level of public trust in Chinese society is low (Bond, 1991; S. Li, 2010).

The principles underlying *guanxi* should be similar to what is expected within *wulun* such as benevolence, loyalty, respect for authority, sincerity etc (Tan & Snell, 2002; Y. Zhang & Zhang, 2006). A passage in *Doctrine of the Mean* Chapter XX reveals how Confucian ethics are applied in treating the authorities and others, which manifested as principles of *guanxi*:

Benevolence (ren) is the characteristic attribute of personhood. The first priority of its expression is showing affection to those closely related to us. Righteousness (yi) means appropriateness; respecting the superior is most important rule. Loving others according to who they are, and respecting superiors according to their ranks gives rise to the forms and distinctions of propriety (li) in social life (cited in Hwang, 2001, p. 187).

The passage means that because of benevolence, people should give priority to others who have a close relationship with them. It is appropriate to respect superiors based on the assumption that they are considered morally cultivated. Respecting authority is a result from respecting morally cultivated people. Loving others according to the closeness of the relationships and respecting superiors according to their ranking is a performance of propriety.

This passage reveals three important principles underlying *guanxi*. First, favouring people with whom one has a close relationship is considered as *ren*. Second, respecting those who should be respected as required by the relationship is termed *yi*. Third, it is *li* to behave according to these social norms, such as performing different rituals according to different ranks of people. For example, to show respect, juniors should not sit down until seniors indicate to do so. The *ren-yi-li* system has provided basic ethical principles for ordinary people to interact with others in society (Hwang, 2001). Under Confucianism, it is ethical to favour family members and friends according to the degree of intimacy of the relationships. For example, “it is quite normal for Confucians to consider affective networks as a factor in evaluating the qualifications of a candidate for a social position” (R. Fan, 2010, p. 31). In the business field, this means that it is ethical for the Chinese to consider in favour of people with whom they have *guanxi* and to deal with them.

Guanxi is maintained and strengthened through the continuous exchange of favours and gifts (Hwang, 1987). The reciprocity is required under the virtue of *yi* and the gifts are an application of the virtue of *li*. Trust can be further developed during this process. *Guanxi* can tightly knit individuals together within a *guanxi* network or web. They are protective of one another and safeguard each other’s interests (M. Wong, 2010). Within these networks, people have obligations based on their roles, and hold high levels of trust, loyalty and altruism towards one another (Chun & Graen, 1997). Individuals are obligated to return the social debts created through *guanxi*. Failure

to meet these obligations is considered untrustworthy and unkind. Accounting professionals are born into different *guanxi* circles i.e. extant families and friends. They are culturally obligated to fulfil the obligations of their particular *guanxi*. Their judgements are likely to be biased towards considering the interests of different *guanxi*.

Findings

Accounting education

A teacher-centred pedagogy is still dominant in Chinese accounting education and many interviewees believe that the teacher-student relationship remains hierarchical. Three academic interviewees report that they are adopting different methods of delivery in their classes, but are aware that a teacher-centred approach is still the main approach. Some students commented that they are discouraged from actively involving in the class because they think that some of the teaching content is irrelevant. For example, SP10 said that they were required to learn about abacus and to pass a certificate for abacus in the year 2003, when Microsoft Excel and Access were more useful for accountants.

[Accounting] Education is not linked to practice. Even when I was studying for my postgraduate in (a key national economics university), the teacher who taught us investment did not know the value of capitalisation in the Shanghai Stock Exchange (SP9).

Other interviewees think that students are taught to respect their teachers. Students feel shy to asking questions and discussing with their teachers, to a certain extent, students are afraid of their teachers.

Students are probably too scared to say what their thoughts are. My students are quite afraid of me, even though I often joke with them in the class (A1).

We have been educated in this way since we were children. When I was a little girl [in primary school], we were required to keep our hands behind our backs and listen carefully to our teachers. We were so young and felt that teachers were very strict, so we did not dare to interrupt the class [when we had

questions]... our way of thinking is absorbing knowledge, not to “thinking outside the box”(S3).

This teacher-centred pedagogy appears to lead to inadequate soft skill development for students because interviewees think that accounting education has not prepared students well for the essential skills needed to exercise professional judgement. Almost all Chinese practitioners who have an accounting education background as well as foreign practitioners hold this view. Some interviewees observe that Chinese practitioners prefer to have clear instructions, are less likely to take initiative and have a lack of common sense and the ability to question.

[Chinese accounting education] provides knowledge to [students]. However, how to solve problems, how to judge; these aspects are very weak. I think this is not only a problem in the accounting education, but it is an issue of the entire Chinese education system...After I graduated and started working, it was very difficult for a while, because I felt what I learnt was totally different from my job. (SP12 was working for one of the Big 4 as an auditor after graduating).

So having that ability to question and go through things is difficult. You need a degree of skepticism for auditing. When you go to see someone, you don't think they are liars, but you do think, does it make sense what the person told me. And that's something which I spend lots of time on.....I get an impression, if I'm wrong I am wrong, a lot of schools here have got lots of rote learning eh?When you see some of the things they [Chinese staff] do, you think they just don't seem to have common sense or just the ability to question to go to the next thing. Because, someone told me that, so I learnt that, therefore it's gospel...(FP4).

Accompany the teacher-centred pedagogy, a number of interviewees report that the final examination is the primary assessment tool for students. Homework and attendance count for 20-30% towards the final mark in some universities. Research based assessments are rare. Many interviewees think that their university exams are easy. They reflect on their experience in passing the National College Entrance Examination (NCEE) and the influence of the NCEE on accounting education. The NCEE can be regarded as the most important examination in Chinese students' lives because it determines whether the students would have a promising future. Successfully passing exams requires considerable effort, time and discipline from students. Effort

is arguably more important than intelligence in passing exams with success. For many students, it means practising exercises until midnight or later and 7 days a week.

The most influential factor in the Chinese education system is probably the examination system. It does not assess your abilities. Marks from exams are the sole standard [to assess students], from primary school to intermediate school, from intermediate school to high school, then from high school to university. Marks are the only performance measurement.....Although I may have strong skills, if my marks are low, no university would want me. It is worthless. People must perform according to what standards are used to measure them. I think this is a fundamental issue. (SP12)

Students' mind-sets have already been trained and accustomed into coping and passing examinations during their earlier studies. The mind-sets and skills needed to pass exams are likely to be carried into their accounting studies, which is at tertiary level.

Although examination does not test soft skills, it trains students in learning virtues. Students strive to study even when they are bored or frustrated. Consequently, students are disciplined to be diligent, perseverant and able to endure hardship (J. Li, 2010). Foreign interviewees also give the compliment that their Chinese colleagues are hard-working, which is probably due to the traits they developed during the learning process to pass examinations.

I think here people are much more diligent about getting all the debits and credits right, actually figuring out the mechanics of transactions (FP3).

Overall, findings in accounting education suggest although China is absorbing Western pedagogy, it has not been very effective in changing its traditional approach to education in the majority of Chinese universities. The hierarchical teacher-student relationship, together with the exam-orientated assessment structure, is likely to foster students to comply with a rule-based accounting system. This will be discussed further in the discussion section.

Professional ethics

The findings suggest that the professional independence and objectivity of Chinese accounting professionals are compromised. The study refers a broad sense of professional independence and objectivity. The concept of independence not only applies to auditor independence, but also refers to the independent and objective status of mind that an accounting professional should maintain in a professional job.

Majority of the interviewees believe that Chinese professional independence and objectivity is poor. The common factors emerging from the interviews that may compromise the independence of Chinese practitioners include: (1) *wulun* (hierarchical structure) and (2) *guanxi*. The two factors influence both Chinese auditors and accountants.

Auditors

Wulun appears to negatively influence auditor's independence. According to *wulun* the younger party is expected to respect and defer to the older party (Tu, 1998). Hence, a hierarchy is created due to age. Accounting firms normally hire young graduates. Junior auditors often hesitate to question their clients, who are often more senior.

The Asian culture is very much about respecting the elders. One of the difficulties I found was when a young person went out to see someone. The person they were auditing was often older than they were. So by default that person [the client] knew more than they did, which is not true at all. Let's take you and I for example; I am a lot older than you, you came to audit me. Whatever I say to you, you think it is the gospel truth... So having that ability to question and go through things is sometimes difficult (FP4).

Professional scepticism is interrelated with auditor independence and professional judgement. Under the influence of *wulun*, junior auditors are likely to be intimidated by their senior clients. This shows that the hierarchical culture, which derives from Confucianism, does not provide a suitable basis for professional scepticism and independence.

Furthermore, a lack of professional scepticism may also be a result of the Chinese accounting education system. The teacher-centred approach is weak in nurturing students' critical thinking abilities; rather it trains students to reproduce what their teachers taught them. However, without a critical aspect in their learning, students are unlikely to have a sceptical mind-set. Thus, the auditors are unlikely to challenge the claims made by their clients. Although professional scepticism can be developed with experience, under the influence of *guanxi*, auditing partners are unlikely to challenge their clients.

Interviewees think that Chinese auditors' independence is largely questionable because there is intense competition in auditing market. To survive in the market, auditors need to please their clients with an unmodified opinion.

The competition among domestic firms is fierce. They all want to earn their living through providing an auditing service. Therefore, they cannot uphold their dignity [to maintain independence]. As long as you pay them money, they can do whatever you ask. The unhealthy competition causes the current situation. [Maintaining] independence [within such environment] is very difficult (A1).

If I issue a qualified opinion, [the client] will not use me anymore....The client just needs to find another accounting firm. There are lots of firms can be found on the Internet. It is a matter of finding a firm that can give you a clean opinion (SP9).

It is necessary to establish *guanxi* with clients through giving benefits. Such benefits can be in various forms such as dinners, gift cards, trips in the name conferences and kickbacks and so forth. Interviewees call it “unspoken rule” in auditing industry. The findings highlight that the market does not demand independent auditors. In other words, auditors who are independent may suffer losing of clients.

The benefits of *guanxi* are utilised by the Big 4 firms in China. For example, one of the Big 4 partners gave an example that they needs to know the “right person” to establish their offices in China.

You (need to) have good relationships with the local governments before they give you a permit to open the office, so you couldn't just apply to get in. You need to know the right person and convince them that we'd do the right things for the community, and that it's of benefit for them, and they tick the box. You could fill out all the right forms, but it will just sit in a pile somewhere being completely ignored and they can get away from that, whereas here [New Zealand], you couldn't do that (FP4).

Guanxi is found to be an effective means for accounting firms to survive in a competitive market.

From the clients' perspective, it is a means for them to receive an unqualified opinion. From the auditors' perspective, it means they earn fees and retain clients. Auditors need to maintain good *guanxi* with clients because “deals grow out of *guanxi*” (von Weltzien Hoivik, 2007) in China. Although this may seem unethical, it is a common practice in China. As A5 notes: “if you do not invite someone for dinner or give some money to get something done, you will not be considered as ethical, but stingy”. This demonstrates that Chinese accounting professionals are in a dilemma between Chinese standard business practice and professional independence and objectivity.

Accountants

Interviewees believe that accountants need to be obedient to their bosses or supervisors. Within Chinese businesses, a “one-man rule” culture is very common. Because of this culture, accountants need to follow instructions, rather than independently exercising judgement.

Organisational culture [in China]... is “one-man” rule. It is about working around the boss and listening to him. You obey your boss as you obey your parents. As long as you are obedient, you will be fine. There is no restriction on the boss's power.... Under the authoritarian structure, there is no room for accountants to be independent. (A6).

In mainland China, accountants are not independent. They have to listen to supervisors. Smart accountants do what your supervisors tell them to do. Smarter accountants offer ideas to their bosses about how to cook the books. I am kind of in the middle. Very honestly, I do this to survive. (P6, the interviewee has 40 years of accounting work experience across different sectors).

The findings not only show that accountants are obedient to their superiors, but also reflect a lack of demand for independent and objective accountants. As the interviewees point out, it is not about

being independent but survival. The market values “dependent” accountants. Moreover, during an informal conversation, a Chinese academic mentions that there is no need to teach students how to exercise independent judgements because there are no employers that would like their employees to be independent. The findings suggest that the concept of independence is not valued in the Chinese context.

The formal relationship between accountants and their supervisors tends to be hierarchical. The obligation for an accountant is to be obedient, whereas the responsibility for a supervisor is to instruct. However, *guanxi* can tie the pair closely and change the dynamics of the formal relationship to a certain degree. Managers in SOEs affiliate with governments and are semi-officials situated in a political hierarchy. Business performance not only determines these managers’ remunerations, but also their political career outlook (H. Li & Zhou, 2005). According to interviewees, accountants are essential for assisting managers because the managers need their accountants to prepare the accounts in the way they intend. Also managers need to establish their *guanxi* with local officials to progress in their career. Such *guanxi* is often established through monetary benefits. The accountants are often involved in releasing the money to managers and concealing such expenditures. The accountants conceal illegitimate transactions or conduct accounting treatments in the way that their supervisors require. Their supervisors trust them to keep their secrets. In return, the supervisors reward the accountants with promotion, a bonus or overseas travel opportunities as revealed by interviewees. Their interests are tied together because of *guanxi*.

....Normally [in SOEs] if there is a change in management, there will be a change in accounting personnel. Supervisors normally take their accountants with them. If the supervisors are promoted, so are their accountants. If the supervisors are demoted, their accountants leave as well (P1).

The above quotation illustrates the closeness of *guanxi* between accountants and their superiors. In this sense, *guanxi* cultivates secrecy or opacity. Many transactions and information may not be disclosed in the financial statements. This may contradict the notion of transparency prescribed in the IFRS-based standards.

Tax regulations

Furthermore, some interviewees comment on that tax have strongly influenced on the implementation of CAS because some tax regulations prevent professionals to exercising judgement. Interviewees observe the difficulties in applying the IFRS-based standards in practice, an example is of Bad Debt (BD) write-offs. According to accounting standards, when BD is unlikely to be collected, it should be written off against the current year revenue. However, according to Chinese tax laws, when a company needs to write off BD, it must apply for approval from the local tax bureau. There are a number of documents that an applicant needs to supply: the legal document of liquidation of the debtor, and the official records of the debtor from the provincial level Commerce Bureau. This is a time consuming exercise, which would significantly increase accountants' workload and it often involves travel from one province to another. To avoid going through this troublesome process, accountants often do not write off BD. Hence, it is carried from one period to the next.

Bad Debts still have not been written off since I started working here in 2007 and now it is 2011. Every year the auditors raise this question about BD, but they never note it in the audit report. We do not want to initiate the process [to write off BD] because we do not want to bear the burden to provide evidence. We need to go to communicate with the Commerce Bureau and Tax Bureau etc. The process is very troublesome. We were hoping that our auditors could issue us a report regarding the BD, so we could write it off. However, the auditors do not do this (P8).

The decision on whether and when to write off BD is a matter of professional judgement under principle-based accounting regime. However, as shown in the findings, an accounting professional's right to exercise judgement is constrained by Chinese tax rules. Hence, Chinese tax regulations appear to negatively impact on the implementation of the new CAS in practice. The next section discuss these findings from a Confucian perspective.

Discussion

The hierarchical teacher-student relationship reflects the father-son relationship in *wulun*. Such relationship tends to cultivate students to accept the knowledge taught by their teachers without critical reflection. This form of pedagogy emphasises the understanding of prescribed knowledge. It also creates a reliance on teachers, who are considered as the holders of truth. This may contribute to Chinese practitioners' tendency to want clear instructions from their supervisors and to be less proactive. Moreover, the hierarchical teacher-student relationship cultivates students to subjugate to authority, which could be carried into their working lives.

Furthermore, the Chinese examination-orientated education system can be seen as a legacy of IE. Because of the importance of examinations in a student's life, it encourages learning for the purpose of passing the exams. Learning the right answers to exam questions are the key to score higher marks in the exams. Their understanding of knowledge tends to be fixed and absolute because there is always a right answer. This limits their abilities to think critically and independently. Consequently, students have little exposure to practising how to analyse information and make judgements.

Although the examination-orientated education is found to be weak in developing soft skills, it cultivates the perseverance and diligence of students. In order to pass exams, students need to

discipline themselves to endure studies. This system selects a particular type of students, who are hard-working, good at memorising and pliant, which is evidenced by hard-working Chinese practitioners. This may compensate the weakness in exercising judgement to a certain extent.

Considering the findings from accounting education as a whole offers an understanding of how the Confucian doctrine impacts on the ability to exercise professional judgement. With inadequate generic skills, accounting students are less likely to feel comfortable in applying the principle-based standards. Such inadequacy could hinder the implementation of the standards. Despite Chinese accounting education placing less attention on a critical approach to learning, it can be argued that such skills are not appreciated in many Chinese workplaces due to the hierarchical accountant-supervisor relationship and *guanxi*.

Wulun, although not in its ideal form, also has a strong presence in Chinese accounting practice. The accountant-supervisor relationship is modelled after the ruler-subject relationship in *wulun*, and loyalty and obedience from subordinates is required. The notion of five relationships (*wulun*) appears to limit professionals in exercising judgements independently as they tend to follow instructions from their bosses or supervisors. This also applies to auditors as they hesitate to question their clients due to their seniority. *Wulun* emphasizes respecting hierarchy to achieve harmony. The concept of independence and objectivity does not fit well with *wulun*.

The findings show that auditor-client *guanxi* is maintained through gifting in exchange for auditing engagements. Accountant-supervisor *guanxi* can be strengthened through the continuous concealment of illegitimate transactions in exchange for promotions or other benefits. Both parties involved are bound together to their *guanxi* and they need to fulfil their obligations within *guanxi*. The obligation under *guanxi* overrides professional ethics. A Confucian heritage culture is not about impartiality towards all the members in the society, but promotes social hierarchy, behaving

according to one's position and treating people according to the degree of closeness of *guanxi*. Chinese accountants are born to be within different relationships and have dependence on these relationships. Hence, their judgements are influenced by their relationships and their position in a hierarchy.

A principle-based accounting system requires professionals to consider the interests of external users when they prepare accounts and it also requires auditors to consider investors' interests when auditing accounts (ICAS, 2010). Auditors are required to give an opinion on whether their clients have complied with applicable financial reporting standards and whether the financial statements are "true and fair". In this sense, the auditors have a role in assisting the enforcement and implementation of the new CAS (ICAS, 2010). However, findings suggest that Chinese auditors fail to carry out their role of checking their clients' accounts independently and objectively. Without an independent audit, the appropriate use of professional judgements is not assessed properly. Consequently, the enforcement of the 2006 standards may be weakened.

An independent profession is a foreign concept that may not be well implanted in the Chinese relation-based society. Chinese professionals are less likely to consider the interests of external users and investors who are strangers to them, but more likely to consider the interests of their supervisors and clients, with whom they have *guanxi*. Therefore, the *de facto* convergence with the IFRS is unlikely to be achieved in the near future, though the Chinese government is pushing for the implementation of the new CAS in both listed and unlisted companies.

Limitation and conclusion

The limitations of this study are that (1) given the mixed background of the practitioners who were interviewed, the findings could not be analysed into specific sectors such as SOE, private entities and listed entities. As a result, some insights could have been omitted. (2) the findings indicate

that corruption is widespread in Chinese business field because of *guanxi*. This study has not included corruption in the discussion. Further study may analyses how Chinese corruption influences professional ethics in China.

Nevertheless, this study reveals the significant influences of embedded Confucian traditions on Chinese accountants and the obstacles in applying the CAS that is converged with IFRS. Although CAS has significantly converged with IFRS, the convergence between them does not necessarily lead to a convergence in accounting practice. This study collects first hand data from accounting professionals and academics to investigate the obstacles involved in the implementation of CAS. The study finds that the practical difficulties of implementing CAS are not only limited to Chinese institutional factors, but also to their embedded Confucian cultural traditions. Although the Confucian traditions may not be in their ideal form, these traditions are still deeply rooted in social customs that have a strong influence on Chinese accountants' judgements, the current study provides an in-depth theoretical analysis from a Confucian perspective to explain the obstacles in the implementation of the IFRS-based accounting standards in China. The outcomes from this study suggest that the *de facto* convergence is not substantial in practice.

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