

# Accounting Coordination Approach of cross-border Enterprises: Certified Public Accountant

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**Abstract.** This paper investigates the accounting coordination system arrangement implemented in Chinese and foreign joint ventures from 1979 to 1985, and analyzes the evolution of the above system arrangement based on the hypothesis of wealth maximization. The results show that in the cross-border direct investment environment, CPA is an important way of accounting coordination. If the number of joint ventures and the scale of investment are in a certain range, the institutional arrangement of accounting coordination through certified public accountants is more efficient than other institutional arrangements. The wealth maximization hypothesis, as a simple analytical hypothesis, can effectively explain why CPA becomes the most effective way of accounting coordination under the above conditions.

**Keywords:** CPA; accounting coordination; FDI; institutional change; wealth maximization.

## 1. Introduction

The analysis object of this paper is the accounting system arrangement implemented in the Sino foreign joint ventures from 1979 to 1985, which is used to solve the accounting coordination problem in the process of introducing foreign capital in the early stage of reform and opening up. The reason why we choose Sino foreign joint ventures instead of Sino foreign cooperation or wholly foreign-owned enterprises is that the role of accounting in the enterprise contract can be fully reflected under the conditions of the joint venture, and the legislation for joint ventures in China is earlier than that of Sino foreign cooperation and wholly foreign-owned enterprises.

The evidence presented in this paper reveals three important theoretical points in the study of accounting coordination: (1) in the context of cross-border direct investment, certified public accountants play a very important role in accounting coordination. Although the existing research and practice usually pay attention to the certified public accountant's authentication service and regard the accounting coordination as the accounting standard coordination, under some conditions, the change from the certified public accountant coordination to the standard coordination is the real evolution path of the accounting coordination. (2) When at least one side of cross-border direct investment and financing is non-governmental, there is a large difference between the two sides' standards, so there may be a high negotiation cost, and there is no blowout growth in the number of cross-border investment enterprises in a period of time, accounting coordination through certified public accountants is the optimal form of institutional arrangement. (3) The hypothesis of wealth maximization can effectively explain why CPA becomes the most effective way of accounting coordination under the above conditions.

The importance of the above theoretical questions lies in that they can provide more reasonable answers to the following questions, which are difficult to be satisfactorily answered in the existing theoretical framework: (1) how to coordinate accounting in the countries where the standards are not developed or do not accept the international accounting standards; (2) how to improve the level of accounting coordination with the countries where the standards are not developed or do not accept the international accounting standards as soon as possible In order to promote bilateral economic and trade exchanges; (3) how to coordinate accounting in international economic transactions without IAS and IFRS before 2001 or 1973; (4) how to understand the historical facts

that auditing precedes standards in the history of accounting and that standards are bred in the auditing industry.

## 2. Institutional Change Theory and Wealth Maximization Hypothesis

The change of institutional arrangement is called the institutional change in New Institutional Economics. Among the existing models of institutional change, the model established by north is more representative and typical.

### 2.1 North Model

Distribution of rent or the theory of rent distribution, also known as "rent dissipation", "rent dissipation theory" or "rent consumption", first appeared in Gordon (1954), commonly seen in the relevant literature of Professor Zhang Wuchang. With the research efforts of Zhang Wuchang and Yoram Barzel, a set of systematic rent consumption theory has been gradually formed in the relevant literature.

North's analysis is based on the hypothesis of economic man, according to which, no matter what the actual result of human behaviour is, in advance, its expected income is greater than the expected cost, and it will expand the scale of behaviour as much as possible to approach the level where the marginal cost equals to the marginal income, so as to maximize the benefits. Therefore, the inducement factor of institutional change is that the subject expects to obtain the greatest potential interest, which is a kind of interest that the subject cannot obtain in the existing institutional arrangement, namely the so-called external interest. The above-mentioned external profits mainly come from four aspects: scale economy, internalization of external economy, overcoming risk aversion and market failure and imperfect market development.

In North's model of institutional change, institutional arrangements are divided into three levels: individuals, voluntary consortiums and governments. The corresponding institutional forms are the systems promoted by individuals alone and followed by others, the systems formed by individual voluntary consortia and the systems forced by governments. The determination of the level of institutional arrangement mainly depends on the comparison of their respective benefits and costs in each level and the relative market and non-market power of the affected groups in institutional arrangement. In order to choose the most favourable arrangement, the decision-maker will compare the NPV of each alternative competitive organization and choose a form of the maximum NPV. The calculation formula of NPV at different levels is as follows.

$$\text{Individual: } PV_i = \sum_{j=1}^n \left[ (R_j^i - Cr_j^i) / (1+r)^j \right], i = 1, 2 \dots m$$

$$\text{Union: } PV_i = -Co^i + \sum_{j=1}^n \left[ (R_j^i - Cr_j^i) / (1+r)^j \right], i = 1, 2 \dots m$$

$$\text{Government: } PV_i = -Co^i + (R^i - Cr^i) / (1+r) + \sum_{j=2}^n \left[ R_j^i - (Cr_j^i + Cs^i) \right] / (1+r)^j, i = 1, 2 \dots m$$

Where PV represents the present value of the net income that the decision-making unit expects to obtain from certain organizational forms of innovation. Subscripts  $i, v, g$  represent the organization level (individual, voluntary and government), numbers  $1, 2 \dots m$  stands for a specific arrangement; R stands for the expected remuneration obtained by the primary action group from the innovation of institutional arrangement; the subscript  $j$  stands for the year of the expected remuneration;  $r$  stands for the discount rate corresponding to the choices contained in the decision-making unit;  $Co$  stands for the expected cost of a specific new arrangement;  $Cs$  stands for the expected blocking cost, which is the cost of the opposite decision multiplied by the probability of occurrence;  $Cr$  stands for the year when the decision-making unit obtains the expected remuneration from the innovation of institutional arrangement The expected operating cost of a particular arrangement in a given year.

## **2.2 Wealth Maximization Hypothesis**

When a norm can minimize the sum of transaction costs and net losses caused by the inability to obtain potential benefits, we call it wealth maximization norm. Different from the complex comparison of North model, the wealth maximization hypothesis is more concise in explaining the institutional arrangements adopted by a certain group. Although the hypothesis is similar to the social welfare maximization criterion in welfare economics, it is not a normative judgment, but an analytical hypothesis.

The hypothesis of wealth maximization is also based on the hypothesis of economic man, which holds that the rational economic man has the power to obtain all potential benefits. Therefore, from the perspective of the group, if there is the net loss, it is inevitable that a set of institutional arrangement with small transaction cost cannot be established within the group. Because the wealth maximization hypothesis and the North model are based on the same hypothesis and the same neoclassical marginal analysis method, they are only from different perspectives and do not have substantive theoretical differences.

No matter in the North model or the wealth maximization hypothesis, the state of institutional equilibrium means that under the given general conditions, any change of existing institutional arrangements cannot bring extra income to any individual or group of individuals in the economy. At this time, the institutional arrangement has obtained all the potential income increment generated by various element resources; or the potential profit exists, but the cost of changing the existing institutional arrangement exceeds these potential profits; or if some changes are not made to the institutional environment, it is impossible to realize the new distribution of income.

## **3. Accounting Problems Faced by Introducing Foreign Capital at the Beginning of Reform and Opening-up**

According to the 1981 China Statistical Yearbook, in 1978, the per capita national income of China's mainland was 316 Yuan / person at the price of that year, while the total population of China's mainland at the end of 1978 was 958.09 million. Obviously, at the beginning of reform and opening-up, China's economic development level is quite limited and the population is large. It is a huge potential production base and a huge potential market. However, the reform and opening up are expected to bring rich benefits to national and foreign investors.

Accounting is the language of business. To introduce foreign capital, we must redesign the accounting system at that time. Otherwise, the huge difference in accounting language at home and abroad will become a serious obstacle to reform and opening up. Under the condition of FDI, accounting plays an important role.

### **3.1 The Role of Accounting in Enterprise Contract**

According to Shane Sander's research, accounting has five functions in enterprise contract: (1) measuring the input of each subject to enterprise resource collection; (2) determining and paying the agreed benefits of each subject; (3) informing the corresponding subject of other subjects' performance of agreed obligations and acquisition of agreed benefits; (4) helping to maintain a contracting status and being proposed by the possessor The market for the flow of supply factors of production, so that the withdrawal of one entity does not endanger the existence of the enterprise; (5) since the multi-party contract is agreed by stages, it provides all participants with common knowledge of the confirmed information, so as to negotiate and draw up the contract.

To be sure, if the enterprise contract is operated in a closely related small group, the above five functions may be solved by the implicit contract implied in social relations. However, under the condition of FDI, hidden contracts are difficult to play a role. Without a series of formal institutional arrangements, such as accounting, it will be difficult to establish and maintain enterprise contracts. Without accounting, potential enterprise contract parties will lack a set of established rules to measure the input of all parties, and it is difficult to calculate enterprise profits "accurately", which leads to uncertainty in tax burden and profit distribution, not to mention

informing information, maintaining factor market flow and providing common information Same knowledge. For the investment and financing under the condition of FDI, accounting information is essential.

### **3.2 The Relationship between Investment and Financing and Accounting Information**

The lack of accounting information will lead to the decline of investment and financing willingness, but is there a strong investment and financing willingness as long as there is accounting information? The answer is no because different accounting systems will lead to the uncertainty of expected earnings. Under extreme conditions, although there is no difference in the physical form (physical input) or even psychological state (effort level) of the inputs of all parties to the contract, different provisions in the accounting system will also lead to different tax burden and profit distribution, including but not limited to whether certain inputs are recognized as assets, how much monetary inputs are measured, depreciation and amortization of each period, and reduction Confirmation and measurement of value and calculation formula of profit.

Due to the above uncertainty, rational foreign investors will choose to reduce the investment amount or even give up investment. Obviously, if it is necessary to attract overseas investment, the relevant provisions in the accounting system must guarantee the fair profit distribution to overseas investors, so the agreement on the accounting system must reflect the preferences of both domestic parties and overseas investors.

Obviously, in order to minimize the potential losses, in an ideal situation, the accounting system of each enterprise will be able to specifically reflect the preferences of domestic and foreign contractors under the specific circumstances of the enterprise. However, this idealized situation will lead to two transaction costs: one is the transaction cost of the agreed accounting system, which is positively related to the number of accounting systems to be agreed, but with the accumulation of experience, the unit agreed cost will decrease; the other is the transaction cost of adjusting the accounting system, which is positively related to the number of enterprises affected by a certain accounting system. Only when the number of overseas investment enterprises and the total amount of investment and financing are expected to be small, the increase of total transaction costs will not offset the income of potential loss reduction. However, in the case of large scale overseas investment and financing, the above ideal situation does not hold.

### **3.3 The Status of China's Accounting System as of 1978**

The problem is that in the early stage of reform and opening up, there was a huge difference between China's accounting system and overseas accounting system because China's accounting system was designed to meet the needs of enterprise management under the planned economy system at that time.

As Mr Liu Yuting, former director of the accounting department, said, "at that time, all of them were state-owned enterprises. The accounting system for state-owned industrial enterprises, which was revised and restored in 1980, was an accounting system based on the highly centralized planned economic system for decades and characterized by the management of state funds. It was required that special funds should be used in accordance with fixed funds, working funds and special funds, special account storage, "the money for soy sauce can't be vinegar". As the state-owned enterprises have a single investment entity, the accounting subjects are set according to the source of funds and the occupation of funds, and the accounting statements are the balance sheet of funds and the state capital table, emphasizing the three capital balances. Obviously, this kind of accounting system framework can not reflect the actual situation of foreign investment in maintaining and increasing value and distributing profits according to the proportion of investment. The foreign side cannot understand China's accounting statements, which constitutes a major problem for the country to introduce foreign investment. "

## **4. Possible Solutions**

In view of the difficult problem of accounting coordination faced by China in the early stage of reform and opening up, there are several possible solutions in practice, corresponding to three different levels of accounting coordination.

### **4.1 Three Different Levels of Accounting Coordination**

According to North model, the institution can be divided into three levels: individual, voluntary association and government. As for the form of institutional arrangement, it is possible to change from a purely voluntary form to completely controlled and operated by the government. There is a wide range of semi-voluntary semi-government structure between the two extremes. Similar to this, accounting standards research literature also believes that standards coordination is carried out in three different levels. Kothari et al. (2010) believed that, under the guidance of principles, the optional set of accounting policies includes principles, principles include policies that can be recognized by accounting and certified public accountants, while the latter includes policies actually used in financial reports, but under the guidance of rules, the optional set of accounting policies includes rules, but rules, policies that can be recognized by accounting and certified public accountants, and financial reports. The actual policies used in are equal. Obviously, between the optional set of accounting policies and the actual accounting policies used in financial reports, there are several different sets with inclusion relations. Different subjects choose different sets to form different accounting coordination degrees. According to the relationship from large to small, they are standard level, certified public accountant level and enterprise level, and the subjects involved are government or quasi-government regulatory agencies, Certified Public Accountants (firms) and enterprise accountants (Institutions).

From the perspective of the contract, the so-called coordination means that all parties to the coordination reach an agreement on the coordinated issues. In terms of accounting coordination, enterprise accounting itself only involves the coupling formed by the contracts of various stakeholders of a single enterprise; Certified Public Accountants generally involve multiple enterprises, thus involving multiple coupling, and standards involve all enterprises under their jurisdiction. According to this, accounting coordination can be divided into three levels: enterprise-level, certified public accountant level and standard level.

The so-called enterprise-level refers to that the accounting coordination behaviour is only carried out among the stakeholders involved in a single enterprise. When the contract parties involved in the enterprise are signed, the accounting coordination involved in the enterprise is completed implicitly. The so-called level of certified public accountants can be understood as the optional set of accounting policies recognized by certified public accountants. And the standard level refers to accounting coordination in the form of accounting standards. In the above three levels of accounting coordination system arrangement, the internal level of accounting coordination is the most informal, and generally the most flexible, while the standard level is the most formal and the least flexible.

### **4.2 One Enterprise and One Discussion**

A possible solution is that for each foreign-invested enterprise to be established, each investor (or even all the stakeholders of the enterprise) shall agree on a separate accounting system, which shall be supervised by each investor through the joint staff. Of course, there are many ways of supervision, either through the joint assignment of accountants or cashiers by both parties or through the employment of certified public accountants and other independent third parties to provide assurance services in accordance with the accounting system agreed in advance.

The problem of this scheme is that if one investor invests in multiple enterprises in a decentralized way, the transaction cost of one enterprise one negotiation will undoubtedly be higher. Therefore, under the condition of not leading to wealth loss, that is, ensuring the fulfilment of enterprise contract, the party with decentralized investment behaviour will have the motivation to reduce the number of agreed accounting systems, and even have the motivation to urge all the invested enterprises to use a unified accounting system under extreme conditions.

### 4.3 Criterion

In the early stage of reform and opening up, China's private economy is still in its infancy, and the state-owned economy occupies the dominant position, so the Chinese investors in Sino foreign joint ventures are basically governments at all levels. As the main body with obvious decentralized investment, the government obviously has the motivation to use a set of the public accounting system.

However, if a set of accounting system is negotiated in different enterprises, all investors are required to agree. The more decentralized the investment is, the higher the transaction cost will be caused by the agreement. Therefore, the cost will be significantly higher in some conditions than if a set of accounting system is negotiated inhomogeneous enterprises, while the cost of using different accounting system in different homogeneous enterprises. In addition, the government also faces a serious problem: the uncertainty of potential investors, and the uncertainty of the industry, region and problems they want the joint venture to face. Therefore, the demand of potential investors for the accounting system is uncertain. The fewer participants in the early agreed accounting system, the worse the overall representativeness, which will lead to the potential loss of overseas investment reduction, or adjust the transaction cost frequently to reduce the loss. However, when there are too many participants, there are too high transaction costs related to the agreement when agreeing on a set of the agreed public accounting system. In order to reduce the sum of the potential loss of interest and transaction cost, the government has the motivation to postpone the establishment of a public accounting system and adopt other institutional arrangements.

### 4.4 Certified Public Accountant

Even if there is no certified public accountant, enterprises employ professional accountants to design an accounting system and provide assurance services. Enterprises that have completed the design will have the motivation to sell the experience to other enterprises and pursue the scale economy of the experience. As the experience is mastered by professional accountants, professional accountants have the motivation to withdraw from the contract of the enterprise and sell their experience to multiple enterprises. So far, the above professional accountants have become certified public accountants. Potential investors have the power to acquire the experience, while CPAs have the power to sell the experience. Unless the number of potential enterprises is too small or the heterogeneity of enterprises is too serious, which makes it difficult to obtain economic profits, with the increase of the number of enterprises, all parties pursuing the maximization of wealth will inevitably adopt the accounting coordination system arrangement of CPAs.

CPA has knowledge advantage in accounting system agreement. From the perspective of maximizing their own interests, they have the power to pursue scale economy. Therefore, CPA will not only provide system agreement and assurance services for one enterprise but also provide services for as many enterprises as possible until their marginal income equals marginal cost. As far as the enterprises choose different Certified Public Accountants (CPA firms), the arrangement of accounting coordination system of CPA controlling accounting system is the arrangement of resource consortia, which is between one enterprise one discussion and criterion.

The problem of CPA controlling accounting system is that, when the number of enterprises is increasing, the knowledge accumulation of all parties to the contract is gradually completed, and the quality and preference of personnel are relatively mature. At this time, the number of public accounting systems in all enterprises is significantly smaller than the number of enterprises, the expected loss of unified accounting system formulated by the government is gradually reduced, and the limited number of public accounting systems are coordinated. The transaction cost of the co accounting system is significantly lower than that of the coordination of all enterprises, so a set of government-led public accounting system will achieve greater wealth.

To sum up, if the number of enterprises is  $n$  and the number of public accounting systems eventually exists is  $m$ , then. The actual solution, i.e. the value of  $M$ , will depend on the expected revenue, the number of enterprises, the knowledge reserve of each Contracting Party (personnel

quality, preference display), and the status of the decentralized investment. Among them, the number of enterprises is the key variable to understand all feasible institutional arrangements.

## 5. Actual Evolution Process and Analysis

Since the Third Plenary Session of the Eleventh Central Committee in 1978, China has begun to implement reform and opening up, and Sino foreign joint ventures have been established all over the country. According to the "Zhuhai Foreign Economic and trade record" published in May 1995, Xiangzhou wool textile factory, the first foreign factory introduced to Zhuhai as early as September 1979, has opened. From 1980 to 1990, the number and investment amount of foreign-funded enterprises in China are shown in Table 1.

Table 1. number and a total investment of foreign-funded enterprises in China (1980-1990)

year	Enterprises	Total investment	New enterprises	New investment	growth rate of enterprises	growth rate of investment
1980	7	470	<7	<470		
1981	82	13,248	75	12,778	1071%	2719%
1982	330	65,085	248	51,837	302%	391%
1983	616	176,747	286	111,662	87%	172%
1984	1,999	434,644	1,383	257,897	225%	146%
1985	4,912	1,641,154	2,913	1,206,510	146%	278%
1986	6,524	2,140,438	1,612	499,284	33%	30%
1987	8,546	2,641,308	2,022	500,870	31%	23%
1988	13,747	3,780,628	5,201	1,139,320	61%	43%
1989	18,968	4,690,829	5,221	910,201	38%	24%
1990	25,389	5,457,370	6,421	766,541	34%	16%

Source: "number of enterprises at the end of the year" and "total investment" are from China Foreign Economic Statistics Yearbook in 2004, others are manually sorted out by the author.

Note: "number of enterprises at the end of the year" and "number of new enterprises" are in households, and "total investment" and "new investment" are in USD 10000.

In Table 1, the growth rate of the number of enterprises is equal to the percentage of the number of new enterprises in the current year in the number of enterprises at the end of the previous year, and the growth rate of investment is equal to the percentage of the new investment in the current year in the total investment in the previous year. The above two growth rates can intuitively show the relationship between the increment and the stock. When the number of early enterprises and the stock of investment is small, the increment greatly exceeds the stock. When the stock of enterprises reaches a certain level, the importance of the increment relative to the stock is getting weaker. The data in the table intuitively show the watershed effect in 1985 - before 1985, the importance of stock was weak, but after that, the importance of increment was weak.

As mentioned in the previous analysis, the data listed in Table 1 plays an important role in the accounting coordination of foreign investors, governments and certified public accountants, because the data will directly lead to the adjustment of the expected transaction costs and potential losses.

The increase in the number of enterprises and the increase in the amount of investment have greatly increased, which in itself has released a signal of the increase in expected earnings to all parties. At the end of 1980, the investment amount of 7 enterprises and \$4.7 million showed not only the limited fixed income but also the income expectation of foreign investors. Similarly, in 1982, 248 new investment enterprises and the new investment amount of more than 500 million US dollars, as well as 330 enterprises and more than 650 million investment stocks at the end of the year, show considerable established earnings and earnings expectations.

The growth of the number of enterprises reflects the growth of the expected income of all parties, and also leads to the change of the arrangement of the payment fees of different levels of accounting coordination system, which leads to the transition of the arrangement of accounting coordination system of enterprises from one enterprise one discussion to certified public accountant and further to the standard.

On January 1, 1979, China resumed the establishment of the accounting system Department of the Ministry of finance, which had been suspended for 11 and a half years. It was responsible for the formulation and examination of the accounting system of all departments in the country. In May 1982, the accounting system department was renamed the accounting affairs management department, which was responsible for all accounting work in the country. Until December 1980, the Ministry of Finance issued the Interim Provisions on the establishment of an accounting advisory office. According to the provisions, the accounting consulting office is an independent unit composed of certified public accountants, which undertakes accounting notarization, consulting and other businesses, and is subject to the business supervision of the finance departments and bureaus of provinces, autonomous regions and municipalities directly under the central government. The certified public accountants who constitute the consulting office shall be subject to the examination and approval of the finance departments and bureaus of provinces, autonomous regions and municipalities directly under the central government where they live, and shall be reported to the Ministry of Finance for filing, and may be full-time or part-time. The Interim Provisions on the establishment of the accounting advisory office also set the qualification conditions for the certified public accountant: "anyone who loves the people's Republic of China, actively serves the socialist cause, and meets one of the following conditions can obtain the qualification of certified public accountant after examination and approval: (1) engaged in financial accounting work in enterprises, administrative and public institutions, and has achieved high-level Personnel with technical titles of accountant and accountant at the level of (2) professional professor, associate professor and lecturer of financial accounting with certain experience in financial accounting work; (3) personnel who are familiar with financial accounting system and have been engaged in audit for more than three years and are suitable for the work of certified accountant. Obviously, the personnel who are qualified to become certified public accountants are all those with medium or above the technical level in the field of accounting theory and practice at that time. Considering that the above qualifications are only necessary conditions for examination and approval rather than sufficient conditions, it is reasonable to believe that these certified public accountants have comparative advantages in the aspects of accounting system design and have the power to realize their own advantages in scale economy. Therefore, it is also possible to start from then on In the system arrangement, we can get a considerable level of rent value.

In comparison with the rapid restoration of the accounting system of the Department of accounting and the system of certified public accountants, the Ministry of Finance issued the accounting system of the people's Republic of China for Chinese foreign equity joint ventures (Trial draft) and the accounting items and accounting statements of Chinese foreign equity industrial enterprises (Trial draft) respectively in March 1983 and April 1983. The Ministry of Finance did not start the financial part until March 4 and April 24 1985, Do not formally release and implement.

Obviously, the combination of Table 1 and the actual evolution process of accounting coordination in the early stage of China's reform and opening up clearly confirms the discussion of various possible solutions based on the wealth maximization hypothesis in this paper.

## **6. Actual Evolution Process and Analysis**

Any explanation after the fact may lead to criticism, and the analysis of this paper is no exception. There are two possible competitive hypotheses in the analysis of the above evolution process, namely, there is a time lag in the standard-setting itself and the assurance service provided by the certified public accountant is still the assurance service.

## 6.1 Delay Hypothesis

In the North model of time lag hypothesis, the time lag of institutional change includes four main parts: cognition and organization (the time needed from identifying external profits to organizing initial action groups), invention (the time needed to invent an institutional form), menu selection (searching for known replaceable lists and selecting a time from which to meet the profit maximization arrangement of primary action groups) Between) and the start-up time (there is a time gap between the best alternative arrangement and the actual operation to start with the aim of obtaining external profits). For the problems studied in this paper, the fourth kind of time lag is important, that is, the reason why the government does not issue the guidelines is that there is a start-up time lag.

This competitive hypothesis cannot be established because of at least two pieces of evidence. First, in the early stage of reform and opening up, China's legislative efficiency for the introduction of foreign investment was very high. The law of the people's Republic of China on Chinese foreign equity joint ventures, adopted at the second session of the Fifth National People's Congress on July 1, 1979, and promulgated for implementation on that day, was promulgated in a short time. The income tax law of the people's Republic of China on Chinese foreign equity joint ventures, Fifth National People's Congress on September 10 1980, It was approved at the third meeting of the meeting and issued for implementation on the same day. Second, as the regulatory organization of accounting system at that time, the Department of accounting system of the Ministry of Finance responded to the problem of accounting coordination quite quickly. In November 1979, the accounting system Department of the Ministry of Finance drafted Several Provisions on financial accounting of Sino foreign joint industrial enterprises, but there is no information to show that the provisions can be issued and implemented.

## 6.2 Assurance Service Hypothesis

According to the assurance service hypothesis, even though there was no clear accounting system before 1983, the relevant provisions are "scattered in the law on Chinese foreign equity joint ventures, the regulations for the implementation of the law on Chinese foreign equity joint ventures, the income tax law on Chinese foreign equity joint ventures, the detailed rules for the implementation of the income tax law on Chinese foreign equity joint ventures, the income tax law on foreign enterprises, and the foreign enterprise office The detailed rules for the implementation of the tax law, the Interim Regulations on foreign exchange management, the provisions on labour management of Chinese foreign equity joint ventures and other supplementary provisions "only provide assurance services based on the above-mentioned relevant provisions.

This competitive hypothesis can not be established because of the following two pieces of evidence. First, the relevant laws and regulations clearly stipulate that the business scope of Certified Public Accountants includes the design of the financial accounting system of enterprises. In the Interim Provisions on the establishment of an accounting consulting office issued by the Ministry of Finance in December 1980, the business scope of the accounting consulting office was defined as follows: (3) the accounting consulting office undertakes the following businesses: (1) checking the accounting accounts and putting forward the audit report; (2) designing the financial accounting system and guiding the implementation of the system;... ". The business of "designing financial accounting system" was still reserved in Article 12 of the regulations of the people's Republic of China on Certified Public Accountants issued by the State Council on July 3, 1986, and was not mentioned until the law of the people's Republic of China on Certified Public Accountants issued on October 31, 1993. Second, even in the tax laws and regulations, it also shows some signs based on the enterprise financial accounting system. Article 20 of the detailed rules of the Ministry of Finance for the implementation of the income tax law of the people's Republic of China on Chinese foreign equity joint ventures, issued on December 14, 1980, stipulates that "no matter the profit or loss of the joint venture in the tax year, it shall submit the income tax return and the final accounting statement to the local tax authorities within the prescribed time limit, and attach them to the notarial society registered in the people's Republic of China Accountant's audit report. The

accounting statements submitted by the branches of a joint venture in China to the head office shall be submitted to the local tax authorities for future reference at the same time. " At the same time, Article 24 stipulates that "the financial and accounting treatment methods of a joint venture shall be submitted to the local tax authorities for recordation. If the financial and accounting treatment methods of a joint venture conflict with the provisions of the tax law, the tax shall be calculated and paid in accordance with the provisions of the tax law. "

## 7. Conclusion

The arrangement of the accounting coordination system implemented in Chinese and foreign joint ventures from 1979 to 1985 shows that CPA is an important way of accounting coordination in the cross-border direct investment environment. When at least one party is non-governmental in the cross-border direct investment and the standards of both parties are quite different, so there may be higher negotiation cost, if the number of joint ventures and the investment scale are in a certain range, the accounting coordination in the form of one enterprise one negotiation or standards is not efficient, the institutional arrangement of accounting coordination through the registered accountant has higher net present value, and it can also make Maximize the overall wealth of real and potential investors and financiers. The wealth maximization hypothesis, as a simple analytical hypothesis, can effectively explain why CPA becomes the most effective way of accounting coordination under the above conditions.

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