

A Comparative Study of the Accounting Systems of Five Countries in East and Southeast Asia

by

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(ABSTRACT)

The study is designed to enhance an understanding of the accounting systems in Hong Kong, South Korea, Malaysia, Singapore, and Taiwan. The stable social structure, steady political progress, and rapid economic development in the five countries provide a fertile ground for the development of their accounting systems.

In the five countries, sufficient statutory and nonstatutory regulations that upgrade quality of accountants and improve financial disclosure by businesses exist. The demand for accountants exceeds their supply throughout the five countries. The accounting profession is prosperous and thriving. Although the five accounting systems still exhibit some differences in financial reporting, they are all moving toward more financial disclosure and increasing harmonization of accounting standards.

The five countries have growing accounting influence on their neighboring Asian countries because their systems tend to be emulated by these neighbors due to their economic achievements. The accounting systems in Hong Kong, Malaysia, and Singapore can be considered to belong to one category owing to their common British tradition. However, because many American-educated students of the five countries with accounting majors have returned to their home countries, the impact of the American accounting system on the five accounting systems is on the rise. The study also shows that the five accounting systems can benefit from each other's experiences.

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Chapter 1 Introduction

The study focuses on the accounting systems of five countries in East and Southeast Asia.¹ The five countries consist of one British colony, the Territory of Hong Kong (Hong Kong), and four independent countries, the Republic of Korea (South Korea), the Federation of Malaysia (Malaysia), the Republic of Singapore (Singapore), and the Republic of China (Taiwan). Geographically, Hong Kong, South Korea, and Taiwan are located in East Asia while Malaysia and Singapore are located in Southeast Asia. The objective of this Chapter is to offer a justification for the study. In addition, the organization of the study will be explained on a chapter by chapter basis.

1.1 Reasons for the Study

There are several valid reasons for undertaking the study. These are:

- (a) the five countries have an important role to play in the "Pacific Century;"
- (b) they are "middle developed countries;"
- (c) they have extremely trade-oriented economies;

¹ The term "country" as used here also refers to territory.

- (d) they have received huge foreign investments and have started investing in foreign countries;
- (e) they have entered a period of rapid and important economic development;
- (f) the writer has knowledge of the languages used in the five countries.

The reasons are primarily of economic nature. These reasons need to be explored.

1.1.1 “Pacific Century”

It has been suggested that the world entered the “Pacific Century” in the mid-1970s.² Among the reasons given are: (a) the economic importance of the West Coast of the United States has been growing as compared with the East Coast; (b) Japan, Hong Kong, South Korea, Malaysia, Singapore, and Taiwan have been making significant economic advances that have influenced the rest of Asia; (c) the Pacific Basin, which is a basin surrounded by the Americas, Asia, and Australia, has a huge market potential; (d) the People’s Republic of China has emphasized economic development at the expense of ideology; and (e) neighboring Pacific countries have been increasing their economic cohesiveness.

1.1.2 “Middle Developed Countries”

Prime Minister Lee Kuan Yew of Singapore has used a new term, “middle developed country,” to describe his country. He believes that Singapore is no longer a poor, backward country, even though it will be twenty years before it can be viewed as a developed country.³ Hong Kong, South Korea, and Taiwan, along with Singapore, have been praised as “Asia’s Four Tigers” for their sense

² Frederick D. S. Choi, “ASEAN Federation of Accountants: A New International Accounting Force,” *International Journal of Accounting Education and Research* 15 (Fall 1979):53.

³ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, (Hong Kong: Far Eastern Economic Review, Ltd., 1987), p.236.

Country	1985	1986
Japan	\$8,316	\$8,837
Hong Kong	6,311	6,844
Singapore	5,847	6,431
Taiwan	3,142	3,468
Korea	1,954	2,296
Malaysia	1,547	1,636
Thailand	579	612
Indonesia	540	530
Philippines	535	515
China	220	250

Figure 1. Per Capita Income

of diligence and record of rapid economic development.⁴ In addition, as shown by Figure 1, which contains the 1985 and 1986 per capita incomes of ten countries located in Asia, Malaysia's per capita income is only several hundred dollars less than that of Korea.⁵ Therefore all five countries can be referred to as "middle developed countries."

1.1.3 International Trade

In all five countries, trade plays a significant role in promoting their economic growth. Several percentages serve to show how important trade is to them. In 1986, total foreign trade accounted for 187% of the gross national product (GNP) in Hong Kong, 70% of the GNP in South Korea, 103% of the GNP in Malaysia, 267% of the GNP in Singapore, and 97% of the GNP in Taiwan.⁶

In 1985, the combined exports of Hong Kong, South Korea, Singapore, and Taiwan to the United States amounted to \$41.9 billion, equal in dollar amount to about 58% of Japan's exports to the United States in that year.⁷ Moreover, the Organization for Economic Cooperation and Development reported at the end of last year that the combined trade surplus of those four countries with the rest of the world amounted to \$30 billion in 1987, and predicted that the combined exports of manufactured goods of the four countries would equal four-fifths of Japan's exports in 1989.⁸ On the other hand, Malaysia possesses abundant natural resources such as oil and rubber, and ex-

⁴ Dori Jones Yang, "Can Asia's Four Tigers Be Tamed," *Business Week*, February 15, 1988, p.46.

⁵ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, pp.6-7; Review Publishing Company Ltd., *Asia 1988 Yearbook*, (Hong Kong: Review Publishing Company Ltd., 1988), pp.6-7.

⁶ Review Publishing Company Ltd., *Asia 1988 Yearbook*, pp.8-9.

⁷ Louis Kraar, "Reheating Asia's 'Little Dragons'," *Fortune*, May 26, 1986, p.134.

⁸ *World Journal* (in Chinese), (Flushing), December 24, 1987, p.1.

ports them to the rest of the world.⁹ Also, the United States and the Association of Southeast Asian Nations, of which Malaysia is a member, have already formed a joint commission to study the feasibility of establishing a free trade area among them.¹⁰

1.1.4 Investments

Foreign investments in “middle developed countries” have been large and extensive. For example, Hong Kong is a favorite headquarters’ city for many foreign companies because it has low business taxes and minimal regulation. General Motors and Ford Motor Company have invested in automotive plant facilities in Korea and Taiwan, respectively.¹¹ In Malaysia, domestic passenger car production began in July 1985 as a joint venture with Mitsubishi of Japan.¹² Many components of Germany’s Nixdorf computers are produced in Singapore. The Singapore plant of Fairchild Semiconductor Corporation of Cupertino, California is used to develop the production machinery of Fairchild’s other factories.¹³

Companies in most of the five countries have started investing in the West for the purpose of expanding sales and to minimize the impact of trade barriers. For instance, Yantzekian Garment Manufacturing in Hong Kong has established a \$12-million plant in Liverpool, England.¹⁴ The Pohong Iron & Steel Company of South Korea invested \$290 million for a one-half interest in U.S.

⁹ Europa Publications Limited, *The Far East and Australasia 1987*, (London: Europa Publications Limited, 1986), p.632.

¹⁰ *World Journal* (in Chinese), (Flushing), February 11, 1988, p.2.

¹¹ Kraar, “Reheating Asia’s ‘Little Dragons’,” p.136.

¹² Europa Publications Limited, *The Europa Year Book 1986*, (London: Europa Publications Limited, 1986), p.1722.

¹³ Kraar, “Reheating Asia’s ‘Little Dragons’,” pp.136, 140.

¹⁴ *Ibid.*, p.140.

Steel's cold-rolled sheet plant in Pittsburg, California.¹⁵ A Singapore electronics company, Singatronics, bought the medical products division of Timex, an American company.¹⁶ And several corporations located in Taiwan, including Taiwan Plastics Group, its largest privately owned enterprise with annual sales of over \$4 billion, have plants operating in the United States and the United Kingdom of Great Britain and Northern Ireland.¹⁷

1.1.5 Economic Interdependency and Change Within the Five Countries

The five countries have entered a period of increasing economic interdependency and rapid economic change. It has been suggested that large sums of Hong Kong capital may be flowing to the other four countries because of the uncertainties caused by the scheduled return of Hong Kong from the United Kingdom to China in 1997.¹⁸ On the other hand, China has invested several billion dollars in Hong Kong during the past several years in order to inspire business confidence.¹⁹ As for the other four countries, they have tried to move closer to free-market capitalism, as adopted by Hong Kong. South Korea and Taiwan have attempted to relax their economic controls over business enterprises.²⁰ Taiwan dropped its foreign exchange controls in 1987 to facilitate private enterprise investment in other countries.²¹ Malaysia adopted the so-called "Look East" policy that emulates the industrial development in Japan and South Korea.²² It plans to reduce state investment

¹⁵ *Ibid.*, p.136.

¹⁶ *Ibid.*

¹⁷ Louis Kraar, "The Overseas Chinese: They Love the Getting, Not the Spending," *Fortune*, October 12, 1987, p.162.

¹⁸ *World Journal* (in Chinese), (Flushing), July 16, 1987, p.27.

¹⁹ Kraar, "Reheating Asia's 'Little Dragons'," p.140.

²⁰ *Ibid.*

²¹ *World Journal* (in Chinese), (Flushing), June 24, 1987, p.11.

²² Europa Publications Limited, *The Europa Year Book 1986*, p.1723.

and public expenditure while increasing the private sector's contribution.²³ Regulations on foreign equity participation have been modified to encourage the growth of the private sector; foreign investors are now allowed to have full ownership of a venture if the enterprise is export-oriented.²⁴ Having abandoned its policy of promoting specific industries with tax breaks and low cost loans, Singapore plans to reduce taxes for everyone and count more on private enterprise to direct investment capital.²⁵

1.1.6 The Writer Has Knowledge of the Languages

The official languages in Hong Kong and Singapore are English. Korean and Chinese are the official languages in South Korea and Taiwan respectively. Although Bahasa Malaysia is the official language in Malaysia, all legislation concerning accounting and *The Malaysian Accountant*, a journal jointly published by the Malaysian Association of Certified Public Accountants and the Malaysian Institute of Accountants are in English. I can speak, read, and write Chinese and Korean in addition to English. This knowledge enables me to read statutory, nonstatutory, and professional accounting pronouncements of the five countries as well as their accounting journals. I can also conduct interviews with the people associated with various accounting organizations.

1.1.7 Importance of Understanding the Five Accounting Systems

A mutually beneficial relationship exists between economic development and accounting development of a country. Enterprises have to raise capital from the public for the purpose of expanding

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ Kraar, "Reheating Asia's 'Little Dragons'," p.136.

their facilities. In order to raise capital, they must provide the public with accurate and timely information about their profitabilities and states of affairs. This need for capital stimulates accounting development.²⁶ The accounting development can also foster the economic development. More accurate accounting information on enterprises' financial conditions enables investors to assess the risks and returns of investing in different enterprises. This can lead to wiser decisions by investors on investment, saving, and consumption and result in a well-functioning capital market.²⁷

The five countries have increased their trade volume with the rest of the world and with one another. The capital movement of the five countries among themselves and with the rest of the world has been escalating. Economic activity spurs the development of accounting, which in turn facilitates economic activity. Not only have their accounting systems achieved rapid development, but they are also expected to continue rapid development in the future. While Japan is a highly developed Pacific country that has already received international attention, the five countries have not yet attracted sufficient attention to be internationally prominent. Consequently, as the reasons for the study suggest, a better understanding of their accounting systems commensurate with their growing economic strength is necessary. The study will contribute to the knowledge of these accounting systems.

1.2 Organization of the Study

Chapter 1 states the reasons for the study. The reasons primarily concern the growing economic importance of the five countries. The ever-increasing economic activities of these countries have already caused, and may continue to cause, rapid development in the field of accounting. There-

²⁶ Adolf J. H. Enthoven, *Accounting Education in Economic Development Management*, (Amsterdam: North-Holland Publishing Company, 1981), p.11.

²⁷ Peter Taylor and Stuart Turley, *The Regulation of Accounting*, (Oxford: Basil Blackwell Ltd., 1986), p.8.

fore, a better understanding of their accounting systems, which is compatible with their important economic positions, is needed. Besides that, Chapter 1 also contains an overview of all the Chapters.

Chapter 2 is divided into two parts. The first part contains a review of accounting literature that relates to the accounting systems in selected groups of countries or certain aspects of the systems. The second section includes a description of the methodology employed in this study. The study's nature, objectives, phases, research methods, and reasoning are then described.

Chapter 3 contains a detailed description of the environments of the five countries, which include the social structures, economic conditions, and political situations. The objective of this Chapter is to find any implications of these environmental factors on the accounting systems of the five countries.

Chapter 4 deals with government regulation of accounting in each of the five countries. This regulation includes both statutory and nonstatutory regulation of accounting. The statutory regulation concerning financial disclosure and qualifications of accountants is reviewed along with the nonstatutory regulation regarding disclosure.

Chapter 5 contains a description of the accounting profession of each of the five countries. Professional accounting organizations of each country are analyzed. Particular attention is directed to structure, functions, and members of these organizations so that a deeper understanding will develop.

Chapter 6 presents a concise description of financial reporting in each of the five countries. In particular, reporting requirements and practices followed by profit-making enterprises in financial reporting are discussed because this study emphasizes the area of financial accounting.

Chapter 7 draws several conclusions from the discussion of the five accounting systems. In addition, suggestions for improving the five accounting systems are explored. Recommendations are made to assist future researchers. The limitations of the study are also identified.

1.3 Summary

This Chapter is divided into two main parts. The first part provides a justification for the study. The primary concern is with the growing economic importance of the five countries. The ever-increasing economic activities of these countries have already caused, and may continue to cause, rapid development in the field of accounting. Therefore, a better understanding of their accounting systems, which is commensurate with their economic positions, is necessary. The second part provides a description of the organization of the study. The study has seven Chapters. The main points in each Chapter are mentioned briefly.

Chapter 2 Literature Review and Methodology of the Study

This Chapter has two objectives. The first one is to review important literature concerning foreign accounting systems and international accounting. Objective two is to outline the methodology employed in executing this study.

2.1 Literature Review

Literature to be reviewed consists of the environmental literature, which deals with social structures, political situations, and economic conditions of different countries, and accounting literature. Environmental literature for the study was selected on the basis (a) that it would provide concise information on each of the five countries and (b) that the information was reasonably current. There are three yearbooks containing information on the five countries that can best satisfy the requirements. As for accounting literature, only the literature that deals with the accounting systems of

selected groups of countries or certain aspects of the systems and that consists of at least some developing countries is reviewed.

2.1.1 Environmental Literature

Europa Publications Limited in London has published a yearbook on an annual basis since 1969.²⁸ In each new edition, old information is updated. Its latest edition is *The Far East and Australasia 1987*. The book contains detailed descriptive information on the countries of Asia, including Australia, New Zealand, the Pacific Islands, and the part of the USSR in Asia.²⁹ It is divided into three main components: general survey of the region, regional organizations, and country surveys.³⁰ The national statistical and information offices; the UN *Statistical Yearbook and Yearbook of National Accounts Statistics*; IMF *Survey* (Washington); *Asia Research Bulletin* (Singapore); *Asiaweek* (Hong Kong); and *Far Eastern Economic Review* (Hong Kong) are among the yearbook's sources of information.³¹

Europa Publications Limited has published another yearbook on the world on an annual basis since 1926.³² Its latest edition is *The Europa Year Book 1987*. The book provides descriptive information on the political, economic, and commercial institutions of the world. It describes international organizations and surveys all the countries in the world alphabetically. National statistical offices, government departments, and diplomatic missions are among the book's sources of information.

²⁸ Europa Publications Limited, *The Far East and Australasia 1987*, p.v.

²⁹ *Ibid.*

³⁰ *Ibid.*, p.xi.

³¹ *Ibid.*, p.vii.

³² Europa Publications Limited, *The Europa Year Book 1987*, (London: Europa Publications Limited, 1987), p.v.

Review Publishing Company Ltd. in Hong Kong publishes an Asian yearbook. Its most recent edition is *Asia 1988 Yearbook*. The book offers descriptive information on sociopolitical affairs, foreign relations, the economy, and the infrastructure of each of thirty-one countries in Asia.³³ It also describes some special problems such as Asian finance and Asian investment.³⁴

2.1.2 Accounting Literature

Professor Gerhard G. Mueller of University of Washington published an article, "The Dimensions of the International Accounting Problems," in *The Accounting Review* in January 1963. The author described increase in international business investments, growth of economic regionalism, and economic development efforts as creating an international accounting problem.³⁵ The international accounting problem lies primarily in the area of financial accounting. Management accounting had already made substantial progress in the international arena, because the process, job-order, and standard cost accounting methods are extensively used and the accounting analysis techniques are not limited by any national borders.³⁶ A threefold solution to the problem was suggested: establishment of international accounting principles, creation of a permanent international body of accounting authority, and discussion and explanation of the problem on a wide scale.³⁷ The author used the descriptive method and inductive logic in this research.

A book entitled *The Nature and Stages of Accounting Development in Latin America* was authored by Professor Edward L. Elliot of University of Illinois in 1968. The differences and similarities of the development of accounting in Mexico, Colombia, Peru, and Chile served as a focal point for

³³ Review Publishing Company Ltd., *Asia 1988 Yearbook*, pp.89-93.

³⁴ *Ibid.*, p.4.

³⁵ Gerhard G. Mueller, "The Dimensions of International Accounting Problem," *The Accounting Review* 38 (January 1963):146.

³⁶ *Ibid.*, p.144.

³⁷ *Ibid.*, pp.145-146.

his study. The four countries were selected because they contained approximately 54% of all Spanish-speaking peoples in Latin America and because they gave a representative cross-section of the various stages of economic development which existed in Latin America.³⁸ The author made personal visits to these countries in order to obtain adequate information for the book. He studied accounting and other business publications as well as the pertinent laws of these countries. He also held personal interviews with educators and accounting practitioners while visiting universities and offices of the various accounting organizations in these countries.³⁹ One of his conclusions was that the accounting profession in Latin America had not attained the degree of development of its counterpart in the United States and different stages of accounting development existed with Latin America.⁴⁰ However, the gradual industrialization in the four countries would cause their private industries and governments to obtain more and more accounting services.⁴¹ The study utilized the descriptive and comparative methods of research and inductive reasoning.

Professor George M Scott of University of Pennsylvania attempted to consider the basic accounting and economic development relationships without specific reference to any one national economy in his book entitled *Accounting and Developing Nations* which was published in 1970.⁴² His study was confined to accounting for private and essentially unregulated companies of developing countries.⁴³ Data were observed, gathered, analyzed, and synthesized for the purpose of arriving at several recommendations for the development of accounting in developing countries.⁴⁴ The author's recommendations were deeply rooted in his firm conviction that accounting development should not

³⁸ Edward L. Elliot, *The Nature and Stages of Accounting Development in Latin America*, (Urbana: Center for International Education and Research in Accounting, University of Illinois, 1968), pp.10-12.

³⁹ *Ibid.*

⁴⁰ *Ibid.*, p.175.

⁴¹ *Ibid.*, p.182.

⁴² George M. Scott, *Accounting and Developing Nations*, (Seattle: Graduate School of Business Administration, University of Washington, 1970), p.2.

⁴³ *Ibid.*, p.4.

⁴⁴ *Ibid.*

be determined solely by the numerous cross currents produced by social, economic, and political forces, but should be systematically and carefully planned.⁴⁵ The author utilized the descriptive method of research and inductive reasoning.⁴⁶

Professor Edward L. Elliott of University of Illinois wrote an article, "Accounting and Economic Development in Latin America," in the Fall 1972 issue of *International Journal of Accounting Education and Research*. The aim of the article was to identify the role that accountants could play in the economic development in Latin America.⁴⁷ Having reviewed the economic reality in Latin America, he made two observations. First, accountants, because of their experience in the business world, were uniquely qualified to assist government in all stages of the planning process.⁴⁸ Second, as regards the accountants' role in the private sector, it could be divided into: accounting for locally owned businesses in the agricultural and industrial sectors and accounting for dealing with foreign investments.⁴⁹ His research method was descriptive and his reasoning was largely inductive.

Professor Stephen A. Zeff of Tulane University wrote a book entitled *Forging Accounting Principles in Five Countries* in 1972. The five countries, which were selected largely because of the author's familiarity with their accounting principles, included Canada, Mexico, Great Britain, Scotland, and the United States. The author gathered materials by visits to the five countries, personal interviews, correspondence, and telephone calls. During those visits, he called on the offices of the major professional accounting bodies to review relevant documents and searched libraries for published evidence. The author had two objectives: to examine the historical evolution in the approach to forging accounting principles in each of the five countries and to compare and analyze the various

⁴⁵ *Ibid.*, p.168.

⁴⁶ *Ibid.*, p.3.

⁴⁷ Edward L. Elliott, "Accounting and Economic Development in Latin America," *International Journal of Accounting Education and Research* 8 (Fall 1972):89.

⁴⁸ *Ibid.*, pp.91-92.

⁴⁹ *Ibid.*, p.97.

⁵⁰ Stephen A. Zeff, *Forging Accounting Principles in Five Countries*, (Champaign: Stipes Publishing Company, 1972), p.vi.

trends.⁵⁰ To achieve the first objective, he engaged in descriptive research to provide detailed facts which he thought were important and interesting. To accomplish the second objective, he engaged in comparative research to discover differences and similarities. He was of the opinion that two noteworthy trends took place in the five countries. One trend was that research was emphasized in issuing accounting principles, but the degrees of emphasis were different.⁵¹ Another trend was that accountancy bodies increasingly depended on support agencies for the development and implementation of controversial recommendations concerning accounting principles. The support agencies varied from country to country. Among them were a federal agency in Mexico which oversaw compliance with tax legislation, the Securities and Exchange Commission in the United States, and various committees on company law amendments in Canada, Great Britain, and Scotland.⁵²

The International Practice Executive Committee of the American Institute of Certified Public Accountants (AICPA) wrote a book in 1975, *Professional Accounting in 30 Countries*. The thirty countries included Argentina, India, Japan, the Philippines and the United States as well as some other developed and developing countries. The firms of members of the AICPA Committee assembled and reviewed the materials in the book.⁵³ The section of the book concerning each country was composed of descriptions of the accounting profession, auditing and accounting standards, and, in some cases, illustrative financial statements.⁵⁴ Because one set of criteria is required for the purpose of comparison, American principles, standards, and practices were used as a frame of reference. The Committee considered a summary comparison of professional standards and the reliability of financial statements among the thirty countries to be impractical, since the factors on which judgments were based were voluminous and diverse.⁵⁵

⁵¹ *Ibid.*, p.314.

⁵² *Ibid.*

⁵³ The AICPA International Practice Executive Committee, *Professional Accounting in 30 Countries*, (New York: AICPA, Inc., 1975), Preface.

⁵⁴ *Ibid.*

⁵⁵ *Ibid.*

The Fall 1979 issue of *International Journal of Accounting Education and Research* contained an article, "ASEAN Federation of Accountants: A New International Accounting Force," which was written by Professor Frederick D. S. Choi of University of Hawaii. ASEAN is an abbreviation for the Association of Southeast Asian Nations, which had Indonesia, Malaysia, Singapore, the Philippines, and Thailand as its members at that time. The goal of the article was to evaluate and research the role which the ASEAN Federation of Accountants (AFA), established in 1977, could play.⁵⁶ The author identified differences in financial reporting between the five members.⁵⁷ He believed that the AFA provided a formal structure to consolidate harmonization efforts in the ASEAN region.⁵⁸ He also expressed the view that AFA's efforts would be complementary to those of the International Accounting Standards Committee (IASC) or the Confederation of Asian and Pacific Accountants (CAPA) because the AFA could coordinate the activities that took place in these three international accounting organizations.⁵⁹ The article used the descriptive and comparative methods of research and also inductive logic.

On behalf of Price Waterhouse International, Messrs. R. D. Fitzgerald, A. D. Stickler, and T. R. Watts became editors of a book, *International Survey of Accounting Principles and Reporting Practices*, which was published in 1979. The purpose of the book was twofold: to foster a better understanding of national accounting principles and to help achieve a greater degree of harmonization.⁶⁰ In order to achieve the purpose, the book illustrated the degree of conformity by the business communities and accounting professions in sixty-four countries in terms of each of two hundred sixty-seven accounting principles and reporting practices.⁶¹ The sixty-four countries con-

⁵⁶ Frederick D. S. Choi, "ASEAN Federation of Accountants: A New International Accounting Force," pp.61-62.

⁵⁷ *Ibid.*, pp.57-60.

⁵⁸ *Ibid.*, p.61.

⁵⁹ *Ibid.*, pp.63-65.

⁶⁰ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, (Scarborough: Price Waterhouse International, 1979), p.3.

⁶¹ *Ibid.*

sisted of the five countries in this study as well as some other developing and developed countries in all the continents of the world. Offices of the world-wide Price Waterhouse organization provided information for the book.⁶² The book constituted a descriptive survey because it provided descriptions of accounting principles and reporting practices in those countries without trying to draw any conclusions.

Professor Adolf J. H. Enthoven of University of Texas at Dallas was an author of a book published in 1981, *Accounting Education in Economic Development Management*. One of the author's goals was to determine the need for accounting education in socioeconomic development.⁶³ Several meaningful conclusions were reached by the author. For example, improved accounting education could not substitute for other socioeconomic development policies, but formed an integral part thereof.⁶⁴ Effective accounting education could not be separated from education at the primary, secondary, and postsecondary levels because good education laid the foundation for good accounting education and practices.⁶⁵ Developing economies had to assess whether their accounting education adapted itself to the demands of their socioeconomic environment and what the needs for accounting education would be five to fifteen years hence.⁶⁶ Self-help and external assistance from international development bodies were needed in improving accounting education in developing countries.⁶⁷ The author also undertook regional and country studies. His regional studies included Asia, the Pacific Ocean, Africa, the Middle East, and Latin America. His country studies consisted of Indonesia, South Korea, Malaysia, Pakistan, the Philippines, Thailand, and the developing island nations of the South Pacific. In order to achieve a better understanding of accounting education in these countries, he traveled to these countries to conduct interviews and to gather

⁶² *Ibid.*

⁶³ Adolf J. H. Enthoven, *Accounting Education in Economic Development Management*, p.6.

⁶⁴ *Ibid.*, p.2.

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*, p.3.

⁶⁷ *Ibid.*

materials. Since the author described observations made of detailed facts and drew conclusions from the observed facts, he employed the descriptive method in research and inductive logic.

Professor V. K. Zimmerman of University of Illinois was editor of a book, published in 1985, entitled *The Recent Accounting and Economic Developments in the Middle East*. The purpose of the book was to focus attention on the economic and accounting developments as well as problems faced by the Middle East.⁶⁸ The book consisted of several papers, most of which examined the impact of environmental and cultural factors on the development of accounting.⁶⁹ The main accounting trend of the Middle East was that the economic development would give rise to needs for comparable accounting statements and for the collateral growth of the accounting profession.⁷⁰ The book represented a descriptive type of research and contained case studies for Kuwait and Saudi Arabia. In some papers, questionnaire surveys were used to obtain materials.⁷¹

The three yearbooks referred to on pages 12 and 13 provided background information on the social structures, political situations, and economic conditions of the five countries in this study. An article written by Professor Choi, "ASEAN Federation of Accountants: A New International Accounting Force," discusses the impact of the establishment of the ASEAN Federation of Accountants on its member states, Malaysia, Singapore, Indonesia, the Philippines, and Thailand. A book edited by Messrs. R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, *International Survey of Accounting Principles and Reporting Practices*, describes the accounting rules in formal accounting pronouncements as well as some unwritten accounting practices in sixty-four countries. All five countries in this study are included. The Choi article and the Price Waterhouse survey supplied information helpful in discussing the five accounting systems. The remainder of the books and

⁶⁸ V. K. Zimmerman, ed., *The Recent Accounting and Economic Developments in the Middle East*, (Urbana-Champaign: Center for International Education and Research in Accounting, University of Illinois, 1985), A Note from the Editor.

⁶⁹ *Ibid.*, p.92.

⁷⁰ *Ibid.*, pp.61-63.

⁷¹ *Ibid.*, pp.139-143.

articles provided background information for the research methods used in this study and helpful information for gathering and organizing data and other materials. For example, these books and articles influenced my decision to rely on the descriptive method as well as the comparative method to conduct the study. The idea of visiting the five countries and interviewing people in the accounting field was also derived from the experiences of others.

2.2 Methodology of the Study

This section describes how the study was conducted. It includes the nature and objectives of the study, the phases of the study, and the research methods and reasoning used in conducting the study.

2.2.1 Nature and Objectives of the Study

This is a descriptive study of the nature and development of accounting systems in East and Southeast Asia, one of the most important areas of current economic development in the world. The study consists of comparative analysis of the development of the five accounting systems, with its primary focus on three substantive topics: government regulation of accounting, accounting profession, and financial reporting. The history of accounting, accounting education, and the role of accounting in economic development are reviewed in dealing with the three primary topics. The starting point for launching the study is an environmental analysis of the accounting systems of the five countries because the accounting system of any particular country is shaped by its social structure, political situation, and economic condition.

There are four objectives of the study. A first objective is to describe in some detail how the five accounting systems operate. A second objective is to examine any special problems faced by each of the five accounting systems. A third objective is to identify similarities and differences between the five accounting systems. And finally, the fourth objective is to draw some conclusions about factors that have influenced the development of the five accounting systems.

2.2.2 Phases of the Study

The study consisted of three phases. The first phase was the collection of materials concerning the five accounting systems from accounting firms in the United States and the Virginia Tech Library. The second was travel to the five countries to gather information that could not be obtained in the United States. The third was analysis and writing.

2.2.2.1 Collection of Materials in the United States

During the first phase, basic information about the accounting systems of Hong Kong, South Korea, Malaysia, Singapore, and Taiwan was obtained from Authur Andersen & Co., Ernst & Whinney, Peat, Marwick, Mitchell & Co., and Price Waterhouse & Co. In addition, *Accountants Index* published by the AICPA and *Business Periodicals Index* published by the H. W. Wilson Company were used in search of other materials. For instance, a magazine, *World Accounting Report*, was found to be very helpful because it contained current accounting news regarding the five countries. The knowledge accumulated during this phase helped identify the organizations to visit and the materials to purchase when traveling to the five countries. For example, *The Malaysian Accountant* and *Singapore Accountant* were determined to contain useful accounting information concerning the accounting systems of Malaysia and Singapore. Differences between the

Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants were identified.

2.2.2.2 Travel to the Five Countries

I went to the five countries in September, 1987 and spent two months in gathering materials according to the nature and objectives of the study. Professional accounting organizations, universities, and offices of Price Waterhouse & Co. were visited. Price Waterhouse was selected because it has published several books that include information about the five accounting systems in the study.

I made a point of visiting a primary professional accounting organization in each country. The following persons were interviewed: Mr. Paul Phenix, Technical Director of the Hong Kong Society of Accountants; Mr. Gun Shu Li, Chairman of the International Affairs Research Committee of the Korean Institute of Certified Public Accountants; Mr. Geoffrey J. H. Wong, Technical Manager of the Malaysian Association of Certified Public Accountants; Mr. Francis Lim, Technical Director of the Singapore Society of Accountants; and Mr. Chi Ping Sung, Secretary-General of the National Federation of Certified Public Accountants Associations. During these visits, as many of professional accounting pronouncements and issues of accounting journals as possible were acquired for use in developing the dissertation.

I visited the Department of Accounting and Finance of Chinese University of Hong Kong; the College of Business Administration of Seoul National University; the Faculty of Economics and Administration of University of Malaya; the School of Accountancy of Nanyang Technological Institute; and the College of Management of National Taiwan University. While there, materials relating to accounting courses offered by the universities and institute were obtained.

Before leaving the United States, letters were written to offices of Price Waterhouse & Co. in the five countries, requesting an update on the information on the five accounting systems which was contained in *International Survey of Accounting Principles and Reporting Practices*, a book published by Price Waterhouse International in 1979. After arriving there, I called on these offices to receive the materials and obtained information from the following people: Mr. Matthew Harrison, Manager of Price Waterhouse in Hong Kong; Mr. Kenneth J. Adams of Price Waterhouse in Seoul; Mr. Foo Marn Hing, Manager of Price Waterhouse in Kuala Lumpur; Ms. Lorena Tan, Technical Service Manager of Price Waterhouse in Singapore; and Mr. C. K. Wu, Manager of Chen, Chu & Co. in Taipei associated with Price Waterhouse.

Additional information was obtained from visits to the Securities Commission and the Unified Exchange in Hong Kong; the Ministry of Finance, the Securities and Exchange Commission, and the Korea Stock Exchange in South Korea; the Capital Issues Committee and the Kuala Lumpur Stock Exchange in Malaysia; the Securities Industry Council and the Stock Exchange of Singapore in Singapore; and the Taiwan Stock Exchange and the Securities and Exchange Commission in Taiwan. Different Ordinances or Acts concerning accounting in Hong Kong and Singapore were purchased from the Government Printers. Statutory materials were also acquired from bookstores in Korea, Malaysia, and Taiwan.

2.2.2.3 Analysis and Writing

The analysis concerned how to organize the four topics: environmental analysis, government regulation of accounting, accounting profession, and financial reporting. A decision was made to adopt a topic by topic approach to writing rather than the more traditional country by country approach. Using this approach, each of the four topics constitutes a chapter and a discussion of each topic includes all five countries. In a country by country approach, each country constitutes a chapter and a discussion of each country includes the four topics. The topic by topic approach was chosen because this approach enables readers to comprehend and focus more attention on each topic.

Actual writing of the dissertation began in November 1987. The first draft was completed in April 1988.

2.2.3 Research Methods and Reasoning

The nature and objectives of the study are to provide detailed factual information about the five accounting systems. Consequently, after the materials were acquired, the descriptive and comparative methods were used to organize and analyze the materials because they were consistent with the nature of the study and its objectives.

The descriptive method is a research approach to describe what one thinks is significant and meaningful about a subject without having to follow the inflexible rules of a scientific proof.⁷² The method used in the study provides a description of the five accounting systems and is useful in three ways. First, it provides background information about the five countries. Second, the results may help analyze the accounts of certain companies in different countries. Third, this method provides a review of the five accounting systems, which is a necessary starting point for the comparison stage of the study.

The comparative method is a research approach used to compare two or more entities with one another and to find the position of one entity relative to other entities. The method that is applied to the study is concerned with finding similarities and differences among the five accounting systems and it serves four purposes. First, comparison enables accountants to observe the problems and solutions in other countries with characteristics similar to their own. Therefore, it may be helpful to accountants in anticipating problems and developing possible solutions. Second, comparison highlights examples worth emulating and it inspires development rather than merely describing the

⁷² Julian L. Simon, *Basic Research Methods in Social Science*, 2nd ed. (New York: Random House, 1978), p.44.

state of affairs. Third, comparison facilitates the identification of reasons for differences and similarities between the five accounting systems. Fourth, comparison enables accountants to categorize the national accounting systems.⁷³

It should be evident from the above discussion that the descriptive and comparative methods are each capable of contributing to an understanding of the five accounting systems. Furthermore, the two are not competing with each other, but rather complementary to each other because the descriptive method lays a necessary foundation for comparison while the comparative method can magnify the enlightening effect of descriptive information.⁷⁴

Finally, inductive reasoning consists of formulating opinions from the data gathered and the observations made. Inductive reasoning is apparent in two places of the study. When attempts are made to find similarities and differences in environmental factors, government regulation, accounting profession, and financial reporting between the five accounting systems, inductive logic is used. When conclusions are drawn for the study, inductive reasoning is utilized again.

2.3 Summary

This Chapter first contains a review of certain literature relevant to the five accounting systems. The environmental literature review consists of three yearbooks that provide updated, important, and concise information on current events, present situations, and history of the countries listed in them. The accounting literature review includes seven books and three articles. They deal primarily with accounting systems in selected groups of countries and certain aspects of the systems. All the

⁷³ Jeffrey S. Arpan and Lee H. Radebaugh, *International Accounting and Multinational Enterprises*, (Boston: Warren, Gorham & Lamont, Inc., 1981), pp.31-32.

⁷⁴ J. M. Samuels and A. G. Piper, *International Accounting: A Survey*, (New York: St. Martin's Press, 1985), pp.31-32.

literature reviewed uses descriptive method of research, which often does contain the element of comparison. Also because the inductive approach is to detect and elucidate real-world situations or relationships, it is in the descriptive realm by its nature. In many cases, inductive reasoning may be contained in descriptive information.

This Chapter also contains a description of the methodology employed in the study. The nature and objectives of the study define the scope and direction of the study. The phases of the study describe how materials needed by the study were acquired and how the analysis and writing were undertaken. Finally, the examination of the research methods and reasoning shows that the descriptive and comparative methods as well as inductive reasoning are useful instruments for accomplishing the objectives of the study in accordance with its nature.

Chapter 3 Environmental Analysis

An accounting system tends to evolve in order to meet the requirements of its changing environment. The needs and various uses for accounting as well as specific accounting policies, procedures, and practices in a country are shaped by its environmental factors such as social structure, political situation, and economic condition.⁷⁵ For instance, the educational backgrounds of the users of accounting information determine the complexity and sophistication of information which the users are able to understand and absorb. The complexity and sophistication of accounting information also varies with the education of its preparers, the accountants.⁷⁶ In countries where people have a long-term orientation and a lower sense of urgency, the income statement is usually regarded as less important than the balance sheet.⁷⁷ In countries where people have a short-term orientation and a higher sense of urgency, the opposite is likely to be true.⁷⁸ Governments of vastly different political persuasions ranging from conservatism to communism may come to power in certain countries, causing the accounting rules to change drastically as well.⁷⁹ Because governments in Communist

⁷⁵ Jeffrey S. Arpan and Lee H. Radebaugh, *International Accounting and Multinational Enterprises*, p.15.

⁷⁶ *Ibid.*, p.18.

⁷⁷ Dhia D. AlHashim and Jeffrey S. Arpan, *International Dimensions of Accounting*, 2nd ed. (Boston: PWS-Kent Publishing Company, 1988), p.6.

⁷⁸ *Ibid.*

⁷⁹ Jeffrey S. Arpan and Lee H. Radebaugh, *International Accounting and Multinational Enterprises*, p.22.

countries own and regulate business enterprises, they tend to legislate accounting procedures.⁸⁰ Countries that experience severe economic instability tend to permit more conservative accounting practices, such as accounting for inflation and rapid depreciation rates.⁸¹ Also, a simple accounting system can fulfill the needs of an agricultural economy while more complex accounting procedures are required in an industrial society.⁸² An analysis of the environments of the five countries is a prerequisite for conducting a comparative study of their accounting systems. The environmental analysis of each country is divided into three parts: social structure, political situation, and economic condition.

3.1 Hong Kong

3.1.1 Social Structure

Hong Kong, located off the southeast coast of the Guangdong province of China, was acquired by Great Britain from China in three stages. Hong Kong Island was ceded by the Treaty of Nanking in 1842; Kowloon Peninsula was ceded by the Convention of Beijing in 1860; and the New Territories consisting of a mainland area adjoining Kowloon and some 235 outlying small islands were leased for a period of 99 years by the Second Convention of Beijing in 1898.⁸³ Hong Kong has an area of 1,068 square kilometers and its population was estimated at 5,422,800 in 1985. It had an average population density of 5,078 per sq km, one of the highest population densities in the

⁸⁰ Dhia D. AlHashim and Jeffrey S. Arpan, *International Dimensions of Accounting*, 2nd ed., p.7.

⁸¹ Jeffrey S. Arpan and Lee H. Radebaugh, *International Accounting and Multinational Enterprises*, p.25.

⁸² Dhia D. AlHashim and Jeffrey S. Arpan, *International Dimensions of Accounting*, 2nd ed., p.8.

⁸³ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.137.

⁸⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.359.

world.⁸⁴ Chinese people account for 98% of the population, so Chinese and English are the official languages. Confucianism is a philosophy that has strong influence in Hong Kong.⁸⁵ Buddhism is the main religion, though Christianity, Daoism, Islam, and Hinduism are also practiced.

Hong Kong's society is mainly composed of refugees from the Chinese mainland. Waves of refugees have reached Hong Kong at different times since the late 1940s when the Chinese Communists occupied the mainland. The latest massive surge in illegal immigration occurred from 1978 to 1980. More than 200,000 succeeded in settling in the colony; about 170,000 were discovered and returned to the Chinese authorities.⁸⁶ Consequently, Hong Kong has decided to impose more stringent control on illegal immigrants since October 1980. This has led to a noticeable drop in illegal immigrants. However, the number of legal immigrants continues to be high, about 27,700 in 1984.⁸⁷ The refugees have come to Hong Kong to avoid political upheavals and to seek economic opportunities. Although their influx into an already crowded colony has put serious strains on housing and other social services, the refugees have demonstrated their basic loyalty to an open society by being hard-working and industrious entrepreneurs and workers. These refugees have made significant contributions to Hong Kong's overall development.⁸⁸

Hong Kong has a well developed educational system. Primary education, which provides a six-year course, was made compulsory in 1971, and junior secondary education, which offers a three-year course, became compulsory in 1979.⁸⁹ Practically all children aged six to eleven years attended primary schools in 1983, while 97% of those aged twelve to fourteen years and 76% of those aged fifteen to sixteen years received junior and senior secondary educations respectively.⁹⁰ Higher edu-

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*, p.361.

⁸⁷ Europa Publications Limited, *The Europa Year Book 1987*, p.2942.

⁸⁸ Europa Publications Limited, *The Far East and Australasia 1987*, p.363.

⁸⁹ Europa Publications Limited, *The Far East and Australasia 1986*, (London: Europa Publications Limited, 1985), p.371.

⁹⁰ Europa Publications Limited, *The Europa Year Book 1987*, p.2943.

cation is mainly provided by autonomous institutions receiving government subventions, which include two universities, one college, and two polytechnic institutions.⁹¹

3.1.2 Political Situation

The primary reason for the British interest in Hong Kong is its magnificent harbor and its position as the focal point of the entrepot trade between the West and China. The People's Republic of China has maintained all along that the treaties which allowed the United Kingdom of Great Britain and Northern Ireland to control Hong Kong are no longer valid. As a result, unlike what happened in Malaysia and Singapore, the United Kingdom did not arrange for Hong Kong to proceed to democratic rule or eventual independence through stages.

The essential features of the colonial regime have remained largely unchanged. A British-appointed Governor administers Hong Kong, presiding over an Executive Council and a Legislative Council. The Executive Council is composed of four ex officio members and thirteen nominated members; the Legislative Council consists of three of the ex officio Executive Council members, seven other official members, twenty-two appointed unofficial members, and twenty-four elected members.⁹² The Governor has the power to reject the advice given to him by the majority of the Executive Council but has rarely done so.⁹³ Although the United Kingdom possesses the power to legislate for Hong Kong, to veto ordinances passed by the Legislative Council, and to give mandatory instructions to the Governor, Hong Kong is ordinarily permitted to run its internal affairs.⁹⁴

⁹¹ Europa Publications Limited, *The Far East and Australasia 1986*, p.371.

⁹² Europa Publications Limited, *The Europa Year Book 1987*, p.2942.

⁹³ Europa Publications Limited, *The Far East and Australasia 1986*, p.353.

⁹⁴ *Ibid.*

Hong Kong is to be restored to China in 1997 under the Sino-British agreement signed in Beijing in December 1984 and ratified in May 1985.⁹⁵ The British Government got China to guarantee that the capitalist economy and life-style in Hong Kong would continue for fifty years after 1997. This specifically means that Hong Kong will be a special administrative region of China and enjoy a high degree of autonomy, except in matters of foreign and defense affairs, that is to say, Hong Kong will remain as a free port and separate customs territory and its residents will continue to have freedom of speech, of assembly, of association, of travel, and of religious belief. To monitor the provisions of the agreement, a Joint Liaison Group (JLG) was formed, composed of British and Chinese representatives.⁹⁶ To draft the Basic Law, a mini-constitution for the future Hong Kong Special Administrative Region, Beijing established a 59-member Basic Law Drafting Committee, which included twenty-five members from Hong Kong itself.⁹⁷ A draft Basic Law will be completed for public comment in 1988 and the final draft is scheduled to be promulgated by the Chinese National People's Congress in 1990.⁹⁸

Hong Kong's future depends largely upon how faithfully China will carry out its agreement with the United Kingdom. There continue to exist serious doubts about Beijing's sincerity and ability to implement this agreement, which have been fueled by the strenuous objection by Beijing to the development of political parties in Hong Kong.⁹⁹ However, the JLG seems to have produced some encouraging results, among which are an independent status for Hong Kong in the General Agreement on Tariffs and Trade, Hong Kong's participation in the Asian Development Bank, and the general form of future air service agreements between Hong Kong and third countries.¹⁰⁰

⁹⁵ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.137.

⁹⁶ *Ibid.*

⁹⁷ Europa Publications Limited, *The Europa Year Book 1987*, p.2942.

⁹⁸ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.137.

⁹⁹ Maria Shao, "Hong Kong: The 'Brain Drain' Crimping the Colony," *Business Week*, January 25, 1988, p.50; Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.138.

¹⁰⁰ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.140.

3.1.3 Economic Condition

Hong Kong's economy has several important characteristics. The first is that it severely lacks natural resources. According to recent figures, only 9% of the total land area can be used for agricultural purposes and less than 2% of the economically active population is engaged in farming.¹⁰¹ Because Hong Kong can not produce enough agricultural products, it mainly relies on China for them.¹⁰² China also provides a significant portion of Hong Kong's water resources.¹⁰³ In terms of natural resources, Hong Kong has a natural and necessary dependence on China.

The second is that Hong Kong is an important entrepot port in the world and a free-trade area. Trade plays a significant role in its prosperity as testified by the fact that Hong Kong was the 14th largest exporter and the 15th largest importer in the world in 1985.¹⁰⁴ Manufactured goods accounted for three-quarters of total export earnings.¹⁰⁵ The textile and clothing industry provided 41% of domestic exports and employed 44% of the working population; The electronics industry was the second largest export-earner.¹⁰⁶ Additionally, Hong Kong was the world's largest supplier of toys.¹⁰⁷

The third characteristic is that Hong Kong's economy depends on the service sector to a significant degree. The invisible export such as financial services, tourism, and shipping doubled in value from 1980 to 1984.¹⁰⁸ Hong Kong is considered to be the third largest financial center in the world; its

¹⁰¹ Europa Publications Limited, *The Far East and Australasia 1987*, p.363.

¹⁰² *Ibid.*, p.359.

¹⁰³ *Ibid.*

¹⁰⁴ Europa Publications Limited, *The Europa Year Book 1987*, p.2943.

¹⁰⁵ *Ibid.*

¹⁰⁶ *Ibid.*

¹⁰⁷ *Ibid.*

¹⁰⁸ *Ibid.*

banking and mercantile houses maintain branches throughout the Far East.¹⁰⁹ The expanding service and industrial sectors have been the main driving forces for achieving important economic growth. The average annual growth rate was 12.5% during 1976-81.¹¹⁰ After declining to 1.1% in 1982, it reached 5.9% in 1983 and 9.6% in 1984.¹¹¹ Then following a dismal performance in 1985 of 0.8%, it climbed back to 8.7% in 1986 and 12.1% in 1987.¹¹²

The last characteristic is that Hong Kong's economy is becoming increasingly integrated with that of China. China's financial involvement in Hong Kong is substantial. Chinese-owned enterprises in the Territory amounted to more than 300 in 1985, including fourteen banks; in 1986 China became Hong Kong's third largest foreign investor in the manufacturing sector.¹¹³ The United States and Japan were first and second.¹¹⁴ On the other hand, investment partners from Hong Kong participated in 50% of the joint ventures established in China in 1984.¹¹⁵ And it is estimated that China currently receives 40% of its foreign currency through Hong Kong.¹¹⁶

¹⁰⁹ *Ibid.*

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*

¹¹² *World Journal* (in Chinese), (Flushing), January 6, 1988, p.1; Europa Publications Limited, *The Europa Year Book 1987*, p.2943.

¹¹³ Europa Publications Limited, *The Europa Year Book 1987*, p.2943.

¹¹⁴ *Ibid.*

¹¹⁵ *Ibid.*

¹¹⁶ *Ibid.*

3.2 South Korea

3.2.1 Social Structure

South Korea is located in the southern part of the Korean Peninsula and is separated from its northern neighbor, the Democratic People's Republic of Korea, by a demilitarized zone roughly following the 38th parallel. It is encircled by three seas: the Sea of Japan to the east, the Yellow Sea to the west, and the East China Sea to the south. It has an area of 99,143 square kilometers and it had a population of 41,055,000 in 1985.¹¹⁷ Its population density was 414 per sq km.¹¹⁸ With 65% of the population residing in urban areas and Seoul alone having 24%, the population density was more severe in cities.¹¹⁹ Although Buddhism which numbers 11 million is the principal religion, there are more than 9 million Christians, 80% of whom are Protestants.¹²⁰ Since the Chinese cultural influence remains strong, Confucianism as a philosophy enjoys widespread respect among the Korean people.

Although provincialism and different dialects still exist, South Korea has a remarkably homogeneous society. It has its own written language called "Korean Letters," which was promulgated by a king in 1446 and which contributed to the development of Korean as its official language as well as the preservation and growth of a distinctive Korean folk culture.¹²¹ While the people were once stratified into the landed gentry and the toiling masses, the development of modern commerce and industry all but eliminated the stratification. The opening of Korea to the West in the late 19th

¹¹⁷ *Ibid.*, p.1663.

¹¹⁸ *Ibid.*

¹¹⁹ Europa Publications Limited, *The Far East and Australasia 1987*, p.538.

¹²⁰ Europa Publications Limited, *The Europa Year Book 1987*, p.1660.

¹²¹ Korean Overseas Information Service, *A Handbook of Korea*, (Seoul: Seoul International Publishing House, 1987), p.50.

century brought about the growth of modern culture and the increase in the number of Christians. All these fostered the cohesiveness of the society.

South Korea provides educational opportunities for its people. Free and compulsory primary education is offered to children between ages of six and twelve; school enrollment for this age group is almost 100%.¹²² Secondary education is financed privately and consists of two three-year units, middle school and high school.¹²³ Plans are underway to extend free and compulsory education through middle school throughout the whole country by 1991.¹²⁴ About 75% of the children in the appropriate age-groups attended secondary schools in 1982.¹²⁵ There are now ninety-eight universities and colleges.¹²⁶

3.2.2 Political Situation

Because the Korean Peninsula, sandwiched between China, Japan, and the USSR, occupies a crucially important geographical position, all of its neighbors and even some other powers have vied for influence in Korea at one time or another. Nevertheless, despite repeated foreign invasions, it has managed to maintain its independence. The primary reason for this has been Korea's resilience and determination to defend its sovereignty, though the desire of foreign countries to keep Korea as a buffer zone has also played a part.

The Korean Peninsula was divided into two parts at the end of the Second World War, with its southern and northern halves occupied by the United States and the USSR respectively. After initial

¹²² Europa Publications Limited, *The Europa Year Book 1987*, p.1662.

¹²³ Europa Publications Limited, *The Far East and Australasia 1986*, p.573.

¹²⁴ *Ibid.*

¹²⁵ Europa Publications Limited, *The Europa Year Book 1987*, p.1662.

¹²⁶ *Ibid.*

efforts to establish an unified government in the Peninsula failed, the Republic of Korea was inaugurated in the south on August 15, 1948, and the United States occupation came to an end.¹²⁷ In the four decades since its establishment, South Korea has undergone many drastic political changes. It has produced several constitutions, experimenting with both presidential and parliamentary systems of government and trying both direct and indirect elections of president. It is now functioning under the Fifth Republic, which began in 1981.¹²⁸ These changes, although sometimes confusing, are vital signs of South Korea's political vigor.

Under the Constitution of the Fifth Republic, executive power is in the hands of President Chun Doo Hwan who was indirectly elected in 1981 for one term of seven years by the Presidential Electoral College, whose members were elected by universal adult suffrage.¹²⁹ The President is assisted by an appointed cabinet, led by a Prime Minister, and there is an unicameral National Assembly that exercises legislative power. President Chun has promised that he will retire from office in early 1988, setting the first example of peaceful transition of power in Korea since 1948. Furthermore, an amendment to the constitution was made to allow direct election of the next president. This amendment was intended to allay the concern of the opposition forces that the Presidential Electoral College could be easily manipulated by the ruling Democratic Justice Party (DJP). The presidential election was held on December 16, 1987, and all major parties chose candidates to participate in the election.¹³⁰ The DJP's candidate, Roh Tae Woo, was elected.

¹²⁷ Harold M. Vinacke, *Far Eastern Politics in the Postwar Period*, (New York: Appleton-Century-Crofts, Inc., 1956), pp.195-197.

¹²⁸ Europa Publications Limited, *The Far East and Australasia 1986*, p.531.

¹²⁹ Korean Overseas Information Service, *A Handbook of Korea*, p.118.

¹³⁰ Review Publishing Company Ltd., *Asia 1988 Yearbook*, p.163.

3.2.3 Economic Condition

South Korea possesses only 10-20% of the mineral resources of the Peninsula and at times cannot even be self-sufficient in the most important staple of rice.¹³¹ The country is poorly endowed with natural resources and it suffered extensive and serious damage during the Korean War.¹³² Yet its economy has experienced remarkable growth since the early 1960s, increasing at an annual average rate of about 9% from 1963 to 1981.¹³³ During the 1982-86 period, the economy grew by 7.9% annually, and an average annual growth of 7.2% is envisaged from 1987 to 1991.¹³⁴ The main reasons for this economic success have been the judicious use of the aid from the United States and the sound economic planning adopted by its government. Having successfully completed five five-year economic plans, the government is now implementing the 1987-91 sixth plan.

The pursuit of outward-oriented and export-centered policies has dominated all the economic plans. Shipbuilding has become a major industry, accounting for 11.5% of world shipbuilding orders in 1985.¹³⁵ High-tech sections of manufacturing such as electronics and computers are encouraged. It is hoped that the electronics sector will eventually replace textiles as the principal source of foreign exchange.¹³⁶ An investment program, which aims to expand South Korea's share of the world export volume of semiconductors to 11.1% by the year 2000, was announced in 1986.¹³⁷ One of the most rapidly growing industries is the auto industry. In 1986, South Korean cars were exported to the United States for the first time.¹³⁸

¹³¹ Europa Publications Limited, *The Far East and Australasia 1987*, p.558.

¹³² *Ibid.*

¹³³ Europa Publications Limited, *The Europa Year Book 1987*, p.1662.

¹³⁴ *Ibid.*

¹³⁵ *Ibid.*, p.1661.

¹³⁶ *Ibid.*

¹³⁷ *Ibid.*

¹³⁸ *Ibid.*

The South Korean economy has been facing special problems. The industrial sector of the South Korean economy is largely controlled by big conglomerate companies with greatly diversified interests from shipbuilding to electronics. Ten such companies accounted for 64% of GNP and 70% of exports in 1984.¹³⁹ How to curb the continued growth of the big companies, therefore, is an urgent problem confronting South Korea. Another problem is its substantial burden of external debt, which amounted to \$46.8 billion at the end of 1985, equivalent to 56.3% of its annual GNP.¹⁴⁰ This figure is projected to increase to \$51.7 billion by the end of the sixth plan in 1991.¹⁴¹ The country, therefore, needs to assess its appropriate burden of foreign debt. The final problem is how to solve its trade problem with the United States. Washington has pressured Seoul to take concrete steps to reduce its trade surplus with the US. The surplus reached \$7 billion in 1986.¹⁴²

3.3 Malaysia

3.3.1 Social Structure

Malaysia, which comprises three parts, Peninsular Malaysia, Sarawak, and Sabah, has a total area of 330,434 square kilometers.¹⁴³ Peninsular Malaysia is bordered by Thailand to the north and by Singapore to the south while the South China Sea is east of it and the Straits of Malacca is west of it. Sarawak and Sabah, together known as East Malaysia, are located in the northern fringe of

¹³⁹ *Ibid.*, p.1662.

¹⁴⁰ Europa Publications Limited, *The Far East and Australasia 1987*, p.562.

¹⁴¹ *Ibid.*

¹⁴² Europa Publications Limited, *The Europa Year Book 1987*, p.1662.

¹⁴³ *Ibid.*, p.1801.

the remote island of Kalimantan formerly called Borneo. They share the island with Brunei and Indonesia.

According to the revised June 1980 census, Malaysia's population was 13,745,241, of whom 11,426,613 were in Peninsular Malaysia where the population density was 86.8 per sq km; 1,307,582 were in Sarawak where the population density was 10.5 per sq km; and 1,011,046 were in Sabah where the population density was 13.6 per sq km.¹⁴⁴ There has existed a pronounced difference in population density between the two wings of Malaysia, which has brought about serious disparity in urbanization. While there are many large cities including the national capital, Kuala Lumpur, in Peninsular Malaysia, East Malaysia can boast few large cities. An estimate in 1985 put the population of Malaysia at about 15.7 million.¹⁴⁵

Malays constituted 47% of the population in 1977, Chinese 33%, Indians 9%, Borneo indigenes 9% ,and others 2%.¹⁴⁶ Although Christians exist among all races, religions tend to be divided along racial lines. Fifty-three percent of the population including virtually all Malays practice Islam, the established religion; 25% of the population including most of the Chinese community are Buddhists; Indians mainly follow Hinduism.¹⁴⁷ Bahasa Malaysia, based on Malay, is the official language, even though English is spoken extensively. Chinese and Tamil are also spoken.

Government-funded schools provide free education for children aged six to nineteen.¹⁴⁸ The main medium of instruction is Bahasa Malaysia. English is taught as a second language and Chinese and Tamil as students' own languages. All children start primary school at the age of six and remain there for six years. The total enrollment at the primary schools accounted for about 99% of all

¹⁴⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.616.

¹⁴⁵ *Ibid.*

¹⁴⁶ *Ibid.*

¹⁴⁷ Europa Publications Limited, *The Europa Year Book 1987*, p.1798.

¹⁴⁸ *Ibid.*, p.1800.

children in the relevant age-group in 1985.¹⁴⁹ Students begin five years of secondary education at the age of twelve. Those who pass the Malaysian Certificate of Education examination at the end of secondary education may take a further two-year study, at the end of which the Higher School Certificate examination, the qualifying examination for university entrance, is given. Students who pass this examination are admitted into universities. Students may choose to attend vocational and technical secondary schools instead of the final two years of secondary education. There are seven universities and five polytechnic institutions.¹⁵⁰

Malays are the majority group in Malaysia. This sheer numerical advantage in a society where elections are held will surely enable Malays to drive for increasing dominance in social, political, and even economic life in Malaysia. Yet Chinese and Indian economic strengths remain strongly entrenched and their commercial skills are crucial to the country's economic growth. An important task facing the country since its establishment in 1963 has been to achieve social harmony by accommodating the interests and ambitions of its principal ethnic communities. Malays will be granted a greater economic role as Chinese and Indians move toward equality of political and administrative rights.¹⁵¹ The task has not been an easy one, but Malaysia has been making great strides toward establishing a workable multi-racial society.

3.3.2 Political Situation

The Malay states in Peninsular Malaysia had been under Portuguese and Dutch influence until the late 18th century when Britain's territorial advance began. By 1914 British authority had been es-

¹⁴⁹ *Ibid.*

¹⁵⁰ Cheong Mei Sui, *Information Malaysia: 1985 Yearbook*, (Kuala Lumpur: Berita Publishing, 1985), pp.307-308.

¹⁵¹ Europa Publications Limited, *The Far East and Australasia 1987*, p.620.

tablished throughout the Peninsula.¹⁵² In 1957, the Federation of Malaya consisting of eleven states gained independence within the British Commonwealth.¹⁵³ The Federation of Malaya later joined with Sabah, Sarawak, and Singapore in forming the Federation of Malaysia in 1963. Singapore seceded in 1965.¹⁵⁴ Malaysia, therefore, is divided administratively into thirteen states, of which nine have hereditary rulers.¹⁵⁵

Malaysia is a constitutional monarchy, with the King elected for a five-year term by the hereditary rulers of nine of the states from their ranks.¹⁵⁶ The King acts on the advice of the Parliament and Cabinet. The Parliament is bicameral, comprising the Senate and the House of Representatives. There are 68 members in the Senate, whose term of office is six years.¹⁵⁷ The House of Representatives has 177 members, whose term of office is five years.¹⁵⁸ The King appoints the Prime Minister, but the Cabinet, headed by the Prime Minister, is collectively responsible to the Parliament. The Prime Minister must have the confidence of the House. Otherwise he will have to resign or make the request, subject to the King's approval, that the House be dissolved.

The dominant party in Malaysian politics has been the United Malay National Organization. The four Prime Ministers since the establishment of Malaysia have been its members. The key to its success has been its willingness and ability to form multi-racial coalitions with other ethnic parties such as the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress in contesting parliamentary elections. The National Front has been such a coalition since the early 1970s and it gained a decisive victory in the 1986 nationwide general election, winning 148 of the 177 seats

¹⁵² *Ibid.*, p.617.

¹⁵³ Europa Publications Limited, *The Europa Year Book 1987*, p.1798.

¹⁵⁴ *Ibid.*

¹⁵⁵ *Ibid.*, pp.1799, 1808.

¹⁵⁶ *Ibid.*, p.1799.

¹⁵⁷ *Ibid.*

¹⁵⁸ *Ibid.*

in the House.¹⁵⁹ However, the election also showed a startling sign because the National Front as represented by MCA could not win in any constituency where the Chinese made up more than 59% of the electorate.¹⁶⁰ In contrast, the Democratic Action Party, an opposition party which had only nine seats from the 1982 election, won twenty-three out of its twenty-four seats in Chinese-majority areas.¹⁶¹ Consequently, Malays are more or less identified with the establishment whereas the Chinese are regarded as pro-opposition. How to avoid further political division based on ethnic communities is an obstacle facing Malaysia, particularly the National Front.

3.3.3 Economic Condition

Malaysia is rich in natural resources, among which tin, rubber, palm oil, timber, petroleum, natural gas, copper, bauxite, and iron are the primary ones. Not only is it the largest producer of palm oil in the world, accounting for 65% of palm oil world trade, but it is also the world's leading exporter of tin and rubber.¹⁶² Crude petroleum, however, is its largest single source of foreign exchange.¹⁶³ The economy is heavily dependent on the export sector. In 1985, merchandise exports amounted to more than half of GNP.¹⁶⁴

Agriculture still occupies an important place in the Malaysian economy. In 1985, 20.3% of Malaysia's gross domestic product (GDP) came from agriculture whereas manufacturing contributed 19.1%.¹⁶⁵ However, industrial development has been accorded an increasingly central role in

¹⁵⁹ *Ibid.*, pp.1798, 1810.

¹⁶⁰ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.186.

¹⁶¹ *Ibid.*

¹⁶² Europa Publications Limited, *The Far East and Australasia 1987*, pp.621-622.

¹⁶³ *Ibid.*, p.624.

¹⁶⁴ *Ibid.*, p.622.

¹⁶⁵ *Ibid.*, pp.621, 625.

the overall development. Particularly worth mentioning is the 1986-95 Industrial Master Plan (IMP), which defines broad development objectives and strategies for sectoral manufacturing industries up to 1995. Average annual growth rates of 8.9% for exports, 8.0% for investment, and 6.8% for employment are to be achieved during the period covered by the IMP.¹⁶⁶

The Malays as well as other indigenous groups are generally engaged in agricultural activities. The immigrant groups of Chinese and Indians are active in more dynamic sectors: tin mining, agricultural estates, commerce, and manufacturing. Correction of this economic imbalance was one of the reasons that the New Economic Policy (NEP) was inaugurated in 1970 after the racial riots in 1969.¹⁶⁷ By the end of 1990 when all the objectives of the NEP are accomplished, it is hoped that the indigenous population will hold 30% of corporate share capital, the Chinese 40%, and foreign investors 30%.¹⁶⁸ Then the identification of race with economic function should be reduced, if not completely eliminated.

The average annual rate of increase in GNP was 7% during 1961-75.¹⁶⁹ In the period of the third Malaysian Plan (1976-80), the rate increased to 8.5%.¹⁷⁰ In spite of a recession that led to a downward turn of the economy in 1981, the 1981-85 fourth Malaysian Plan still achieved an average annual growth rate of 5.8%.¹⁷¹ An average annual growth rate of 5% was projected for the five years under the fifth Malaysian Plan (1986-90), which shows that the Malaysian government is optimistic that its country's economy will continue on a path of steady growth.¹⁷²

¹⁶⁶ *Ibid.*, p.625.

¹⁶⁷ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.103.

¹⁶⁸ Europa Publications Limited, *The Far East and Australasia 1987*, p.627.

¹⁶⁹ *Ibid.*, p.621.

¹⁷⁰ *Ibid.*

¹⁷¹ *Ibid.*

¹⁷² Europa Publications Limited, *The Europa Year Book 1987*, p.1800.

3.4 Singapore

3.4.1 Social Structure

Singapore consists of a main island and several small islands off the southernmost tip of the Malay Peninsula. It has an area of 620.2 square kilometers.¹⁷³ Its population was 2,558,000 in 1985, including 1,953,900 Chinese, 380,800 Malays, and 164,700 Indians.¹⁷⁴ With 4,124 persons per sq km, it has one of the highest population densities in the world.¹⁷⁵ There are four official languages in Singapore. These are English, Chinese, Malay, and Tamil. Buddhism, Christianity, Daoism, Hinduism, and Islam are the principal religions and Confucianism is a philosophy widely adhered to among the Chinese.

Singapore is the only country in Asia that was founded by immigrants. Sir Stamford Raffles, an East India Company official responsible for establishing a British trading post in Singapore in 1819, felt the need to attract settlers from the beginning. There was only a small Malay community there at that time.¹⁷⁶ He, therefore, laid down a policy of unrestricted immigration. Chinese became the biggest single community in Singapore as early as 1836.¹⁷⁷ However, most Chinese planned to make money and return to China. Therefore, the population throughout the 19th century was transitory and shifting. Women came to Singapore and a large number of immigrants married and raised families there. By the beginning of the 20th century, Chinese accounted for three-quarters of the

¹⁷³ Europa Publications Limited, *The Far East and Australasia 1987*, p.877.

¹⁷⁴ *Ibid.*

¹⁷⁵ Europa Publications Limited, *The Europa Year Book 1987*, p.2407.

¹⁷⁶ Stanley S. Bedlington, *Malaysia and Singapore: The Building of New States*, (London: Cornell University Press, 1978), pp.30-31.

¹⁷⁷ Lim-Keak Cheng, *Social Change and the Chinese in Singapore*, (Singapore: Singapore University Press, 1986), p.6.

population, a portion that has virtually remained unchanged since that time.¹⁷⁸ Singapore also attracted traders and settlers from Malaysia, India, Indonesia, Thailand, and Europe. A new nation was formed by these immigrants. The 1980 census showed that the Singapore-born people amounted to 78% of the population.¹⁷⁹

Singapore is a multi-racial society and fostering loyalty to the society is an urgent task. One of the methods of achieving this task is to increase the attractiveness of the society to all ethnic groups. The official policy of emphasizing improved living standards has encouraged full employment and subsidized public housing and health. A strict policy of family limitation and population control, along with immigration curbs, has been enforced. Singapore has also sought to play down its image as an ethnic Chinese state and decided not to establish diplomatic relations with the People's Republic of China until Indonesia, the last of its ASEAN neighbors, does so.¹⁸⁰

Another method of forging an unified society is to promote the use of English as the language of development and modernization. A vigorous education program in the 1960s and 1970s focused on implementing bilingualism in primary and secondary schooling, under which children were taught two languages, English and one of the other three official languages.¹⁸¹ It was announced in 1983 that English would become the first language in the national school system from 1987, within which there are 440 schools, including five institutions of higher learning, and all children are entitled to receive a six-year free education.¹⁸²

¹⁷⁸ *Ibid.*

¹⁷⁹ Europa Publications Limited, *The Far East and Australasia 1987*, p.881.

¹⁸⁰ Jon S. T. Quah, Chan Heng Chee, and Seah Chee Meow, *Government and Politics of Singapore*, (Oxford: Oxford University Press, 1985), pp.294-295.

¹⁸¹ Europa Publications Limited, *The Far East and Australasia 1986*, p.876.

¹⁸² Europa Publications Limited, *The Europa Year Book 1987*, pp.2406, 2411; Europa Publications Limited, *The Far East and Australasia 1986*, p.876.

3.4.2 Political Situation

Prior to the early 1970s, Singapore had never intended to become a political entity permanently independent of Malaysia. This was because free access to the Malaysian market was considered essential for Singapore's survival. Yet independence was forced upon it because of the fear on the part of the Malay leaders that including a predominantly Chinese Singapore would upset the ethnic balance in Malaysia.¹⁸³ Singapore joined the Federation of Malaysia in 1963 only to be asked to agree to a separation in 1965.¹⁸⁴ The agreement was given with great reluctance; nevertheless the desire to rejoin the Federation gradually dissipated as Singapore proved its vitality as an independent state and acquired a maturing sense of nationhood¹⁸⁵

Singapore has a unicameral Parliament that possesses legislative power, with 79 members elected by universal adult suffrage for five years, subject to dissolution.¹⁸⁶ The constitutional head of state is the President elected by Parliament for a four-year term.¹⁸⁷ The Cabinet holds effective executive authority and is headed by the Prime Minister, who is appointed by the President and responsible to Parliament.¹⁸⁸ Politics in Singapore has been dominated by the People's Action Party (PAP) and its leader, Lee Kuan Yew. When Singapore was allowed to achieve a complete internal self-government by the United Kingdom in 1959, Lee took office as Prime Minister.¹⁸⁹ The PAP has remained in power and he as Prime Minister ever since.¹⁹⁰

¹⁸³ Europa Publications Limited, *The Far East and Australasia 1987*, p.880.

¹⁸⁴ *Ibid.*

¹⁸⁵ *Ibid.*, p.881.

¹⁸⁶ Europa Publications Limited, *The Europa Year Book 1987*, p.2405.

¹⁸⁷ *Ibid.*

¹⁸⁸ *Ibid.*

¹⁸⁹ *Ibid.*, p.2404.

¹⁹⁰ *Ibid.*

The remarkable cohesion exhibited by the PAP has contributed greatly to political stability in Singapore. However, there are charges that the PAP has tended to stifle all criticism.¹⁹¹ Radio and television are state owned; newspapers require annual licenses; and the PAP's performance in the most recent general election in 1984 was not as impressive as it had been in the past several elections.¹⁹² While there exists no clear alternative to the PAP, the days of its overwhelming dominance appear to be over. Another important event looming on the horizon is the expected transfer of power of Prime Minister Lee to the younger generation within the PAP. He declared that the 1984 election would be his last and that he would relinquish his position as Prime Minister in the next few years.¹⁹³ It is important for the PAP to insure a smooth transfer of power.

3.4.3 Economic Condition

Because Singapore is an island republic and a city-state, its area and population are too small to create an important domestic market. With few natural resources and raw materials, it must depend on foreign countries to provide all its basic requirements including food and water. On the other hand, Singapore possesses some economic advantages that have helped stimulate its economic development. Lying on one of the main shipping routes, it enjoys excellent geographical position; its natural harbors have facilitated the growth of foreign trade; a well-educated and highly literate population appears to be capable of adapting to ever-changing requirements of the commercial world.¹⁹⁴ Singapore has also implemented good economic plans by seeking to build up a manufacturing sector geared to export market, to provide suitable infrastructure, to attract foreign and do-

¹⁹¹ *Ibid.*

¹⁹² *Ibid.*

¹⁹³ Far East Economic Review, Ltd., *Asia 1987 Yearbook*, p.232.

¹⁹⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.882.

mestic investors to industry, to develop managerial and marketing expertise, and to foster a disciplined labor force.¹⁹⁵

Prior to 1985, Singapore's economy grew at a very rapid rate. The average annual growth rate was 10% from 1964 to 1968, 9.4% between 1969 and 1979, and 8.2% from 1980 to 1984.¹⁹⁶ There was a negative growth rate of 1.8% in 1985, but the economy started to show signs of recovery in 1986 and 1987, achieving growth rates of 1.9% and 8% respectively.¹⁹⁷ Nonetheless, Prime Minister Lee cautioned against excessive optimism by openly stating that the days of high annual growth rate were over and that Singaporeans must accustom themselves to economic expansion at half the rate of previous years.¹⁹⁸

There is another important feature about Singapore's economy that needs to be mentioned. Singapore has developed into an international financial center. The focal point of this development has been the Asian Dollar Market (ADM). In 1968, the branch office in Singapore of the California-based Bank of America obtained permission from Singapore to use deposits of non-residents, mainly in foreign currencies, for the purpose of financing corporate activities in Asia.¹⁹⁹ Thus, the ADM was established and has grown very rapidly. Its assets were merely \$30.5 million in 1968, but reached \$155 billion in 1985.²⁰⁰ The net suppliers of funds in the ADM are from the United States, the United Kingdom, the other European Economic Community countries, and the Middle East.²⁰¹ The net users are the ASEAN countries and Hong Kong.²⁰²

¹⁹⁵ *Ibid.*

¹⁹⁶ *Ibid.*

¹⁹⁷ Europa Publications Limited, *The Europa Year Book 1987*, p.2405; *World Journal*, (in Chinese), (Flushing), January 6, 1988, p.1; Europa Publications Limited, *The Far East and Australasia 1987*, p.882.

¹⁹⁸ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, p.236.

¹⁹⁹ Europa Publications Limited, *The Far East and Australasia 1987*, p.888.

²⁰⁰ *Ibid.*

²⁰¹ *Ibid.*

²⁰² *Ibid.*

3.5 Taiwan

3.5.1 Social Structure

Taiwan, a 36,000-square-kilometer island, lies off the southeast coast of the Chinese mainland.²⁰³ Practically all of its population are descendants of immigrants from the mainland or have immigrated from the mainland. The official language is Chinese and Confucianism has a very strong following and literally affects everybody's daily behavior and thinking. Buddhism is the predominant religion, but Roman Catholics and Protestants have significant influence. It was estimated at end of 1985 that the population was about 19 million.²⁰⁴ This population density of 535 persons per sq km is one of the highest in the world.²⁰⁵

When the Nationalist Government moved from the mainland to Taiwan in 1949, about two million of its supporters followed to avoid Communist rule.²⁰⁶ These Chinese and their descendants who currently total approximately 3 million are called the mainlanders while those whose ancestors migrated to Taiwan prior to the late 1940s are usually referred to as the Taiwanese.²⁰⁷ The relations between the two Chinese groups have not been always harmonious. However, 70% of all the Chinese people who reside in Taiwan were born after 1950.²⁰⁸ The artificial separation of the

²⁰³ Europa Publications Limited, *The Europa Year Book 1987*, p.763.

²⁰⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.295.

²⁰⁵ *Ibid.*

²⁰⁶ *Ibid.*, p.304.

²⁰⁷ *World Journal* (in Chinese), (Flushing), June 15, 1987, p.2.

²⁰⁸ *Ibid.*

mainlanders from the Taiwanese is expected to disappear within about twenty years.²⁰⁹ By then virtually all the people in Taiwan will have been born there.²¹⁰

People in Taiwan have enjoyed ample opportunities to receive education. The government offers free and compulsory education at primary schools and junior high schools for young students between the ages of six and fifteen.²¹¹ Senior high schools and vocational schools constitute next level of education. Universities and independent colleges number sixteen and eleven respectively.²¹² It has been calculated that 99% of all the young students can graduate from junior high schools; 71% of all the graduates of junior high schools can graduate from senior high or vocational schools; and 82% of all the graduates of senior high or vocational schools can graduate from universities and colleges.²¹³

3.5.2 Political Situation

Taiwan has had an unbroken political stability for nearly four decades and there has been no sustained and large-scale political upheaval. This can be attributed to the fact that the Nationalist Party in power in Taiwan since 1949 and the opposition forces have been willing to compromise in the face of the external threat, the Chinese Communists. In settling disputes, neither side really wants to resort to extreme measures for fear of jeopardizing Taiwan's security. This is not to say that the opposition forces have been docile and timid; a credible opposition party emerged when the Democratic Progress Party was formed in September 1986.²¹⁴ And there are signs that Taiwan is making

²⁰⁹ *Ibid.*

²¹⁰ *Ibid.*

²¹¹ Europa Publications Limited, *The Europa Year Book 1987*, p.762.

²¹² *Ibid.*

²¹³ *World Journal* (in Chinese), (Flushing), June 14, 1987, p.2.

²¹⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.305.

great strides toward having a true two-party system. However, it would be misleading if one were to paint a too rosy picture of its political situation, since the Republic of China, as Taiwan is officially called, does face serious problems.

One major problem concerns the political system. According to the 1947 constitution, the President is elected by the National Assembly for a term of six years.²¹⁵ The government is divided into five Yuans (governing bodies): The Executive Yuan is an equivalent of the cabinet; the Legislative Yuan is the highest legislative body; the Control Yuan has a major responsibility to investigate the work of the Executive Yuan; the Judicial Yuan functions much like the American Supreme Court; and the Examination Yuan holds examinations for entries into public offices.²¹⁶ The National Assembly, the Legislative Yuan, and the Control Yuan collectively constitute the parliament. The majority of the members of the parliament were elected some forty years ago when the Nationalist government was still on the mainland.²¹⁷ Only a minority of its members have been chosen by elections held regularly in territories now under the control of the government or selected by the government to represent Chinese community overseas.²¹⁸ Therefore, how to devise an electoral system to render the three organs of the parliament more responsive to the needs of the people is an urgent problem requiring attention.

Another challenge concerns the strong pressure from Communist China. Because Communist China insists that countries or international organizations that recognize it should refrain from recognizing Taiwan, Taiwan is facing increasing diplomatic isolation. It has full diplomatic relations with only a little more than twenty countries; all the major countries, including the United States and Japan, do not officially recognize it.²¹⁹ It has ceased to be a member of the United Nations since

²¹⁵ Europa Publications Limited, *The Europa Year Book 1987*, p.761.

²¹⁶ *Ibid.*

²¹⁷ *Ibid.*

²¹⁸ Europa Publications Limited, *The Europa Year Book 1986*, p.740.

²¹⁹ Review Publishing Company Ltd., *Asia 1988 Yearbook*, p.244.

²²⁰ Europa Publications Limited, *The Europa Year Book 1987*, p.760.

1971.²²⁰ Besides, Communist China has adopted the so-called "one country, two systems" policy aimed at an eventual reunion of Taiwan and itself. According to this policy, the Beijing regime has already promised the United Kingdom and Portugal that the capitalist systems in Hong Kong and Macao will be allowed to exist for at least fifty years after their returns to China at the end of this century.²²¹ Taipei has repeatedly made it clear that it has no intention of negotiating with Beijing based on this policy as long as Beijing does not renounce Communism.²²² Yet this policy seems to have gained considerable support in the international community.²²³ Consequently, how to frame its relations with Communist China to maintain its independence is another difficult task facing Taiwan.

3.5.3 Economic Condition

Taiwan's economy has undergone a truly remarkable transformation, which can best be illustrated by the shift from a dependency on agriculture to manufacturing. In 1952, 35% of the goods and services produced originated from agriculture while 18% originated from manufacturing.²²⁴ In 1984, only 6.5% of the goods and services produced came from agriculture while 51.3% came from manufacturing.²²⁵ Agriculture which provided more than 90% of total exports in 1952 provided less than 7% in 1983, while industrial products which barely made up half of total exports in 1965 made up about 93% in 1984.²²⁶

²²¹ Europa Publications Limited, *The Far East and Australasia 1987*, p.305.

²²² *Ibid.*

²²³ *World Journal* (in Chinese), (Flushing), June 19, 1987, p.2.

²²⁴ Europa Publications Limited, *The Far East and Australasia 1987*, p.313.

²²⁵ *Ibid.*

²²⁶ Europa Publications Limited, *The Europa Year Book 1987*, p.761; Europa Publications Limited, *The Far East and Australasia 1987*, p.315.

In spite of a severe world recession in the early 1980s, Taiwan's economy continued to grow at a respectable pace. For instance, it increased by 5.0% in 1981, 3.9% in 1982, 7.3% in 1983, and 10.9% in 1984.²²⁷ Then because the economic expansion in Taiwan slowed down somewhat in 1985, the annual rate of increase dropped to 4.1%.²²⁸ However, its economy was soon revitalized, achieving annual growth rates of 9.9% in 1986 and of 11% in 1987.²²⁹

In 1985, new foreign investments in Taiwan totalled \$720 million, of which 30.5% was made in the chemical industry while 19.8% was made in the electronics and electrical appliances.²³⁰ American and Japanese investors hold the largest shares of foreign investments.²³¹ On the other hand, since Taiwan's \$76 billion foreign exchange reserves are the 3rd largest in the world, suggestions have been made that Taiwan should strive to change from being an investee country to being an investor country for the purpose of making the best use of its accumulated wealth and expressing its economic strength.²³² Plans are now underway to make investments abroad, particularly in Southeast Asia, Central and South Americas, and the Caribbean region. The foreign exchange control measures which had remained in effect for several decades were finally lifted in July 1987.²³³ This gave rise to suggestions for developing Taiwan as an offshore banking center with increased financial services.

Taiwan was the world's 11th largest exporter in 1986.²³⁴ The United States has consistently been Taiwan's largest market; surplus in Taiwan's trade with the United States has created difficulties in the relations between the two countries, the severity of which can be detected from Taiwan's \$15.7

²²⁷ Europa Publications Limited, *The Far East and Australasia 1987*, p.313.

²²⁸ Europa Publications Limited, *The Europa Year Book 1987*, p.761.

²²⁹ *World Journal* (in Chinese), (Flushing), May 12, 1987, p.2 and January 6, 1988, p.1.

²³⁰ Europa Publications Limited, *The Far East and Australasia 1987*, p.315.

²³¹ *Ibid.*

²³² *World Journal* (in Chinese), (Flushing), February 24, 1988, p.9.

²³³ Review Publishing Company Ltd., *Asia 1988 Yearbook*, p.244.

²³⁴ *World Journal* (in Chinese), (Flushing), May 27, 1987, p.2.

billion trade surplus with the US in 1986.²³⁵ This was only less than the Japanese and the Canadian trade surpluses.²³⁶ Bowing to the wishes of the American government, Taiwan has recently increased the value of its currency against the American dollar by 35% and lowered the tariffs and quotas on imports from the United States.²³⁷ Furthermore, Taiwan has taken the initiative in suggesting the formation of a free trade area with the United States.²³⁸ It has always remembered with deep appreciation the \$1.4654 billion economic aid received from the United States between 1951 and 1965.²³⁹ This aid helped lay the foundation for Taiwan's strong economy today.

3.6 Comparison

This Chapter contains a description of the social structures, political situations, and economic conditions of the five countries. There are some notable similarities and differences in environment between these systems. The objective of this section of the Chapter is to point up the similarities and differences.

3.6.1 Similarities

The environments in the five countries reflect some important similarities. Each country has been striving to establish a free and open society. The fundamental rights of all its citizens to equitable

²³⁵ *World Journal* (in Chinese), (Flushing), June 16, 1987, p.2.

²³⁶ *Ibid.*

²³⁷ Review Publishing Company Ltd., *Asia 1988 Yearbook*, p.244.

²³⁸ *World Journal* (in Chinese), (Flushing), June 20, 1987, p.2.

²³⁹ Europa Publications Limited, *The Far East and Australasia 1986*, p.308.

treatment and basic education have been emphasized. Each country is trying to maintain a democratic government. All the citizens are offered equal opportunities to participate in the policy-making process as far as is practicable. Each country is seeking to achieve a prosperous economy where the benefits of economic development are designed to enhance the well-being of the entire population. These favorable environmental factors provide a fertile ground for developing their accounting systems. For example, when the preparers and users of accounting information become better-educated in the five countries, more sophisticated information is prepared and understood. The accounting procedures in the five countries will not be subject to major changes as their political situations become stable. While their economic development continues, more complex accounting procedures are needed to account for more complex transactions such as business combinations and transactions with foreign enterprises. New accounting procedures will also be required to describe new forms of enterprise organization such as companies with distinguishable components. In addition, Hong Kong is a Territory of the United Kingdom. Malaysia and Singapore are members of the British Commonwealth and former colonies of the United Kingdom. The accounting systems in the three countries have been greatly affected by the United Kingdom's accounting system.

3.6.2 Differences

There have been subtle but significant differences between the approaches of the five countries to improving their environments. The United Kingdom has set great store by the preservation of the existing social, political, and economic system of the Territory of Hong Kong; it has been willing to go to great lengths to maintain this system. Of the three component parts of the Territory, the United Kingdom originally had been legally bound to return to China only the New Territories in 1997. It could have lawfully occupied Hong Kong Island and Kowloon Peninsula permanently. But in order to insure the survival of the Hong Kong system as a whole for at least 50 years after 1997, it agreed in 1984 to restore the entire Territory to China in 1997. The accounting system in

Hong Kong is expected to remain intact beyond 1997. South Korea has put a premium on rapid development. This approach, although sometimes entailing high risk and instability, has made it possible for South Korea to achieve remarkable results in short order. South Korea is likely to display a greater eagerness to adopt accounting regulations that promote rapid economic development. Malaysia has emphasized harmony between its principal ethnic groups. Prescribing the percentages of corporate share capital to be held by Malays, Chinese, and foreigners by 1990 may appear arbitrary, but it can be viewed as an effective way of narrowing the economic gap between these groups and contributing to better relations between them. The accounting system of Malaysia can benefit from this emphasis on ethnic harmony, which is conducive to fostering a national consensus on the development of the system. Singapore's population consists of immigrants who have deep roots in their home countries, so it has put emphasis on increasing its attractiveness to all the citizens. The selection of English as its first language rather than the Chinese language has enhanced its position as a new state, for English has appeal to all the major ethnic groups. This emphasis has given Singapore a strong incentive to adopt a modern accounting system. Finally, Taiwan has attached great significance to caution, sometimes giving an impression that it has been slow and indecisive in reacting to ever-changing international and domestic situations. However, it can be argued that, precisely because of this cautious attitude, Taiwan may have avoided making some costly mistakes. This cautious attitude suggests that the accounting system of Taiwan is likely to evolve steadily.

Chapter 4 Government Regulation of Accounting

The government regulation of accounting in each of the five countries is divided into two parts: statutory regulation and nonstatutory regulation. Statutory regulation refers to legislation that is specifically designed to regulate accounting. Because Hong Kong is a British colony, its legislation is called ordinances. In Malaysia and Singapore, the legislation is entitled acts. The legislation of Korea and Taiwan is called laws or codes, borrowing the names used by Peat, Marwick, Mitchell & Co. and Price Waterhouse & Co.²⁴⁰ The statutory regulation includes both legislation regarding the disclosure of financial information and legislation concerning the qualifications of accountants. As for the nonstatutory regulation, it refers to those accounting requirements under the control of a government which are not included in statutory regulation. The nonstatutory regulation in this Chapter primarily describes the disclosure rules formulated by stock exchanges as well as accounting education in the five countries.

²⁴⁰ Peat, Marwick, Mitchell & Co., *Worldwide Financial Reporting and Audit Requirements: A Peat Marwick Inventory*, (New York: Peat, Marwick, Mitchell & Co., 1986), pp.246, 262; Price Waterhouse & Co., *Doing Business in Korea*, (New York: Price Waterhouse & Co., 1987), p.41; Price Waterhouse & Co., *Doing Business in Taiwan*, (New York: Price Waterhouse & Co., 1984), p.54.

4.1 Hong Kong

4.1.1 Statutory Regulation

Hong Kong's statutory regulation of accounting can be found in the Professional Accountants Ordinance, the Companies Ordinance, the Securities Ordinance, and the Stock Exchanges Unification Ordinance. The Professional Accountants Ordinance pertains to the qualifications of accountants whereas the Companies Ordinance, the Securities Ordinance, and the Stock Exchanges Unification Ordinance all pertain to the disclosure of financial information by enterprises.

4.1.1.1 Professional Accountants Ordinance

The Professional Accountants Ordinance has undergone some revisions since it was enacted in 1972; the most recent edition of the Ordinance is the 1985 edition. The main purposes of the Ordinance are "to establish the Hong Kong Society of Accountants and to provide for the registration and control of the accountancy profession."²⁴¹

4.1.1.1.1 The Hong Kong Society of Accountants (HKSA): According to Section 7 of the Professional Accountants Ordinance, the important objects of the HKSA are the following:

(a) to maintain a register of professional accountants; (b) to regulate the practice of the accountancy profession; (c) to conduct examinations and act in such other manner as may be necessary to ascertain whether persons are qualified to be admitted to the register; (d) to encourage the study of accountancy by accountants and students, and to give certificates, bursaries, scholarships and rewards on such term and conditions as may be specified from time to time.²⁴²

²⁴¹ The Government Printer, *Professional Accountants Ordinance*, (Hong Kong: the Government Printer, 1985), p.3.

²⁴² *Ibid.*, p.5.

Under Section 8, the HKSA may make by-laws to regulate the practice of accountancy by professional accountants, meetings of the Society, and the conditions on which examiners are engaged.²⁴³ It may make by-laws to govern the registration, training, education, and discipline of students, and it may make by-laws to provide for the custody, investment, and expenditure of its funds and the management of its property.²⁴⁴ Section 10 requires the HKSA to establish the Council of the Society to fulfill the purposes of the Ordinance, to further the objects of the Society, and to make and implement its by-laws.²⁴⁵ The Council consists of: (a) the Financial Secretary or his representative; (b) the Director of Accounting Services or his representative; and (c) twelve professional accountants elected at an annual general meeting (AGM) of the HKSA.²⁴⁶ In addition, the Governor of Hong Kong may appoint to the Council not more than two members, each of whom is a representative of a university or other educational institution which offers accounting courses.²⁴⁷ Under Section 4, a President and a Vice-President of the HKSA are elected by the Council from its elected members.²⁴⁸

4.1.1.1.2 Registration of Professional Accountants: According to Section 29(2) of the Professional Accountants Ordinance, an accountant who wishes to serve as an auditor of a company for the purposes of the Companies Ordinance has to be a professional accountant and hold a practicing certificate.²⁴⁹ Section 24(1) specifies that a professional accountant can only be registered as such if he has the following qualification:

(a) He has attained the age of 21 years; (b) He is of good character and is a fit and proper person to be a professional accountant; and (c) (i) He is a member of an approved institute; or (ii) He is a member of an accountancy body accepted by a two-thirds majority of the Council as being of a standard similar to an approved institute; or (iii) He has passed prescribed examinations in

²⁴³ *Ibid.*, pp.5-6.

²⁴⁴ *Ibid.*

²⁴⁵ *Ibid.*, p.7.

²⁴⁶ *Ibid.*

²⁴⁷ *Ibid.*

²⁴⁸ *Ibid.*, p.4.

²⁴⁹ *Ibid.*, p.15.

accountancy and other subjects, is conversant with local law and practice, and has complied with such requirements relating to practical experience as may be prescribed.²⁵⁰

The approved institutes in (c)(i) include the Australian Society of Accountants, the Chartered Association of Certified Accountants (CACA) of the United Kingdom, the Chartered Institute of Management Accountants of the United Kingdom, the Institute of Chartered Accountants in Australia, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Ireland, the Institute of Chartered Accountants in Scotland, and the Chartered Institute of Public Finance and Accountancy of the United Kingdom.²⁵¹ It is worth noting that one of the accountancy bodies accepted by a two-thirds majority of the Council in (c)(ii) is the AICPA.²⁵² The prescribed examinations in (c)(iii) are the Joint Examination Scheme operated by the HKSA and the CACA of the United Kingdom. The practical experience in (c)(iii) is five years of practical accounting experience, but for recognized degree or diploma holders, the practical experience is reduced to three or four years.²⁵³ On the other hand, Section 24(2) provides that a person who is not qualified to be registered under Section 24(1) is entitled to be registered as a professional accountant if, at the commencement of the Ordinance, he served as an authorized accountant.²⁵⁴

Before a professional accountant is issued a practicing certificate by the Society, he has to meet certain requirements, which include four years' full-time approved accounting experience (30 months in case of post-qualifying experience), qualification as a resident of Hong Kong, and possession of local experience and knowledge of local law.²⁵⁵ A person who has been present in Hong Kong for not less than 180 days in the preceding 12 months can be treated as a resident.²⁵⁶ To meet

²⁵⁰ *Ibid.*, pp.12-13.

²⁵¹ *Ibid.*, p.24.

²⁵² The information was given by Mr. Paul Phenix of the HKSA.

²⁵³ The HKSA, *Information Sheet for August 1987*, (Hong Kong: the HKSA, 1987), p.1.

²⁵⁴ The Government Printer, *Professional Accountants Ordinance*, p.13.

²⁵⁵ *Ibid.*, pp.15-16.

²⁵⁶ *Ibid.*, p.16.

the requirements for local experience and knowledge of local law, a professional accountant may be required to take an examination in local law and taxation and to have had at least one year full-time approved accounting experience in Hong Kong within three years before the date of application.²⁵⁷ A professional accountant under Section 24(1) who holds a practicing certificate is called a certified public accountant while a professional accountant under Section 24(2) who holds a practicing certificate is called a public accountant.

4.1.1.1.3 Disciplinary Proceedings: Section 33 of the Professional Accountants Ordinance states that a Disciplinary Committee consisting of five members should be appointed from professional accountants by the Council of the HKSA.²⁵⁸ Section 34 lists all the complaints that can be made against a professional accountant, the examples of which include the following items: (a) he “has been convicted in Hong Kong or elsewhere of any offence involving dishonesty;” (b) he “has falsified or caused to be falsified any document;” (c) he “has made any statement which is material and which he knows to be false or does not believe to be true, in respect of any document.”²⁵⁹ On hearing a complaint, the Council of the HKSA refers it to the Disciplinary Committee. When the Disciplinary Committee is satisfied that a complaint about a professional accountant is proved, it may take several actions, which include suspending the professional accountant either permanently or for such period as it may think fit, reprimanding him, or postponing judgment on the case for a maximum period of two years.²⁶⁰

4.1.1.2 Companies Ordinance

Since the Companies Ordinance was enacted in 1932, several committees have been established to

²⁵⁷ The HKSA, *Information Sheet for January 1987*, (Hong Kong: the HKSA, 1987), p.2.

²⁵⁸ The Government Printer, *Professional Accountants Ordinance*, p.18.

²⁵⁹ *Ibid.*, pp.18-19.

²⁶⁰ *Ibid.*, p.19.

revise it; its most updated Ordinance up to now is the 1984 revised edition.²⁶¹ This Ordinance deals with many topics, but it is sufficient to discuss a few that are most relevant to the regulation of accounting.

4.1.1.2.1 Company Accounts: Section 121 of the Companies Ordinance requires proper books of account to be kept with regard to all of a company's income, expenditures, underlying transactions, sales and purchases, and assets and liabilities.²⁶² Proper books of account are defined as records necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.²⁶³ The books of account must be retained for at least seven years.²⁶⁴

Section 122 requires a company to prepare a balance sheet, a profit and loss account, notes, and any documents annexed thereto once in every fiscal period for presentation to the company in the AGM.²⁶⁵ The fiscal period for any company ordinarily must not end more than nine months before the date of the AGM at which the above annual accounts have to be approved.²⁶⁶

Section 123 lays down the overriding requirement for the balance sheet and the profit and loss account. It stipulates that the balance sheet must give a true and fair view of the state of a company's affairs at the end of the fiscal year and that the profit and loss account must give a true and fair view of a company's profit or loss for that fiscal year.²⁶⁷ The 10th Schedule of the Ordinance, which provides some detailed requirements for the balance sheet and the profit and loss account, deals

²⁶¹ The Government Printer, *Companies Ordinance*, (Hong Kong: the Government Printer, 1984), p.1.

²⁶² *Ibid.*, p.118.

²⁶³ *Ibid.*

²⁶⁴ *Ibid.*, p.119.

²⁶⁵ *Ibid.*, pp.119-120.

²⁶⁶ Pauline Wallace, *Company Law in Hong Kong*, (Singapore: Butterworth & Co (Asia) Pte Ltd, 1986), p.212.

²⁶⁷ The Government Printer, *Companies Ordinance*, p.120.

with such matters as disclosure of assets and liabilities, depreciation and valuation rules, and determination of income and expense items.²⁶⁸

In accordance with Section 2(4), a company is considered to be a subsidiary of another company if the second company controls the composition of the board of directors of the first company, or if it possesses more than half of the voting power of the first company, or if it holds more than half of the first company's issued share capital.²⁶⁹ Additionally, if a company is a subsidiary of another, which is a subsidiary of the third, then the first is a subsidiary of the third.²⁷⁰ According to Section 124, a company that has subsidiaries at the end of the fiscal year and that is not itself the wholly-owned subsidiary of another company should provide group accounts for presentation to the company in the AGM in addition to its own accounts.²⁷¹ Section 125 states that the preferred group accounts are consolidated accounts comprising a consolidated balance sheet dealing with the state of affairs of the company and all its subsidiaries and a consolidated profit and loss account dealing with the profit or loss of the company and all its subsidiaries.²⁷² Section 128 requires the holding company's accounts to disclose information on the name of any subsidiary, the country in which the subsidiary is incorporated, and the shareholdings in the subsidiary.²⁷³

4.1.1.2.2 Auditor: According to Section 131 of the Companies Ordinance, a company is required to appoint an auditor at each AGM to hold office from the conclusion of that AGM to the conclusion of the next AGM.²⁷⁴ If the stockholders of the company fail to appoint an auditor at an

²⁶⁸ Pauline Wallace, *Company Law in Hong Kong*, p.213.

²⁶⁹ *Ibid.*, pp.203-204.

²⁷⁰ *Ibid.*

²⁷¹ The Government Printer, *Companies Ordinance*, p.121.

²⁷² *Ibid.*, pp.122-123.

²⁷³ *Ibid.*, p.124.

²⁷⁴ Pauline Wallace, *Company Law in Hong Kong*, p.171.

AGM, the court is given the power to do so on the application of any stockholder of the company.²⁷⁵ The auditor's loyalty should always be to the stockholders of the company rather than to its management. Only a professional accountant with a practicing certificate may serve as an auditor.

The auditor has two main duties under Section 141(1): to examine every balance sheet, profit and loss account or set of group accounts laid before the company in the AGM during his period of office; and to report to the stockholders on the outcome of his examination in the auditor's report.²⁷⁶ The auditor's report must state his opinion on: (a) "whether the balance sheet gives a true and fair view of the state of the company's affairs at the end of" the fiscal period, (b) "whether the profit and loss account gives a true and fair view of the company's profit or loss" for the fiscal period, and (c) "whether the balance sheet and profit and loss account comply with the provisions of the Companies Ordinance," and so forth.²⁷⁷ In carrying out his duties, Section 141(5) gives the auditor "the right of access at all times to the books, accounts, and vouchers of the company" and "the right to require officers of the company to give any information or explanations which he considers necessary for the performance of his duties."²⁷⁸ According to Section 141(7), the auditor also has the right to attend any AGM of the company and to receive the same notices and communications in respect of the meetings as stockholders.²⁷⁹ Those responsible for appointing an auditor must fix his remuneration; normally, it is the stockholders in the company's AGM that fix his remuneration by passing a resolution.²⁸⁰

²⁷⁵ *Ibid.*

²⁷⁶ *Ibid.*, pp.172-173.

²⁷⁷ *Ibid.*, p.173.

²⁷⁸ *Ibid.*, pp.177-178.

²⁷⁹ *Ibid.*

²⁸⁰ *Ibid.*, p.172.

4.1.1.2.3 Other Topics: The Companies Ordinance, in treating other topics, also provides some accounting information. One example is the part of the Ordinance concerning the prospectus, which is essentially an invitation inviting applications or offers from the public to subscribe for or purchase any shares in or debentures of a company or proposed company. This part is intended to provide potential investors with certain minimum information on the the company's financial record to enable them to make informed investment decisions. Consequently, Section 38 and its related schedule demand that details of financial condition be released.²⁸¹ For example, they require the disclosure of details of material contracts, any goodwill associated with purchase of property, and material contingent liabilities.²⁸²

Another example is the part of the Ordinance concerning the annual return, which must be filed with the Registrar of Companies by each company. A company is required to make a return on an annual basis of certain matters.²⁸³ The matters include: a summary of shares specifying the amount of any premium paid on each share and any discount allowed on the issue of any shares which is not yet written off; and the total amount of the indebtedness regarding all mortgages.²⁸⁴ A company has to submit a copy of its balance sheet, profit and loss account, notes, director's report, and auditor's report to the Registrar of Companies together with the annual return.²⁸⁵

4.1.1.3 Securities Ordinance

The Securities Ordinance has been revised several times since 1974 when it was first promulgated. Its 1986 revised edition is the most up-to-date Ordinance. Its main purposes are "to establish a Securities Commission, to make provision in relation to stock markets and dealers in securities, to

²⁸¹ *Ibid.*, p.32.

²⁸² *Ibid.*, pp.36-38.

²⁸³ *Ibid.*, p.73.

²⁸⁴ *Ibid.*

²⁸⁵ *Ibid.*, p.75.

control trading in securities and the business of advising on making investments, and to provide for the protection of investors and associated matters.²⁸⁶ Section 6 states that a Commissioner for Securities should be appointed by the Governor.²⁸⁷ The Commission should consist of at least seven members, of whom one is the Commissioner and another is the Registrar of Companies while the remaining people are appointed by the Governor.²⁸⁸

One of the functions of the Commission is to take all reasonable steps to safeguard the interests of persons who invest or propose to invest in securities. Accordingly, the Commission prescribes the requirements that need to be satisfied before securities are listed on the Unified Exchange of Hong Kong.²⁸⁹ Specifically, the Commission requires companies, whose securities are listed or accepted for listing on the Unified Exchange, to enter into an undertaking in the prescribed form with the Exchange Company, which runs the Unified Exchange, to provide necessary information.²⁹⁰

4.1.1.4 Stock Exchanges Unification Ordinance

The Stock Exchanges Unification Ordinance has undergone several revisions since it was first enacted in 1980; its most recent edition went into effect in 1986. The Ordinance is to establish an unified stock exchange in Hong Kong and to authorize an Exchange Company to operate the Unified Exchange.²⁹¹ The Exchange Company is empowered to make rules formulating listing requirements for the quotation of securities on the Unified Exchange.²⁹²

²⁸⁶ The Government Printer, *Securities Ordinance*, (Hong Kong: the Government Printer, 1986), p.8.

²⁸⁷ *Ibid.*, p.19.

²⁸⁸ *Ibid.*, p.20.

²⁸⁹ *Ibid.*

²⁹⁰ *Ibid.*, p.23.

²⁹¹ The Government Printer, *Stock Exchanges Unification Ordinance*, (Hong Kong: the Government Printer, 1986), p.3.

²⁹² *Ibid.*, p.9.

4.1.2 Nonstatutory Regulation

4.1.2.1 Stock Exchange Listing Rules

Because the Unified Exchange has increasingly realized that the stockholders of listed companies need more disclosure than is demanded by the Companies Ordinance, it has sought to rectify this situation by introducing the Stock Exchange Listing Rules. The Rules require greater annual disclosure, presentation of unaudited semiannual accounts, and immediate disclosure of some specific transactions.²⁹³ Under the Rules, all companies must produce annual accounts for their stockholders within six months of the end of the fiscal period while, as has already been discussed, more generous time periods, nine months, are allowed for the companies by the Companies Ordinance.²⁹⁴ Furthermore, the Rules state that if a company does not comply with the Statements of Standard Accounting Practice issued by the HKSA, it must disclose the reason.²⁹⁵

4.1.2.2 Accounting Education

Accounting education at the university level in Hong Kong is subject to a certain degree of governmental supervision, for the Government of Hong Kong has ultimate control over education. There are some standard accounting courses that an university student needs to take in order to obtain a bachelor of accounting degree.²⁹⁶ Many accounting professors are foreigned-trained. For

²⁹³ Pauline Wallace, *Company Law in Hong Kong*, p.211.

²⁹⁴ *Ibid.*, p.212.

²⁹⁵ The information was given by Mr. Paul Phenix of the HKSA.

²⁹⁶ The information was provided by the Department of Accounting and Finance, Chinese University of Hong Kong.

example, Dr. Lawrence Tai, Chairman of the Department of Accounting and Finance of Chinese University of Hong Kong was educated in the United States.²⁹⁷

4.2 South Korea

4.2.1 Statutory Regulation

The Certified Public Accountants (CPA) Law, the Securities and Exchange Law, the Commercial Code, and the Law on External Audit of Joint-Stock Companies provide statutory regulation of accounting in Korea. The CPA Law governs the qualifications of accountants whereas the Securities and Exchange Law, the Commercial Code, and the Law on External Audit of Joint-Stock Companies govern the disclosure of financial information by enterprises.

4.2.1.1 CPA Law

The CPA Law, which first took effect in 1966, was revised in 1968 and 1981; its most recent edition was promulgated in 1981. The Law primarily handles requirements for CPAs, matters concerning the Korean Institute of Certified Public Accountants, and Registration of CPAs.

4.2.1.1.1 Requirements for CPAs: Section 2 of the Law provides that the following persons are qualified to be CPAs: citizens of South Korea who pass the third CPA examination (a) after passing the first and second CPA examinations and finishing two-year practical training or (b) after serving

²⁹⁷ *Ibid.*

as an accountant in a governmental agency or in the armed forces or teaching accounting courses at universities or colleges for a specified period of time.²⁹⁸

Each of the three CPA examinations is held by the Ministry of Finance once a year. Subjects to be tested in the first examination are accounting theory, economics, commercial law, and English; subjects to be tested in the second examination are accounting principles, accounting theory, cost accounting, business administration, and auditing; and subjects to be tested in the third examination are auditing practice, tax law practice, and management services practice (in case of candidates with career qualification, accounting theory and cost accounting are tested in addition to the above three subjects).²⁹⁹ The second CPA examination may be taken only by one who has passed the first CPA examination whereas the third CPA examination may be taken by persons who meet the qualification specified either in (a) or (b). The Ministry of Finance has established a CPA Examination Committee to handle related examination matters. The Chairman of the Committee is the Chairman of the Securities Supervisory Board (SSB) and members of the Committee are appointed from the ranks of well-known academicians and practitioners.³⁰⁰

4.2.1.1.2 The Korean Institute of Certified Public Accountants (KICPA): Chapter 5 of the CPA Law, which consists of three sections, deals with the establishment of the KICPA.³⁰¹ Section 13 states that CPAs should organize the Institute after obtaining approval from the Minister of Finance of the Institute's Articles of Incorporation drawn up by them.³⁰² Section 14 states that the

²⁹⁸ The KICPA, *Bulletin*, (Seoul: the KICPA, 1987), p.12.

²⁹⁹ Won Sun Wu, *Collection of Korean CPA Problems* (in Korean), (Seoul: Trade and Management Society, 1983), p.12.

³⁰⁰ *Ibid.*, p.278.

³⁰¹ *Ibid.*, p.273.

³⁰² *Ibid.*

Institute has CPAs as its members.³⁰³ Section 15 states that the Institute is supervised by the Minister of Finance.³⁰⁴

4.2.1.1.3 Registration of CPAs: Chapter 3 of the CPA Law concerns registration of CPAs. According to this Chapter, if a person qualified to be CPA wishes to commence practice, he must first apply to register with the Ministry of Finance by submitting his application through the KICPA.³⁰⁵ The Minister of Finance is to notify the KICPA of his decision to enter a CPA in the register of CPAs kept by his Ministry.³⁰⁶

4.2.1.1.4 Disciplinary Proceedings: Section 16 of the CPA Law lists three complaints that can be made against a CPA: (a) the CPA Law has been violated; (b) the regulations of the KICPA have been violated; and (c) the dignity and prestige as a CPA have been damaged.³⁰⁷ On discovering such a complaint, the KICPA has to forward it to the Minister of Finance for his consideration. If the Minister thinks that the complaint needs further investigation, he then refers it to the CPA Disciplinary Commission, which has a Vice-Minister of Finance as its Chairman and the President of the KICPA and the Chairman of the SSB as two of its six other members.³⁰⁸ The Minister of Finance, on the recommendation of the Commission, may suspend a CPA either permanently or for a period of not more than two years.³⁰⁹

³⁰³ *Ibid.*

³⁰⁴ *Ibid.*, p.274.

³⁰⁵ *Ibid.*, p.270.

³⁰⁶ *Ibid.*

³⁰⁷ *Ibid.*

³⁰⁸ *Ibid.*

³⁰⁹ *Ibid.*, p.274.

4.2.1.2 Securities and Exchange Law

The Securities and Exchange Law whose latest edition was promulgated in 1982 first took effect in 1962. Under it, the Korea Stock Exchange was founded in 1963. Although the Law has been revised eight times, the most extensive revision was undertaken in 1976 to allow the establishment of the Securities and Exchange Commission (SEC) and the SSB in 1977.³¹⁰ The Law is patterned after the 1933 Securities Act and the 1934 Securities and Exchange Act of the United States.

As an independent entity, the SEC makes decisions regarding the securities market for the purpose of maintaining a fair and orderly market. It is specifically authorized to supervise the Korea Stock Exchange, the stock dealers and brokers, and the companies whose stocks are listed on the Exchange, and it requires the companies which wish to raise funds by issuing securities to prepare prospectuses.³¹¹ According to Section 119 of the Securities and Exchange Law, the SEC consists of six commissioners, of whom three are ex-officio commissioners: the Governor of the Bank of Korea, the President of the Korea Stock Exchange, and a Vice-Minister of Finance and three are full-time commissioners appointed by the President of the Republic on the recommendation of the Minister of Finance.³¹² The President appoints one of the three full-time commissioners as Chairman of the SEC.³¹³ Under the jurisdiction and direction of the SEC, the SSB carries out the decisions made by the SEC and supervises securities institutions.³¹⁴ The Chairman of the SEC serves as the Governor of the SSB.³¹⁵ The External Audit Supervisory Commission (EASC) has been set up within the SSB for the purpose of examining the auditor's reports and overseeing the operations

³¹⁰ The SEC, *The Securities Market in Korea*, (Seoul: the SEC, 1987), p.9.

³¹¹ The KICPA, *Securities and Exchange Law* (in Korean), (Seoul: the KICPA, 1986), p.18.

³¹² *Ibid.*, pp.121-122.

³¹³ *Ibid.*, p.122.

³¹⁴ *Ibid.*, p.129.

³¹⁵ *Ibid.*, p.131.

of accounting firms.³¹⁶ It is authorized to request any materials needed in discharging its responsibilities from companies and auditors; it may require filing auditors to amend their reports which it deems inappropriate and make request to the Minister of Finance that an independent auditor be disciplined.³¹⁷

Section 17 requires the companies receiving the supervision of the SEC to submit financial reports regarding their operations to the SEC.³¹⁸ To insure uniform accounting treatments in such reports, the Law on External Audit of Joint-Stock Companies and its related implementation rules stipulate that the SEC, with the approval of the Minister of Finance, assume direct responsibility for adopting and revising the Accounting Standards for Business Enterprises (ASBE), the first edition of which took effect on December 13, 1981.³¹⁹ The ASBE was amended once in 1984, but the SEC again felt the necessity to revise them in 1985 and finished the revision later that year. The latest edition of the ASBE, published by the KICPA in December 1985, includes nine chapters: general standards, balance sheet, income statement, appraisal of assets and liabilities, statement of appropriation of retained earnings, statement of changes in financial position, supplementary detailed records, consolidated financial statements, and supplementary standards.³²⁰ The SEC established the Accounting Standards Advisory Board (ASAB) in 1977 to assist it in the standard-setting process. Since 1983 the ASAB has set up subcommittees to deal with special problems. For instance, the Subcommittee on Consolidated Financial Statements and the Subcommittee on Merger were in operation at the end of 1986.³²¹

³¹⁶ The SEC, *The Securities Market in Korea*, p.12.

³¹⁷ *Ibid.*

³¹⁸ The KICPA, *Securities and Exchange Law* (in Korean), p.21.

³¹⁹ The SSB, *10-Year History of the SSB* (in Korean), (Seoul: the SSB, 1987), p.455.

³²⁰ The SEC, *Accounting Standards for Business Enterprises* (in Korean), (Seoul, the KICPA, 1985), p.i.

³²¹ The SSB, *10-Year History of the SSB* (in Korean), pp.360-361.

4.2.1.3 Commercial Code

After the Commercial Code was enacted in 1963, it was amended only once. The revision began in 1981 and was finished in 1984 when the latest edition of the Code went into effect.³²² The Code includes several important accounting regulations.

4.2.1.3.1 Commercial Books: Section 29(1) of the Commercial Code requires that, for the purpose of clearly explaining its financial position and profit or loss, every company keep proper books of account for all sums of money received and expended, all sales and purchases of goods, and all assets and liabilities and that it prepare a balance sheet.³²³ Thus, Section 29(1) defines the commercial books as consisting of two most basic documents: the books of account and the balance sheet.³²⁴ In the early 1980s when the Code was being revised, the suggestion that the income statement be included in the commercial books was made but failed to be adopted. The Code also provides some detailed provisions for the preparation of the commercial books. Section 31(1) stipulates that a current asset be stated at its acquisition cost or manufacturing cost, but if its acquisition cost or manufacturing cost is considerably lower than its current price, the current price should be used.³²⁵ Section 31(2) provides that a fixed asset be stated at a cost arrived at by deducting a reasonable amount from its acquisition cost or manufacturing cost, but if unexpected damage occurs, the damage should be deducted.³²⁶ According to Section 29(2), the commercial books ought to be

³²² Hong Gan Lin, *Comprehensive Regulations of the Commercial Code* (in Korean), (Seoul: Buh-Moon Sa, 1980), pp.84-86.

³²³ *Ibid.*, p.319.

³²⁴ *Ibid.*

³²⁵ *Ibid.*, p.345.

³²⁶ *Ibid.*, p.349.

compiled by using fair and appropriate standards.³²⁷ Section 33(1) requires that the commercial books be retained for at least ten years.³²⁸

4.2.1.3.2 Financial Statements of Joint-Stock Company: Under Section 447 of the Commercial Code, a joint-stock company, which is similar to an incorporated entity in the United States, must submit its financial statements to its AGM of stockholders for scrutiny. This meeting normally must be held no later than six months after the end of its fiscal year.³²⁹ The financial statements should consist of a balance sheet, an income statement, and a statement of appropriation of retained earnings.³³⁰ General inventory of properties which had been regarded as one of the financial statements was dropped by the revision of the Code completed in 1984.³³¹ The purpose of the financial statements is to disclose clearly the financial position and the profit or loss of a company. This purpose is the same as the purpose of the commercial books. But the scope of the financial statements is different from that of the commercial books. The balance sheet belongs to both the commercial books and the financial statements, but the books of account are included in the commercial books only while the income statement and the statement of appropriation of retained earnings are contained in the financial statements only.

4.2.1.3.3 Statutory Auditor: One unique feature of the Commercial Code is that it requires a joint-stock company to employ a statutory auditor, who is chosen by a stockholders' meeting from the stockholders. It is his responsibility to examine the company's accounts and general operations, monitor the board of directors' activities, and report his findings to the stockholders in the

³²⁷ *Ibid.*, p.323.

³²⁸ *Ibid.*, p.332.

³²⁹ *Ibid.*, p.321.

³³⁰ *Ibid.*

³³¹ *Ibid.*

³³² Price Waterhouse & Co., *Doing Business in Korea*, p.31.

AGM.³³² However, the Code specifies no particular professional or independent qualifications required of the statutory auditor.³³³

4.2.1.4 Law on External Audit of Joint-Stock Companies

The Law on External Audit of Joint-Stock Companies, which was first enacted in 1980, underwent revision twice, once in 1983, and once in 1984. Its latest edition was promulgated in 1984. According to Section 2 of the Law, a company with at least 500 million wons (Korean monetary unit) in capital stock outstanding, a company with three billion wons in total assets, or a company listed on the Korea Stock Exchange or registered with the SEC should have their financial statements audited by an independent CPA.³³⁴ Section 4 states that an independent auditor should be appointed by such a company within five months of the beginning of its fiscal year.³³⁵ Section 5 specifies that an auditor be granted access at all times to the accounting records and related documents by his client.³³⁶ Section 7 provides that a company prepare and present to its independent auditor its balance sheet, income statement, statement of appropriation of retained earnings, and statement of changes in financial position for a fiscal year within a specified time period.³³⁷ Section 8 stipulates that an independent auditor make up an auditor's report for presentation to the AGM of his client one week before the AGM and to the EASC within two weeks after the AGM.³³⁸ An auditor's report must state whether, in the auditor's opinion, the financial statements present fairly the financial affairs of the company in accordance with the financial accounting standards.³³⁹ Ac-

³³³ *Ibid.*

³³⁴ *Ibid.*, pp.41-42.

³³⁵ The SSB, *10-Year History of the SSB* (in Korean), p.452.

³³⁶ *Ibid.*

³³⁷ *Ibid.*

³³⁸ *Ibid.*, p.465.

³³⁹ *Ibid.*

ording to Section 11, at the request of the AGM, an independent auditor must attend such a meeting to express opinions and answer any questions which the stockholders may have.³⁴⁰

In accordance with Section 16, when an independent auditor violates laws, the Minister of Finance, on the recommendation of the CPA Disciplinary Commission, may suspend him either permanently or for a maximum of five years.³⁴¹ This penalty is more severe than the one specified in Section 16 of the CPA Law. Independent auditors also face criminal and civil penalties besides disciplinary action by the Minister of Finance. According to Section 17 of the Law, if auditors cause damage to a company due to negligence of their duty, they are held collectively responsible to the company.³⁴² If they fail to issue an appropriate auditor's report, thus harming a third party, they should be held collectively responsible to the third party.³⁴³ According to Section 19, if an auditor commits an illegal act such as bribery, he may be sentenced to a maximum of three years' imprisonment or ordered to pay a fine of no more than five million won.³⁴⁴

4.2.2 Nonstatutory Regulation

4.2.2.1 Stock Exchange Listing Rules

The Korea Stock Exchange has compiled the Listing Rules, which specify in detail the obligations for all the companies whose stocks are listed on the Exchange. One obligation is that a company should submit to the Exchange an annual report within 60 days of the end of a fiscal year and a semiannual report within 45 days of the end of the first six months in a fiscal year, along with its

³⁴⁰ *Ibid.*, p.452.

³⁴¹ *Ibid.*, p.453.

³⁴² *Ibid.*

³⁴³ *Ibid.*

³⁴⁴ *Ibid.*

financial statements and an auditor's report on them.³⁴⁵ Another obligation is that a company should report to the Exchange on any extraordinary loss totaling 10% of its capital.³⁴⁶ It should be clear now that one of the important objects of the Rules is to promote more disclosure of companies' financial conditions than is prescribed in the Commercial Code, thereby offering investors better and more timely information.³⁴⁷

4.2.2.2 Accounting Education

The College of Business Administration of Seoul National University offers bachelor, master, and doctor degrees in accounting. A student working on a bachelor of accounting degree needs to take some standard accounting courses.³⁴⁸ This College offers about twenty eight graduate accounting courses.³⁴⁹ Its Associate Dean, Dr. Jong Won Lim, is an American-educated scholar.

³⁴⁵ The Korea Stock Exchange, *Disclosure and Listing of Business Enterprises* (in Korean), (Seoul: the Korea Stock Exchange, 1985), p.35.

³⁴⁶ *Ibid.*, p.36.

³⁴⁷ *Ibid.*, p.31.

³⁴⁸ The College of Business Administration of Seoul National University, *Descriptions for Undergraduate & Graduate Courses*, (Seoul: the Seoul National University, 1985), pp.13-23.

³⁴⁹ *Ibid.*, pp.33-39.

4.3 Malaysia

4.3.1 Statutory Regulation

The Accountants Act, the Companies Act, and the Securities Industry Act furnish statutory regulation of accounting in Malaysia. The Accountants Act deals with the qualifications of accountants while the Companies Act and the Securities Industry Act deal with the disclosure of financial information by enterprises.

4.3.1.1 Accountants Act

The Accountants Act which first came into force in 1967 was amended once in 1972 and once in 1974. Its main purpose is to establish the Malaysian Institute of Accountants (MIA) and to handle all matters concerning the registration of accountants.

4.3.1.1.1 The MIA: The MIA, a statutory regulatory body, is different from the Malaysian Association of Certified Public Accountants (MACPA), a professional association. The functions of the MIA are as follows:

- (a) to determine the qualifications of persons for admission as members; (b) to provide for the training, education and examination by the Institute or any other body, of persons practicing or intending to practice the profession of accountancy; (c) to regulate the practice of the profession of accountancy in Malaysia; (d) to promote, in any manner it thinks fit, the interests of the profession of accountancy in Malaysia.³⁵⁰

Under Section 8 of the Accountants Act, for the purpose of managing the Institute, the MIA should establish a Council consisting of: (a) the Accountant-General or his representative; (b) seven public

³⁵⁰ Hamid Ibrahim, *Accountants Act 1967*, (Kuala Lumpur: Malaysian Law Publishers, 1986), pp.2-3.

accountants; and (c) seven registered accountants.³⁵¹ The President and Vice-President are elected by the Council from among its members.³⁵² The Council can exercise all such powers as may be exercised by the Institute which are not expressly reserved for the Institute in general meeting. These powers include making by-laws to promote the interests of the profession; requesting any general meeting of the Institute to consider any matter which it deems material to the Institute or to the interests of the profession and making any recommendations on this matter; and contacting other similar bodies about the reciprocal recognition of the status of members.³⁵³

4.3.1.1.2 Registration of Accountants: Through a Registrar appointed by it, the Council of the MIA is responsible for maintaining a register of members, in which the members are classified into public accountants, registered accountants, and licensed accountants.³⁵⁴ An applicant who wishes to become a public accountant or a registered accountant has to meet one basic requirement, which is that he has to pass the final examinations for bachelor of accounting of the University of Malaya or he has to be a member of one of the following associations of accountants: (a) the MACPA; (b) the Institute of Chartered Accountants in Scotland; (c) the Institute of Chartered Accountants in England and Wales; (d) the Institute of Chartered Accountants in Ireland; (e) the Chartered Association of Certified Accountants of the United Kingdom; (f) the Institute of Chartered Accountants in Australia; (g) the Australian Society of Accountants; (h) the New Zealand Society of Accountants; (i) the Canadian Institute of Chartered Accountants; (j) the Institute of Chartered Accountants in India; (k) the Chartered Institute of Management Accountants of the United Kingdom.³⁵⁵ In order to be qualified as a public accountant, the applicant, in addition to meeting the basic requirement, has to have at least five years' experience in the office of a public accountant or of a practicing accountant overseas who is a member of one of the recognized bodies listed in

³⁵¹ *Ibid.*, p.4.

³⁵² *Ibid.*

³⁵³ *Ibid.*, p.5.

³⁵⁴ *Ibid.*, p.6.

³⁵⁵ *Ibid.*, pp.6-7.

the above basic requirement. However, the period of experience may be reduced to four years in case that the applicant is a holder of a Higher School Certificate and to three years in case that he has a degree of a university or institution approved by the association of which he is a member or in case that he has obtained the experience after he has satisfied the basic requirement.³⁵⁶ In order to be a qualified as registered accountant, the applicant, in addition to meeting the basic requirement, has to have at least five years' practical accounting experience in the service of a public accountant, government department, bank, insurance company, local authority, and so on. The above reduction in the period of experience available to an applicant for public accountant is also applicable to an applicant for registered accountant.³⁵⁷ The licensed accountants mainly refer to those who had been in public practice as an accountant, a tax consultant or a tax adviser immediately before the coming into operation of this Act in 1967.³⁵⁸ The Council of the MIA can refuse to admit any person as a member of the Institute if he is less than 21 years old or is not deemed to be a fit and proper person.³⁵⁹

4.3.1.1.3 Disciplinary Proceedings: Section 19 of the Accountants Act requires an Investigation Committee and a Disciplinary Committee to be set up to handle disciplinary matters.³⁶⁰ The Investigation Committee is composed of three members of the Council of the MIA; the Disciplinary Committee comprises five members of the Council that are not members of the Investigation Committee.³⁶¹ The Investigation Committee should investigate a complaint made against a member of the MIA when the Council refers it to the Committee after it is satisfied that there are sufficient grounds for such a complaint. If the Investigation Committee thinks that the complaint is justified,

³⁵⁶ *Ibid.*, p.7.

³⁵⁷ *Ibid.*, p.8.

³⁵⁸ *Ibid.*

³⁵⁹ *Ibid.*, p.7.

³⁶⁰ *Ibid.*, p.10.

³⁶¹ *Ibid.*

it should refer the matter to the Disciplinary Committee.³⁶² A member of the MIA may be found by the Disciplinary Committee to have been guilty of professional misconduct, a breach of any rule of the MIA, a breach of any by-law made by the Council, or inconsistency with the integrity of a public accountant.³⁶³ The Disciplinary Committee may suspend a member permanently or for a maximum period of five years, impose a penalty not exceeding 500 Malaysian dollars, censure or reprimand him, or order him to pay to the Institute an appropriate share of costs and expenses incurred by any inquiry and investigation.³⁶⁴

4.3.1.2 Companies Act

The Companies Act which was first promulgated in 1965 has undergone several revisions. Its most recent edition came into force in 1987 and includes the following important accounting regulations.

4.3.1.2.1 Company Accounts: Under Section 167 of the Companies Act, every company and its directors and managers should assume responsibility for keeping accounting and other records which can sufficiently explain the transactions and financial position of the company.³⁶⁵ The records should also make it possible for true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time.³⁶⁶ Every company is supposed to retain its records for at least seven years, which must be kept so as to enable them to be audited conveniently and properly.³⁶⁷

³⁶² *Ibid.*

³⁶³ *Ibid.*, p.29.

³⁶⁴ *Ibid.*

³⁶⁵ MDC Legal Advisers, *Companies Act* (Kuala Lumpur: MDC Sdn. Bhd., 1987), p.129.

³⁶⁶ *Ibid.*

³⁶⁷ *Ibid.*

Every company should "once at least in every calendar year... lay before the company at its AGM a profit and loss account for the period since the preceding account made up to a date not more than six months before the date" of the AGM.³⁶⁸ Every company is required to lay before the company at its AGM a balance sheet as at the date to which the profit and loss account is made up.³⁶⁹ Section 169(4) stipulates that, before the profit and loss account and the balance sheet are laid before the company in its AGM, they should be duly audited.³⁷⁰

Section 5 gives the definitions of subsidiary company and holding company, according to which, a company can be deemed to be a subsidiary of another company if the latter company controls the composition of the board of directors of the former company, or controls more than half of the voting power of the former, or holds more than half of issued share capital of the former.³⁷¹ Additionally, a company is regarded as a subsidiary of another company if the former company is a subsidiary of any company which is the latter company's subsidiary.³⁷² According to Paragraph 5 in 9th Schedule of the Act, a consolidated profit and loss account and a consolidated balance sheet of a holding company and of its subsidiary companies should be annexed to the profit and loss account and the balance sheet of the holding company laid before its AGM.³⁷³ Paragraph 5 also requires the disclosure of "the name, place of incorporation, principal activities of, and percentage of issued share capital held by the holding company in each subsidiary."³⁷⁴

4.3.1.2.2 Auditor: Under Section 8 of the Companies Act, a person may apply to the Minister of

³⁶⁸ *Ibid.*, p.131.

³⁶⁹ *Ibid.*

³⁷⁰ *Ibid.*

³⁷¹ *Ibid.*, p.8.

³⁷² *Ibid.*

³⁷³ *Ibid.*, p.278.

³⁷⁴ *Ibid.*

Finance to become a company auditor.³⁷⁵ If the Minister is satisfied that the applicant is of good character and competent to perform the duties of an auditor, he may approve the applicant as a company auditor.³⁷⁶ A person must meet the basic requirement for a public accountant and have the required practical experience in order to be a company auditor. According to Section 172, a company shall in each AGM of the company appoint a person to be its auditor, who shall hold office until the conclusion of the next AGM of the company.³⁷⁷ In case a company fails to appoint an auditor, the Registrar of Companies may make the appointment on the application of any stockholder.³⁷⁸ Since the company in the AGM normally appoints an auditor, it is often responsible for fixing his fees. ³⁷⁹

In accordance with Section 174, the auditor of a company shall report to the stockholders "on the accounts required to be laid before the company" in the AGM and "on the company's accounting and other records relating to those accounts."³⁸⁰ He should state in a report whether the accounts are prepared accurately (a) so as to give a true and fair view of the company's results of operations and financial position and (b) according to the Companies Act and whether the accounting and other records have been properly kept in accordance with the Act.³⁸¹ He is entitled to have access to the accounting and other records of the company at all reasonable times and has a right to request from any officer of the company such information and explanations as needed for the purposes of audit; he also has a right to attend any general meeting of the company and to receive all

³⁷⁵ *Ibid.*, p.13.

³⁷⁶ *Ibid.*

³⁷⁷ *Ibid.*, p.137.

³⁷⁸ *Ibid.*, p.138.

³⁷⁹ *Ibid.*, p.139.

³⁸⁰ *Ibid.*, p.140.

³⁸¹ *Ibid.*

notices of, and other communications concerning, the general meeting that a stockholder has a right to receive.³⁸²

4.3.1.2.3 A Company Limited by Guarantee: A company in Malaysia may be a company limited by shares, a company limited by guarantee, a company limited both by shares and guarantee, or an unlimited company. A company limited by guarantee needs special attention because the MACPA is such a company. A company limited by guarantee is defined by Section 4 of the Companies Act as a company "formed on the principle of having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in event of its being wound up."³⁸³ The liability of each member of the Association is limited to 10 Malaysian dollars.³⁸⁴ As a company, the Association is ultimately subject to the general direction of the Registrar of Companies, who is appointed by the Minister of Finance. Section 7 entitles the Registrar to require any company to give orally or in writing all necessary information.³⁸⁵

4.3.1.1.4 Other Topics: The Companies Act deals with some other topics which regulate the disclosure of financial information. For instance, under Section 39 and its related schedule, a prospectus of a company should contain information on its profits and losses and assets and liabilities; specifically, the company should indicate in the prospectus, among others, whether the business has been managed properly, whether its current assets can be realizable in the ordinary course of business, and whether there are any contingent liabilities resulting from any guarantees given by it.³⁸⁶

³⁸² *Ibid.*, p.141.

³⁸³ *Ibid.*, p.3.

³⁸⁴ The information was provided by Mr. Geoffrey J. H. Wong of the MACPA.

³⁸⁵ MDC Legal Advisers, *Companies Act*. p.12.

³⁸⁶ *Ibid.*, pp.36-38, 253-254.

Section 165 of the Act and its related schedule require every company to lodge with the Registrar of the Companies an annual return, which should contain a copy of the last audited balance sheet and profit and loss account of the company and which should indicate, among others, the following: (a) "the amount of the share capital of the company, and the number of shares into which it is divided;" (b) "the total amount of the sums, if any, paid by way of commission in respect of any shares or debentures since the date of the last return;" (c) "particulars of the discount allowed on the issue of any shares issued at a discount;" and (d) "the total amount of the sums allowed by way of discount in respect of any debentures since the date of the last return."³⁸⁷

4.3.1.3 Securities Industry Act

The Securities Industry Act which was promulgated in 1983 legally formalized the Capital Issues Committee (CIC), which had been functioning informally since 1968 when it was set up by the Minister of Finance for the purpose of supervising the development of a sound capital market in Malaysia. The Act stipulates that the members of the CIC be appointed by the Minister of Finance to form the consultative body on the securities industry.³⁸⁸ As provided in the Act, all public limited companies should submit proposals to the CIC for any new issues or offers for sale of securities to the public and for listing and quotation of securities on the Kuala Lumpur Stock Exchange. In evaluating proposals, the CIC pays close attention to the adequacy for the listing of a company on the Exchange and the public interest.³⁸⁹ The CIC, when carrying out its responsibilities, may formulate some regulations regarding the disclosure of financial information by these public limited companies.

³⁸⁷ *Ibid.*, pp.127-128, 264-268.

³⁸⁸ Peat, Marwick, Mitchell & Co., *Investment in Malaysia*, (Kuala Lumpur: Peat, Marwick, Mitchell & Co., 1986), p.19.

³⁸⁹ *Ibid.*, p.20.

4.3.2 Nonstatutory Regulation

4.3.2.1 Stock Exchange Listing Rules

The Kuala Lumpur Stock Exchange is a public limited company operating under the authority of the Companies Act. It is self-governing and independent in that it receives general direction from the Registrar of Companies.³⁹⁰ The Exchange has drawn up the Listing Rules, which require a company to give the Exchange a semiannual report as soon as figures are available and in any event not later than three months after the end of the first six months in the fiscal year.³⁹¹ A company should also give preliminary financial statements to the Exchange as soon as figures are available and in any event not later than six months after the end of the fiscal year.³⁹² The interval between the end of the fiscal year of the company and the issuance of the printed annual report to its stockholders and the Exchange should not be more than six months.³⁹³ The Rules specifically state that the annual audited financial statements should be prepared in accordance with the accounting standards and pronouncements of the MACPA.³⁹⁴

4.3.2.2 Accounting Education

As already discussed, the importance of the accounting education provided by the University of Malaya has been formally recognized by the Accountants Act. A bachelor of accounting degree granted by this University has been recognized by the MIA as a degree that is able to satisfy the

³⁹⁰ Cheong Mei Sui, *Information Malaysia: 1985 Yearbook*, p.233.

³⁹¹ The Kuala Lumpur Stock Exchange, *Stock Exchange Listing Rules*, (Kuala Lumpur: the Kuala Lumpur Stock Exchange, 1987), p.2.09.

³⁹² *Ibid.*

³⁹³ *Ibid.*

³⁹⁴ *Ibid.*, p.2.12.

requirements of examination in accounting for its members. The accounting courses required for a bachelor of accounting degree at the University include introductory accounting, intermediate accounting, accounting systems, corporate finance and control, advanced accounting, management accounting, taxation, auditing, data processing and programming, policies and practices of corporate finance, special financial accounting, accounting theory and practices, advanced taxation, and advanced auditing and professional practices.³⁹⁵

4.4 Singapore

4.4.1 Statutory Regulation

The 1963 Accountants Act, the 1987 Accountants Act, and the Companies Act contain statutory regulation of accounting in Singapore. The 1987 Accountants Act, which is designed to replace the 1963 Accountants Act, will come into operation at such date as the Minister of Finance may appoint. Since no definite date has been set by the Minister and the 1963 Act still remains in effect, it is now necessary to discuss the two Acts, both of which treat the qualifications of accountants. The Companies Act treats the disclosure of financial information by enterprises.

4.4.1.1 1963 Accountants Act

The 1963 Accountants Act has undergone several minor revisions since its enactment in 1963, and its most recent edition became effective in 1985. The purpose of the Act is to establish the

³⁹⁵ The Faculty of Economics and Administration of University of Malaya, *Student Handbook for 1987-1988*, (Kuala Lumpur: University of Malaya, 1987), pp.164-177.

Singapore Society of Accountants (SSA) and to provide for the registration and control of accountants.

4.4.1.1.1 The SSA: According to Section 6 of the 1963 Accountants Act, the SSA has the following purposes:

- (a) to register accountants and regulate the practice of the profession of accountancy in Singapore;
- (b) to provide for the training, education and examination, by the Society or any other body, of persons practicing or intending to practice the profession of accountancy in Singapore and elsewhere;
- (c) to determine the qualification of person for admission to membership in the Society and for registration under this Act; (d) to grant or issue diplomas or certificates to members of the society.³⁹⁶

Section 9 provides that the SSA establish a Council of the Society consisting of: (a) the Accountant-General; (b) a representative of the Ministry of Finance; (c) eight public accountants; (d) eight registered accountants; and (e) a representative of the National University of Singapore.³⁹⁷

The President, the Vice-President, and the Treasurer of Society should be elected by the Council from its members, and the President of the Society is the Chairman of the Council.³⁹⁸ The Council is entrusted with the management and control of the SSA; all such powers as may be exercised by the SSA which are not expressly reserved for the SSA in general meeting may be exercised by the Council.³⁹⁹ Thus the Council has power to make by-laws to prescribe the qualifications for applicants for admission as members of the Society, to ask any general meeting of the Society to discuss any matter which it considers material to the Society or to the interests of the profession and make any recommendations on this matter, and to communicate with other similar bodies for the reciprocal recognition of the status of the members of the Society.⁴⁰⁰

4.4.1.1.2 Registration of Accountants: The Council has the responsibility for keeping a register of members, who are classified as public accountants, registered accountants, provisional accountants,

³⁹⁶ The Government Printer, *Accountants Act*, (Singapore: the Government Printer, 1986), p.5.

³⁹⁷ *Ibid.*, p.8.

³⁹⁸ *Ibid.*

³⁹⁹ *Ibid.*, p.10.

⁴⁰⁰ *Ibid.*, pp.10-11.

and licensed accountants.⁴⁰¹ An applicant who wishes to become a public accountant, a registered accountant, or a provisional accountant has to meet one basic requirement, which is fulfilled when either of the following two conditions exist. The first condition is that he must pass the examinations in accountancy of the: (a) Singapore Polytechnic for the professional diploma and for the degree course; (b) University of Singapore for the bachelor of accountancy degree; (c) Nanyang University for the bachelor of commerce (accountancy) degree; (d) National University of Singapore for the bachelor of accountancy degree; (e) Nanyang Technological Institute for the bachelor of accountancy; (f) Singapore Society of Accountants-Chartered Association of Certified Accountants of the United Kingdom Joint Scheme; (g) Australian Society of Accountants; (h) New Zealand Society of Accountants; (i) Canadian Institute of Chartered Accountants; (j) Chartered Institute of Management Accountants of the United Kingdom; (k) Institute of Chartered Accountants in Scotland; (l) Institute of Chartered Accountants in England and Wales; (m) Institute of Chartered Accountants in Ireland; (n) Chartered Association of Certified Accountants of the United Kingdom; and (o) Institute of Chartered Accountants in India.⁴⁰² The second is that he must be a member of one of the above associations of accountants listed from (g) to (o). Then the applicant, before being registered as a public accountant, should have: (a) at least five years' experience in a public accountant's office; or (b) at least three years' experience in a public accountant's office after he has satisfied the basic requirement.⁴⁰³ As for an applicant for registered accountant, he should first have: (a) at least five years' practical accounting experience in the service of a public accountant, government department, bank, insurance, local authority, or other commercial, financial, industrial, or professional organization; or (b) at least three years' practical accounting experience in places mentioned in (a) after he has satisfied the basic requirement.⁴⁰⁴ A provisional accountant is normally a person who has passed the prescribed examinations in accountancy but

⁴⁰¹ *Ibid.*, p.14.

⁴⁰² The SSA, *Singapore Society of Accountants Admission Requirements*, (Singapore: the SSA, 1987), p.2.

⁴⁰³ *Ibid.*, p.3

⁴⁰⁴ *Ibid.*

who has not obtained the prescribed necessary practical experience.⁴⁰⁵ Finally, a licensed accountant is ordinarily considered to be a person who had been in public practice as an accountant or tax consultant before the enactment of the 1963 Accountants Act.⁴⁰⁶ However, nobody should be registered as a member of the Society unless he is at least 21 years old and of good character or reputation.⁴⁰⁷

4.4.1.1.3 Disciplinary Proceedings: Under Section 31 of the 1963 Accountants Act, the Council, for the purpose of handling the disciplinary matters, establishes an Investigation Committee and a Disciplinary Committee.⁴⁰⁸ The Investigation Committee consists of three members of the Council while the Disciplinary Committee is composed of four members of the the Council who are not members of the Investigation Committee.⁴⁰⁹ If the Investigation Committee, after receiving a complaint made against a member through the Society, determines that the complaint is worth the attention of the Disciplinary Committee, then the former Committee should refer it to the latter Committee.⁴¹⁰ The Disciplinary Committee may find a member guilty of professional misconduct, a breach of any fundamental rule of the SSA, a breach of any by-law made by the Council, or inconsistency with the integrity of a public accountant.⁴¹¹ The Disciplinary Committee can suspend a member permanently or for any period of not more than five years, impose a maximum penalty of 500 Singapore dollars upon him, censure him, or order him to pay to the Society an appropriate amount of costs and expenses incurred by any inquiry and investigation.⁴¹²

⁴⁰⁵ The Government Printer, *Accountants Act*, p.15.

⁴⁰⁶ *Ibid.*

⁴⁰⁷ *Ibid.*, p.14.

⁴⁰⁸ *Ibid.*, p.18.

⁴⁰⁹ *Ibid.*

⁴¹⁰ *Ibid.*

⁴¹¹ *Ibid.*, pp.20-21.

⁴¹² *Ibid.*

4.4.1.2 1987 Accountants Act

Under the 1963 Accountants Act, the SSA has performed functions as a statutory regulatory body and functions as a professional association. The 1987 Accountants Act marks a dramatic departure from the 1963 Accountants Act in that it, on becoming effective, will create the Public Accountants Board (PAB) to serve as a statutory regulatory body while making the SSA change its name to the Institute of Certified Public Accountants of Singapore (ICPAS), which will act as a professional organization.

4.4.1.2.1 The PAB: Under Section 4 of the 1987 Accountants Act, the PAB comprises: (a) the Accountant-General; (b) the Auditor-General; (c) a member from the Nanyang Technological Institute or from the National University of Singapore; and (d) seven other members to be appointed by the Minister of Finance, of whom three are appointed by the Minister on the nomination of the Council of the ICPAS.⁴¹³ The Board is responsible for registering public accountants, maintaining a register of public accountants, determining the qualifications of persons for registration as public accountants, and so on.⁴¹⁴ The Minister of Finance will appoint a Registrar of the Board, one of whose duties is to sign certificates of registration and record entries of registration.⁴¹⁵ A person can be registered as a public accountant if he has passed such examination in accountancy as may be specified by the Board and has satisfied all such requirements relating to practical experience as may be specified by the Board.⁴¹⁶ The Board has not yet specified so far because it remains to be established, but no big change in the examination in accountancy and practical experience currently required by the SSA of an applicant for public accountant is expected.

⁴¹³ The Government Printer, *The Accountants Act 1987*, (Singapore: the Government Printer, 1987), p.607.

⁴¹⁴ *Ibid.*

⁴¹⁵ *Ibid.*, p.609.

⁴¹⁶ *Ibid.*, pp.609-610.

In accordance with Section 19, the PAB may appoint an Inquiry Committee composed of four certified public accountants and a lay person to investigate any complaint of unprofessional conduct made against a public accountant.⁴¹⁷ The PAB, upon consideration of the report of the Inquiry Committee, may suspend a public accountant permanently or for a maximum period of two years if there is cause of sufficient gravity for suspension or cancellation of registration; otherwise it may impose a penalty not exceeding 5,000 Singapore dollars, censure the public accountant, or dismiss the complaint.⁴¹⁸

4.4.1.2.2 The ICPAS: The ICPAS is responsible for establishing and administering any organization having as its main purpose the advancement of science of accountancy, determining qualifications of persons for admission to membership in the ICPAS, promoting the interest of the profession of accountancy in Singapore, and so on.⁴¹⁹

The members of the ICPAS are classified as practicing members, non-practicing members, honorary members, and provisional members.⁴²⁰ The rules of the Institute, which have yet to be published, will give a more clear definition of each of four groups of accountants.⁴²¹ But it is expected that they are roughly the equivalents of public accountants, registered accountants, licensed accountants, and provisional accountants under the 1963 Accountants Act. The ICPAS should establish a Council, which comprises eight practicing members, eight non-practicing members, and three members appointed by the Minister of Finance.⁴²² The President, Vice-President, and Treas-

⁴¹⁷ *Ibid.*, p.611.

⁴¹⁸ *Ibid.*, pp.613-614.

⁴¹⁹ *Ibid.*, p.617.

⁴²⁰ *Ibid.*

⁴²¹ *Ibid.*

⁴²² *Ibid.*, p.618.

urer of the ICPAS are to be elected by the Council from its members, and the President of the Institute is the Chairman of the Council.⁴²³

4.4.1.3 Companies Act

The Companies Act, which was first promulgated in 1967, has already been revised several times. There are some important accounting regulations in the latest revised edition of the Act which became effective in 1987.

4.4.1.3.1 Company Accounts: According to Section 199 of the Companies Act, every company and its directors and managers are responsible for causing accounting and other records to be kept.⁴²⁴ The records not only should be able to explain sufficiently the transactions and financial position of the company, but they also should enable true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time.⁴²⁵ They ought to be kept so as to be audited conveniently and properly and retained for at least seven years.⁴²⁶

Under Section 201(1), every company ought to lay before the company in the AGM a profit and loss account for the period since the preceding account; the interval between the date of the AGM and the date to which the profit and loss account is made up should not exceed six months.⁴²⁷ Section 201(3) requires every company to lay before the company in the AGM a balance sheet as at the date to which the profit and loss account is made up.⁴²⁸ Section 201(4) provides that the profit

⁴²³ *Ibid.*, pp.618-619.

⁴²⁴ The Government Printer, *Companies Act*, (Singapore: the Government Printer, 1986), p.219.

⁴²⁵ *Ibid.*

⁴²⁶ *Ibid.*

⁴²⁷ *Ibid.*, p.222.

⁴²⁸ *Ibid.*

and loss account and the balance sheet of a company should be audited before being laid before the company in the AGM.⁴²⁹

According to Section 201(15), a consolidated profit and loss account and a consolidated balance sheet of a holding company and of its subsidiaries may be annexed to the profit and loss account and the balance sheet of the holding company laid before its AGM.⁴³⁰ Paragraph 8 in the 9th Schedule requires that the name and place of incorporation of each subsidiary and the shareholdings in each subsidiary should be clearly stated in the consolidated accounts.⁴³¹ The definition of a subsidiary provided by Section 5 of the Companies Act is the same as that in Hong Kong or Malaysia.⁴³² A company is a subsidiary of another company if the second company controls the composition of the board of directors of the first, or if the second company controls more than half of the voting power of the first, or if the second company holds more than half of issued share capital of the first.⁴³³ A company is also considered a subsidiary of another company if the former is a subsidiary of any company which is the latter's subsidiary.⁴³⁴

4.4.1.3.2 Auditor: According to Section 9 of the Companies Act, a person may apply to the Minister of Finance for permission to become a company auditor.⁴³⁵ If the Minister is satisfied that the person is of good character and competent to perform the duties of auditor, he may approve the person as a company auditor.⁴³⁶ A person has to meet all the requirements for a public accountant listed in the 1985 revised edition of the 1963 Accountants Act in order to be successful in

⁴²⁹ *Ibid.*, p.223.

⁴³⁰ *Ibid.*, pp.228-229.

⁴³¹ *The Singapore National Printers Ltd, Acts Supplement*, (Singapore: the Singapore National Printers Ltd, 1987), p.343.

⁴³² *The Government Printer, Companies Act.*, p.28.

⁴³³ *Ibid.*

⁴³⁴ *Ibid.*

⁴³⁵ *Ibid.*, p.35.

⁴³⁶ *Ibid.*

his application. Under Section 205, a company should in each AGM of the company appoint a person as its auditor, who should hold office until the end of the next AGM.⁴³⁷ If the company does not appoint an auditor, the Registrar of Companies may make the appointment on the application of any stockholder.⁴³⁸ The company in the AGM usually fixes the fees and expenses of its auditors.⁴³⁹

In accordance with Section 207, the auditor of a company should report to the stockholders on the accounts required to be laid before the company in the AGM and on the accounting and other records relating to those accounts, specifically stating in a report whether the accounts are, in his opinion, properly drawn up so as to give a true and fair view of the company's financial affairs according to Companies Act and whether the required accounting and other records have been properly kept by the company according to the Act.⁴⁴⁰ He ought to have access at all times to the accounting and other records of the company and enjoy a right to ask any officer of the company for such information and explanations as desired by him for the purposes of audit.⁴⁴¹ Also, he should attend any general meeting of the company and receive all notices of, and other communications regarding, the general meeting which a stockholder has a right to receive.⁴⁴²

4.4.1.3.3 Other Topics: The Companies Act, in discussing other topics, also formulates some regulations regarding disclosure of financial information. One topic is relating to a prospectus issued by a company in order to raise funds from the public. According to Section 45 and its related schedules, the prospectus should provide information on profits and losses and assets and liabilities of the company and should indicate the rates of the dividends paid by the company, and the esti-

⁴³⁷ *Ibid.*, p.232.

⁴³⁸ *Ibid.*, p.234.

⁴³⁹ *Ibid.*, p.235.

⁴⁴⁰ *Ibid.*, p.236.

⁴⁴¹ *Ibid.*, p.238.

⁴⁴² *Ibid.*

mates of the amounts of money payable to and payable by the company for a certain future period.⁴⁴³

Another topic is relating to a return which every company is supposed to make annually and lodge with the Registrar of Companies under Section 197 and its related schedules.⁴⁴⁴ The return must include a copy of the last audited balance sheet and profit and loss account of the company and specify, among others, the following: (a) "the amount of the share capital of the company and the number of the shares into which it is divided;" (b) "the total amount of the sums, if any, paid by the way of commission in respect of any shares or debentures since the date of the last return;" (c) "particulars of the discount allowed on the issue of any shares issued at a discount;" and (d) "the total amount of the sums, if any, allowed by way of discount in respect of any debentures since the date of the last return."⁴⁴⁵

4.4.2 Nonstatutory Regulation

4.4.2.1 *The Securities Industry Council (SIC)*

The SIC, which is an advisory body established by the Minister of Finance, comprises such representatives of business, government and the Monetary Authority of Singapore as the Minister of Finance may appoint. They serve for such period or periods as the Minister may determine.⁴⁴⁶

According to its terms of reference, the SIC may perform the following functions: (a) to advise the Minister of Finance on matters concerning the securities industry; (b) to advise the Board of Di-

⁴⁴³ *Ibid.*, pp.74-76, 416-417.

⁴⁴⁴ *Ibid.*, pp.217-218.

⁴⁴⁵ *Ibid.*, pp.435-438.

⁴⁴⁶ The information was provided by the Securities Industry Council.

rectors of the Stock Exchange of Singapore Ltd. on matters referred to the Board; (c) to advise the Board on the applications of companies wishing to raise money by a public issue in any form; and (d) to study recommendations submitted by the Board including listing requirements.⁴⁴⁷ Consequently, the SIC has a role to play in formulating accounting regulation.

4.4.2.2 Stock Exchange Listing Manual

The Stock Exchange of Singapore, which is a public limited company organized in accordance with the Companies Act, is a self-regulatory body. It has issued the Listing Manual, which requests a company to submit a semiannual report to the Exchange as soon as figures are available and in any event not later than three months after the end of the first six months in the fiscal year.⁴⁴⁸ A company should also submit to the Exchange preliminary financial statements as soon as figures are available and in any event not later than three months after the end of the fiscal year.⁴⁴⁹ The maximum interval between the end of the fiscal year of the company and the issue of the printed annual report to the company's stockholders and the Exchange should not exceed six months.⁴⁵⁰

4.4.2.3 Accounting Education

The School of Accountancy, established by the National University of Singapore in 1983, came under the jurisdiction of the Nanyang Technological Institute in 1987. It is now this Institute that offers the bachelor of accountancy degree in Singapore. The courses that need to be taken to obtain this degree from the Institute include financial accounting, cost and management accounting, busi-

⁴⁴⁷ The Securities Industry Council, *Terms of Reference*, (Singapore: the SIC, 1987), p.1.

⁴⁴⁸ The Stock Exchange of Singapore, *Listing Manual*, (Singapore: the Stock Exchange of Singapore, 1987), pp.29-30.

⁴⁴⁹ *Ibid.*

⁴⁵⁰ *Ibid.*

ness statistics, business communication, organizational behavior, principles of economics, business law, English proficiency, information systems, quantitative methods, auditing, monetary economics and public finance, financial accounting theory, financial management, and income tax law and practice.⁴⁵¹ It should be emphasized again that the bachelor of accountancy degree has special meaning because it has been accepted by the SAA as fully satisfying the requirement of examination in accountancy for its members.

A close relationship has existed between the School of Accountancy and the SSA. When the School was moved from one institution of higher learning to another, the SSA was consulted.⁴⁵² A representative of the School appointed by the Minister of Finance has served as a statutory member of the Council of the SSA while a member of the accounting profession has served on the Council of the National University of Singapore.⁴⁵³ The School has at least one representative in many committees of the SSA.⁴⁵⁴

4.5 Taiwan

4.5.1 Statutory Regulation

The CPA Law, the Examination Law for Professionals and Technicians, the Companies Law, the Commercial Accounting Law, and the Securities and Exchange Law provide for statutory regu-

⁴⁵¹ The School of Accountancy of Nanyang Technological Institute, *Course Outlines 1987-8*, (Singapore: the Nanyang Technological Institute, 1987), p.29.

⁴⁵² Tan Teck Meng and Tan Hun Tong, *Accounting Education in Singapore*, (Singapore: The School of Accountancy of National University of Singapore, 1987), p.10.

⁴⁵³ *Ibid.*, pp.10-11.

⁴⁵⁴ *Ibid.*, p.11.

lation of accounting in Taiwan. The CPA Law and the Examination Law for Professionals and Technicians handle the qualifications of accountants whereas the Companies Law, the Commercial Accounting Law, and the Securities and Exchange Law handle the disclosure of financial information by enterprises.

4.5.1.1 CPA Law

The CPA Law has been amended six times since it first became effective in 1945. The most recent edition of the Law, which was promulgated in 1983, deals mainly with the following matters:

4.5.1.1.1 CPA Certificate and Registration of CPAs: Section 1 of the CPA Law provides that a Chinese citizen who has passed the CPA examination and received a CPA certificate can serve as a CPA.⁴⁵⁵ Section 5 requires a person to apply to the Ministry of Finance to issue a CPA certificate.⁴⁵⁶ A person with a CPA certificate and two-year practical accounting experience in an accounting firm or in a governmental or private organization, for the purpose of commencing practice, needs to register with a provincial or municipal department of finance, which should keep a register of CPAs.⁴⁵⁷ The provincial or municipal department, when registering CPAs, should report to the Ministry of Finance.

4.5.1.1.2 The National Federation of CPA Associations (NFCPAA): According to Section 28 of the CPA Law, CPAs should establish provincial or municipal CPA associations, which should join to organize the NFCPAA at the site of the central government.⁴⁵⁸ Under Section 27, unless a CPA joins a CPA association after registering with a provincial or municipal department of finance, he

⁴⁵⁵ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), (Taipei: Great China Bookstore, 1987), p.1135.

⁴⁵⁶ *Ibid.*

⁴⁵⁷ *Ibid.*

⁴⁵⁸ *Ibid.*, p.1137.

cannot be allowed to practice.⁴⁵⁹ The provincial or municipal CPA association should create a board of directors which consists of three to fifteen directors.⁴⁶⁰ The association is supposed to hold the members' general meeting once a year and organize a disciplinary committee to maintain discipline among its members.⁴⁶¹ A board of directors which is composed of five to twenty one directors should also be installed in the NCFPAA, which holds its meeting of members' representatives once every two years.⁴⁶²

4.5.1.1.3 Disciplinary Sanction: In accordance with Section 15 of the CPA Law, to practice can be interpreted as meaning that a CPA performs services related to examination and certification of financial statements, serves as an agent in cases involving taxation, and so forth.⁴⁶³ A CPA, in auditing the financial statements of a company, is supposed to state whether the financial statements present fairly its financial position at a specific date and its results of operation for the period ending at that specific date.⁴⁶⁴

A CPA who is in any one of the following situations is subject to disciplinary sanction by the CPA association of which he is a member: (a) he has been sentenced to imprisonment for a criminal offense; (b) he has refused to pay tax; (c) he has made a dishonest certification of the financial statements of a company limited by shares; and (d) he has seriously violated regulations, which has tarnished the reputation of the CPA profession.⁴⁶⁵ A disciplinary sanction meted out by a CPA

⁴⁵⁹ *Ibid.*

⁴⁶⁰ *Ibid.*

⁴⁶¹ *Ibid.*

⁴⁶² *Ibid.*

⁴⁶³ *Ibid.*, p.1136.

⁴⁶⁴ *Ibid.*, p.1137.

⁴⁶⁵ *Ibid.*

association may take the form of warning, reprimand, suspension of practice for a period from two months up to two years, or even expulsion.⁴⁶⁶

4.5.1.2 Examination Law for Professionals and Technicians

The Examination Law for Professionals and Technicians, which took effect in 1986, formally entrusts the Examination Yuan (governing body) with the main responsibility for holding examinations for professionals. Section 1 of the Law stipulates that the professionals, in order to commence practice, should have their qualifications determined by examinations.⁴⁶⁷ Since CPAs are listed as one of the professionals, accountants must pass the CPA examination as a first step toward being able to practice.⁴⁶⁸ The Ministry of Examination within the Examination Yuan takes charge of the affairs concerning the CPA examination, which is held once a year.

A participant in the CPA examination ordinarily holds a bachelor degree in accounting or a related field from a local or foreign university or college recognized by the Ministry of Education.⁴⁶⁹ However, the participants are not exclusively limited to degree holders. Those persons without degrees are permitted to take the CPA examination provided that they have passed certain low-level examinations for accountants and have had four years' working experience in the accounting field.⁴⁷⁰ Subjects to be tested in the CPA examination are Chinese constitutional law, Chinese, advanced accounting, analysis of financial statements, auditing, management accounting, accounting system,

⁴⁶⁶ *Ibid.*, pp.1137-1138.

⁴⁶⁷ *Ibid.*, p.1122.

⁴⁶⁸ *Ibid.*, p.1123.

⁴⁶⁹ *Ibid.*, p.1122.

⁴⁷⁰ The Examination Ministry, *Notice to Participants in the 1986 High-Level and Common Examinations for Professionals and Technicians* (in Chinese), (Taipei: the Examination Ministry, 1986), p.7.

companies law, law of negotiable instruments, and tax law (including income tax law, corporate tax law, and land tax law).⁴⁷¹

In addition, a Chinese citizen who meets any one of the following qualifications may apply for a simplified examination to qualify as a CPA: (a) holding a bachelor of accounting or related degree from a university or college recognized by the Ministry of Education and having appropriate practical experience for at least three years; (b) holding a bachelor of accounting or related degree from a university or college recognized by the Ministry of Education and having served as an instructor or an assistant professor for at least three years or as a professor for at least two years in a university or college; and (c) having a foreign CPA certificate which has been recognized by the Ministry of Examination.⁴⁷²

There are several kinds of simplified examinations, which are held twice a year. For instance, a person who meets the qualification in (c) is to be tested on companies law and tax law only.⁴⁷³ Generally speaking, the more qualified a person is academically or the higher his rank is, the lesser the number of subjects on which he is tested. If a person with a bachelor degree in accounting and a doctorate degree in business applies to take the simplified examination based on his qualification in (b), he will be tested only on either companies law or tax law.⁴⁷⁴ The extreme case is the treatment accorded to a person with the rank of full professor and a bachelor degree in accounting. If he has taught two or more accounting courses for at least three years, one of which is advanced accounting, cost accounting, or auditing, he is exempted from written examination altogether.⁴⁷⁵

⁴⁷¹ *Ibid.*, p.3.

⁴⁷² Chi Tan Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.1139.

⁴⁷³ *Ibid.*

⁴⁷⁴ *Ibid.*

⁴⁷⁵ *Ibid.*

4.5.1.3 Companies Law

The Companies Law was first promulgated in 1929. After the Law was revised several times, its latest edition came into force in 1983, with some accounting regulations.

4.5.1.3.1 Company Accounts: Section 20 of the Companies Law is applicable to all types of companies and stipulates that every company submit a balance sheet, a general inventory of properties, an income statement, and a statement of appropriation of retained earnings after the end of of a fiscal year to obtain approval from its stockholders at its stockholders' meeting.⁴⁷⁶ But examination of the financial statements by an independent auditor is not an absolute necessity unless the capital of the company exceeds a certain prescribed amount.⁴⁷⁷

The accounting requirements for a company limited by shares, which corresponds to a corporation in the United States, however, are more detailed and more stringent in order to protect public investors. Section 170 provides that the AGM of such a company be held within six months of the close of its fiscal year.⁴⁷⁸ Section 228, like Section 20, requires such a company to prepare a balance sheet, a general inventory of properties, an income statement, and a statement of appropriation of retained earnings for the approval of its AGM.⁴⁷⁹ But Section 230 specifically requires its financial statements to be examined and reported on by an independent auditor.⁴⁸⁰ Under Section 237, 10% of its net income each fiscal year should be set aside as a legal reserve until this reserve equals its total capital.⁴⁸¹

⁴⁷⁶ *Ibid.*, p.117.

⁴⁷⁷ *Ibid.*

⁴⁷⁸ *Ibid.*, p.125.

⁴⁷⁹ *Ibid.*, p.129.

⁴⁸⁰ *Ibid.*

⁴⁸¹ *Ibid.*, p.130.

4.5.1.3.2 Statutory Auditor: The Companies Law requires every company limited by shares to have a statutory auditor, who is elected by the stockholders' meeting from stockholders.⁴⁸² The statutory auditor is entitled to investigate the operation of the company and its financial condition, to examine the accounting and other records, to monitor the activities of the board of directors, and to request the board of directors to answer any questions which he may have. The statutory auditor also has a right to scrutinize the balance sheet, the general inventory of properties, the income statement, and the statement of appropriation of retained earnings before the start of the AGM and report his opinion to the AGM.⁴⁸³ No provision for the professional or independent qualifications of the statutory auditor, however, is provided by the Law.

4.5.1.4 Commercial Accounting Law

The Commercial Accounting Law, which deals with accounting requirements for the business firms, was first enacted in 1948. The Law has been amended twice since that time. Its most recent edition became effective in 1968. The Law consists of 70 concise sections and offers the most fundamental accounting principles and standards. It may be divided into the following important parts:

4.5.1.4.1 Accounting Entries and Business Papers: Under Section 11 of the Commercial Accounting Law, accounting entries should be made to record all transactions giving rise to changes in assets, liabilities, and capital.⁴⁸⁴ Double-entry accounting is to be used.⁴⁸⁵ Under Section 15, business papers, which are evidence of completed transactions, form the basis for the accounting entries.⁴⁸⁶

⁴⁸² *Ibid.*, pp.128-129.

⁴⁸³ *Ibid.*

⁴⁸⁴ *Ibid.*, p.223.

⁴⁸⁵ *Ibid.*

⁴⁸⁶ *Ibid.*

Invoices, sales tickets, and carbon copies of issued checks are some examples of the business papers.⁴⁸⁷ A business paper unique to Taiwan is the purchaser's copy of the "unified invoice" issued by the seller. The unified invoices are invoice forms prescribed by the government.⁴⁸⁸ They are primarily accepted as evidence of goods and services purchased, and expenses incurred.⁴⁸⁹ The various business papers ought to be retained for five years.⁴⁹⁰

4.5.1.4.2 Accounts, Accounting Books, and Financial Statements: Section 23 of the Commercial Accounting Law divides all accounts into five categories: asset, liability, capital, revenue, and expense.⁴⁹¹ Section 24 classifies accounting books into journal and ledger.⁴⁹² A journal is a book of original entry where the essential facts and figures in connection with all transactions are initially recorded; a ledger is a book containing the accounts. Section 25 categorizes journals into general journal and special journals while Section 26 categorizes ledgers into general ledger and subsidiary ledgers.⁴⁹³ Section 31 further divides financial statements into the static ones and the dynamic ones.⁴⁹⁴ The static ones such as the balance sheet and the general inventory of properties show the state of financial affairs at a specified time, and the dynamic ones such as the income statement show the process of changes in financial condition. The accounting books and the financial statements must be kept for ten years.⁴⁹⁵

⁴⁸⁷ *Ibid.*

⁴⁸⁸ Price Waterhouse & Co., *Doing Business in Taiwan*, pp.54-55.

⁴⁸⁹ *Ibid.*

⁴⁹⁰ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.224.

⁴⁹¹ *Ibid.*

⁴⁹² *Ibid.*

⁴⁹³ *Ibid.*

⁴⁹⁴ *Ibid.*

⁴⁹⁵ *Ibid.*

4.5.1.4.3 Basis of Recording Assets: In accordance with Section 34 of the Commercial Accounting Law, every asset should be recorded at its cost, which usually means the cost of acquiring an asset or the cost of manufacturing an asset.⁴⁹⁶ Under Section 35, when an exchange of nonmonetary assets takes place, the cost of the asset given up or the fair value of the asset received, whichever is clearly more evident, should be used to account for the exchange.⁴⁹⁷ According to Section 36, the cost of inventory on hand may be determined by the FIFO method, the LIFO method, the weighted average method, the moving average method, or the simple average method, depending on the nature of the inventory.⁴⁹⁸ Section 37 provides that the cost of a marketable security sold be the cost of originally acquiring it or the cost computed by the weighted average method.⁴⁹⁹ And Section 39 requires that fixed assets be depreciated by the straight-line method, the decreasing charge method, or the activity method.⁵⁰⁰

4.5.1.4.4 Computation of Income: Section 35 of the Commercial Accounting Law requires income to be calculated by deducting various costs, expenses, and losses incurred during a fiscal year from the total revenue produced in that year, abiding by the accrual basis of accounting.⁵⁰¹ It is specifically stated in Section 56 that any outlay intended for the repair or maintenance of an existing fixed asset, if it cannot increase the efficiency or useful life of the asset, should be regarded as an expense.⁵⁰²

4.5.1.4.5 Closing: According to Section 60 of the Commercial Accounting Law, every business firm should close its books within two months of the end of a fiscal year, but the prescribed period may

⁴⁹⁶ *Ibid.*

⁴⁹⁷ *Ibid.*

⁴⁹⁸ *Ibid.*

⁴⁹⁹ *Ibid.*, p.225.

⁵⁰⁰ *Ibid.*

⁵⁰¹ *Ibid.*

⁵⁰² *Ibid.*

be extended if circumstances warrant it.⁵⁰³ According to Section 61, every business firm should prepare a balance sheet, a general inventory of properties, an income statement, and a statement of appropriation of retained earnings.⁵⁰⁴

4.5.1.5 Securities and Exchange Law

The Securities and Exchange Law took effect in 1968 and underwent revision once in 1980 and once in 1983. The latest edition of the Law was promulgated in 1983. In accordance with Section 3 of the Law, the SEC takes responsibility for administering the Law.⁵⁰⁵ The SEC had originally belonged to the Ministry of Economic Affairs but was placed under the jurisdiction of the Ministry of Finance in 1983. The SEC is an ordinary governmental organ and its Chairman is a regular civil servant under the complete control of the Minister of Finance. The SEC is in charge of issuing CPA certificates to the accountants in the Ministry of Finance. The Law has been influenced by the 1933 Securities Act and the 1934 Securities and Exchange Act of the United States.

The companies governed by the Law are companies limited by shares. Under Section 13, if a company wishes to raise capital by issuing securities to the public, it should prepare a prospectus for the perusal of the public.⁵⁰⁶ According to Section 36, a company that has issued securities should obtain approval of its financial statements, which ought to be audited by an independent auditor, from its stockholders' AGM after the end of each fiscal year and submit them to the SEC.⁵⁰⁷ This process should be completed within fifteen days after the company closes its books for a fiscal year.⁵⁰⁸ Such a company should also have its semiannual financial statements audited by an inde-

⁵⁰³ *Ibid.*, p.226.

⁵⁰⁴ *Ibid.*

⁵⁰⁵ *Ibid.*, p.209.

⁵⁰⁶ *Ibid.*

⁵⁰⁷ *Ibid.*, p.210.

⁵⁰⁸ *Ibid.*

pendent auditor. These statements must be approved by the company's board of directors and statutory auditor after the end of every first six months in a fiscal year and then submitted to the SEC.⁵⁰⁹ This process should be completed within fifteen days after the company closes its books for a semiannual period.⁵¹⁰ Moreover, in order to protect the public good and the interests of investors, the SEC is empowered by Section 38 to request the companies to furnish any necessary information and material and to investigate directly their accounting and other records.⁵¹¹ Under Section 37, if an independent auditor commits any error intentionally in auditing the financial statements, the SEC may suspend him permanently or for a period of not more than two years or give him a warning.⁵¹² According to Section 41, the SEC may order a company to set aside a certain portion of its net income as a contingency reserve, which is in addition to the legal reserve that has already been discussed in connection with Section 237 of the Companies Law.⁵¹³

4.5.2 Nonstatutory Regulation

4.5.2.1 Rules Governing the Compilation of Financial Statements by Companies with Issued Securities

The Rules were drawn up by the SEC in 1968, but their most up-to-date edition was promulgated by the SEC in 1985 after several revisions. There are two sections in the Rules which particularly deserve to be mentioned. According to Section 3, the companies which have issued securities should follow the Rules and other related laws in preparing the financial statements, but, when the Rules and other related laws fail to offer any guidance, the companies should follow the generally accepted accounting principles adopted by the Financial Accounting Standards Committee of the Account-

⁵⁰⁹ *Ibid.*

⁵¹⁰ *Ibid.*

⁵¹¹ *Ibid.*, p.211.

⁵¹² *Ibid.*, p.210.

⁵¹³ *Ibid.*, p.211.

ing Research & Development Foundation.⁵¹⁴ These will be discussed in Chapter 5. Thus, the authority of the Committee, a private organization, has been formally recognized by the SEC. Section 4 stipulates that the financial statements consist of a balance sheet, an income statement, a statement of appropriation of retained earnings, a statement of changes in financial position, notes, and related detailed schedules.⁵¹⁵ Thus, the importance of the statement of changes in financial position as a integral part of the financial statements is recognized.

4.5.2.2 Stock Exchange Operating Rules

The Taiwan Stock Exchange is a company limited by shares and is regulated by by the Securities and Exchange Law. It has issued the Operating Rules. According to the Rules, a company, when submitting its annual and semiannual financial statements to the SEC under Section 36 of the Securities and Exchange Law, should present them to the Exchange.⁵¹⁶ The Exchange is to receive from each company a revenue report for the previous month every month, first-quarter financial materials in April, and third-quarter financial materials in October.⁵¹⁷

4.5.2.3 Accounting Education

The bachelor of accounting degree as well as master of accounting degree is now being offered by institutions of higher learning in Taiwan. The courses offered by the accounting department of an university for the bachelor of accounting degree are similar to the accounting courses taught at in-

⁵¹⁴ The SEC, *Comprehensive Collection of Laws and Rules Governing Securities* (in Chinese), (Taipei: the SEC, 1985), p.233.

⁵¹⁵ *Ibid.*

⁵¹⁶ *Ibid.*, p.672.

⁵¹⁷ *Ibid.*

stitutions of higher learning in the United States.⁵¹⁸ There are many American-trained accounting professors in Taiwan. For example, Dr. T. W. Cheng has a doctoral degree in accounting from an American university. He is the Dean of the College of Business Administration of National Chengchi University and concurrently the Chairman of the Financial Accounting Standards Committee.

4.6. Comparison

This Chapter contains a summary of the statutory and nonstatutory accounting regulations of the five countries. Some similarities and differences exist in government regulation of accounting between these countries. This section highlights these similarities and differences.

4.6.1 Similarities

The five countries have recognized the importance of government regulation of accounting in their increasingly complex societies and have taken actions to fulfill the need for such regulation by enacting various statutory and nonstatutory accounting provisions. Generally speaking, the governments of the five countries have done a satisfactory job of regulating accounting. They have updated their accounting rules to reflect their own experiences and the experiences of other foreign countries. Their accounting regulations are stringent enough for their accounting systems to function smoothly.

⁵¹⁸ Tamkang University, *Tamkang University Bulletin 1984-1986*, (Taipei: Tamkang University, 1984), pp.304-305.

All the five accounting systems have statutory provisions designed to enhance the quality of accountants and to assure the adequacy and reliability of financial disclosures. For instance, the Professional Accountants Ordinance of Hong Kong, the CPA Law of Korea, the Accountants Act of Malaysia, the 1963 Accountants Act and the 1987 Accountants Act of Singapore, and the CPA Law and the Examination Law for Professionals and Technicians of Taiwan all provide for the establishment of professional accounting organizations and/or prescribe rules for controlling entry to the profession. These statutes are written to insure that only well-qualified persons can serve as public accountants. On the other hand, the Companies Ordinance of Hong Kong; the Commercial Code, the Law on External Audit of Joint-Stock Companies, and the Securities and Exchange Law of Korea; the Companies Act of Malaysia; the Companies Act of Singapore; and the Companies Law, the Commercial Accounting Law, and the Securities and Exchange Law of Taiwan have all sought to insure adequate and accurate financial disclosure by establishing the broad frameworks of financial reporting. These make it possible for others, particularly the professional accounting organizations, to develop detailed procedures and rules concerning financial reporting. In other words, these statutes prescribe requirements for issuance of an accounting statement and disclosure of specific items of information. The professional accounting organizations generally assume the responsibility for the format in which information is to be disclosed in an accounting statement and the rules by which individual items of information may be measured.⁵¹⁹

As for the nonstatutory regulation of accounting, all the Stock Exchanges in the five countries have helped regulate financial disclosure by issuing some type of listing rules for listed companies. These listing rules occasionally require the disclosure of information beyond legal requirements. For example, companies are required to submit interim reports to the Stock Exchanges. Another aspect of nonstatutory regulation of accounting concerns accounting education. The basic accounting courses offered by the institutions of higher learning in the five countries are practically the same.

⁵¹⁹ Peter Taylor and Stuart Turley *The Regulation of Accounting*, pp.26-27.

The Ministers of Finance and Secretary of Finance stand out as the most important persons in the government regulation of accounting in the five accounting systems. The Secretary of Finance of Hong Kong and the Ministers of Finance of Malaysia and Singapore appoint the Registrars of Companies. In Taiwan, the Minister of Finance is the immediate superior official of the SEC. In Korea, the Minister of Finance assists the President to appoint full-time Commissioners of the SEC. All the Ministers and Secretaries of Finance can control or influence the professional accounting organizations of the five countries.

4.6.2 Differences

In Hong Kong, Malaysia, and Singapore, only one statute contains the financial disclosure regulations while three statutes contain regulation of financial disclosure in Korea and Taiwan. It is worth mentioning once more that the one statute of Hong Kong is the Companies Ordinance; the one statute of Malaysia is the Companies Act; the one statute of Singapore is also the Companies Act. The idea of placing all legal provisions relating to financial disclosure in one statute has originated from the United Kingdom.⁵²⁰ Many sections in the Companies Act of Singapore even list the numbers of their corresponding sections in the Companies Act of the United Kingdom. The three statutes of Korea consist of the Securities and Exchange Law, the Commercial Code, and the Law on External Audit of Joint-Stock Companies; the three statutes of Taiwan consist of the Companies Law, the Commercial Accounting Law, and the Securities and Exchange Law. One unique feature of the Law on External Audit of Joint-Stock Companies in Korea is that it empowers the SEC to adopt and revise detailed accounting standards, a task normally left to the professional accounting organizations in the other four countries.

Another difference lies in whether statutory auditors are required. The Commercial Code of Korea requires them to be appointed by joint-stock companies and the Companies Law of Taiwan re-

⁵²⁰ *Ibid.*, pp.44-45.

quires them to be appointed by companies limited by shares. There are no statutory auditors in the other three countries. It is not necessary for these statutory auditors in Korea and Taiwan to have any background in accounting and auditing.⁵²¹ They can use qualified CPAs to assist them in carrying out their obligation to supervise the operations of companies and to examine the financial reporting of companies. The statutory auditors installed by Korea and Taiwan may be attributed to the influence from Japan.⁵²²

The third difference is that the CPA examinations are held by governmental agencies in Korea and Taiwan while the examination process is the responsibility of professional accounting organizations in the other three countries. In Korea, the Ministry of Finance is in charge of the CPA examinations. In Taiwan, it is the Ministry of Examination. The bachelor of accounting degrees offered by different universities and institutes of Singapore have been accepted by the Singapore Society of Accountants as fully satisfying the requirement of examination in accountancy for its members under the 1963 and 1987 Accountants Acts. Under the Malaysian Accountants Act, the Malaysian Institute of Accountants also recognizes the bachelor of accounting degree of the University of Malaya as one way of meeting the examination requirement in accountancy for its members. But an applicant with such a degree cannot be completely exempted from all the examinations required of members of the Malaysian Association of Certified Public Accountants.

The fourth difference exists in the nature and functions of the governmental agencies of the five countries that help regulate the security industries. On one hand, the Securities and Exchange Commission in Korea was established by the Korean Securities and Exchange Law, and the Securities and Exchange Commission in Taiwan was designated by the Taiwan's Securities and Exchange Law to administer the Law. These two Commissions are directly and extensively involved in supervising daily operations of companies whose stocks are listed on the respective Stock Exchanges. They are supposed to receive financial reports from those companies regularly. On the

⁵²¹ H. Peter Holzer, *International Accounting*, (New York: Harper & Row, Publishers, Inc., 1984), p.206.

⁵²² *Ibid.*

other hand, the Hong Kong Securities Commission, founded by the Securities Ordinance, the Malaysian Capital Issues Committee, formed by the Securities Industry Act, and the Singapore Securities Industry Council, established by the Minister of Finance, are not as directly and extensively involved in supervision of the daily operations of companies whose stocks are listed on the Stock Exchanges of the respective countries. The main responsibility of the Hong Kong Securities Commission is to supervise the Unified Exchange, security dealers, and investment advisers while the Malaysian Capital Issues Committee and the Singapore Securities Industry Council primarily serve as advisory bodies.

Chapter 5 Accounting Profession

Accountants of all five countries perform the same basic services for their clients. These services include (a) conducting audits as required by law or for other purposes, (b) rendering tax services, (c) providing management advisory services, and (d) offering other services such as training client staff on accounting matters and assisting governmental units in preparing and executing the budget. Professional accounting organizations have been set up for the purpose of enabling accountants to perform better these services. This Chapter contains a discussion concerning the professional accounting organization or organizations in each country. This approach is taken because it is believed that both collective and individual activities of accountants as professionals in each country can be sufficiently covered in discussing the organization or organizations.

5.1 Hong Kong

There is only one professional accounting organization in Hong Kong. It is the Hong Kong Society of Accountants (HKSA).

5.1.1 Overall Organization of the HKSA

Figure 2 offers a concise explanation regarding the organization of the HKSA. The General Meeting, the Council, and the Disciplinary Committee were discussed in Chapter 4. The Registrar who serves as the Secretary to the HKSA and its Council is appointed by the Council on such terms and conditions as it deems fit.⁵²³ He convenes the meetings of the HKSA or of the Council on the instruction of the President and it is his specific responsibility to maintain a register of professional accountants and to register students wishing to take examination from the HKSA.⁵²⁴ In other words, the Registrar is the Executive Director of the HKSA. As regards the other fifteen Committees, only five will be included in discussion; the rest are self-explanatory. The membership of the HKSA will be discussed as well because it forms the foundation of the Society.

5.1.2 The Examinations Board

The Examinations Board is established by the Council. The members of the Board are appointed by the Council. They will hold office until they resign or are removed from office by the Council. Two of the important functions of the Board are to advise the Council on (a) the conduct and control of examinations of the HKSA and (b) the appointment and remuneration of examiners.⁵²⁵

The examinations, held by the HKSA twice a year, are a Joint Examination Scheme that is operated with the Chartered Association of Certified Accountants of the United Kingdom. A person has to register with the HKSA to take examinations. After registering, he is called a registered student, who must (a) be at least 16 years of age or more, (b) have attained the requisite standard

⁵²³ The Governmental Printer, *Professional Accountants Ordinance*, p.12.

⁵²⁴ *Ibid.*

⁵²⁵ The HKSA, *Professional Accountants By-Laws*, (Hong Kong: the HKSA, 1987), p.A15.

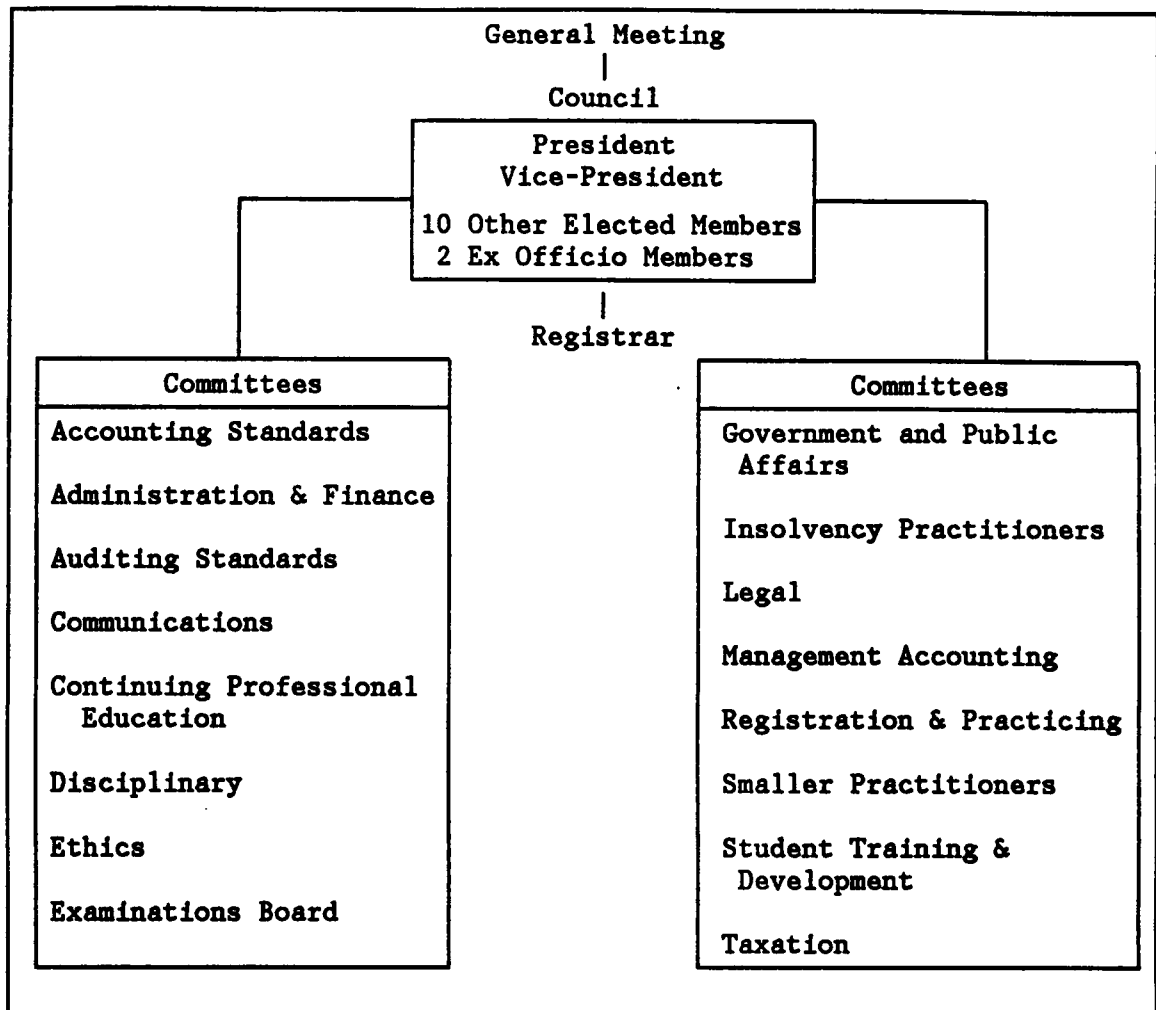


Figure 2. Organization of the HKSA

of education, (c) be of good character, and (d) have paid the proper fee to the Council.⁵²⁶ A person is deemed to have attained the requisite standard of education if he

(a) is a holder of a Hong Kong Certificate of Education (English) with credits in at least 5 subjects (including English and Mathematics); (b) has passed examinations in subjects specified in (a) which in the opinion of the Council are of an equivalent standard to the Hong Kong Certificate of Education (English); (c) is a graduate of a university approved by the Council; or (d) is the holder of a diploma in accountancy awarded by an educational institute approved by the Council.⁵²⁷

About 12,000 registered students are given a choice to do the examination papers in accordance with Hong Kong legislation or United Kingdom legislation.⁵²⁸ Accounting courses are organized by the HKSA to help the students prepare for the examinations.⁵²⁹ Those who pass the examination under the Scheme and obtain the required working experience can apply for membership of both the HKSA and the Chartered Association.

This joint examination is divided into three levels. The first level is the preliminary examination consisting of five papers: accounting, costing, economics, law, and numerical analysis and data processing.⁵³⁰ The second level is the professional examination consisting of nine papers: auditing, company law, taxation, management accounting, quantitative analysis, systems analysis and design, regulatory framework of accounting, advanced accounting practice, and one option from the following: (a) executorship and trust law and accounts, (b) organization and management, (c) managerial economics, (d) public sector accounting, and (e) insolvency.⁵³¹ The third level is the final examination consisting of four papers: advanced financial accounting, financial management, taxation and tax management, and auditing and investigation.⁵³² However, the HKSA can give registered students with good qualifications exemptions from certain examinations. For instance, a

⁵²⁶ *Ibid.*, pp.A12-A14.

⁵²⁷ *Ibid.*

⁵²⁸ The HKSA, *Information Sheet for January 1987*, p.2.

⁵²⁹ The HKSA, *Information Sheet for August 1987*, p.5.

⁵³⁰ *Ibid.*, p.3.

⁵³¹ *Ibid.*

⁵³² *Ibid.*

registered student with a recognized bachelor of accounting degree is exempted from the preliminary and the professional examinations.

5.1.3 The Registration & Practicing Committee

At least five professional accountants are appointed by the Council to serve on the Registration & Practicing Committee.⁵³³ The Committee has the following responsibilities: (a) to examine the qualifications of an applicant for registration as a professional accountant, (b) to advise the Council as to the acceptance or rejection of such applicant, (c) to ascertain whether a professional accountant applying for a practicing certificate has had the required experience, and (d) to advise the Council as to whether the application of such an accountant should be accepted.⁵³⁴

5.1.4 The Accounting Standards Committee (ASC)

The ASC, established by the Council in February 1982, consists of members from the professional firms, industrial and commercial organizations, and institutions of higher learning.⁵³⁵ Its main object is to prepare accounting standards. The standard-setting process followed by it includes: (a) identification of topics by the ASC, (b) preparation by the Technical Director of the HKSA of draft papers incorporating the relevant technical content, (c) considerations of the drafts by the ASC, (d) submission of exposure drafts to the Council for approval, (e) publication of exposure drafts, (f) three-month exposure period, (g) summary of comments and discussions on future development prepared by the Technical Director for the ASC's consideration, (h) redrafting and consideration

⁵³³ The HKSA, *Professional Accountants By-Laws*, pp.A8-A11.

⁵³⁴ *Ibid.*

⁵³⁵ Susana L. M. Yuen, *The Institutional Framework of Accounting for Hong Kong*, (Hong Kong: Goodman Publisher, 1986), p.2.

of draft standards by the ASC, (i) approval of draft standards by the Council, and (j) standards issued by the HKSA.⁵³⁶

Twelve Statements of Standard Accounting Practice (SSAP) have been adopted by the ASC. "Disclosure of Accounting Policies," "Extraordinary Items and Prior Year Adjustments," "Stocks and Work in Progress," "Statements of Changes in Financial Position," "Earnings per Share," "Depreciation Accounting," "Group Accounts," "Accounting for Contingencies," "Accounting for Post Balance Sheet Events," "Accounting for the Results of Associated Companies," "Foreign Currency Translation," and "Accounting for Deferred Tax." Although the Companies Ordinance contains no requirement to enforce compliance with the SSAP, the Council has approved them for application to all financial statements intended to give a true and fair view of the financial position and profit or loss. All members of the HKSA who assume responsibilities in respect of financial statements are expected to follow the SSAP as issued by the Council.⁵³⁷ Therefore, members who are auditors or reporting accountants must not only disclose significant departures from any of the SSAP, but also be prepared to justify them. Members who act in the capacity of directors or other officers must not only ensure that the non-member directors and other officers fully understand the existence and purpose of the SSAP, but also use their best endeavors to secure compliance with the SSAP and disclose and explain significant departures from them.⁵³⁸

In addition, the ASC has also adopted six Accounting Guidelines: "Preparation and Presentation of Accounts from Incomplete Records," "the Effect of International Accounting Standards," "Accounts of Dealers in Securities," "Goodwill," "Capitalization of Borrowing Costs," and "Reporting Financial Information by Segment." Accounting Guidelines are guidance statements

⁵³⁶ *Ibid.*, p.4.

⁵³⁷ *Ibid.*, p.6.

⁵³⁸ *Ibid.*

and indicators of the best practices.⁵³⁹ Departures from them do not necessarily require disclosure as do departures from the SSAP.

The HKSA is a member of the IASC with an objective of working for the improvement and harmonization of accounting regulations, standards, and procedures relating to the presentation of financial statements. The IASC has issued twenty-six International Accounting Standards (IAS). Compliance with all the SSAP ensures compliance with ten IAS: IAS 1, 2, 3, 4, 7, 8, 10, 11, 12, and 21.⁵⁴⁰ The requirements of IAS 5, 6, 9, 13, 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, and 26 are not subjects of the SSAP in Hong Kong, but the requirements of IAS 5, 13, 16, and 18 are substantially covered by the Companies Ordinance (Refer to Appendix A for a list of IAS).⁵⁴¹

5.1.5 The Auditing Standards Committee

The Auditing Standards Committee has assumed responsibilities for preparing the Statements of Auditing Standard. Two Statements of Auditing Standard, "Audit Approach" and "Reporting," were approved by the Council after being adopted by the Committee. The Society expects all its members with audit responsibility to observe the Statements of Auditing Standard. It may investigate and discipline any members who apparently fail to observe the Statements of Auditing Standard.⁵⁴² The HKSA has also issued Auditing Guidelines to give guidance on procedures for applying the Statements of Auditing Standard.⁵⁴³ As a member of the International Federation of Account-

⁵³⁹ The HKSA, *Statement 2.0 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.3.

⁵⁴⁰ The HKSA, *Statement 2.202 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.4.

⁵⁴¹ IAS 6 has been superseded by IAS 15 and is no longer in effect; the HKSA, *Statement 2.202 in Members' Handbook*, p.5.

⁵⁴² The HKSA, *Statement 3.0 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.2.

⁵⁴³ *Ibid.*

ants (IFAC), the HKSA has sought to incorporate the principles on which the IFAC Auditing Guidelines are based into its own Statements of Auditing Standard and Auditing Guidelines.⁵⁴⁴

5.1.6 The Ethics Committee

The Ethics Committee helps the Council of the HKSA handle matters relating to professional ethics. The Council gives ethical guidance to members to promote and maintain high standards of professional conduct. The guidance takes the form of the Fundamental Principles, the Professional Ethics Statements, and the related Guidelines.⁵⁴⁵ One of the duties of the Ethics Committee is to help the Council draft these documents.

The Fundamental Principles are framed in broad and general terms and are basic advice on professional behavior. They define the overriding requirement that a member always discharge his duty objectively, impartially, and free from influence that might appear to be in conflict with this requirement.⁵⁴⁶ The Professional Ethics Statements give more detailed information on how a member is expected to act in certain circumstances.⁵⁴⁷ The Guidelines normally appear right after the relevant Statements, and indicate particular circumstances in which members are subject to criticism.⁵⁴⁸ For example, the Statements on Independence and Publicity are followed by more detailed Guidelines because members frequently need advice in these areas. If a member fails to observe the ethical guidance, he risks having to explain his actions in response to a complaint.⁵⁴⁹

⁵⁴⁴ *Ibid.*, p.3.

⁵⁴⁵ The HKSA, *Statement 1.200 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.1-2.

⁵⁴⁶ *Ibid.*, p.2.

⁵⁴⁷ *Ibid.*

⁵⁴⁸ *Ibid.*

⁵⁴⁹ *Ibid.*, p.3.

5.1.7 Members

There are approximately 3,500 members in the HKSA, of whom about 900 are certified public accountants.⁵⁵⁰ Because of the favorable treatment that the Professional Accountants Ordinance gives to foreigners wishing to become professional accountants and certified public accountants, a significant number of professional accountants and certified public accountants are foreigners. The HKSA carries a distinctly cosmopolitan flavor. This is testified to by the fact that the HKSA invited Mr. Paul Phenix to become its Technical Director immediately after he resigned as the Technical Director of the MACPA in 1986.⁵⁵¹

All of the American Big Eight public accounting firms have offices in Hong Kong. Their businesses are flourishing, and a lot of accountants are eager to work for them.⁵⁵² Price Waterhouse & Co and Peat, Marwick, Mitchell & Co. each have about 1,000 employees and are the largest of all the accounting firms in Hong Kong.⁵⁵³ Kwan, Wong, Tan & Fong Chartered Accountants, a local firm, is the third largest in terms of the personnel.⁵⁵⁴

Accountants in Hong Kong tend to view the Big Eight as international accounting firms rather than accounting firms of a particular country. When pressed to answer where the Big Eight originate, they acknowledge that only Arthur Andersen & Co. and Arthur Young & Company are of purely American origin.⁵⁵⁵ The other six are of either British origin or mixed American and British origin.

⁵⁵⁰ The HKSA, *Information Sheet for January 1987*, p.3.

⁵⁵¹ The MACPA, "Farewell to Mr. Paul Phenix," *The Malaysian Accountant* I (October 1986):6.

⁵⁵² The information was provided by Mr. Paul Phenix of the HKSA.

⁵⁵³ *Ibid.*

⁵⁵⁴ *Ibid.*

⁵⁵⁵ *Ibid.*

Description of the Big Eight firms as international firms seems reasonable because they have known the Big Eight as among the largest accounting firms in Hong Kong all their adult lives.⁵⁵⁶

One method used by the HKSA to keep its members abreast of new accounting developments in the world is to join international or regional professional accounting organizations. Besides being a member of the IASC and of the IFAC and attending their meetings dutifully, the HKSA is a member of the CAPA. The Hong Kong accounting profession has regularly dispatched delegates to the conferences of the CAPA since its establishment in 1957; the 8th conference of the CAPA in 1976 was hosted by the HKSA in Hong Kong.⁵⁵⁷

According to a manpower survey conducted by a governmental agency in charge of job training, the accounting graduates of institutions of higher learning in Hong Kong do not satisfy the demand for them.⁵⁵⁸ Last year, governmental agencies, accounting firms, commercial and service organizations, and industrial enterprises needed 760 graduates with accounting training, but the number of graduates fell short of 700 and more than 100 professionals were invited to Hong Kong to work in accounting.⁵⁵⁹

The HKSA faces a special and interesting challenge in the near future. With Hong Kong scheduled to be returned to China 1997, its accounting profession has to address the problem of building constructive relations with China. The HKSA maintains high-level contacts with China, holding meetings with the Accounting Society of China and engaging in discussions with the Chinese legal profession with a view to offering courses to lawyers and judges on accountancy matters to help them cope with the complexities of commercial crimes.⁵⁶⁰

⁵⁵⁶ *Ibid.*

⁵⁵⁷ Samuel Fox and Norlin G. Rueschhoff, *Principles of International Accounting*, (Austin: Educational Division of Lone Star Publishers, Inc., 1986), p.42.

⁵⁵⁸ *World Journal* (in Chinese), (Flushing), December 13, 1987, p.31.

⁵⁵⁹ *Ibid.*

⁵⁶⁰ "Gaff Takes Over Presidency," *World Accounting Report*, February 1987, p.22.

5.2 South Korea

The Korean Accountants Association was founded by thirty-six members in Seoul in 1954. With the enactment of the CPA Law in 1966 which established the Korean Institute of Certified Public Accountants (KICPA), the Association was dissolved.⁵⁶¹ The KICPA has been the only professional accounting organization since 1966.

5.2.1 Overall Organization of the KICPA

Because the CPA Law contains no detailed provisions regarding the organizational structure of the KICPA, the KICPA has developed its organization through its Articles of Incorporation. However, it should be pointed out that the Minister of Finance supervises the KICPA through the Securities and Insurance Bureau of his Ministry. He is responsible for approving the Articles of Incorporation of the KICPA, its by-laws, and the Rules for Professional Fees to be applied by CPAs. He can exercise control over CPAs as to their organizations and practices, and also can request the Securities Supervisory Board to audit the activities of the KICPA.⁵⁶² Figure 3 presents a simple picture of the organization of the KICPA.⁵⁶³

⁵⁶¹ Philip C. Cheng and Tribhowan N. Jain, "Economic Perspective and Accounting Practices in South Korea," *International Journal of Accounting Education and Research* 8 (Spring 1973):130.

⁵⁶² The KICPA, *Bulletin*, p.19.

⁵⁶³ *Ibid.*, p.6.

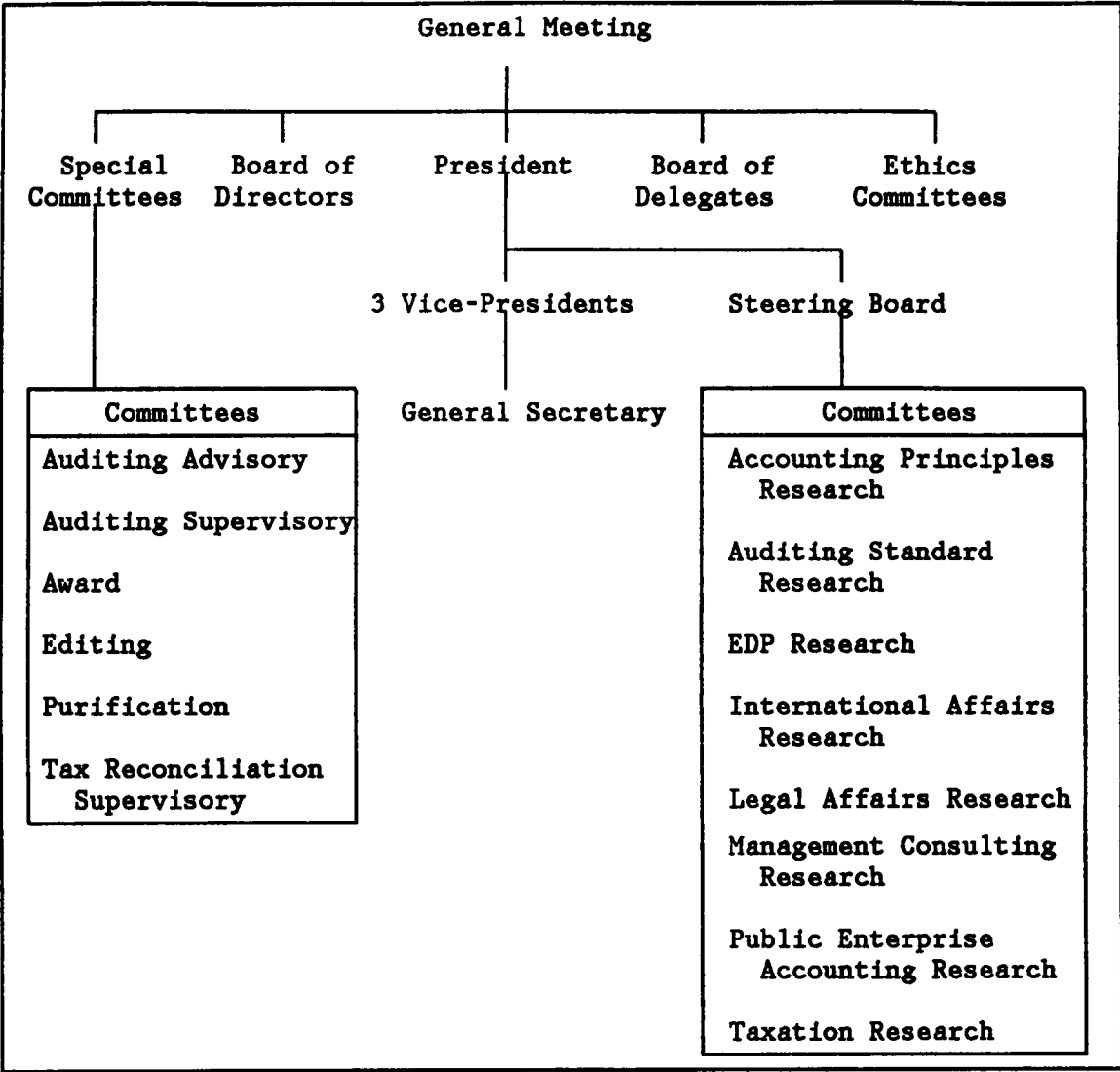


Figure 3. Organization of the KICPA

5.2.2 The General Meeting

The General Meeting of members of the KICPA is normally held once a year. It has the following functions: (a) revision of the Articles of Incorporation of the KICPA, (b) approval of budget and financial statements, (c) election of its President and three Vice-Presidents, (d) election of members of the Board of Delegates, (e) election of the Chairman of the Ethics Committee, and (f) other matters not specifically placed under the jurisdiction of other organs.⁵⁶⁴ The President, together with the Vice-Presidents, is responsible for the day-to-day operations of the KICPA. The President represents the KICPA in conducting negotiations with the outside parties, serves as a member of the CPA Disciplinary Commission established within the Ministry of Finance under the CPA Law, and appoints a General Secretary to assist himself as well as the Vice-Presidents, members of the Board of Directors, and others in carrying out their duties.

5.2.3 The Boards and the Committees

5.2.3.1 The Board of Delegates

The Board of Delegates has to perform the following duties: (a) consideration of revision of Articles of Incorporation, (b) approval of budget and financial statements, (c) approval of transfers of budget accounts or use of reserve accounts, (d) promulgation or revision of by-laws, (e) recommendation of a honorary President of the KICPA, (f) election of members of the Board of Directors, (g) election of members of the Ethics Committee, (h) establishment and operation of a branch of the KICPA, (i) consideration of agenda for the General Meeting, (j) handling of matters deleg-

⁵⁶⁴ *Ibid.*, p.8.

ated by the General Meeting, and (k) examination of the Rules for Profession Fees.⁵⁶⁵ The Board of Delegates consists of about eighty members that can exercise tremendous power when the General Meeting is not in session.⁵⁶⁶

5.2.3.2 The Board of Directors

The Board of Directors has six members.⁵⁶⁷ It discharges the following responsibilities: (a) compilation of agenda for the General Meeting and the Board of the Delegates, (b) compilation of report on disciplinary matters of members, (c) acquisition and disposal of assets, (d) recommendation of members to outside organizations, and (e) presentation of important suggestions and replies.⁵⁶⁸ The Board clearly defines the responsibility for each of its six members. They are Director of Planning, Director of Research, Director of International Affairs, Director of General Affairs, Director of Finance, and Director of Public Relations respectively. The six members of the Board work under the President and Vice-Presidents.⁵⁶⁹

5.2.3.3 The Ethics Committee

The Ethics Committee enjoys a high standing because its Chairman is elected by the General Meeting. The Committee is composed of ten members and has the duty of investigating ethical problems of members of the KICPA, settling disputes among members, issuing warning to mem-

⁵⁶⁵ *Ibid.*

⁵⁶⁶ The KICPA, "The Operations of the Institute," *Accounting* (in Korean) 22 (1987):122-123.

⁵⁶⁷ *Ibid.*

⁵⁶⁸ The KICPA, *Bulletin*, p.8.

⁵⁶⁹ The KICPA, "The Operations of the Institute," (in Korean), pp.122-123.

bers, interpreting the Rules of Ethics and related matters, proposing revision of the Rules of Ethics, and requesting and deciding on disciplinary action against members.⁵⁷⁰

The Rules of Ethics have undergone several revisions since they were promulgated in 1961. Their most recent edition became effective in 1986. It has twenty-five sections and adopts independence, sincerity, and integrity as the ethics platform for the KICPA.⁵⁷¹ The importance of credibility of the CPAs within the society and harmonious relations among the CPAs are stressed by the Rules. The actions that might violate the independence of a CPA are also clarified.⁵⁷²

5.2.3.4 The Steering Board

There are eleven members in the Board, of which a Vice-President and the Director of Research are ex officio members.⁵⁷³ The Board is in charge of the following affairs: (a) evaluation of auditing standards, (b) evaluation of opinions or queries regarding accounting standards and auditing standards, (c) evaluation of matters passed by each Research Committee, and (d) evaluation of other matters requested by its Chairman.⁵⁷⁴

5.2.3.5 The Research Committees

There are eight Research Committees that work under the direction of the Steering Board.⁵⁷⁵ The Accounting Principles Research Committee engages in research and study on accounting theory

⁵⁷⁰ The KICPA, *Bulletin*, p.8; the KICPA, "The Operations of the Institute," (in Korean), pp.122-123.

⁵⁷¹ The KICPA, *The Rules of Ethics* (in Korean), (Seoul: the KICPA, 1987), p.111-1.

⁵⁷² *Ibid.*

⁵⁷³ The KICPA, "The Operations of the Institute," (in Korean), pp.122-123.

⁵⁷⁴ The KICPA, *Bulletin*, p.8.

⁵⁷⁵ *Ibid.*, p.9.

and practices. The Auditing Research Committee conducts research and study of auditing theory and practices. The EDP Research Committee carries out research and study on matters relating to EDP. The Legal Research Committee tackles research and study on laws and regulations relating to accounting profession. The Management Consulting Research Committee embarks on research and study on the theory and practices relating to managerial accounting, management control, management analysis, appraisal of business entity, and appraisal of real estate. The Public Enterprise Accounting Research Committee conducts research and study on the theory and practices relating to public enterprises or non-profit organizations. The Taxation Research Committee undertakes research and study on the theory and practices relating to taxation systems and tax laws. The International Affairs Research Committee does research and study on the CPA systems and activities in foreign countries and on international public relations.⁵⁷⁶ The Chairman of the International Affairs Research Committee, Mr. Gun Shu Li, was educated in the United States.

The activities of the Auditing Research Committee deserve additional attention. The KICPA is responsible for formulating the Auditing Standards. Approval of the Auditing Standards is obtained from the Minister of Finance. The Auditing Research Committee helps the KICPA discharge its responsibility. The Auditing Standards first became effective in March 1982. They were revised once in December 1982 and amended again in December 1986. Besides the Auditing Standards which consist of thirty-five sections, the KICPA has published Auditing Working Rules that supplement the Standards.⁵⁷⁷

5.2.3.6 The Auditing Supervisory Committee

The Auditing Supervisory Committee, established as one of the Special Committees, reviews audit reports. It undertakes such reviews when requested by the Minister of Finance or interested parties,

⁵⁷⁶ *Ibid.*

⁵⁷⁷ The KICPA, *Auditing Standards* (in Korean), (Seoul: the KICPA, 1986), pp.1-22; the KICPA, *Auditing Working Rules* (in Korean), (Seoul: the KICPA, 1986), pp.1-2.

or when informed of negligence in auditing, or upon instruction from the President of the KICPA to conduct a review.⁵⁷⁸

5.2.4 Members

The KICPA has about 1,800 members of whom six are foreign CPAs.⁵⁷⁹ The six foreign CPAs include some who obtained the CPA qualifications in the United States. According to Section 4 of the CPA Law, if a foreign country recognizes the Korean CPA qualification, the Minister of Finance may recognize the CPA qualification of that foreign country and allow a CPA from that country to practice in limited fields in Korea after taking an oral examination on the Commercial Code and Taxation Law.⁵⁸⁰ A question was posed: "Why is it that some American CPAs can practice in Korea under Section 4 while the U.S. does not recognize the Korean CPA qualification?" The answer is that Section 4 had not been strictly enforced.⁵⁸¹

About 1,500 of the KICPA members are in practice.⁵⁸² There is a shortage of trained accountants and supply at this time does not meet demand. This is because a limited number of applicants (60 to 80) can pass the CPA examination a year.⁵⁸³ Furthermore, there is an acute need for the services of foreign CPAs because of the increasingly close economic relations between Korea and foreign countries. Due to lack of qualified CPAs recognized by Korea, the Big Eight firms cannot practice directly in Korea. But they all maintain offices and practice indirectly through their associated local

⁵⁷⁸ The KICPA, *Bulletin*, p.9.

⁵⁷⁹ The KICPA, "The Operations of the Institute," (in Korean), p.122.

⁵⁸⁰ Won Sun Wu, *Collection of Korean CPA Problems* (in Korean), pp.269-270.

⁵⁸¹ The writer asked a foreign CPA this question during a telephone conversation and obtained the answer from him.

⁵⁸² The KICPA, *Bulletin*, p.11.

⁵⁸³ Price Waterhouse & Co., *Doing Business in Korea*, p.42.

accounting firms. For instance, the Seihwa Accounting Corporation is an associated firm of Price Waterhouse & Co.⁵⁸⁴

The KICPA has published a journal entitled *Accounting* in the Korean language since 1966. This annual journal has provided its members with opportunities to publish the results of their research and to exchange ideas relating to accounting matters. The KICPA has participated in some international or regional professional accounting organizations to enable its members to keep in contact with members of the professional accounting organizations in other countries. It has been a member of the IASC since 1975, joined the IFAC in 1984, and has regularly attended the conferences of the CAPA.⁵⁸⁵ Nineteen hundred and eighty-nine is expected to be a significant year for the KICPA because, for the first time ever, the KICPA will host an international conference of professional accounting organizations — the 12th conference of the CAPA.⁵⁸⁶

5.3 Malaysia

Malaysia is the only one of the five countries that has two professional accounting organizations. One is the Malaysian Institute of Accountants (MIA) and another is the Malaysian Association of Certified Public Accountants (MACPA).

⁵⁸⁴ Information was provided by the Price Waterhouse Office in Seoul.

⁵⁸⁵ The KICPA, *Bulletin*, pp.4-5.

⁵⁸⁶ "IFAC President in Call for Reform," *World Accounting Report*, November 1986, pp.5-6.

5.3.1 Functions of the MIA

The MIA was established by the Accountants Act of 1967 and serves mainly as a regulatory body. It is given the responsibility for ensuring that only persons who are members of the MIA are allowed to practice as accountants, auditors, and tax consultants in the country. Its President also sits in the Supervisory Committee set up by the Ministry of Finance to consider cases of breach of rules governing the auditor licenses and to recommend appropriate disciplinary actions to the Minister of Finance.⁵⁸⁷ The MIA has about 4,000 members, 1,450 of whom are public accountants.⁵⁸⁸

The MIA also handles some professional matters. It engages in the following categories of activities:

(a) Since the MACPA does not recognize all accounting qualifications for purposes of membership admission, the MIA is a body to which all qualified accountants can belong, including those who cannot seek admission to the MACPA. (b) As a member of the IASC and the IFAC, the MIA, in principle, subscribes to the accounting standards issued by the IASC and the auditing guidelines promulgated by the IFAC. Members are expected to observe these accounting standards and auditing guidelines. (c) As a member of the CAPA and the Association of Southeast Asian Nations (ASEAN) Federation of Accountants (AFA), the MIA jointly hosted the 6th CAPA conference with the Singapore Society of Accountants in 1970, and the 5th AFA conference with the MACPA in 1986.⁵⁸⁹ (d) The Council of the MIA has formed eight Committees to operate jointly with the corresponding Committees of the MACPA in handling some professional matters.⁵⁹⁰ (e) Since May 1987, all technical accounting standards have been developed jointly by the MIA and the

⁵⁸⁷ The MIA, *MIA*, (Kuala Lumpur: the MIA, 1987) pp.1-3. The statutory Investigation and Disciplinary Committees of the MIA are not yet in place.

⁵⁸⁸ The MIA, "MIA News," *The Malaysian Accountant* II (July-September 1987):12.

⁵⁸⁹ The MIA, *MIA*, pp.1-3.

⁵⁹⁰ The Committees belonging solely to the MIA are the Administrative and Financial Affairs Committee and the Membership Affairs Committee; the MIA, *MIA*, p.4.

⁵⁹¹ The MIA, *MIA*, p.4.

MACPA.⁵⁹¹ (f) The *Malaysian Accountant*, published by the MACPA from January 1980, has become a joint journal of the MIA and the MACAP since May 1987.⁵⁹² However, the MIA's role as a professional association has been small in relation to its role as a statutory regulatory body. Consequently, this Chapter focuses more attention on the MACPA, which is purely a professional association.

5.3.2 Overall Organization of the MACPA

The MACPA was formed in 1958 to replace the Association of Chartered and Incorporated Accountants in Malaya. It has operated as a company limited by guarantee. As a national body of CPAs, it plays a leading role in developing and advancing the accountancy profession and offering guidance on matters relating to accounting practices, ethics, and education.⁵⁹³ Figure 4 displays the organization of the MACPA.

The Council of the MACPA is composed of twenty-nine members who are elected at the General Meeting of MACPA members that is held once a year.⁵⁹⁴ The President and the Vice-President of the MACPA are elected by the Council from its members on an annual basis; each of the thirteen Committees is chaired by a member of the Council.⁵⁹⁵ The Secretary is appointed by the Council and is responsible for helping the President and the Vice-President handle the daily administrative affairs of the MACPA. The eight Committees of the thirteen that operate jointly with the corresponding Committees of the MIA are the Accounting & Auditing Standards Committee, the Bahasa Malaysia Committee, the Conference Organizing Committee, the Financial Statements Review Committee, the Education & Training Committee, the Examination Committee, the

⁵⁹² *Ibid.*

⁵⁹³ The MACPA, *Notes for New and Potential Students*, (Kuala Lumpur: the MACPA, 1987), p.1.

⁵⁹⁴ The MACPA, "29th Annual General Meeting," *The Malaysian Accountant II* (July-September 1987):6.

⁵⁹⁵ *Ibid.*

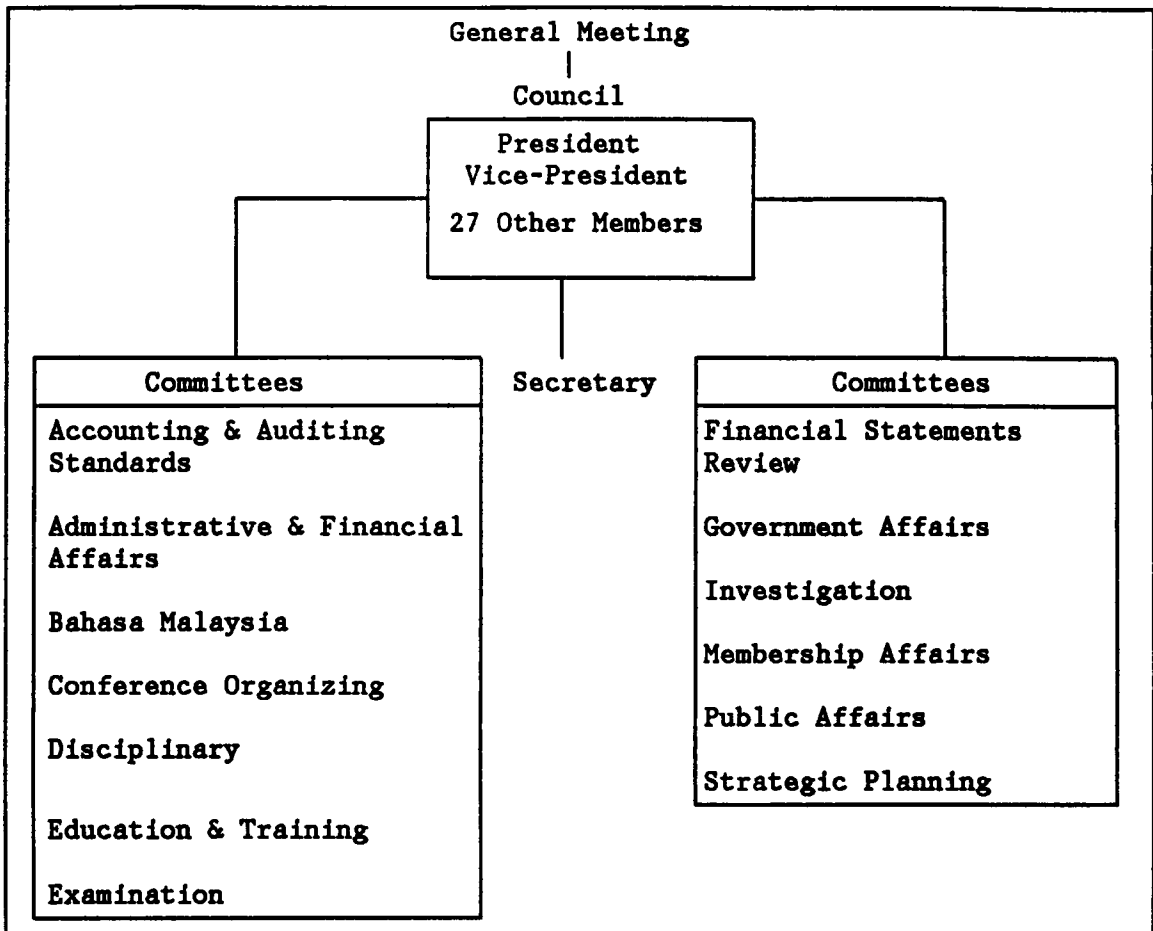


Figure 4. Organization of the MACPA

Government Affairs Committee, and the Public Affairs Committee.⁵⁹⁶ Only the Examination Committee, the Education and Training Committee, and the Accounting & Auditing Standards Committee are discussed in detail. The Bahasa Malaysia Committee is concerned with the problems associated with the imposition of Bahasa Malaysia as medium of instruction in schools and its effect on some of the students registering with the MACPA to take the MACPA examination. Bahasa Malaysia is the official language in Malaysia.

5.3.3 The Examination Committee

The Examination Committee helps administer the MACPA examination, which is held twice a year and comprises three parts. The first part is called foundation examination and consists of four papers: financial accounting I, introductory auditing and data processing, law I, and economics and business organization.⁵⁹⁷ The second part is called professional examination I and consists of five papers: financial accounting II, management accounting I, statistics and quantitative methods, law II, and taxation I.⁵⁹⁸ The third part is called professional examination II and consists of five papers: financial accounting III, management accounting II, financial management, auditing and investigations, and taxation II.⁵⁹⁹ The examination is in English.

For the purpose of holding the MACPA examination, the MACPA registers about 1,800 students with various educational backgrounds.⁶⁰⁰ The minimum educational requirements are: (a) a student has attained the age of 17, (b) he has obtained principal level passes in at least two subjects in the same sitting of the Higher School Certificate, and (c) he has obtained a Malaysian Certificate of

⁵⁹⁶ The MIA, *MIA*, p.4.

⁵⁹⁷ The MACPA, *Notes for New and Potential Students*, p.15.

⁵⁹⁸ *Ibid.*

⁵⁹⁹ *Ibid.*

⁶⁰⁰ *Ibid.*, p.1.

Education with credits in the English language and mathematics and an ordinary pass in Bahasa Malaysia.⁶⁰¹ However, students with better qualifications are entitled to exemption from certain parts of the MACPA examination. For example, graduates with bachelor of accounting degrees from local or foreign universities recognized by the MACPA are exempted from the foundation examination and professional examination I. Degrees from the University of Malaya, the National University of Singapore, and the Nanyang University of Singapore are recognized by the MACPA.⁶⁰² In addition, the MACPA only requires applicants who are full members of overseas accountancy bodies recognized by it to sit for the law II and taxation II papers.⁶⁰³ If the MACPA is satisfied that those applicants have had enough practical experience, they can become members after passing tests on the two papers. Such overseas accountancy bodies include: the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Scotland, the Institute of Chartered Accountants in Ireland, the Institute of Chartered Accountants in Australia, the Canadian Institute of Chartered Accountants, the AICPA, the Chartered Association of Certified Accountants of the United Kingdom, the Australian Society of Accountants, the New Zealand Society of Accountants, and the Institute of Chartered Accountants in India.⁶⁰⁴

5.3.4 The Education and Training Committee

One of the responsibilities of the Education and Training Committee is to handle matters concerning the education and training of the MACPA's registered students. An applicant for membership in the MACPA has to meet requirements for practical experience besides passing the MACPA examination before he can be admitted as a member. A student with minimum educational qualification needs four years of practical experience, while a student with an approved degree

⁶⁰¹ *Ibid.*, pp.2-3.

⁶⁰² *Ibid.*, p.16.

⁶⁰³ *Ibid.*, Appendix 3.

⁶⁰⁴ *Ibid.*, pp.12-14.

or diploma needs three years of practical experience.⁶⁰⁵ In order to obtain practical experience, he must enter into a training contract with a practicing member of the MACPA or a member in employment of an approved industrial, commercial, or public sector organization.⁶⁰⁶ In addition, MACPA courses are offered at the Institut Teknologi MARA and Kolej Tuanku Abdul Rahman to enable students to study for the MACPA examinations on a full-time basis.⁶⁰⁷

5.3.5 The Accounting & Auditing Standards Committee (AASC)

The AASC helps the MACPA consider all the International Accounting Standards (IAS) issued by the IASC and all the International Auditing Guidelines (IAG) issued by the IFAC for adoption. An IAS or an IAG, if considered appropriate, is issued with a Malaysian Forward as a local exposure draft before formal adoption as a Malaysian IAS or IAG. The MACPA has adopted IAS 1-14, 16-18, 21, and 23 and rejected IAS 15. IAS 19, 20, 22, and 24-26 are still under consideration (Refer to Appendix A for a list of IAS).⁶⁰⁸ The AASC, in the name of the MACPA, also issued its own Malaysian Accounting Standard I, "Earnings Per Share plus Guidance Notes & Examples," in 1984. As for the IAG, the MACPA has adopted IAG 1-12 and 15 and accepted IAG 13 as being informational only while still studying IAG 14 and 16-24 (Refer to Appendix B for a list of IAG).⁶⁰⁹ The MACPA has also issued five technical bulletins of its own.⁶¹⁰ All the members of the MACPA are expected to observe the adopted IAS and IAG as well as its other pronouncements.

⁶⁰⁵ *Ibid.*, p.4.

⁶⁰⁶ *Ibid.*

⁶⁰⁷ MARA stands for Majlis Amanah Rabyat, a governmental agency established to promote the interests of Malays; Tuanku Abdul Rahman is a former Prime Minister; the MACPA, *Notes for New and Potential Students*, p.10.

⁶⁰⁸ The MACPA, "Status of MACPA Technical Pronouncements -- April 1987," *The Malaysian Accountant* II (April 1987):22.

⁶⁰⁹ *Ibid.*, pp.22-23.

⁶¹⁰ *Ibid.*, p.23.

5.3.6 Members

The membership of the MACPA has grown to about 1,500 since its establishment in 1958.⁶¹¹ The majority of its members are foreign-trained accountants who have joined on the strength of belonging to one of the recognized overseas accountancy bodies. A significant number of foreign-trained accountants are members of the Institute of Chartered Accountants in England and Wales and of the Australian Society of Accountants.⁶¹² The percentage of Malaysian-educated accountants admitted through the MACPA examinations is growing at a slow pace. Generally speaking, the membership in the MACPA is more difficult to attain than membership in the MIA because the former requires the passing of certain examinations.

The rapid growth of the Malaysian economy has increased the demand for members of the MACPA. Currently, less than one-third of its members are in practice.⁶¹³ The rest of them work in the commercial, industrial, educational, or public sector fields.⁶¹⁴ The Big Eight firms are the largest accounting firms in Malaysia. Accountants in Malaysia also tend to view the Big Eight as international firms. In other words, they think that these firms belong to Malaysia as much as any other country.

The MACPA issued the Statement of Professional Conduct & Ethics consisting of eight sections in 1982. Its members are advised to refer to them constantly because they include fundamental rules governing the ethical standards of members.⁶¹⁵ In addition, there are committees within the

⁶¹¹ The MACPA, *Notes for New and Potential Students*, p.1.

⁶¹² Megat Abdul Rahman, "The Accountancy Profession in Malaysia -- Some Current Issues," *The Malaysian Accountant* 1 (July 1980):1-2.

⁶¹³ The information was provided by Mr. Geoffrey J. H. Wong of the MACPA.

⁶¹⁴ *Ibid.*

⁶¹⁵ The MACPA Secretariat, "Association's News," *The Malaysian Accountant* 4 (January 1983):31.

MACPA that are responsible for investigating and taking disciplinary action for misconduct of its members. Occasionally a member is expelled from the MACPA.

The MACPA published a semiannual journal entitled *the Malaysian Accountant* starting in January 1980. Its purpose was to keep its members up-to-date on the new accounting developments. The publication of the journal stopped one and a half years later, and resumed in January 1986 as a quarterly. It became a joint journal of the MACPA and the MIA in May 1987. To broaden the contacts of its members with foreign countries, the MACPA maintains memberships in the AFA, the CAPA, the IASC, and the IFAC. A fifteen-member delegation of the MACPA visited China at the invitation of the Accounting Society of China in 1987.⁶¹⁶ Furthermore, the MACPA, along with the MIA, sponsored three Malaysian National Accountants Conferences in 1985, 1986, and 1987. These were intended to provide a forum for participants to meet and exchange views with bankers, corporate managers, government officials, and the general business community on issues facing the Malaysian business and financial community.⁶¹⁷

Because many MACPA members are MIA members, and more than half of the MIA members do not belong to the MACPA, there is division in what should be a strong, dynamic, and decisive group. The coexistence of two bodies also makes it impossible for the accounting profession to speak with one voice.⁶¹⁸ Inevitably, this situation sometimes causes confusion in the eyes of the general public and results in a duplication of efforts. Proposals for the integration of the two accounting bodies have failed to be adopted. However, the joint development of all technical accounting standards and the joint publication of *the Malaysian Accountant* since May 1987 suggests that the two bodies are attempting to achieve step-by-step cooperation rather than merger. This

⁶¹⁶ The MACPA, "Study Tour to China," *The Malaysian Accountant* II (July-September 1987):7.

⁶¹⁷ The MACPA, "The 1985 National Accountants Conference," *The Malaysian Accountant* I (January 1986):2.

⁶¹⁸ Megat Abdul Rahman, "Future of the Accounting Profession in Malaysia," *The Malaysian Accountant* I (January 1980):10.

step-by-step cooperation may be a better approach toward solving the problem of duplication of efforts.

5.4 Singapore

The Singapore Society of Accountants (SSA) is the only professional accounting organization in Singapore. Therefore, the SSA is discussed in some detail.

5.4.1 Overall Organization of the SSA

Figure 5 shows the organization of the SSA.⁶¹⁹ The General Meeting, usually held annually, is composed of all the members of the SSA. Besides the President and the Vice-President, the Treasurer is also elected from the members of the Council, an organ which has already been discussed in Chapter 4. The Registrar, appointed by the Council, serves as a secretary to the SSA and to its Council.⁶²⁰ Many Committees have been set up by the SSA Council. After analyzing the functions of the two important Committees, the Accounting Standards Committee and the Auditing Practices Committee, a brief description of each of eight peculiar Committees is provided. Then the membership of the SSA is discussed.

⁶¹⁹ The SSA, "Membership of Committees and Terms of Reference," *Singapore Accountant* 3 (August 1987):4-7.

⁶²⁰ The Government Printer, *Accountants Act*, p.13.

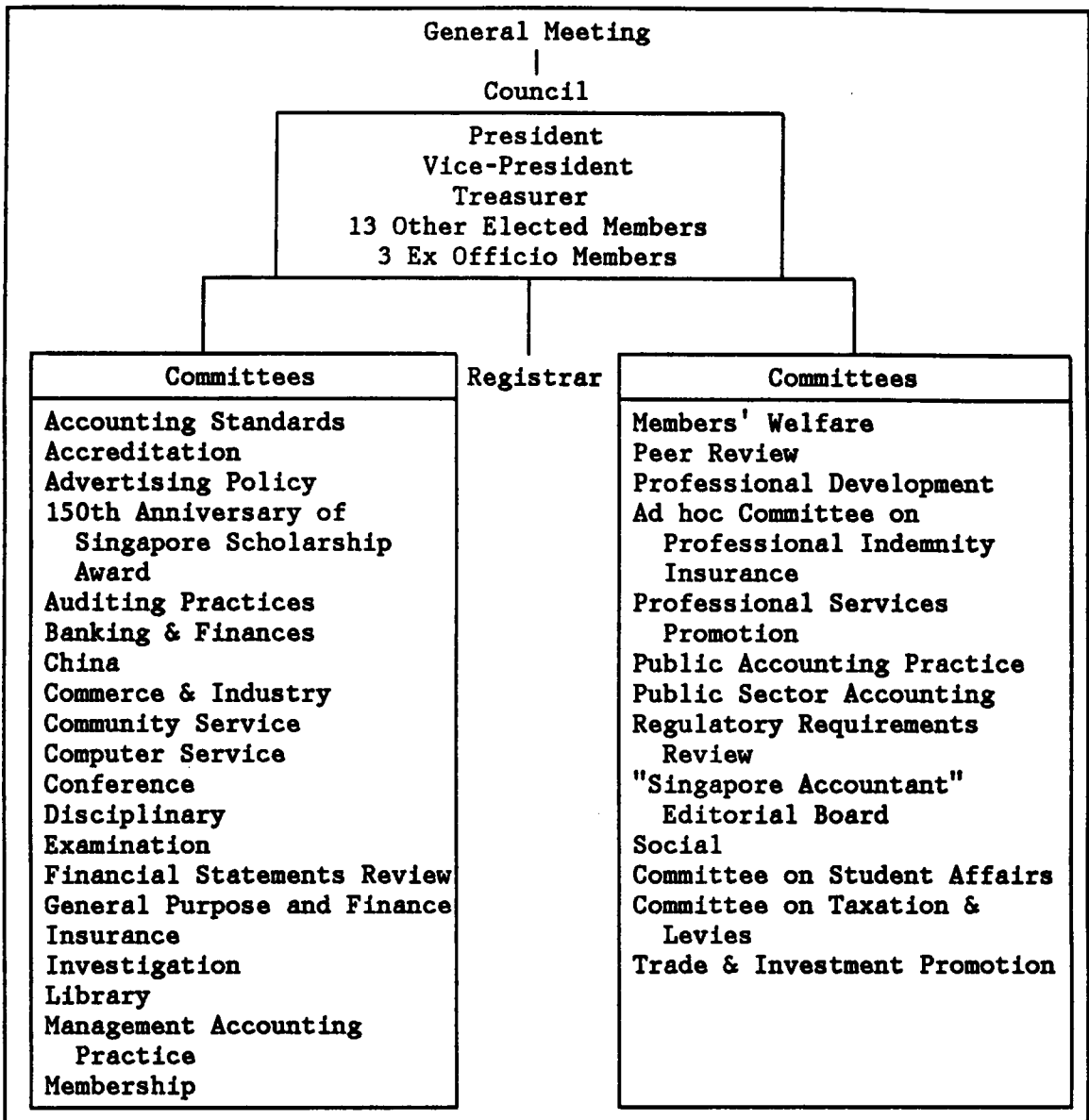


Figure 5. Organization of the SSA

5.4.2 The Accounting Standards Committee

The responsibility of the Accounting Standards Committee is to consider the IAS issued by the IASC before it recommends them to the Council of the SSA for adoption as Statements of Accounting Standard (SAS) of Singapore. The Committee may amend the IAS to take local circumstances into consideration.

The SSA has issued twenty-two SAS which are listed in Appendix C.⁶²¹ The SSA has adopted IAS 1-13 and 16-24.⁶²² It should be noted that IAS 15, "Information Reflecting the Effects of Changing Prices," which replaced IAS 6, and IAS 25, "Accounting for Investments," have not been adopted. Also, the SSA has issued for comment a provisional statement of accounting standards, "Accounting and Reporting by Retirement Benefit Plans," which is an equivalent to IAS 26.⁶²³ In addition, the SSA has issued six Statements of Recommended Accounting Practice (RAP): "Standards of Disclosure in Financial Statements," "Reporting Financial Information by Segment" which is similar to IAS 14, "Reporting Value Added Information," "Accounting for Financial Futures," "Off Balance Sheet Finance and Window Dressing," and "Accounting by Charities."⁶²⁴ However, only departures from or non-compliance with the SAS must be disclosed either in the financial statements or in the audit report.⁶²⁵

⁶²¹ The SSA, "SSA Technical Pronouncements -- June 1987," *Singapore Accountant* 3 (June 1987):22.

⁶²² *Ibid.*

⁶²³ *Ibid.*

⁶²⁴ *Ibid.*, p.23.

⁶²⁵ The SSA, *Recommended Accounting Practice 1*, (Singapore: the SSA, 1983), Preface.

5.4.3 The Auditing Practices Committee

The Auditing Practices Committee considers all the IAG issued by the IFAC before it recommends them to the Council of the SSA for adoption as Statements of Auditing Guideline (SAG). The Committee is authorized to amend the IAS to take into account local circumstances. To date twenty-five SAG, which are listed in Appendix D, have been issued by the SSA.⁶²⁶ The SSA has adopted IAG 1-23.

The SAG are guidance statements on generally accepted auditing practices and on the form and content of audit reports. They are designed to improve the degree of uniformity of auditing practices in Singapore in line with the rest of the world. All members of the SSA are advised to work towards the implementation of the SAG to the extent practicable. In addition, the SSA has issued nine Statements of Auditing Practice concerning audit problems relating to particular commercial or legal circumstances or to specific industries.⁶²⁷ They deal mainly with the detailed work or acts which an auditor has to carry out according to the guidelines set out in the SAG.⁶²⁸

5.4.4 The Other Committees

There are thirty-three Committees in the SSA as shown in Figure 5. The functions of eight Committees will be described.

⁶²⁶ The SSA, "SSA Technical Pronouncements -- June 1987," p.22.

⁶²⁷ *Ibid.*, p.23.

⁶²⁸ The SSA, *Preface to SAG*, (Singapore: the SSA, 1984), p.1.

5.4.4.1 The Accreditation Committee

The Accreditation Committee is responsible for reviewing foreign accountancy qualifications for recognition by the SSA, advising the Council as to the qualifications, and evaluating existing admission requirements of the SSA and suggesting changes in order to make them consistent with those of well-established professional accountancy bodies.⁶²⁹

5.4.4.2 The 150th Anniversary of Singapore Scholarship Award Committee

To commemorate the 150th year of the formation of modern Singapore, the SSA established two scholarships in 1969 to be awarded annually to accountancy students studying full-time at an university. It is the responsibility of the 150th Anniversary of Singapore Scholarship Award Committee to consider and recommend to the Council such annual scholarship awards.⁶³⁰

5.4.4.3 The China Committee

The responsibility of the China Committee is to keep in touch with the accounting profession in China. The Committee should direct special attention to exploring areas for mutual cooperation with the objectives of transferring know-how and exporting accounting services to China in the future.⁶³¹

⁶²⁹ The SSA, "Membership of Committees and Terms of Reference," p.4.

⁶³⁰ *Ibid.*

⁶³¹ *Ibid.*

5.4.4.4 The Commerce & Industry Committee

The Commerce & Industry Committee is responsible for identifying ways of supporting members in the various sectors of commerce and industry. Specifically, the Committee should deal with issues of interest or concern to those members.⁶³²

5.4.4.5 The Examination Committee

The Examination Committee has an obligation to help the Council formulate policies and work out appropriate implementation procedures in respect of all examinations to be set by the SSA, including the CACA/SSA Joint Scheme of Examinations. The CACA/SSA Joint Scheme of Examinations is similar to the CACA/HKSA Joint Scheme of Examinations in terms of the examination papers which students are required to write.⁶³³

5.4.4.6 Ad hoc Committee on Professional Indemnity Insurance

It is the duty of the Ad hoc Committee on Professional Indemnity Insurance to investigate problems faced by the members of the SSA on professional indemnity insurance and to search for solutions.⁶³⁴ The Committee has begun writing a report for the purpose of fulfilling this duty.⁶³⁵

⁶³² *Ibid.*

⁶³³ *Ibid.*, p.5.

⁶³⁴ *Ibid.*, p.6.

⁶³⁵ The SSA, *Twenty-Third Annual Report & Accounts 1986/1987*, (Singapore: the SSA, 1987), p.26.

5.4.4.7 The Professional Services Promotion Committee

It is the duty of the Professional Services Promotion Committee to promote greater awareness of the scope of work of accountants and the SSA and to make recommendations to the Council for the promotion of professional services.⁶³⁶ The Committee has drafted and distributed complimentary copies of the SSA promotional booklet.⁶³⁷

5.4.4.8 The Committee on Student Affairs

The Committee on Student Affairs is responsible for assisting the CACA/SSA student body.⁶³⁸ It oversees the CACA/SSA Joint Scheme Courses, which are designed to help students prepare for the CACA/SSA Joint Scheme of Examinations.⁶³⁹ There were 1,000 students enrolled for these Courses in 1987.⁶⁴⁰ The operation of the Training Division of the Society is supervised by the Committee.⁶⁴¹

5.4.5 Members

Economic development in Singapore has given rise to the need for accounting and auditing expertise. The gradual computerization of accounting systems has accelerated the demand for systems analysts and consultants with an accounting background. There are about 5,300 members in the

⁶³⁶ The SSA, "Membership of Committees and Terms of Reference," pp.6-7.

⁶³⁷ The SSA, *Twenty-Third Annual Report & Accounts 1986/1987*, p.27.

⁶³⁸ The SSA, "Membership of Committees and Terms of Reference," p.7.

⁶³⁹ The SSA, *Twenty-Third Annual Report & Accounts 1986/1987*, p.28.

⁶⁴⁰ *Ibid.*

⁶⁴¹ *Ibid.*

SAA, of whom about 10% are in public practice.⁶⁴² Most of those in public practice are foreign accountants, although the percentage of public accountants educated in Singapore is steadily increasing.

The National University of Singapore, before transferring its School of Accountancy to the Nanyang Technological Institute in 1987, graduated about 450 accountancy students a year. These students became one of the major sources of the members of the SSA. The majority of these graduates entered public accounting upon graduation. Furthermore, 80% of the students expressed a preference for working for the Big Eight firms, all of which have large offices in Singapore.⁶⁴³ From this, the importance of the Big Eight firms in the eyes of the accounting profession can be appreciated. Again, the attitude prevails among Singapore's accountants that the Big Eight firms are international firms rather than firms belonging to a certain country.

In order to facilitate contact between its members and accountants in foreign countries, the SSA has memberships in the IASC, the IFAC, the CAPA, and the AFA. The SSA has also organized an Annual Conference of Singapore Accountants to discuss important current accounting problems and to provide a forum for the members of the SSA, investors, other professionals, and the public to debate these problems. The Conference, held in October 1987, concentrated on discussing the accountability and liability of accountants. It highlighted the increasing incidence of management fraud and corporate collapse.⁶⁴⁴

Since January 1984, the SSA has published the *Singapore Accountant*. This journal was originally a bimonthly one, but it is now issued monthly. Its purpose is to serve the accounting profession as well as to enhance it. All the members of the SSA have been urged to be not only its readers but

⁶⁴² *Ibid.*, p.26.

⁶⁴³ Andrew Inkpen, "A Career in Public Accounting," *Singapore Accountant* 3 (July 1987):12.

⁶⁴⁴ The SSA, *1987 Conference of Singapore Accountants*, (Singapore: the SSA, 1987), p.5.

also its contributors.⁶⁴⁵ The SSA adopted the Practice and Etiquette By-Laws in 1966. These prescribe the proper ways that its members should conduct themselves while serving as accountants.⁶⁴⁶

5.5 Taiwan

When the National Federation of CPA Associations (NFCPAA) of the Republic of China (Taiwan) was established in the capital city of Nanking in 1946, its initial members included CPA associations of eighteen provinces and special municipalities on the Chinese mainland.⁶⁴⁷ After the Nationalist government moved to Taiwan in late 1949, the Federation started to operate there. In 1982, the Federation invited the CPA associations of Taiwan Province, Taipei Special Municipality, and Kaohsiung Special Municipality to appoint representatives to join the Federation.⁶⁴⁸ Since the Federation is now the sole national professional accounting organization of Taiwan, a better understanding of the Federation and its related Accounting Research & Development Foundation (ARDF) is needed.

5.5.1 Overall Organization of the NFCPAA and the ARDF

The organization of the NFCPAA and the ARDF is as shown in Figure 6.⁶⁴⁹ The ARDF was founded in 1984 as an accounting organization devoting its entire time and energy to developing

⁶⁴⁵ Keith A. K. Tay, "From the President...", *Singapore Accountant* 1 (January/February 1984):1.

⁶⁴⁶ The SSA, *Practice and Etiquette By-Laws*, (Singapore: the SSA, 1966), pp.1-10.

⁶⁴⁷ The NFCPAA, *CPA Association of the Republic of China*, (Taipei: the NFCPAA, 1987), p.3.

⁶⁴⁸ *Ibid.*

⁶⁴⁹ *Ibid.*, p.2.

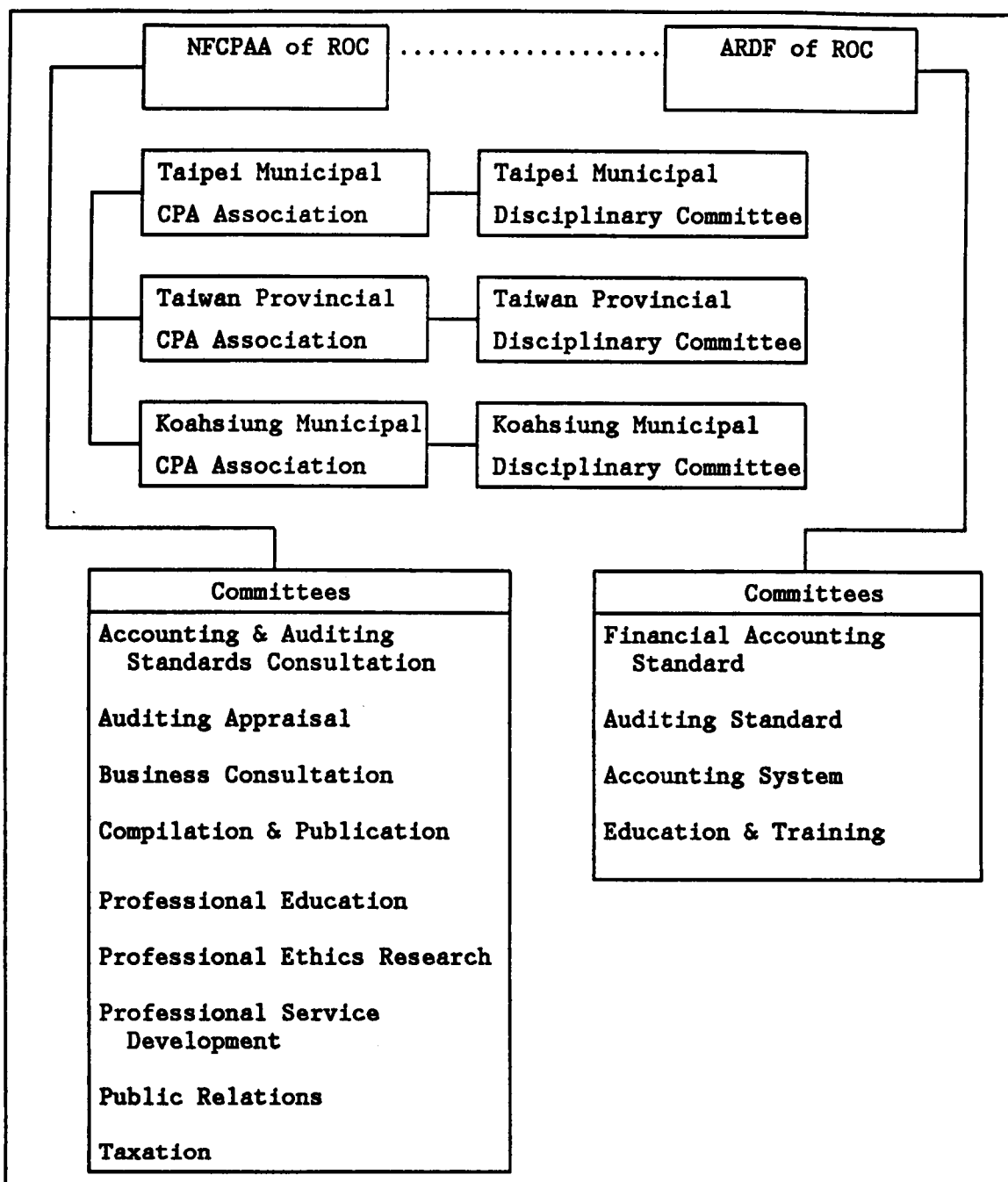


Figure 6. Organization of the NFCPAA and the ARDF

accounting and auditing standards.⁶⁵⁰ The idea of establishing the ARDF was derived from the experience of the Financial Accounting Foundation in the United States.⁶⁵¹ Although the NFCPAA and the ARDF are formally independent of each other, the two bodies are capable of interacting with each other because several of the present and former Directors of the NFCPAA are on the Board of Directors of the ARDF. The NFCPAA will be studied first and then the ARDF will be discussed later.

5.5.2 Special Features of the NFCPAA

The NFCPAA has the following three special features: (a) Because the NFCPAA is a social organization, the governmental agency that has authority over it is the Ministry of Interior which is in charge of social affairs; because the primary business of the NFCPAA is to handle affairs relating to the CPAs, it is supervised by the Ministry of Finance, a governmental agency responsible for issuing the CPA certificates. Consequently, the NFCPAA is subject to the supervision of both the Ministry of Interior and the Ministry of Finance.⁶⁵² (b) Since the members of the NFCPAA are provincial or municipal CPA associations, not the individual members of these associations, the General Meeting of the NFCPAA is made up of the representatives of these associations.⁶⁵³ These representatives elect six members of the Board of Directors of the NFCPAA, who in turn choose a Chairman from them.⁶⁵⁴ The power to discipline the CPAs lies with the provincial or municipal CPA associations, not with the NFCPAA.⁶⁵⁵ There is a Secretary General in the NFCPAA, who is appointed by the Board of Directors to assist the Chairman in handling the daily administrative

⁶⁵⁰ The ARDF, *The ARDF* (in Chinese), (Taipei: the ARDF, 1984), pp.3-6.

⁶⁵¹ *Ibid.*

⁶⁵² Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.1137.

⁶⁵³ *Ibid.*

⁶⁵⁴ The NFCPAA, *CPA Association of the Republic of China*, p.3.

⁶⁵⁵ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.1138.

affairs of the NFCPAA. (c) Since the formation of the ARDF in 1984, the NFCPAA is no longer responsible for formulating both financial accounting standards and auditing standards. Originally, the NFCPAA had a Financial Accounting Committee which issued five statements concerning financial accounting and an Auditing Standards Committee which issued four statements relating to auditing. But the two Committees ceased to exist and turned their works over to the ARDF in 1984.⁶⁵⁶

5.5.3 The Committees of the NFCPAA

The NFCPAA has created nine Committees, which are listed in Figure 6. However, only seven Committees will be described.

5.5.3.1 The Accounting & Auditing Standards Consultation Committee

The Accounting & Auditing Standards Consultation Committee was formed in 1984 when the Financial Accounting Committee and the Auditing Standards Committee within the NFCPAA were dissolved.⁶⁵⁷ The Committee's main responsibility is to render advice and opinion on matters relating to accounting and auditing standards.

⁶⁵⁶ The NFCPAA, *CPA Association of the Republic of China*, pp.8-9.

⁶⁵⁷ *Ibid.*, p.9.

5.5.3.2 The Auditing Appraisal Committee

The Auditing Appraisal Committee's main function is to assess audit issues. For instance, the Committee has been asked by the SEC to evaluate the cases of assets appraisals made by some companies listed on the Taiwan Stock Exchange.⁶⁵⁸

5.5.3.3 The Business Consultation Committee

One of the main duties of the Business Consultation Committee is to draw up opinions on company incorporation and capital increase/decrease for reference by the authorities in charge.⁶⁵⁹ The Committee has also expressed opinions on the revision of the Commercial Accounting Law.⁶⁶⁰

5.5.3.4 The Professional Education Committee

The Professional Education Committee has promoted advanced education of CPAs, sponsored training programs for CPA assistants, and undertaken training of accounting and auditing personnel as commissioned by other organizations.⁶⁶¹ In sum, it is the duty of the Committee to enhance the professional knowledge and experience of accountants.⁶⁶²

⁶⁵⁸ *Ibid.*, pp.10-11.

⁶⁵⁹ *Ibid.*, p.10.

⁶⁶⁰ *Ibid.*

⁶⁶¹ *Ibid.*, p.9.

⁶⁶² *Ibid.*

5.5.3.5 The Professional Ethics Research Committee

The Professional Ethics Committee is responsible for handling matters concerning professional ethics. It has promulgated four statements on professional ethics. They are: "Code for CPA Professional Ethics of ROC;" "Integrity, Objectivity, and Independence;" "Advertising, Publicity, and Solicitation;" and "Professional Practice."⁶⁶³

5.5.3.6 The Professional Service Development Committee

The Professional Service Development Committee's main objective is to upgrade the audit quality and promote self-discipline. Its functions include (a) studying and implementing audit quality control, (b) preparing unified forms of working papers and giving guidance on auditing practice, and (c) consulting with government authorities on audit affairs.⁶⁶⁴

5.5.3.7 The Taxation Committee

The Taxation Committee has helped revise several taxation-related regulations such as the Regulations Governing Accounts & Vouchers and the Regulations for Auditing Income from Professional Services. The government authorities has adopted the revisions suggested by the Committee.⁶⁶⁵

⁶⁶³ Information was provided by the Professional Ethics Committee of the NFCPAA; the NFCPAA, *CPA Association of the Republic of China*, p.8.

⁶⁶⁴ The NFCPAA, *CPA Association of the Republic of China*, pp.2, 11.

⁶⁶⁵ *Ibid.*, p.10.

5.5.4 Members of the CPA Associations

When the Nationalist government moved from the Chinese mainland to Taiwan in the late 1940s, only the province of Taiwan was under the direct jurisdiction of the Executive Yuan (cabinet) because there was no special municipality on the island that could be placed under the Executive Yuan. Therefore, only the Taiwan Provincial CPA Association was founded in 1950.⁶⁶⁶ When Taipei city was elevated from a provincial city to a special municipality in 1967, the Taipei Municipal CPA Association was formed. The Kaohsiung Municipal CPA Association was also established on the promotion of Kaohsiung city from a provincial city to a special municipality in 1979. At the present time, there are about 2,500 CPAs throughout the island, of whom about 650 are in public practice.⁶⁶⁷ The rest of them work in the public, commercial, industrial, or educational sectors.⁶⁶⁸

The rapid economic growth and the steady increase in the number of companies listed on the Taiwan Stock Exchange have caused an increasing demand for the CPAs. The accountants' annual income was the highest of all the professional groups in 1985 and 1986, the most recent two years for which the statistical figures are available.⁶⁶⁹ All the practicing CPAs in Taiwan are Chinese. But the importance of international cooperation in the accounting field has not been lost upon the NFCPAA, which has memberships in the IASC, the IFAC, and the CAPA. Foreign CPA qualifications are accorded recognition on certain conditions. For instance, a Chinese citizen who has a foreign CPA certificate recognized by the Ministry of Examination and has passed the required examinations on the companies law and the tax law is allowed to practice.⁶⁷⁰ Several CPAs have already been qualified under this provision to practice. Also, according to Section 47 of the CPA

⁶⁶⁶ *Ibid.*, p.5.

⁶⁶⁷ The information was provided by Mr. Chi Ping Sung of the NFCPAA.

⁶⁶⁸ *Ibid.*

⁶⁶⁹ *World Journal* (in Chinese), (Flushing), June 26, 1987, p.4.

⁶⁷⁰ Chi Tung Lin, *Newest Collection of Six Laws* (in Chinese), p.1139.

Law, the Ministry of Finance can allow the CPAs of any foreign country to practice in Taiwan in case that reciprocal treatment is extended to the Chinese CPAs.⁶⁷¹ Since no reciprocal treatment has been given by any foreign countries, no foreign CPAs have been allowed to practice there. However, the Big Eight firms all maintain offices in Taiwan. Their method of practicing is to establish cooperative relations with local accounting firms. The local accounting firms then become their associated firms and jointly engage in auditing at their request. The Ministry of Finance of Taiwan has recently agreed to recognize this private arrangement formally as a result of trade talks between the United States and Taiwan.⁶⁷²

5.5.5 The ARDF

The ARDF is an organization that is designed to enhance accounting research, to promote continued development of accounting standards, and to assist industrial and commercial enterprises in establishing sound accounting systems.⁶⁷³ This organization is supervised by both the Ministry of Interior and the Ministry of Finance.

5.5.5.1 The Board of Directors

The members of the first Board of Directors were chosen by the contributors to the ARDF to serve for three years. Subsequently, the members of the next Board of Directors will be chosen by the preceding Board of Directors and it is the responsibility of the Board to raise funds for the ARDF and to direct its activities.

⁶⁷¹ *Ibid.*, p.1138.

⁶⁷² "Foreign Link," *World Accounting Report*, February 1988, p.15.

⁶⁷³ The ARDF, *The ARDF* (in Chinese), p.19.

Currently, there are twenty-seven Directors, including a Chairman of the Board, usually a Vice-Minister of Finance, and eight Managing Directors, of which one is the Chairman of the SEC.⁶⁷⁴ Prominent CPAs, accounting professors, entrepreneurs, and other governmental officials also serve on the Board. The Board appoints a Secretary-General to assist the Board and its Chairman in handling daily administrative affairs. In addition, it has published a journal entitled *the Accounting Research Monthly* since October 1985. The purpose of the journal is to enhance the quality of accounting research.

5.5.5.2 The Committees

The ARDF has four Committees: the Financial Accounting Standards Committee (FASC), the Auditing Standards Committee (ASC), the Accounting System Committee, and the Education and Training Committee.⁶⁷⁵ Each of the four Committees performs the following functions:

5.5.5.2.1 The FASC: The FASC, which is similar to the FASB in the United States and whose Chairman, Dr. D. W. Cheng, has an American Ph.D. degree, is responsible for formulating financial accounting standards.⁶⁷⁶ As already mentioned, the Financial Accounting Committee of the NCFCAA issued five statements during its existence: Statement 1, "Compilation of Generally Accepted Accounting Principles;" Statement 2, "Accounting Standard for Leasing;" Statement 3, "Accounting Standard for Interest Capitalization;" Statement 4, "Statement of Changes in Financial Position;" Statement 5, "Accounting Standard for Long Term Investments." The FASC has revised Statements 1, 2, 3, and 5 and issued six statements of its own, which include: Statement 6, "Disclosure of Related Party Transactions;" Statement 7, "Consolidated Financial Statements;" Statement 8, "Accounting Changes and Standard for Adjustment of the Profit or Loss of Prior

⁶⁷⁴ The ARDF, *The Annual Report for 1986* (in Chinese), (Taipei: the ARDF, 1986), p.11.

⁶⁷⁵ *Ibid.*, p.10.

⁶⁷⁶ The ARDF, *The ARDF* (in Chinese), pp.3-6.

Period;" Statement 9, "Standard for Contingencies and Post Balance Sheet Events;" Statement 10, "Appraisal and Disclosure of Inventories;" and Statement 11, "Accounting Standard for Long-Term Construction Contracts." The procedure followed by the FASC in issuing a statement includes: (a) identification of a problem, (b) drawing up an exposure draft, (c) soliciting opinions from parties concerned and holding a public hearing if necessary, (d) revision of the exposure draft, and (e) issuance of the statement.⁶⁷⁷

5.5.5.2.2 The ASC: The ASC is responsible for formulating auditing standards. As already mentioned, the Auditing Standards Committee of the NCFCAA issued four statements during its existence: Statement 1, "Generally Accepted Auditing Standards;" Statement 2, "Standard for Audit Report;" Statement 3, "Standard for Working Papers;" Statement 4, "Auditing Evidence." The ASC of the ARDF has revised all four Statements and issued nine Statements of its own. They include: Statement 5, "Investigation and Appraisal of Internal Control;" Statement 6, "Investigation of Related Party Transactions;" Statement 7, "A Client's Written Representations;" Statement 8, "Confirmation Request;" Statement 9, "Observation of the Taking of the Physical Inventory;" Statement 10, "Audit Program;" Statement 11, "Standard for Review of the Quarterly Financial Statements of the Companies Listed on the Taiwan Stock Exchange;" Statement 12, "Analytical Review;" Statement 13, "Review of Post Balance Sheet Events." The procedure followed by the ASC in issuing a statement is the same as the procedure followed by the FASC.⁶⁷⁸

5.5.5.2.3 The Accounting System Committee: The Accounting System Committee, established in 1986, is designed to assist various enterprises in establishing sound accounting systems. For example, the Committee is in the process of drafting standard accounting systems for the cement industry, the textile industry, and the chemical industry.⁶⁷⁹

⁶⁷⁷ *Ibid*, p.10.

⁶⁷⁸ The ARDF, *The Annual Report for 1986* (in Chinese), pp.4-5.

⁶⁷⁹ *Ibid.*, p.5.

5.5.5.2.3 The Education and Training Committee: The Education and Training Committee, established in 1986, has sponsored seminars on generally accepted accounting principles and generally accepted auditing standards and hosted symposiums on special economic problems facing the nation. The Committee has also conducted training programs for corporate financial and accounting managers.⁶⁸⁰

5.6 Comparison

This Chapter contains a review of the professional accounting organizations, and has revealed important similarities and differences in the accounting professions in the five accounting systems. This section will highlight these similarities and differences.

5.6.1 Similarities

The Hong Kong Society of Accountants, the Korean Institute of Certified Public Accountants, the Malaysian Institute of Accountants, the Malaysian Association of Certified Public Accountants, the Singapore Society of Accountants, and the National Federation of CPA Associations and the Accounting Research & Development Foundation of Taiwan provide essential services in the five accounting systems. They form necessary links between the different governments and accounting professions. Governmental representatives serve in the Councils of the HKSA, the MIA, and the SSA and on the Board of Directors of the ARDF. The KICPA, the MACPA, and the NFCPAA all are under the supervision of governmental agencies. These professional accounting organizations can convey the governments' ideas concerning accounting to the accounting professions and the

⁶⁸⁰ *Ibid.*

accounting professions' opinions to the governments. Therefore, these organizations can help forge a consensus on accounting problems between the professions and governments.

The accounting professions in the five accounting systems are responsible for issuing auditing standards and they enjoy a fairly high degree of technical autonomy in discharging this responsibility. The HKSA has issued two Statements of Auditing Standards as well as the Auditing Guidelines. The KICPA has issued the Auditing Standards as well as the Auditing Working Rules. The MACPA has directly adopted most of the IAGs issued by the IFAC. The SSA has adopted most of the IAGs of the IFAC in the form of issuing its own Statements of Auditing Guidelines. The ARDF of Taiwan has issued thirteen statements on auditing standards.

The accounting professions in the five countries have adopted voluntarily a self-regulative code of ethics. For example, the HKSA has issued the Fundamental Principles, the Professional Ethics Statements, and the related Guidelines. The KICPA has adopted the Rules of Ethics. The MACPA has issued the Statement of Professional Conduct of Ethics. The SSA has published the Practice and Etiquette By-Laws. The NFCPAA of Taiwan has promulgated four statements on professional ethics.

The HKSA, the KICPA, the MIA, the MACPA, the SSA, and the NFCPAA of Taiwan are all members of the IASC and the IFAC. Admittedly, the commitments and abilities to comply with the IASs and IAGs differ from one organization to another. But all of them, as members, are pledged to support the objectives of the IASC and the IFAC. All the above professional accounting organizations are members of the CAPA.

5.6.2 Differences

The major difference is in the issuance of accounting standards. In Hong Kong, Malaysia, and Singapore, the HKSA, the MACPA, and the SSA formulate accounting standards. However, it is

the SEC, a governmental agency, that exercises the power to set accounting standards in Korea. In Taiwan, it is the ARDF, not the NFCPAA or any governmental agency, that assumes the responsibility for issuing the accounting standards. As already discussed, the ARDF is a private organization with close ties to the NFCPAA and the Ministry of Finance.

The second difference exists in the composition of the accounting professions in the five countries. There are many foreign-trained accountants, including many foreign citizens, who practice in Hong Kong, Malaysia, and Singapore. For example, many members of the MACPA are members of the Institute of Chartered Accountants in England and Wales and of the Australian Society of Accountants. A foreign nationality does not present a formidable barrier to a qualified foreign accountant who wishes to practice in the three countries. In Korea and Taiwan, few, if any, foreign accountants are allowed to practice directly because of the reciprocal treatment provision in their respective CPA Laws. On the other hand, there are many practicing accountants in the two countries who are retired governmental employees, ex-servicemen, and even former or current professors.⁶⁸¹ This situation does not exist in Hong Kong, Malaysia, and Singapore.

The HKSA, the MACPA, and the SSA are all responsible for conducting the examinations for the students who wish to become their members. All three organizations have helped these students to be better prepared for the examinations by offering accounting courses. The MACPA has requested that the MACPA courses be taught at two institutions of higher learning to enable students to study for the MACPA examinations on a full-time basis. The KICPA and the NFCPAA in Taiwan have not provided regular training programs for those who want to take CPA examinations.

There are other differences too. For example, the MIA, the MACPA, and the SSA are members of the ASEAN Federation of Accountants while the HKSA, the KICPA, and the NFCPAA are not members. Of the professional accounting organizations in the five countries, only the HKSA

⁶⁸¹ "Government Begins Clean-up of Questionable Practices," *World Accounting Report*, July 1983, pp.16-17; information was also provided by Mr. Sung Kuk Park, the Director in charge of membership affairs of the KICPA.

and the NFCPAA do not publish a journal. The professional bodies in Hong Kong, Malaysia, and Singapore have hosted conferences for the CAPA, one of the oldest international accounting organizations.⁶⁸² The KICPA is scheduled to host the 12th conference of the CAPA in Korea in 1989, but no such conference has been held or is scheduled to be held in Taiwan under the sponsorship of the NFCPAA.

⁶⁸² Samuel Fox, and Norlin G. Rueschhoff, *Principles of International Accounting*, p.42.

Chapter 6 Financial Reporting

This Chapter on financial reporting emphasizes the reporting requirements and practices followed by profit-making enterprises in preparing financial reports for their stockholders, various governmental agencies, and other interested parties. The procedures and practices observed in preparing financial statements for management or other internal purposes are beyond the scope of this study.

The requirements for financial reporting are too numerous to cover in detail. Therefore, this Chapter contains a survey of those basic requirements that are contained in formal statutory, non-statutory, and professional pronouncements. In addition, certain general accounting practices not sanctioned by formal pronouncements but which are widely accepted by accountants are also examined.

The discussion of the requirements and practices of financial reporting in each of the five accounting systems is divided into the following parts: fundamental accounting concepts and policies, balance sheet, profit and loss account or income statement, other statements and reports, and special cases. Special cases refer to companies with subsidiaries, combined companies resulting from business combinations, companies having transactions with foreign enterprises, and companies with distinguishable components.

6.1 Hong Kong

6.1.1 Fundamental Accounting Concepts and Policies

The fundamental requirements consist of two parts, accounting concepts and accounting policies.

The two parts are reviewed separately.

6.1.1.1 Concepts

The Companies Ordinance provides that every company give a true and fair view of its financial position and results of operations.⁶⁸³ This position implies endorsement of the concept of substance over form. The Ordinance also considers materiality to be an important concept.⁶⁸⁴ Statement of Standard Accounting Practice (SSAP) 1 issued by the HKSA requires the following fundamental accounting concepts to be applied in financial reporting: going concern, accrual, consistency, and prudence.⁶⁸⁵

6.1.1.2 Policies

Under the Companies Ordinance, the corresponding amounts of the previous fiscal year for all

⁶⁸³ Pauline Wallace, *Company Law in Hong Kong*, p.213.

⁶⁸⁴ *Ibid.*, p.223.

⁶⁸⁵ The HKSA, *Statement 2.101 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.3-5.

items shown in the profit and loss account and balance sheet for the present fiscal year should be shown.⁶⁸⁶ In accordance with SSAP 2, changes in accounting estimates ought to be handled prospectively⁶⁸⁷ Also, a change in accounting principle which cannot be separated from a change in accounting estimate should be accounted for prospectively⁶⁸⁸ A change in accounting principle must not be made if it cannot be justified on the grounds that the new principle is superior to the one which it replaces.⁶⁸⁹ Changes in accounting principles and corrections of previous fundamental errors are to be handled by restating financial information currently presented in respect of prior periods⁶⁹⁰ According to SSAP 9, events or transactions between the date of the balance sheet and the date of the approval of the financial statements by the board of directors which may have a material effect are disclosed in the statements.⁶⁹¹

Accounting policies can also be found in certain general accounting practices. The historical cost convention is followed, and assets, liabilities, revenues, and expenses are recorded at the amounts that the transactions occurred at.⁶⁹² Seldom do financial statements based on the historical cost convention contain any information on the effect of changes in the general price level or on the effect of changes in specific prices.⁶⁹³

⁶⁸⁶ The Government Printer, *Companies Ordinance*, pp.361-362.

⁶⁸⁷ The HKSA, *Statement 2.102 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.5.

⁶⁸⁸ *Ibid.*

⁶⁸⁹ *Ibid.*

⁶⁹⁰ *Ibid.*, pp.2, 5.

⁶⁹¹ The HKSA, *Statement 2.109 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.2-3.

⁶⁹² The HKSA, *Statement 2.202 in Members' Handbook*, p.5; the HKSA has not complied with IAS 15, "Information Reflecting the Effects of Changing Price."

⁶⁹³ The HKSA, *Statement 2.202 in Members' Handbook*, p.5.

6.1.2 Balance Sheet

The material concerning the balance sheet centers on the accounting requirements and practices for important items contained in it. The items include fixed assets, inventories, investments, receivables, liabilities, and stockholders' equity. These items are selected because they are representative of the main items of balance sheet listed in IAS 5, "Information to Be Disclosed in Financial Statements."⁶⁹⁴

6.1.2.1 Fixed Assets

The Companies Ordinance requires the several rules to be observed in regard to fixed assets. (a) The basis of stating fixed assets ought to be disclosed.⁶⁹⁵ (b) Fixed assets ought to be expressed by deducting accumulated depreciation from acquisition or construction cost.⁶⁹⁶ (c) The future capital expenditure of firm contracts which has not been accrued at the date of financial statements ought to be disclosed.⁶⁹⁷ (d) The future capital expenditure which has been authorized by the directors but which has not been contracted for at the date of the financial statements ought to be disclosed.⁶⁹⁸ (e) The basis of revaluation ought to be disclosed if the revalued amount of fixed assets exceeds cost.⁶⁹⁹

SSAP 6 requires the following rules to be adhered to: (a) land, buildings, plant, and equipment ought to be the major categories of fixed assets; (b) in case that fixed assets are stated at an amount

⁶⁹⁴ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, (Chicago: Commerce Clearing House, Inc., 1987), pp.11,118-11,120.

⁶⁹⁵ The Government Printer, *Companies Ordinance*, p.357.

⁶⁹⁶ *Ibid.*, pp.357-358.

⁶⁹⁷ *Ibid.*, p.360.

⁶⁹⁸ *Ibid.*

⁶⁹⁹ *Ibid.*, pp.357-358.

exceeding or less than cost in historical cost statements as a result of revaluation, the difference must be transferred to revaluation reserve; (c) depreciation amounts which reflect the estimated salvage value at the end of estimated useful life must be shown; (d) estimated useful life of an asset after recognition of any expected economic obsolescence must be disclosed; and (e) depreciation methods must be explained.⁷⁰⁰ Moreover, SSAP 1 requires the method of accounting for long-term leases and the amount and commitments under long-term leases for future years to be disclosed and intangible assets to be amortized over the periods considered to be benefited.⁷⁰¹

There are certain general accounting practices of accounting for fixed assets in Hong Kong. For example, cost of construction of fixed assets should contain cost of labor, cost of materials, a reasonable portion of overhead, and interest on money to finance their construction during the construction period.⁷⁰² The straight-line method is used more often than the declining-balance method or sum-of-the-years'-digits method.⁷⁰³

6.1.2.2 Inventories

Under SSAP 3, the basis of stating inventories must be disclosed and inventories must be categorized into such classifications as finished goods, goods purchased for resale, work-in-process, and materials.⁷⁰⁴ SSAP 3 also lists some other requirements. For example, the SSAP interprets market value to mean net realizable value defined as "the actual or estimated selling price less (a) all further costs to completion and (b) all direct costs to be incurred in marketing, selling, and distributing."⁷⁰⁵ Inventories are stated at the lower of cost and market. Any reduction of inventories from cost to

⁷⁰⁰ The HKSA, *Statement 2.106 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.1, 3-7.

⁷⁰¹ The HKSA, *Statement 2.101 in Members' Handbook*, pp.5-6.

⁷⁰² Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷⁰³ *Ibid.*

⁷⁰⁴ The HKSA, *Statement 2.103 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.3.

⁷⁰⁵ *Ibid.*, p.2.

market should be reversed if market recovers.⁷⁰⁶ The cost of manufactured goods is composed of direct labor, direct materials, variable overhead, and fixed manufacturing overhead computed at a level of normal capacity.⁷⁰⁷ There should be disclosure as to which pricing method (LIFO, FIFO, weighted average, etc.) is used to determine the cost of inventories.⁷⁰⁸ The weighted average method is used more often than other methods.⁷⁰⁹

6.1.2.3 Investments

According to the Companies Ordinance, the basis of stating the investments must be revealed and the market value of quoted investments ought to be disclosed if their market value differs from their carrying value.⁷¹⁰ SSAP 7 and SSAP 10 provide some other requirements. For instance, the equity method should be used to account for the following two kinds of investments on the investor's books: (a) investments in subsidiaries and (b) investments in less than 50% owned companies over which the investor can exercise significant influence; adjustments such as elimination of unrealized intra-group profit are needed when this method is used.⁷¹¹ Companies in Hong Kong follow some general accounting practices in treating investments as well. For example, the lower of cost and market method is used to record current investments in marketable equity securities and the value of each investment is computed separately.⁷¹² When this method is used, changes in the carrying value are included in computing income.⁷¹³ Noncurrent investments in marketable equity securities

⁷⁰⁶ *Ibid.*, pp.3, 8.

⁷⁰⁷ *Ibid.*, pp.1, 2, 6.

⁷⁰⁸ *Ibid.*, pp.12-13.

⁷⁰⁹ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷¹⁰ The Government Printer, *Companies Ordinance*, p.360.

⁷¹¹ The HKSA, *Statement 2.107 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.5; *Statement 2.110 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.4-5.

⁷¹² Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷¹³ *Ibid.*

are stated at cost if there is no lasting reduction in their value.⁷¹⁴ If a lasting reduction in the carrying value of an investment occurs, a provision for that reduction is made and the carrying value of that investment is reduced.⁷¹⁵ Nevertheless the reduction should be reversed when the value is restored.⁷¹⁶ The excess of dividends from investments accounted for by the cost basis over investor's portion of earnings since purchase is considered a deduction from the investment account.⁷¹⁷

6.1.2.4 Receivables

The Companies Ordinance requires a company to disclose receivables from its affiliated companies, directors, and officers.⁷¹⁸ Companies usually adopt the general accounting practice of reducing their receivables by making provisions for possible losses on different accounts.⁷¹⁹

6.1.2.5 Liabilities

The Companies Ordinance provides that the following disclosures be made by a company: liabilities to its affiliated companies, liabilities secured by its assets, contingent liabilities, and each issue of long-term debt including the amount outstanding, interest rate, and term.⁷²⁰ Some general accounting practices regarding liabilities have come into existence. Liabilities to directors are disclosed

⁷¹⁴ *Ibid.*

⁷¹⁵ *Ibid.*

⁷¹⁶ *Ibid.*

⁷¹⁷ *Ibid.*

⁷¹⁸ The Government Printer, *Companies Ordinance*, p.362; Pauline Wallace, *Company Law in Hong Kong*, pp.214-215.

⁷¹⁹ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷²⁰ The Government Printer, *Companies Ordinance*, p.362; Pauline Wallace, *Company Law in Hong Kong*, p.38.

while liabilities to officers are rarely disclosed.⁷²¹ If there exists any discount or premium on an issue of long-term debt, it is amortized in accordance with the effective interest method.⁷²² Whenever there is a legal right of offset, assets and liabilities in the balance sheet can offset against each other.⁷²³

6.1.2.6 Stockholders' Equity

The Companies Ordinance requires a company to disclose the rights and preferences of stockholders to dividends and to principal, details of stock options outstanding and exercised, cumulative dividends in arrears, and provisions made for dividends proposed for approval by the next stockholders' annual general meeting.⁷²⁴ The Ordinance also prohibits a company from buying its own stocks.⁷²⁵ According to general accounting practice, restrictions imposed by trust deeds, bank loan agreements, or other legal obligations on distributions of retained earnings are disclosed.⁷²⁶

6.1.3 Profit and Loss Account

SSAP 2 requires the disclosure of sales and other revenue and of extraordinary gains and losses.⁷²⁷ According to SSAP 3, the percentage-of-completion method is used to recognize profits on long-

⁷²¹ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷²² *Ibid.*

⁷²³ *Ibid.*

⁷²⁴ The Government Printer, *Companies Ordinance*, pp.333, 359-360.

⁷²⁵ Pauline Wallace, *Company Law in Hong Kong*, p.113.

⁷²⁶ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷²⁷ The HKSA, *Statement 2.102 in Members' Handbook*, pp.2-3.

term construction contracts.⁷²⁸ Provisions need to be made for all expected losses on long-term construction contracts, but if a company carries out a contract where the outcome cannot reasonably be assessed before the conclusion of the contract, it is prudent to use the completed-contract method.⁷²⁹ Under SSAP 5, primary earnings per share, fully diluted earnings per share, and the basis of earnings per share calculations ought to be disclosed.⁷³⁰ In accordance with SSAP 12, when accounting income and taxable income are different, except for permanent differences, deferred income taxes are recorded.⁷³¹ Nevertheless if there is reasonable evidence that some of the timing differences will continue for some time, they are also excluded in computing deferred income tax.⁷³² Deferred income tax should be computed under the liability method.⁷³³

Several of the general accounting practices are discussed in this paragraph. Sales are recorded not at the time of order, but at the time of delivery.⁷³⁴ A company provides for pension costs on the accrual basis.⁷³⁵ Research and development expenses are ordinarily written off when incurred.⁷³⁶ Unless the received asset's fair value is more clearly evident, nonmonetary exchange of assets of different kinds is measured by the fair value of the asset given up and gain or loss should be recognized.⁷³⁷

⁷²⁸ The HKSA, *Statement 2.103 in Members' Handbook*, pp.9-12.

⁷²⁹ *Ibid.*

⁷³⁰ The HKSA, *Statement 2.105 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.2-3.

⁷³¹ The HKSA, *Statement 2.112 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.2-3.

⁷³² *Ibid.*

⁷³³ *Ibid.*, p.2.

⁷³⁴ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷³⁵ *Ibid.*

⁷³⁶ *Ibid.*

⁷³⁷ *Ibid.*

6.1.4 Other Statements and Reports

SSAP 4 requires audited financial statements to include a statement of changes in financial position, which is prepared ordinarily based on cash and cash equivalents approach.⁷³⁸ According to Section 129D of the Companies Ordinance, a company should attach a directors' report explaining the state of the company's affairs and its profit or loss to the financial statements which are laid before the annual general meeting.⁷³⁹

6.1.5 Special Cases

6.1.5.1 Companies with Subsidiaries

Chapter 4 contains the definitions of a holding company and a subsidiary and, more importantly, contains a discussion of the requirements of the Companies Ordinance for the consolidated financial statements. For instance, the stockholders of a holding company should be given the consolidated balance sheet and the consolidated profit and loss account in addition to the financial statements of the holding company.⁷⁴⁰

SSAP 4 requires a holding company to prepare a consolidated statement of changes in financial position.⁷⁴¹ According to SSAP 7, when a subsidiary is purchased, "the purchase consideration

⁷³⁸ The HKSA, *Statement 2.104 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.2-7.

⁷³⁹ Pauline Wallace, *Company Law in Hong Kong*, p.128.

⁷⁴⁰ The Government Printer, *Companies Ordinance*, pp.121-123; a subsidiary may be excluded from the consolidated financial statements because of the following reasons: (a) insignificant amount of the subsidiary; (b) the result of including the subsidiary in the consolidated financial statements would be harmful to the holding company; (c) the business of the subsidiary is so different from that of the holding company that the two companies cannot be considered as a single undertaking.

⁷⁴¹ The HKSA, *Statement 2.104 in Members' Handbook*, p.3.

should be allocated amongst the underlying net assets, both tangible and intangible, other than goodwill on the basis of the fair value to the acquiring company."⁷⁴² Any excess of the purchase consideration over the value ascribed to net tangible assets and identifiable intangible assets is goodwill.⁷⁴³ Profits and losses resulting from intercompany transactions are eliminated in consolidated financial statements.⁷⁴⁴ Goodwill usually is amortized over an adequate time period.⁷⁴⁵

6.1.5.2 Combined Companies Resulting from Business Combinations

A combined company, which is an accounting entity resulting from a business combination, needs to account for the business combination. There is no formal pronouncement regarding how this should be approached, but in accordance with general accounting practice, a business combination that is not qualified to be accounted for by the pooling of interests method is accounted for by the purchase method.⁷⁴⁶ If the consideration given in a business combination accounted for by the purchase method is an issue of shares, the value of the underlying net assets purchased or the market value of the shares issued, whichever is more reliably ascertainable, should be used to determine the fair value of the shares.⁷⁴⁷ Retained earnings of a combinee prior to a business combination treated by the purchase method are not included in the retained earnings of the combined company.⁷⁴⁸

⁷⁴² The HKSA, *Statement 2.107 in Members' Handbook*, p.7.

⁷⁴³ *Ibid.*

⁷⁴⁴ *Ibid.*, p.1.

⁷⁴⁵ The HKSA, *Statement 2.204 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.2.

⁷⁴⁶ Information was provided by Price Waterhouse Office in Hong Kong. Refer to Appendix E.

⁷⁴⁷ *Ibid.*

⁷⁴⁸ *Ibid.*

6.1.5.3 Companies Having Transactions with Foreign Enterprises

Companies having transactions with foreign enterprises or having foreign operations need to handle foreign currency translations. Paragraph 12(14) of the 10th Schedule of the Companies Ordinance requires that a company disclose the basis of translating foreign currency.⁷⁴⁹ According to SSAP 11, the following procedures should be used. Each asset, liability, revenue, or cost arising from the transaction denominated in foreign currency ought to be translated at the exchange rate at the transaction date while, at the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate at that date.⁷⁵⁰ Exchange gains or losses on unsettled and settled foreign currency transactions are included in income in the period that they arise.⁷⁵¹ Normally, the exchange rate at the balance sheet date should be used in translating the foreign currency financial statements. When this closing rate method is used, a company should record all exchange differences arising from translation of foreign currency financial statements in stockholders' equity.⁷⁵² But when the foreign enterprises depend more on the economic circumstances of the investing companies' reporting currency than on those of their own reporting currency, the temporal method is used.⁷⁵³ The temporal method means that assets or liabilities expressed in past prices should be translated at the historical exchange rates while items stated in current or future prices should be translated at the rate on the balance sheet date. When this method is used, all the exchange differences are taken into the profit and loss account.⁷⁵⁴

⁷⁴⁹ The Government Printer, *Companies Ordinance*, p.361.

⁷⁵⁰ The HKSA, *Statement 2.111 in Members' Handbook*, (Hong Kong: the HKSA, 1987), pp.3-4.

⁷⁵¹ *Ibid.*, p.4.

⁷⁵² *Ibid.*, p.5.

⁷⁵³ *Ibid.*, p.8.

⁷⁵⁴ *Ibid.*, p.2.

6.1.5.4 Companies with Distinguishable Components

A company with distinguishable components is a company having geographical areas or principal activities, and either a geographical area or a principal activity is regarded as a segment.⁷⁵⁵ Accounting Guideline 6, "Reporting Financial Information by Segment," suggests that a company with segments disclose segment turnover, segment expense, segment result, etc.⁷⁵⁶

6.2 South Korea

6.2.1 Fundamental Accounting Concepts and Policies

The fundamental accounting requirements comprise two parts: concepts and policies. They will be examined individually.

6.2.1.1 Concepts

Under Section 2 of the Accounting Standards for Business Enterprises (ASBE), the concepts of

⁷⁵⁵ The HKSA, *Statement 2.206 in Members' Handbook*, (Hong Kong: the HKSA, 1987), p.2.

⁷⁵⁶ *Ibid.*, p.4.

going concern and substance over form should be observed.⁷⁵⁷ Sections 3(4) and 3(5) of the ASBE require the consistency and materiality concepts to be followed in financial reporting and Section 65 of the ASBE demands the observance of the accrual and prudence concepts.⁷⁵⁸

6.2.1.2 Policies

The ASBE, the Auditing Standards, and the Auditing Working Rules prescribe some accounting policies. For example, the ASBE requests the use of historical cost convention, that is to say, assets, liabilities, revenues, and expenses are recorded at the amounts that the transactions occurred at.⁷⁵⁹ The ASBE also requires that the financial statements prepared based on the historical cost convention not include information concerning the effect of changes in the general price level or concerning the effect of changes in specific prices.⁷⁶⁰ In addition, it provides that the financial statements for a fiscal year should be compiled in such a way as to include a comparison between them and the financial statements for the previous year.⁷⁶¹ According to the Auditing Standards, changes in accounting estimates are accounted for prospectively and a change in accounting principle which is inseparable from a change in accounting estimate should be treated as a change in accounting estimate and be handled accordingly.⁷⁶² A change in accounting principle should be justified on the grounds that the new principle is better than the old principle.⁷⁶³ Changes in accounting principles are not to be accounted for by restating financial information currently presented in respect of prior period, but corrections of errors in the financial statements of prior periods should be accounted for

⁷⁵⁷ Bon Shik Park, *Summary Explanations of the Accounting Standards for Business Enterprises* (in Korean), (Seoul: the Korean Institute for Tax Accounting Research, 1984), pp.14-15.

⁷⁵⁸ The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.3, 25.

⁷⁵⁹ *Ibid.*, pp.33, 34, 38.

⁷⁶⁰ *Ibid.*, pp.53-58.

⁷⁶¹ *Ibid.*, p.4.

⁷⁶² The KICPA, *Auditing Standards* (in Korean), p.18.

⁷⁶³ *Ibid.*, p.17.

by so restating.⁷⁶⁴ Under the Auditing Working Rules, important post-balance sheet events or transactions are to be disclosed in financial statements.⁷⁶⁵

6.2.2 Balance Sheet

The balance sheet includes such items as fixed asset, inventories, investments, receivables, liabilities, and stockholders' equity. The accounting requirements and practices regarding these items are to be discussed. These items are selected because they are representative of the main items of balance sheet listed in IAS 5, "Information to Be Disclosed in Financial Statements."⁷⁶⁶

6.2.2.1 Fixed Assets

Section 31(2) of the Commercial Code requires depreciation methods, depreciation charges, and accumulated depreciation to be disclosed.⁷⁶⁷ The cost of fixed assets is to be shown by deducting accumulated depreciation from acquisition or construction cost, and the net book value of fixed assets based on normal depreciation is to be written down if the value of fixed assets to a company is less than the net book value.⁷⁶⁸ The Asset Reappraisal Law, enacted in 1965, allows fixed assets to be reappraised upward at irregular intervals.⁷⁶⁹ When reappraisal occurs, depreciation is based

⁷⁶⁴ *Ibid.*

⁷⁶⁵ The KICPA, *Auditing Working Rules* (in Korean), p.25.

⁷⁶⁶ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, pp.11,118-11,120.

⁷⁶⁷ Bon Shik Park, *Summary Explanations of the Accounting Standards for Business Enterprises* (in Korean), p.326.

⁷⁶⁸ *Ibid.*

⁷⁶⁹ *Ibid.*, p.117.

on the revalued amount and the excess of the revalued amount over the original cost of fixed assets is credited to revaluation reserve, which is not available for any type of charge.⁷⁷⁰

The ASBE also has several sections dealing with fixed assets. Section 29 provides that fixed assets be divided into such major categories as land, buildings, plant, equipment, and so on.⁷⁷¹ Section 31 provides for the disclosure of the basis on which fixed assets are carried.⁷⁷² Section 32 provides that the basis of revaluation of fixed assets be disclosed if they are stated at an amount exceeding cost in historical cost statements.⁷⁷³ Under Section 33, when a company's leased assets are in excess of 2% of the value of its total assets, the method of accounting for leases must be disclosed.⁷⁷⁴ The amount and period of commitments under long-term leases for future years must also be disclosed.⁷⁷⁵ Section 96 stipulates that costs of construction of fixed assets consist of materials, labor, a reasonable portion of overhead, and interest on money borrowed to finance the construction in the construction period.⁷⁷⁶ Finally, Section 97 requires intangible assets to be amortized over the period estimated to be benefited.⁷⁷⁷

There are certain general accounting practices concerning fixed assets, and a few examples need to be cited. The future capital expenditure of firm contracts which has not been accrued at the date of the financial statements is disclosed, and the future capital expenditure authorized by the directors which has not been contracted for at the date of the financial statements is not disclosed.⁷⁷⁸ A

⁷⁷⁰ *Ibid.*, p.118.

⁷⁷¹ The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.12-13.

⁷⁷² *Ibid.*, p.14.

⁷⁷³ *Ibid.*

⁷⁷⁴ *Ibid.*

⁷⁷⁵ *Ibid.*

⁷⁷⁶ *Ibid.*, pp.36-37.

⁷⁷⁷ *Ibid.*

⁷⁷⁸ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 36, 37.

fixed asset's estimated useful life reflects its expected economic obsolescence.⁷⁷⁹ The declining-balance method or the sum-of-the-years'-digits method is used more often than the straight-line method in depreciating fixed assets.⁷⁸⁰

6.2.2.2 Inventories

Section 452 of the Commercial Code provides that inventories be stated based on the lower of cost and market method.⁷⁸¹ Section 71 of the ASBE stipulates that direct materials, direct labor, variable factory overhead, and fixed factory overhead be included in cost of goods manufactured.⁷⁸² Section 93 requires the basis of stating inventories to be disclosed. The inventories are to be broken down into finished goods, work-in-process, materials, merchandise, etc., and the cost flow assumption chosen from FIFO, LIFO, weighted average, etc. in determining the cost of inventories to be stated.⁷⁸³ A reversal of a write-down of inventories from cost to market is not permissible if market recovers.⁷⁸⁴ Besides, there are some general accounting practices concerning inventories. For instance, market value is usually defined as net realizable value, which is computed by deducting reasonably predictable costs of completion and disposal from estimated selling price.⁷⁸⁵ The cost flow assumption made in determining the cost of inventories is frequently the FIFO method.⁷⁸⁶

⁷⁷⁹ *Ibid.*, tabulation 59.

⁷⁸⁰ *Ibid.*, tabulations 63, 64.

⁷⁸¹ Hong Gan Lin, *Comprehensive Regulations of the Commercial Code* (in Korean), p.347.

⁷⁸² The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.28-29.

⁷⁸³ *Ibid.*, p.35.

⁷⁸⁴ *Ibid.*

⁷⁸⁵ Bon Shik Park, *Summary Explanations of the Accounting Standards for Business Enterprises* (in Korean), p.347.

⁷⁸⁶ R. D. Fitzgerald, A. D. Stuckler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 83.

6.2.2.3 Investments

Section 452 of the Commercial Code requires current investments in marketable equity securities to be stated by the lower of cost and market method.⁷⁸⁷ When current investments in marketable equity securities are so stated, there are two ways of measuring their cost in accordance with Section 92 of the ASBE: (a) each type of securities is valued individually and (b) the entire portfolio is valued as one asset. In any event, the cost of marketable equity securities is determined by the average or moving average method applied to each type of securities.⁷⁸⁸ Section 94 of the ASBE also requires noncurrent investments in marketable equity securities to be stated based on the lower of cost and market method and the cost of noncurrent investments to be determined in the same way as the cost of current investments.⁷⁸⁹ Any decreases in carrying value of current and noncurrent investments are included in income and increases in carrying value are permitted to the extent of existence of any previous write-down.⁷⁹⁰ If dividends from investments accounted for on the cost basis exceed an investor's share of earnings since acquisition of the investments, they should be treated as income.⁷⁹¹ When the market value of investments in marketable equity securities differs from their carrying value, the disclosure of the market value is not required.⁷⁹² Section 15 of the Standards and Rules of Consolidated Financial Statements indicates that an investor company can use the equity method to account for the following two types of companies: (a) subsidiaries and (b) companies in which the investor has a 20% to 50% equity interest.⁷⁹³

⁷⁸⁷ Hong Gan Lin, *Comprehensive Regulations of the Commercial Code* (in Korean), p.347.

⁷⁸⁸ SEC, *Accounting Standards for Business Enterprises* (in Korean), p.34.

⁷⁸⁹ *Ibid.*, pp.35-36.

⁷⁹⁰ *Ibid.*, pp.34-36.

⁷⁹¹ *Ibid.*

⁷⁹² *Ibid.*, p.59.

⁷⁹³ The SEC, *Standards and Rules of Consolidated Financial Statements* (in Korean), (Seoul: the KICPA, 1987), p.9.

6.2.2.4 Receivables

Section 14 of the ASBE requires a company to reduce its receivables by making provisions for possible losses on different accounts.⁷⁹⁴ Section 40 of the ASBE provides that receivables from directors and employees be disclosed in detail if they are more than 2% of a company's total assets while Section 41 provides that receivables from affiliated companies be disclosed in detail if they exceed 2% of a company's total assets.⁷⁹⁵

6.2.2.5 Liabilities

Sections 34, 44, 45, and 63 of the ASBE include the following rules: A company should disclose: (a) its liabilities to its affiliated companies, directors, and employees; (b) each issue of long-term debt stating its outstanding amount, interest rate, and term; (c) any assets used as collateral; and (d) any contingent liabilities.⁷⁹⁶ Section 100 of the ASBE requires discount or premium on an issue of long-term debt to be amortized according to the straight-line method.⁷⁹⁷ If a legal right of offset exists, assets and liabilities in the balance sheet may be offset.⁷⁹⁸

6.2.2.6 Stockholders' Equity

Sections 54 and 108 of the ASBE provide that rights and preferences of stockholders to dividends and to principal be clearly stated and that no provision be made for dividends proposed for approval

⁷⁹⁴ The SEC, *Accounting Standards for Business Enterprises* (in Korean), p.8.

⁷⁹⁵ *Ibid.*, pp.16-17.

⁷⁹⁶ *Ibid.*, pp.14, 16-19, 24.

⁷⁹⁷ Bon Shik Park, *Summary Explanations of the Accounting Standards for Business Enterprises* (in Korean), p.412.

⁷⁹⁸ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 159.

at the next stockholders' annual general meeting.⁷⁹⁹ When stock of a company is purchased for the purpose of retirement, Section 57 requires that stockholders' equity be reduced by the amount of stock purchased and that profit or losses resulting from transaction involving a company's stocks be shown directly in stockholders' equity.⁸⁰⁰ Section 63 requires the disclosure of restrictions placed by trust deeds, bank loan agreements, or other legal documents on distributions of retained earnings.⁸⁰¹ Under Section 108, a company is not allowed to record dividends that can be satisfied by stock issues or cash at the cash option amount and should record dividends that can be solely satisfied by the issue of par value stocks at the par value.⁸⁰² In addition, the disclosure of cumulative dividends in arrears is often made, for it is a prevailing general accounting practice.⁸⁰³

6.2.3 Income Statement

Chapter 3 of the ASBE includes the following provisions regarding the income statement: (a) a company ought to record sales at the time of delivery, not at the time of order; (b) sales, other revenues, cost of sales, and extraordinary gains and losses must be disclosed; (c) if accounting income and taxable income differ, there is no tax allocation because the provision for taxes is based on taxable income; (d) companies should provide dismissal indemnities to discharged employees on an average annual requirement basis; (e) barter transactions involving dissimilar assets should be measured by the fair value of assets acquired and any gain or loss therefrom is recognized.⁸⁰⁴ According to the Accounting Standard for Research and Development, regular research and develop-

⁷⁹⁹ The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.21-22, 40-42.

⁸⁰⁰ *Ibid.*, p.22.

⁸⁰¹ *Ibid.*, p.24.

⁸⁰² *Ibid.*, p.41.

⁸⁰³ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 144.

⁸⁰⁴ The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.13, 21, 24-33, 36-37.

ment costs are written off when incurred, but when there are reasons for expecting that research and development costs will be covered by future revenue, such costs should be deferred and amortized.⁸⁰⁵

There are also several general accounting practices. For example, primary earnings and fully diluted earnings per share ordinarily are not disclosed, nor is the basis of calculation of earnings per share.⁸⁰⁶ Since most companies have not yet established adequate pension systems for their employees, pension costs are not accounted for in the financial statements.⁸⁰⁷ The percentage-of-completion method is often used to recognize profits on long-term construction contracts, and provision for all expected losses on long-term construction normally is not made.⁸⁰⁸

6.2.4 Other Statements and Reports

In addition to the Law on External Audit of Joint-Stock Companies, Section 5 of the ASBE requires a statement of changes in financial position to be prepared as one of the needed financial statements.⁸⁰⁹ The working capital approach or the cash approach is used in preparing the statement of changes in financial position.⁸¹⁰ In addition to the Commercial Code and the Law on External Audit of Joint-Stock Companies, Section 5 of the ASBE also requires that a statement of appropriation of retained earnings be prepared.⁸¹¹ Under Sections 447 and 579 of the Commercial Code,

⁸⁰⁵ The SEC, *Accounting Standard for Research and Development* (in Korean), (Seoul, the KICPA, 1987), pp.6-7.

⁸⁰⁶ Bon Shik Park, *Summary Explanations of the Accounting Standards for Business Enterprises* (in Korean), pp.646-647.

⁸⁰⁷ *Ibid.*, p.644.

⁸⁰⁸ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 152, 154.

⁸⁰⁹ The SEC, *Accounting Standards for Business Enterprises* (in Korean), p.4.

⁸¹⁰ *Ibid.*, pp.69-75.

⁸¹¹ *Ibid.*, p.4.

a company is supposed to prepare a directors' report for submission to the annual general meeting of its stockholders.⁸¹² The directors' report is attached to the financial statements and is designed to explain the company's results of operations for a fiscal year and its state of affairs at the end of a fiscal year.⁸¹³

6.2.5 Special Cases

6.2.5.1 Companies with Subsidiaries

Both the ASBE and the Standards and Rules of Consolidated Financial Statements prescribe some requirements for the preparation of consolidated financial statements. A parent company and a subsidiary are defined as follows: (a) if a company owns more than half of issued shares of another company, the former becomes the parent company and the latter becomes the subsidiary; (b) if a company owns more than half of issued shares of a second company, and the second owns more than half of issued shares of a third company, then the first can be considered as the parent company of the third and the third can be considered as the subsidiary of the first; and (c) if a company owns more than half of issued shares of a second company and the first and second companies respectively own more than 10% of issued shares of a third company but together own more than half of issued shares of the third, then the first can be considered as the parent company of the third and the third becomes the subsidiary of the first.⁸¹⁴ A parent company, besides preparing its own corporate financial statements for its stockholders, should also prepare consolidated financial statements, which consist of a consolidated balance sheet and a consolidated income statement.⁸¹⁵

⁸¹² Hong Gan Lin, *Comprehensive Regulations of the Commercial Code* (in Korean), p.321.

⁸¹³ *Ibid.*

⁸¹⁴ The SEC, *Standards and Rules of Consolidated Financial Statements* (in Korean), pp.3-4.

⁸¹⁵ The SEC, *Standards and Rules of Consolidated Financial Statements* (in Korean), pp.3-5; a subsidiary may be allowed to be excluded from the consolidated financial statements if (a) the subsidiary is declared

A parent company, when investing in a subsidiary, should allocate the purchase consideration among its portion of the net assets of the subsidiary, both tangible and intangible, on the basis of the fair value to the parent company.⁸¹⁶ If there exists an excess of the purchase consideration over its portion of the value ascribed to net tangible and intangible assets, the excess is considered goodwill, which must be amortized equally over a period of not more than five years.⁸¹⁷ Intercompany transactions ought to be eliminated from consolidated financial statements.⁸¹⁸

6.2.5.2 Combined Companies Resulting from Business Combinations

Under the Accounting Standard for Business Combination, the purchase method is used to account for business combinations and the consideration given for combination may consist of face value of the stocks of a combinator company and cash which it pays for the net assets of the combinee company.⁸¹⁹ The net assets acquired by the combined company from the combinee company should be recorded at their fair values.⁸²⁰ Retained earnings of the combinee company before combination are not included in the retained earnings of the combined company.⁸²¹

bankrupt, (b) the business of the subsidiary is different from that of the parent, or (c) the the insignificant amount of the subsidiary.

⁸¹⁶ The SEC, *Standards and Rules of Consolidated Financial Statements* (in Korean), p.7.

⁸¹⁷ *Ibid.*

⁸¹⁸ *Ibid.*, p.6.

⁸¹⁹ The SEC, *Accounting Standard for Business Combination* (in Korean), (Seoul: the KICPA, 1986), p.4.

⁸²⁰ *Ibid.*, pp.4-5.

⁸²¹ *Ibid.*

6.2.5.3 Companies Having Transactions with Foreign Enterprises

In accordance with Sections 42 and 50 of the ASBE, a company should show the basis of translating foreign currency and it should translate each asset, liability, revenue, or expense resulting from the foreign currency transaction at the rate at the transaction date.⁸²² At the balance sheet date, foreign currency monetary items arising from foreign currency transactions are translated at the closing rate.⁸²³ Sections 79 and 80 of the ASBE require exchange gains or losses on unsettled and settled foreign currency transactions to be included in income in the period that they arise.⁸²⁴ According to Section 103, a company, in translating foreign currency financial statements, must use closing exchange rates for monetary items and historical exchange rates for non-monetary items.⁸²⁵ The company is supposed to take exchange differences arising from translation of foreign currency financial statements into income.⁸²⁶

6.2.5.4 Companies with Distinguishable Components

There are neither formal pronouncements nor general accounting practices regarding how companies with distinguishable components should report financial information by segments. It is expected that the SEC of South Korea will handle this problem in the future.

⁸²² The SEC, *Accounting Standards for Business Enterprises* (in Korean), pp.17, 21, 31.

⁸²³ *Ibid.*

⁸²⁴ *Ibid.*, p.31.

⁸²⁵ *Ibid.*, pp.38-40.

⁸²⁶ *Ibid.*

6.3 Malaysia

6.3.1 Fundamental Accounting Concepts and Policies

The fundamental accounting requirements are composed of two parts: concepts and policies. Therefore, the two parts are analyzed individually.

6.3.1.1 Concepts

IAS 1 prescribes some fundamental accounting concepts. For example, all companies in Malaysia are to follow the going concern, consistency, and accrual concepts when preparing financial statements.⁸²⁷ Additionally, companies should be guided by the prudence, substance over form, and materiality concepts when selecting and applying accounting policies.⁸²⁸

6.3.1.2 Policies

Professional pronouncements have also furnished accounting policies. According to IAS 1, financial statements should contain corresponding figures for the previous period.⁸²⁹ When a change in accounting principle produces a material effect in the current period, the fact along with the reasons should be disclosed, and the effect also ought to be disclosed.⁸³⁰ IAS 8 requires that a company

⁸²⁷ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, (Chicago: Commerce Clearing House, Inc., 1984), p.11,069.

⁸²⁸ *Ibid.*

⁸²⁹ *Ibid.*

⁸³⁰ *Ibid.*

account for a change in accounting estimate prospectively. When it is difficult to distinguish a change in accounting principle from a change in accounting estimate, the change should be treated as a change in accounting estimate.⁸³¹ A change in accounting principle is allowed only if a statute or an accounting standard setting body requires the adoption of a different accounting principle or if the change is considered to lead to a better presentation of the financial statements of a company.⁸³² A change in accounting principle and correction of prior-period errors may be accounted for by amending comparative information currently presented in respect of the prior period.⁸³³ Under IAS 10, a company should disclose in its financial statements events or transactions occurring between the date of the balance sheet and the date of auditor's report if these events or transactions have a material effect on the financial position or results of operations being reported upon.⁸³⁴

The MACPA has rejected IAS 15, "Information Reflecting the Effects of Changing Prices."⁸³⁵ A company shows assets, liabilities, revenues, and expenses at the amounts at which the transactions took place and disclose any departures from the historical cost convention. The financial statements compiled based on the historical cost convention seldom contain information on the effect of changes in the general price level or on the effect of changes in specific prices.

6.3.2 Balance Sheet

The balance sheet is composed of important items such as fixed assets, inventories, investments, receivables, liabilities, and stockholders' equity. The accounting requirements and practices con-

⁸³¹ *Ibid.*, pp.11,154-11,155.

⁸³² *Ibid.*, p.11,155.

⁸³³ *Ibid.*

⁸³⁴ *Ibid.*, p.11,176.

⁸³⁵ The MACPA, "Status of MACPA Technical Pronouncements -- April 1987," p.22.

cerning these items will be reviewed. These items are selected because they are representative of the main items of balance sheet listed in IAS 5, "Information to Be Disclosed in Financial Statements."⁸³⁶

6.3.2.1 Fixed Assets

Paragraph 2(1) of the 9th Schedule of the Companies Act includes several provisions. (a) The basis on which fixed assets are stated should be disclosed; (b) fixed assets should be classified into such major categories as land, buildings, plant, machinery, and so on; (c) a company should show "the methods of depreciation used for each category of fixed assets together with the rate of depreciation or number of years over which provision is made for depreciation;" (d) the future capital expenditure of firm contracts which has not been accrued at the date of the financial statements should be disclosed; and (e) the future capital expenditure authorized by the directors which has not been contracted for at the date of the financial statements does not need to be disclosed.⁸³⁷ Paragraph 1(f) of the 9th Schedule of the Companies Act as well as IAS 5 provides that companies amortize intangible assets over the period considered to be benefited.⁸³⁸

IAS 4 demands that any possible obsolescence of a fixed asset be taken into consideration in determining its estimated useful life.⁸³⁹ IAS 16 offers the following rules: (a) "The gross carrying amount of an asset included in property, plant, and equipment must be either historical cost or a revaluation;" (b) those costs that relate directly to the specific asset and those costs that can be attributed to the construction activity in general and can be allocated to the specific asset should be included in the cost of self-constructed property, plant, and equipment. The interest on money

⁸³⁶ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, pp.11,118-11,120.

⁸³⁷ MDC Legal Advisers, *Companies Act*, pp.274-275, 277.

⁸³⁸ *Ibid.*, p.272.

⁸³⁹ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,108.

borrowed to finance the construction and an appropriate amount of overhead, besides material and labor costs, are parts of their cost; (c) if the recoverable amount of an item or a group of items of property, plant, and equipment falls below the net carrying amount, the net carrying amount should be reduced to the recoverable amount; and (d) if the upward revaluation of property, plant, and equipment is made in financial statements, the resulting increase in net carrying amount should be transferred directly to the heading of revaluation surplus, the basis of the revaluation needs to be disclosed, and the depreciation is based on the revalued amount.⁸⁴⁰ IAS 17 requires that the methods of accounting for leases and the amount of assets that are the subject of finance leases be shown.⁸⁴¹ According to the general accounting practice, in depreciating fixed assets, the straight-line method is used more often than the declining-balance and sum-of-the-years'-digits methods.⁸⁴²

6.3.2.2 Inventories

IAS 2 has the following provisions regarding inventories: (a) the basis of stating inventories should be disclosed; (b) "inventories should be valued at the lower of historical cost and net realizable value," which is defined to be "the estimated selling price in the ordinary course of business less costs of completion and less costs necessarily to be incurred in order to make the sale;" (c) the cost of goods manufactured should consist of direct materials, direct labor, variable factory overhead, fixed factory overhead, and other overheads sometimes incurred in bringing inventories to the present location and condition; and (d) inventories can be divided into: finished goods held for sale, work-in-process, materials to be used in producing goods or services for sale, and merchandise.⁸⁴³ According to general accounting practices, if market later recovers, a previous write-down of in-

⁸⁴⁰ *Ibid.*, pp.11,263-11,264.

⁸⁴¹ *Ibid.*, pp.11,273, 11,278.

⁸⁴² R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 63, 64.

⁸⁴³ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, pp.11,075-11,079.

ventories from cost to market is reversed and the cost flow assumption often made in determining the cost of inventories is the FIFO method.⁸⁴⁴

6.3.2.3 Investments

Paragraph 2(1) of the 9th Schedule of the Companies Act provides that if the market value of quoted investments and their carrying amount differ, the market value should be disclosed.⁸⁴⁵ IAS 1 provides that an enterprise show the basis on which the investments are stated.⁸⁴⁶ According to IAS 3, investments in equity securities of the following two kinds should be accounted for by the equity method: (a) investments in subsidiaries and (b) investments in less than 50% owned companies over whose operating and financial policies the investor can exercise significant influence.⁸⁴⁷ IAS 25, "Accounting for Investments," is under consideration by the MACPA. There are following general accounting practices concerning investments: (a) current investments in marketable equity securities are recorded by using the lower of cost and market method, with the entire portfolio being valued as one asset, and changes in the carrying value of current investments in marketable equity securities are included in income; (b) noncurrent investments in marketable equity securities are shown at cost if there is no lasting reduction in their value; (c) when a lasting reduction of the carrying value of a noncurrent investment does occur, a provision is usually made, but if the value of the investment later recovers, the reduction can rarely be reversed; (d) the excess of dividends from investments accounted for by the cost basis over investor's portion of earnings since purchase is considered a deduction from the investment account.⁸⁴⁸

⁸⁴⁴ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 78, 83.

⁸⁴⁵ MDC Legal Advisers, *Companies Act*, p.275.

⁸⁴⁶ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, pp.11,066-11,067.

⁸⁴⁷ *Ibid.*, pp.11,093-11,094.

⁸⁴⁸ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 93, 94, 95, 100, 110, 111.

6.3.2.4 Receivables

Paragraph 2(1) of the 9th Schedule of the Companies Act provides for separate disclosure for receivables from affiliated companies and directors.⁸⁴⁹ Disclosure of receivables from its employees is not required.⁸⁵⁰ According to general accounting practice, a company should reduce its receivables by making provisions for possible losses on different accounts.⁸⁵¹

6.3.2.5 Liabilities

Under Paragraph 2(1) of the 9th Schedule of the Companies Act, a company ought to disclose liabilities to its affiliated companies and directors, contingent liabilities, and liabilities secured by its assets.⁸⁵² Disclosure of liabilities to its employees is not required.⁸⁵³ Paragraph 2(3) of the 9th Schedule stipulates that the amount outstanding on each issue of long-term debt be shown.⁸⁵⁴ IAS 5 requires a company to disclose the interest rate on and the term of each issue of long-term debt.⁸⁵⁵ According to IAS 13, if a legal right of set-off exists, assets and liabilities can offset each other in the balance sheet.⁸⁵⁶ In accordance with general accounting practice, a company usually amortizes discount or premium on an issue of long-term debt, using the effective interest method.⁸⁵⁷

⁸⁴⁹ MDC Legal Advisers, *Companies Act*, pp.275-277.

⁸⁵⁰ *Ibid.*

⁸⁵¹ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 113.

⁸⁵² MDC Legal Advisers, *Companies Act*, pp.275-277.

⁸⁵³ *Ibid.*

⁸⁵⁴ *Ibid.*, p.277.

⁸⁵⁵ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, pp.11,119-11,120.

⁸⁵⁶ *Ibid.*, p.11,221.

⁸⁵⁷ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 126.

6.3.2.6 Stockholders' Equity

Paragraph 2(1) of the 9th Schedule of the Companies Act contains some provisions for stockholders' equity. A company should disclose rights and preferences of stockholders to dividends or to principal, any stock options exercised and outstanding, any cumulative dividends in arrears, and any restrictions imposed by trust deeds, bank loan agreements, or other legal obligations on distributions of retained earnings; it also ought to make provision for dividends proposed for approval by the next stockholders' annual general meeting.⁸⁵⁸ According to IAS 5, companies have to account for treasury stock if they purchase their own stocks.⁸⁵⁹

6.3.3 Profit and Loss Account

According to Paragraph 1 of the 9th Schedule of the Companies Act, a company should disclose sales and other revenues.⁸⁶⁰ Paragraph 2 of the 9th Schedule requires the disclosure of the method of determining the profits on long-term construction projects.⁸⁶¹

In accordance with IAS 8, extraordinary items must be included in income and the nature and amount of each such item must be separately disclosed.⁸⁶² Under IAS 9, the research and development costs are charged as an expense of the period in which they are incurred, but some development costs, when meeting certain specific requirements, can be deferred.⁸⁶³ According to IAS 11, a company can use either the completed-contract method or the percentage-of-completion method

⁸⁵⁸ MDC Legal Advisers, *Companies Act.*, pp.273-274, 277.

⁸⁵⁹ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,120.

⁸⁶⁰ MDC Legal Advisers, *Companies Act.*, p.272.

⁸⁶¹ *Ibid.*, p.276.

⁸⁶² Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,155.

⁸⁶³ *Ibid.*, p.11,164.

in determining the profits on long-term construction contracts, but “the percentage-of-completion method may be used only if the outcome of the contract can be reliably estimated;” a company must make provision for all expected losses on long-term construction contracts.⁸⁶⁴ IAS 12 requires a company to rely on the tax effect accounting method to determine the tax expense for a period, using either the deferral or the liability method.⁸⁶⁵ According to IAS 18, barter transactions between assets of different kinds are measured by fair value of asset given up or the fair value of the asset acquired, whichever fair value is more clearly evident.⁸⁶⁶ Any gain or loss therefrom should be recognized.⁸⁶⁷ A company records sales at the time of delivery, not at the time of order.⁸⁶⁸ Malaysian Accounting Standard 1 requires that primary earnings per share, fully diluted earnings per share, and the basis of earnings per share calculations be shown.⁸⁶⁹

There are also some general accounting practices. For example, a company usually provides for pension costs on the accrual basis.⁸⁷⁰ Dismissal indemnities to discharged employees are charged to income on a “pay as you go” basis.⁸⁷¹

6.3.4 Other Statements and Reports

In accordance with Paragraph 4 of the 9th Schedule of the Companies Act, a company must pre-

⁸⁶⁴ *Ibid.*, p.11,187.

⁸⁶⁵ *Ibid.*, p.11,208.

⁸⁶⁶ *Ibid.*, p.11,297.

⁸⁶⁷ *Ibid.*

⁸⁶⁸ *Ibid.*, p.11,298.

⁸⁶⁹ The MACPA, *MAS 1*, (Kuala Lumpur: the MACPA, 1984), pp.1-4.

⁸⁷⁰ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 170.

⁸⁷¹ *Ibid.*, tabulation 176.

pare a statement of changes in financial position.⁸⁷² IAS 7 stipulates that cash approach, cash and cash equivalents approach, or working capital approach be used to prepare the statement.⁸⁷³ According to Section 169(5) of the Companies Act, the directors of a company should attach a directors' report to every balance sheet and profit and loss account laid before the company at the annual general meeting. This report is designed to explain the company's profit or loss of the fiscal year and its state of affairs at the end of the fiscal year.⁸⁷⁴

6.3.5 Special Cases

6.3.5.1 Companies with Subsidiaries

The definitions of a holding company and a subsidiary have already been given in discussing the Companies Act in Chapter 4. Besides the Companies Act, IAS 3 also stipulates that a holding company prepare consolidated financial statements.⁸⁷⁵ A holding company should assign the cost of acquiring a subsidiary to its share of the individual identifiable assets and liabilities on the basis of their fair values at the date of acquisition and any unassigned amount is shown as goodwill.⁸⁷⁶ IAS 7 provides that if a company presents a consolidated balance sheet and a consolidated income statement, it must present a statement of changes in financial position on a consolidated basis.⁸⁷⁷

⁸⁷² MDC Legal Advisers, *Companies Act*, p.278.

⁸⁷³ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,137.

⁸⁷⁴ MDC Legal Advisers, *Companies Act*, p.131.

⁸⁷⁵ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,096; a subsidiary should not be included in consolidation "if: (a) control is to be temporary, or (b) the subsidiary operates under conditions in which severe long-term restrictions on the transfer of funds impair control by the parent company over the subsidiary's assets and operations."

⁸⁷⁶ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,092.

⁸⁷⁷ *Ibid.*, p.11,139.

Based on general accounting practice, goodwill often is not written down until its value has obviously diminished.⁸⁷⁸

6.3.5.2 Combined Companies Resulting from Business Combinations

IAS 22, "Accounting for Business Combinations," is still under study by the MACPA and the MIA. As of now, there is only general accounting practice as to how to account for a business combination. According to the practice, a business combination is accounted for by the purchase method.⁸⁷⁹ The pooling of interests method is not used.⁸⁸⁰

6.3.5.3 Companies Having Transactions with Foreign Enterprises

According to IAS 21, a company ought to show the basis of translating foreign currency.⁸⁸¹ It must use the exchange rate at the transaction date to record a foreign currency transaction.⁸⁸² If a foreign currency transaction is not settled within the same accounting period as the one that it occurred, the resulting foreign currency monetary items should be reported at the exchange rate at each balance sheet date.⁸⁸³ Any difference between the amount at which the transaction is presented in the current financial statements and the amount at which the transaction was recorded during the period or in previous financial statements is considered to be a foreign exchange gain or loss, and this type of foreign exchange gain or loss and the gains or losses on settled foreign currency transactions

⁸⁷⁸ Price Waterhouse Office in Malaysia, *Checklist for Compliance with Disclosure Requirements*, (Kuala Lumpur: Price Waterhouse Office in Malaysia, 1987), pp.5-7.

⁸⁷⁹ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 245.

⁸⁸⁰ *Ibid.*, tabulation 243.

⁸⁸¹ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, p.11,361.

⁸⁸² *Ibid.*

⁸⁸³ *Ibid.*

should be included in income of the period that they arise.⁸⁸⁴ As for translation of the financial statements of foreign operations, there are two methods of handling it. One method applies to those foreign operations that are not integral to the operations of the parent company and conduct all operations substantially in the local currency.⁸⁸⁵ This method involves translating all the assets and liabilities at the closing rate and taking all exchange differences arising from this translation to stockholders' equity.⁸⁸⁶ The second method applies to foreign operations that are integral to the operations of the parent company.⁸⁸⁷ This involves translating all monetary items at the closing rate and all non-monetary items at the exchange rates at transaction dates and taking all exchange differences arising from this translation to the profit and loss account.⁸⁸⁸

6.3.5.4 Companies with Distinguishable Components

The distinguishable components of a company normally refer to its industry segments or geographical segments. IAS 14, "Reporting Financial Information by Segment," provides that if a company has significant industry segments or geographical segments, it should disclose sales or other operating revenues of each segment, segment results, segment assets employed, etc.⁸⁸⁹

⁸⁸⁴ *Ibid.*

⁸⁸⁵ *Ibid.*, p.11,362.

⁸⁸⁶ *Ibid.*

⁸⁸⁷ *Ibid.*

⁸⁸⁸ *Ibid.*, pp.11,362-11,363.

⁸⁸⁹ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume B*, p.11,133.

6.4 Singapore

6.4.1 Fundamental Accounting Concepts and Policies

The fundamental accounting assumptions have two parts, concepts and policies. Therefore, they are discussed separately.

6.4.1.1 Concepts

In accordance with Statement of Accounting Standard (SAS) 1 of Singapore, going concern, consistency, and accrual should be recognized in Singapore as fundamental accounting concepts underlying the preparation of financial statements.⁸⁹⁰ In addition, management of any company, in selecting and applying the appropriate accounting policies, is to be guided by such concepts as prudence, substance over form, and materiality.⁸⁹¹

6.4.1.2 Policies

In accordance with SAS 1, corresponding figures for the preceding period should be included in financial statements; if a change in accounting principle generates a material effect in the current period, there should be disclosure of the change along with the reasons.⁸⁹² Its effect should also be disclosed.⁸⁹³ According to SAS 8, in case a change in accounting estimate occurs, a company must

⁸⁹⁰ The SSA, *SAS 1*, (Singapore: the SSA, 1977), p.4.

⁸⁹¹ *Ibid.*

⁸⁹² *Ibid.*, p.5.

⁸⁹³ *Ibid.*

account for the change prospectively.⁸⁹⁴ If it becomes difficult to make a distinction between a change in accounting principle and a change in accounting estimate, the change ought to be treated as a change in accounting estimate.⁸⁹⁵ Only when a statute or an accounting standard setting body requests the adoption of a different accounting principle or only when a change in accounting principle is deemed to result in a better presentation of the financial statements of a company, should the change in accounting principle be made.⁸⁹⁶ A change in accounting principle and correction of prior-period errors may be accounted for by amending comparative information currently presented in respect of prior period.⁸⁹⁷ SAS 10 requires that a company disclose in its financial statements events or transactions occurring between the date of the balance sheet and the date on which the financial statements are authorized for issue, if these events or transactions have a material effect on the financial position or results of operations being reported upon.⁸⁹⁸

The SSA has not adopted IAS 15, "Information Reflecting the Effects of Changing Prices."⁸⁹⁹ Assets, liabilities, revenues, and expenses are stated at the amounts at which the transactions took place; if there is a departure from historical cost convention, the departure ought to be revealed. The financial statements prepared on the basis of historical cost convention do not provide any information on the effect of changes in the general price level or on the effect of changes in specific prices.

⁸⁹⁴ The SSA, *SAS 8*, (Singapore: the SSA, 1980), p.3.

⁸⁹⁵ *Ibid.*, p.4.

⁸⁹⁶ *Ibid.*

⁸⁹⁷ *Ibid.*

⁸⁹⁸ The SSA, *SAS 10*, (Singapore: the SSA, 1980), pp.5-6.

⁸⁹⁹ The SSA, "SSA Technical Pronouncements -- June 1987," p.22.

6.4.2 Balance Sheet

The balance sheet comprises items such as fixed assets, inventories, investments, receivables, liabilities, and stockholders' equity. The accounting requirements and practices regarding these items are surveyed. These items are selected because they are representative of the main items of balance sheet listed in IAS 5, "Information to Be Disclosed in Financial Statements."⁹⁰⁰

6.4.2.1 Fixed Assets

According to Paragraph 6 of the 9th Schedule of the Companies Act, a company should show the basis on which fixed assets are stated and accumulated depreciation.⁹⁰¹ Paragraph 2(1) of the 9th Schedule requires intangible assets to be amortized over the period estimated to be benefited.⁹⁰²

SAS 4 requires that any possible economic obsolescence of a fixed asset should be taken into account in determining its estimated useful life.⁹⁰³ According to SAS 5, fixed assets need to be divided into categories such as land, buildings, plant, machinery, and so on; a company must indicate the methods of depreciation used for each category of fixed assets along with the rate of depreciation and number of years over which provision is made for depreciation; the future capital expenditure of firm contracts which has not been accrued at the date of the financial statements is disclosed; and the future capital expenditure authorized by the directors which has not contracted for at the date of the financial statements need not be disclosed.⁹⁰⁴ SAS 14 includes the following provisions concerning fixed assets: (a) historical cost or a revaluation ought to be the gross carrying amount of

⁹⁰⁰ Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, pp.11,118-11,120.

⁹⁰¹ The Singapore National Printers Ltd., *Acts Supplement*, p.341.

⁹⁰² *Ibid.*, p.335.

⁹⁰³ The SSA, *SAS 4*, (Singapore: the SSA, 1977), p.3.

⁹⁰⁴ The SSA, *SAS 5*, (Singapore: the SSA, 1981), pp.8-10.

an asset contained in property, plant, and equipment; (b) only those costs that relate directly to a specific self-constructed fixed asset such as property, plant, and equipment and those costs that can be attributed to the construction activity in general and can be allocated to the specific fixed asset should be the cost of that specific fixed asset. An appropriate overhead and interest on money borrowed to finance the construction, in addition to material and labor costs, are viewed as parts of its cost; (c) if the fair value of an item or a group of items of property, plant, and equipment falls below the net carrying amount, the net carrying amount should be reduced to the fair value; (d) if the upward revaluation of property, plant, and equipment is made in financial statements, the resulting increase in net carrying amount should be transferred directly to the heading of revaluation surplus; (e) if revaluation occurs, the basis should be disclosed and the depreciation is based on the revalued amount.⁹⁰⁵ Finally, SAS 15 requires the methods of accounting for leases and the amount of assets which are the subject of finance leases to be disclosed.⁹⁰⁶ Under general accounting practice, the straight-line method is used more frequently in depreciating fixed assets whereas the declining-balance method or the sum-of-the-years'-digits method is used less frequently.⁹⁰⁷

6.4.2.2 Inventories

SAS 2 contains the following provisions regarding inventories: (a) a company must disclose the basis on which inventories are stated and record them based on the lower of historical cost and net realizable value, which is defined as "the estimated selling price in the ordinary course of business less costs of completion and less costs necessarily to be incurred in order to make the sale;" (b) the cost of goods manufactured should consist of direct materials, direct labor, variable factory overhead, fixed factory overhead, and other overheads incurred in bringing inventories to their current location and condition; (c) inventories are divided into: finished goods held for sale, work-in-

⁹⁰⁵ The SSA, *SAS 14*, (Singapore: the SSA, 1983), pp.6-8.

⁹⁰⁶ The SSA, *SAS 15*, (Singapore: the SSA, 1984), pp.9-11.

⁹⁰⁷ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 63, 64.

process, materials to be used in producing goods or services for sale, and merchandise.⁹⁰⁸ According to general accounting practices, a previous reduction of inventories from cost to market can be reversed when market later recovers, and the FIFO method as a cost flow assumption is used more often while other cost flow assumptions such as the LIFO and weighted average methods are used less often.⁹⁰⁹

6.4.2.3 Investments

Paragraph 6(5) of the 9th Schedule of the Companies Act provides that a company disclose the basis on which the investments are stated and that the market value of quoted investments be shown if their market value is different from their carrying amount.⁹¹⁰ SAS 3 requires investments in equity securities of the following two kinds to be accounted for by the equity method: (a) investments in subsidiaries and (b) investments in less than 50% owned companies over whose operating and financial policies the investor can exercise significant influence.⁹¹¹ IAS 25, "Accounting for Investments," is still under study by the SSA. There are several general accounting practices which concern investments. (a) Current investments in marketable equity securities are recorded by using the lower of cost and market method, and the entire portfolio is valued as one asset. Changes in their carrying value are included in determination of income; (b) noncurrent investments in marketable equity securities are recorded at cost when there is no lasting reduction in their value; (c) a provision for any lasting reduction of the carrying value of an investment is usually made, but if the value of the investment later recovers, the reduction is seldom reversed; (d) the excess of

⁹⁰⁸ The SSA, *SAS 2*, (Singapore: the SSA, 1977), pp.1-3.

⁹⁰⁹ R. D. Fitzgerald, A. D. Stuckler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 78, 83, 84.

⁹¹⁰ The Singapore National Printer Ltd., *Acts Supplement*, p.342.

⁹¹¹ The SSA, *SAS 3*, (Singapore: the SSA, 1977), p.9.

dividends from investments accounted for by the cost basis over an investor's portion of earnings since purchase is considered a deduction from the investment account.⁹¹²

6.4.2.4 Receivables

Paragraph 4(1) of 9th Schedule of the Companies Act stipulates that a company reduce receivables by making provisions for possible losses on different accounts.⁹¹³ Paragraph 4(4) of the 9th Schedule requires a company to disclose receivables from its affiliated companies and its directors.⁹¹⁴ SAS 21 further provides that a company disclose receivables from its employees.⁹¹⁵

6.4.2.5 Liabilities

Paragraphs 4(2) and 4(3) of the 9th Schedule of the Companies Act stipulate that a company disclose its liabilities to its affiliated companies and directors as well as any contingent liabilities and show the amount outstanding on each issue of long-term debt.⁹¹⁶ Paragraph 5 of the 9th Schedule demands that a company disclose liabilities secured by its assets.⁹¹⁷ Disclosure of the interest rate on each issue of long-term debt and the term of each issue of long-term debt is required by SAS 5.⁹¹⁸ Further SAS 13 provides that assets and liabilities can offset each other if a legal right of set-off

⁹¹² R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 93, 94, 95, 100, 110, 111.

⁹¹³ The Singapore National Printers Ltd., *Acts Supplement*, p.338.

⁹¹⁴ *Ibid.*, pp.339-341.

⁹¹⁵ The SSA, *SAS 21*, (Singapore: the SSA, 1987), pp.2, 9.

⁹¹⁶ The Singapore National Printers Ltd., *Acts Supplement*, pp.339-341.

⁹¹⁷ *Ibid.*

⁹¹⁸ The SSA, *SAS 5*, p.10.

⁹¹⁹ The SSA, *SAS 13*, (Singapore: the SSA, 1982), p.5.

exists.⁹¹⁹ SAS 21 requires a company to disclose liabilities to its employees.⁹²⁰ In case there is discount or premium on an issue of long-term debt, the discount or premium is amortized in accordance with the effective interest method.⁹²¹

6.4.2.6 Stockholders' Equity

Paragraphs 1, 3, and 4 of the 9th Schedule of the Companies Act have several stipulations regarding stockholders' equity. A company should provide details of rights and preferences of stockholders to dividends or to principal and details of any stock options exercised and outstanding.⁹²² The amount of arrears of cumulative dividends should be shown and a provision must be made for dividends proposed for approval by the next stockholders' annual general meeting.⁹²³ Restrictions imposed by trust deeds, bank loan agreements, or other legal obligations on distributions of retained should be disclosed.⁹²⁴

6.4.3 Profit and Loss Account

SAS 5 requests sales or other operating revenues to be shown.⁹²⁵ SAS 6 stipulates that primary earnings per share, fully diluted earnings per share, and the basis of earnings per share calculations be disclosed.⁹²⁶ SAS 8 requires extraordinary items to be included in income and the nature and

⁹²⁰ The SSA, *SAS 21*, pp.2, 9.

⁹²¹ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 126.

⁹²² The Singapore National Printers Ltd., *Acts Supplements.*, pp.336-338.

⁹²³ *Ibid.*

⁹²⁴ *Ibid.*

⁹²⁵ The SSA, *SAS 5*, p.12.

⁹²⁶ The SSA, *SAS 6*, (Singapore: the SSA, 1982), pp.2-3.

amount of each such item to be separately disclosed.⁹²⁷ Under SAS 9, the research and development costs are written off when incurred, but development costs may be deferred if certain specific requirements are met.⁹²⁸ SAS 11 requires that either the completed-contract method or the percentage-of-completion method be used in determining the profits on long-term construction contracts, but the latter method may be used only if the outcome of the contract can be reliably estimated.⁹²⁹ Also, a company must make provision for all expected losses on long-term construction contracts.⁹³⁰ SAS 12 provides that a company must depend on the tax effect accounting method to determine the tax expense for a period, using either the deferral or the liability method.⁹³¹ SAS 16 requires transaction involving the exchange of dissimilar nonmonetary assets to be measured by the fair value of the asset given up or the fair value of the asset acquired, whichever is more clearly evident.⁹³² Any profit or loss therefrom is to be recognized.⁹³³ The SAS also requires that sales be recorded by a company not at the time of order, but at the time of delivery.⁹³⁴ Lastly, SAS 17 requires companies to provide for pension costs over the term of employment.⁹³⁵ According to general accounting practice, dismissal indemnities are not paid to discharged employees.⁹³⁶

⁹²⁷ The SSA, *SAS 8*, p.4.

⁹²⁸ The SSA, *SAS 9*, (Singapore: the SSA, 1980), pp.3-4.

⁹²⁹ The SSA, *SAS 11*, (Singapore: the SSA, 1982), p.12.

⁹³⁰ *Ibid.*

⁹³¹ The SSA, *SAS 12*, (Singapore: the SSA, 1983), p.7.

⁹³² The SSA, *SSA 16*, (Singapore: the SSA, 1984), p.5.

⁹³³ *Ibid.*

⁹³⁴ *Ibid.*, p.6.

⁹³⁵ The SSA, *SSA 17*, (Singapore: the SSA, 1984), pp.9-10.

⁹³⁶ R. D. Fitzgerald, A. D. Stücker, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 176.

6.4.4 Other Statements and Reports

SAS 7 provides that the financial statements include a statement of changes in financial position which is prepared by cash approach, cash and cash equivalents approach, or working capital approach and that the approach used be made clear.⁹³⁷ The 9th Schedule of the Companies Act requires compilation of a profit and loss appropriation account, which normally includes the information in the American statement of retained earnings, as a result of the 1987 amendment to the Act.⁹³⁸ Section 201(5) of the Companies Act provides that a directors' report designed to explain a company's profit or loss for a fiscal year and its state of affairs at the end of the year be attached to every balance sheet and profit and loss account laid before the company's annual general meeting.⁹³⁹

6.4.5 Special Cases

6.4.5.1 Companies with Subsidiaries

Chapter 4, in discussing the Companies Act, has already given the definitions of a holding company and a subsidiary. Besides the Companies Act, SAS 3 also stipulates that a holding company should issue consolidated financial statements; it further states that a company should assign the cost of acquiring a subsidiary to its share of the individual identifiable assets and liabilities on the basis of their fair values at the date of acquisition and any unassigned amount is goodwill.⁹⁴⁰ Under Para-

⁹³⁷ The SSA, SAS 7, (Singapore: the SSA, 1982), pp.1, 5.

⁹³⁸ The Singapore National Printers Ltd., *Acts Supplement*, p.336.

⁹³⁹ The government Printers, *Companies Act*, p.223.

⁹⁴⁰ The SSA, SAS 3, pp.4, 8-11; a subsidiary should not be included in consolidation "if: (a) control is to be temporary, or (b) the subsidiary operates under conditions in which severe long-term restrictions on the transfer of funds impair control by the parent company over the subsidiary's assets and operations."

graph 2 of the 9th Schedule, goodwill is not written down until its value has obviously decreased.⁹⁴¹ Under SAS 7, a consolidated statement of changes in financial position normally needs to be prepared in addition to a consolidated balance sheet and a consolidated profit and loss account.⁹⁴²

6.4.5.2 Combined Companies Resulting from Business Combinations

SAS 22 allows both the purchase method and the pooling of interests method to be used in accounting for a business combination.⁹⁴³ The two methods do not exist as alternatives in accounting for the same business combination. Only in rare circumstances when a business combination is deemed to be a uniting of interests, is the pooling of interests method used.⁹⁴⁴ In other words, the pooling of interests method is required, only when a business combination meets specified conditions.⁹⁴⁵

6.4.5.3 Companies Having Transactions with Foreign Enterprises

All the accounting regulations on foreign currency translation are contained in SAS 20, a few provisions of which need to be mentioned. A company is required to state the basis of translating foreign currencies.⁹⁴⁶ Each asset, liability, revenue, or expense resulting from the foreign currency transaction must be translated at the rate at the transaction date while, at the balance sheet date, foreign currency monetary items resulting from foreign currency transactions are translated at the

⁹⁴¹ The Singapore National Printers Ltd., *Acts Supplement*, p.335.

⁹⁴² The SSA, *SAS 7*, pp.2-3.

⁹⁴³ The SSA, *SAS 22*, (Singapore: the SSA, 1987), pp.7-9.

⁹⁴⁴ *Ibid.*

⁹⁴⁵ *Ibid.*

⁹⁴⁶ The SSA, *SAS 20*, (Singapore: the SSA, 1986), pp.8-9.

rate at that date.⁹⁴⁷ Exchange gains and losses on unsettled and settled transactions should be recognized in income in the period that they occur.⁹⁴⁸ In regard to translation of the financial statements of foreign operations, two methods are available. If a foreign operation can be regarded as a foreign entity whose activities are not an integral part of those of its parent company, the parent company should translate all its assets and liabilities at the closing rate and take all exchange differences arising from this translation to stockholders' equity.⁹⁴⁹ On the other hand, if a foreign operation is integral to the operations of its parent company, the parent company should translate all its monetary items at the closing rate and all its non-monetary items at the exchange rates in effect at the transaction dates and take all exchange differences arising from this translation to the profit and loss account.⁹⁵⁰

6.4.5.4 Companies with Distinguishable Components

The distinguishable components of a company take the form of industry segments or geographical segments. Recommended Accounting Practice 2, "Reporting Financial Information by Segment," requests a company with distinguishable components to observe some financial reporting requirements. For example, it should disclose sales or other operating revenues of each segment, segment results, segment assets employed, etc.⁹⁵¹

⁹⁴⁷ *Ibid.*, p.9.

⁹⁴⁸ *Ibid.*

⁹⁴⁹ *Ibid.*, p.10.

⁹⁵⁰ *Ibid.*, p.11.

⁹⁵¹ The SSA, *Recommended Accounting Practice 2*, (Singapore: the SSA, 1984), p.5.

6.5 Taiwan

6.5.1 Fundamental Accounting Concepts and Policies

There are two component parts in the fundamental accounting assumptions. The two parts are discussed separately.

6.5.1.1 Concepts

Sections 9 and 31 of the Commercial Accounting Law stipulate that all companies should follow the accrual concept.⁹⁵² Statement 1 issued by the ARDF further stipulates that all companies should observe the following basic accounting concepts: going concern, consistency, prudence, substance over form, and materiality.⁹⁵³

6.5.1.2 Policies

Statement 1 issued by the ARDF requires the historical cost convention to be used.⁹⁵⁴ According to Statement 8, when a company makes a change in an accounting estimate, it should report the change prospectively; when it is difficult to draw a clear distinction between a change in accounting principle and a change in accounting estimate, the change should be handled as a change in ac-

⁹⁵² Chi Tang Lin, *Newest Comprehensive collection of Six Laws* (in Chinese), pp.223-224.

⁹⁵³ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), (Taipei: the FASC of the ARDF, 1984). pp.3-4.

⁹⁵⁴ *Ibid.*, p.4.

counting estimate.⁹⁵⁵ A change in accounting principle should not be made unless there is a change in circumstances or the new principle is better than the old.⁹⁵⁶ When a company makes a change in accounting principle that produces a material effect on the comparability of its financial statements of different fiscal periods, it should disclose the change, the reason for the change, and the effect of the change.⁹⁵⁷ A change in accounting principle, with a few exceptions, is not accounted for by restating financial information currently presented in respect of prior period, but a prior-period error must be corrected by restatement of financial information currently presented in respect of that period.⁹⁵⁸ Statement 9 requires a company to disclose important post balance sheet events or transactions in the financial statements.⁹⁵⁹

Companies in Taiwan also adhere to accounting policies contained in some general accounting practices. For example, the financial statements for the present fiscal year usually contain comparative figures for the previous period.⁹⁶⁰ The financial statements compiled by a company based on the historical cost convention do not include any information on the effect of changes in the general price levels or on the effect of changes in specific prices.⁹⁶¹

⁹⁵⁵ The FASC of the ARDF, *Statement 8, Accounting Changes and Standard for Adjustment of the Profit or Loss of Prior Period* (in Chinese), (Taipei: the FASC of the ARDF, 1986), pp.3-4.

⁹⁵⁶ *Ibid.*, p.2.

⁹⁵⁷ *Ibid.*, pp.2-3.

⁹⁵⁸ *Ibid.*, pp.3-4.

⁹⁵⁹ The FASC of the ARDF, *Statement 9, Standard for Contingencies and Post Balance Sheet Events* (in Chinese), (Taipei: the FASC of the ARDF, 1986), pp.3-4.

⁹⁶⁰ Nan Ya Plastic Corporation, *Proceedings of Annual General Meeting of Stockholders* (in Chinese), (Taipei: Nan Ya Plastic Corporation, 1985), p.35.

⁹⁶¹ *Ibid.*, p.37.

6.5.2 Balance Sheet

The balance sheet includes such items as fixed assets, inventories, investments, receivables, liabilities, and stockholders' equity. Accordingly, these items will be investigated. These items are selected because they are representative of the main items of balance sheet listed in IAS 5, "Information to Be Disclosed in Financial Statements."⁹⁶²

6.5.2.1 Fixed Assets

Statement 1 issued by the ARDF provides the following provisions concerning fixed assets: (a) the basis on which fixed assets are stated should be disclosed and fixed assets should be divided into land, depreciable assets, and depletive assets; (b) fixed assets are recorded at purchase cost or construction cost, including the direct cost of materials and labor, an appropriate portion of overhead, tax, and all the necessary expenses (interest) incurred up to the point of completion; (c) the cost of depreciable assets or depletive assets is computed by deducting accumulated depreciation or depletion from acquisition or construction cost or original depletion base; (d) the depreciation or depletion method should be disclosed, as should the estimated life of asset; (e) a company may revalue its fixed assets (including land and natural resources) and intangible assets in accordance with certain prescribed procedures. After revaluation, depreciation, depletion, or amortization is based on the revalued amount; (f) a company should amortize its intangible assets over the period estimated to be benefited, but the period should not exceed twenty years.⁹⁶³ According to Section 46 of the Commercial Accounting Law, if the revaluation amount exceeds the original cost or the previous revaluation amount of the fixed assets, the excess should be credited to revaluation reserve.⁹⁶⁴

⁹⁶² Commerce Clearing House, Inc., *AICPA Professional Standards, Volume 2*, pp.11,118-11,120.

⁹⁶³ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), pp.6-7.

⁹⁶⁴ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.225.

Statement 2 requires companies to use capital lease as well as operating lease procedures to account for their leased assets.⁹⁶⁵

Companies also follow some general accounting practices in recording fixed assets. For instance, a company discloses the future capital expenditure of firm contracts not accrued at the date of the financial statements and the future capital expenditure authorized by its directors but not contracted for at the date of the financial statements.⁹⁶⁶ The straight-line method is more frequently used in depreciating fixed assets while the declining-balance method or the sum-of-the-years'-digits method is used less frequently.⁹⁶⁷

6.5.2.2 Inventories

Section 36 of the Commercial Accounting Law requires companies to disclose the cost flow assumption made in computing the cost of inventories.⁹⁶⁸ Statement 10 of the ARDF contains the following provisions: (a) inventories include finished goods and/or commodities, work-in-process, and materials. The cost of manufactured goods should contain direct labor, direct materials, variable factory overhead, and fixed factory overhead; (b) inventories are valued based on the lower of cost and market method and the basis on which inventories are stated should be disclosed; (c) market value is defined as net realizable value or replacement cost. Replacement cost means the cost of purchasing or manufacturing identical goods while net realizable value means estimated selling price less reasonably predictable costs of completion and disposal; and (d) the replacement cost of an item, when used as market value, should not be more than its net realizable value and less than its

⁹⁶⁵ The FASC of the ARDF, *Statement 2, Accounting Standard for Lease* (in Chinese), (Taipei: the FASC of the ARDF, 1984), p.2

⁹⁶⁶ Nan Ya Plastic Corporation, *Proceedings of Annual General Meeting of Stockholders* (in Chinese), p.46.

⁹⁶⁷ R. D. Fitzgerald, A. D. Stückler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 63, 64.

⁹⁶⁸ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.224.

net realizable value minus a normal profit margin.⁹⁶⁹ A write-down of inventories from cost to market is not reversed when market recovers.⁹⁷⁰ According to general accounting practice, the weighted average method is used more frequently than the FIFO, LIFO, or specific identification methods in determining the cost of inventories.⁹⁷¹

6.5.2.3 Investments

Section 37 of the Commercial Accounting Law provides that cost of securities be determined by either the cost of their purchase or the weighted average method applied to each kind of securities.⁹⁷² In accordance with Statement 1 issued by the ARDF, current investments in marketable equity securities should be valued based on the lower of cost and market method, with the entire portfolio being treated as one asset.⁹⁷³ A decrease in the carrying value of the current investments in marketable equity securities is included in income and an increase in carrying value is allowed to the extent of the existing previous decrease.⁹⁷⁴ In accordance with Statement 5, noncurrent investments in marketable equity securities should also be priced based on the lower of cost and market method, with the entire portfolio being valued as one asset.⁹⁷⁵ A decrease in the carrying value of the noncurrent investments is a reduction in stockholders' equity. The carrying value of the noncurrent investments can increase to the extent that a write-down in the carrying value has oc-

⁹⁶⁹ The FASC of the ARDF, *Statement 10, Appraisal and Disclosure of Inventories* (in Chinese), (Taipei: the FASC of the ARDF, 1987), pp.3-4.

⁹⁷⁰ *Ibid.*

⁹⁷¹ R. D. Fitzgerald, A. D. Stickler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 85.

⁹⁷² Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.225.

⁹⁷³ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), p.5.

⁹⁷⁴ *Ibid.*

⁹⁷⁵ The FASC of the ARDF, *Statement 5, Accounting Standard for Long-Term Investments* (in Chinese), (Taipei: the FASC of the ARDF, 1985), pp.4-5.

⁹⁷⁶ *Ibid.*

curred.⁹⁷⁶ This Statement also provides that the equity method be used by an investor company to account for two kinds of investee companies : (a) an investee company, more than 50% of whose stocks the investor company controls and (b) an investee company, from 20% to 50% of whose stocks the investor company controls.⁹⁷⁷ According to general accounting practices, the market value is revealed if the market value of quoted investments and their carrying value are different; the excess of dividends from investments accounted for by the cost basis over investor's portion of earnings since acquisition of the investments should be recorded as a deduction from the investment account.⁹⁷⁸

6.5.2.4 Receivables

Statement 6 issued by the ARDF requires a company to disclose its receivables from affiliated companies, directors, and employees.⁹⁷⁹ A company should reduce receivables by making provisions for possible losses on different accounts.⁹⁸⁰

6.5.2.5 Liabilities

According to Statement 1 of the ARDF, a company should disclose any assets used as collateral and amortize discount or premium on an issue of long-term debt, using a reasonable and systematic method.⁹⁸¹ If a legal right of offset exists, assets and liabilities in balance sheet can offset each

⁹⁷⁷ *Ibid.*, p.3.

⁹⁷⁸ R. D. Fitzgerald, A. D. Stückler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 89, 100.

⁹⁷⁹ The FASC of the ARDF, *Statement 6, Disclosure of Related Party Transactions* (in Chinese), (Taipei: the FASC of the ARDF, 1985), pp.1-2.

⁹⁸⁰ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), p.5.

⁹⁸¹ *Ibid.*, pp.5-8.

⁹⁸² *Ibid.*

other.⁹⁸² There should be disclosure of each issue of long-term debt, which states its outstanding amount, interest rate, and term.⁹⁸³ Statement 6 requires that a company disclose its liabilities to affiliated companies, directors, and employees.⁹⁸⁴ And statement 9 stipulates that contingent liabilities be disclosed in financial statements.⁹⁸⁵

6.5.2.6 Stockholders' Equity

Statement 1 issued by the ARDF requires a company to disclose rights and preferences of stockholders to dividends and to principal, cumulative dividends in arrears, restrictions on distributions of retained earnings which are imposed by trust deeds, bank loan agreements, or other legal obligations.⁹⁸⁶ Section 240 of the Companies Law requires a company to record dividends satisfied by the issue of par value shares at the par value.⁹⁸⁷ There is no need to account for treasury stock since companies do not buy their own stocks.⁹⁸⁸ According to general accounting practice, a company usually makes provision for dividends proposed for approval by the next stockholders' annual general meeting.⁹⁸⁹

⁹⁸² *Ibid.*, p.8.

⁹⁸³ The FASC of the ARDF, *Statement 6, Disclosure of Related Party Transactions* (in Chinese), pp.1-2.

⁹⁸⁴ The FASC of the ARDF, *Statement 9, Standard for Contingencies and Post Balance Sheet Events* (in Chinese), pp.3-4.

⁹⁸⁵ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), pp.9-10.

⁹⁸⁶ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), p.130.

⁹⁸⁷ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), pp.9-10.

⁹⁸⁸ R. D. Fitzgerald, A. D. Stuckler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 135.

6.5.3 Income Statement

According to Statement 1 of the ARDF, sales need to be recorded at the time of delivery, not at the time of order, and sales, other revenues, cost of sales, other costs, and extraordinary gains and losses should be shown.⁹⁹⁰ The exchange of fixed assets of different kinds should be recorded at the fair value of the asset given up or the fair value of the asset acquired, whichever is more reliably ascertainable. Any gain or loss therefrom should be included in income.⁹⁹¹ In accordance with Statement 11, when it is possible to estimate profit or loss based on the progress of construction in each fiscal period, the percentage-of-completion method should be used, otherwise the completed-contract method is used.⁹⁹² A company should make provision for all expected losses on long-term construction contracts.⁹⁹³

There are some general accounting practices regarding the determination of income. Research costs and development costs are usually recorded as expense when incurred.⁹⁹⁴ A company provides for pension costs on the accrual basis.⁹⁹⁵ Companies usually provide dismissal indemnities to discharged employees on an average annual requirement basis.⁹⁹⁶ If accounting income and taxable income are different, taxable income is usually basis of making the provision for taxes.⁹⁹⁷ Therefore, deferred

⁹⁹⁰ The FASC of the ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), pp.6-7, 10-11.

⁹⁹¹ *Ibid.*

⁹⁹² The FASC of the ARDF, *Statement 11, Accounting for Long-Term Construction Contract* (in Chinese), (Taipei: the FASC of the ARDF, 1987), pp.2-3.

⁹⁹³ *Ibid.*

⁹⁹⁴ R. D. Fitzgerald, A. D. Stuckler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulations 180, 181.

⁹⁹⁵ Nan Ya Plastic Corporation, *Proceedings of Annual General Meeting of Stockholders* (in Chinese), p.35.

⁹⁹⁶ R. D. Fitzgerald, A. D. Stuckler, and T. R. Watts, ed., *International Survey of Accounting Principles and Reporting Practices*, tabulation 177.

⁹⁹⁷ Taiwan Plastic Corporation, *Proceedings of Annual General Meeting of Stockholders* (in Chinese), (Taipei: Taiwan Plastic Corporation, 1985), p.35.

income tax is not often found in the balance sheet. Neither primary earnings per share, nor fully diluted earnings per share, nor the basis of calculation of earnings per share are disclosed.⁹⁹⁸

6.5.4 Other Statements and Reports

Besides the Rules Governing the Compilation of Financial Statements by Companies with Issued Securities drawn up by the SEC, Statements 1 and 4 issued by the ARDF require the preparation of a statement of changes in financial position as part of the financial statements presented to the stockholders' annual general meeting.⁹⁹⁹ In addition to the Companies Law and the above-mentioned Rules, Statement 1 also requires the preparation of a statement of appropriation of retained earnings.¹⁰⁰⁰ Another statement made mandatory by the Companies Law and the Commercial Accounting Law is the general inventory of properties.¹⁰⁰¹ Section 228 of the Companies Law provides that a director's report explaining a company's financial situation be attached to the financial statements.¹⁰⁰²

⁹⁹⁸ *Ibid.*, p.33.

⁹⁹⁹ The FASC of ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), p.12; the Financial Accounting Committee of the NFCPAA, *Statement 4, Statement of Changes in Financial Position* (in Chinese), (Taipei: the Financial Accounting Committee of the NFCPAA, 1983), p.1.

¹⁰⁰⁰ The FASC of ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), p.12.

¹⁰⁰¹ Chi Tung Lin, *Newest Comprehensive Collection of Six Laws* (in Chinese), pp.129, 226.

¹⁰⁰² *Ibid.*, p.129.

6.5.5 Special Cases

6.5.5.1 Companies with Subsidiaries

In accordance with Statement 1 of the ARDF, if an investor company can exercise control over an investee company, the investor company should prepare consolidated financial statements besides its own corporate financial statements.¹⁰⁰³ Under Statement 7, an investor company is considered to be able to control an investee company when either of the following two requirements is satisfied: (a) the investor company owns more than 50% of the common stock of the investee company; (b) although the investor company owns less than 50% of the common stock of the investee company, the common stock of the investee company owned by the investor company, if combined with the common stock of the investee company owned by a third company controlled by the investor company, exceeds 50% of the total common stocks of the investee company.¹⁰⁰⁴ The consolidated financial statements consist of a consolidated balance sheet, a consolidated income statement, a consolidated statement of appropriation of retained earnings, and a consolidated statement of changes in financial position.¹⁰⁰⁵ If a parent company purchases a subsidiary, it should allocate the purchase consideration among its portion of the net tangible and intangible assets of the subsidiary in accordance with their fair values. If a difference exists between the purchase consideration paid by the parent company and its portion of the fair value attributed to net tangible and intangible assets, the difference is goodwill. Goodwill is to be amortized equally for a period

¹⁰⁰³ The FASC of ARDF, *Statement 1, Compilation of Generally Accepted Accounting Principles* (in Chinese), p.6.

¹⁰⁰⁴ The FASC of the ARDF, *Statement 7, Consolidated Financial Statements* (in Chinese), (Taipei: the FASC of the ARDF, 1985), p.3; a subsidiary should be excluded from consolidation if: (a) its business is different from that of the parent company, (b) it is declared bankrupt, (c) it is established in a foreign country where severe foreign exchange control measures prevent dividends from being transferred back to the parent company, or (d) its total assets and total revenue are less than 10% of the corresponding items of the parent company.

¹⁰⁰⁵ The FASC of the ARDF, *Statement 7, Consolidated Financial Statements* (in Chinese), p.3.

not less than five years and not more than twenty years.¹⁰⁰⁶ Intercompany transactions should be eliminated from consolidated statements.¹⁰⁰⁷

6.5.5.2 Combined Companies Resulting from Business Combinations

With regard to methods of accounting for business combinations, Statement 7 of the ARDF allows the purchase method to be used.¹⁰⁰⁸ Application of the pooling of interests method is still being considered by the ARDF.¹⁰⁰⁹

6.5.5.3 Companies Having Transactions with Foreign Enterprises

As of now, there are no statutory, nonstatutory, or professional pronouncements regarding foreign currency transactions and translation of foreign currency financial statements. But there have come into existence the following general accounting practices as to how they should be handled: (a) a company shows the basis of translating foreign currencies; it translates each asset, liability, revenue, or expense resulting from the foreign currency transaction at the rate at the transaction date. At the balance sheet date, foreign currency monetary items arising from foreign currency transactions should be translated at the rate at that date; (b) any exchange gains and losses on unsettled and settled foreign currency transactions are included in income in the period that they occur; (c) in translating foreign currency financial statements, it uses closing exchanges rate for monetary items and historical rates for non-monetary items; exchange differences arising from translation of foreign currency financial statements are taken into income.¹⁰¹⁰

¹⁰⁰⁶ *Ibid.*, p.4.

¹⁰⁰⁷ *Ibid.*, pp.3-4.

¹⁰⁰⁸ *Ibid.*, p.1.

¹⁰⁰⁹ *Ibid.*

¹⁰¹⁰ The information was provided by Mr. C. K. Wu of Chen, Chu & Co. in Taipei.

6.5.5.4 Companies with Distinguishable Components

As of now, neither formal pronouncements nor clear general accounting practices exist regarding how companies report financial information by segment. However, this problem is expected to be dealt with by the ARDF in the future.

6.6 Comparison

This Chapter contains a survey of the reporting requirements and practices adhered to by profit-making enterprises in the five countries. Many similarities and differences in financial reporting between the five accounting systems have been identified. The comparison is designed to call attention to some similarities and differences.

6.6.1 Similarities

Fundamental accounting concepts adopted by the five accounting systems are practically identical. Going concern, consistency, accrual, prudence, substance over form, and materiality are important concepts to be adhered to, though the adherence may be only implicitly required in some cases. Some similar fundamental accounting policies have also been adopted by them. A change in accounting principle should not be made unless there is sufficient reason. Financial statements are based on historical cost convention, and information on the effect of changes in the general price level and specific price information are seldom issued. All five countries have accepted the importance of disclosing important post balance sheet events or transactions in the financial statements.

The form and content of the balance sheets of the five accounting systems are similar. A balance sheet is divided into assets, liabilities, and stockholders' equity; assets are further divided into current assets and long-term assets and liabilities are further divided into current liabilities and long-term liabilities. The form and content of the profit and loss accounts (income statements) of the five accounting systems also show great resemblance. Extraordinary items should be included in income and the nature and amount of each such item ought to be shown. The position of the statement of changes in financial position as one of the required financial statements has been established in the five countries. Furthermore, firms in each of the five countries attach a director's report to the required financial statements at the annual general meeting of stockholders.

6.6.2 Differences

The first difference concerns whether some type of statement of retained earnings is required. The statement of appropriation of retained earnings needs to be prepared in Korea and Taiwan and the profit and loss appropriation account needs to be provided in Singapore whereas, in Hong Kong and Malaysia, such a statement is not required.

Another difference is that the Companies Law and the Commercial Accounting Law in Taiwan require a company to prepare a general inventory of properties as a part of the required financial statements. No such requirement was found in the other four countries.

The third difference lies in the kinds of consolidated financial statements required. Hong Kong, Malaysia, and Singapore require a consolidated profit and loss account, a consolidated balance sheet, and a consolidated statement of changes in financial position. Korea only requires the compilation of a consolidated balance sheet and a consolidated income statement. In Taiwan, the preparation of a consolidated statement of changes in financial position and a consolidated state-

ment of appropriation of retained earnings is required in addition to the two statements needed in Korea.

In regard to business combinations, there is no formal pronouncement in Hong Kong regarding how this should be handled, though both the purchase method and the pooling of interests method are in use according to general accounting practice. Korea has formally sanctioned the purchase method. Malaysia has not yet adopted IAS 22, "Accounting for Business Combinations," which approves both the purchase method and the pooling method. In accordance with general accounting practice, the purchase method is used. Singapore has officially allowed both the purchase method and the pooling of interests method to be used because it has adopted IAS 22. Taiwan has only formally permitted the use of the purchase method.

In the area of foreign currency translation, the methods used by Hong Kong accord very closely with the requirements of IAS 21, "accounting for the Effects of Changes in Foreign Exchange Rates;" Malaysia and Singapore have both adopted IAS 21. On the other hand, in Korea, the professional pronouncement concerning translation of foreign currency financial statements makes no distinction between a foreign entity whose activities are not an integral part of a parent company and a foreign operation which is integral to the operation of a parent company. Furthermore, exchange differences arising from translation of foreign currency financial statements are included in income. While Taiwan has issued no formal pronouncement concerning foreign currency translation, it generally uses the same methods as Korea in handling the translation of foreign currency financial statements.

The final difference is concerning whether to report financial information by segment. Hong Kong and Singapore suggest through nonbinding professional pronouncements that it is necessary to provide the segment information. Malaysia requires that the segment information be furnished through its adopted IAS 14. However, in Korea and Taiwan, there are no formal pronouncements regarding this problem, and segment information is not provided.

Chapter 7 Conclusions, Suggestions, Recommendations, and Limitations

Chapters 3, 4, 5, and 6 contain extensive reviews of the five accounting systems. A lot of data have been gathered and many observations have been made in the process. In this Chapter, I draw four conclusions from the reviews. Drawing conclusions can be interpreted to mean formulating opinions from the data gathered and observations made. The opinions are to discover and explicate real-world situations or relationships. In addition, suggestions for improving the accounting systems in the five countries are explored. Three recommendations relating to future research in the area are also provided. Finally, the limitations of the study are discussed.

7.1 Conclusions

The first conclusion is that environmental factors have greatly influenced the development of the five accounting systems. The government regulation of accounting provides a basis for reaching this conclusion. Different histories of the five countries have contributed to differences in the way that government regulation of accounting has been established. Because of the long historical relations that Hong Kong, Malaysia, and Singapore have with the United Kingdom, their government regulation of accounting has been profoundly affected by that of the United Kingdom. The idea of placing all legal provisions relating to financial disclosure in one statute, the title of the statute, the

annual presentation of audited financial statements to the stockholders, the filing of the audited financial statements with the Registrar of Companies, and the granting of the power to the accounting profession to control entry into the profession have all originated from the United Kingdom. Many sections of the Companies Act of Singapore use the numbers of corresponding sections of the Companies Act of the United Kingdom.

South Korea and Taiwan have benefited from the experiences of advanced foreign countries, however, they have not been impacted by one single foreign country to the same degree as Hong Kong, Malaysia, and Singapore. Both of them have an ancient history as independent countries. Consequently, traces of their own traditions and impacts from more than one foreign country can be detected in their government regulation of accounting. The two countries have implemented the Western practice of enhancing the quality of professional accountants through a qualifying examination. However, because civil servants in South Korea and Taiwan have long enjoyed great prestige under the influence of Confucian teachings, the Ministry of Finance in South Korea and the Ministry of Examination in Taiwan have the power to conduct the CPA examinations. The reason that the Ministry of Examination, rather than the Ministry of Finance which is normally in charge of accounting affairs, is responsible for such examinations in Taiwan is that Taiwan's constitution divides the central government into five branches: the Executive Yuan (governing body), the Legislative Yuan, the Judicial Yuan, the Control Yuan, and the Examination Yuan. It is the Examination Yuan that has the sole responsibility for administering such examinations through its Ministry of Examination. Although the Securities and Exchange Laws of South Korea and Taiwan have been influenced by the 1933 Securities Act and the 1934 Securities and Exchange Act of the United States, the Securities and Exchange Commission in the two countries perform some unique functions, presumably because their civil servants are highly regarded. The Securities and Exchange Commission of South Korea has undertaken the task of formulating comprehensive accounting standards, while the Securities and Exchange Commission of Taiwan operates under the direct jurisdiction of the Ministry of Finance and is responsible for issuing CPA certificates. Finally, the statutory auditors installed by the Commercial Code of South Korea and the Companies Law of

Taiwan may be attributed to the influence from Japan, which first had statutory auditors in East Asia.

The second conclusion is that all five accounting systems have experienced rapid development in the 1980s and have begun to exert an influence on neighboring Asian countries. The rapid development is primarily evidenced by more financial disclosure and increased harmonization of their accounting standards. Rapid economic progress means that an increasing amount of capital needs to be raised from the public. This necessitates more financial disclosure to satisfy the public's demand for information. The statutory regulation of accounting is changing to meet this demand. The Law on External Audit of Joint-Stock Companies of Korea requires the issuance of a statement of changes in financial position besides the balance sheet, the income statement, and the statement of appropriation of retained earnings as originally mandated by the Commercial Code. The 9th Schedule of the Companies Act of Malaysia has recently added a statement of changes in financial position to the balance sheet and the profit and loss account as one of the required financial statements. The 9th Schedule of the Companies Act of Singapore has recently stipulated that the profit and loss appropriation account be compiled in addition to the balance sheet and the profit and loss account.

If the statutory regulation cannot keep pace with the ever-changing economic situation, the non-statutory regulation of accounting moves to fill the void by providing disclosure rules beyond legal requirements. The semiannual reports which companies in all five accounting systems are required to present by the Stock Exchanges are an example. Another example can be found in the Rules Governing the Compilation of Financial Statements by Companies with Issued Securities published by the Securities and Exchange Commission of Taiwan, which require the statement of changes in financial position in addition to the statutorily required balance sheet, general inventory of properties, income statement, and statement of appropriation of retained earnings. When government regulation of accounting proves insufficient, the professional accounting organizations take action. The Hong Kong Society of Accountants requires the statement of changes in financial position to be submitted in addition to the statutorily required balance sheet and profit and loss account. The

Singapore Society of Accountants demands preparation of the statement of changes in financial position besides the statutorily required balance sheet, profit and loss account, and profit and loss appropriation account.

Economic progress in the five countries has also increased the daily contacts with foreign enterprises and fostered the growth of international accounting firms and formal links with foreign accounting firms. This phenomenon has been conducive to the transfer of accounting ideas and practices and has contributed to harmonizing accounting standards. In the late 1970s, Hong Kong, South Korea, Singapore, and Taiwan included the statement of changes in financial position as one of the necessary financial statements. Malaysia did not include it then, but it does now. In the late 1970s, Hong Kong, South Korea, Malaysia, and Singapore required issuance of consolidated financial statements, together with parent company corporate financial statements, to the stockholders of the parent company. Taiwan did not have such a requirement then, but it has now.

The Accounting Research & Development Foundation of Taiwan has recently issued statements on accounting and auditing standards in keeping with the recent accounting and auditing trends in the world. Under the Commercial Accounting Law of Taiwan, an exchange of nonmonetary assets of different kinds is accounted for by the cost of asset given up or the fair value of asset acquired, whichever is clearly more evident. Statement 1 issued by the Accounting Research & Development Foundation has modified its requirement to provide that such exchanges be accounted for by the fair value of asset given up or the fair value of asset acquired, whichever is more reliably ascertainable. This move is designed to keep up with current thinking regarding this accounting problem. South Korea, in its latest edition of the Commercial Code, dropped the general inventory of properties as one of the required financial statements because a general inventory of properties is deemed to become obsolete. After International Accounting Standard 21, "Accounting for the Effects of Changes in Foreign Exchange Rates," became operational in 1985, Hong Kong accepted its requirements in 1985 and Singapore and Malaysia adopted them in 1986 and 1987, respectively. South Korea and Taiwan still do not subscribe to International Accounting Standard 21. But if

history is any guide, the two countries will adopt International Accounting Standard 21 requirements within the next few years.

The rapid development of the five accounting systems makes it possible for them to influence their neighboring countries. The Hong Kong Society of Accountants and the Singapore Society of Accountants pride themselves on being able to assist China in improving its accounting system. The Malaysian Association of Certified Public Accountants maintains a close relationship with the Accounting Society of China. Although there are no known contacts between the Korean Institute of Certified Public Accountants or Taiwan's National Federation of CPA Associations and the Accounting Society of China, numerous opportunities for their members to establish relations exist. Also, informal exchanges between South Korea or Taiwan and China have increased. Other countries in Southeast Asia tend to view the five countries as examples of economic success to be imitated. They are eager to learn from the five countries' experiences in developing accounting systems to coordinate with economic progress.

The third conclusion is that the accounting systems of Hong Kong, Malaysia, and Singapore constitute a special category within the five accounting systems. The similarities among the three countries, although taking many forms, are rooted in the common training and education of their practicing accountants. A considerable number of members in the professional accounting bodies of the United Kingdom and other member states of the British Commonwealth have practiced in Hong Kong, Malaysia, and Singapore for a long time and they have commanded respect and power. Many citizens of the three countries are also members of these foreign accounting bodies. The qualifying examinations for accountants are written in English in the three countries. The prevailing cosmopolitan spirit has made it easier for the professional accounting organizations of the three countries to decide to adopt the International Accounting Standards of the International Accounting Standards Committee and/or to indicate the extent of compliance with the International Accounting Standards. This spirit also made it possible for Mr. Paul Phenix to resign as the Technical Director of the Malaysian Association of Certified Public Accountants in 1986 and to join the Hong Kong Society of Accountants immediately as its Technical Director. These factors, together with

similarities in government regulation of accounting, strongly suggest that the three accounting systems belong to one category.

In South Korea and Taiwan, the CPA examinations are written in their respective official languages. Moreover, civil servants, scholars, and servicemen in the two countries who have long occupied high positions throughout history can now be regarded as a powerful pressure group. It is no wonder that the CPA and other related laws have offered favorable treatment to those who wish to practice as accountants. And many of them do take advantage of this favorable treatment and become practicing accountants. On the other hand, few or no foreign CPAs are able to practice there directly. Consequently, their professional accounting organizations have retained a clearly endemic nature.

Although the accounting systems of Hong Kong, Malaysia, and Singapore have more in common with one another than with the accounting systems of South Korea and Taiwan, it should not be forgotten that important differences do exist among them. For example, Hong Kong has one professional accounting organization, the Hong Kong Society of Accountants, while Malaysia can be said to have two professional accounting organizations, the Malaysian Association of Certified Public Accountants and the Malaysian Institute of Accountants. The Malaysian Institute of Accountants also functions as a statutory regulatory body. None of the above accounting bodies is exactly like another in terms of organization and function. Moreover, a bachelor of accountancy degree from the recognized universities or institutes is sufficient to enable a holder to meet the examination requirement for members of the Singapore Society of Accountants, whereas a similar degree is not regarded by the Hong Kong Society of Accountants and the Malaysian Association of Certified Public Accountants as fully satisfying the examination requirement for their members. Needless to say, the differences between the three accounting systems and those of South Korea and Taiwan are even more pronounced and severe.

While some accounting systems are similar to one another, there still may be as many accounting systems as there are countries because the environmental conditions in the countries cannot evolve

uniformly. Accounting systems can only reflect the environments whose needs they serve. It cannot be overemphasized that one accounting system can benefit greatly by carefully watching what another accounting system experiences and how it reacts to its environment.

The final conclusion is that the United States accounting system has begun to have an impact on the five accounting systems. Only a few noticeable examples need to be cited. In Hong Kong, the Hong Kong Society of Accountants has recognized the American Institute of Certified Public Accountants as an accountancy body whose members can be allowed to become professional accountants. The Chairman of the Department of Accounting and Finance of Chinese University of Hong Kong was educated in the United States. In Malaysia, the Malaysian Association of Certified Public Accountants has recently permitted members of the American Institute of Certified Public Accountants who wish to become its members to sit for only the law II and taxation II papers. This treatment is the same as the Malaysian Association of Certified Public Accountants accords to members of the Institute of Chartered Accountants in England and Wales and to some other professional accounting bodies in the United Kingdom and several other Commonwealth member states. In Korea, it has been publicly acknowledged that its Securities and Exchange Commission has been patterned after the United States Securities and Exchange Commission. The Chairman of the International Affairs Research Committee of the Korean Institute of Certified Public Accountants received his education in the United States. In Singapore, according to the 1987 Accountants Act, the Public Accountants Board and the Institute of Certified Public Accountants of Singapore are to replace the Singapore Society of Accountants. The Public Accountants Board will serve as a statutory regulatory body and the Institute of Certified Public Accountants of Singapore will serve as a professional organization. The division of functions between the regulatory body and the professional organization is similar to the United States accounting system. Taiwan's Securities and Exchange Commission is equivalent to the United States Securities and Exchange Commission in terms of some functions performed. Furthermore, it has been openly stated that the Financial Accounting Standards Committee of the Accounting Research & Development Foundation of Taiwan is modeled after the Financial Accounting Standards Board of the

United States. The Chairman of the Financial Accounting Standards Committee also has a Ph.D. degree from an university in the United States.

The United States accounting system is expected to increase its influence on the five accounting systems in the future. For United States accounting academics, the continued development of these systems promises to be a source of personal satisfaction, because their former students are involved in developing and improving these systems.

7.2 Suggestions for Improving Accounting Systems in the Five Countries

This study provides a basis for several suggestions for improving the five accounting systems based on the material developed. These suggestions relate to improvements that some of the five accounting systems may acquire from others. Implementation may be ahead of social, economic, and political realities in the five countries, but they do consider how the systems may develop in the future.

The first suggestion is that South Korea and Taiwan adopt the International Accounting Standards issued by the International Accounting Standards Committee and the International Auditing Guidelines issued by the International Federation of Accountants. The Malaysian Association of Certified Public Accountants appears to have the best approach for adopting international standards and guidelines. An International Accounting Standard or International Auditing Guideline is issued with a Malaysian Forward as a local exposure draft before formal adoption by the Malaysian Association of Certified Public Accountants as a Malaysian International Accounting Standard or International Auditing Guideline. I think that South Korea and Taiwan should choose this method because it provides acceptable standards and guidelines and saves precious human and financial resources. The Hong Kong Society of Accountants and the Singapore Society of Accountants might also consider utilizing the Malaysian approach. As already discussed, the Hong Kong Society of Accountants only indicates the extent of compliance of its Statements of Standard Accounting

Practice with the International Accounting Standards. It issues its own Statements of Auditing Standard. The Singapore Society of Accountants issues its own Statements of Accounting Standard and Statements of Auditing Guideline to adopt the International Accounting Standards and International Auditing Guidelines, respectively.

The second suggestion is that South Korea and Taiwan make it easier for foreign CPAs to practice directly in their countries. For example, foreign CPAs could be allowed to open their own offices there. Knowledge of local law and taxation ought to be required of foreign CPAs through allowing them to take examinations on the two subjects in English. Residence requirements for a specified period need to be satisfied by foreign CPAs as well. It is time for the two countries to amend the rule of reciprocal treatment. Under this rule, CPAs of a foreign country would be permitted to practice in the two countries, if that country extends the same treatment to their CPAs. Because many foreign countries adopt a liberal immigration policy, citizens of the two countries can become CPAs in foreign countries through other channels. The reciprocal treatment has already been accorded to the two countries by several foreign countries, at least in spirit.

The third suggestion is that Hong Kong establish another statutory organization to operate as a regulatory body for CPAs, so that the Hong Kong Society of Accountants can function purely as a professional accounting organization. The method of separating a regulatory body for CPAs from a professional accounting organization has long been practiced in South Korea and Taiwan. In Malaysia, the Malaysian Association of Certified Public Accountants is a professional accounting organization while the Malaysian Institute of Accountants is primarily a regulatory body. The Singapore Society of Accountants is also being replaced by the Public Accountants Board that is a statutory regulatory body and the Institute of Certified Public Accountants of Singapore that is a professional organization. Of the five accounting systems, only Hong Kong does not publish an accounting journal. One reason for this may be that the Hong Kong Society of Accountants, as currently structured, is already assuming too many responsibilities to engage in the research needed for such a journal.

The fourth suggestion is that Hong Kong, South Korea, Malaysia, and Taiwan establish a closer and more formal relationship between their professional accounting organizations and their institutions of higher learning. In Singapore, a representative from an institution of higher learning is a statutory member of the Council of the Singapore Society of Accountants. In turn, a representative of the Society has served in the Council of the National University of Singapore. In Hong Kong, the Governor can appoint a maximum of two representatives from institutions of higher learning as members of the Council of the Hong Kong Society of Accountants. No representative of the Hong Kong Society of Accountants is formally empowered to serve in universities that offer accounting courses. There are no legal provisions in Korea, Malaysia, and Taiwan that entitle their academics to serve in their countries' professional accounting organizations. Singapore's system of formalizing the relationship between its accounting profession and the academic world could be adopted. This would encourage accounting academics and professional accounting organizations to work together in developing courses at the institutions of higher learning and also to assess the challenges faced by the accounting profession.

7.3 Recommendations for Future Researchers

The following are recommendations for future researchers interested in studying the accounting systems of foreign countries: (a) A trip to the countries of interest is recommended in order to gain a deeper understanding of the foreign accounting systems. All accounting systems are administered by human beings. Such a trip would make it possible to establish personal contact with and acquire basic knowledge of people associated with foreign accounting systems. (b) Before the trip, letters should be written to the professional accounting organizations, institutions of higher learning, accounting firms, and governmental agencies in these countries to request their assistance. The advance contact will enable the foreign organizations to have sufficient time to make preparation for any assistance which they are willing to render. (c) Writing should be done on the spot to the

maximum extent possible. This will alert future researchers to the need for certain materials concerning foreign accounting systems. It may be difficult to find these materials after the visitation.

7.4 Limitations

Descriptive research lacks a set of well-defined independent variables and a dependable variable, which can help establish the causal direction of the functional relationship between related matters. Conclusions that can be generalized beyond the subject matter described cannot be created by descriptive research. This sets descriptive research apart from other rigorous types of research. This general limitation of descriptive research is also a weakness of this study.

In selecting materials for the study, I had to decide what to look at and what to include. A goal was to be as objective as possible in assessing what materials were important. However, the selection of important accounting materials in this study is not likely to correspond with materials that others would have selected. Others may feel that important information has been excluded.

Before the visitations in September 1987, letters were sent to offices of Price Waterhouse & Co. in the five countries to update the information about the five accounting systems as contained in the 1979 *International Survey of Accounting Principles and Reporting Practices*, published by Price Waterhouse International. The Price Waterhouse Office in Hong Kong provided the information requested in writing. The Price Waterhouse Offices in the other four countries did not respond. During the visitations, however, they supplied some other materials or discussed the accounting information requested. Information about the current rules and regulations was obtained by purchasing the current statutory, nonstatutory, and professional accounting pronouncements. General accounting practices are defined as the practices that are not listed in any formal pronouncements, but are widely accepted by accountants. I found no written materials about the four countries that

dealt with general accounting practices. Consequently, the 1979 *International Survey of Accounting Principles and Reporting Practices* was used as a basis for updating this type of information. In the course of updating the survey of accounting practices for the five countries, I had to rely on written and oral information provided by the Price Waterhouse Offices in the four countries. In the study, footnotes are used to identify those practices that have not changed since 1979 and to indicate that the source of information is still the 1979 *International Survey of Accounting Principles and Reporting Practices*. However, since the Price Waterhouse Offices in these countries did not provide written information about the accounting practices, some of the information about general accounting practices may not be current at the time of this writing.

Some important materials written in Chinese and Korean were translated into English. These materials are identified in the bibliography. For those readers who are not fluent in the two languages, these materials may not be very helpful. Peat, Marwick, Mitchell & Co., Price Waterhouse & Co., the Korean Institute of Certified Public Accountants, and the National Federation of CPA Associations in Taiwan publish some materials concerning the accounting systems of Korea and Taiwan in the English language. Korean and Chinese terms were translated into their corresponding English terms by these organizations, and the terms are used in this study. Other materials written in Korean or Chinese had to be translated into English by me. Some loss of content may have resulted from those translations.

Appendix A. International Accounting Standards (IAS)

Operational Date

1975	IAS 1	Disclosure of Accounting Policies
1976	IAS 2	Valuation and Presentation of inventories in the Context of the Historical Cost System
1977	IAS 3	Consolidated financial Statements
1977	IAS 4	Depreciation Accounting
1977	IAS 5	Information to be disclosed in Financial Statements
(Withdrawn 1981)	IAS 6	Accounting responses to Changing Prices
1979	IAS 7	Statement of Changes in Financial Position
1979	IAS 8	Unusual and Prior Period Items and Changes in Accounting Policies
1980	IAS 9	Accounting for Research and Development Activities
1980	IAS 10	Contingencies and Events Occurring After the Balance Sheet Date
1980	IAS 11	Accounting for Construction Contracts
1981	IAS 12	Accounting for Taxes on Income
1981	IAS 13	Presentation of Current Assets and Current Liabilities
1983	IAS 14	Reporting Financial Information by Segment
1983	IAS 15	Information Reflecting the Effects of Changing Prices
1983	IAS 16	Accounting for Property, Plant & Equipment
1984	IAS 17	Accounting for Leases
1984	IAS 18	Revenue Recognition
1985	IAS 19	Accounting for Retirement Benefits in the Financial Statements of Employers
1984	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
1985	IAS 21	Accounting for the Effects of Changes in Foreign Exchange Rates

1985	IAS 22	Accounting for Business Combinations
1986	IAS 23	Capitalisation of Borrowing Costs
1986	IAS 24	Related Party Disclosures
1987	IAS 25	Accounting for Investments
1988	IAS 26	Accounting and Reporting by Retirement Benefit Plans

Appendix B. International Auditing Guidelines (IAG)

Issue Date		
1980	IAG 1	Objective and Scope of the Audit of Financial Statements
1980	IAG 2	Audit Engagement Letters
1980	IAG 3	Basic Principles Governing an Audit
1981	IAG 4	Planning
1981	IAG 5	Using the Work of Another Auditor
1981	IAG 6	Study and Evaluation of the Accounting System and Related Internal Controls in Connection with an Audit
1981	IAG 7	Control of the Quality of Audit Work
1982	IAG 8	Audit Evidence
1982	IAG 9	Documentation
1982	IAG 10	Using the Work of an Internal Auditor
1982	IAG 11	Fraud and Error
1983	IAG 12	Analytical Review
1983	IAG 13	Auditors Report
1984	IAG 14	Other Information in Audited Financial Statements
1984	IAG 15	Auditing in an EDP Environment
1983	IAG 16	Computer Assisted Audit Techniques
1983	IAG 17	Related Party Transactions
1985	IAG 18	Using the Work of an Expert
1985	IAG 19	Audit Sampling

1985	IAG 20	Effects of EDP on Accounting Systems and Internal Controls
1985	IAG 21	Events after the Balance Sheet Date
1985	IAG 22	Representations by Management
1986	IAG 23	Going Concern
1986	IAG 24	Special Purpose Audit Reports

Appendix C. Statements of Accounting Standard of Singapore

SAS 1	IAS 1	Disclosure of Accounting Policies
SAS 2	IAS 2	Valuation and Presentation of Inventories in the Context of the Historical Cost System
SAS 3	IAS 3	Consolidated Financial Statements
SAS 4	IAS 4	Depreciation Accounting
SAS 5	IAS 5	Information to be Disclosed in Financial Statements
SAS 6	–	Earnings per Share
SAS 7	IAS 7	Statement of Changes in Financial Position
SAS 8	IAS 8	Unusual and Prior Items and Changes in Accounting Policies
SAS 9	IAS 9	Accounting for Research and Development Activities
SAS 10	IAS 10	Contingencies and Events occurring after the Balance Sheet Date
SAS 11	IAS 11	Accounting for Construction Contracts
SAS 12	IAS 12	Accounting for Taxes on Income
SAS 13	IAS 13	Presentation of Current Assets and Current Liabilities
SAS 14	IAS 16	Accounting for Property, Plant and Equipment
SAS 15	IAS 17	Accounting for Leases
SAS 16	IAS 18	Revenue Recognition
SAS 17	IAS 19	Accounting for Retirement Benefits in the Financial Statements of Employers
SAS 18	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
SAS 19	IAS 23	Capitalization of Borrowing Costs

SAS 20	IAS 21	Accounting for the Effects of Changes in Foreign Exchange Rates
SAS 21	IAS 24	Related Party Disclosures
SAS 22	IAS 22	Accounting for Business Combinations

Appendix D. Statements of Auditing Guideline of Singapore

SAG 1	IAG 1	Objective and Scope of the Audit of Financial Statements
SAG 2	-	Special Reports Required of Accountants
SAG 3	IAG 2	Audit Engagement Letters
SAG 4	IAG 3	Basic Principles Governing an Audit
SAG 5	IAG 4	Audit Planning
SAG 6	IAG 5	Using the Work of Another Auditor
SAG 7	IAG 6	Study and Evaluation of the Accounting System and Related Internal Controls in Connection with an Audit
SAG 8	IAG 7	Control of the Quality of Audit Work
SAG 9	IAG 8	Audit Evidence
SAG 10	IAG 9	Documentation
SAG 11	IAG 10	Using the Work of an Internal Auditor
SAG 12	IAG 11	Fraud and Error
SAG 13	IAG 12	Analytical Review
SAG 14	IAG 15	Auditing in an EDP Environment
SAG 15	IAG 16	Computer Assisted Audit Techniques
SAG 16	IAG 20	The Effects of an EDP Environment on the Study and Evaluation of the Accounting System and Related Internal Controls
SAG 17	IAG 14	Other Information in Documents Containing Audited Financial Statements
SAG 18	IAG 13	Auditor's Report on Financial Statements
SAG 19	IAG 17	Related Parties

SAG 20	IAG 22	Representations by Management
SAG 21	IAG 23	Going Concern
SAG 22	IAG 19	Audit Sampling
SAG 23	IAG 18	Using the Work of an Expert
SAG 24	IAG 21	Date of the Auditor's Report; Events after the Balance Sheet Date; Discovery of Facts after the Financial Statements have been Issued
SAG 25	–	Value for Money Auditing in a Statutory Board

Appendix E. Selected Information on Financial Reporting in Hong Kong

The following information is compiled by the writer. In compiling this information, he relies upon materials provided by the Price Waterhouse Office in Hong Kong.

Majority accounting practice	Labor, materials, a reasonable portion of overhead, and interest arising from borrowing money to finance their construction in the period of construction constitute costs of constructing fixed assets.
Majority accounting practice	The straight-line method is used in depreciating fixed assets.
Majority accounting practice	The weighted average method is used in evaluating cost of inventories.
Majority accounting practice	The lower of cost and market method is used to report current investments in marketable equity securities; the value of each investment is computed separately; changes in the carrying value are included in computing income.
Majority accounting practice	Noncurrent investments in marketable equity securities are stated at cost if there is no lasting reduction in their value.
Majority accounting practice	If a lasting reduction in the carrying value of a noncurrent investment in marketable equity securities occurs, a provision for that reduction is made and the carrying value of that investment is reduced.
Majority accounting practice	The reduction in the carrying value of a noncurrent investment is reversed when the value is restored.
Majority accounting practice	The excess of dividends from investments accounted for by the cost basis over investor's portion of earnings since purchase is deducted from the investment account.

Majority accounting practice	A company reduces receivables by making provisions for possible losses on different accounts.
Majority accounting practice	A company discloses liabilities to its directors.
Majority accounting practice	The effective interest method is used to amortize discount or premium on an issue of long-term debt.
Majority accounting practice	If there is a legal right of set-off, assets and liabilities in the balance sheet offset each other.
Majority accounting practice	A company discloses restrictions imposed by legal obligations on distributions of retained earnings.
Majority accounting practice	Sales are recorded not at the time of order, but at the delivery time.
Majority accounting practice	A company provides for pension costs on the accrual basis.
Majority accounting practice	Research and development costs are written off when incurred.
Majority accounting practice	Nonmonetary exchange of assets of different kinds is measured by the fair value of the asset given up or the fair value of the received asset, whichever fair value is more clearly evident.
Majority accounting practice	A business combination that is not qualified to be accounted for by the pooling of interests method is treated by the purchase method.
Majority accounting practice	If the consideration given in a business combination accounted for by the purchase method is an issue of shares, the value of the underlying net assets purchased or the market value of the shares issued, whichever is more reliably ascertainable, is used to assess the fair value of the shares.
Majority accounting practice	Retained earnings of a combinee prior to a business combination treated by the purchase method are not included in the retained earnings of the combined company.
Minority accounting practice	The declining balance or sum-of-the-years'-digits method is used in depreciating fixed assets.
Minority accounting practice	A company discloses liabilities to its officers.

Appendix F. Abbreviations

AASC	Accounting & Auditing Standards Committee
ADM	Asian Dollar Market
AFA	ASEAN Federation of Accountants
AGM	Annual General Meeting
AICPA	American Institute of Certified Public Accountants
ARDF	Accounting Research & Development Foundation
ASAB	Accounting Standards Advisory Board
ASBE	Accounting Standards for Business Enterprises
ASC	Accounting Standards Committee
ASEAN	Association of Southeast Asian Nations
CACA	Chartered Association of Certified Accountants
CAPA	Confederation of Asian and Pacific Accountants
CIC	Capital Issues Committee
CPA	Certified Public Accountants
DJP	Democratic Justice Party
EASC	External Audit Supervisory Commission
EDP	Electronic Data Processing
EDPS	Electronic Data Processing System
FASB	Financial Accounting Standards Board
FASC	Financial Accounting Standards Committee
GDP	Gross Domestic Product
GNP	Gross National Product
HKSA	Hong Kong Society of Accountants

IAG	International Auditing Guideline
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
ICPAS	Institute of Certified Public Accountants of Singapore
IFAC	International Federation of Accountants
IMP	Industrial Master Plan
JLG	Joint Liaison Group
KICPA	Korean Institute of Certified Public Accountants
MACPA	Malaysian Association of Certified Public Accountants
MCA	Malaysian Chinese Association
MIA	Malaysian Institute of Accountants
NEP	New Economic Policy
NFCPAA	National Federation of CPA Associations
PAB	Public Accountants Board
PAP	People's Action Party
RAP	Recommended Accounting Practice
ROC	Republic of China
SAG	Statement of Auditing Guideline
SAS	Statement of Accounting Standard
SEC	Securities and Exchange Commission
SIC	Securities Industry Council
SSA	Singapore Society of Accountants
SSAP	Statement of Standard Accounting Practice
SSB	Securities Supervisory Board
USSR	Union of Soviet Socialist Republics

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