

# *On Corporate Accounting Information Distortion and Solutions*

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**Keywords:** accounting information, distortion, solutions.

**Abstract:** In the course of the market economics and the modernization of socialism, the relevant accounting system is constantly perfected, but the issue of corporate accounting information distortion keeps going and seems to gain momentum. Its economic and social consequences will be grim. By analyzing the various accounting distortions and causes of current enterprises, this paper proposes countermeasures and methods to improve accounting distortion, which will foster and support the smooth development of accounting work.

## **1. Introduction**

Accounting information distortion has become a rather severe task for China, triggering wasting and loss of state-owned assets and a slow-down in the development of China's stock market. The accounting work has become the breeding ground for corruption, further reducing the quality of accounting information, disturbing its users to make accurate decisions, thus affect the normal economic order in our country on the macroscopic development and operation.

On account that the vitality of financial work is to maintain the true degree in accounting information, for fully playing the role of enterprises financial management, we must improve the accounting information requirements.

## **2. The Current Situation of Accounting Information Distortion in Chinese Enterprises**

### **2.1 The Appearances of Accounting Information Distortion in Chinese Enterprises**

Accounting information has an inestimable effect on the enterprise itself and the entire national economy. In recent years, China's accounting information disclosure has been more standardized, but there exists serious accounting information distortion in a small proportion of enterprises: disorder accounting work order, fake statements, fake books, fake certificates. The specific appearance is as follows: malicious collusion to adjust profits, fictitious assets; related transactions for covering the financial distress of the enterprise; utilization of its accounting system defects and interest capitalization policies; large proportion of big shareholders' corporate funds; inter-period adjustment of corporate profits.

### **3. Harm from Accounting Information Distortion in Chinese Enterprises**

Accounting information distortion is always detrimental microscopically or macroscopically. The distortion of accounting information hides the real features of its unit economic activities. Microscopically, it will lead to misjudgment by the board and the management in the development strategy and market positioning of the company; Macroscopically, it conveyed inaccurate and wrong accounting information and economic data to the government, resulting in the policy formulated by the state divorced from the actual problems of the enterprise, seriously weakening the effectiveness of macroeconomic regulation and control and the seriousness of policies. False accounting information not only obscures the true face of corporate management chaos and disrupts the work order of the accounting industry, but fosters a corrupt wind, a market credit crisis and a drain of taxes and finally undermines the health of the national economy.

### **4. The Causes of Accounting Information Distortion of Chinese Enterprises**

#### **4.1. The Institution**

China's corporate accounting standards are not universally representative in formulation, so the accounting information of enterprises is not accepted and understood by most people. Therefore, it is inevitable for the distortion of accounting information. In the practice of Chinese enterprise reform, the first task is to establish an enterprise system that is compatible with China's current economy. And to do that, enterprises must have more sufficient autonomy to the policy alternatives, accordingly, the more likely corporate accounting information becomes distorted. Nowadays, in front of enterprises could resolve the contradiction between the old and new regulations and others. For example, there are many contradictions between the tax system and the accounting standards, which to some extent creates distortions in the accounting information of the enterprise.

#### **4.2. The Economy System**

For state-owned enterprises, lack of the effective relief and the restriction surveillance system, enterprises are seriously internal control. Capital growth as the main concern of the management leads to incomplete management evaluation system. The operators and related authoritative departments only value nice data giving rise to a large number of fraudulent behaviors and phenomena. In other regards, there is no effective supervision mechanism from the outside of enterprises is one of the causes for the distortion of accounting information.

#### **4.3. The Theoretical Approach**

There must be some limitations in measure at a monetary amount. When the inflation is rampant, the accountants of enterprises will distort the operating and financial situation, and cannot truly reflect the situation of enterprises at their source. Importance principle and conservatism principle is an important accounting principle abided by accounting and disclosure. which will inevitably affect the fair and reality audit of accounting statement. When enterprises use conservatism principle to measure and confirm revenue and expenditure, it will lead to the aberration of accounting information of enterprises from the real situation.

#### **4.4. The Enterprises**

Internal control accounting system has defective designs, which may be another cause of the

distortion of accounting information. Lack of qualified senior management personnel, weak legal consciousness will also distort enterprise accounting information. And once the financial personnel's quality is not high either, the accounting information distortion be aggravated.

## **5. Solutions and Suggestions for Accounting Information Distortion of Enterprises in China**

### **5.1. The Improvement of Accounting Standards**

Synthesizes the causes of accounting information distortion of small and medium-sized enterprises, in addition to the problems of the enterprises themselves and inadequate supervision outside of the enterprises, it also requires some reflections on the widespread of accounting information distortion at the government level. The existing laws and regulations that are not applicable to small and medium-sized enterprises, or in the other way, they are just a broader guidance for SME instead of a concrete management system. With regard to institutional reforms and innovations, it would be better to implement a centralized accounting management system, indirectly weakening the rights of operators and the bad influence of their individual wills on the enterprises. In order to formulate a more representative accounting standards, all walks of life should be participants to enable accounting standards close to a representative of the interests of all parties, thereby avoiding bias and gaining overall recognition. For several different accounting methods that can be selected by enterprises, it is reasonable to formulate their scope of application. Improvements in the scientific rigour of accounting methods can restrict random execution of operators.

### **5.2. The Establishment of the Information Disclosure System and Litigation System**

Incomplete information disclosure system of the enterprises misleads the shareholders and the board on the management situation, then fails to constrain and supervise the managers. Therefore, the information disclosure system is the guarantee on which corporate governance depends. An effective information disclosure system requires protection by a sound set of accounting rules and auditing rules as well as accounting information disclosure, and in doing so, the managers can not fraud and hidden themselves in information disclosure.

### **5.3. The Enhancement of Economic Reform**

We should pinpoint the ownership of state-owned enterprises and create an effective mechanism for restricting operators, for instance, the external supervision and enforcement should step up to gradually replace the rule by men; the penalties for accounting information distortion should be increased for the establishment of a reliable market environment and economic order for corporate accounting information.

### **5.4. The Defects of Accounting Methods and Theories**

By creating a set of accounting methods for price changes that suits our nation conditions, we can remedy the defects of accounting information, and can truly reflect the actual asset value, income and cost of the enterprises, thereby avoiding the false gains. As far as possible to overcome the influence of subjective factors, we will then obtain accurate accounting data by the rational and scientific assessment methods.

### **5.5. The Establishment of the Enterprise Accounting Information Internal Control System**

The enterprise accounting information internal control system is a internal control system that

standardizes the methods and measures with control functions based on the interlocking of each management department. It mainly includes production safety, information quality, personnel quality, organization, execution, objectives and internal audit control. The effective and healthy internal control is a new independent internal auditing body interweaving with refined division of accounting labor and original document review, accounting voucher preparation, auditing, accounting, reconciliation, inventory, preparation and checking of financial statements so that for a preventive against detects and for correcting errors that may occur in accounting work, and thus protecting a potential crisis from a real loss.

Only by the above proper authorization and division of duties, assets and accounting information can be assured safety, integrity, legality and fairness. And only by economic business legitimacy being guaranteed, the economic loss of the company can be reduced.

### **5.6. The Importance of Strengthening Moral Culture and Enterprise Accountants Quality**

It is essential to actively encourage the accounting personnel in the enterprise to learn and update their professional knowledge. Continuing education in skills, quality and efficiency of accounting work can better reduce the phenomena of accounting distortion. At the same time, it is necessary to strengthen the ethics construction of corporate accountants for lifting their moral standards. And we must give severe punishment to employees who violate professional ethics. Enterprises should reinforce strong belief in free enterprise, in the rule of law and in the value of rewarding merit.

## **6. Conclusion**

The accounting information distortion of enterprises affects the real financial situation of the enterprises themselves which is not conducive to the healthy development of the enterprise and, to a certain extent, leads to the chaos of the market economy. Nowadays, we must raise the importance attached to this issue and adopt various positive countermeasures to cope with and solve the distortion of accounting information existing in the current enterprises in China so as to create a good environment for enterprises development.

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