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Research on the Enterprises' Accounting Problems in Capital Markets

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Accounting decision-makings

ABSTRACT

On the basis of analyzing the modern western capital market theory, combining the reality of the enterprises in our country, by positive analysis and standard analysis methods, the enterprises' accounting problems in capital markets are discussed in this paper.

The chapter structure of this thesis is the following roughly:

Part 1 Analysis on the basic theory of capital markets. It is firstly explains main conceptions, relevant categories and runnable mechanism of capital markets. Then on the basis of studying modern capital market theories, it points out the features and localizations of these theories, which become the theoretic base of after-mentioned contents.

Part 2 Main accounting problems of enterprises in capital market. It mostly discusses two questions: one is the trend of capital globalism and its influence on enterprises and capital markets in our country; the other is exploring the relationship between enterprises and capital markets and analyzing the main accounting problems of enterprises in capital markets at present, which are concluded as three points, that is, nonstandard accounting behavior, accounting information distortion and stumble accounting decision-making. The last three parts are outspread research on current enterprises' accounting problems based on part one and part two.

Part 3 Capital markets' criterion on accounting behavior. It expounds the relevant conception and affecting factors of accounting behaviors, sums up that to standardize enterprises' accounting behavior one should proceed with two aspects: father-structure of corporations and systems to accounting behaviors.

Part 4 Accounting information disclosure in capital markets. It demonstrates the importance of accounting information in stock markets by statistics techniques, presents the quality problems and countermeasures of listed companies' accounting information disclosure.

Part 5 Accounting decision-making capital markets. On quoting western capital decision-making theories and combining the reality of enterprises in our country, it assumes the measures to improve and perfect enterprises' financing, investing and distributing decision-makings.

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Preface

The establishment of market economy must fully exert basic role in the allocation of Market economy towards resources. It becomes a common sense that the development of capital market must be developed. However, the world's economic development is unbalanced. Before 90s in 20th century, the world's economy had long been dominated by the western world, and they set the "game rules". But in today, with the development of capital globalization, the capital markets of developing countries are under a rapid development, and booming rapidly. The capital globalization facilitates the development of capital markets of developing countries. It is not only offers opportunities to develop economies of these countries, but also issues a challenge to capital markets.

Since the founding of new China, for economists of our country who were used to the planned economy that had long been carried out, capital market was a both strange and sensitive concept, towards accounting field, more so. In the early stage of reform and opening up, people speak less of capital market, until 90s of 20th century, this situation began to change. If it could said that market economy can do the optimization allocation towards economic resources, then, capital market allocates more concretely on capital of enterprises. Capital market is a place to finance the medium - and long-term capital, whose function is to transfer the surplus capital of a person to the people who have shortage capital through its operation mechanisms rapidly. The Quiet and active of a capital market implies decline and prosperity of economy, and implies the increase and decrease of public wealth. After more than 10 years' development of capital market, it has become the most vital conspicuous field in economic life of our nation. However, whether the disturbing stock market volatility, or the unpredictable stock price are caused by enterprises accounting problems is not received a consistent view by people. Some scholars deems that, the capital market of our nation is still in juvenile state, immature and invalid, is a "information market, and policy market" that full of speculation, other scholars deems that, stock market storm was caused by non-standard enterprise accounting behavior and distortion of accounting information of enterprises. Here put forwards an issue, that are: what in earth is the relationship between enterprises and capital market? What is the relationship of enterprise accounting between these two? What is the function of accounting information in capital market? Therefore, researching towards accounting issue of enterprises and capital market becomes a theoretical and practical issue of the economical and social fields of both our nation and worldwide.

Seen from now, market economy of our nation is still in establishing, the development of capital market is imperfect, and enterprises are still in the "pain" of shunning and type changing. The main accounting issue of enterprises in the capital market was caused by the low-quality, and even infidelity of accounting information that was led by non-standard accounting behaviors, which is not only brings negative effects to the development of capital markets of our nation, but also causes tottery accounting decision making, brings huge influences towards the production and management of enterprises. Therefore, researching and resolving these issues are not only important projects in researching enterprises and capital market, but also important projects in researching accounting practice and accounting theory.

Though, at present, the fund procurement of most of enterprises is not in capital market, which with a weak investment, it is rather difficult to research accounting issue of enterprises in capital market. However, seen from the development tendency of market economy, the capital markets are bound to become the main place for financing and investment of enterprises. Researching on the accounting issues of enterprises in capital market is not only related to accounting reform, and the establishment of modern enterprise system, but is also related to the establishment, development, and perfection of market system of our nation. Therefore, based on the enterprise, and looking in market economy, researching the accounting issues of enterprise in capital market will be of great realistic significance towards promoting research on accounting theory, guiding accounting practice, facilitating the change of management mechanism of enterprise and the development and mature of capital market of our nation, and the thorough advance of our nation's economic reform.

1 Basic Theoretical Analysis on Capital Market

1.1 The introduction of capital market

Capital market of China, especially, more than 10 years history of development of securities market, constitutes a part of transformation from planned economy to market system of our nation, has played an vital improving role in the development of market economy of our nation. This section focuses researching on the history of capital market of our nation and related concept of capital market, so as to become a cornerstone of follow-up researching.

1.1.1 The formation and development of capital market of our nation

History could be mirrors, it also could clarify the direction. Looking back the generation and development process of capital market, we could refer to the experiences and lessons, master its law of development, avoid detours, explore and foster, develop, and perfect the road of capital market of our nation. The origin and development of the capital market depends on the demand of the social productive force level. The demand of the funds raiser, money supply of investors, and the service marketing of financial intermediaries that emerges as the times require are three basic fundamental elements constitute for forming and developing of the capital market.

Dealing in securities of our nation began at the end of Qing Dynasty, foreign stock was the stock which emerged earliest. So did bond, it was first appeared foreign debt, then came to the distribution at home. Issuing of shares by enterprises operated by Chinese, began

with Li Hongzhang, and Sheng Xuanhuai, etc. who belongs to the westernization group. Around the year 1870, British business Jardine Matheson Bank, Pacific Bank, the stockbroker of United States flag Chang Wheel Company. In 1873, Li Hongzhang, and Sheng Xuanhuai, etc., who belongs to the westernization group in the late Qing Dynasty established "Merchants Steamship Bureau" in Shanghai, adopting a practice of raising funds by issuing shares, established "Zhongxing Coal Company", "Hanzhiping coal iron ore company", "Big Raw Silk Yarn Factory", etc. In 1891, the brokers who operate share of foreign company organized the "Shanghai Stock Company". This was the first stock exchange that operated by foreign merchants in the Old China. Till 1905, this Shanghai Stock Company registered as "Shanghai Enterprise Company" in Hong Kong. In 1914, some bankers and industrial mining enterprises and the brokers who operated these securities organized "Shanghai Stock Commercial Council", which then renamed as "Shanghai China Merchant Stock Exchange". In the same year, Beiyang Government promulgated the "Law on the Stock Exchange", which facilitated the stock exchanges stepping on the right track for laws to abide by. "Beijing Stock Exchange" was established in 1918, "Shanghai Stock Items Exchange" was established in 1920, "Tianjin Stock Items Exchange" was established in 1921, since then, the capital market of the Old China started to take shape with these three cities as the center, connecting with other stock exchanges in other places and with their nearest trust companies.

The capital market formed in Beiyang period, due to excessive speculative activities, a large number of stock exchanges and trust and investment companies are closed down in September, 1921, the stock exchanges and trust and investment companies shut-downed in Shanghai area took up the proportion of 90%, and then, Shanghai stock exchange was shut-downed in 1922. During the period of the Anti Japanese War, though, the stock exchange in opened and black market increased the number of stock exchange of Shanghai shares firm from original more than 10 to more than 70, where it were increased to more than 100 in Tianjin. However, due to wars, economic contraction, excessive speculation, the stock market was under a rapid change, and the capital market was very fragile, has been in a decline. During the years of 1945 to 1949, our capital market developed to some certain degree. In April 1946, the "Shanghai Stock Exchange Limited Liability Company" that were joint state-private, divided into two markets of bond and stock markets respectively, opened its business with its brokers participated over 230 people. Then, it also starts futures business. Compared these two capital markets with former, these two had a on an unprecedented scale, however, due to the flared-up civil war, severe inflation, and speculation, deterioration of economy day by day, the Old China capital market declined rapidly.

At the beginning of the People's Republic of China, "Tianjin Stock Exchange" opened its business in June, 1949. In 1950, Beijing Stock Exchange was also established, Beijing and Tianjin carried out securities business with limitation, which played an active role in attracting idle capital, leading the direction of the money flow, adjust industrial structure, and adjusting monetary tightness in the market, and stabilize finance, reinstating and developing production. At the eve of the national mass ownership reform in 1952, Tianjin and Beijing closed-down their security markets successively. "One socialism industrialization, Three socialism reform" fixed this joint stock system organization to the nature of capitalism, fundamentally negating the basics and basis of the existence of capital market from the nature and function. Since then, capital markets disappeared from China nearly 30 years.

Since reformation and opening, with the establishment of market economy, capital market has reinstated and developed again. In 1981, our nation has issued some amount of Treasury bill. In 1984, Shanghai first introduced "on the issuance of stock management approach", in the same year, Shanghai Fei Yue Sounds Company first introduced stock to public. In 1986, Shenyang, and Shanghai opened securities market that could buying and selling Treasury bill, in the same year, 26th, September, the stock of Shanghai Fei Yue Sounds Company and Yan Zhong Industry Limited Company were publicly listed in Jing An Securities Business Department, stock exchange began. In 1987, the State Council released *Regulations on the Management of Enterprise Bonds and Strengthen the Bond and Stock Management and Notification*. Stock management began to step on the standardized track since then. In 26th, November 1990, Shanghai stock exchange has formally established; In July 1991, Shenzhen stock exchange was also publicly opened. By the end of that year, there were 15 companies that were authorized to issue stocks in Shanghai and Shenzhen, issuing 3.6 billion Yuan stocks publicly. Afterwards, capital markets developed rapidly in our nation, there were over 820 companies that listed in China merely in the end of 1998, and the market value of the listed stock had reached to 1.872881 trillion Yuan. There were also 43 Chinese companies issued and listed in the stock markets of Hong Kong, and America, etc. accumulated financing 10 billion dollars.

Generally speaking, capital market as a component of market economy, comes into being with the appearance of stock companies, and develops with the rapid development of market economy. The future matures in the direction of: diversification in dealing, modernization in measures, global integration, and validity of market. The capital market in our nation, belongs to the growth stage at present, there shall be rise and fall in a long period, and this is a common place for developing countries, we could avoid stepping into the detour, perfect earlier, and finally be in the rank of developed capital markets in the world, as long as we actively and stably nurture, induct, and implement valid supervision, criterion. Among which enterprises accounting is not without responsibility.

1.1.2 The concept of capital market

Though capital market is a concept that is frequently used by people, and people are very familiar with it, some people see it or equate it to security market, and some people call it stock market. Indeed, capital market initially came into being in the form of securities exchange, and continued till now, and stock market has the most typical features of capital market at present, however, they are different after all. Hence, there is the need to discuss the concept of capital market firstly.

In the research of financial theories, it is generally according to the differences of due time of financial instruments, is divided into money market and capital market. Money Market is the market that buying and selling short term securities (generally within 1 year). The circulation of the financial tools in money market is mainly: commercial paper, the bank acceptance of draft, the short term Treasury Bill, negotiable certificates of deposit, securities repurchase agreement, etc. The capital market is divided into the broad sense and the narrow sense. From the broad sense, the capital market refers to the sum of the institution and organization and

their interrelationships for the long-term capital borrowing and the securities exchange which have operated more than one year. From the narrow perspective, the capital market refers to the place where enterprises, legal person, the governments, and the individuals buying and selling the existed securities. "It is comprised by the complex organizations and mechanisms. The medium term funding (for example, loans within 10 years), and long term funding (bonds and stocks) are amassed to supply enterprises, governments and the individuals by these organizations and mechanisms."^① The financial instruments dealing in the capital markets are mainly: the ordinary shares, the preferred stock, the bonds, and the term loan, etc.

The capital market could transfer the financial surpluses to capital shortage swiftly. The fund suppliers in capital market are generally: Specialized Financial Institution (such as: Industrial Bank, Development Bank, Trust Company, Investment Company), Personal Saving, Enterprises, and the Governments, etc. The fund demanders: the fund that enterprises raised from the capital market is mainly applied to goods production, production equipment elimination and replacement, and raw materials reserves. The funds raised by government is used for public investment, besides, it is more often used for cover the financial deficit. The capital market could be divided into regional, national, and international capital market by functions. It could be divided into long term credit market and securities market by the means of exchange. Long term credit market is the market where the financial institutions do the long-term mortgage business to customers. The securities market is the market that, in order to raise the long-term funds the industrial and commercial enterprises, the government, and financial institutions needed, by issuing issue bonds (government bond, corporate bonds, etc.), stock, and mortgage loan to the market publicly, to obtain funds. According to the issuing level, the market could be divided into primary market and secondary market. The primary market is securities issuance market, the secondary market is stock market for bought and sold.

1.1.3 The features of capital market

The basic feature of the capital market is communicate financing channels of both parties of financial provider and demander, through certain financial intermediary by according to certain price and offer conveniences of financing of both parties on economy, technology, communication, etc. and law securities. This basic feature is embodied specifically on the 5 aspects below:

I. Appropriate means of exchange, price and conditions

The transaction object of the capital market is the capital, is the capital bought by a certain price, so, this kind of transaction primarily ought to have appropriate means, that is appropriate form of securities, or stocks, or bonds, or investment fund, or other forms, in general, it should satisfy the needs of suppliers and demanders respectively, so as to embody the transaction of this capital, secondary, it should have appropriate price, security price is in essence the question of interest rate, the both sides of security transaction automatically according to the adjustment of market interest, or according to the face value, or discount or premium, that is to conduct the transaction according to the market price standard, or price level. Thirdly, it should have appropriate conditions, for example, it should be made clear that the operating participation and the share of the profit, etc. all kinds of rights and obligations that are related to stocks; and it should be made clear the interest rate and the repayment period, and it should also be made clear that the investment fund should be specified the investment areas, and the agreed period, etc.

II. Concentrate and provide funds flexibly and expediently

Capital market can concentrate social funds distributed in thousands of households in a brief way flexibly and expediently, in the same way, it could also be provided to capital demanders in the flexible way.

III. Transfer securities conveniently

In capital market, the securities the investors bought is hardly unchanged, they could transfer these securities at any time, according to the change of market conditions, advantages and disadvantages of the operating situation of the corporation, and the demand for fund of itself, the capital market at this aspect, offers convenience.

IV. Comprehensive trading range

Where there are issuing long- term securities, there is capital market. Though, geographic barriers is to certain degree dismembers the capital market, however, the developed communication, and transaction means connected them again.

V. Circulate orderly

The premise of the capital market that operates normally and smoothly is the ordering of the market, which is embodied on the: firstly, it is legal guaranteed; secondly, it is informed by kinds of quick and convenient information, thirdly, it has convenient trade technology equipment (including communication apparatus, computers, etc.), fourthly, it has market operation rules which complied with the interests and expectancies of both parties of supply and demand.

1.1.4 The function of the capital market

From the operation result of capital market of each country in the world, the more deeper degree a market of economic system, the greater dependence to the capital market. The main functions of capital market are: offer kinds of arrangements, convert deposits into investment, pull the development of integral economy by investment activity, which is mainly performed as below:

1. Adjust the vacancy of fund supply and demand, and realize the allocation of social resources

The capital market as a media for investment and financing, by the exertion of price discovery function and the offered transaction mechanism, so that it could transfer the idle fund of the investors to the hand of fund raiser quickly. In capital market, by the fair play of both parties of fund demanders and suppliers, it is inevitably facilitates the resources to concentrate to the department which is high in economic efficiency and promising future, and make good use of limited economic resources. At the same time, because of the volatility of the capital market, which lead the participants of investors and fund raisers search their optimal assets-liability

^① Herbert E. Dugald, Francis Corrigan. *Investments*, P17, Beijing: China Renmin University Press, 1990.

portfolio under the restriction of risk and profits everyday. So, the resource allocation structure formed in capital market is in constant adjustment, the process of economical allocation is to pursue optimal usage in capital flow and property rights restructuring, so as to make economic resources more reasonable and optimal.

2. Implement the diversification of investment portfolio, and diversify the investment risk

Risk is an objective reality, enterprises should be responsible for the corresponding operation risks when pursuing profits. The more future benefits that an enterprise are expected to gain, the more risks it is to be responsible for. However, enterprises are not powerless in front of risks, they could apply diversification investment strategy, diversify risks, so as to decrease its integral risks. Capital market offer securities of kinds of securities that have kinds of different properties, different deadlines, different risks, and profits for investors to choose. The investors should research into the companies that have different anticipated return and investment risks. They diversify investing their funds in securities of different categories, deadlines, and risks, according to the investment risk minimization principle, they could also convert and diversify risks by buying securities. This kind of investor behavior, optimizing asset portfolio objectively, reaching the goal of diversify risks subjectively.

3. Pass messages, assess the value of enterprises

In capital market, the investors in order to make the right decision, they need to know and master the intelligence and information of economic situation, market dynamics, operation data of enterprises, and financial positions, etc. fund raiser are as well as to know a great deal of in formations of development tendency of economy, and market dynamics, etc. in order to formulate flexibly, and adjust timely its strategies of raising funds, and decrease the cost of raising funds. Because of the capital market is the place where securities buyers and sellers, brokers, banks, and the stock exchange as the stock exchange center who participate jointly to do the business. The dynamic information converge here from different aspects of politics, economics financial related areas, they are mutual communicate, spread rapidly, plus the communication means of automated quotation system, which are definitely spread related information to the information users. Besides, how is the effect of the enterprise researching on research and development, capital investment, operating management, etc. the stock price and turn over in stock market could reflect the evaluation of the whole society, which might cause pressure of “survival of the fittest” to enterprises. At the same time, the information of change of security price in capital market reflect the dynamic development of government, economy, and finance, which turn the capital market into a barometer that show the economic trends, and is advantageous to assess the value of an enterprises.

4. Stabilize the economic operation

Financial market is comprised by market segment of different deadlines, functions, and properties, where these market segments exerts their respective function, and correlated with each other, and coordinate with each other to form a organic financial system, and jointly facilitate the smooth function of financial markets. If there is only money market without capital market or there is only primary market without secondary market in a financial market of a nation, then, the economical fluctuation is usually intensive. This is because a large amount of long-term surplus fund is converted into short-term, cashability is strong. When there is a sign of disturbance or trouble in the market, a large amount of ordinary investors will flock to the several narrow ranges of financial tools, which will shake the financial institutions. In the same time, to the a large amount of investors who are long-term capital demanders, they are forced to borrow from monetary market due to there are no capital market, not only raise the financing cost for the enterprises, but also prevent enterprises from long-term development of economical technology, and will further jointly bring the bankruptcy of enterprises. The direct victims of bankruptcy of enterprises are usually banks, etc. who are the fund providers, especially when banks are consequently go bankruptcy, the normal running of the whole financial system will be disorganized. Therefore, any market economy countries, when its economic develops to a certain degree, will place the issue of development of capital market on the agenda, and its function of stabilize the nation’s economy is getting more and more emphasized by the macro economic managers.

1.2 Operation mechanism of capital market

Since the capital market came into being, its survival and development are inseparable with its specific operation mode. This section is mainly analyzing the operation modes of capital market, so as to exert its unique functions.

1.2.1 The participant of the capital market

The participants of the transaction in the capital market are mainly divided into 3 kinds: surplus units, deficiency unit, and the financial institutions that are in the intermediary status.

Surplus units include family, individual and enterprise and public institutions. family and individuals are the main savers, they obtain salaries, pension funds, interests etc., from the government or enterprise and public institutions, from which, a portion is used in overhead, purchasing products, and services, and paying taxes to the government, and other fixed charge (for example, the premium), the rest of which belong to “net saving”. The enterprises get fund from business operation, except for paying taxes to the government, they are continuing devoting to turnover operations, there are always a portion of operating fund left in the operating process of fund, moreover, there are also uncollected profit margin after tax, and provisions expenses, etc. most of these funds are relatively stable, and could be under delivery use. In the same time, there are some families, individuals, enterprise and public institutions in deed of money for some purposes. If there is no chance for direct contact for both sides, and mutual adjustment of surplus and deficiency of funds, it will lead to funds sluggish and the loss of investment chance. The capital market could provide a large amount of information between the both sides of funds surplus and deficiency, grasp timely of the dynamic of supply and demand of funds. By financial institutions, from one aspect, absorb and accumulate capital from scattered net savers and units which hold surplus funds;

from another aspect, towards lender's money of funds demander, facilitate and promote financing by various credit instruments and investment securities. So that, this could facilitate funds in net savers and funds surplus unites flowing to the user's hand of fund demanders, reaching the full and effective use of funds by "time difference" and "space difference" of funds.

Intermediary financial institutions mainly include securities dealers and brokers and all kinds of specialized banks or other financial institutions. In which, securities dealers and brokers are the professional participators of financial market, whose business is to offer various intermediary services, communicate the information between the buyers and the sellers in the capital market so as to realize the reduction of searching cost of both parties, and realize the possibility of the potential financial transaction: each specialized banks or other financial institutions participate in the capital market, purchasing and selling of various securities is not for the purpose of raising funds or investment, but for the purpose of realizing the monetary policies, and exchange rate policies of the nation, in the mean time, exert direct or indirect management towards the capital market.

These above parts are interconnected, and not a single one can be omitted, the imbalance of any part may affect the normal operation of the capital market.

1.2.2 The flow of funds in the capital market

Enterprises and other units need funds, so the situation is called internal financing when by internal accumulation, that is pay regular expenditure and capital expenditure by Regular income and retained earnings, and the enterprises itself could balance its payments. However, actually, in most of the cases, some certain units are in the situation of shortage of funds, while other units are in the situation of funds surplus. Funds deficiency unit need to solve the funds shortage from the external, the surplus units would put money externally, and arrange the surplus funds, which are finally formed external financing. External financing need to be conducted in the capital market in order to realize the transferring the direction of funds from surplus to deficiency.

There are two situations for the external financing: first is by the direct contact between fund deficiency a unit and fund surplus units, adjust surplus and deficiency, which belongs to direct financing; another one is financial institution as a intermediary, to absorb and accumulate funds from fund surplus unit by financial institutions, and lend it to fund deficiency unit, this kind belongs to indirect financing. Large amounts of funds transfers and financing are generally undergone by indirect financing. Its specific operational flow is as chart 1-1.

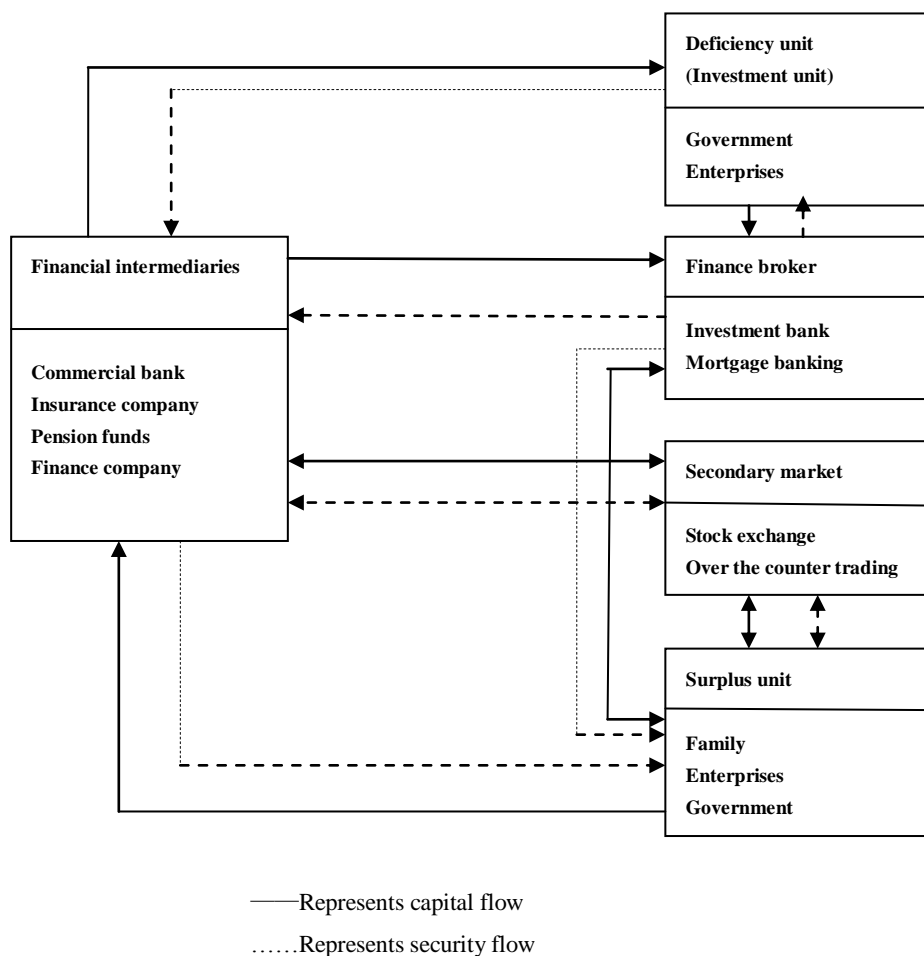


Figure1-1 The capital flow of the capital market

1.3 Current theory and its limitations of capital market

The purpose of the investors is to earn a certain interest. However, the high liquidity and volatility of the capital market make the

interests accompany with risks, and highly related. High risk could not only bring about high profit, but also could bring about fiasco. From the cautious principle perspective of investors, the risks is unwelcome, however, the risks in the capital market is inevitable. How to qualify the benefits and risks in order to facilitate people weighing and choosing in their investment? The answer to this question promotes the development of the modern capital market theories. The western scholars in 50's of 20th century have already set about research, till now, established capital asset pricing model (CAPM Model), efficient market theory and portfolio theory, these 3 pillar theories construct the modern capital market theory. The foundation of these theories and applications could not work without economical information, and accounting information is not only important basic data of quantifying economical information, but also is the basis of pricing stocks and security, therefore, as the maker and manager of accounting information—these theories should be studied by enterprise accounting. Therefore, on one aspect, it could give better advice to the enterprise financing decision, carry on effective financial management (asset pricing theory is one of the core theories that comprises the modern financial theory); on the other aspect, it is also help to find scientific tools for the relationships between the accounting information and stock price.

1.3.1 Capital asset pricing model

The economist Keynes is the earliest economist who studied return and risk, investment portfolio. Establish a simple model of interest rate and money demand according to investor liquidity preference, but he could not go into deeper research. Herry Markowitz (American famous economist) could be deemed the founder of modern portfolio selection theory, in 1952, he published a thesis *Portfolio Selection* which had the meaning of milestone, firstly applied mathematical statistics and linear program to how to make choice in hundreds of stocks and how to weigh towards these choices when forming investment portfolio. Afterwards, he expended this article and forming *Portfolio Selection*, which published by John Sweeney and Mulberry Company of America in 1959. It is just because he established this theory, he won the Nobel Economics Prize in 1990. According to the efficient portfolio model established by Markowitz, a complex computation model is needed in the process of choosing stocks, and it was subjected to a great restriction in practical application aspect.

The Capital Assets pricing Model was firstly established by William E Sharpe in 1964. John Limner was also established this model. In 1966, John Mossin generalized this model. Therefore, this model was generally called Sharpe-Limner-Mossin model. This model has the characteristics of simplicity, direct, and practicality, and its content was approved by comprehensive practical data. Though the predicted result of this model was subjected to some challenges with the development of the capital market, it is in accordance with the result observed in stock market, therefore, this model is comprehensively applied in reality and theory analysis; its appearance turned the stock theory from normal economics to positivism economics, and became the most influential stock theory.

1. Assumption conditions of the CAPM model. Similar to other theories and models, the Capital Assets Pricing Model also has a series of assumption:

- (1) All investors are rational, and are all in pursuit of the maximum of the expected utility from terminal wealth, and their preference is to avoid risks. Investors deem that the behavior of other people is also rational.
- (2) the evaluation are the same of all investors towards the first asset average value、the same estimated value of variance and covariance difference, that is, it has the homogeneous expectations. They are all the acceptors of the price.
- (3) There is a kind of assets of no risks in the market, investors can lend and borrow with no restrict under the interest rate of no risks. In addition, they can borrow the loans equivalent to its maximum wealth according to the market rate.
- (4) The capital market is perfect and valid, and has no restriction of friction, transaction cost and fictitious transaction, that is, the market is completely competitive, and the investors act in accordance with the market price.
- (5) Transaction cost or tax does not exist. Information is free of charge, free of cost, and anyone could acquire at anytime.
- (6) All assets could be specified completely, and could realize (that is could sell at market price).

2. Market portfolio

In the above mentioned assumption conditions, the existence of assets of no risks is the most important towards CAPM, that is to say, the investors should evaluate risks and anticipated profit while they choose the stock assets.

The logic of the investment choosing is: firstly, not to deem the maximum of the predicted profit as the decision-making principles of assets analysis; secondly, consider the risks and anticipated profit together in determining asset structures. That is to say, if the risk is certain, choose the securities portfolio that has the maximum anticipated profit. If the anticipated profit is certain, choose the securities portfolio that has the minimum of risks. That is the “risks avoidance action of investors”. This theory was applied in the choice of securities, mainly on the choice of stocks fist appeared in Markowitz literatures. Thereafter, the thesis *The Action of Liquidity Preference to Risk* was published in 1958 by J.Tobin applied this theory into analyzing all assets.

The core of CAPM theory is to balance the risks and profits. If the investors consider retaining the risk assets securities, then, the risks and profits are to be balanced. Risk - benefit indifference curve represents that the risks and profits are positively related.

3. Securities market line

Dispersion theory was the core theory of “Theory of portfolio selection” proposed by Tobin and Yale school, it is the general principle for investors to multiple their investment under the uncertain conditions. Its core is dispersion of investment risk, reduce the total risks of the market investment. The risks of stocks and market deduce from mathematics is covariance of it and the market portfolio. The stock with larger covariance is relatively high in anticipated profit; the stock with smaller covariance is relatively low in the anticipated profit. The so-called Securities market line is the relationships between covariance of all stocks and the anticipated profit in state of equilibrium. It is the central concept in Capital Assets Pricing Model.

Securities market line is also called equilibrium price line, the model reflecting the balance in capital market is called Capital Assets Pricing Model, which represented by the formula:

$$R_i = R_f + (R_m - R_f)\beta_i \quad (1-1)$$

In the formula: R_i —Respected rate of return of any one kind of risky assets i

R_f —Risk-free assets rate

R_m —The respected rate of return of the assets portfolio in the whole market

β_i —Systematic risk of any one kind of risky assets

Expected profit ratio R_i of any risk assets could be worked out by CAPM, which is the demanded discount rate while project evaluation.

4. The characteristics and limitation of CAPM model

The outstanding feature of CAPM model is simplicity. It concluded the price of any risk assets into three factors: non-risk factors, the price of risks, and the calculation unit of risks. Therefore, it is no more difficult for CAPM model to solve the risk assets price. Another characteristic of it is practicability, it is used by comprehensive investors to solve the general problems in investment decision, and provide such a kind of mechanisms for investors, the investors could make comment and choice towards several competitive price of financial assets according to non system risk but not total risk.

The limitation of CAPM model is that the demanded market environment is highly perfected and valid, and there is no frication and restrictions, no taxes, and towards investors, the information is free of cost, etc. however, these are difficult to reach in reality; it demands that, towards the comment of the the future yield rate of the effective assets in the market, all participators of the capital market are in coordination, however, in reality life, it is impossible for anyone to possess the complete market portfolio, therefore, the comment for the asset portfolio possessed by every one could not be in line; it demands the existence of risk free market, and make any investors bring this risk free market into the asset portfolio of their own at will, in fact, due to the existence of inflation factor, treasury bill is also could not be called the real risk free market.

In spite of this, on the research of CAPM model of the capital market theory and the general decision-making of investors, it offers people the scientific method. “This model recognizes all kinds of factors that influence the market value”, especially the anticipated cash flow and its risks of enterprises. This model is also influences the specific relationships between accounting income and stock price.^②The value of this model will get more and more confirmed and emphasized with the constant development of the capital market and the constant application by people. The chapter four of this thesis is an empirical analysis towards accounting information of stock market of our nation and the stock price by borrowing the CAPM model and the theory of efficient market.

1.3.2 The theory of efficient capital market

During the process of people’s exploring the operation rule of the capital market, many theories and models were excogitated, such as CAPM model, APT model (arbitrage price theory, Arbitrage Pricing Theory, APT for short) etc, are all set up on the assumption conditions of efficient capital market. It is because of the specialization of financial assets information production, the capital market could access to make sure the assets price by taking advantages of the information, however, whether the capital market could take the advantage of various information to organize business, ascertain the capital price or not, should check up its validity. Financial assets information could exerts its function in the price determining only in the efficient capital market, resource allocation function proceeded by capital market will increase greatly. Then, in the theory of capital market, what is efficient capital market, what is its existing conditions and features, how to analyze and examine it?

Related to the concept of efficient capital market, originated from the most influential theory “Efficient markets Hypothesis” many economics expounded that “the core of the free market system is whether the price could precisely reflect the all necessary information the efficient allocation demanded by scarce resources in unlimited, different choices and competitive usages.”^③ “efficient market theory sets off from the presumption below, that are: The price of various stocks fully reflect all the acquirable information in the financial market, the theory of efficient market hypothesis deems that: (1) the market value of stocks reflects the situation of various aspect of stocks at current, therefore, the stocks at market is always at a balanced price in balanced status; (2) a investor could not always at a status of earning in market.”^④ According to price theory (microeconomics), in traditional under the model of certainty, competition drives the economic profit tend to zero. Economical profit is computed after deduction of return on investment (interests) of the capital market. Efficient market hypothesis in essence is a dynamic price behavior of the competitive market in condition of zero profit equilibrium state expanded to under uncertainty.

From the discussion from above, it could be seen that, the key word of the so-called effective capital market is effective. The effective refers to the wide spread of the related information, no waste, and all the related information have absorbed by the price (stock). Therefore, the stock sold or purchased in the effective capital market is zero present value. The essential conditions of the existence of the effective capital market are: firstly, fully fair competition. That is, there is no economic entity which has the power to influence the market in the capital market. Each market entity takes action publicly under the price given by the market, and competes fairly, and there is no insider trading. Secondly, the unlimited features of lending funds, that is, no matter which economic entities, they can borrow and lend the money needed at the level of market rate. Thirdly, there is rational anticipation as basis, according to the information observed in the market, if all investors could form a consistent anticipation, which could represent that

^② [America] R L.Watts, J. Zimmerman. Huang Shizhong, etc., interpreted; *Empirical Accounting Theory*, P.19, China Business Press, 1991.

^③ [America] J.Fred, Tohma E.Copland. Yang Junchang, etc., interpreted: *Managerial Finance*, P462, China Financial and Economic Publishing House, 1992.

^④ [America] Eugene Burkeham, Lewis Gapenski. *Intermediate Financial Management of the United States*, P6, Vision China Press,1990.

the market is valid. If the formation of the anticipation of the market is irrational, then, based on the analysis of the information observed in the market, there will appear the possibility that some investors obtain the excess profit of other investors, which represents the market is not valid.

The valid capital market has four characteristics as below: firstly, the validity of information, which means that the available information related to price, could be swiftly and fully reflected in the capital market. Secondly, is the validity of judgment, which means, in the capital market, the income of stocks, bonds, etc. of the future held by investors who hold stocks, and bonds. Third is the validity of fully insured, that is, the investors could be able to carry on transfer transaction in the capital market at anytime. Fourth, is the validity of organization, that is, the financial service should be perfect, so as to let the market operate smoothly.

According to the information utilization range and information utilization cost of the analysis of inspection of effective capital market, which could be divided into 3 categories: the weak, sub-strong, and strong. Weak efficient form refers to the price of the financial assets includes the whole information that included price record at past in the market. The available information in the market is the historical changes of the financial assets; sub-strong efficient market refers that, in the market, there are not only information of the past price that are included in the price of the financial assets, but also include all other public information, the information available for utilization in the market include the corporation information that are related to financial assets; strong effective market refers to there are not only all related public information in the price of the financial assets in the market, but also include analysis of the enterprises situation and economic development done by all analysts, the information that could be efficiently utilized in the market includes the so called inside information.

In the weak effective market, the public degree of market information is low, most of investors, especially small investors, could only forecast the price of the next asset according to historical change current price of financial assets, this could inevitably cause the big difference of expected result of the investors, and reduce the market utilizations of information. Therefore, in order to increase the validity of the market, establish information disclosure system and securities credit rating system in the capital market. Similarly, in the strong effective market, there is nobody grasped the information that others do not know, the ability and possibility for each investors to obtain is symmetrical, that is, the information obtained by market participators is the same. However, strong effective market is merely a hypothesis, in realistic capital market, it is a nearly inexistence, there are always some participators of special information, that is, the owners of asymmetric information in the capital market. The theory of asymmetric information is coordinated with the theory of effective market theory. Generally speaking, people's research evidences are usually in line with the sub-strong type hypothesis, and most of people deem that the capital market is in consistent with the standard of sub-strong type.

What enlightenment could capital market validity research bring to us? If there is no capital market, the process of the capital from capital provider to capital demander is much complicated, and the cost is very high. The existence of market reduced transaction cost, and provides the liquidity of capital. In addition, due to the capital market, the enterprises value could be easily measured, market is the delivery center of information. The buyer and seller send messages through market, and accept the information of each other. What the market reflects is the collective evaluation and reflects of all market participators have towards economy, enterprises' value, and many relevant information. Therefore, the price in the market should be the "true" price. If the market information is invalid, then, the securities' price could not reflect true value, and the information send and received by buyer and seller are wry, the allocation function of the capital market will be discounted.

The developing time of the capital market of our nation is not long, many new phenomenons are always emerging, and the emerging problems are inevitable. If we need a sound capital market and if we need the capital market exerts the function of effective resource allocation, we should keep the validity of the market from the start, and reduce man-made disturbance. Therefore, the action of various speculations and malignant market manipulation should specially notice to be avoided.

The theory of effective market theory has deeply been applied in the reality, it has not only become the relevant legal basis made by the government, and it also has become the one of the necessary capital market theory for enterprise accounting decision making.

2 The Main Enterprise Accounting Problems Existed in the Capital Market

2.1 Capital globalization tendency and features and the effect it brings about to the enterprises of our nation and capital market

Nowadays, with human stepping into the 21th century, "capital" as the "the first motive power" for the development of enterprises receives people's double attention, and it is always be invested in regions, industries, and units that are the most prospective in the capital market operation. The world's economy has always been dominated by the western world before 90s of 20th century, however, with today's economy is becoming more and more globalized, the westerners are forced by the world economy development tendency to accept this reality: the East is rising, Asia and most developing countries change from the single country economy to network group economy, change from traditional mode to multiple mode, change from export oriented to consumer oriented, change from government regulation to market driven, change from labor intensive to technology intensive, and the capital is becoming globalized.

"Capital globalization" refers to a prevailing developing tendency in the global finance market since 90s of 20th century. We could see the change of the tendency by a large amount of numbers: the turnover of foreign exchange market is staggering, reaching to 1000 billion; the world trade is 4000 billion each year; the fund raised in the international capital market per year reaches nearly

thousand billion dollars. Abide trade rules together, and advanced communication network, and modern means of exchange break through the geographical barriers, and connect up world's markets of each region, realize the circulation in the global range, therefore, the features of capital globalization are concentrated represented in its markets—capital market globalization. Its main features are as below:

1. The status of developing nations is in constant rising in the international capital markets

In the financing of international financial market, the proportion taken up by developing countries is still relatively small compared to developed countries. However, from the dynamic perspectives, since 1990s, the proportion taken by developing countries has been on the rise. Seen from the proportion that financing developing countries by means of international bonds and bank loans, the proportion is 10.1% in 1994, the proportion is 12.7% in 1995, the proportion is 13.2% in 1996, the proportion is 14.82% in 1997, the proportion taken by developing countries is increasing year by year.

2. The rate of international equity financing is fast, the proportion of developing countries is increasing

Since 1990s, the international equity financing of international stock financing develops very fast compared to the years before 1990s. According to the statistics, the average growth rate is 128.8% merely during 1990—1995, the speed is very astonishing. During the process, developing countries are more and more realized the importance of involving into the international financing through issuing stocks, in 1990, developing countries took up the proportion of 13.7% in international equity financing. However, in 1994, the developing countries newly issued 15.5 billion dollars of international equity, which took up the proportion of over 1/3 of the international equity financing of that year, which made its status steadily rising in international capital market.

3. International investors put forward more strict investment conditions

The data shows that, the probability becoming smaller for countries with bad economical policy to obtain the international investment. The total scale of the world's capital market is estimated to be nearly 40 trillion dollars. The countries or enterprises that are actively acquire international funds must obey the market code while enacting and implementing economic policies, otherwise, the foreign investors will not invest or withdraw funds.

4. The private investment exceeds governmental investment

The swift development of global capital market decreases the function of providing development funds to the world by the world's bank and regional developing bank. The boundary between banking business and non-banking business is becoming vague. The main force of finance market has been converted from bank to institutional investors and stocks. As revealed by international finance institutions, in 1994, the developing countries financed 186 billion dollars from foreign countries, in side of which is private funds, there were merely around 18 billion dollars is governmental funds provided by governments of each nation or international institution such as the world's bank, etc.

5. Many countries increased transparency on economics

The transparency of economics of a nation is the premise of attracting capital inflow, any countries determined to open their economy to the international capital market and attract foreign investors, all of which should obey the globalization capital circulation rules, and must transparentize their economy of their own countries, and offer the international investors with more and swifter economical information that are needed, in order to facilitate them to make judgments about the risks involved and obtainable profits.

6. The flow of the capital in the global range facilitates the development of financial derivative instruments. It facilitates the rise in the standard on enterprise accounting information disclosure standards of capital markets of each nation, and head for convergence. Meanwhile, it also facilitates each nation to improve the relative frame of law system of capital market.

Generally speaking, the capital globalization causes the swift development of capital market of each nation on the aspects of scale, function, complicity and internationalization. Besides it could let the capital flow to users from net savers, offer liquidity, distribution and pricing, and diversify risks, it could also as an indicator of policy credibility of government at present or in the future, and could be the dynamics that pushing the economy of each nation, and facilitates the reform of enterprise accounting, which presents developing countries opportunities as well as challenges. Our nation should actively take advantage of this opportunity, and accelerate developing capital market, and pushing the reform of enterprise accounting.

2.2 The relationship between the enterprises and capital markets

As the main body of market economy (that is, the main body of accounting service)—there is indivisible natural relationships between enterprises and capital markets, the enterprises are inseparable with markets, and are inseparable with capital markets even more, capital markets are inseparable with enterprises as well. Enterprises need to finance, invest, allocate through capital markets so as to run the normal operating business to gain economic profit for their survival and development. As data shows, the funds needed by the enterprises of developed countries took up the proportion of 75%, which originates from capital markets, the funds needed by the developing countries provided by capital markets is also on the rise on the proportion. Capital markets is as well needs enterprises, the financing of growing enterprises forms the demand towards the capital markets, the mature enterprises could offer funds for capital market, numerous enterprises participate and compete, which forms the operating capital markets, and facilitates the perfection and development of the capital markets. Without enterprises, the capital markets would be water without source, tree without roots. Throughout the market economy mode of each nation in the world, the mode that “the government regulates market, the market guide enterprises” meets the needs of our country. The main methods for the government to regulate and control the market are: policy, law, regulation, plan and institution, the main method that the markets guide the enterprises is the information. Accountancy is the bridge and link between the enterprises and the capital markets. The economical information that is operated in

the capital markets, there is a large amount of accounting information among the basic information, the capital markets without accounting information is unimaginable. The capital market is both starting point and the finishing point for accounting information. For financing in the capital market, the enterprises need to forecast, decide, and the accountant need to know and offer the information of the capital market; the capital market are also need the accountants to offer information so as to know the production and management of an enterprise, and further satisfy the finance and invest need of enterprise. Accountants as a system of information checking and management, in one aspect, analyze and forecast the market changing tendency and working rules of capital market, offer numerical data for finance project and decision of enterprise financing; on the other aspect, should according to the demand of the capital market, process and produce the accounting information that accord with its standard, and transport to the capital market, and form the information flow of capital market. Without accounting, capital markets could not know the enterprises, not to mention to offer finance and investment places to satisfy the needs of the enterprises, at the same time, the enterprises could not participate in the markets, the capital markets are inevitably doomed to decline. Because of the specific status and the impact of accounting between enterprises and capital market, it must be paid attention to and research the issue of enterprises' accounting while research the relationships between the enterprises and capital market.

2.3 Capital market and enterprises accounting

If the economic resources could be optimally allocated by market economy, then, the enterprises' allocation by the capital market could be more concretely and directly. In the capital market, the large amount of information offers people with the choice, and the choice determines the capital flow, and the flow realizes the optimal allocation of the resources. The more mature the market economy develops, its economic systems is more coincide with the market operation procedure, the more permeation ability it has. In some nations which have relatively complete capital market, the government and enterprises could stick in the mire of hardly function, once without the operating mechanism of the capital market. Enterprises are the main body of the market, not to mention as the main body of capital market, since 18th century, the date of merchants came to agreements under the Buttonwood tree on Wallstreet, there was natural relationships between capital markets and enterprises. The large amount of 200 years' rough progress was written by enterprises, out of which was deeply printed by enterprises accounting. With the reform and open up nowadays, if we want to research the accounting issue of enterprises in capital market, we have to research the relationships between the capital market and enterprises accounting. For this, firstly, we should know the current status of the capital market, hence, we could figure out what problems lie in enterprises accounting, secondly, analyze the causation of these problems.

2.3.1 Actualities of capital markets

Capital market is the department and institutions that operates mid-term and long-term capital and the collection of the relationships of each other, and it is the place of buying and selling the existent securities. Its function is to transfer the fund surplus party to the fund shortage party by its own operating mechanisms. The swift development of modern capital market has gone beyond its single function, that is, to finance for enterprises. With the deepen and upgrade of market economy in each nation of the world, not only individual investors, enterprises are involved into the capital market, but also the governments and organs and organizations are consciously participating into the capital market. The functional range of the capital market is becoming larger, furthermore, it tends to be globalized, especially since the security automated quotation system came out, the ability is greatly enhanced for the capital market to dominate the capital of the world. As there is someone's vivid analogy, New York Wall street sneezes, the world's economy will get cold. The capital market is no longer the "game" places for minority, its quiet and activeness implies the decline and prosperous of the economy, and the decrease and increase of social wealth. The stock markets that could best represent the capital market in the late decades of 20th century have speedy development.

Though the capital markets of our nation was late in getting started, after more than 10 years, it has become the most vigorous and outstanding area of the economic life of our nation. Since the recover of issuing national debt in 1981, the development of national debt market of our nation was swift, and the categories of national debt is rich, there are not only national debt, treasury bill, main construction bill, national construction bond, special bond, inflation-protected securities, there are also book entry, certificated, unregistered, discounted type etc. the development of the stock market is swift in recent years. In 1991, there are only 15 categories of listing stocks dealing in Shenzhen stock exchange and Shanghai stock exchange. However, at the end of 2000, there were 1063 listing companies in our nation, out of which, there were 52 companies listed overseas, the total market price of inland companies was as high as 4.606178 trillion Yuan, and the negotiable market value reached 1.549249 trillion Yuan. There are already 33 Securities investment funds established, the fund total scale reaches to 54.24 billion Yuan. The development of the secondary market of the capital market is especially outstanding. Apart from Shenzhen, and Shanghai nationwide stock exchanges, there are 27 regional transaction centers established. There are already 97 stock exchanges, over 2600 stock sales departments, 96 security investment advisory organizations, accounting firms and law firms that were engaged in stock securities and futures business are counted 106 and 304 respectively, the opened accounts of the investors reaches to 56.8388 million.

The development of capital market changed peoples' indifferent attitudes towards national economy and operating conditions of enterprises; the curves of securities' index connects the nerves of every investor, who concerns about the change in macro-economy and enterprises' operation in every seconds, which becomes the motivity for improving enterprises' operating operation, and standardize the accounting.

2.3.2 The main problems of accounting that exist in the capital market

Through ups and downs, the capital market of China has gone through progress of 12 years, if represented by stock markets since the

operating days of Shenzhen, and Shanghai stock exchanges in 1991. Once there is a top leader of security industry concluded that: the features of securities market of China are: short time, swift development, great result, and bundle of problems. The previous two items are seen by people, and the latter two items are focused represented as well. Then, in what accounting aspect does it is concentrated reflected?

The author deems that, the main accounting problems that enterprises encounter in capital market are low quality and even distortion accounting information that caused by non-standard accounting behaviors, which is not only bring forth the negative effects to the development of capital markets of our nation, but also cause altering accounting decision making, and have a destructive effects to the production and management of enterprises. Therefore, the main accounting problems that enterprises encountered could be summarized as below:

1. Accounting irregularity problems

3 shocking cases happened in 1992: the audit case of Shenzhen Yuanye Company, the case of The Great Wall mechanical and electrical company, the case of Zhongshui International Group. And 3 accounting firm involved were dismissed, property confiscated due to make false report, which caused serious consequence, and finally “completely annihilated”. Afterwards, various accounting irregularity behaviors could not be prohibited.

2. Accounting information distortion

There were 3 accounting information fraud cases continuously happened merely in the second half of 1996, out of which, in July. 1996, the case of “Bohai Group” took place, the company was suspended due to making false mid-term report, which was against accounting system rules of our nation; in August. 1996, the “Zhongchuan international case” took place, because the company conceal huge losses in their annual financial report, was suspended; in September. 1996, “Haili cases” took place. This company was suspended due to make false announcement by taking forecasted profit data as the actual data.

3. Faltering accounting decision making problems

There are 2 representation of faltering accounting decision making: first is, the decision making are low in scientific content, and lose the confidence of most investors; second is, the accounting decision making functions could not be exerted, and the economic benefit of enterprises is low. Throughout the stock market of our nation, most enterprises to be listed are very optimistic towards anticipated “earnings per share (EPS)” by accountants in “prospectus”, which was very low after listing, and there were a large amount of enterprises with cents of earning per share, there are numerical examples of the anticipated “earnings per share” which is tenfold compared to actual “earnings per share”, and this contrasting proportion leads investors suspect the accounting decision information offered by the enterprise, and fosters the speculative psychology of the investors, and affect the development of capital market. The anticipated implementation of new projects and new production lines in the short term in “listing prospectus” of some enterprises are put off, some are even put off years later could not be implemented, and could not form economic benefits. Of course, there are a lot of reasons, but it could never exclude the accounting decision responsibility that takes up an important position in the enterprises’ decision making systems. Many enterprises’ accountant could not apply scientific method to conduct financing, investment decision, only according to past experiences or leaders’ intention to undergo estimation, this accounting decision formed is inevitably low level, therefore, it leads to low return on capital of enterprises, and some are even lower than bank lending rates, not to mention to raise the enterprises’ economic benefits. The negative effects should never be under estimated for low level accounting decision towards enterprises’ decision, enterprises’ economic benefits, and the development of capital market. There are many accounting problems in the capital market. Here, these three aspects of problems are exemplified according to its concentrated expression.

2.3.3 The analysis of the causes of problems

It is unfair to push the emergence of problems said above on all accountants, but if it is one-sided to emphasized that the accountants are forced as “compel a female to engage in prostitution”, the responsibility of enterprises’ accounting is unshakable. Analyze the causes of problems calmly and objectively will facilitate us to solve these problems from accounting aspects.

1. False accounting information originates from illicit accounting behavior

False behavior inevitably produces false information, in order to prevent false accounting information, it is necessary to regulate accounting behaviors. When there are regulated accounting behaviors, the accounting information quality could be improved to some extent. Of course, the stock market is volatile; some of the stock price fluctuations is not really caused by information distortion, in addition, all of the accounting information in the stock market is not false, totally negate the relationship between the accounting information and stock price is one-sided. Therefore, the relationships between accounting information and stock prices should be explored and verified theoretically, when endeavors to improve the accounting quality.

2. The violation of the accounting behaviors is determined by the low quality of the accountants, and must rise the quality of accountant staffs

The quality of accountants is determined by legal consciousness, professional ethics, enterprises’ environments, cultural level, and business capabilities. With thinness of the legal consciousness, non-professional ethics, low cultural level and service capability, and is easily manipulated by people, and is inevitably cause the violation of accounting behavior. If the accounting behavior needs to be regulated, the quality of accountants should also needs to be improved, which needs to improve from the two aspects of theory and business. And in addition, the improvement of theory is also the precursor of the improvement of business. Apart from the demand of strengthening of the legal consciousness, emphasis on professional ethics, and improvement of theoretical level, particularly, to theoretically make clear of what the goal of accounting is, and what the accounting principles are, and what are the relationships of their mechanics, and how they regulate its accounting behaviors in the capital market, etc., which is very important.

3. Staggering accounting determination making is caused by the ignorance of accountants towards the research on decision theory

At present, many enterprises' accountants belittled the position of themselves in their enterprises decision, and they are not doing the in-depth study of decision theory, and not apt at applying scientific method to do the accounting decision within their power. Indeed, accounting decision should obey the production management decision of enterprises. Accountants are to do somewhat, and also do not do somewhat towards production and management decision of enterprises. It should be said that, when to do somewhat, then do it well; when do not do somewhat, then coordinate actively, but the problem is, accountants do not recognize clearly the boundary between them, and confuse them with one thing, the result becomes that the ones to do somewhat cope with it easily, and the ones do not do somewhat ignore it, finally lowered the decision level of themselves. For an example, state-owned enterprises often headache about "divestiture, debt restructuring", that is, according to the demand of the *Company Law of the Peoples Republic of China*, how to deal with the original burden issue in order to reach the standard of corporate enterprise. There are generally two practices, one is to "jump out", that is to relieve the original burden to other department of this system, join in the struggle without any burdens. The other practice is, "wrap in", that is, to digest and resolve the original problems. The latter practice is practicable and also is the hardest. Therefore, there are many enterprises adopt the first practice that is "jump out", but the result usually is, the burden is "throw back" when "jump out" after listing, the capital is diverted, and the production is failed, and the operation is influenced. Then, how to treat the do some things, and leave some things undone of accountants towards this matter? If the accountants leave some things undone before hand, then, if accidents happened, nothing could be done at that time. If the asset stripping and debt reorganization are actively done beforehand, and make sure that satisfied reasonably fund raising decision making of the capital structures proportion, etc, fund raising decision-making, and Make effective investment decisions in this matter, the results must be of great difference. The problems of enterprises' accounting are from many aspects in the capital market, only seen from above three aspects of problems and its causations, the rising standard of accounting behaviors and accounting information qualities and the scientifically reasonable accounting decision making are all affected by the influence and restriction of the capital market. Theoretical analysis is the ways and tools to solve the problems. We have the basic understanding of the capital market theoretically, in the meantime, we should do in-depth study of the capital market to find out which theories have close relationships with questions said above, and tackle and resolve them one by one towards questions above by applying these theories.

3 The Standardization of Enterprise Accounting Behavior for Capital Market

Throughout the history of development of accounting, it could be deemed that, accounting is a man made system, and accounting behavior is a conscious social action of people. This is both needs guidance of certain goals, and in the mean time, it is also needs to act according to some certain rules, and it need external standard. There is no absolute freedom in the social domain, more so is the enterprises' accounting in capital market. From the false accounting report issued by accounting firm exposed by "Yuan Ye events" to the false accounting information issued by enterprises' accounting exposed by "Zheng Bai Wen events". The accounting behavior of capital market has been concerned by people. How to standardize the accounting behavior issue in capital market is not only related to the norm of enterprise behavior, but also related to the development and perfection of capital market. Therefore, the research of the behavior norm of capital market towards enterprises accounting behavior not only has theoretical meanings, but also has practical significance.

3.1 The overview of accounting behavior

3.1.1 The meaning of enterprises' accounting behavior

Any human behavior is the purposeful action under their conscious control, accounting behavior is the purposeful activities of accountants, and is the important component of enterprises' behavior, and it also affects the realization of the accounting and enterprises' goals. From the perspective of accounting system, accounting behavior is the conscious behavior expressed by professional accountants by information searching, processing, arranging, and information disclosure towards accounting information, and making decisions by applying accounting information in social practice. However, from the perspective of accounting management activity, accounting behavior is a calculation and management behavior towards funds movements in the process of social reproduction according to the demand of accounting goals by adopting certain accounting method. Accounting behavior is comprised of 3 object ingredients, which are behavior agent, behavior means, and behavior object. The accounting behavior agent is the accountants, the accounting behavior object is the funds movements, accounting behavior means is the accounting method, accounting means and accounting information. In which, the moral idea, behavioral tendency, behavior objective are directly determine the methods it adopts, the disclosure of accounting information quality, and social benefits of accounting management activities. Therefore, to standardize the accounting behavior is the key point.

3.1.2 Factors that influence the accounting behavior

Enterprise accounting behavior is subject to many factors, generally speaking, there are mainly several points below:

1. Enterprise accounting goals determines accounting behaviors. Accounting behaviors are subjected to accounting goals, and the result of its action represented as accounting report, so, people usually equate the accounting behaviors to accounting information reported to the public by enterprise. The author deems that, as accounting goals, the accounting is an activity of subject on the object as well, and it has close relationship with accounting information, and exists causal relationships. There is no demand of offering accounting information, and there is no behaviors of offering accounting information, if there is no accounting behaviors, there will not exists accounting information. Accounting behaviors is subject to accounting goals, and the accounting goals are realized by

accounting behavior. However, in reality, due to accounting itself, or every stress come from external, accounting behavior deviates from, or even betrays the accounting goals, and even affects accounting quality, and impairs the economic benefits of the accounting information users. Therefore, in order to realize the accounting goals, the enterprises' accounting behaviors should be restrained, and standardized. Behavioral norm is the basis of behavior, and also the judging criteria of behaviors, as well as restriction mechanism of behavior. The capital market is the external restrictions towards enterprises' accounting behaviors, it is the restriction that is come from accounting goals and accounting information report towards accounting behavior.

Accounting goals has a big influence towards accounting behavior, "people that act in the history domain are people who are conscious, after thought, or zealously acted, and on the pursuit of certain goals, any events happened are not with no conscious intention and no anticipated goals."⁶ Accounting is a social activity, its action is restricted by its goals, that is, its goals guides and adjusts accounting behaviors. The accounting goals are obviously not for satisfying the self needs of accountants. The capital markets defines the goal of "maximization of stockholder's wealth", in order to realize this goal, accountants should according to certain guidelines and standards, choose process and method that are stipulated by capital markets, and work out the needed accounting information so as to make scientific decisions. If some certain false and fraudulent accounting report has made out from some needs of enterprise itself, and that leads stock holders make false decisions, this is against the accounting goals "the maximization of the stock holders' wealth" from root. Fraud and fraudulent accounting report cannot be anything but local and temporal, and cannot be eternal, in the end, lift a rock only to drop it on one's own feet. Negate or distort the corrective function of accounting goals towards accounting behaviors would inevitably appear false accounting behavior. However, the essence of accounting goal is the reaction towards social demands. In market economy, the supply that against the demand is only the distorted supply, and it will not operate long. The accounting goal in capital market determines the direction of accounting behavior, and it standardizes the enterprise's accounting behavior from oriented mechanisms.

The reaction that accounting information brings to the accounting behavior is also becomes a standard that capital market towards accounting behaviors. The investors are improbably intervene directly into the operating activities of enterprises, and are also could not monitor directly the enterprises' accounting behavior, however, they could through the carrier of accounting information—financial statements to get to know the business and financial status of enterprise, and analyze the enterprise' accounting behavior. False accounting report originates from unfair, dishonor accounting behaviors, therefore, it must by means of standard system of institution to restrict enterprise's accounting behavior to ensure the quality of quality of accounting information. In turn, it is also subjects to the demand of accounting quality, and restrict from the capital market. Without external force of the capital market (including the restriction from demanders of accounting information and standard institution of capital market), the enterprises' accounting behavior may abnormally develop, and the accounting information quality could not be guaranteed.

2. The enterprises' accounting policy directly affects enterprises' behavior. Accounting policy refers to specific accounting principle that enterprise follow when compiling enterprises' financial statements, and the specific dealing method that enterprises adopt. Specific principle refers to accounting principle that is stipulated by enterprises according to *Accounting Standards for Business Enterprises* and the stipulated principle of *Unified Accounting System*, which suits the accounting principles of the enterprise itself; The specific accounting dealing method means the accounting dealing methods that are appropriate for the enterprise itself among multiple optional choices of accounting methods in the process of enterprises' accounting methods. The current accounting system endows the enterprises certain option and flexibility of financing, which facilitates enterprises choosing the most appropriate accounting policies under the premises of not against accounting principles. The established accounting policies directly determine enterprises' accounting behaviors, and further affects accounting information.

Because accounting policies may have different choices in the specific use, generally, the most appropriate choice of accounting policy for enterprises refers to the accounting dealing process and method that could reflect the true operating achievements and financial status. The choice of the accounting policies should consider three aspects of cautious, substance over form and importance. The accounting policies the enterprises adopt are generally exposed in the appendix of accounting statements. Help the users of accounting information understand accounting information correctly, and make up reasonable judges towards enterprise financial status and operating achievements.

3. Accounting behavior norm restrict enterprise accounting behaviors. Though accounting behavior is a practical activity that is subject on the object by accountants, it is not abstraction possessed by individual accountants, it is a part of enterprises behavior. As we may think accounting goal should obey the enterprises goal, accounting behavior should obey enterprises' behavior as well, to standardize the enterprises' accounting behavior should combine with normal enterprise behavior at the same time. The standard completely relies on force, and could not solve problems from the root, however, totally relies on itself is lacking of corresponding guarantee, there is no standard and could not put forward effective measure. Therefore, accounting behavior standard is the outer factors that restrict enterprises' behaviors, and is the road sign that guide, facilitate, guarantee the accounting behavior developing towards scientific, order, effective direction, and is criteria for accountants and related people to implement accounting behavior, and managerial personnel's judging accounting behaviors.

3.1.3 Accounting behavior—accounting information—the virtuous circle of capital market

The enterprises' accounting report, or say, the fruit of the enterprises' accounting work is the accounting information, and is also the final result of accounting behavior. Therefore, the quality level of the accounting information quality exposed publicly by enterprises, is directly determined by whether accounting behavior is standard or not, what accounting behavior there is, what kind of accounting

⁶ *The Complete Works of Max and Angles*, People's Publishing House, 1976, Vol.3, P341.

information quality it will have, and, thus, the reliability and usefulness of accounting information are also determined. Therefore, if enterprises' accounting information quality needs to be raised up, the standardize enterprises' accounting behavior needs to be started with.

The service object of the enterprises' financial accounting is mainly outsider, that is, investors of capital market. Therefore, the enterprise accounting behavior exerts influence on capital market in the form of accounting information public exposure, and further influences the entire running conditions of entire economics. Therefore, enterprise accounting behavior is the micro-foundation of capital market, and accounting information is the link and bridge. In the mean time, the capitals markets are in order operation, and it turns to demand enterprises' accounting behavior should be standard, and standard accounting behavior is one of the basic conditions for enterprise to enter into the capital market.

Standard enterprise accounting behavior could enable enterprises sending accounting messages to capital market timely, fair, reliably, and usefully, so as to facilitate the market to operate orderly, efficiently, and the capital market in turn creates investment opportunity for enterprises, and offers business opportunities to enterprises' survival, development, and expansion. Therefore, formal enterprise accounting behavior is not only advantage of benign operation of capital market, but also more advantage of self development for enterprises.

It is clear that, enterprises and capital market related to each other by accounting behaviors (not only includes accounting information exposure behavior, but also includes accounting decision-making behavior) and accounting information flow, therefore, the circulating system of "enterprise accounting behavior—accounting information—capital market" is formed. The key of the benign cycle is determined by whether the enterprise's behavior is formal at last, in which, accounting behavior norm is in the core status.

3.2 The capital market and the corporate governance structure

Basically, enterprise accounting behavior should be standardized from two aspects. On one aspect, is the enterprise governing structure, establish effective governing structure in the inner enterprise is the micro basis of standardizing enterprise accounting behavior, or it could be said that, it is the condition that realize accounting system standardization; on the other aspect, is the accounting behavior system standardization, it is the guarantee of accounting behavior system standardization, in which includes: law, system, norm, and ethics, etc., If there are no perfect enterprise governance structure as it basis, the effect and the effect of the institutional norm would be greatly reduced, while, if there is no external restriction of institutional norm, enterprises accounting behavior would be out of control, especially when the enterprise is in hard times. Therefore, normalizing the enterprise accounting behavior must start with two aspects of enterprise governance structure and accounting behavior system standardization. This section is mainly starts with the expansion of enterprise governance structure, and accounting behavior system standardization will be remained to expound in the next section.

3.2.1 Modern enterprise management structure

As the main form of modern enterprise—corporate enterprise, the enterprise governance issue is getting more and more attention in the world. Recent years, there appeared a perfection tendency of corporate enterprise. With deepening of finance in each country and economics globalization, corporate governance structure is also under reform, as the arrangement of micro-economics basic institution. However, in China, the defect of corporate governance structure has become a very serious problem that affects healthy development of security market. Therefore, in September, 1999, corporate governance structure issue has been listed in the document of China's Party Congress at the Fourth Plenary Session formally, in 12th September 2001, China Securities Regulatory Commission launched *Governance Principle of Listed Company (Standard for Comment)*, and was promulgated and implemented formally at the end of the year 2002.

The so called corporate governance refers to laws and regulations, listing stipulation, corporate systems and laws and regulations, etc., that standardize stockholders, directors and relationships between the corporate managers. Its ultimate goal is to offer fair and guaranteed shareholders' rights and protection of investors. In capital market of China, a series of problems caused by low overall quality of listed company due to thin corporate governance structures, has seriously influenced the confidence of investors, and further becomes the essential cause that influence healthy development of security market. And the essential measure is to establish standardized modern corporate system, and perfect corporate governance structure.

Corporate governance structure includes two aspects of contents: first is the specific governance mold and management manner of corporation; the second is standardized accounting system, information disclosure and external supervision mechanisms. As to the proportion of individual directors in the board, towards whether the director could hold a concurrent post or not; specific corporate management manners of the separation or merge of the corporate ownership and managerial ownership, corporate governance structure may not be necessary to make hard-and-fast rule, only to propose some selective suggestions. Because market is in constant change, the 21st century is an era that more emphasize individuality, the individualization of the choice of the consumers and investors is inevitably bring forward a more higher demands. However, towards accounting systems of corporation of each nation, information disclosure and external supervision mechanism, corporate governance structure, a unified standard should be proposed, this is actually the core contents of corporate governance structure regulations, and also the link that has much problems and management confusion in listing companies.

Firstly, the accounting systems of each nation should be unified. With the deep development of economic globalization and financial integration, the investors is also getting globalized, they should judge precisely the operation status of each nation, the premise is, there should be a set of objective standard to measure advantages and disadvantages of a corporation, that is, unified accounting

system. Therefore, unified accounting system should become the prime mission of corporate governance structure regulations. Although our nation has promulgated unified accounting systems at present, it is merely in trial implementation in joint stock company, there is also exists some problems in the implementation. Therefore, the corporation accounting calculation should be further standardized.

Secondly, the information disclosure system should be unified. The unified information disclosure system is the important means to realize fair goals, and also is the premise for investors to grasp corporate real operation conditions timely and comprehensively. Information disclosure includes internal and external information disclosure. Internal information disclosure is the information disclosure of board in the company. External information disclosure refers to the information disclosure towards societal public. The degree of both disclosure is different, corporate information should be fully disclosed towards the board, but not all information could be exposed towards the public, the disclosure information degree should have unified standards. Ensure the timely, legitimacy, authenticity and integrity information disclosure. *China's Governance of Listed Company Standards* stipulated that, corporation should establish information management and control system, establish the collection and disclosure work of corporation that is in the charge by specific person. The *criterion* demands the listed company disclose annual information related to corporate governance aspect to facilitate stockholders obtain information on corporate controlling interest timely, and undergo effective supervision to the company.

Thirdly, establish effective internal and external restriction mechanism. No matter what kind of corporate governance mode, there is a reasonable restriction arrangement between inner board, director and director, director and manager, director and stock holders. Furthermore, there should be a reasonable arrangement for the supervision of individual directors towards board director, all kinds of supervision department towards supervision of corporation, and the supervision of public opinion and government department supervision. Corporate governance structure standard should propose a relative unified standard towards corporate governance structure standard.

3.2.2 Enterprise accounting behavior and corporate management

Corporate governance is a set of institution and method towards enterprise management and control, to reinforce corporate governance, is to set up a set of institution and method, so as to make the company operate the entrusted assets at the best interest of owner and the interested parties, and maximize the corporation value, and feasibly maintain the interest of each owners of the corporation. As to individual enterprise, reinforce corporate governance, let corporation operate regularly, and reduce the operation cost could not only help enterprises increase economic benefit, but also could increase the investors' confidence. As to a nation, emphasize reinforcing corporation governance could set up the confidence of the market, encourage steady and long-term international capital inflow, and reinforce the stability of the nation and the world's financial market.

The emerged motivation of the modern financial accounting is the separation of modern enterprises ownership and operational rights. The owner of outer resources of enterprise (principal) entrust the resources (capital) they owned to business executives of enterprises (deputy) to operate and manage, and supervise and control the agent. The whole set of institution and arrangement that the owner undergoes supervision and control towards the operating management and performance of enterprise constitutes the corporate governance structure. Financial accounting as an information system, plays a important role as the information providers in the set of institution and arrangements, and become an important mean of owners and operation controllers. The relationship between financial accounting and corporate governance structure is the relationship between system and environment. Obviously, system should adapted and consistent with the environment, by this, could help to realize the systematic especially man-made systematic goals. Therefore, the institution environment of corporate governance structure would greatly influence the standard of financial accounting behaviors. Hence, the institution environment of corporation governance structure affects the standard of financial accounting behavior to a great degree, and therefore, affects the realization degree of this systematic goal.

Under the system of market economy, the owner of state-owned enterprises is the nation, department of enterprises act for the responsibility of owners, the directors and managers directly manage the enterprise. The feature of the corporation governance structure at that time is to maximally deprive of the autonomy management of the business executives. This is the minimum institution arrangement of supervision cost which fits each political environment at that time. Under this corporation governance environment, as supervision and agent tools for accountants of state-owned enterprise, though, they are subject to the direct leadership of managers in enterprises, they are appointed by government, their salary are granted by the government according to the unified stipulation, therefore, unhooked the accountants from their enterprise on the economic interest, and maintains the individuality in essence, could offer information on the situation of enterprise management status to the principal – the government, and this spare the necessity of accounting information for the increase of credibility. Therefore, this kind of institution arrangement prevent accounting frauds behavior at that institution, and guarantee the high quality of accounting information, and make the accounting information system exert its function.

In the developed system of market economy, the corporation governance structure of the listed corporation comprises two parts. First is by indirect control implemented by competing market, or so called external governance structure, which includes the product market, capital market, manager market, and merger market, etc. This external market exist fierce competition, and gives great pressure to the management personnel, if the corporation has mismanagement, the share in the product market will decline, the stock price of the corporation in the capital market will decline, and there will be financing difficulty for corporation, it might be taken over and merged by other corporations in the merger market, while, manager market offers a lower cost of penalty mechanism for operators. Second, use the designed direct control or so called internal governance structure for supervision in advance. Internal governance structure is a tertiary structure that is comprised of general meeting of shareholders, board of directors and managers.

Compared to the state owned enterprises of the planned economy, the managers of the listed corporation have a greater autonomy in management, and the company even has the name of “Manager Empire”. Accountants are not only controlled by managers and a leader at work, personal economic interests depends on managers of the corporation. Under this circumstance, the corporation governance structure introduces an important institution—conduct independent audit towards enterprise financial accounting information in order to restrict maximally the accounting corrupt practice behavior.

Corporations are the cells of national economy, and it plays an important role in the social economic life. Behavior of company first is a kind of act of legal person; is a kind of social action, which has a overall influence in each aspect of the society, once the corporation misconducts, the harm would be huge and profound. There are numerous cases like this. Speaking domestically, “Qiongminyuan event”, “Hongguang event”, “Yinguangxia event”, as well as “Zhengbaiwen event”, “TCL event” which are paid attention widely by all sectors of community, they not only cause disadvantage effect, but also cause effect of different degree towards investors of these enterprises, accounting firm and certified public accountants that are involved in these events, government security regulators, and even the development of security market of our nation. The common ground of these illegal behavior and law breaking activities is directly related with financial frauds. Hence, the key to the problem is to reinforce supervising enterprise accountancy and regulating enterprise accounting behavior.

Enterprise accounting behavior constitute the important part of enterprise behavior, at present, in our country, the misconducts of enterprise accounting behavior are mainly represented at: taking no account of accountancy, the accounting foundation work is weak; conduct financial accounting and information disclosure out of the accordance with the uniform accounting system of the state; offer fraud or false accounting information to the public; internal accounting supervise is formalizing; the head of unit interferes with the accountancy illicitly, etc. This illicit behavior arising from the corporation that could not act according to law, and do not reinforce internal management, pursuing short-term interests.

The negative affect caused by accounting illegal behavior exists in long term is very serious. For an example, the distortion of accounting information could lead to serious “foam” economic phenomenon, as certain enterprise is concerned, if its profit is false, and is the result of “number games”, then, there is no business performance corresponding to cash inflow. Under this circumstance, enterprise payment capacity and enterprise solvency are out of the question, let alone the distribution of cash dividends to shareholders. Therefore, some corporations have to adopt non-distribution or through distributing stock dividend to resist shareholders. If things go on like this, the corporation would be bogged down deeper and deeper, and finally go to the edge of bankruptcy and liquidation, false information will be brought to light in the end. For another example, due to weak internal control system, poor management, and the corporation production fund could be misappropriate by evil intentions of corporation officials for other illegal purposes, etc.

The reasons of non-standard of accounting behavior of corporation are from many aspects, there are not only reasons from the corporation of its own, but also the reasons of other aspects outside of the corporation. As the listed company as is concerned, leaves the other factors outside of the enterprise behind, false accounting information is not merely the accounting technical question, it has the close relationship with corporation operation behavior. To distinguish the true or false of the accounting information, the first thing is to distinguish economic business transaction. It is insufficient to discuss the truthfulness of accounting information only from accounting reflection aspect, ignoring the truthfulness of economic business transaction. Though, the *Accounting Law* stipulated for the corporation accounting that those enterprises must base on the actual economic business, at the same time, demand enterprise accounting should accord with the principle of substance over form when corporation conducts accounting calculations. However, we should realize that the accounting is not everything. If the corrupt practice needs to be eradicated counting on the accounting itself is very difficult, and it needs endeavor of every aspect of society. In which, the most important is the enterprise internal governance structure. Starting from establishing and perfecting corporation governance structure, gradually standardizing corporation operating management behavior, and strictly demanding corporation conduct accounting calculation according to accounting law are fundamental measures of correcting corporation accounting illegal behavior.

Now, taking “Yinguangxia event” as an example, analyze the negative effect that modern corporation management brings to enterprise accounting behavior.

Case: Yinguangxia event

Yinguangxia A (0557), whose full name is Guangxia (Yinchuan) Industrial Company Limited Liability Company, listed in Shenzhen stock exchange in June 17th, 1994. Its main business is viniculture, medicinal chemical industry, magnetic technology products, etc. From 1999 to 2001, Yinguangxia created an outstanding performance and myth of share price, with its share price from 13.97 Yuan in 30th December 1999 to 440% of its original price in 29th December 2000. Markets is betting on Yinguangxia, and deemed it as a well performed and undervalued blue chip, and deemed as one of the top 500 Chinese enterprises by certain magazine.

However, magazine *Finance and Economics* revealed the veil of false financial report of Yinguangxia. According to the Guangxia announcement in 1999, 2000, claiming that the exportation of Tianjin Guangxia was 56100 thousand Mark (approximately 220 million RMB) and 180 million Mark (approximately 720 million RMB) respectively, which taking up 75% and 100% of the whole profits of Yinguangxia. In fact, the exportation amount of Tianjin Guangxia in 1999 and 2000 was merely 4.8 million and 30 thousand dollars respectively. The myth of “huge profit” is absolutely a hoax. After exposure of false financial report of Yinguangxia, it caused earth quake and chain reaction of Shanghai and Shenzhen Stock Exchange. Many blue chip stocks fell sharply in 6th August. The broad index slump 76.56 points, 3.9% drawdown. And there were 4 stocks fall staying in Shanghai and Shenzhen Stock Exchange. Fraud event of Yinguangxia has completely shaken the confidence of the vast majority of share holders towards listed companies, and leads to generally credit crises. Since the Yinguangxia event, the whole Shanghai and Shenzhen Stock Exchange

maintained a 4-month decline, and Shanghai Stock Exchange went down 700 points, there was more than 20 fell staying of Yinguangxia, from 30.29 Yuan before trading was suspended, dropping to less than 5 Yuan, the price drop range reached to 83%.

What exactly the reason that makes Yinguangxia take the risk of against the entire world? The author deems that the root of the illegal behavior of Yinguangxia is the corporation governance problem.

Let us take a look at the equity structure of Yinguangxia: in the mid-term of 2001, the total equity was 505261.4 thousand shares, tradable of A shares were 280819.5 thousand shares, which took up 55.58% of the total shares, the domestic legal person share were 128622.4 thousand shares, legal person share raised were 95601.6 thousand shares, the employee shares were 217.9 thousand shares, the proportion of shares held by top 10 shareholders of Yinguangxia respectively were:

Shenzhen Guangxia Culture Industry Limited Company	12.63%
Ningxia Islamic International Trust and Investment Company	8.18%
Guangdong Jingzhong Finance Management Limited	7.85%
Shenzhen Xingqing Electronic Limited Company	6.80%
Yinchuan Peixin Investment Limited Company	4.29%
Ningxia Institute of Computer Technology	2.83%
Beijing Lingchuang Science and Technology Development Limited Liability Company	0.94%
Beijing Zhonghuiliang Computer Software Development Limited Company	0.97%
Jinghong Securities Investment Funds	1.39%
Beijing Zhongjingkai Property Management Limited Company	1.86%

(Among which, the top 6 are legal person shareholders, the rest 4 are public shareholders)

Why board directors and board of supervisors of Yinguangxia in this event could not exert their function to restrict the managers? The reason lies in:

1. The candidates of the board of directors and board of supervisors are not appropriate. Seen from the post and resume, the agency officials are the most, for an example, the chairman Zhangjisheng held the position of head of the Ningxia Department of Science and Technology, Communist Party Secretary, director of board directors of Yinguangxia, Chairman of Development Commission at that time, Kongxiangping who was once executive vice president of the corporation used to held the post of vice director of Ningxia Securities Regulatory Commission Office. Duyu who was Supervisory Board Chairman and the current supervisors Dunaiwen were both held the post of surgeon general, party secretary of Yinchuan city, Dunaiwen is also held the current post of vice-deputy director, secretary-general of Yinchuan city arbitration committee. It could be said that, board of directors is the bureaucratic board of directors, and board of supervisors is also the bureaucratic board of supervisors. We cannot help to ask: could these bureaucrats with no professional knowledge and experience of production and business operation management exercise the function of board of directors and supervisors and maintain the rights of shareholders? Could these people represent the interests of shareholders? Its member includes the big shots of securities market, finance, insurance, accounting firm, which make us doubt that this is an elaborate relationship nets by managers. Due to the two boards of Yinguangxia existed in name only, which led the severe control by insiders. This is fully demonstrates the unsound corporation governance mechanisms of Yinguangxia, and further provides a breeding ground for deceptive behaviors in accountancy.

2. Major shareholders conspired with managers. Two boards and managers represented as major shareholders may conspire to loot the property of medium and small shareholders, because major shareholders might take advantage of the corporate control power dividing up the private benefit of control with the managers.

3. Flaws of representatives of legal person shareholder. It could be seen from the equity structure of Yinguangxia that the major shareholders of top 6 are legal person shares, actually, legal person are as well the deputy of ultimate contributors, but legal person shareholders representatives are not elected out by the ultimate contributors, they elected by legal person institutions. Here exists a problem of investing by other people's money, and itself is also exists the problem of encouragement and restraint. Why these legal major shareholders allow these bureaucrats to represent their own interests? This exposed the problems of principal agent relationship discordance of legal person shareholders.

4. There is lack of outside directors in the board of directors, even if some corporations introduced outside directors, they did not real exert the functions. Therefore, the independent director system should be actively implemented, seek a mechanism for the individual director to exert their real function. May we ask, if there are external chemical experts as the members of the board director of Yinguangxia, then, the lie about the related mystical carbon dioxide extraction technology fabricated by managers would be seen through. Only by this way, the minority interest from internal governance structure could be protected, and avoid managers' forging.

It could be seen that, the board directors, board of supervisors of Yinguangxia are to a great extent a mere formality, its exertion of function are limited, the insiders control severely, which led insiders harm the interests of minority shareholders by taking advantage of information asymmetry, pursue short term interest by accounting frauds behaviors.

3.3 The institutional standardization of enterprise accounting behavior for capital market

The institution and standard that capital market towards accounting behaviors is proceeding in 3 aspects of laws, accounting standard and professional ethics, laws and regulations are environmental regulations that forming accounting regulations, accounting standards is the core, code of professional ethics are internal guarantee.

1. Laws and regulations

Market economy is a competitive economy. Competition needs fair, equal, and order. Absolute fair and equal is not existed, comparatively speaking, the highest fair and equal is laws. Therefore, as people usually say, market economy is a legalized economy. Market economy as an important part of market system, is inevitably taking legal system as a mechanism to restrain, regulate its each member. Corporation as the main body of market economy is inevitably to accept laws and regulations, not to mention enterprise accounting.

Laws and regulations is typical heteronomie and mandatory standard, is a promoted behavioral standard with the help of state apparatus. Seen from the logic structure perspective, the laws and regulations is an accounting standard with rigorous and high standard, it fixes up the connection between accounting and external world (enterprise and capital market) by the form of law, in order to guarantee the stability of economic order and operating effectiveness of economic mechanisms. The standardization of capital market towards enterprises first began from law and regulations. American *Securities Law* in 1933 and *Securities Exchange Act* in 1934 created a precedent for standardizing enterprises and enterprise accounting behavior in capital market in form of law. The Accounting Law of the PRC passed on The Eighth National People's Congress of China in 1985, is the first law that regulate accounting behaviors after the founding of PRC (Standing Committee of the National People's Congress revised The Accounting Law of the PRC in 31st, October, 1999, which laid a solid legal basis for regulating accounting behavior in capital market). *The People's Republic of China Certified Public Accountants Law* passed on the Sixth Session of the National People's Congress Fourth Meeting on 31st October 1993, is the regulation that directly regulate accounting behavior. The Company Law of the Peoples Republic of China which was passed on the Eighth National People's Congress of the Fifth Meeting on 29th December 1993 is a normative regulation that was made for limited liability companies and incorporates companies. On 22nd April 1993, *Provisional Regulations on the Administration of the Issuance and Trading of Stocks of the Order of People's Republic of China No.112* made specifications towards enterprises and enterprise accounting behavior in law.

2. Accounting Standards Regulation

The Accounting Standards Regulation is also called Accounting Standards, is used to deal with the accounting event and is the criteria of judging the quality of accounting information. If the laws and regulations are environmental regulations of accounting regulations in capital market, then, accounting standards is the core of accounting regulations of the capital market. The regulation of accounting standards towards accounting behaviors is between laws and professional ethics, is from the perspective of providing for accounting business and judging accounting information quality criteria, and further standardize accounting behavior towards constraint condition of accounting behavior, it is a causal standard towards accounting behavior in order to increase the usefulness of accounting information. Compared to the Western countries, corporation accounting standard of our nation is stipulated by the national treasury, should carry out accordingly, therefore, it have some certain property of regulations.

Compared to laws and regulations, accounting standards is an internalized standard towards accounting behavior, it takes effect by transforming people's consciousness. The function of accounting standards represented as: Firstly, help different types of enterprises under the legal premises according to the specific conditions of enterprises, formulate the accounting systems that fit this system; Secondly, help accountants deal with various specific business correctly, and make different enterprises information have comparability. Whether accounting standards regulations towards accounting behavior in enterprises play an active function or not depend on two conditions. One is the explicit of accounting goal. The explicit of accounting goals has close relationships with interests mechanisms of capital market. Enterprises could not gain economic interests from other approach, but only to gain economic interests under the economic benefit conditions, this of course could facilitates the optimization of accounting behavior. The other is the degree of internalization, that is, except accountants have clear goals, they must be familiar with various ways and approaches, it needs a process of accumulating experiences and mastering skills besides the systemic study of accounting knowledge. The accounting standards of our nation, as for the real exertion of normative effect are still in the enterprises that enter into the capital market. Because at present, there are still a significant portion of enterprises still adopts accounting standards to standardize accountancy. The feature of the planned economy is to standardize accounting behavior by national unified stipulated accounting system. Accounting standards compared to accounting institution, there is an obvious difference, that is, the control way of the quality of accounting report. Accounting standards takes accounting title as the core, the emphasis is the processing flow that controls the accountancy, and further control report forms. However, the accounting standard takes the accounting report item as the core, by confirming the accounting elements and measurement rules to formulate the report contents and calculating calibers. In capital market, the standard that accounting standards towards enterprise accounting behavior is just as accountants are producing a kind of product, standards only stipulates the quality demand of "product", auditors make judgments according to the quality demand when they are reviewing. As for whether manipulate by hand or by computer, the standard usually does not intervene, totally determined by enterprise itself. Compared to accounting standards, the standards put it this way, it could not only gives a certain space and freedom to accountants, and is advantage of exerting the subjective initiative of accountants, at the same time, it also gives an explicit judging criteria for auditors, reducing the work load of auditing, and increasing the work efficiency of accountants.

Of course, compared to western countries, the accounting standards of our country is not yet perfect, which offers a gap on manipulation for accounting irregularities, however, with the specific accounting standards' promulgation and implementation of *Disclosure of Related Party Relationships and Transactions, Debt Restructuring, Contingencies, and Non-monetary Transactions* etc., in succession in May 1997, enterprise accounting behavior will be more regulated and improved.

3. Professional work ethics

Ethics belongs to ideological category, is the normative summation of adjusting interpersonal relationships under the social environment. Accounting professional ethics is the concrete reflection in the general social morality in the accountancy, and is social

norm that adjusts the relationships between accountancy and society, accountancy and different interest group, and accountancies. The norm of the accountancy working ethics towards accounting behavior is not neither totally self-disciplined, nor totally heteronomous, but a norm that combines self-discipline with heteronomy, and is a norm that functions by converting external constraint demand into internal willing demand.

Accounting working ethics as a component of ethics, possesses the features of general ethics, however, what it regulates is the accounting behavior in accounting field, therefore, it has some certain particularity. Firstly, accounting behavior does not belong to individual behavior, but belong to a part of enterprise behavior. Standardization of accounting behavior should combine with the regulation of enterprise behavior, should not standardize accounting behaviors totally as social morality standardizing individual behavior. For an example, general social morality demands the separation between responsibility and rights, people do not seek to corresponding rights, and however, accountancy is the unity of rights, responsibility and obligation, if there is no rights, there will be no responsibility and obligation, this is the inevitably demand of maintain normal economic order. Social behavior should standardized by working ethics, and individual behavior should be standardized by social morality.

Secondly, accounting working ethics standardizes accounting behavior comprehensively. Its function range covers the whole process of the all fields of accountancy, even consciously obey the law, seriously implement technical standards, regard credits are also the demand of accounting working ethics. Ponder (America) figured out 4 points when analyzing the differences between laws and regulations and ethics: (1) Ethics as a social control system could penetrate into structure of people's lives and information, however, the law would be deterred; (2) Some interests and demands, though they should be recognized by laws, in essence, they could not be guaranteed and satisfied by laws and regulations, for example, they could not achieve the high explicit of legal provision; (3) The execution of laws could only rely on enforcement agency of nation; (4) The limitation of legal effect is yet hard to be defined, and it is hard to figure out which fact is dealt by applying laws. Laws and regulations is compulsory, but law does not blame the mass, when the majority do not know, and do not understand law, law and regulation has limitations, so, it is imperfect. Accountants may exploit an advantage of laws and regulations to achieve certain purpose, in order to prevent this phenomenon, professional ethics regulation is needed.

Finally, accounting behavior of accounting professional ethics is optional, is to convert external demand into internal actions, that is, function by spiritual power. This spiritual power comes from ideal, belief, when there is lofty professional ideal, there will be soul and core of regulation, and will encourage people to study the professional knowledge, and enhance their business skills, and then could observe these Codes of Ethics conscientiously, perform professional duty and professional obligation, standardize their own accounting behaviors. At the same time, fully exert the function of the supervision of public opinion, and combine self-discipline with heteronomy, and exert the maximum force of professional ethics code, regulate the accounting behavior well.

Market economy is a competitive economy, legal economy, and also is a credit economy. From certain meaning, honesty and trustworthiness is the foundation of market economy. Watanabeko who was the chairman of Sanwa Bank of Japan once said: "in the market economy, if people who have not met are untrustworthy, and even the concept of trust between the enterprises which have legal person qualification is also not universal, then, the society itself could not operate normally". According to the demand of capital market, to standardize enterprise accounting behavior should not consider from one aspect. As said above, laws and regulations, accounting standards and accounting professional codes should be combined to effect. As some authority pointed out that: "legal, supervision, self-discipline, standard" is the direction of the capital market regulation accounting behavior in our nation.

4 The Accounting Information Disclosure in Capital Market

4.1 The impact of accounting information towards capital market

Under the conditions of market economy, enterprises could not live without capital market. However, the development of market economy depends greatly on the capital market. Therefore, it is important for enterprises to gain the trust of the capital market. To achieve this point, enterprises have to offer related information about the enterprises itself to the investors. However, accounting information is exactly the most fundamental, important economic information in accounting information. Therefore, accounting information becomes the bridge and link that connects enterprises and capital market. Accounting information has formed a complex affinity with capital market, and all of ups and downs of capital markets have some certain relationships with it. Therefore, the relationships between the accounting information research and capital market is particularly important.

4.1.1 Accounting information and its features

Accounting information is the important composing part of economic information. It is mainly bases on data information in currency form or combines with other information to demonstrate the conditions of funds movement and economical information with its features. The financial information and cost information offered by accountants is an objective expression towards value movement (or capital, capital movement) and its property, is the real reflection of various development and change and features in value movement, and it has three aspects of features on quality, quantity and degree, and three tenses of past, present, and future, and it not only reveals the essence of value movement and its inherent rules, but also reflects the scale and degree of value movement.

The features of accounting information are mainly reflected in: Firstly, it is economic information that reflected value movement of subject by money. Accounting information is an objective statement towards value movement and its properties. Money is the sole representation of commodity value. Therefore, accounting information is information represented by form of money, and it does not

reflect non-monetary economic information; Secondly, it is historic information of subject's main value movement. Due to the data processed is economic business of subjects that have happened, so, accounting information is a representation of enterprises' past economic activities; Thirdly, it is subject's information that is reflected in particular period. The balance sheet reflects the subject's conditions of assets, liabilities and owner's equity at a certain point. Income statement and cash flow statement reflects operating results information of subject in the accounting period; Fourth, it is the approximate reflection of subject's value movements. Due to the accounting recognition difficulties brought by the complexity and uncertainty of enterprises' business activities, plus the diversity of choices of accounting method, therefore, strictly speaking, accounting information should be approximate reflection towards subject's value movements; Fifth, different quality demands make it have different quality features, its feature depends on molding of accounting information demander towards it; Sixth, due to the going concern of accounting entity, accounting information is systemic, continuous and integral; information, is information of generality.

4.1.2 Analysis of the function of accounting information in capital market

The influence of enterprise accounting towards the capital market is mainly taking effect through accounting information disclosure. As the important information as the investment decision of capital market, accounting information helps the investors conduct value judgment, and make investment decisions (buy and sell securities), thereby, generates push and pull down effect towards the stock price.

The perfection and development of capital market has countless ties with corporate finance, on one aspect, corporate finance relates the capital market through finance and investment function. The capital market becomes the chain for enterprises and investors to cross investment and finance. In this sense, the capital market is actually the finance market. From another aspect, the operation of the capital market should by means of some certain information, in which, the most important is the accounting information, from this sense, it could be said that financial information merges with capital market, and could not be separated.

Timely, reliable and fair accounting information will produce active function towards the capital market, it could let accounting information demanders clearly know the operation situation of accounting information of providers, and therefore, to make up right decisions of financing and investment. This could not only help investors and creditors realize the purpose of capital raising and appreciation, and promote a healthy development of the capital market, at the same time, reaches the reasonable purpose of social capital allocation macroscopically. Enterprise could know the relationships between enterprise value and stock prices by the information offered by capital market, measure the proportion of risks and benefits, help to make the satisfactory operating decision, meanwhile, the operating condition of each entity could be known through this information, and future developing changing trend, then, further make sure of the guiding principle of the enterprises itself. The accounting information that accords with the capital market quality demands is also the important basis for facilitating the formation of the capital market. The famous capital assets pricing model, hedging pricing model, etc., are based on related real and reliable accounting information.

False, unreal accounting information inevitably bring forth restrictions even damages towards the capital market. It could neither help people know the enterprises and markets, only misleads the decision of financing and investing of people, nor realize capital rational movement, nor realize the rational allocation towards social economic resources, meanwhile, it could also aggravate distrust feelings of people towards accounting information, urges people's psychology of investing convert to the speculative psychology, hence, brings ups and downs to the capital market, and distorts and restricts the normal development of capital market.

Thus it could be seen that, accounting information has become the important bridge and ties between connecting enterprises and capital market. It is unimaginable for capital market without accounting information. Without accounting information as the guide, the participants of capital market could not aware the enterprise, and also could not offer the financing and investing location for enterprises and satisfy its demand, similarly, the enterprises could not engage in the market as well, the capital market could not develop and grow. Accounting information is the action leader of market participants, and is the foundation and the premise of effective operation of the capital market.

4.2 The effect analysis of the accounting information in stock market

The capital market of China includes long-term credit market and securities market that of more than 1 year, in which, securities market especially stock market are the main body of capital market. What about the function of accounting information in the stock market has long been an issue concerned by people. The emphasis of this section is to do the empirical study of the function of the accounting information in the stock market. Due to the stock price is the main price that reflects the stock market conditions, the author tries to make use of more than 30 listed companies in stock markets of Shanghai and Shenzhen and related various accounting data, through related analysis and regression analysis, establish a stock price model comprised of accounting index, and analyze the function and pattern of accounting information in stock price.

4.2.1 Analysis route

Since the come out of the authoritative CAPM Model, it has long been in dominant position in financial assets pricing theory. Therefore, the stock price could be calculated by the authoritative formula, suppose the sum of the market price of some certain stock price is PK_i (i represents certain listed company), then:

$$PK_i = \sum_{t=1}^n \frac{K_{it}}{1 + R_{it}} \quad (4-1)$$

In the formula:

t---at a certain period (usually one year)

n ---the operating period of this listed company

k_{it} ---the net cash flow of this company at this period

R_{it} ---the rate of return of the stock at t period

The enterprise accounting information could offer information on net flow (K_{it}):

$$\text{Net cash flow} = \text{cash inflow} - \text{cash outflow} \quad (4-2)$$

Cash inflow represents as the profits and depreciation of enterprise accounting at certain time period; cash outflow is represented as investment, according to the pay-as-you-go principle, additional investment is equal to depreciation for enterprises' reproduction. So, Net cash flow=enterprise accounting profit (4-3)

The stock rate of return at t period could be calculated out by CAPM model.

Of course, in the calculation of risk factors β in the stock market, accounting information as well plays the important roll. The Western scholars discovered a higher asset-liability ratio leads to higher market risks by empirical analysis between capital structure and β factor. The preferred equity ratios, liquidity ratio, financial leverage, etc. have important interpret ability towards β factor. In calculation formula of share price calculation, all the other variables have close relationships with accounting data, except R_f and R_m . However, at certain time points, R_f and R_m could be seen as the constants, therefore, it could be said that, in a perfect and effective capital market, there must be some certain functional relation between the stock price and accounting information, this existence of the functional relation reflects the orientation and function of accounting information in the stock price. However, from the stock market of our nation, it does not yet have the ideal condition for the CAPM Model, especially, the calculation of β factor needs at least more than 5 years information. Though the history of the stock market of our nation is more than 10 years, in the beginning of years, stock types are few, and face value in circulation is small, its information could not counted as the calculation information of β factors. Hence, this paper tries to start with statistical correlation analysis and regression analysis, establish a stock price model constituted by accounting index, analyze the features of stock market of our nation reflected by this model, and compare it to the features of the developed capital market of foreign countries.

4.2.2 The hypothesis and model

There are 2 kinds of information that reflects stock price, accounting information and non-accounting information, based on this, we suppose the stock price P at certain period could be represented as:

$$P = f(Y_1, Y_2, \dots, Y_m, X_1, X_2, \dots, X_n) \quad (4-4)$$

In the above formula:

X ---Accounting information

Y ---Non-accounting information (such as macroeconomic policy, inflation, etc.)

At the same point, the affect of non-accounting information towards various stocks is consistent, hence, it could be represented as constant constant C_0 :

$$C_0 = f(Y_1, Y_2, \dots, Y_n) \quad (4-5)$$

In this way, the formula (5) could be simplified as:

$$P = C_0 + f(X_1, X_2, \dots, X_n) \quad (4-6)$$

Suppose P has linear relationships with X_1, X_2, \dots, X_n , the formula (7) then transformed into:

$$P = C_0 + C_1 X_1 + \dots + C_n X_n \quad (4-7)$$

The accounting information that affects stock price is intensively represented as various accounting indexes, such as: profit after tax, earnings per share, net asset value per share, equity ratio, etc.. 14 indexes, this paper will adopt these indexes, the basic stock price model constituted are as follows:

$$P = C_0 + C_1 X_1 + C_2 X_2 + C_3 X_3 + \dots + C_{14} X_{14} \quad (4-8)$$

4.2.3 The data collection and calculation

The relevant stock prices come from *China Securities Journal*, the relevant accounting information data comes from fundamental *Basic Analysis of Listed Corporation of China* (CD-ROM), *Capital Week*, annual and interim accounting report of listed companies of Shenzhen Haitong Securities.

I. Sample selection and analysis over the time period

Because China stock market has short time, the principle of sample selection is to strike a balance between the enough sample size and corresponding analysis time periods. Regression analysis generally demands the sample capacity $N \geq 30$, the sample choose $N=30$.

A: The companies listed before 30th April 2002

B: The listed companies are all enterprises of complete data, similar industry, more mature enterprise of textile and electric products.

C: The share capital is exclusive of foreign share (B share), only analyze A share market

This paper selects the time period during 30th April 2001 to 30th August 2002 as the analyzing time period, and makes detail analysis towards the stock market situation during 30th May 2002 to 20th May 2002. This choice is mainly because: according to the stipulations of our nation, the accounting report of the listed companies should be completely announced by the end of April 2002. The interim accounting report will be announced in the July or August, financial position and operating results have obvious change. The selection of this time period is advantageous of investigating accounting information and the affect of stock price. This paper have been dealt by ex-dividend and ex-authority due to the stock price had gone through sending stocks and paying dividend in analyzing time period, therefore, when analyzing, in order to maintain the continuity of the stock price before or after, and make the reductive treatment to ex-authority ex-dividend stock price, the calculation formula is as follows:

$$\text{Reduction stock price} = \text{ex-authority ex-dividend stock price} (1 + \text{allotment rate} + \text{sending dividend rate}) + \text{bonus-sending dividend price} \times \text{sending dividend rate} \quad (4--9)$$

II. The calculation related to accounting information

The total assets, the prime operating revenue, after-tax profits, stockholders equity, earnings per share, net asset value per share, net assets income rate, shareholders' rights and interests are all according to the publicized data of listed companies:

Liquidity ratio = Liquidity assets / Liquidity liabilities

Quick ratio = (Liquid assets - inventory) / Liquidity liabilities

Accounts receivable turnover = Prime operating revenue / The average net receivables

Inventory turnover = inventory turnover / average inventory

Net profit margin = After-tax profit / prime operating revenue

Equity net interest = after-tax profits / capital stock

4.2.4 Empirical analysis

1. Matrix analysis of correlation coefficient

To analyze and judge the relationship between accounting information and stock prices, the correlation analysis method could be adopted to conduct. The correlation analysis in statistics told us that, if the correlation absolute value between two phenomenon is greater than the critical value, which explains that mutual relationship between the two phenomenon is notable. Looking up the correlation coefficient test table, we could learn that, the significant level is 0.05, the critical value of correlation coefficient is 0.361 when the degree of freedom is 28.

Here, make a correlation matrix by selecting the stock price of two days together with accounting information, by this, observe whether their relationship is obvious or not:

First, choose the stock prices and accounting information of 3rd May, by calculation of SPSS statistical software, its correlation coefficient matrix as table 1:

In table 4—1, the prime operating revenue, earnings per share, net assets income rate, correlation coefficient of net equity interest rate are all greater than 0.361, this demonstrates that their exists remarkable positive correlation between these accounting information in 3rd May, that is, the greater these accounting information numerical value, the greater corresponding stock prices, conversely, the lower these information numerical value, the lower corresponding stock prices.

Though there exists certain positive correlation relationship between the stock price and accounting information, however, not all relationship between stock price and accounting information of all dates is the same, all of their relationships are not obvious, with time goes on, the form of relationships are various, and their mutual accompany degree is different. In order to describe the relationships between the accounting information and time accurately and better analyze the influence of accounting information towards stock prices in different time periods, here the SPSS statistical software would be used to calculate the correlation matrix between stock prices and accounting information at each date, so as to reveal the inner relationships between stock price and accounting information. Therefore, we divide the stock price into two time periods from the aspect of time, each stock price with interval time of 1 day is short period, the one with interval time of 10~30 days is medium and long term. Here, the main purpose of analysis is to analyze the relationships between accounting information and stock prices. Therefore, the correlation coefficient between the stock price and accounting information would be tabulated for analysis.

Table 4—1: The correlation matrix of stock price and each accounting information on 3rd May

	Tot al ass ets	Prim e opera ting reven ue	After -tax profit	Stockho lders' equity	Earni ngs per share	Net ass ets val ue per sha re	Net asse ts inco me rate	Shareho lders' rights and interests	Qui ck rati o	Liqui dity ratio	Acco unts receiv able turno ver	Inven tory turno ver	Net prof it mar gin	Net equi ty inter est rate	Th e sto ck pri ce on 3 rd M

															ay
Total assets	1.00	0.40	0.74	0.84	0.17	0.10	0.10	-0.22	-0.04	-0.06	0.49	0.02	0.25	0.01	-0.01
Prime operating revenue	0.40	1.00	0.58	0.46	0.70	0.19	0.69	-0.11	0.03	-0.09	0.45	0.71	0.15	0.38	0.45
After-tax profit	0.74	0.58	1.00	0.84	0.62	0.26	0.49	0.00	0.14	0.07	0.45	0.18	0.39	0.24	0.21
Shareholders' equity	0.84	0.46	0.84	1.00	0.18	0.12	0.12	0.07	0.13	0.07	0.64	0.10	0.39	0.07	-0.08
Earnings per share	0.17	0.70	0.62	0.18	1.00	0.35	0.92	-0.11	0.09	-0.01	0.05	0.45	0.21	0.52	0.70
Net asset value per share	0.10	0.19	0.26	0.12	0.35	1.00	0.17	0.05	0.13	0.16	-0.16	-0.05	0.07	0.04	0.32
Net assets income rate	0.10	0.69	0.49	0.12	0.92	0.17	1.00	-0.11	0.10	-0.03	0.12	0.56	0.32	0.69	0.69
Shareholders rights and interests	-0.22	-0.11	0.00	0.07	-0.11	0.05	-0.11	1.00	0.62	0.75	0.15	0.12	0.20	0.19	-0.11
Quick ratio	-0.04	0.03	0.14	0.13	0.09	0.13	0.10	0.62	1.00	0.81	-0.08	0.24	0.31	0.22	0.09
Liquidity ratio	-0.06	-0.99	0.07	0.07	-0.01	0.16	-0.03	0.75	0.81	1.00	0.02	-0.1	0.15	0.17	0.00
Accounts receivable turnover	0.49	0.45	0.45	0.64	0.05	-0.16	0.12	0.15	-0.08	0.02	1.00	0.26	0.20	0.13	-0.07
Inventory turnover	0.02	0.71	0.18	0.10	0.45	-0.05	0.56	0.12	0.24	-0.01	0.26	1.00	0.17	0.51	0.34
Net profit margin	0.25	0.15	0.39	0.39	0.21	0.07	0.32	0.20	0.31	0.15	0.20	0.17	1.00	0.34	-0.07
Net	0.0	0.38	0.24	0.07	0.52	0.0	0.69	0.19	0.2	0.17	0.13	0.51	0.34	1.00	0.4

equity interest rate	1					4			2						6
The stock price on 3 rd May	-0.10	0.45	0.21	-0.08	0.70	0.32	0.69	-0.11	0.09	0.00	-0.07	0.34	-0.07	0.46	1.00

(1) The correlation coefficient analysis of short-term stock price:

According to the sample data, calculation of correlation coefficients between each short-term stock price and accounting information as exemplified as table 4-2 below:

- ① From table 4-2, we could clearly see that, the stock price has an outstanding positive correlation between the primary operating income, earnings per share, net assets income rate, and net equity interest rate in each period, that is, after the publication of accounting information, the investors are very concerned about these four accounting information, and make up decisions upon this.
- ② In these accounting information, the stock earnings per share has the biggest relation, then, the next is the net assets income rate, then last one is the prime operating revenue and the net equity interest rate.
- ③ The performance of these four accounting information is different in different periods, which could be seen in the table 4-2:

Table 4-2: The related correlation coefficient between stock price of each short term and accounting information

	Total assets	Prime operating revenue	After-tax profit	Stockholders' equity	Earnings per share	Net assets value per share	Net asset income rate	Shareholders' rights and interests	Quick ratio	Liquidity ratio	Accounts receivable turnover	Inventory turnover	Net profit margin	Net equity interest rate
3 rd May	-0.10	0.45	0.21	-0.08	0.70	0.32	0.69	-0.11	0.09	0.00	-0.07	0.34	-0.07	0.46
4 th May	-0.07	0.46	0.25	-0.05	0.75	0.36	0.74	-0.08	0.09	0.02	-0.07	0.30	-0.03	0.49
6 th May	-0.07	0.47	0.26	-0.05	0.75	0.35	0.76	-0.09	0.09	0.01	-0.08	0.31	-0.02	0.50
7 th May	-0.07	0.46	0.26	-0.06	0.75	0.35	0.76	-0.10	0.08	-0.00	-0.08	0.31	-0.02	0.50
8 th May	-0.07	0.46	0.26	-0.05	0.75	0.35	0.76	-0.11	0.07	-0.00	-0.07	0.30	-0.02	0.50
9 th May	-0.07	0.46	0.26	-0.05	0.75	0.34	0.76	-0.11	0.07	-0.00	-0.07	0.29	-0.03	0.49
10 ^t	-0.07	0.44	0.26	-0.05	0.74	0.3	0.75	-0.10	0.07	0.00	-0.07	0.28	-0.0	0.48

h M ay	7					4							3	
11 ^t h M ay	-0.0 3	0.48	0.30	-0.01	0.77	0.3 4	0.78	-0.10	0.07	-0.01	-0.04	0.31	0.00	0.49
13 ^t h M ay	-0.0 7	0.46	0.27	-0.05	0.76	0.3 4	0.77	-0.11	0.06	-0.01	-0.07	0.29	-0.0 2	0.48
14 ^t h M ay	-0.0 6	0.46	0.27	-0.05	0.76	0.3 3	0.78	-0.12	0.06	-0.02	-0.07	0.29	-0.0 1	0.48
15 ^t h M ay	-0.0 6	0.48	0.29	-0.04	0.79	0.3 3	0.79	-0.11	0.07	-0.01	-0.07	0.31	0.00	0.50
16 ^t h M ay	-0.0 7	0.46	0.29	-0.04	0.79	0.3 3	0.79	-0.11	0.06	-0.02	-0.08	0.29	0.01	0.50
17 ^t h M ay	-0.0 6	0.44	0.26	-0.05	0.72	0.3 8	0.69	-0.09	0.07	0.02	-0.09	0.25	-0.0 8	0.48
20 ^t h M ay	-0.0 9	0.49	0.31	-0.04	0.76	0.3 4	0.74	-0.01	0.11	0.04	-0.10	0.33	-0.0 5	0.54

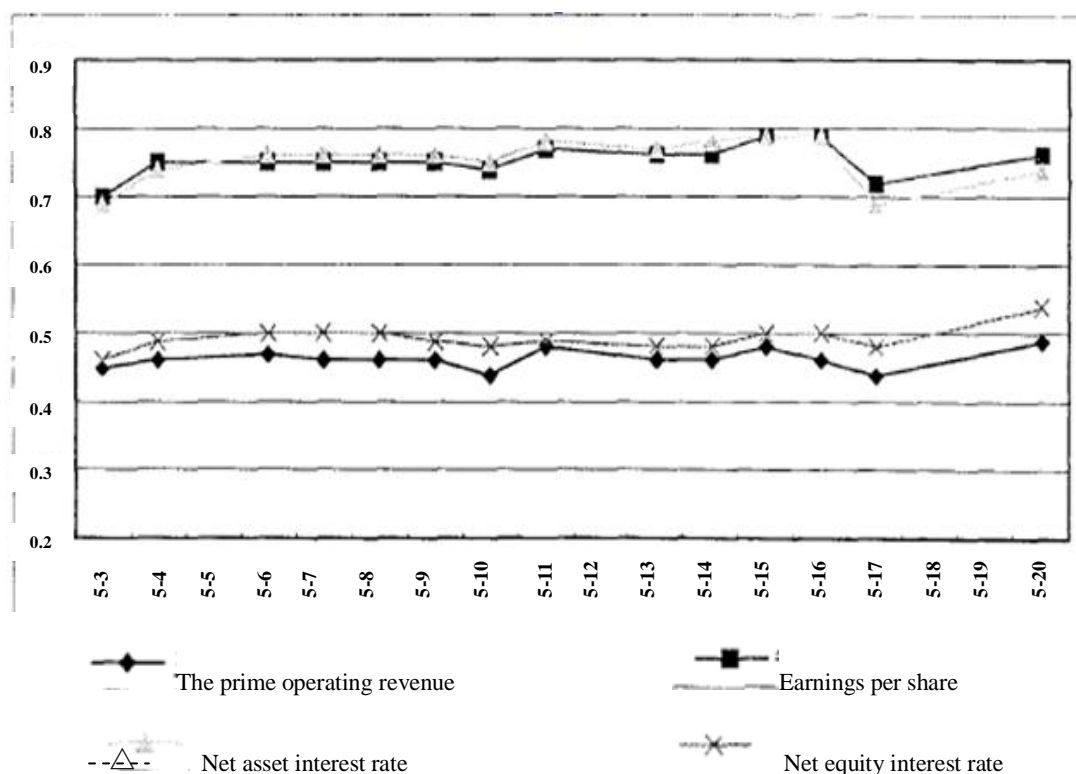


Figure 4-1

Figure 4-1 indicates that, there is highly positive correlation between the earnings per share and the net equity income share and stock price, and as time goes on, the effect range and the fluctuation status of both parties are similar; since 4th May, after its correlation coefficient reached 0.75, it increased at a lower growth rate, though, declined slightly on 17th May, the general trend keeps a positive correlation relationship with accounting information, and as the time goes on, the relationship degree is gradually reinforced. The prime operating revenue and the net equity interest rate belong to the accounting information of low correlation, seen from the general trend, both sides arises with steady, though undergone a little fluctuation, they keeps a obvious accompany relation with the stock prices.

④ Due to the existence of the difference between the stock price of each date and accounting information, here, it could be further analyzed and described by general statistics.

Table 4-3 The general statistics of the correlation between the stock price of each date and accounting information

	The prime operating revenue	Earnings per share	Net assets income rate	Net equity interest rate
Average	0.46	0.75	0.75	0.49
Standard deviation	0.01	0.02	0.03	0.02
Coefficient of standard deviation	0.022	0.027	0.04	0.041

The information of table 4-3 demonstrates that, the mean value of correlation coefficient of earnings per share and net asset income rate is 0.75, which demonstrates that there is a highly positive relationship between the stock price and the both parties. However, the coefficient of standard deviation of correlation coefficient of the earnings per share is smaller than coefficient of standard deviation of the net asset income rate, which demonstrates that the fluctuation of the correlation coefficient of the former one is smaller than the latter one's. Relatively speaking, the influence of the earnings per share towards investors is relatively stable.

(2) Correlation coefficient analysis of medium-and -long term stock price:

Table 4-4: The correlation coefficient between the medium-and-long term stock price and accounting information

	Total assets	Prime operating revenue	After-tax profit	Stockholders' equity	Earnings per share	Net assets value per share	Net asset income rate	Shareholders' rights and interests	Quick ratio	Liquidity ratio	Accounts receivable turnover	Inventory turnover	Net profit margin	Net equity interest rate
21 st May	0.04	0.54	0.51	0.09	0.87	0.43	0.79	-0.03	0.16	0.06	-0.07	0.31	0.12	0.48
31 st May	0.09	0.60	0.55	0.12	0.91	0.41	0.81	-0.06	0.12	0.02	-0.04	0.35	0.13	0.50
10 th June	0.11	0.56	0.60	0.15	0.92	0.40	0.80	-0.04	0.14	0.05	-0.05	0.31	0.15	0.46
20 th June	0.07	0.70	0.48	0.09	0.92	0.35	0.89	-0.04	0.12	-0.01	0.03	0.52	0.19	0.61
1 st July	0.04	0.68	0.42	0.04	0.88	0.34	0.84	-0.08	0.06	-0.03	0.02	0.49	0.09	0.59
10 th July	0.03	0.70	0.40	0.02	0.88	0.35	0.84	-0.06	0.09	-0.02	0.01	0.53	0.11	0.60
22 th July	0.01	0.69	0.40	0.02	0.87	0.34	0.83	-0.01	0.12	0.02	0.01	0.53	0.08	0.61
31 st July	-0.00	0.69	0.39	0.02	0.85	0.34	0.80	0.3	0.13	0.06	0.04	0.54	0.09	0.60
9 th August	0.02	0.69	0.41	0.03	0.86	0.33	0.80	0.7	0.16	0.08	0.05	0.57	0.14	0.61
19 th August	-0.09	0.49	0.31	-0.04	0.76	0.34	0.74	-0.01	0.11	0.04	-0.10	0.33	0.05	0.54
30 th August	-0.11	0.56	0.60	0.15	0.92	0.40	0.80	-0.04	0.14	0.05	-0.05	0.31	0.15	0.46

① It would be clearly seen from the table 4-4, stock price is not only has an obvious positive relation with the prime operating revenue, earnings per share, net assets income rate and net equity rate in each period, it also increased after tax profits and inventory turnover rate, and represented as the positive correlation. This aspect demonstrates that in medium-and-long term investment, the investors increase paying attention to the aspects of accounting information. On the other aspect, it reflects the degree of mutual relationship of accounting information in different periods is different. In a sense, it could be said that profit after tax and the inventory turnover are the accounting information that people paid attention to in the medium-and long-term.

② Among the 6 accounting information, there are the earnings per share, net asset income rate, prime operating income, net equity interest rate, after tax profit margin, inventory turnover arranging according to the degree strength. Especially the correlation coefficient of the earnings per share reach up to 0.92, which exhibits its high correlativity, and shows the accounting information is paid highly attention to by investors, and they are highly dependent on it.

③ These 6 accounting information perform slightly different in different periods, which could clearly see from the table 4-2.

Seen from the table 4-2, there is a highly positive relationship between the earnings per share and the net assets income rate, they are

similar in both function range and the fluctuation situation, the prime operating income, net equity interest rate and profit after tax starts at the same time, but the profit after tax declines at certain periods, however, the fluctuation cycle and range of inventory turnover rate, prime operating income and net equity interest rate are the same.

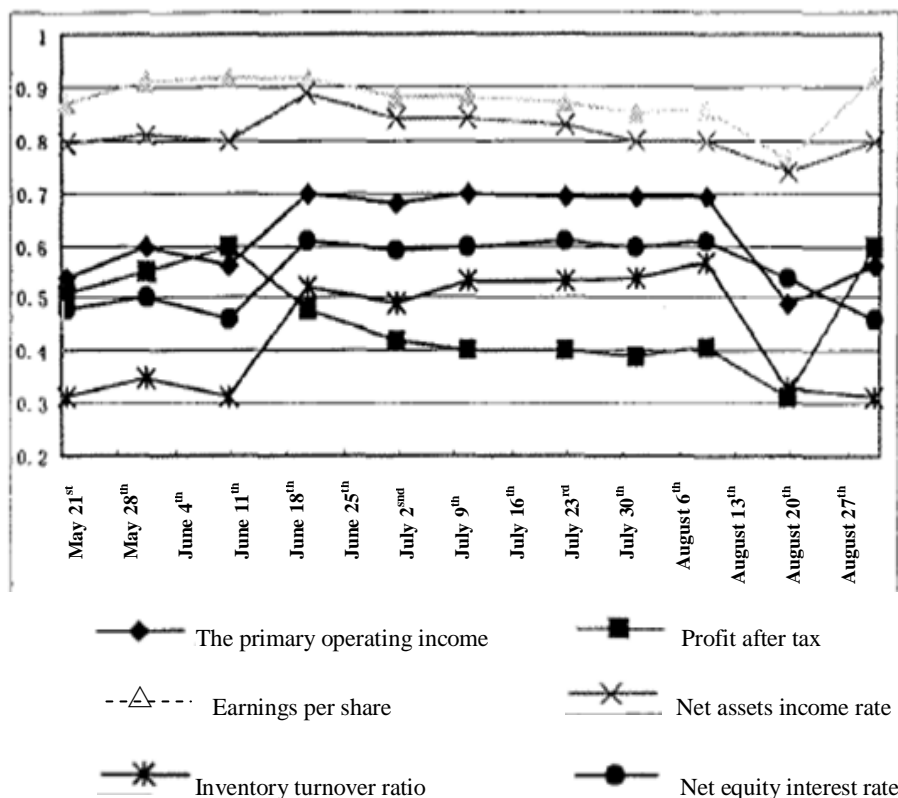


Figure 4-2

④ Due to the correlation coefficient between stock price and accounting information exist difference, therefore, here, it could be analyzed and described by summary statistics.

Table 4-5 The summary statistics of the correlation coefficient of stock price and the accounting information of each date

	The prime operating income	Profit after tax	Earnings per share	Net assets income rate	Inventory turnover	Net equity interest rate
Average	0.63	0.46	0.88	0.81	0.44	0.55
Standard deviation	0.07	0.09	0.04	0.04	0.11	0.06
Coefficient of standard deviation	0.111	0.196	0.045	0.049	0.25	0.109

It could be seen from the table 4-5, the accounting information that is influential in the short term stock price is still influential in the medium-and-long term stock price, and their manifestation are respectively different. Among these statistics, the coefficient of standard deviation of earnings per share and net assets income rate are smaller, which explains the number is less volatile, the investors have long been dependent on the information it provided, however, the coefficient of the standard deviation of the inventory turnover rate and profit after tax is relatively large, which explains that the its information the investors depended on is timeliness.

2. Regression analysis

Correlation coefficient torque matrix only reveals some certain relationship between the stock prices and accounting information for us, however, how is the performance of their relationship, could be done by regression analysis.

First of all, we make use of the method of least square to do the multi-variable linear return analysis towards the stock price and the accounting information on 3rd May.

Due to the numbers of the parameters are many, and some of the influence of parameters towards the stock price are relatively small, therefore, we adopt the gradual eliminate method, taking out the minimum of F testing value in insignificant variable, then, use the remaining variables and stock prices to re-establish regression equation, do the significant test towards each variables in the equation, this process repeats and repeats, then, we get each parameter values of regression equation.

Table 4-6 The regression parameter that pass the test

The stock price is dependent variable on 3 rd May			
Independent variable	Regression coefficient	The regression coefficient standard error	T test value
Earnings per share	6.117047	1.73403	5.699
Profit after tax	-4.60257E-05	2.0750E-05	-2.218
Regression constant	5.303279	0.551229	9.621
Negative correlation coefficient	0.75282		
Standard error of estimate	2.39778		

The independent variable of the gained regression equation is the earnings per share and the profit after tax. Its T test value are all greater than $t_{(0.05,30)}=2.0423$, which means that there exists significant linear relationship between these two independent variables, the multiple correlation coefficient is 0.75282, the determination coefficient is the square of the multiple correlation, which indicates that by earnings per share and profits after tax, the explicable total variation is 56.67%, the estimate standard error indicates that, on average, average error degree between the observed value and trend value is 2.39778. It is clear that, this is ideal model that reflect the stock price and accounting information.

Using the model, it could further consider that, with time being, whether there occur the corresponding change between the stock prices and accounting information. Taking profits after tax as the independent variable below, undergo the regression analysis taking the stock price as the dependent variable randomly during 3rd May to 30th August. The results are shown in the table 4-7.

Table 4-7 The analysis of regression of the medium-and-long term stock price

Date	Multiple correlation coefficient	F test value	Regression coefficient		T test value	
			Profit after tax	Earnings per share	Profit after tax	Earnings per share
3 rd May	0.753	17.66	-4.06E-05	6.12	-2.218	5.69
10 th May	0.795	23.10	-4.640E-05	6.76	-2.287	6.34
21 st May	0.729	15.27	-0.078	5.715	-0.636	5.186
31 st May	0.758	18.25	-0.084	4.720	-0.087	5.429
10 th June	0.873	43.05	-0.0909	7.630	-0.930	8.659
20 th June	0.917	70.87	-0.132	8.650	-0.898	10.99
1 st July	0.922	76.93	0.129	9.030	-1.535	11.67
10 th July	0.927	83.27	0.100	7.317	1.698	10.65
22 nd July	0.891	51.85	5.855	6.280	1.220	8.470
31 st July	0.896	54.87	5.855	1.770	1.770	8.415
9 th August	0.865	40.14	0.1656	5.596	1.861	6.980
19 th August	0.822	47.18	0.210	5.996	2.327	7.366
30 th August	0.880	47.84	0.147	6.047	1.713	7.820

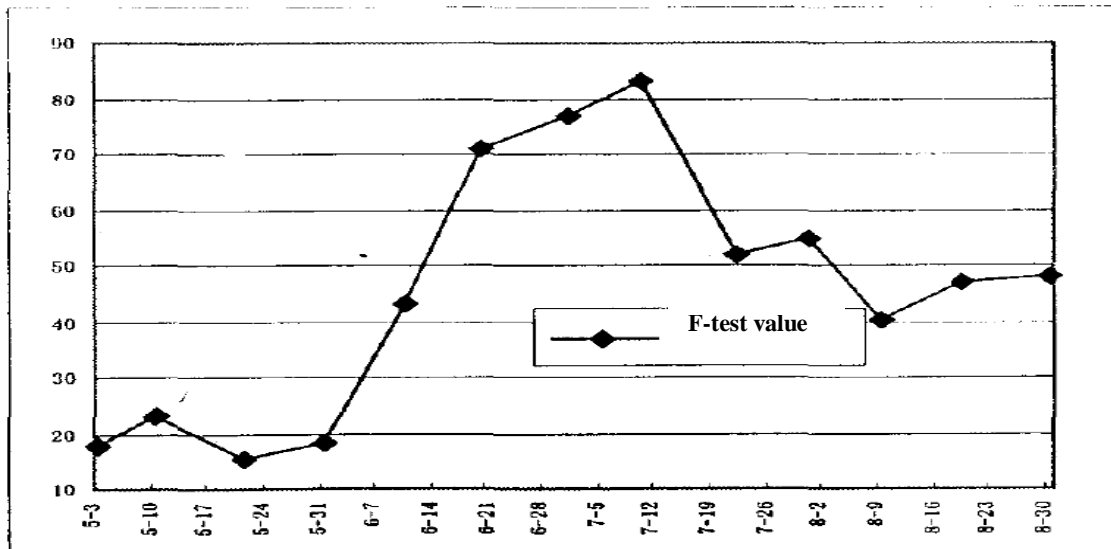


Figure 4-3

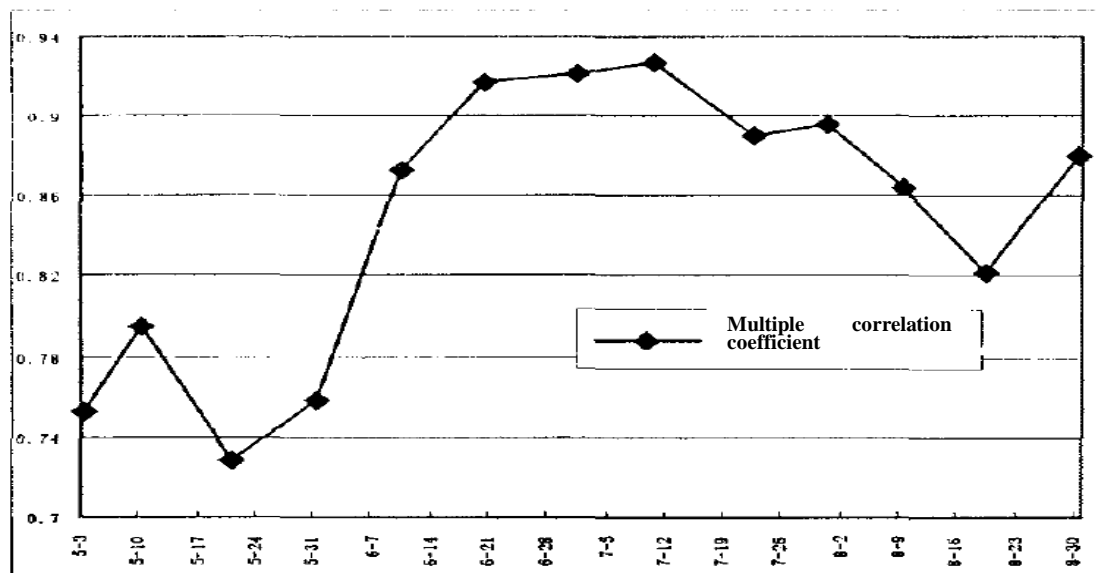


Figure 4-4

It could be seen from the multiple correlation coefficients and F test value, the stock price has a dependent relationship on profit after tax and earnings per share, and this dependent relationship fluctuate with time being. This fully exemplified that, to medium-to-long term stock price, the accounting information have different influence towards it. Besides, it could be seen from the regression coefficient and T test value in the table that the T test value of the earnings per share in each period are all greater than 2.0423, this explained that, earnings per share has linear relationships towards the stock price, that is, the value of the number influences the change of the stock price; however, some of the T test value of the profit after tax are smaller than this critical value, this explains that this accounting information is not the information that investors are highly dependent on.

3. Forecasts

A good regression equation is not only restricted in describing the specific changing relationships between stock price and information, and is also used to forecast the changing numerical value of the stocks. In order to make the regression equation better used in the forecast, here, take the stock price and earnings per share and profit after tax on 10th May to make up a regression equation, with its calculation result is as follows:

Table 4-8 Prediction equation regression parameters and statistics

	Regression coefficient	Standard error of regression coefficient	T test value
Earnings per share	6.757406	1.049793	6.437
Profit after tax	-0.00000464	0.0000020293	-2.287
Regression constant	4.941485	0.539104	9.166
Multiple correlation coefficient	0.79445		
Estimated standard error	2.34504		
F test value	23.10102		

① The calculation result shows that, if the significant level $\alpha=0.05$ is certain, then, by F distribution, the critical value 3.35 could be available, because $F=23.101 > 3.35$, therefore, the null hypothesis is rejected, and the linear regression model is deemed appropriate for stock price towards profit after tax and earnings per share.

② Due to the sum of square of deviation and the determination coefficient calculable or the square root of the multiple correlation coefficient is $R^2=0.63116$, this explains that the profit after tax and the earnings per share could explain 63.116% of the change of the stock price, this equation fitting degree is relatively high towards observed data.

③ If the significant level $\alpha=0.05$ is given, when the degree of freedom is 30, the critical value of T distribution is 2.0423, because the T test value of regression of coefficient of both profit after tax and earnings per share are greater than 2.0423, hence, reject the null hypothesis, it could be considered to have significant linear relationship of the both accounting information towards the stock price. Based on the above three points, the regression equation is proved to be credible, therefore, it could be used to prediction. Its regression equation could be described as follows:

$$Y=4.941485-0.000046X_1+6.757406X_2 \quad (4-10)$$

In which, Y---The stock price;

X_1 ---The profit after tax

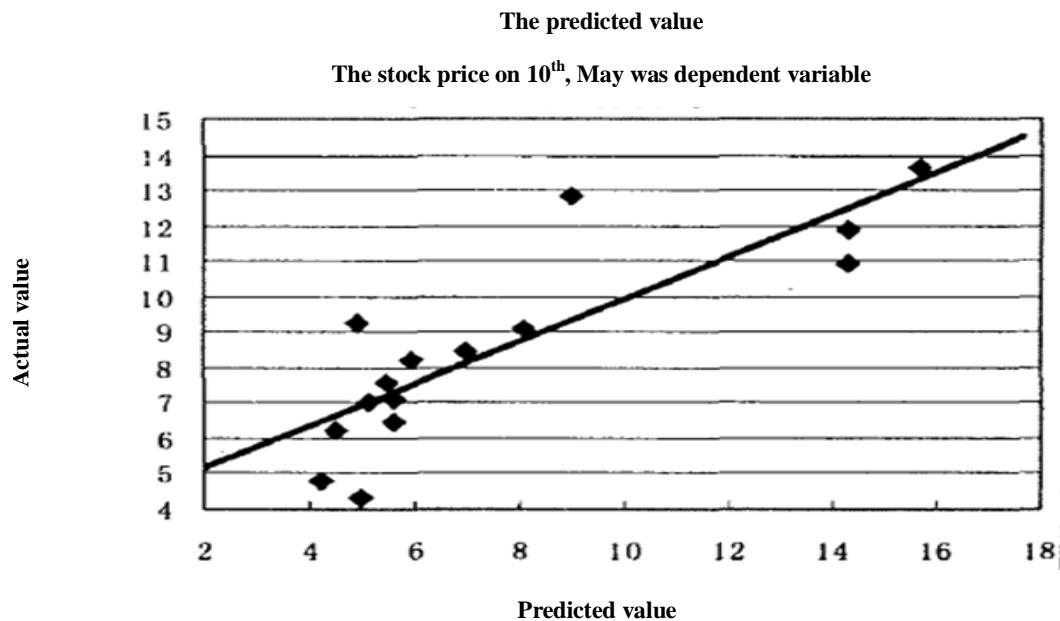
X_2 ---The earnings per share

By using this regression equation, the forecast of the stock price on 10th May of each enterprise is as shown in the table

4—9:

Table 4—9 The forecast table of each stock price

The stock price of each enterprise	Actual value	Forecast value	Predicted residual
1. Sichuan Changhong	7.01000	5.07671	1.93329
2. Chunlan Stock	9.14000	8.03661	1.10339
3. Shangling Electrical Equipment	10.95000	14.27009	-3.32009
4. Shenzhen Development Bank	11.86000	14.30312	-2.44312
5. Shenzhen Tianma	12.83000	8.93358	3.89642
6. Shanxi Changling	4.77000	4.23669	0.53331
7. Guizhou Liugong	7.56000	5.43181	2.12819
8. Fujian Fufa	9.24000	4.86371	4.37629
9. Yizheng Polyester	4.32000	4.96174	-0.64174
10. Shenda Stocks	8.46000	6.9987	1.4613
11. Longtou Stocks	7.10000	5.56058	1.53942
12. Liaoyuandeheng	6.50000	5.6007	0.8993
13. Nanjing Polyester	8.22000	5.93091	2.28909
14. Shenzhen Textile	13.62000	15.68285	-2.06285
15. Dongfang electrical machinery	6.21000	4.51331	1.69669



Put the actual observed value and predicted value above in one chart, we could see that the general cooperating effect is relatively ideal.

4.2.5 Conclusion

By establishing mathematical model, undergoing correlation matrix, correlation coefficient analysis and short and medium-to-long term analysis and predictive analysis, the conclusion for the function analysis of the accounting information in stock market is drawn as following:

Firstly, there are obvious relationships between the accounting information and the stock prices. In the analysis of the correlation matrix, the stock price, the prime operating income, earnings per share, net asset income rate, net equity interest rate are all greater than 0.361--the correlation coefficient threshold, and they have outstanding positive relationships with each other. In the correlation coefficient analysis between the short-term stock price and accounting information, it could be seen that the stock price is dependent on profit after tax and earnings per share, and this relationship reinforces with time being, which has been proved in the medium-and-long term analysis.

Secondly, accounting information has an obvious influence towards the stock price. In the short term regression analysis, the stock price is dependent on the profit after tax and earnings per share, in the medium-and-long term analysis, the stock price is also has relationships with the prime operating income, net assets income rate, and the net equity interest rate. This shows that, in the listing companies' accounting report, profit after tax and earnings per share have the biggest influence towards profit after tax, next, are the net assets income rate and the net equity interest rate. In the same time, it also shows that, the investors emphasize concerning the profitability, the benefit of the shareholder's investment and capital preservation situations. In addition, the influence of accounting information of listing companies towards the stock price is also represented in the substitution of medium accounting report for the annual report.

Thirdly, about the specific means that the counting information influencing the stock price, this paper induces a regression equation model, whose economic meaning could ideally forecast some of the stock price in the near future.

Fourthly, the conclusion of the above three points pointed out that the mode of action of the accounting information in the stock market of our nation, and could see the effect of this way and accounting information in perfecting the valid capital market, there are similarity and difference. The main reason of this difference is there is relatively severe speculative behavior in the stock market of our nation, and there exists greater deviation between the stock market and its internal value.

4.3 The requirement of capital market enterprise towards the accounting information quality

After the accounting information was produced by the "producer" according to certain standard and demand, and was offered to the demanders in the form of accounting information as the final representation. Accounting report as the carrier of accounting information, whether its quality reaches the demands of the demanders or not? What demands proposed by the capital market towards the accounting information quality?

4.3.1 The basic features of the accounting information quality

The accounting statement and accounting information disclosed by accounting report are final results of the work of enterprise accounting, is the "product" that enterprise accounting subject provides to the outside. As the product, it must have the use value, that is, the usefulness towards the users of the accounting information. Otherwise, it will lose the accountancy meaning. The feature of accounting information quality is the feature that makes the accounting information useful, that is, the quality standard that accounting information shall reach or satisfy, and it is the quality symbol that should be pursued when undergoes accounting option. In the conceptual system of financial accounting, there exist internal logical relationships between the quality features of accounting

information and accounting report goals. On one aspect, accounting report is the carrier of accounting information, the accounting report is the general goal, is the basis of judging the accounting information quality, once there is goal, the stipulation towards accounting information quality features could be then made; on the other aspect, the accounting information quality feature is the goal of nature, which maintains the goal of the accounting report, and is the bridge that connects the goals of accounting report and various means which realize these goals, it plays the role of constraint towards accounting information that is offered by accounting report, and make it meet the requirement of the accounting report goals.

We deem that, the basic five features of accounting are mainly: usefulness, relevance, reliability, timeliness, and comparability. The other features such as comprehensibility, authenticity, integrity and importance, etc. are all derived from the five basic features. The accounting information quality feature could be divided into four levels: the first level is usefulness. This is the overall requirement towards accounting information. The second level is relevance and reliability. They are the two important features of accounting information. The third level is forecast value, feedback value, timeliness and authenticity, verifiability, and neutrality. They are the specific explanation to relativity and reliability; fourth level is comparability (including consistency), which is the secondary feature of accounting information.

4.3.2 The quality demand of capital market towards accounting information

From the accounting information users' perspective in the capital market, the demand towards accounting information quality could be summarized into 5 aspects below:

1. The comprehensibility of accounting information. The comprehensibility of accounting information is the premise for uses to apply accounting information. Comprehensibility is the information offered by accounting report, the knowledge of reasonable degree towards the process of corporation economic activities and accounting system is comprehensible towards people who have general understanding. Understandability firstly should emphasis on the expression way of accounting information of the accountants; second is an emphasis on the knowledge level and understandability of the information users.

For accountants, in order to reinforce the understandability of the information users, straightaway expression should be used, compile accounting report according to the basic demand of accounting system; for some comprehensive index, important projects, and items that needs supplementary specification in the accounting report should be explained in the form of appendix in the accounting report, in order to make the users to more sufficiently, fully understand accounting information.

2. Accounting information relativity. Relativity refers to the information should be related to the decision of investment, credit, and the product marketing hat are made by investors, creditors, customers and other interest relevant parties. The purpose of compiling accounting report is to offer useful information for investors and creditors and each relevant party in their decision making. That is to say, the information that is disclosed to the public by the enterprises should be the relevant information for the accounting information users. The information that is irrelevant to the decision makers is of no use. Relativity reflects the influence ability of accounting information towards decision making.

3. The reliability of accounting information. Accounting information is the important basis for the users in decision making, the creditors make decisions on the basis of it, and the investors determine whether to hold stocks or to transfer the equity depending on the accounting information. It is the accounting information as the forerunner, and realizes the efficient allocation of economic resources by the investment behavior of investors. Whether the resource allocation is reasonable or not is finally dependent on whether the accounting information could fair, just, and reliably reflect the actual conditions and development prospect of enterprises. Therefore, reliability is the most important quality demand for capital market towards accounting information.

4. The timeliness of accounting information disclosure. The useful accounting information must be reliable and objective accounting information. However, mere authentic and reliable could not guarantee the usefulness for the uses. Here, the timeliness of the accounting information is the important guarantee of usefulness. In the limited corporation, there is time difference between the stock holders and internal management staff on learning the accounting information of the corporation, in order to overcome the drawbacks that are caused by time asymmetry on obtaining information, information disclosure system demand the parties concerned should disclose the accounting information of accomplished fact, and accounting information that could have great influence towards the stock securities after it happened. Moreover, timeliness is the necessary guarantee of relevant quality feature that accounting information has. In the whole frame of the feature of accounting information quality, timeliness belongs to the relevance. If "reliable" accounting information could not be obtained by the decision makers when they need, the information users has already could not adjust their behavior. This information is irrelevant and loses its usefulness towards decision makers. This shows that, the timeliness of information disclosure has important function that should not be underestimated for each participant and market operation itself in the security market.

5. The sufficiency of information disclosure. Sufficiency information disclosure is an indispensable rule in the whole information disclosure system. Only when the information is sufficiently disclosed, could the investors draw good and rational conclusions of their security investment under the premises of their obtaining sufficient information. Sufficiency disclosure includes sufficiency in forms and contact in contents in disclosing accounting information. The content is the essence of form, while, form is the outward manifestation of the contents, both of them supplements each other. To what degree of the sufficiency disclosure is directly related to the executive performance of the openness principle. Since openness is a concept of qualitative, and sufficiency disclosure is a quantitative demand of openness. Therefore, how to facilitate the parties sufficiently disclosing accounting information, and avoid concealing and omitting behavior is an aspect that the information disclosure system should be standardized.

Accounting information quality feature is not only the essential requirements of the market demand of the accounting information towards information disclosure, but also the essence for accountants to grasp accounting information quality. While, the demand of

the capital market towards accounting information quality is the outward manifestation of accounting information quality, they are the in relationship of the contents and form.

4.3.3 The quality problem of accounting information disclosure of the listing companies of our nation

In recent years, due to the lack of standardization of the accounting behaviors, the disclosure of accounting information of the listing companies exposed a lot of problems, which are mainly represented as:

1. The accounting information disclosure exists significant omission

Some listing companies ignore the laws and regulations of accounting information disclosure, and go their own ways, and do not publicize the information which should be publicized, some companies do not explain the significant difference between the business performance and profit forecast, some companies do not report significant event of current year, etc. Such as the event of “Zhongchuan” who did not disclose the deficit of 79.3715 million Yuan by undertaking the Uganda Owen power station, and cause a significant omission.

2. False statements exists in the accounting information

In order to cover up the true situation of the managers of the listing company, and exaggerate the economic force of its own, and cope with the supervision of stock holders towards their work, they defy the law without spare, and make false statement. Such as the event of “Hainan Qiongminyuan” the fictions profit of this company in 1996 was 570 hundred million Yuan, out of which, 540 million Yuan was ficious by making contract with related companies and other parties in cooperative housing unapproved by the state, and assignment of interest under the situation of having not obtained the land use right by Qiongminyuan. Again, in the event of “Hunan Haili”, who publicize the forecast number as their actual number in the prospectus? Afterwards, they apologized to resolve this matter. This problem is extremely bad in nature, and severely reduces the relevancy, reliability of accounting information, is intentional fraud to investors.

3. Accounting information disclosure is untimely

The Listed Company Information Disclosure regulations clearly formulated that: the abstract of the annual report should be published at least 30 working days before the annual meeting of stockholders. However, the listing companies’ annual report was publicized occasionally before several days of general meeting of stockholders. The listing companies do not publicize reports on time according to legal limits of time, influence the decision of the shareholders’ decision, is a behavior of infringing on shareholders’ rights.

4. The bad confidentiality for accounting information disclosure

Before the listing company publicized on the appointed news media at the stipulated time, the accounting information should not be revealed by other approaches beforehand, so that to guarantee the vast majority of investors could receive this information at the same time, and guarantee fair competition. The insiders of some companies have revealed out the accounting information by private way before publicizing of accounting information, and let it spread in the market. Each year, before the disclosure of the annual report and mid-term report of some companies, their stock prices appear greater fluctuation, which is the important embodiment of reveal of inside information.

5. Incomplete and insufficiency of the accounting information disclosure

The listing companies are not to publicize some of the accounting information that is urgently needed by investors, the investors’ information needs could not be satisfied, which affect their decision making. For an example, at present, there are more and more listing companies and amalgamated corporation, who are engaging in several kinds of different industries. However, these companies merely disclose integral operating information but not to publicize the economic information of their segments. The disclosure of “related transaction items” in accounting information has no reasonable intervals for its range, standard, and amount, and has no strict demand, its disclosure at home is “do not know what actually should be revealed, and do not want to make troubles”, it is very simple, and become a mere formality. Actually, these related items are usually vital, and are also exactly the investors care about, the demands of the stock listing overseas are not only specific, but also conscientious over the disclose of these related items.

6. Most of the listing companies only accomplish mandatory disclosure, they rarely undergo voluntary disclosure, and see accounting information disclosure as a task, and understand information disclosure insufficiently, some are even do not report the facts. In the last ten-day period of August 1995, Sichuan Changhong Corporation fail to report the illegal listed circulation of transferring 30 million shares and allotting shares to its legal person, while, its two underwriters took advantage of a favorable situation by making waves, causing a great fluctuation of stock prices, then, make exorbitant profits, the vast small investors lost their heads whether to step forward or draw back facing the market fluctuation. Then, there were several months’ suspension left deep pang to the stock market. The purpose of perfecting information disclosure system is to protect the interest of investors, especially tens of thousands of small and medium-sized investors to fairly obtain the rights of market information. At present, in the quite a long period of time, small investors constitute the basis of the whole capital market, therefore, information disclosure justly, accurately is the exchange of the listing companies to the all sectors of the community, and is the information transmitting the corporation information to the society, and set examples of corporation image to the societal public. Voluntarily disclosure is helpful to set good corporation image, and have advantage to corporation operation.

The reason that cause the accounting information disclosure quality problem are multi-aspect, analysis from the aspect of corporation, the problem is that the real goal of “maximization of shareholders’ wealth” is not set as the corporation accounting goals truly, and has not form a standard accounting behavior, has not form the enterprises accounting mode that the capital market needs, which is embodied as several aspects as below:

Firstly, the check and balances mechanisms for the “board of directors, general managers, board of supervisors” of the internal listing

corporation has not formed and matured. Most of the boards of director members of the listing corporation are held concurrently by the managers of the corporation. The outside directors are few, and the directors have a confused mandate, which forms an authoritative situation for the corporation managers. At the same time, the power of the board of supervisors is weak, and without rights at hand, and it is hard to undergo an effective supervision towards the board of the directors of the corporation and the internal management personnel. The management personnel are lack of necessary restriction, they malpractice and fabricate false accounting information on purpose out of their individual or cliques interests.

Secondly, the quality of corporation accountants is low. A portion of accountants could not execute correctly the standard accounting process, to some important accounting event, and it could not deal with reasonable and lawful approach and process, which lead to distortion of accounting information. The professional moral level of some accountants is low, and do not resist the fraud accounting information, instead, they help a villain do evil, and associate with an evil person, and Participate in illegal.

Thirdly, some certified accountants' quality is bad, with low level of practice level. Though legal provisions of our nation stipulated that the certified accountants should not sign audit opinion before the accounting report of listing corporation are strictly reviewed according to the law. However, due to the low level of accountants' professional ethic, accept bribery at work, sign the fraud audit opinions. For an example, the event of "Changcheng corporation raise funds" was the result of the certified accountants who presented fraud audit opinion without approval. Moreover, due to the low professional level of the accountants, with poor sense of responsibility, and do not execute audit regulation strictly, and the audit quality itself has problems, so, it is difficult to guarantee there is no quality problems in the accounting information.

Fourth, the security regulation is weakening. At present, the depth and width of market supervision in the capital market of our nation could not compare to the supervision of the capital market of the developed countries. The security regulations is imperfect, makes the securities regulators lack of authority, and there is no proof of supervision, a lot of project that should be supervised has not been supervised, some supervision is lax in enforcing, and the punishment is not enough, and could not take the deterrent effect, and is difficult to reach the effective supervision, and cause the weakening of accounting information publication supervision.

4.3.4 The countermeasure towards governance of the information disclosure problems of listing companies

The quality problems appeared in listing corporation accounting information has both external environment factors and internal subjective reasons. Therefore, to improve listing corporation accounting information disclosure quality it should deal with two aspects, work along both sides. Seen from outside, it is to perfect the listing corporation accounting information system and guarantee its normal function; seen from the inside, it is to reinforce internal restriction mechanism of the listing company, and raise the quality of accountants.

1. Perfect the accounting information disclosure system

The perfection of the accounting information disclosure system of listing corporations is actually the construction process disclosure. In this process, laws and regulations are the primary factors.

(1) Accelerate the legal construction of capital market. Basically speaking, the perfection of the listing corporation accounting information disclosure system, firstly depends on the perfection of security legal system, this is the basic guarantee for the healthy development of the capital market. Speaking on the whole, the construction of legal construction of capital market of our nation is severely lagging behind, and legal system is imperfect. The management of security law and regulations promulgated and executed are mostly administrative and single regulations, which lead overlap and contradiction between the regulations, the regulation itself is lack of authority. Therefore, the urgent affairs is to make stipulation towards the many problems of the listing corporations' accounting information disclosure, and on this legal basis, formulate detail execution specification, and stipulate the quality standard towards listing corporation accounting information disclosure.

(2) Establish perfect system of accounting information disclosure. Accounting information comes from the process of accountants' affirmation, measure, record and report, and this process involve the choice of accounting policy, accounting process, and accounting approach. The quality of the accounting information itself could not be guaranteed if not to standardize by law or regulations and form a corresponding rule and standard system. Standardization of the effective information disclosure is the premise of normal operation of capital market, the promise on honesty and credit of a listing corporation is mere a scrap of paper without a standardized information disclosure system. The "open, fair, impartial" principle of capital market is bound to become a castle in the air, information disclosure mechanism is imperfect and non-standard in enterprises in reality is just where the root of causing fraud transaction behavior such as stock price manipulation, market making, and insider trading, etc. in the capital market lies.

2. Guarantee the normal operation of accounting information disclosure. In order to guarantee the effectiveness of the institution, it not only requires a perfect institution, the most important is it requires an effective institution execution mechanism.

Firstly, under the current securities management system, for China Securities Regulatory Commission, People's Bank of China, Commission for Structural Reforms, planning commission, Ministry of Finance and local government, each of them is responsible for one part, each department acting on its own, and the management links are of a great deal, which are disadvantage of forming a united capital market for effective management. Therefore, it must undergo a corresponding reform towards the management institution of capital market, and take back the rights of management of securities market of other central ministries to the Securities and Futures Commission, and unite exercise official powers by Securities and Futures Commission.

Secondly, formulate corresponding punishment measures. Guarantee the normal operation of accounting information disclosure, guidance is important, but most important is the external constrains. The punishment measures make the system have deterrent force so that warn people not to do illegal things. Compared to the great profit and market loss that was obtained by accounting information's publicizing the illegal act, at present, the punishment towards the illegal behavior of accounting information disclosure

of our nation is too soft, the deterrent of the institution could not be exerted. For this reason, the severe punishment measure should be formulated, and strike the illegal behavior. Aiming at the main purpose of the accounting information disclosure illegal behavior is to gain huge income, on the punishment, the economic penalty force should be reinforced, not only confiscate its illegal income, but also double the penalty, making its cost of illegal greater than its income, and facilitating the enterprise choose legal behavior.

Thirdly, develop the career of certified public accountant. Due to the certified public accountant is in the independent status during the process of disclosing the accounting information, therefore, they could play the part developing unique estimation and regulation. Two goals could be reached by the supervision and audit to the listing corporation accounting report by certified public accountants. One is to guarantee the reliability and fairness of accounting information, reduce the information risk of accounting information of the listing corporation; the other one is to reduce the cost of the information. Due to there is no direct relationship between the certified public accountants and the listing companies, they could stand in the intermediary status to audit objectively and justly towards accounting information, and raise the reliability of accounting information. However, the number of the certified public accountants is few, the quality of the practitioners is low, and is hard to form a benign competition. Therefore, the certified public accountants should be vigorously developed, raise the quality of certified public accountants themselves, through the selection by examination, and carry out subsequent education, on one aspect, raise their professional skill, and raise their professional ethic level to guarantee the independence of certified public accountants and the exertion of the function of economic verification.

3. Reinforce the corporation internal restriction mechanism. In order to raise the quality of listing corporation accounting information disclosure, it should start with reinforcing company's internal restriction mechanism. If the accounting information quality in internal company needs to be controlled effectively, the accounting organization should be reasonably set up. In the internal company, the accounting department and the finance department should be set up separately, belong to different leadership, and share different functions. The accounting department should be led by the board of directors, and accountants should be appointed by the board of directors and responsible for it. Thus, the accountants are also having the ability to refuse the unreasonable demand of the management personnel, avoid the malpractices of the management personnel. At the same time, the company should set up internal audit organization, which belong to the leadership of the boards of the supervisors, supervise the daily internal audit towards the accounting department business. In addition, the board of directors should reinforce the power of the external directors, and limit the number of the management personnel entering into the board of director, and make the board of directors better embody the opinion of the stock holders.

The quality of accountants has close relationship with accounting information quality, and the raise of the quality of accountant should not be omitted. The improvement of professional quality of the accountants could be start with the following aspects: firstly, perfect the qualification system of accountants; secondly, establish accounting occupation morals and self-discipline system; thirdly, reinforce the continuing education of accountants, and constantly enhance the professional ethics and professional qualities of accountants.

Establish and perfect the rules and regulations of accounting management, which makes the accounting work have the rules to follow, and it is vital in guaranteeing the accounting information quality. The rules and regulations of accounting management should stipulate the responsibility of each accounting posts, establish review system, and change the post of accountants regularly, which could reinforce the responsibility of accountants, prevent the malpractices of accountants themselves. Reinforce and improve the foundation work of accounting, which could cause raising accounting information quality by twice the result with half the effort. The foundation work of accounting includes the affirmation, quota measurement, internal price of the original record. Only when the precise of the original data offered for accounting is guaranteed, could the correct and scientific of the process of the accounting information. Reinforcement and improvement of the accounting foundation work could be success only by requiring of the attention of the leaders, and the serious and responsibility of working personnel, and the active cooperation of accountants, in addition, and adoption of advanced computer equipments etc. and scientific approaches.

5 The Accounting Decision Making in Capital Market

5.1 Theoretical basis of enterprise capital decision

Capital markets turn to important places of the enterprise capital allocation for the developing of market-oriented economy. Based on enterprises financing and investment in capital, the adjustment and configuration of the enterprise capital controlled by the capital market come true. The first step of enterprises financing and investment is decision-making. Decision-making directly related to structure of enterprise capital, enterprise objective and the value of enterprise. The most important is decision-making for enterprise leaders, and in the decision-making scope capital decision-making is the most concerned. So the study of how to make the scientific financing and investment decision in capital markets has important practical significance in theory and practice.

5.1.1 The important role of capital decision-making in enterprise decisions

In the late of 1940s, the professor of Carnegie Mellon University named H. A. Simon introduced the 'limitedly rational' and 'satisfactory criteria' decision process theory systematically in the book named 'Administrative Behavior: A Study of the Decision Making Processes in Administrative Organization'. In his opinion, organization is the system formed by decision makers, and decision-making throughout the overall process of management, management is decision. Then his theory became the cornerstone of modern decision-making theory. As far as I can see, the concept of modern decision-making is the process of analysis, judgment and

decision about several action plans for achieving the goal. The scientific decision-making is the decision-making process following certain scientific procedure, scientific technique method and scientific thinking method.

In general, the connotation of the decision-making include: (1) Decision-making is for achievement of the goal, no target no decision-making. (2) Decision-making is prepared for action, if there is no action, decision-making is not needed. (3) Decision-making is the selection from many schemes, only by comparison we can get the right decision-making. (4) Decision-making looks forward into the future, and bases on the reality. The type of decision-making as follows: according to the scale of influence, it can be divided into macroscopical decision, medium decision and micro decision; according to the time period, it can be divided into long-run decision and short-run decision; according to the target, it can be divided into strategic decision, management decision and operative decision; according to the amount of goals, it can be divided into single-target decision and multi-target decision; according to the nature of the decision, it can be divided into certainty decision, uncertainty decision and risk decision and so on.

The course of production and operation of the enterprise was preceded and completed through the organized division of labor in the internal enterprise. When the long-term development goal of the enterprise was determined, the decision making goal was divided into productive target, sales target, technical target, personnel target, organizational target, and financial target in the content. And among these targets, the financial target occupies an important position. In western enterprises' financial target, besides profit and cost, the most important target is the capital structure. In their view, when the enterprise set an objective, the ultimate goal is how to enhance the profit margin of owned capital. Thus, capital decision-making occupies an important place in western enterprise decision-making.

In the enterprises' financial target of our country, profit growth decision-making was emphasized and capital decision-making was always ignored. However, when enterprises come into capital markets, the capital decision-making is direct related to enterprise value, and the enterprise value stands for stockholder's wealth directly. The maximization of shareholder wealth is not only the account's aim but also the enterprises. Therefore, capital decision-making turns into the important one of enterprises in capital markets, and occupies an important position in the enterprise's decision-making system. Whether right or success or not of the capital decision-making is directly related to the survival and development of enterprises in capital markets.

5.1.2 The theory basis of capital decision-making

The theory about capital decision-making quoted in this paper includes two parts: one is capital structure theory the other is option pricing theory.

I. Capital structure theory

Usually, capital structure is the proportion of enterprise long-term liabilities and ownership interest according to a certain ratio (It is also the proportion of long-term liabilities and stockholder's equity in joint-stock companies. In general, the capital structure problem is debt ratio. That is the percentage of debt in enterprise total capital has an important impact on enterprises. First, liabilities in some degree in favor of reduction of enterprises' capital cost. The accessing to capital comes at the cost of something that is called capital cost. Different financing way comes at different cost, indebted interest lower than yield of dividend usually, and debt interest paid before taxation, which leads to the reduction of enterprise income tax. As a result, the debt capital cost is significantly less than equity capital cost. Second, debt financing has the effect of financial leverage. No matter how many profits the enterprise earns, the interest of debt is fixed. When surplus increases before interest, tax, the fixed interest will be reduced correspondingly to the duty of surplus, then earnings per share will bring more benefits, thus will boost the stock price upward. That is financial leverage as people often refer to. Third, debt capital can increase financial risk. For financial leverage, the opportunity of bankruptcy increased or large declined in per share earnings, which will bring the risk that we called financial risk. In order to obtain financial lever benefit enterprise increases the debt, which will lead to the risk increasing in interest and other expenses. The two risks arisen from getting into debt are financial risk that enterprise confronts with.

Seen from the analysis above, proper leverage can reduce the capital cost of enterprise and for positive effect of the financial leverage and earnings per share will be increased. Then stock market prices were improved. However, the increasing of the debt accompany with the risk of bankruptcy, and financial leverage negative effect will make increase in cost of capital and fall in stock prices, which forcing people to make choice between risk and reward when making decisions on capital structure.

The best capital structure is the capital structure that in certain period when enterprise under most suitable conditions, weighted average cost of capital is lowest and enterprise value is the maximum. It should be the goal of enterprise as the capital structure.

1. The early capital structure theory

How to optimize capital structure is an important research field in accounting theory from 1950s. The capital structure theory can solve enterprise management proportion and debt issues, and provide theory basis for enterprise decision making fundamentally. The United States financial experts David Durand proposed capital structure represented capital structure theory in early time. It can be divided into three capital structure opinions: (1) Net income theory. The theory is that debt can reduce enterprise weighted average cost of capital, the debt level higher the enterprise's value higher. Assume that the investor measures company net profit with a fixed interest rate (K_s), and the company obtains all liability with fixed interest rates (K_s). In this assumed premise, due to a fixed interest rate, when the debt of company is getting more and more, the weighted of company average cost (K_w) will be lower, and then enterprise value is greatest, at this time capital structure is the best. (2) Net operating income approach. Net operating revenue theory is that weighted average cost of capital (K_w) is fixed; therefore the value of enterprises is also fixed. Because if the enterprise increase the lower costs of debt capital, at the same time, also increase the risk of the enterprise, then lead to the rising of the right cost, for the rise and reduction, each other cancel each other out, weights average cost of capital remain unchanged. So, we can get a

conclusion that if the assumption about net income theory is true, then the capital structure decision is irrelevant, because effect of each other has not a major effect on the enterprise value. (3) Traditional Theory. Traditional theory is a theory between net income theory and net operational income approach theory. The theory is that the use of financial leverage leading to the increasing of property risk, which led to the rising cost of equity capital. But in a certain range, it cannot completely offset the benefits gained by debt of cost of low rate capital, so the weighted average cost of capital will be reduced, the enterprise value will rise. Once excess a range, weighted average cost of capital begins to rise. The turning point of weighted average cost of capital from decline to the rising is the lowest point of weighted average cost of capital, at this point, debt ratio is the best capital structure. Therefore, this theory is that the best capital structure must exist, and it is neither the point that debt is zero, nor the point that debt is 100%, it is the middle point that the marginal cost of debt capital is equal to the marginal cost of equity capital.

Early capital structure theory is based on three competing theories in the subjective sense. These theories are not consistent with reality in two points: first, the theory is that debt ratio is not relevant to financial risk. In fact, the improvement of debt ratio means that the increasing of the financial risk, in order to compensate for the risk the higher interest rates will be put forward, that is debt costs will be a rising trend; second, the theory is that the debt ratio is not relevant to cost of equity. With the improvement of the debt ratio, shareholder risk will also be increased, which may lead to financial leverage increasing and cause greatly vibration in earnings per share, and the risk of the default in debt will reduce the market value of the shares. Therefore, it cannot be called strict theory, but it stated the study of capital structure, and laid a foundation for the theory of modern capital structure.

2. The theory of modern capital structure

The representative of modern capital structure theory is based on the capital structure model (also called MM theorem) set up by US financial experts Franco Modigliani and Merton. H. Miller. Their opinion was the retort about the best capital structure ontology which early capital structure theory rose. They deemed that: no matter how the changes in enterprise, the capital structure will not affect the comprehensive capital cost rate, because the existence of arbitrage in capital markets driven capital cost rate tending to balance in enterprise with same business risk.

(1) MM theory (the MM model under no tax condition). The theory is that in the idealized

constraints (total equilibrium of the capital market, no transaction cost, no tax, sufficient information, etc), the enterprise's capital structure has nothing to do with the value of enterprises.

Assume that except the difference in capital structure, other conditions are the same. One enterprise uses capital stock only (U enterprise) another enterprise uses capital stock and debt (L enterprise). The value of U enterprise is less than the value of L enterprise before the capital market arbitrage. However, this is not equilibrium, then investors will sell stock of L enterprise, buy stock of U enterprise, then forcing stock prices of L enterprise falling, stock prices of U enterprise upping until the value of two enterprises consistent, the arbitrage processes terminated, capital markets achieve an equilibrium state.

(2) Corrected MM theory (MM model with tax). The theory is that leverage will increase the enterprise value. Because, debt interest is a tax-free expenditure which increases the value of the firm, so investors will get more business income from the company.

The MM model under the condition of enterprise income tax consideration. Because preferential tax (Tax Shield. TD) could received for bond interest payments, so in enterprise capital structure, the greater the debt ratios, the greater the value of the enterprise. The formula is:

$$V_L = V_U + T D \quad (5-1)$$

V_L —the value of the debt enterprise L;

V_U —the value of the no debt enterprise U;

T—corporate tax rate;

D—the market value of debt.

The model showed that if considering income tax factors, the company can decrease the cost of capital through the increasing of financial leverage, the more debt, the more obvious financial leverage, the greater the value of the company, so, we should try to use financial leverage furthest to improve enterprise value.

The Miller Model under the condition of personal income tax consideration. In 1976, Merton Miller presented a model in which the corporate tax and personal income tax were included to estimate the liabilities leverage influence on enterprise value in his inaugural speech that he was elected as the president of the American Academy of Financial Management. The formula is:

$$V_L = V_U + [I - (I - T_c) (1 - T_s) / (1 - T_d)] \times D \quad (5-2)$$

T_c —The corporate tax rate

T_s —The personal income tax rate in stock returns

T_d —The personal bond yields tax rate

In Miller's formula: corrected MM theory overestimated advantages of the company debt, in fact, personal tax offset the interest tax breaks of company debt in some degree.

(3) Trade-off theory. Trade-off theory is that MM theory and later of Miller model ignored two important factors in the modern society: the financial distress cost and agency cost, thus the theory lost realistic significance. In order to make the MM theory and Miller model have maneuverability, we must consider the two costs. Financial Distress Costs is the cost that the enterprise is forced to go bankrupt soon, faces with financial distress. The financial distress cost includes two kinds of costs, the direct cost and the

indirect cost. Direct costs consist of breakage in inventory and fixed assets, outdated and failure of inventory and fixed assets, legal fees and court fees. Indirect costs consist of short-term actions that company manager and employee to prevent the bankruptcy such as delay of the overhaul service in equipment, auction of valuable asset to obtain cash and reduce the quality of product to save costs. There is no doubt that the more debt, the greater the probability of bankruptcy, the probability of occurrence in a tight financial cost also will increase, thus increasing the enterprise capital costs reduced the enterprise value. The agency cost is the cost to deal with the relationship between shareholders and managers, shareholders and creditors for seeking the balance of interests of shareholder, manager and creditor. Based on the consideration of the two costs talked above, the relationship between financial leverage and enterprise value is:

$$V_L = V_U + TD - PV_{fdc} - PV_{ac} \quad (5-3)$$

TD—financial leverage tax cut income;

PV_{fdc} —financial distress cost present value;

PV_{ac} —agency cost present value.

On the right of the formula, the first two items represent the original MM theory, that is, the more debt, the more tax cuts income, the greater the enterprise value. But the situation changed if considering financial distress costs and agency costs, because, as the increasing of liability tax cut income, the two costs will increase. When the tax cut greater than the sum of two costs, the debt can be increased to close to the optimal capital structure; when the tax cut less than the sum of two costs, the income that using financial leverage is less than its costs, showed that the scale of debt is too big; when the tax cut equal to the sum of two costs, showed that enterprise capital structure is in the best state. Trade-off model theory fully considers business risk factors, and trade-off between financial leverage, financial distress cost and agency cost, with strong maneuverability, and makes MM theory to enhance its practical significance.

(4) Asymmetric information theory. The theory is that, in the enterprise investment opportunity, there is the information asymmetry between managers and ordinary investors, usually managers always know more kinds of information closely related with investment than investors. Because of the information asymmetry, the enterprise financing order and the determination of capital structure will be affected directly. In recent years, the information asymmetry developed greatly in enterprise capital structure theory. Strictly, the information asymmetry is an explanation about enterprise and investor behavior, it is not a strict theoretical structure, but it was thought to be reasonable in the situation of information asymmetry.

The theory of modern capital structure is assumed that there is a perfect effective capital market, but the realistic capital market is flawed, even in western countries. The defect shows in: arbitrage consciousness of investors is imperfect, and governments adopt a certain limit on arbitrage; using personal liability for investment will take double risks, one risk is invested enterprise bankruptcy the other is the recourse for repaying borrowers as expected not, so the risk of personal debt greater than the risk of enterprise debt; in the developed capital market, you should pay fees to the agent or agency when exchanging security, and during arbitrage the transaction cost often followed; the competition can't fully extended because of the information asymmetry and some of the government's regulations; The government's tax system influence the capital transaction costs, the capital cost in the real capital market is not fixed, and enterprise financing cost also changes along with enterprise's capital structure.

Although, there are defects in existing capital structure theory in a certain degree, but with the development of the capital market, and people's continuous exploration and research, the theory of modern capital structure (especially trade-off theory) greatly takes another step forward towards real capital market. And it is increasing important in helping people in decision-making, and in the period that there are no other theories or models will replace or exceed it in reality, it is one of the theories that people must study when they do the capital structure decision making.

II. Option pricing theory

The cornerstone of option pricing theory is the famous Black-Scholes option pricing equation.

It is established in the paper named <Options and enterprise debt pricing> which published in 'Journal of Political Economy' in 1973 by American scholar Fisher Black and 1997 Nobel economic prize winner Myron Scholes. In this paper, the theory use the method of quantitative analysis discovered the market price fluctuation law about trade financial assets (such as stock) and according to this law, and determined the current value of derivative securities assets (such as stock options), which we called option pricing. This pricing method won very extensive application in finance sector and has achieved remarkable success.

Option is a kind of financial derivative. Option is an asymmetric contract, rights and obligations of both parties are asymmetric, and option buyers only have the right not the obligation; option sellers only have the obligation not the right, as long as the buyer to exercise their rights, the seller must perform his obligations, if the buyer don't want to perform the contract for it is adverse to exercise the option in his opinion, then the seller will have no right to ask the other party to honour their contracts. But the seller should gain the reward for undertaking obligation, the buyer have the option to pay a fee, which we called the option expense or the option price. During options operation the risk and the profit between the seller and the buyer is not symmetrical, the profit gained by the buyer may be infinite, the risk of suffering loss is limited (in the limit of options costs); the profits gained by the seller may be limited, the risk of suffering loss is infinite. There are many kinds of options trading. It can be divided into call options and put options according to the right of option buyers. The call option is the right that option buyer can buy some assets at current price on or before the expiration date of maturity. The put option is the right that option buyer can sell some assets at current price on or before the expiration date of maturity.

Under the condition of market economy, enterprises are facing changeable external conditions especially the commodity market and

financial market, such as the product of the production process and advertisement pricing will bring project cash flow, the change of the volatility of the market interest rates can also cause project risk change, it also affects the determination of discount rate measuring project risk, and therefore the value of investment projects with financial options as the value of the underlying assets is uncertain. Some programs can be delayed, and some programs only need enterprise paying for the initial investment, whether to invest in the future depends on the success or not of early investment, enterprise can product productions with good benefits in the adverse market circumstances in some projects, or resell the program to get cash value before the maturity date of the project. These characteristics to the project's impact is not symmetrical, they can expand the profit of the project in favorable circumstances, and reduce the loss in unfavorable circumstances of the market. This makes the enterprise which has the investment opportunity like having a buyer option, the initial investment is equivalent to the premium, the investment project is equivalent to the asset with marking, and enterprise as the option buyer, who can invest or give up, which depending on the price fluctuation of underlying assets is good to the buyer or not. For enterprise, there is only right, but no obligations must be performed.

In the financial management of modern enterprises, the research and use of the option pricing theory, not only the reason that it is the financial assets transaction way, but also that the enterprise investment decision making implies options. Understanding and grasping the option pricing theory, will benefit to the correct decision making of enterprises, and seizing favorable opportunity of markets, can minimize the losses in adverse market conditions.

At present, the most widely used option pricing model in the world are two kinds: one is Black-Scholes model, which assumed changes in the prices of financial assets obeyed logarithmic normal distribution; the other is binomial option pricing model, which assumed changes in the prices of financial assets obeyed binomial distribution. Two models derived out using no-arbitrage analysis method, and used widely in the financial sector. In this paper Black-Scholes option pricing model use mainly. The specific formula as follows:

$$C(E) = SN(d_1) - Ee^{-rt}N(d_2) \quad (5-4)$$

$$d_1 = \frac{\ln(S/X) + (r + \sigma^2)t}{\sigma\sqrt{t}} \quad d_2 = \frac{\ln(S/X) + (r - \sigma^2)t}{\sigma\sqrt{t}}$$

In the formula: E is the strike price of option; S is the current price of marked assets; C(E) is the option value when options in an agreement price specified situation; t is the years from option's expiration date; r is risk free rate; σ is the volatility of the subject matter's price, that is the standard deviation of annual return; N(d1), N(d2) is the cumulative probability for normal distribution respectively when the independent variable less than d_1 , d_2 .

Superficially, the Black-Scholes model is very complex and difficult, but the economics meaning that it implied is quite concise and clear. It proved a series of reasonable assumptions. Option price depends on the market price of the dependent financial assets, the term of options and some other known constants. So, we can price the financial asset with known risk for using the Black-Scholes model.

5.2 The financing decision of enterprises in capital market

Enterprises become the main body of the market economy and capital markets because of the establishment of market economy and requirement of the modern enterprise system, the financial operating mechanism of state-monopolized revenue and expenditure that in the traditional planned economy system has disappeared, and capital markets supply place for financing and investment. To seek survival and development in market economy, enterprises should self-raise funds for the business. Therefore, the fund raising decision-making that is, how to confirm enterprises' capital structure becomes the first questions the enterprise leaders most concerned.

The enterprise financing decision is the selection of different financing blueprints for the realization of scientific and reasonable capital structure. So, we should not only choose suitable financing instruments but also establish suitable decision making methods and models, and master the scientific decision-making process.

5.2.1 The selection of financing method

The financial instrument contains all monetary instruments and credit instruments generally, but it means only credit instruments in this narrow sense. At present, the main financing financial tool of enterprises in the capital market are stocks, bonds and mortgages, etc. Stocks and bonds are not strange to the enterprise; they are all credit tools for the financing. Stock is a financial tool which has high risk and high yield in the capital market, and has the permanent duration, rest of the remuneration, attachment to pay off and limited liability; Bond is a kind of financial tool which has high safety and great liquidity in capital markets and it is characterized by the fixed time limit, fixed rate and repayment of principal at maturity compared with stock.

Choosing stocks or bonds fundraising, depends not only on the will of the enterprise management, but also certain conditions of enterprise itself. If financing by issuing shares, we should reform the enterprises' stock firstly, and register capital by the standard, adjust the structure of the organization, make regulations of the stock company according to requirements of 'Company Law of the People's Republic of China', and also disclose company's manage achievement and financial situation to society in time, accept the supervision of the investors. If issue bonds we should also in accordance with issuance requirements about company bonds of 'Company Law of the People's Republic of China' and be allowed when up to the standard.

Under the condition that uses stocks and bonds as financial instruments, enterprises should also master the following principles for rational selection of financial tools for financing.

First is the principle of rational construction. This is when choosing financial instruments in capital markets, enterprises must make

sure that the proportion of the enterprise capital and debt capital is reasonable to prevent the increase of financial risk and increase in debt service pressure. At the same time, enterprises should avoid ignoring the benefit of the debt business, which lead to the decrease of the equity capital gains.

Second is the economy principle. It is related to financing cost. The cost of stocks and debt capital is different, we should compare the cost of the two when selection. We will have better efficiency in the use of funds, when financing cost low; on the contrast the efficiency in the use of funds will be less.

Third is the principle of appropriate deadline. The term of stocks and bonds includes the time of debt service. Factors that determine the choice of financial tools in enterprise financing is the planning of enterprises' investment, production and management of enterprises, and enterprises' debt service ratio; the fund used in different points has different term, we should take fully account in selecting financing instruments.

5.2.2 The establishment of financing decision model

The first step of financing is the determination about quantity of financing; the second is determination of funding resources according to enterprises' status and economic situation, that is using debt or equity capital for financing; the third is further determination of funding tools on the basis of determination of funding resources, such as absorption direct investment, bank loan, issuing share and enterprise bonds or commercial credit and leasing; the forth is evaluation of the risks and benefits of all sorts of financing plans, which is the influence to the enterprise' risk and profit when using this scheme; the last is the choice of all kinds of schemes according to the standard that the enterprise value is the biggest and the weighted average cost of capital is the least. Here we should point out that it is easy to determine the finance amount needed according to the need of actual production and management; For financing channel, financing way and the influence of benefits and risks, the experience and rational judgment are more than measurement analysis. But the comparison of the enterprise value and capital cost for all kinds of solutions needs the quantitative index. Therefore, people did the continuous exploration, established a variety of decision-making methods and models. For instance, using the calculation model of earnings per share (EPS) point to determine whether the equity finances or debt financing is required; using the financial leverage model to measure liability scale; some have put forward the financial profit rate method to determine the capital structure such as comparison method of financing plan decision. In my opinion, the enterprise in the capital market makes the maximization of shareholder wealth as the decision objective, the decision making method should be closely related to the goal, but the above methods have quite a distance with the goal. The balance theory model and net return rate are closely related to the goal of the maximization of shareholder wealth, here I studied on balance theory model especially, and do some corresponding improvement according to the situation of our country.

The balance theory model is the improvement of the financial distress costs and agency costs that didn't considered in MM theory in the modern capital structure, which makes MM theory increased business risk factors, so it has a stronger feasibility and operability. According to the trade-off model formula (5-3) it will be showed in figure 5-1:

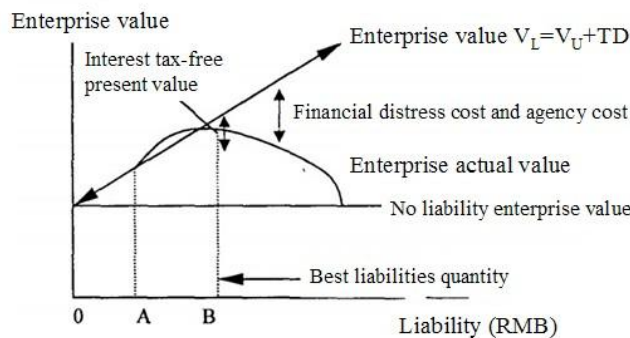


Figure 5-1 The relation between enterprise value and the liability in the balance theory model

Based on some financial preferential policies that government gives because of our country established the merger of the bankrupt enterprise system in the economic system reform for encouraging enterprises' operation in special economic zone and economic and technological development zone, such as the tax relief for the project, the extension of service life in the land using and the reduction of occupancy expenses, the stop of the interest, interest accrual but cease to collect and arrange a laid-off worker equivalently 2000 RMB investment policy, we can do simple improvement in balance theory model. Because of these financial preferential, government will directly improve enterprise value for saving money in the same scale cases operated. So financing decision must put the preferential policy into consideration, this improved balance theory model formula is as follows:

$$V_L = V_U + TD + UH - PV_{fdc} - PV_{ac} \quad (5-5)$$

In the formula: UK stands for present price gains brought by preferential policies. The improved trade-off model would make enterprise value improved in the foundation of original basis. As the figure 5-2 shows:

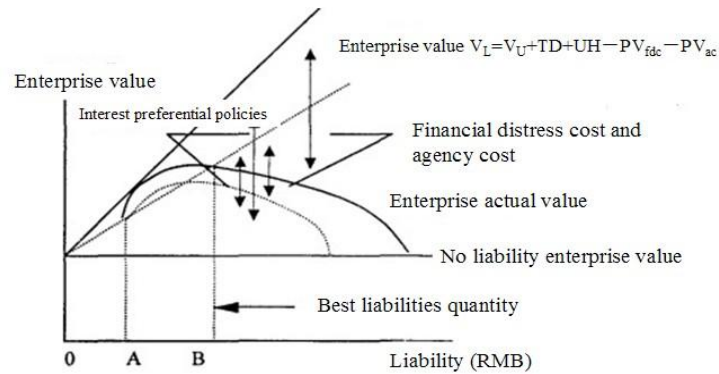


Figure 5-2 The relation between enterprise value and the liability in improved trade-off model

In the figure 5-2, before the liability amounts up to point A, the effectiveness of a tax cut plays a completely dominant role. At the same time, the enterprise value improved based on the original level for the preferential policy effect. When it exceeds point A, the role of financial embarrassment and agent cost significantly enhanced which will offset interests from tax cuts and preferential policy. When on the point B, the debt will offset the marginal benefits of tax reduction and preferential policy. When up the point B, the loss will exceed gains from tax cuts and preferential policies.

In the improved model, liabilities and tax cuts benefits and preferential policies benefits can be roughly estimated by calculation. But the reduced value caused by financial distress costs and agency costs can be judged by experience, because we have not found out the functional relation between the debt and the above. The use of the model above mentioned is as follows:

Table 5-1 The choice of excellent enterprise financing plans

Units: Ten thousand RMB

Scheme name	V_U	TD	PV_{fdc}	PV_{ac}	UH
Scheme A	6000	2000	500	1000	-
Scheme B	6000	2000	500	1000	1000

$$VL(A)=6000+2000-500-1000$$

$$=6500 \text{ (ten thousand RMB)}$$

$$VL(B)=6000+2000-500-1000+1000$$

$$= 7500 \text{ (ten thousand RMB)}$$

From the above calculation we can learn, under the situation that other conditions are the same, because of the plan B we receive the financial preference of 10 million RMB, and the enterprise value raised up to 7.5 million RMB from 6.5 million RMB.

All in all, when enterprises make financing decisions, because of the limit of all kinds of conditions and factors, it is impossible to project in an ideal environment. The scientific method needed the exploration of the people, although the above two methods are not ideal, they are more realistic and concrete in comparison. Enterprises should consider their own conditions and environment, considering the request of the decision goal, master a feasible and satisfactory decision criteria, considering the possibility of reality, choose the suitable method, seize the opportunity, and make reasonable and satisfactory decision in time.

5.2.3 Make satisfactory financing decision scheme

Satisfaction is to the best, with satisfaction as the principle when making decisions is to avoid lingering for seeking the best decision and miss the good opportunity. So, we should choose the satisfactory plan from apparent quality and the scheme evenly matched ones to improve the enterprise value, or to reduce the cost of capital. And the production of these solutions will pass the following several stages.

1. Feasibility phase

This phase is from the rough financing ideas to the determination of the feasible behavior on the basis of selected in the capital market and financial tools. Mainly includes three aspects: (1) enterprise content factors analysis; (2) decision objective analysis; (3) environmental factors analysis. The enterprise internal analysis mainly is to know the current operating conditions of enterprises, earnings and debt-repaying ability, capital structure and development prospect and the quality of business managers. The decision objective analysis is to understand the rationality and rationality of the decision objective. Environmental analysis is to understand the social politics, economic environment, cultural environment and market circumstances. Especially stressed analysis on the selected market conditions, for it has an important influence on financing.

2. The choice of financing plan phase

This phase contains four aspects. (1) Confirm the financing object. Confirm the amount and time of financing, and predicted benefits. (2) Data collection. Collect the necessary information that the programming needed according to the needs of the decision objective. (3) Draft the decision plan. That is we do the sorting and calculation according to the material collected, and work out the different

financing plans in detail. (4) Comparing the provided financing plans using mathematical model method or experience judgments method, and selects the satisfied decision scheme finally.

3. In the implementation of decision-making plan stage, strictly speaking, if the decision is rational and scientific, and the implementation is going on smoothly, this phase does not belong to the decision plan making stage, but it is difficult to do in reality. There is often deviation in the implementation of decision-making schemes, so it is need feedback and revision timely. So, this phase should included in the decision making stage. The main content is (1) Prepare the financing plan according to the decision-making scheme. (2) The financing plan execution. (3) The inspection and evaluation of implementation effect. (4) The revision of the scheme. This stage is the carry out of financing decision plan, and is the process that turns the goal into reality. If the first two phases is the designing phase of the decision making scheme, this phase is execution phase. Only good design scheme is well executed, the outcomes are good, so we must pay attention to this stage.

In a word, the above three stages are the three necessary link of the decision making, ignoring any one of the ring, we cannot make satisfying financing decision, and even cause failure in decision making.

5.3 The investment decision making of enterprises in capital market

The purpose of enterprise financing is to meet the needs of investment in the production and business operation. Financing is the premise of investment; investment is the purpose of the financing. The raised funds of enterprises can be used effectively or not is the question that people worried and confused commonly. Using money carefully and reasonably and using various means and modern management technology to control and plan the investment, which is to make the enterprise capital to get maximum value, therefore, the selection of effective investment scheme is the hope of enterprise owners and managers.

Investment decisions of enterprises in the capital market, is the choice of the decision schemes in order to realize the overall, long-term and fundamental investment goal. As in the capital market, the fund-raising process, is also the process of investing, so the stage of the investment decision making of the two is basic same, we doesn't state again. The investment decision making is also a complex process, we should not only establish effective investment standards and the mathematical model, but also to study how to choose appropriate investment financial tools and relevant decision-making methods, so we can make the effective investment decision-making plans.

5.3.1 The selection standards of the investment decision scheme

The investment decision is the process of analysis, judgment and selection about investment schemes for achieving the goal. There is a standard and basis for analysis of the various solutions of judgment, this standard is the base evaluation of the investment project which determined whether the investment decision is effective or not. Enterprises must consider this evaluation basis whether direct or indirect investment.

1. The appreciation degree of the investment

Investment after a period of time should make the original investment increased, specifically shown in two aspects: one is the appreciation of the original assets; the other is the profit of investment. Realizing the maximum appreciation of investment is not only the important goal of the enterprise's investment but also the most important scale that analysis and evaluation of the investment scheme. Realization of investment appreciation or not is the first standard to distinguish the decision is effective or not.

2. The risk of investment

Investment risks divide into the systemic risk and the unsystematic risk. The systemic risk is the changing of investment reward caused by enterprise external and enterprise uncontrollable factors, such as the war, economic crisis and inflation. The changing of investment reward contains interest rate risk, market risk and risk of purchasing power and so on, the characteristic of the systemic risk is undiversifiable, inefaceable and all enterprises facing and bearing. The unsystematic risk is a unique risk that enterprises or securities have; it is brought by controllable factors such as the enterprise or individual, business management capabilities, and affects only a few enterprises or individual investment reward change. Such as the enterprise risk and financial risk, the characteristic of the unsystematic risk is it can be eliminated through diversification of investment. The investment risk and investment appreciation degree is usually inseparable, generally speaking, the greater the risk that the higher the degree of investment returns, therefore, it is the second basis that to evaluate the investment scheme. Its principle is when the reward fixed, choose the scheme with little risk; When the risk fixed, choose the scheme with large reward.

3. The ability of avoid inflation

In the process of economic development, inflation is an inevitable economic phenomenon. The enterprise must fully consider the impact of the future inflation rate to investment project when making the investment decision, and reveal the possible loss or unfavorable conditions fully, and fully consider in decision-making.

4. The capital cost of investment

The capital cost of investment is the cost of the whole entire process from investment planning to the regain of the investment, it is an important standard of the enterprise investment decision making. If the investment projects with a positive net present value with the cost of capital for the discount rate, showing that the project is desirable, conversely, if investment project net present value is negative, the project is not advisable. So, someone called the cost of capital as the choice rate of the investment project selection.

5.3.2 The method and model of investment decision evaluation

Traditional investment decision-making method is stressed in the time value and the risk of the cash flow in the project cycle, and use the cash flow or capital cost which two through risk adjustment to calculate the project net present value, and make investment

decisions according to the size of the net present value of the project. Although these methods not only consider the expected cash flow of the investment project, but also consider the time value and risk, ignore the option value that investment project contains, which will lead to the underestimate of the net present value of the investment project, then affects the proper valuation of the project. In order to objectively and scientifically reflect the quality of the investment project, we should use financial options theory to revise the traditional net present value method, take the right of investment as options, research investment options with the option pricing method quantitatively. The value of the project can be divided into two parts: one part is the value that does not consider the value of investment project options, which is the original NPV; the other part is options value of the investment projects. After the introduction of the option theory, the value of the project investment is equal to the sum of NPV and options values of investment projects. The following states the application of option pricing theory in the investment decision-making by examples. Company A invested 10 million RMB in 1998 to a common color television production line, and began the production and the sale in 1999, and scrapped until 2003; the cash flow from 1998 to 2003 is showed in the table 5-2.

Table 5-2 The cash flow of common color television project Units: Ten thousand RMB

Project	1998	1999	2000	2001	2002	2003
Fixed assets investment	1000	0	0	0	0	0
Cash flow after taxes	0	400	560	460	190	0
Additions to working capital	0	100	160	120	-190	-190
Net cash flow	-1000	300	400	340	380	190

Assume that the cost rate of capital through risk adjusted is 20%, the value of investment projects is:

$$NPV = -1000 + \frac{300}{(1+20\%)} + \frac{400}{(1+20\%)^2} + \frac{340}{(1+20\%)^3} + \frac{380}{(1+20\%)^4} + \frac{190}{(1+20\%)^5} = -1000 + 984.15 = -15.58 \text{ (Ten thousand RMB)}$$

The net present value was less than zero, which stated that this investment is not feasible.

In practice, besides the implementation of an investment will bring certain net cash flow; in addition, it can also bring other intangible benefits. For example, because of an investment we were familiar with a new field, exercised and cultivated a group of managements and technical personnel and expanded the popularity in the fields, thus offered the potential and convenience to continue an additional investment in this field or in related areas. In the above example, the net present value of the common color television production line is less than zero, but company wants to foster sales channel and expand popularity by the common color television production. At the same time we predict that the production technology of the digital TV which will replace the ordinary color TV will reach maturity until 2001. At that time, the company will lose no time in starting the digital television production line, then rapidly expanding markets share, to achieve the company's leapfrog strategy. However, the sale of digital TV was influenced by many factors, such as TV signal emission technique, television program manufacture cost and the trend of income growth 2001 years later. So in the present situation, the market prospect is difficult to predict. There for, the company made the most conservative forecast on digital TV sales 2001 years later. The concrete details showed in table 5-3.

Table 5-3 The cash flow of digital TV project Units: Ten thousand RMB

Project	2001	2002	2003	2004	2005	2006
Fixed assets investment	-2400	0	0	0	0	0
Cash flow after taxes	0	800	1600	1000	500	0
Additions to working capital	0	300	400	200	-450	-450
Net cash flow	-2400	500	1200	800	950	450

Make 2001 as a starting point:

$$NPV = -2400 + \frac{500}{(1+20\%)} + \frac{1200}{(1+20\%)^2} + \frac{800}{(1+20\%)^3} + \frac{950}{(1+20\%)^4} + \frac{450}{(1+20\%)^5} = -2400 + 2351.15 = -48.85 \text{ (Ten thousand RMB)}$$

Make 1998 as a starting point:

$$NPV = \frac{-2400}{(1+20\%)^3} + \frac{2351.15}{(1+20\%)^3} = -1389.6 + 1361.32 = -28.28 \text{ (Ten thousand RMB)}$$

The net present value was less than zero, which showed this project was not feasible. The leapfrog strategy of the company will not be achieved. But when did the decision-making on color TV project, in addition to considering the cash flow in the project cycle, we should also consider investment opportunities of digital television project three years later. Because of this opportunity was valuable, so we need to use the options theory to calculate the value. With the concept of options to define the value of the above chance, it was equivalent to the call option value which had a deadline for 3 years, agreed price for 24 million RMB, and the current price of marked asset was 13.6132 million RMB.

Based on this case, we will use the Black-Scholes option pricing model to calculate the call option value of the above opportunity.

As in the above example: $\sigma=35\%$, $t=3$, $S=1361.4$, $E=2400$, $r=5\%$, then use the formula of the model we can obtain:

$$d_1 = -0.3851 \quad d_2 = -0.9913$$

$N(d_1)=0.3502$, $N(d_2)=0.1608$ (obtained through the normal distribution cumulative probability density table $N(d)$)

Option Value $C(E) = 1361.32 \times 0.3025 - 2400 \times e^{-5\% \times 3} \times 0.1608 = 144.60$ (ten thousand RMB)

That is the value of such an additional investment opportunity is 1446 thousand RMB. Considering this result, the net present value of the investment of ordinary color TV project at least is $NPV = -15.85 + 144.60 = 128.75$ (ten thousand RMB)

The net present value is greater than 0, which indicated we should invest the ordinary color TV project at the company whole strategy point.

In the above example, we use the options theory to do the quantitatively empirical analysis only from investment projects that have the additional investment opportunity. In fact option theory can be used in many aspects of the investment decisions, such as an investment project analysis in which the invest or asset can be used for other purposes or the enterprise goes into an emerging market using the first to marketers strategy or quick follow-up strategy decision-making, etc. The option theory solves the problem that estimates the real option value, which makes people master the intangible opportunities and rights on the quantity, effectively make up for the regret of the traditional investment decision methods.

5.3.3 The selection of financial instruments for investment

In capital markets, stocks and bonds, futures and options are the main financial instruments for investment. Among these, although stocks and bonds are financial instruments for financing, they present different features with financing for investment and financing have different angles. There is a problem about selection, we first to master their respective characteristics when make a reasonable selection.

Stock investment is a capital operation behavior that purchasing issuing shares of other enterprises to achieve earnings or the control power; Bonds investment is a capital operation behavior that purchasing issue bonds of other enterprises or national issue of government bonds or the state treasury bonds to achieve earnings. The characteristics of Stocks and bonds investment are: the liquidity of investment is great, the risk of investment is great, the investment income is higher, the cost of investment process is low, and both have close relations with market interest rates, the key of the two investments is the selection of the investment opportunity and object.

Futures investment is financial goods business activity that trade of future goods to realize the profits for avoiding business risks. Futures investment has two types: one is hedging, the other is speculative trading. The characteristics of futures investment are: less capital requirements, quick effect, convenient and flexible, there is strict restriction about the location, way and environment of the investment, in most cases needn't goods delivery, investment laws and rules are strict.

Options investment is an activity of the options trade for the purpose of profits or avoiding risk. The way of options investment and futures investment is much the same, but there are different in characteristics of investment; The trade of options investment is a kind of special power, which is unnecessary to perform the contract, but the futures investment should to execute the contract; Options investment can go ahead in selling floors or in off, but the futures trading generally must be in selling floors; The ratio of delivery of options investment is less than futures investment (because of options investors can give up power); The scope that options investment can avoid risk is wider than futures investment.

The above several investment financial tools have differences of each other, enterprises need to be notice their features in the investment, and combines with their own conditions, and also master the appreciation degree of investment, the degree of investment risk, the ability of avoiding inflation and the investment cost and so on.

5.4 The reasonable dividend allocative decision of enterprises

The enterprise's dividend policy not only affects the value of stocks and capital market's view to enterprise, but also directly affects the interests of investors. In the capital market whether the wealth of the shareholders increased, the distribution of profits is an important reflection, so the dividend policy reasonable or not has been universally concerned by people.

5.4.1 The basic requirements for dividend policy

Dividend distribution mainly is the confirmation of the relevant matters about the pay of earnings between shareholders and the

enterprises. It is also an enterprise's important decision which relies on the dividend policy of enterprise. The dividend policy is the basic attitude and policy about the company how to do the income distribution between shareholders and investors. Generalized dividend policy including the design of high and low dividend payment rate, determine of specific way of dividend payment and the planning of dividend payments programs. Narrowed dividend policy only refers to the determination of company's dividend payments ratio. The basic requirement of the dividend policy is to ensure the shareholder's rights and promote the long-term development of the enterprise and stabilize of the price of the stock.

Protect shareholders' interests, request the dividend distribution of the enterprise must pay back investors through the creation of real high benefits. The characteristics of modern joint-stock companies are ownership dispersion and complicated shareholders. Shareholders can generally be divided into the controlling shareholders, association shareholders and sporadic shareholders. The controlling shareholders and association shareholders focus on the long-term interests of the enterprise, but sporadic shareholders tend to recent profits. If sporadic shareholders are satisfied with the dividend distribution, the short-term behavior of enterprises often comes out, if only controlling shareholders and association shareholders are satisfied with profits, the sporadic shareholders will be dissatisfied and exercise their rights that voting with their feet, which will make the stock price down and will go into legal proceedings if it is serious, and influence enterprises' reputation, so enterprises must consider the balance of all interests.

Promoting the long-term development of enterprises and requesting the enterprise to determine the balanced relationship of ratio between dividend and retained earnings are important contents of equity distribution and capital operation of enterprises. The essence of balanced ratio of dividend and retained earnings is to provide enough capital for strengthening the enterprise development in the future and ensuring the smooth progress of the expanded reproduction on the basis of protection the rights and interests of shareholders through the dividend distribution approach, then promote enterprises' long-term stability and development.

Stock price stability is very important in maintaining the shareholders' wealth and the normal operation of the enterprise. In capital markets, whether the price of stocks too high or too low goes against maintaining shareholders wealth and the normal operation of the enterprise. If the stock price is too low, will inevitably affect enterprises' reputation and goes against the increasing of capital and shares and operation on borrowings in the future, and also cause acquisition events. If the stock price is too high, will affect the stock liquidity, and will leave the hidden trouble that the share price fell sharply. On the other hand, the share price is volatile that will shake investors' confidence, and make it become speculators' investment. Stock price stability requires the market value of stocks of enterprises stability in a relatively long period and on the rise, and in the market turmoil the market price of company stocks fluctuated little, and can balance the relationship of stock price stability of short-term and long-term.

Enterprise's dividend policy, essentially in search of the balance between the attraction of company stocks in capital market and enterprises financial burden, that is, explores proportion relationship between dividend and retained earnings and designs the feasible dividend payment method. In real life, the company's dividend distribution conducted under many constraints such as legal elements, the shareholders factor, the company factor and inflation and the debt contract restraint and so on, therefore enterprises have to consider these factors. MM theory under its strict assumptions considers that dividend policy has nothing to do with the enterprise value, that is the dividend policy does not affect the value or the cost of capital, and the best dividend policy does not exist; all of the dividend policies are equivalent. Due to the assumptions of this MM theory are unrealistic, the irrelevance theory of dividend is not correct. The bird in a hand theory based on the saying that one bird in a hand is better than two birds in the wood, declares in the eyes of investors dividends income is more reliable than capital gains brought by retained earnings, the company provides high dividend yields can make the capital cost minimization, so the company should regularly pay shareholders higher dividend. The premise of the bird in a hand theory is that the management of the company is in the long term stable state, so the theory doesn't consider the volatility of the management, thus this theory also has limitations. Tax difference theory is that the dividend tax rate is higher than the tax rate of capital gains, and investors demand a higher earnings rate when the stock has high dividend income, so the company should take the low dividend policy, in order to realize the capital cost minimization and the value of the company maximization. Tax difference theory emphasizes the interests of companies and controlling shareholders more than other shareholders interests, which will cause the share price fell, and it is not the optimal choice. Three kinds of theories, not only contradictory but also have defects of each other, so it is impossible to reach the final conclusion that which dividend policy is the best, and the enterprise must select in the real environment according to his own circumstance.

5.4.2 The dividend policy in the reality and its choice

In reality, the joint stock company often uses four kinds of dividend policies, such as the residual dividend policy, the stable dividend or steadily increasing dividend policy, the stable payout ratio policy and fixed low dividend and extra dividends. The residual dividend policy is based on the consideration that keeping the ideal capital structure of the company and the cost of comprehensive capital is the lowest, when there is good investment opportunity, work out the equity capital of the investment according to certain target capital structure, first set aside part of surplus, and then distribution the rest of the surplus as dividend. The premise of choosing the residual dividend policy is that the enterprise are growing up, the investment opportunities are more and have good prospect. it is helpful for maintaining the long-term interests of shareholders and the realization of the shareholders' wealth maximization, but its defect is when there is no remaining we cannot do the distribution due to the investment precede profits, so there is no guarantee that the momentary interests for shareholders. So, when choosing the policy, you should make sure the enterprise is in growth and has good investment opportunities.

The residual dividend policy is different from the stable dividend or steadily increasing dividend policy which based on the consideration that stable dividend is beneficial to the company's good image, enhancing investors' confidence, and stabilizing stock price and those shareholders who need dividend for consumption hoping to get fixed dividend, make the dividend payments fixed in

a level and constant for a long period, only when the company considers that the future earnings will significantly and steadily increase, then to improve the annual dividend payments. The premise of choosing this policy is that the management of the enterprise remains stable or increased slightly, because its defect is the separation of dividend payment and the profits. When profits of the enterprise is lower that will cause the shortage of capital and the financial condition deteriorates; When the profits of the enterprise increase rapidly, the demand of higher dividend desire of shareholders was not met, and also cannot keep the ideal capital structure as the residual dividend policy. So we must judge whether the enterprise is in a stable state of good management when choosing this policy.

Stable payout ratio policy is based on the principle that more profits more dividend paying, less profits less dividend paying and no profits no dividend paying, and the consideration that make dividend and surplus in close coordination, make a fixed ratio about dividend per share and earnings per share, and pay dividends according to the rate for a long time. This dividend policy can make the dividend fluctuated according to the management of the company each year, if the earnings more the shareholders will get more, so, it is really fair to each shareholder. The premise of choosing this policy is the volatility of enterprises' earnings, and this volatility that dividend payment has the same pace with business income can't affect the production and operation of enterprises. Otherwise, the defect of this policy is the dividend fluctuated largely, which will cause company unstable extremely, and it is bad for stabilizing prices. So, we must grasp the region of volatility of business incomes accurately when choosing this policy.

The fixed low dividend and extra dividends policy is based on this policy which can make the enterprise have greater flexibility, on the one hand, when the enterprise's surplus is low or need investment funds, this policy can maintain a low but the original normal dividend, shareholders will not produce the dividends dropping feel, on the other hand when the enterprise's surplus increases greatly dividends can be paid more to shareholders, and make them enjoy part of the interests, which enhance shareholders' confidence to the enterprise, also be helpful for stabilizing stock prices. Compared with the first three dividend policies, the condition of choosing this policy is more relaxed, general enterprises can use it. Its advantage is not only guarantee the benefits of shareholders, but also give flexibility to the enterprise, do not damage enterprises' reputation, and also be helpful for stabilizing stock prices, make the price increase stably. In comparison, the fixed low dividend and extra dividends policy is an appropriate and reasonable policy for paying dividends in our country.

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This paper grasps the present situation of China's capital markets, focusing on the problem of enterprises accounting level. On the basis of referencing the analysis of western capital market theory, with the reality of China's enterprises, we objectively analyze the main accounting problems of our enterprises in the capital markets, and analyze the reason of each problem one by one, then give corresponding suggestions.

The innovation of this paper is jumping out of the nest in which discussing the problem about the relationship between the enterprise accounting and capital markets statically, based on our country enterprise and the present situation of the capital market, deeply analyzes the accounting problems of enterprises in the capital market using the method of combining the theory and empirical analysis. At the same time, using the advantage of mathematical statistics did positive analysis about the accounting data of Shanghai and Shenzhen by establishing a mathematical model, and exploringly induced a regression equation model which has certain reference value for the prediction of share prices in a period. In addition, the trade-off model and option pricing model of the accounting decision-making of capital markets all have creativity.

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