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Empirical Study on the Influence of the Impaired Asset Policy on the Quality of the Information Disclosure: Based on the Listing Corporations in Different Industries

ÉTUDE D'EMPIRIQUE SUR L'INFLUENCE DE LA POLITIQUE SUR LES ACTIFS DEPRECIES DE LA QUALITE DE LA DIVULGATION DES INFORMATIONS: BASE SUR LES SOCIETES LISTE DANS DIFFERENTES INDUSTRIES

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Abstract
Provision for impairment of assets plays a very important role in improving the quality of accounting information. In this paper, we use empirical research method to analyze the application of asset impairment and its impact on accounting information disclosure of listed companies among the 12 industries by elaborating relative theories on asset impairment and analyzing data collected from RESSET database. All these are to study the distinctiveness of listed companies from different industries in choosing impairment policies and the policies impact on industries, thereby providing some advice according to different industries' characteristics in making preparation of asset impairment.

Key words: Impaired assets; Industry variance; Quality of accounting information

Résumé
La Provision pour dépréciation d'actifs joue un rôle très important dans l'amélioration de la qualité des informations comptables. Dans ce papier, nous utilisons la méthode de recherche empirique pour analyser l'application de la dépréciation d'actifs et son impact sur la divulgation d'informations comptables des sociétés cotées parmi les 12 industries en élaborant des théories relatives à la dépréciation des actifs et l'analyse des données recueillies à partir de bases de données RESSET. Tout cela est d'étudier le caractère distinctif des sociétés cotées à partir de différentes industries dans le choix des politiques de dépréciation et de l'impact des politiques sur les industries, offrant ainsi quelques conseils en fonction de caractéristiques différentes industries »dans la prise de préparation de la dépréciation des actifs.

Mots clés: Les actifs dépréciés; La variance de l'industrie; La qualité de l'information comptable

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INTRODUCTION
It has been ten years since the formal implementation of impaired assets policy in China, hence at present the formulation and the implementation of impaired assets policy is in the essential stage. However the distinctiveness has not been reflected in the accounting standards---impaired asset policy. The problem raised in this essay is how different influence of the impaired asset on the quality of accounting information based on the specialty of the operation and asset structure.

This essay states the theories of impaired assets provisions and analyzes statistically on the application of impaired assets provisions in different industries through the method of empirical analysis. It also studies the similarities and differences of impaired assets provisions in different industries according to the data and discusses the distinctiveness of the selection and application of impaired assets in the listing corporations in different industries.

1. GENERAL ANALYSIS ON THE INFLUENCE OF IMPAIRED ASSETS POLICY ON THE CORPORATIONS IN DIFFERENT INDUSTRIES

1.1 Features of Assets Distribution of Listing Corporations in Different Industries in China

According to the data, the proportion of liquid assets and non-asset distribution is basically stable. From the liquid asset distribution, the percentage of liquid assets in the real estate industry is the largest which is above 85%, so it is expected that in the real estate industry it is more likely to withdraw the more liquid impaired assets provisions. Followed are information technology industry, production and supply of electric, gas and water industry, whose percentage of liquid assets is more than 60%. But in social services industry, wholesale and retail industry, mining industry, the percentage of liquid assets is relatively small and the relatively larger part is non-liquid assets.

From the situation of non-liquid asset distribution, industries that the highest percentage of non-liquid assets in all assets lie in wholesale and retail industry and social service industry. In addition the industries whose percentage of non-liquid assets is more than 50% are in mining industry, transporting industry, warehousing industry and broadcasting and culture industry while in other industries, liquid assets dominants in the asset distribution.

Table1
Asset Distribution in Listing Corporations

Industry	Code	In 2007		In 2008	
		liquid assets Percentage	Non-liquid assets Percentage	Liquid assets Percentage	Non-liquid assets Percentage
Composite industry	1	53.04	46.96	48.19	51.81
Social services industry	2	25.54	74.46	26.12	73.88
Broadcasting and culture industry	3	47.66	52.34	48.34	51.66
Real estate industry	4	86.43	13.57	87.25	12.75
Wholesale and retail industry	6	18.56	81.44	16.43	83.58
Transporting industry, warehousing industry	7	41.33	58.67	41.24	58.76
Production and supply of electric, gas and water industry	8	64.62	35.38	75.70	24.30
Information technology industry	9	66.78	33.22	72.06	27.94
Constructing industry	10	55.99	44.01	59.47	40.53
Manufacturing industry	11	51.27	48.73	48.65	51.35
Mining industry	12	39.30	60.70	39.10	60.90
Agriculture\forestry\animal husbandry\fishery industry	13	48.95	51.05	31.39	68.61
total	——	44.78	55.22	43.84	56.16

1.2 Analysis of Industrial Factors that Could Influence the Application of Impaired Assets Standards

From the above analysis of asset distribution, for the industries that have a higher non-liquid assets percentage, such as wholesale and retail industry, social service industry, mining industry, transporting industry, warehousing industry and broadcasting and culture industry, etc, because the length of time it takes to operation of non-liquid assets such as fixed assets and intangible assets is long and the time taken for renewal is slow, the policy of depreciation in different enterprises varies and the influence of technological changes and the potential asset utilization on the market demand cause the possibility of impairment of assets is large and the influence of impaired assets provision on the profit is outstanding compared to other industries.

For the industry who has a higher percentage of liquid assets such as real estate industry, information technology industry, production and supply of electric, gas and water industry, their asset structure is mainly cash, inventory and receivables whereas percentage of non-liquid assets is lower. Thus the influence of non-liquid impaired assets provision on the enterprises is relatively small and relatively speaking, the percentage of liquid impaired assets provision is higher and the space of bad debts and inventory depreciation provision is larger.

While to the enterprises in social services industry and broadcasting and culture industry, their asset structure is mainly cash and receivables, the space of bed debts provision is larger and at the same time the percentage of fixed asset and inventory is lower. So the influence of inventory depreciation provision and fixed impaired assets provision on the profit in travelling industry is relatively small and it is not necessary to withdraw impaired asset provision. Thus the percentage of liquid impaired assets provision should be higher.

With respect to enterprises in constructing industry, mining industry and information technology industry, due to the proportion of its inventory is large, the percentage of value in the asset is higher and the inventory turnover is longer which make the risk of controlling accounting profit increase through the depreciation of inventory for these types of enterprises compared with others.

As for enterprises in wholesale and retail industry and agriculture\forestry\animal husbandry\fishery industry,

although the percentage of liquid assets is higher, the turnover of liquid assets is faster, the risk is relatively low due to the accumulation of liquid asset such as inventory and thus the proportion of provision of impairment should be small.

2. EMPIRICAL ANALYSIS ON THE INFLUENCE OF IMPAIRED ASSETS POLICY ON CORPORATIONS IN DIFFERENT INDUSTRIES

2.1 Material Source, Data Acquisition, Sample Selection and Analysis Method

The data source is from RESSET database and the selection of sample is from relevant accounting information of listing corporations in Shenzhen and Shanghai stock markets.

Because different enterprises apply for different primary taxation rate owing to the difference in the taxation policy cause the difficulty in dealing with the data, this essay adopt total profit to analyze in order to avoid tax rate and obtain more precise conclusion.

Criteria of sample selection:(l) Due to the special accounting method in financial and insurance industry, eliminate listing corporations in financial and insurance industry; (2) eliminate listing corporations whose impaired asset provision was 0 in the year 2007 and 2008; (3) eliminate listing corporations which have inadequate data; (4) eliminate informal listing corporations(5) eliminate listing corporations whose net asset is 0.

This essay applies non-parameter testing approach---mainly Wilcoxon testing

2.2 Empirical Testing on the Influence of Impaired Assets on the Quality of Accounting Information in Different Industries

This essay divides the change of accounting information after impaired asset provision into four type: (1)"Suffer loss before impairment and earn profit after impairment"; (2) "Suffer loss both before and after impairment"; (3) "Earn profit before impairment and suffer loss after impairment"; (4) "Earn profit both before and after impairment".

Note: The total profit should be calculated by impaired asset provision

Profit after impaired asset provision refers to the total profit plus the impaired assets on the end balance minus impaired assets on the opening balance".

(1) Suffer loss before impairment and earn profit after impairment

original hypothesis(H_0):no distinctive difference both before and after impairment;

standby hypothesis(H_1):distinctive difference both before and after impairment.

Table 2
Information Quality Influence 1—Wilcoxon Testing Results

time	2007	2008
transporting industry	-3.059 (0.02)	-3.621 (0.00)
manufacturing industry	-2.201 (0.028)	-2.521 (0.012)

Note: Figures in the Table are Z statistics and those below in parenthesis are p.

In 2007 there were 23 enterprises that suffered loss before impairment but earn profit after impairment among which 12 were in transporting industry and 5 were manufacturing industry accounting 79% in the total samples. Thus it should compare the changes of profit after impairment between these two industries. Through Wilcoxon testing, the Z statistics is -3.059 in transporting industry and P is 0.02, which rejected the original hypothesis of equal profit before and after impaired asset provision at the distinctiveness level of 5%, that is to say profit management of utilizing offsetting impaired asset provision loss existed in transporting industry. Similarly, the Z statistics is -2.201 in manufacturing industry and p is 0.028, which rejected original hypothesis indicating the phenomenon offsetting impaired asset provision existed in manufacturing industry. In 2008 samples in transporting industry and manufacturing industry account for 80.6% in the all samples, which it is considered that the change of quality of accounting information in other industries is not distinctive and the variables in other industries are also considered. From the statistic result, the distinctive change of quality of accounting information in 2007 & 2008 was only in transporting industry and manufacturing industry, which the influence of information quality on different industries varies and difference among industries is very large.

(2) Suffer loss both before and after impairment

Original hypothesis (H_0): no distinctive difference on loss before and after impaired asset provision;

Standby hypothesis (H_1): distinctive difference on loss before and after impaired asset provision.

Table 3
Information Quality Influence 2—Wilcoxon Testing Results

Time	2007	2008
Transporting industry	-3.059 (0.02)	-5.900 (0.00)
Manufacturing industry	-2.341 (0.001)	-5.514 (0.000)

The numbers of enterprises that suffer loss both before and after impairment are 25 and among them there are 13 in transporting industry and 7 in manufacturing industry which account for 80% in all the samples. Through

Wilcoxon testing, Z statistics in transporting industry is -2.706, P is 0.002 in unilateral testing, which rejected by no distinctive difference of loss suffering before and after impaired asset provision in original hypothesis at the distinctiveness level of 5% but adopted by distinctive difference of loss suffering before and after impaired asset provision in standby hypothesis, similarly, Z statistics in manufacturing industry is -2.341, P is 0.001, which are adopted in standby hypothesis. Although the enterprises which suffered losses in 2008 increased greatly and were mainly in transporting industry and manufacturing industry which was similar with in 2007 and at the some time, in both industries the original hypothesis of no distinctive difference in losses before and after impaired asset provision was rejected. Under this situation, the possible motive of management was wash-up motive, that is to say suffering deeper loss is the preparation of earning profit in the next year. From the statistical result, the distinctive change of quality of accounting information is in transporting industry and manufacturing industry and in other industries, the change of quality of accounting information was not found, which can be considered that the influence of the quality of accounting information is not the same and is distinctive different among industries.

(3) Earn profit before impairment and suffer loss after impairment

There were 4 enterprises that earn profit before impairment and suffer loss after impairment in 2007. Among them there were 3 in transporting industry and 1 in social service industry. In 2008 these kind of enterprises were 12. Due to small number of samples, the test could not be done to infer that whether the profit would change before and after the impaired asset provision in different industries. So this essay did not test and analyze on this part.

(4) Earn profit both before and after impairment

Original hypothesis (H_0): no distinctive difference both before and after impairment in different industries;

Standby hypothesis (H_1): distinctive difference both before and after impairment in different industries.

For enterprises that still earn profit after impaired asset provision, the possible motive of profit management might be profit smoothing motive which is transfer the extra increased profit to the nest year through profit management in order to maintain the trend of stable performance growth in the previous and the following years.

Table 4
Information Quality Influence 3—Wilcoxon Testing Results

Industry	2007	2008	Industry	2007	2008
Composite industry	-1.315 (0.188)	-2.836 (0.005)	Constructing industry	-1.490 (0.136)	-1.600 (0.110)
Social services industry	-0.175 (0.861)	-0.973 (0.331)	Information technology industry	-3.212 (0.001)	-3.008 (0.003)
Broadcasting and culture industry	-1.718 (0.086)	-2.380 (0.017)	Wholesale and retail industry	-2.400 (0.016)	-2.965 (0.003)
Real estate industry	-1.532 (0.126)	-2.137 (0.033)	Manufacturing industry	-8.337 (0.000)	-8.813 (0.000)
Electric ,gas and water industry	-1.642 (0.101)	-1.999 (0.046)	Mining industry	-0.941 (0.347)	-1.956 (0.50)
Transporting industry	-8.622 (0.000)	-10.937 (0.000)	Agriculture\forestry\animal husbandry\fishery industry	——	——

From table 8, the distinctive difference in the profit both before and after impairment in 5 industries among the 11 industries. That is to say the impairment cause the distinctive change in the quality of accounting information but no profit change was found in the other 6 industries. In agriculture\forestry\animal husbandry\ fishery industry, Wilcoxon test can not be done because of the small number of sample corporations. According to the statistical result, the change of quality of accounting information caused by the impairment provision was widely found in 5 industries and in the other 6 industries. This indicates that the change in quality of accounting information is different in different industries.

CONCLUSION

From the analysis of above four types of situations, no matter whether earn profit or suffer loss, the impairment provision has influence on the profit of enterprises. Then the distinctiveness of the influence is different in different industries, for example in situation 1 & 2, after impairment provision the distinctive changes of quality of accounting information were found in transporting industry and manufacturing industry but no change was found in other

enterprise. Thus it can be considered that the influence of this type of information quality is different in different industries and there is obvious difference in different industries. In situation 4, owing to the impairment provision, the distinctiveness of the change in the quality of accounting information lies in 5 industries and not so distinctive in the other 6 industries, which indicates that there is obvious difference in different industries. That is to say, the influence of impairment provision on the quality of accounting information in different enterprise is different. Based on the above analysis, this essay suggests that the impaired assets provision is calculated according to the characteristics in different industries in order to regulate impaired assets accounting and improve the quality of accounting information.

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