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Managers' Bad Accounting Behaviors of Listed Companies in China

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Abstract

Managers' unintentional or intentional bad accounting behaviors will result in poor quality of accounting information of listed companies, making a great extent to interfere with investors, causing confusion in the capital market, is not conducive to reflect the performance management responsibility. Research on Managers bad accounting behaviors of listed companies is of great significance to improve management, optimize the allocation of social resources. This paper respectively discusses the manifestation and the causes both of managers' unintentional and intentional bad accounting behaviors. It also puts forward recommendations to prevent managers' bad accounting behaviors of listed companies in China, so as to safeguard the interests of stakeholders and provide good environment for capital market by improving the efficiency and accounting information quality of listed companies.

Key words: Bad accounting behaviors; Managers; Listed companies; The quality of accounting information

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INTRODUCTION

Accounting behaviors refer to the course of conduct highly relevant to accounting information generation, processing and transmission. Accounting behaviors have a significant impact on budgeting, performance evaluation, cost control and decision-making (Hopwood, 1974). From the micro view, accounting behaviors include accounting organization, business accounting, and internal accounting controls. In the accounting process, managers who master business decision-making power and control are important participants in accounting policy choices, decision-making of significant accounting issues, etc. Thus the quality of accounting information of listed companies depends largely on the managers' behavior. We call the managers' actions and manifestations involved in corporate accounting practices as managers accounting behaviors.

Managers are usually referred to the human capital owners who join in a business contracts with their management talent and really own the residual rights of control (XIE, 2005). Managers are responsible for determining organizational goals, formulate strategies to achieve stated objectives, monitor and explain the external environmental condition, and make decisions on issues affecting the entire organization. General speaking, managers of Chinese listed companies cover president, vice president, department managers, chief financial officer, chief engineer and so on.

The result of accounting behaviors is to produce accounting information, thus accounting practices and accounting information has a direct causal relationship. Standard accounting practices provide true and full accounting information and meet various needs. Non-standard accounting behaviors will produce false, incomplete accounting information, which ultimately disturbs or even misleads those in need of accounting information to use. Such irregularities may be due to two aspects, one is deviations from accounting objectives or losing the objectives because of people's bounded rationality, which is summarized as non-subjective bad accounting (ZHANG, 2005). The other is negative affect on accounting information generation and disclosure for certain bad intent or purpose, which accordingly may be called intentional bad accounting. So, management accounting practices can also be divided into two categories: one is the management non-subjective bad accounting behaviors, the managers involved in the process of accounting practices have not any bad intentions but are constrained by bounded rationality, which lead to low quality of accounting information, it is not malicious, and thus may be called the managers unintentional bad accounting behaviors; the other is manager intentional bad accounting behaviors, which means the manager's participate accounting practices just for their own interests or certain bad purpose. An analysis shows that management is the most fundamental body of financial reporting fraud, and is the real source of financial reporting fraud (CHEN, 2009).

This paper discusses the specific manifestations of managers' unintentional and intentional bad accounting behaviors respectively, analyzes their causes and proposes recommendations against these two types of managers' bad accounting behaviors of listed companies in China, which is to promote listed companies to improve management level and accounting information quality.

1. THE MANIFESTATION AND CAUSES OF MANAGERS' UNINTENTIONAL BAD ACCOUNTING BEHAVIORS IN CHINA'S LISTED COMPANIES

1.1 The Manifestation of Managers' Unintentional Bad Accounting Behaviors

The performance of manager' unintentional bad accounting can be divided into the following three aspects:

First, the accounting organization is less rigorous. Accounting organization is the basis of accounting. From the micro view, it mainly covers the development and implementation of enterprise accounting system, setting up accounting body, arrangement of accounting personnel and selecting accounting methods, which is to ensure the rational and effective for accounting work. But in fact some listed companies' accounting basic work has weak links, the most prominent are: the quality of some company's accounting staff is not high, resulting in accounting arbitrary, unclear procedures, serious errors, accounting data missing; some company's accounting staff is not equipped well, accounting methods are not suitable for the unit, making accounting disorder and inefficient.

Second, the accounting process is less standardized. Mainly include: managers' unintentional choices of accounting policies are not applicable, resulting in accounting information has less relevant to information users need for economic decision-making; the content of cross-company accounts imputation, books set confusion, accounting treatment was not standardized, leading to mismatch of financial reporting and financial activities, accounting information is not a true reflection of the company operation. China securities news, the Audit Commission reported on May 20, 2011 that, accounts in Aluminum Corporation of China is not standardized, so although it acquired a variety of enterprises, the integration situation is not satisfactory.

Third, the internal accounting control is a mere formality. The main internal accounting controls include internal accounting management system, accounting personnel, job responsibility system, the financial processing system, the internal containment system, audit system, quota management system, measurement inspection system, and property inventory system, the financial revenue and expenditure approval system, cost accounting system , financial analysis, risk early warning system. However, some managers' design of approval authority and approval process on financial revenue and expenditure is unreasonable, leading to false accounting information; delivery of accounting documents in some companies is not scientific, resulting in inefficient accounting; Job separation in some companies is not clear, causing accountant misrepresent accounting information; some companies' internal accounting control system is designed by copying others, does not apply to their characteristics and requirements for production and management; some companies' feasibility studies on foreign investment is not sufficient, resulting in corporate decision-making mistakes, increasing risks and grim financial situation. "New Century Weekly" reported that the National Audit Office claimed in August 2010 after auditing: China Steel Group has financial management confusion and other major problems such as high-risk investment, huge debts. It means there are significant internal accounting control deficiencies in CSG, and there is little internal control and regulation according to the enterprise itself.

1.2 The Causes of Managers' Unintentional Bad Accounting Behaviors

Person's rational behavior is limited rational behavior but not fully rational behavior (Simon, 1947). The root cause of unintentional bad accounting lies in managers' limited rationality. On the one hand, various managers own different intelligence, ability, personality, temperament, attitudes, values, and different degree in understanding accounting theory and methods; on the other hand, it's impossible for managers to fully master and comprehensively apply accounting knowledge, while accounting theory is in a dynamic developing process, a variety of accounting codes of conduct and financial regulations constantly change with social development. Combining with the mentioned three manifestations, we analyze the reasons for managers' unintentional bad accounting behaviors as following:

In the organization of accounting work, many factors should be considered when managers design the accounting organization forms. They should appraise company size, business conditions, related accounting requirements, the number and the ability of accounting personnel; they strive to simplify accounting procedures, deliver accounting information timely and correctly, and save human and material resources while ensure the quality of accounting; they should make relevant departments cooperate to provide consistent accounting data. But there is no fixed standard to evaluate these factors, managers subjective judgments are necessary. While managers' awareness and capacity is limited, the design of corporate accounting organization is not necessarily of scientific and rational.

As to accounting, appropriate accounting policies and reasonable recognition, measurement and reporting accounting elements require that managers should be familiar with the current financial regulations and accounting standards, has a wealth of practical experience, a positive sense of innovation, keen vision and adequate professional ability to judge. For the existence of bounded rationality which create limitations in managers' knowledge, ability and experience, continuous development of accounting theory and the relevant laws and regulations in addition, managers can not fully grasp the timely knowledge of accounting and related laws and regulations, it is impossible for them to put their knowledge into practice. Moreover, due to limited time and energy, relearning the accounting knowledge is difficult.

Speaking of internal accounting controls, managers do not pay attention to the internal accounting control system enables the production of accounting information process get out of control, ultimately affect the quality of accounting information. Since bounded rationality exists, there are omissions of the internal control system designed by managers, or corporate internal control system which is no longer meet the new environment has not been revised and improved in time, or the sound internal control system isn't implemented well. All of these have a direct impact on the reliance of accounting information.

2. THE MANIFESTATION AND CAUSES OF MANAGERS' INTENTIONAL BAD ACCOUNTING BEHAVIORS IN CHINA'S LISTED COMPANIES

2.1 The Manifestation of Managers' Intentional Bad Accounting Behaviors

The feature of managers' intentional bad accounting behaviors is the managers' bad intent or purpose. It includes accounting fraud and earnings management. Earnings management contains accounting policy choice, the way of it is to disclosure companies' earnings for outsider, the final object of it is accounting data, its concrete operation is ultimately reflected in accounting fraud (LIU, 2009). Following studies take accounting fraud as a typical case of managers' intentional bad accounting behaviors.

According to China Securities Regulatory Commission penalty notice, there are 41 listed companies are punished for untrue disclosure, incomplete or late accounting information from January 2008 to January 2011. Table 1 shows specific tools and the frequency of accounting fraud.

Table 1
The Number of Companies and Frequency of Use on Accounting Fraud Methods

Accounting fraud methods	Number of companies	Frequency of use (%)
1.False revenue	13	10.24
In which: ① Fictitious revenue	6	46.16
② Early recognition of revenue	2	15.38
③ Other means leading to inflated revenue	5	38.46
2.False investment income	5	3.94
In which: ① Early recognition of investment income	3	60
② Fictitious investment income	2	40
3.Inflated assets (excluding overestimate accounts receivable to invent revenue)	16	12.6
In which: ① Fictitious bank and cash	5	31.25
② Fictitious fixed assets and construction in progress	4	25
③ Fictitious other assets	6	37.5
④ Capitalization of accrued expenses	1	6.25
4.Virtual reduction of assets	7	5.51
In which: ① Virtual reduction of outside investment	3	42.86
② Virtual reduction of account receivable and other receivable	2	28.57
③ Virtual reduction of cash in the banks and inventory	2	28.57

To be continued

Continued

Accounting fraud methods	Number of companies		Frequency of use (%)	
5.Underestimation of liability or less expenses or less provision for impairment	19		14.96	
In which: ① Underestimation of liability		10		52.63
② Less expenses or interest cost		5		26.32
③ Less provision for impairment		4		21.05
6.More expenses	1		0.79	
7. Concealment, late or improper disclosure of important matters	66		51.96	
In which:① Association, related transactions and the relative ownership structure		33		50.00
② External security issues		13		19.70
③ Significant litigation matters		5		7.58
④ Major contract issues		1		1.51
⑤ False disclosures		5		7.58
⑥ Other important matters		9		13.63
Total	127		100	

Note: the total number of companies (127) is bigger than the number of samples (41), as a company may adopt more than one fraud method.

Tracing the reasons why these companies are punished, we can find various means and a huge amount are involved in managers' intentional bad accounting behaviors.

Firstly, various means are involved in managers' deliberately bad accounting behaviors. From Table 1 we can find, 41 listed companies reached 7 categories 127 kinds of fraud means as much, in average, every punished company adopts more than three kinds of accounting fraud method. Table 1 also indicates that the most important category of accounting fraud is the seventh one (concealment, late or improper disclosure of material matters), up to 66 cases, accounting for 51.96% of the total samples. Followed by the sixth category (underestimation of liabilities, less expenses or less provision for impairment), 19 cases, accounting for 14.96 percentage. 10 cases among them are underestimation of liabilities, accounting for 52.63% of this category. There are 16 cases of the third category (inflated assets) and 13 cases of the forth category (false revenue), respectively accounting for 12.60% and 10.24% of the total samples. These accounting fraud methods seriously distort the company's assets, liabilities and profits.

Secondly, a huge amount of money is involved in managers' intentional bad accounting behaviors of listed companies. For example: six companies cumulatively fabricate ￥2.23 billion operating revenue. Of which Jinli Technology has reported fictitious revenues for two times and has been punished twice by SEC. Specific circumstances is shown in Table 2.

Table 2
Fictitious Operating Revenue of Six Companies

Company Name	Fictitious operating revenue (Yuan)
Unionfriend Network	78,320,934.96
Liangmianzhen	106,977,969.23
Jinli Technology (2008)	332,048,300.00
Beiya Industrial	672,175,600.00
Changfeng Communication	502,440,700.00
Precision Alloy	503,196,600.00
Jinli Technology (2009)	35,000,000.00
Total	2,230,160,104.19

Another example: five companies' fictitious bank and cash add up to ￥4.093 billion. They are Dandong Chemical Fibre (DCF), Jiugui Liquor(JL), Jiufa Edible Fungus(JEF), WaiGaoQiao(WGQ), and Petroleum Long Champ(PLC). Figure 1 shows the details.

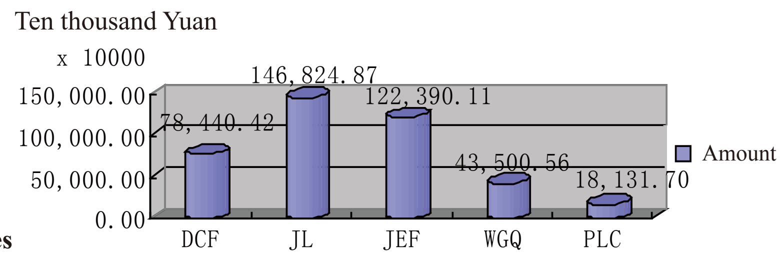

Figure 1
Fictitious Bank and Cash of Five Companies

The distorted accounting information generated by accounting fraud makes serious consequences: on one hand, it may result in financial virtual income, the excessive distribution of national income, inflation of consumption, distortion of economic facts, covering up some contradictions in the economy, and make the country's macro-supervision and regulation lose foundation, leading to significant financial, economic decision-making mistakes; on the other hand, creditors and investors may be led to poor decisions, their interests may be bruised, and reduce the efficiency of allocating resources in capital markets.

2.2 The Causes of Managers' Intentional Bad Accounting Behaviors

Overall, as the agent of listed companies managers' objective function is inconsistent with shareholders' who is the principal, the relation between managers and stakeholders is also complex. Because managers get far more and earlier corporate information than other accounting information users, and the outsiders such as the shareholders, creditors weakly supervise the insiders -the managers which allows managers to actually control the enterprise, when conflict between various parts interests happen, the managers have the opportunity and the ability to engage accounting fraud so as to achieve their own interests (WANG, 2011). Specific analysis on the reasons for managers accounting fraud is as following:

2.2.1 Corporate Governance is Defective

Corporate governance is an institutional arrangement of contractual relationship between principal and agent and to ensure the client's interests will not be split and abuse. Corporate governance weaknesses provide an incentive and opportunity for managers' bad accounting behaviors.

First, management incentive and restraint mechanisms are asymmetry (ZHOU, 2007). As an incentive mechanism to improve corporate governance, managerial ownership allows managers to share the company's growth and gain personal benefits. But it also requires managers to hold the stocks in office term and sell them six months later after leaving office, becomes a constraint mechanism against management short-term behaviors like a "golden handcuffs", Simultaneously, managers are facing much pressure such as: getting listed status, increasing the issue price, allotment, refinancing, keeping the listed qualification, removing ST title, withdrawing from the market, manipulating performance with the stock price, avoiding violations of the disclosure or shareholder manipulation, obtaining bank money or commercial credit (YANG, HE, 2009).Comparing to the limited incentives, these strong constraints force managers to take risks more easily.

Secondly, the director structure is not reasonable, the work time of independent directors in corporate governance is not enough. Increasing the proportion of independent directors in the board of directors will bring better supervision on management behavior. Beasley (1996) studied U.S. companies and found that the proportion of outside directors could greatly reduce the likelihood of financial fraud. Peasnell, Pope and Young (2000) tested the relationship between earnings management and the proportion of independent directors in British companies, and found that the possibility managers increased the normal income items to avoid a loss or decline in earnings was negatively correlated with the proportion of independent directors. Now, insider directors are the majority of China's listed company's board of directors. There are still some companies whose proportion of independent directors reaches just one-third required by the SEC. Meanwhile, independent directors' working time in companies is minimal. The time that independent directors participate in corporate governance is required not less than 15 working days a year, but the Center for Corporate Governance of Nankai University data shows from 2004 to 2007, only 27.22 % China's listed companies achieve this standard. On average, the annual working time of independent director of China's listed companies is only 8.2 days.

Finally, the independence of the Board is not high, two positions such as the general manager, chairman or vice chairman are held by one person is the significant corporate governance problem. Through the investigation on positions as chairman and the general manager in the 41 studied companies, we get table 3.

Table 3
The Number of Companies Where Variety of Positions are Held by One Person

Positions held by one person	Director and General Manager	Vice Director and General Manager	Director and Vice Director and General Manager	Director and General Manager and Secretary of the Board
The Number of Companies	6	9	1	1

Table 3 shows that there are 17 companies of the samples in which two positions are held by one person, accounting for 41.46%. One person bears three positions occurs in two companies. The general manager is also the director means the general manager masters part powers of the Board, manages and evaluates his own, and becomes a true "internal controller", making the corporate governance constraints and incentive mechanism ineffective, then the managers master powers enough to implement a variety of bad accounting behaviors. This kind of corporate governance structure is not only damage the interests of small shareholders, it also undermines the interests of major shareholders. For example, in Keyuan Group, the general manager and chairman and vice chairman are on a person, and 7 kinds of accounting fraud methods were adopted, far exceeding the average number of 3. Obviously, chairman and general manager are on one will create chances of accounting fraud and lead to aggressive bad behaviors.

2.2.2 External Supervision is Weak

The weakness of China's monitoring is an important reason for the proliferation of accounting fraud. Certified Public Accountant is the legal institute to review corporate financial reports. CPA becomes the first line of defense to regularly supervise various types of economic entity's financial reports. However, the management of accounting firms is not complete, the whole industry is still in a highly competitive state of disorder. In the current accounting market where supply and demand are in serious imbalance, many accounting firms strive to reduce audit fees in order to embrace customers and businesses. Based on cost-effective principle, low audit fees make these firms not perform necessary auditing procedures, or even just have a look at the financial statements, which brings potential problems of false financial reports. Some accounting firm still issued a qualified audit report knowing that is a false financial report since they should maintain the business relationship. So accounting information reviewed by CPA is not reliable too.

From January 2008 to January 2011, 11 accounting firms had not implemented necessary audit process or implemented irregular audit procedures, then failed to find the bad accounting business, or found a business with bad accounting practices but hadn't handled it according to regulations, leading to administrative penalties by China Securities Regulatory Commission for false statement. 10 accounting firms in which are the audit units of 10 listed companies mentioned as accounting fraud samples.

Although China has formulated and improved many laws and regulations on responsibilities for accounting fraud, the punishment on the involved parties is relatively light. Whether accounting firms that don't issue audit report according to the specified rules or managers of listed companies who engage accounting fraud, the penalties are mostly confiscated, warnings and fines. With such a low opportunity cost compared to the benefits from accounting fraud, what the managers will do becomes evident. More terrible is that "punishment is not responsible for the masses" will exacerbate the situation of the accounting fraud.

2.2.3 Accounting Standards have Some Shortcomings

There is a lack of coordination even some conflict areas between basic accounting principles and the specific accounting standards, among the accounting standards and industry-specific accounting standards, financial rules, and tax system. At the meanwhile, the relevant guidelines and regulations lag, they are modified and improved only after bad behavior happened. Finally, the diversity and uncertainties of accounting matters and optional provisions on accounting policies as well as accounting treatment allow managers of listed companies have the chance to cheat. China Securities Network reported, the recorded time of part of the fixed assets in STQinling is not in accordance with its intended use state time; as for non-new fixed assets by purchasing, expected life is re-estimated without considering the time the asset is used and the new rate. These cause the company's less depreciation about ￥4.01 million, as more profit about ￥4.01 million in 2010.

3. RECOMMENDATIONS TO PREVENT MANAGERS' BAD ACCOUNTING BEHAVIORS IN CHINA'S LISTED COMPANIES

Actually, it is not easy to distinguish unintentional managers' bad accounting behaviors from intentional ones in practice. But managers can do this themselves. To awaken managers' social awareness of consciously reducing bad accounting behaviors, suggestions followed are respectively proposed in terms of two types of managers' bad accounting behaviors.

3.1 Suggestions on Keeping away from Managers' Unintentional Bad Accounting Behaviors

3.1.2 Strengthen the Continuing Education on Management

Through a variety of job training, study tours outside the listed companies, further education and teaching-himself, we can expand the manager's professional knowledge and skills, develop their good habits of thinking and behavior, promote them to keep up with the developments of accounting theory, accounting standards and accounting laws and regulations, attach great importance to the construction of basic accounting work, continuously improve the company's rules and regulations, strengthen the accounting staff in-service training, then accounting standards can be gradually, steadily improved and accounting plays an real important role in the management of listed companies.

3.1.2 Perfect the System of Internal Accounting Controls and Strictly Implement it

The priority to sound system of internal accounting controls and strict implementation of it is to make managers pay more attention to internal accounting controls, then consciously strengthen the internal audit system which includes these actions: setting up the internal audit institution led by the board of supervisors and audit the daily operations of accounting, guaranteeing a high degree of independence of supervisory staff; ensuring separation of incompatible duties, such as: authorization to execute a particular transaction and executing duties; performing duties on certain business and auditing duties to these; performing a particular transaction and recording the business; custody of certain property, materials and recording them; custody of certain property, materials and checking duties; general ledger and subsidiary ledger duties; journalizing and general ledger duties, etc.

3.2 Precautionary Measures to Managers' Intentional Bad Accounting Behaviors

3.2.1 Improve Corporate Governance

The quality of accounting information relies on the corporate governance, it is the result of struggle among relative parties of corporate governance. Balancing the strength of variety parties can effectively prevent the managers' bad accounting behaviors and truly improve the quality of accounting information (XU, 2011). Dargenidou, McLeay and Raonic (2007) considered that more stringent corporate governance practices can help investors overcome the weaknesses of the legal protection terms in Europe.

First of all, the managerial ownership should be properly handled and appropriate management incentives should be established to avoid short-term behavior of managers. Secondly, the structure of the board members and the independence of the Board must be improved so as to effectively bind the managers' financial reporting fraud. So, we should not only increase the proportion of independent directors in the Board and continue to improve the independent director system, but also prevent the chairman or vice chairman and general manager duties on one person. To effectively perform the independent director system, we can start from three aspects: First, chose independent directors from external institutional investors, conforming to formal independence and substantial independence. Secondly, provide independent directors with remuneration commensurate with monitoring responsibilities, in order to mobilize their enthusiasm and sense of responsibility. Third, clearly define the powers and duties of independent directors as well as negligence penalties to ensure the independent directors have full motive power and pressure to supervise the company.

As to "Dandong Chemical Fiber", the proportion of independent directors was 33.33% from 2003 to 2005, it is 25% in 2006 and increased to 42.86% in 2007. According to China Securities Regulatory Commission administrative penalty notice, Dandong Chemical Fiber were involved in violations of accounting information disclosure from 2003 to 2006 but were not in 2007, indicating a high proportion of independent directors of listed companies had some restraining effect on executives accounting fraud.

3.2.2 Strengthen the External Oversight

We should improve the social supervision system and steady the comprehensive and authoritative supervision of accounting. First, inspect companies' accounting practices relying on social forces as CPA and strengthen the supervision of certified public accountants as well as accounting firms, promoting them to increase ethical standards and professional quality. Clear the legal liability of CPA to review and verify accounting information, develop and strictly enforce specific penalties for irresponsible or unethical CPAs to increase the cost of financial fraud (LIU, CHEN, ZHENG, 2010). Secondly, the China securities Regulatory Commission should carry out greater scrutiny, while mobilize tax authorities, financial sector, the public and other intermediaries to monitor the accounting practices of listed companies. Finally, the aforementioned means of accounting fraud in table 1 can be divided into three types: income statement fraud, the balance sheet fraud, concealment or improper and late disclosure of significant issues (LI Si-long, 2008). Therefore, the internal audit department, accounting firms, regulatory authorities and other relevant agencies can focus on items listed in Table 1 from corporate income statement, balance sheet and the notes as censoring and inspecting accounting information of list companies

3.2.3 Mature the Accounting Regulations System

On one hand, we should build a scientific, rigorous, coordinated and uniform system of accounting regulations after overall planning the system and content of different accounting laws or rules, on the other hand, we should complement and revise the accounting standard in time to avoid leaving vacuum for the innovation business so that minimize the manipulation opportunity by accounting policy choice. At the same time, we need to improve the feedback process of accounting standards. For accounting regulations have been promulgated, the implementation effect and problems reflected should be investigated. In particular, the views and suggestions fed back from accounting practitioners should be closely concerned, which enable accounting regulations to be timely revised and improved and accommodate themselves to developed economy.

3.2.4 Promote the Healthy Development of Financial Markets

As the advanced form of modern enterprises, listed companies are essentially different from private companies, which are closely related with the financial markets, especially the stock markets. Financial markets are important channels for listed companies and investors and also the occasion of optimal allocation of resources in society as a whole.

Darrough and Stoughton (1990) analyzed incentives of voluntary disclosure and found that corporate disclosure of proprietary information would help financial markets to more accurately assess the enterprise although provided information to potential competitors at the same time. Fernandes and Guedes (2010) found that companies fraudulently announced revenue was positively related to expected economic performance, but was negatively correlated to economic performance realized. These studies show that healthy, well-established financial markets can truly reflect the past of listed companies and can reasonably predict the future of them. When the financial markets valuation mechanism is perfect day by day and investors gradually rise their overall quality, phenomenon that deceived by false information will be greatly reduced, managers deliberately bad accounting will lose opportunities to gain profits, thereby reducing the illegal motivation; simultaneously, the resources configuration function of financial markets can also force the listed companies with apparent problems to rectify as soon as possible to avoid suspension or delisting, so managers unintentional bad accounting practices can be corrected.

CONCLUSION

This paper breaks the routine that managers' bad accounting behaviors just means accounting fraud, divides managers' bad accounting behaviors into intentional bad accounting behaviors and unintentional ones. Then, it discusses respectively the manifestation and the causes of the both. It concludes that the managers' unintentional bad accounting behaviors of listed companies in China mainly reflect in less rigorous accounting basis, non-standardized accounting process, formalized internal accounting controls and other aspects. The fundamental reason is that managers are of limited rationality. Managers' unintentional bad accounting behavior is an objective reality and can not be completely avoided, but it would be reduced through sound continuing education on managers and improvement of the company's internal accounting system. As a typical of managers' intentionally bad accounting behaviors, accounting fraud includes such seven categories as false revenue, false investment income, inflated assets and concealment of important matters and so on. The causes of them contain defective corporate governance, weak external supervision, immature accounting regulations. We can improve corporate governance, strengthen the external oversight, mature the accounting system of norms and promote healthy development of financial markets and other measures to prevent accounting fraud. This paper argues that: in practice, it's not easy to distinguish managers' intentional bad accounting behaviors from unintentional ones, but the managers can do. Therefore, the above suggestions are able to play a role.

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