

A Study on the Means of Accounting Fraud of Listed Agricultural Companies in China

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중국 농업상장기업의 회계부정 수단에 관한 연구

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Abstract The purpose of this study is to analyze the means of accounting fraud in Chinese listed agricultural companies and to suggest methods for the prevention of accounting fraud and follow-up measures. In this study, 21 Chinese agricultural enterprises were investigated and counted by means of accounting fraud. The means of accounting fraud of listed companies related to agriculture mainly consisted of profit inflation, inflating their net assets, the disclosure of accounting information violations, asset inflation for net asset inflation, and the incomplete disclosure for accounting information violations. Among these, income forgery was the most frequent among the 21 companies surveyed as a means of accounting fraud in profit inflation. Through this study, in the field of auditing academically, it is possible to find the motives of fraudulent acts in Chinese agricultural enterprises and to obtain advice to reduce fraudulent acts, and it will be of great help in theoretical research related to accounting frauds.

Key Words : Accounting Fraud, Agricultural Company, Bio Asset, Profit Inflation, Fraudulent Act

요약 본 연구는 중국 농업 상장기업의 회계부정 수단을 분석하여, 회계부정 예방과 후속 조치의 제시를 목적으로 한다. 본 연구에서는 21개의 중국 농업기업을 대상으로 회계부정 수단을 조사하여 분석한 것이다. 중국 농업기업들이 사용한 회계부정 수단과 각각의 수단의 사용 빈도 등을 조사하여 중국 농업기업의 회계부정 수단의 특징을 확인하고, 부정 예방을 위한 조치들을 제안할 것이다. 농업과 관련 상장기업의 회계부정 수단은 주로 이익 증액, 순자산 증액, 회계정보 위반 공시 등을 사용하였다. 중국의 위반 기업들을 분석한 결과, 이익 증액에서는 소득 위조, 순자산 증액에서는 자산 증액, 회계정보 위반 공시에서는 불완전한 공시를 주요 수단으로 사용한 것으로 나타났다. 이 중에서도 이익 증액에서 소득 위조가 조사대상 21개 중에서 16개 기업에서 회계부정의 수단으로 사용하여 빈도가 가장 높았다. 본 연구를 통하여 학문적으로 회계감사분야에 있어 중국 농업기업의 회계부정에 대해 부정행위의 동기를 찾아내고 부정행위를 줄일 수 있는 제언을 얻을 수 있으며 회계부정과 관련된 이론적 연구에 많은 도움이 될 것이다.

키워드 : 회계부정, 농업기업, 바이오 자산, 이익 증액, 부정행위

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1. Introduction

The world's first case of accounting fraud was the Namhae Company Incident (1720) which took place in England, followed by a series of accounting fraud cases around the world. The Chinese stock market started relatively late, and some companies met the listing standards by glorifying their business performance through accounting fraud. There have been and continue to be a lot of fraudulent acts such as inflating high profits to attract investors to further enhance the image of a company or to hide the fact of a loss to avoid delisting, which seriously hinders the stable operation of the capital market. As a result, China implemented the Split-Share Structure reform in 2006 and established or revised corporate accounting rules several times from 2014-2017.

Research related to foreign accounting fraud began early, has a wide selection of variables, and has a relatively high reference value because of the high accuracy of verification. There are many previous studies related to accounting fraud, and in the beginning, the studies mainly focused on the definition of accounting fraud, the motives of accounting fraud, and the means of accounting fraud [1-3]. In the middle period, there were mainly studies on the characteristics of accounting fraud [4-6]. Currently, more emphasis is being placed on the recognition of accounting fraud. Through continuous construction and optimization of the accounting fraud recognition system, the accuracy of judgment can be improved. Non-financial measures have been developed from studies that were initially recognized only through financial criteria, and there are more studies related to non-financial impacts [2,7].

The purpose of this study is to analyze the means of accounting fraud in Chinese listed

agricultural companies and to suggest methods for the prevention of accounting fraud and follow-up measures.

In this study, 21 Chinese agricultural enterprises were investigated and counted by means of accounting fraud. By examining the methods of accounting fraud used by Chinese agricultural enterprises and the frequency of use of each method, the characteristics of the accounting fraud methods of Chinese agricultural enterprises will be identified, and measures to prevent fraud will be suggested.

According to this study, the following implications are expected. Analyzing the means of accounting fraud of Chinese listed agricultural companies will help reduce the damage to companies, security investors, and the stock market caused by cheating and broaden the thinking of auditors. Through the analysis of the means of accounting fraud, it is possible to present management problems inside the company, complete the internal system of the company, promote the improvement of the external environment, complete relevant laws to create a healthier business environment, and promote long-term economy development.

2. Previous Studies

2.1 Accounting Fraud

According to the Statement on Auditing Standards No. 82 Consideration of Fraud in a Financial Statement Audit, the Association of Certified Public Accountants states that "a company intentionally mis-reports on its financial statements or misses important matters to publish financial reports." That is, it was defined as "fraud of the governing authorities" or "irregularities of the governing authorities" to manipulate financial reporting. In the U.S. Accounting Audit Standards Notice, Auditing

Standard No. 16, it was described as "the financial statement was deliberately manipulated".

Accounting fraud has characteristics such as intentionality of the cheating subject, concealment of the means of fraud, illegality of cheating, and risk of cheating. The specific features are as follows.

2.1.1 Intentionality of the Cheating Subject

The misconduct that is not caused by temporary negligence or other objective facts is an act intentionally caused by the subject of the act. The most essential characteristic of the cheating agent is that it is subjective, intentional, and deliberate.

2.1.2 Concealment of the Means of Accounting Fraud

In general, there are many cases in which the parties involved carefully plan together and combine various fraudulent means to commit fraud. It is so complicated that it can be difficult for external supervisors to detect it through the forgery of receipts and contracts related to consecutive financial years, fraudulent transactions, and the manipulation of the statement of financial position.

2.1.3 Illegality of Accounting Cheating

In China, nearly all cheating is considered illegal. From the Constitution to the Company Act, the Securities Act, the Government Act, as well as the company rules, it is stipulated that any legal entity must not engage in accounting fraud. Any act that threatens social order in violation of national laws or regulations will not be tolerated and will be punished according to the law.

2.1.4 Risk of Cheating

As seen in famous accounting fraud cases

from abroad in the past, once accounting fraud occurs, the damage is not great. Therefore, it will not be able to fundamentally solve the problems existing in the development of the company, but it will eventually lead to a major downfall, as if an ant hole collapses a dam, along with the true management situation that was hidden in a short period of time.

2.2 Studies on the Means of Accounting Fraud

Beasley found that fraudulent measures typically include cases of inflating operating profits and assets through a study on 11 years of accounting fraud between 1987 and 1997. More than half of the cheating is the case of confirming operating profit in advance or raising false operating profit, and half of the cheating even inflates assets. Asset inflation includes the value of other tangible assets, such as inventory inflation[1].

Deng Soon-yong conducted a research analysis on the empirical research report of the COSO (The Committee of Sponsoring Organizations of the Treadway Commission). According to the research results, the representative means of accounting fraud includes various means such as the manipulation of management profits, the manipulation of unrealized profits, and the manipulation of sales[8].

Wang Yue conducted a study on the means of fraudulent practices of three types of accounting fraud, all of which have a relatively high probability of occurrence during an accounting audit. Among them, the means of fraudulent operating profit include records of profits that do not meet sales conditions, records of profits over a period of time, and methods of inflating operating profits when submitting financial reports to the head office[9].

Albrecht argued that research and analysis on accounting fraud in fraudulent companies can be divided into characteristics, motives, prevention and investigation. The means of accounting fraud are mainly divided into the concealment of material matters, the improper selection of accounting policies, inflating assets and profits, the manipulation of inventory, and the insufficient disclosure of information[2].

Liu Yuan statistically studied the means of accounting irregularities of current Chinese listed companies through 154 out of 156 annual financial reports of 156 fraudulently listed companies that were caught and punished by the China Securities Regulatory Commission from 2008-2013. According to the results of the study, methods such as revenue manipulation, cost manipulation, the omission of asset impairment loss, the omission of period cost, net profit manipulation, and non-operating profit manipulation were found to be the means frequently used by listed companies to control profits[10].

Muhammad Jahangir Ali compared the odd cash flows and costs of 65 fraudulent companies and 65 non-financial fraudulent companies within 8 years. A tendency to manipulate actual earnings before the negative year by using receivables was also found[11].

3. Research Methods

In this study, many famous case of accounting fraud were investigated by referring to the investigation method of the preceding study of Hui-Min Ui in China[12]. Ui[12] suggested a method to prevent accounting fraud through research and analysis on accounting fraud by examining the related accounting information and financial statements of Sunlight Electrical Appliance Company in China[12].

In this study, research analysis is conducted

by referring to the research results of previous studies through previous studies and data on accounting fraud in foreign countries and China. This helped to prepare the theoretical basis for writing this thesis by summarizing the means of accounting fraud related to accounting fraud.

This paper refers to the research method used by Chippe which is used as the main research method of this paper[13]. Chippe selected the accounting fraud case of Chinese company Z as a research subject, and based on the risk factor theory, researched the perception of accounting fraud, the means of fraud and the problems of company management, and the dominant management inside and outside the company from the company's management point of view[13].

This paper aims to investigate the means of accounting fraud targeting 21 Chinese listed agricultural companies and to suggest ways to prevent accounting fraud.

4. Research Analysis

4.1 Characteristics of Chinese Listed Agricultural Companies

Since agriculture depends on the sky, it is greatly influenced by nature, and natural disasters can cause irreparable damage to agriculture. As there are restrictions on the management stability of listed agricultural companies and changes in natural conditions, the management risk is greater than that of other industries.

Agriculture also has market risks. First, agricultural products, especially fish products, are perishable and have trade restrictions, so the cost of expanding the market is high. Second, when there is an imbalance between supply and demand due to natural disasters, the

state often intervenes in prices. The impact of information policy on listed agricultural companies is so great that there is not much room for increasing the profits of agricultural products.

4.1.1 Dispersion of Suppliers

Unlike the fixed supply entities of industrial enterprises, the supply entities in agriculture are relatively dispersed. The main suppliers are small farmhouses, which lack effective organization, and it is common to adopt informal cooperation between companies and farms. The supply volume is also vast and flexible. Because the connection method with the supplier is relatively loose, quality control and price standards are not unified, and the order contract is not prescriptive, so the suitability of the transaction is relatively low. In addition, transactions with farms are often paid in cash, so there are not many transaction records, and it is difficult to secure evidence during audits due to the peculiarities of transactions in agricultural enterprises.

4.1.2 Difficulty in Recognizing Bio Assets

Assets include bio assets which are special assets in the production and management process of listed agricultural companies. Since bio assets have biological characteristics in addition to the commonalities of general assets, they have accounting confirmation and quantitative specificity. In Accounting Standards for Enterprises No. 5 - Biological Assets published in 2006, bio assets were defined as living animals and plants.

In the audit process, there are still many difficulties in recognizing bio assets due to problems such as the survival rate, the special inventory metering method, and the maximum amount of work.

The growth of bio assets is unstable due to natural influences, and the survival rate has a very large effect on inventory. Additionally, there are too many factors that affect the survival rate, making it difficult to control and easy to adjust. There is no standard specification because bio assets continue to grow. It is difficult to quantify the degree of growth because there is a phenomenon in which companies pretend to be large or mixed with bio assets. It is difficult to measure completely accurately by measuring the weight and length of some objects and adding objects with large differences in size by eye mass. In the case of aquaculture, it is difficult to inspect small objects, so the amount of work and time required to fill all the quantities with the naked eye is extremely long, increasing the difficulty in objectively checking.

4.1.3 Various Management Effects

Because the profit of agricultural production is low and it is difficult to break through the profit, some agricultural enterprises set up various management strategies so that the profit can rise quickly even if the scale grows only a little. However, since the company expands by merging industries unrelated to its management, it is not possible to construct a composition that is not suitable for one's own conditions, or to be unfamiliar with other industries, and cannot compare profits with those of the main business. And in the end, the merger and acquisition fails.

4.1.4 Dependence on Government Policies for Listed Agricultural Company Profits

China is an agricultural powerhouse. And agriculture is related to the national economy and people's livelihood and the state has a certain administrative intervention in the price

of agricultural products. As agriculture is a completely competitive industry, the overall profitability of the industry is low, and there are characteristics such as regionality, seasonality, and periodicity. In order to stabilize the development of agricultural enterprises, the state invests large amounts of money financially to support agricultural enterprises. As agricultural companies are overly dependent on government policies, there is also a phenomenon in which they meet the government's subsidy standards through the beautification of the statement of financial position.

4.2 Means of Accounting Fraud of Chinese Listed Agricultural Companies

As the number of fraudulent activities of listed agricultural companies in China has increased, the means of fraud have become more complex and secretive. Table 1 is an

investigation of 21 Chinese agricultural enterprises using accounting fraud methods. By classifying these methods, the characteristics of accounting fraud methods used by Chinese agricultural enterprises were investigated and the frequency of use of each method was investigated. And Table 2 analyzes them.

According to Table 2, accounting methods for agriculture and related publicly traded companies mainly used profit inflators, inflating their net assets, and disclosures of accounting information violations, and analysis of the violating companies in China showed that profit inflation used income falsification (76%), asset inflation (67%) in inflating their net assets, and incomplete disclosures (62%) as the primary means of accounting information violation disclosures. Among these, income forgery was the most frequent among the 21 companies surveyed as a means of accounting fraud in profit inflation.

Table 1. Chinese Agricultural Companies' Fraudulent Means

	Companies	The Means of Fraud						
		Profit inflation		Inflating net assets		Disclosure of accounting information violations		
		Income falsification	Cost savings	Asset inflation	Debt reduction	Disclosure delays	Incomplete disclosure	False disclosure
1	YinGuangXia	√	√	√	√		√	√
2	LanTian	√		√			√	
3	CaoYuanXingFa	√	√	√				
4	QinFengNongYe	√	√	√	√		√	
5	JinLiKeJi	√		√		√	√	
6	YaHuaZhongYe			√		√	√	√
7	FeiFeiNongYe	√		√		√	√	
8	XinZhongJi	√	√	√		√		√
9	WanFuShengKe	√		√		√		
10	LVDADI	√		√				
11	ZhongShuiYuYe					√	√	√
12	FuJianJinSen	√				√		
13	HanDangJia						√	√
14	BeiDaHuang	√				√	√	
15	DaHuGuFen					√	√	
16	FengLeZhongYe	√	√	√			√	√
17	XinDaDi	√		√			√	
18	YuanYangYuYe	√	√	√	√		√	
19	ZONECO		√			√		√
20	ShenXianYuan	√	√					
21	ZiXinYaoYe	√		√				
Total		16	8	14	3	10	13	7

Source: Securities and Supervisory Commission Administrative Decision (2020)

Table 2. Analysis of the Means of Accounting Fraud of Listed Companies

The Means of Accounting Fraud		Sample Number (21 total)	percentage (%)	Ranking
Profit inflation	Income falsification	16	76%	1
	Cost savings	8	38%	2
Inflating net assets	Asset inflation	14	67%	1
	Debt reduction	3	14%	2
Disclosure of accounting information violations	Disclosure delays	10	48%	2
	Incomplete disclosure	13	62%	1
	False disclosure	7	33%	3

4.2.1 Profit Inflation

It is common for companies that have suffered significant losses from accounting fraud to use their profits to conduct accounting fraud. There are two types of behavior that fraudulent companies consider in accounting fraud. First, there is the fraudulent act of checking profits in advance and increasing profits by falsifying a company's statement of financial position. Second, in order to achieve the purpose of tax reduction, there is also the act of delaying confirmation through income reduction and profit adjustment.

4.2.1.1 Income Falsification

False sales are divided based on fake counterparties and real customers. There are many companies that deceive external customers with fake customers by counterfeiting orders, counterfeiting invoices, and counterfeiting sales contracts. For example, after the listing of the XINDADI Group in China, the top five traders of all trading items disappeared from 2004 to 2007, and the YINGUANGSHA Group in China was fraudulent in their accounting as a means of counterfeiting receipts and false declarations of customs declarations and deposit statements through virtual commerce. There are many companies that inflate their profits based on actual trading targets, especially those with a large number of customers and suppliers and wide distribution. For example, China's XINDADI Group can

reduce the risk of fraudulent activity by adopting a small enterprise located outside the region as a partner. The XINDADI Group adjusted the sales increase of 650,000 yuan by changing the 200,000 yuan in accounts receivable to 850,000 yuan in the documented evidence in the case of corruption in 2010. Due to the large number of customers and the wide distribution range, there will be many difficulties in the review process.

4.2.1.2 Cost Savings

Cost reduction and the transfer of costs are often used as means of accounting fraud because they not only inflate profits by reducing costs, but also increase the gross profit margin of products to show a relatively high level of competition to investors.

A Chinese company, SHENXIANYUAN, recorded the purchase cost of wild ginseng as a productive bio-asset, signed a forest development agreement and a wild ginseng management work contract with Zhong Weitong and JIAYE, and allowed the partial cost of this contract to be calculated as a productive bio-asset. However, this cost is actually the cost of purchasing wild ginseng through connection with the outside world. It achieved the goal of reducing the cost of purchasing wild ginseng through the virtual forest development agreement and inflating profits through cost reduction.

4.2.2 Inflating Net Assets

Agricultural enterprises often have accounting irregularities due to the specificity of their assets. Basically, cheating occurs through the construction of construction, the acquisition of land resources, and the acquisition of biological resources. The negative selection of land resources is not only because of the important production factors of agricultural enterprises, but also because their fairness cannot be measured by value.

4.2.2.1 Asset Inflation

Compared to basic production industries such as manufacturing, agricultural enterprises often have a lot of inventory, complicated items, and many storage places, making it difficult to quantify and determine the value, which often leads to fraud. In recent years, Chinese agricultural companies exposed to fraudulent activities, such as the LVDADI Group and the YINGUANGSHA Group, have experienced a lot of inventory asset problems. Not only is it difficult to recognize the quantity and value of inventories, but it is also difficult to verify how preparations for the reduction of inventories will be made. For example, the LVDADI Group, as a company that mainly operates in green agriculture, must perform step-by-step inspection statistics on biological resources such as seedlings in accordance with relevant regulations, and then prepare sufficient measures to reduce inventory in preparation for recoverable amounts. However, the company's assets were falsely recorded because the key details, such as the depreciation, were not sufficiently revealed in the disclosed documents. China's LVDADI Group, for example, adjusted the land value as a means of inflating land area and maliciously raised prices, inflating a collective land worth 330,000 yuan to nearly 9 million yuan in assets.

4.2.2.2 Debt Reduction

If a company does not achieve the desired performance, it is necessary to check the income in advance. This is because income that is verified in advance due to an actual bill of sale is less risky than false income. If the target is achieved in advance or it is expected that the next performance target will become a burden, the verification of current income may be delayed and confirmed at a later date. For example, if a customer intentionally defers the transaction to the next session after gaining control, a customer may manipulate the payment by bookkeeping or transfer the debt to another account.

4.2.3 Disclosure of Accounting Information Violations

The fraudulent means used by most fraudulent accounting companies include the inaccurate disclosure of accounting information, incomplete disclosure, inaccurate disclosure, or false disclosure. Among these, disclosures that are not made in a timely manner and false disclosures account for the highest percentage. China's "Securities Law" stipulates that companies must disclose in a timely manner when a significant event occurs. In this way, one will be able to reasonably evaluate the value of the company's investment. However, many companies mislead stakeholders' investment decisions by not disclosing accounting information in a timely manner or not sufficiently disclosing accounting information in consideration of their own corporate interests alone. Economic markets require fairness, and disclosure, and violations of information disclosure may affect the development of the entire capital market. Currently, there are several cases of disclosure violations as follows.

4.2.3.1 Disclosure Delays

China's "Securities Law" stipulates that a company must immediately submit a report when accounting fraud occurs, and in the same time clearly disclose the details of the case (which should include the full situation of the case and subsequent foreseeable circumstances). However, it is rare for publicly traded companies to voluntarily fulfill their obligations. This is because publicly traded companies do not want to disclose in a precise and timely manner when there is a quality problem, a related transaction problem, or a significant investment failure.

4.2.3.2 Incomplete Disclosure

The information disclosed by listed companies to the outside is incomplete, not all of the information is closely related, and the information is not valid. This shows that some listed companies do not voluntarily implement the accounting information disclosure system and are forced to move through legal requirements.

4.2.3.3 False Disclosure

Listed companies provide false information or partially modified information to investors as public information to ensure their own interests. Fraudulent information is generally beneficial to a company's performance. In the case of the YINGUANGSHA Group's fraud (2000), many false facts were fabricated to improve performance, and this false information earned them investors, social opinion, and their shareholders' trust, ultimately causing economic damage to investors.

4.3 Suggestions for Prevention of Accounting Fraud

4.3.1 Removal of Motives for Accounting Fraud

In order to prevent accounting fraud in China's listed agricultural companies, the motives for accounting fraud must be removed above all else.

Most agricultural companies have excellent performance before going public, but after listing, they tend to lose money due to corporate expansion.

4.3.2 Strengthening the Moral Consciousness of Employees

In order to prevent accounting fraud in Chinese listed companies, it is necessary to strengthen the morality of executives and employees.

Because executives play a very large role in the collective management of agricultural enterprises, their moral consciousness often determines the moral ethos of the company.

4.3.3 Reduced Opportunities for Accounting Fraud

In order to prevent accounting fraud in Chinese listed companies, it is necessary to strengthen the overall management ability of the company should be improved.

Efficient internal supervision includes the establishment of an internal supervision system and the completion of an internal disclosure system.

4.3.4 Complete Fraud Detection System

The supervision of enterprises is divided into functional supervision and social supervision. The strength of sharing social oversight information should be used to ensure the timely and full oversight of the enterprise.

It is necessary to maximize the efficiency of audit work by nurturing professional auditors and making them familiar with one particular field. Currently, in China, the number of CPA offices has significantly increased, and although the number is not insufficient, the audit ability is very different.

4.3.5 Stronger Penalties for Accounting Fraud

Cooperation between personal credit information and administrative criminal enforcement should be strengthened in order to strengthen the punishment for accounting fraud. Higher penalties will increase the costs of cheating and will discourage companies from starting them for fear of serious consequences for the cheating manager.

5. Conclusion

The purpose of this study is to analyze the means of accounting fraud in Chinese listed agricultural companies and to suggest methods for the prevention of accounting fraud and follow-up measures.

In this study, 21 Chinese agricultural enterprises were investigated and counted by means of accounting fraud. By classifying these methods, the characteristics of accounting fraud methods used by Chinese agricultural enterprises were investigated and the frequency of use of each method was investigated.

The means of the accounting fraud of listed companies related to agriculture mainly included profit inflation, inflating their net assets, the disclosure of accounting information violations, asset inflation for net asset inflation, and the incomplete disclosure for accounting information violations. Among them, income forgery was the most frequent among the 21 companies surveyed as a means of accounting fraud in profit inflation.

In this study, we suggested a customized proposal to prevent accounting fraud caused by the five aforementioned factors. First, a delisting system must be scientifically introduced in the Chinese stock market to eliminate corporate fraud, and companies must

establish a performance evaluation system so that they can be faithful to their main business. Second, the moral consciousness of the management of listed agricultural companies should be raised. Third, it is necessary to reduce irregular opportunities for listed agricultural companies and establish a healthy management environment system, scientific risk assessment system, and efficient internal supervision system. Fourth, the subdivided organizational structure of the audit field should be promoted by supplementing a fraud detection mechanism to increase the efficiency of the use of scientific and technological methods and auditing as well as to improve the external audit capability. Fifth, it is necessary to strengthen the punishment for fraud, secure personal credit information, and strengthen the administrative and criminal law enforcement power.

The following implications can be obtained through this study.

First, through this study, academically, it is possible to find the motives of fraudulent acts in Chinese agricultural enterprises and to obtain advice to reduce these fraudulent acts. This will be of great help in theoretical research related to accounting frauds in auditing.

Second, in the practical aspect, this study analyzes the means of accounting fraud of Chinese agricultural companies and implements a customized monitoring system for the agricultural sector so that the characteristics of accounting fraud of agricultural companies can be recognized. Loss can then be reduced.

However, since it is not possible to obtain more detailed internal data under the conditions of an individual researcher, there may be limitations in collecting papers and

related evidence as analytical research was conducted only through data and articles published on the Internet. In addition, there is a limit to the statistical generalization of the 21 samples of listed agricultural companies used in this study. However, it is meaningful because it is never a small number of samples because it targets only agricultural-listed companies in China and only actual cases.

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