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What is the Impact of Financial Outsourcing Costs in a Perfectly Competitive Market?

—An Empirical Analysis Based on Empirical Data of Small and Medium-sized Board Listed Companies

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***Abstract*—This paper makes use of the panel data of 100 listed companies in China's small and medium-sized listed companies in the four years from 2012 to 2015, and empirically analyzes what factors under the special supervision system in China affect the financial outsourcing expenses actually paid by listed companies. The empirical results show that the financial outsourcing expenses are negatively correlated with the inventory size to a certain extent, and the financial outsourcing expenses are significantly positively correlated with the company's asset-liability ratio. Therefore, the firm should strengthen industry supervision, CPAs should improve their professional ethics and professionalism, and financial outsourcing units should also minimize their own business risks and financial risks.**

Keywords—outsourcing expenses; outsourcing risk; influencing factors; random effects

I. INTRODUCTION

As a kind of market activity, independent financial outsourcing is inevitably affected by the financial outsourcing market environment. [1]

An empirical study on the factors affecting the financial outsourcing expenses of listed companies in China can further discover the potential influencing factors of financial outsourcing costs and the degree of their impact.

II. LITERATURE REVIEW

Simunic[2](1984) studied 263 listed companies from 1976 to 1977 and found that non-financial outsourcing charges are positively related to financial outsourcing charges. He believes that the existence of non-financial outsourcing fees reduces the unit cost of financial outsourcing charges, which leads to the overall financial outsourcing fee is reduced.

In terms of factors affecting China's financial outsourcing costs, Wang Zhenlin[2] (2002) found that the size of listed companies and the complexity of economic business constitute the main factors affecting financial outsourcing charges. The risk factors of customers do not have an important impact. Han Housheng and Zhou Shengchun (2003) found that the cost of financial outsourcing was significantly related to the company's total assets, the number of subsidiaries, the asset-liability ratio, and the type of financial outsourcing opinions. [3] The company paid a higher price for integrity in 2001 than in 2000. In response to factors such as accounting firms and financial outsourcing tenure, the results of Qi Jiangna (2004) show that the "Four Big" financial outsourcing fees are significantly higher than local firms, indicating that China needs high-brand firms, listed companies, especially large companies. Willing to pay high fees for high brand firms.[4] Li Shuang (2004) found that the financial outsourcing pricing level is non-uniform at different stages of the financial outsourcing term; with the extension of the financial outsourcing term, the financial outsourcing fees are gradually increasing.[5]

III. RESEARCH DESIGN

A. Research hypothesis

From the foreign earnings management literature, two important motivations can be found. First, managers use accrued profits to conceal bad performance and confirm part of the income in advance; or postpone some good company performance to the next few years and confirm future costs in advance (Defond and Jiambalvo,1994).[6] Another motivation is to increase the net profit of the financial statements and increase the company's stock price in order to increase the company's market value (Kellogg, 1991). Under China's unique regulatory system, delisting, distribution and other contracts give managers a strong incentive to earnings management. From the perspective of financial outsourcing risks, earnings management is often considered to be inherently risky because it is more uncertain than other elements of the financial statements and is more difficult to finance and easier to manipulate. This will allow CPAs to assess inherent risks and keep risks at a high level during the financial outsourcing process.

The size of inventory and accounts receivable will affect the financial outsourcing process of certified public accountants. If the scale is large, the CPA will increase the substantive financial outsourcing procedures to reduce the risk of financial outsourcing, thereby increasing the cost of financial outsourcing and increasing the cost of financial outsourcing.

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The asset-liability ratio is an important indicator for measuring the company's capital structure and an important indicator for measuring the company's debt repayment risk. If the indicator is too high, the company's debt repayment risk is relatively large, and the probability of bankruptcy is large, thus increasing the financial outsourcing risk of CPAs. CPAs must increase control in order to control financial outsourcing risks to an acceptable low level. Procedures and substantive procedures to detect misreporting or fraud, thereby increasing financial outsourcing costs.

Based on this, the following assumptions are made:

H1: The larger the company, the higher the financial outsourcing cost actually paid;

H2: The larger the company's inventory size, the higher the financial outsourcing cost of the actual payment;

H3: The larger the company's accounts receivable, the higher the financial outsourcing expenses actually paid;

H4: The higher the total operating income of the company, the higher the financial outsourcing cost actually paid;

H5: The higher the company's total return on assets, the higher the financial outsourcing costs actually paid;

H6: The higher the company's total asset turnover rate, the higher the financial outsourcing cost actually paid.

H7: The higher the company's asset-liability ratio, the higher the financial outsourcing cost actually paid.

B. *Sample selection*

This paper selects 100 listed companies from China's small and medium-sized listed companies in the four years from 2012 to 2015 as the primary sample. The financial outsourcing costs and other financial data of this paper are from the WIND database, and the processing and analysis of panel data is performed using Stata14.0 software.

C. *Design of variables*

TABLE I. DEFINITION AND EXPLANATION OF MAIN VARIABLES

Variable name		Variable symbol	Variable definition and interpretation
Explained variable	Financial outsourcing costs	Fees	Fees indicate the financial outsourcing expenses actually paid by the listed company, excluding the interim financial outsourcing expenses and special financial outsourcing expenses, including only the financial outsourcing expenses of the annual report.
	Total assets	Assets	Assets represents the total assets of the company, including current assets and non-current assets
	Inventory share	Stocks	Stocks represents the company's total inventory as a percentage of total assets
Explanatory variables	Accounts receivable ratio	Receivables	Receivables represents the ratio of the company's total accounts receivable to total assets

D. *Inspection model*

Combined with the characteristics of China's financial outsourcing market, we constructed the following model based on the above research:

Fees=α+β1 assets+β2 stocks+β3 receivables+β4 takings+β5 assetsreturn+β6 assetsturnover+β7 ratio+μ

IV. CONCLUSIONS AND RECOMMENDATIONS

According to the software operation results and empirical analysis results, this paper chooses the random effect model. Considering that the data quality is not very good, the inter-group estimator is selected. The results are as follows:

TABLE II. ESTIMATED AMOUNT BETWEEN GROUPS

Between regression (regression on group means)				Number of obs		=	397
Group variable : antry				Number of groups		=	100
R-sq:				Obs per group:			
	within = 0.0024				min	=	3
	between =0.1381				avg	=	4.0
	overall = 0.0541				max	=	4
				F (7, 92)		=	2.11
sd (u_i + avg(e_i.))=17.86953				Prob>F		=	0.0506
newfees	Coef.	Std. Err.	t	p>| t |		[95% Conf.	Interval
newasseta	-.0255814	.0207654	-1.23	0.221		-.0668233	.0156604
newstocks	-.0505141	.0248174	-2.04	0.045		-.0998036	-.0012246

Cont.to TABLE II							
newreceivables	-.0311637	.0237963	-1.31	0.194		-.0784253	.0160979
newtakings	.0355969	.0190173	1.87	0.064		-.0021732	.073367
assetsreturn	.256482	.3662162	0.70	0.485		-.4708551	.983819
assetsturnover	-1.996756	4.309851	-0.46	0.644		-10.55649	6.56298
ratio	.2493172	.1130316	2.21	0.030		.0248267	.4738078
_cons	59.48091	11.45717	5.19	0.000		36.72598	82.23585

From the above table, we can see that the inventory size and asset-liability ratio have a significant impact on the actual financial outsourcing costs. Among them, the inventory size is negatively correlated with financial outsourcing expenses at a significant level of 0.05, the correlation coefficient is -0.505141, contrary to Hypothesis 2, Hypothesis 2 is not verified; the asset-liability ratio is at a significant level of 0.05 and financial outsourcing costs. Positive correlation, correlation coefficient is 0.2493172, hypothesis 7 is verified. There is no significant correlation between the remaining variables and the financial outsourcing costs. Therefore, if the hypothesis 6 is not verified, only the hypothesis 7 is verified, that is, the higher the asset-liability ratio of the listed company, the higher the financial outsourcing cost of the actual payment, we get the claims= 59.48091-0.505141stocks+0.2493172ratio.

The empirical result is contrary to Hypothesis 2, that is, the larger the inventory size, the lower the financial outsourcing cost of the actual payment. This may be because the larger the inventory size of the financial outsourcing unit, the more likely it is that there are more bulk materials, and the important substantive procedures such as actual inventory are easier to implement. It is also likely that the inventory has been backlogged and not sold, resulting in operating income. Less, resulting in a lower profitability of financial outsourcing units, so the actual financial outsourcing costs are lower.

Hypothesis 7 is verified, that is, the higher the asset-liability ratio of the listed company, the higher the financial outsourcing cost actually paid. Because the asset-liability ratio is not only an important indicator to measure the company's capital structure, but also an important indicator to measure the company's solvency. If the company's asset-liability ratio is too high, it means that the company's debt ratio is too high, the future solvency will be reduced, and even the risk of bankruptcy and debt repayment. This will greatly increase the financial outsourcing risk of CPAs. The CPA will implement more control procedures and substantive procedures to reduce the company's financial outsourcing risks to an acceptable low level to prevent financial outsourcing from failing. The objectiveness and accuracy of financial outsourcing opinions. To this end, listed companies need to actually pay higher financial outsourcing fees to ensure the realization of CPA financial outsourcing work.

Through the above analysis, the paper suggests the following:

A. The accounting firm industry should strengthen industry supervision. CPAs should also pay attention to the cultivation and improvement of their professional ethics and professional level. In the actual implementation of financial outsourcing work, strictly control, carefully do each of the procedures, based on the actual situation, combined with their own professional experience, prudently give financial outsourcing advice. Financial outsourcing reports that are not convinced by the facts should not be issued in order to cater to financial outsourcing units or to obtain higher financial outsourcing costs. It should not reduce the cost of financial outsourcing with other firms, reduce the cost of financial outsourcing, actually consider the cost effect when implementing financial outsourcing, and reduce the need for financial outsourcing procedures, such as inventory counting and cash supervision. And correspondence and so on.

B. The merger and cooperation of the firm can have more professional resources. When undertaking the financial outsourcing work, it can more effectively identify the inherent risks and special risks. It can better understand the financial affairs in the initial business undertaking and business agreement. Outsourcing units, so that financial outsourcing charges are more in line with the actual situation, will not be too low due to underestimation of financial outsourcing risks, resulting in more than expected financial outsourcing procedures, pay more than expected, and will not be overestimated Financial outsourcing risks and excessive fees, reducing the competitiveness of the firm. To this end, the financial outsourcing unit should strengthen the company's own operation and management, reduce the company's operational risks and financial risks, and the financial outsourcing risks will be reduced when it is outsourced by finance, thereby reducing the actual financial outsourcing costs. To a lesser extent, the company's operating expenses.

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