

THE HISTORICAL EVOLUTION OF ACCOUNTING IN CHINA (*NOVISSIMA SINICA*): EFFECTS OF CULTURE (2ND PART)

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RESUMEN

Este artículo intenta explicar los criterios que sustentan la idea de que la contabilidad china ha sido conformada durante el pasado siglo con arreglo a factores culturales, económicos y políticos. Asimismo se propone estudiar los fenómenos históricos experimentados por la contabilidad china en el transcurso de los años, y evaluar comparativa y críticamente los efectos culturales de los mismos con las transformaciones políticas y económicas que han tenido influencia en el desarrollo de la contabilidad china.

La sociología de la ciencia es el elemento determinante para analizar las transformaciones experimentadas por la contabilidad. Los factores políticos están referidos a factores culturales. En una primera época vinieron determinados bajo la presión del régimen comunista y de un gobierno de dirección central; en una segunda época se configuraron siguiendo el modelo de liberalización y de economía de mercado. El gobierno llamó a este modelo: "Política de puertas abiertas".

En los últimos años y en época reciente esta política ha conservado su influencia y ha forzado al gobierno chino a promulgar una nueva normativa contable en armonía con los principios contables internacionales. El sistema contable chino está ahora mucho más cerca de los "International Accounting Standards" de lo que estaban las prácticas del pasado; pero, a pesar de ello, conserva sus características y sus rasgos colectivistas y conservadores tradicionales. Los fundamentos culturales son los que sostienen e informan todavía el sector de la contabilidad china.

ABSTRACT

This paper attempts to argue the criteria which claim that Chinese accounting has been shaped by together with cultural, economical and political factors in the last century. This paper also aims to compare historical phenomena which occurred in Chinese accounting over the years, and then to assess comparatively or critically the effects of culture with politic and the economic transformations on the development of Chinese accounting.

The Science Sociology is the determinant component for analyzing the terms of transformation in Accounting. Political factors are related to cultural factors. First era were shaped under communist regime pressure and state-centered governance, second era have been shaped by liberalization and market-oriented model. The government called this model '*Open-Door Policy*'. The main point of this policy was to harmonize and modernize Chinese accounting with the westerns technical requirements and management skills.

In recent years and for the recent era, those policies kept their influence and force Chinese government to publish new accounting standards which are harmonized with international accounting standards. Chinese Accounting System is now closer to International Accounting Standards than the past practice; however it keeps its collectivist, conservative and long-term characteristic and design. Cultural effects still shape the Chinese accounting area.

PALABRAS CLAVE:

Contabilidad comparativa, contabilidad china, factores culturales, historia, sociología.

KEYWORDS:

Chinese accounting, comparative accounting, cultural factors, evolution, history, sociology.

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1. Introduction

Research is a process of intellectual discovery, which has the potential to transform our knowledge and understanding of the world around us (Ryan *et. al.*, 2002: p.8). The social researches are also reinvention of social life with the historical perspective. Since the history which is conveyed by epistemological and ontological bodies, viewed as a repository for more than anecdote or chronology, could produce a decisive transformation in the image of science (Kuhn, 1970: p.1). According to Sy & Thinker, Kuhn has proven that empiricism is defunct, notwithstanding that the frauds S&T cite as proof of history's inherent fallibility were themselves refuted by evidence, and that the historical materialism that they promote as an alternative to archivalism too requires evidence before one can accept it as an historical explanation of social conditioning (Sy & Tinker, 2005, pp.47-69).

In the case of social science, the progress means the consciousness of conditions (Bourdieu, 1980: p.7). Like any social phenomenon, accounting presents a "historically and geographically" localized result, but that does not imply that accounting should be viewed in isolation at a particular point of space or time (Carnegie and Napier, 2002: p.690). And the

recognition of accounting as an applied science is the pivot on which a resolution to get the functions of methodological implications (Archer, p.3).

In general, comparative research as a methodological implication is an attempt to identify and explain similarities and differences between phenomena in different locations and cultures in order to function the inherited facts and the real conditions for the research subject. Comparative research method may also implies research adopting an international or cross-cultural perspective and may be used to help explicit the cultural and the other assumptions that the researcher and research subject may hold implicitly (Carnegie and Napier, p.691). For this reason, accounting practices or accounting history aim to synthesis the space and time in order to recognize and enrich the conditions and perspectives of accounting evolution.

1.1. Literature Review: Spelling or Expelling Holocaust

In literature, accounting has identified as a multi-paradigmatic social science based on models of human intention and rationality. To make such a comparison exact knowledge as to what is accounting practice of any particular country, the context of similarities or differences between international accounting practices follows as the determinants or elements (Nobes, 1992: p.39) especially for interpreting evolutions in accounting practices. For example, it is asserted that historically, there has been a strong common-law influence on accounting standards in the East Asian countries, from the early British colonial influence to the more recent influence of IAS (Ball *et. al.*, 2003: p.238).

1.1.1. Critical Theory

Critical theory takes a stance between philosophy and historical sociology (Macintosh, 2005: p.163). Critical theory has impacted organization and communication theory and the Critical Accounting movement situate to reform - or, depending on one's point of view, subvert - current accounting practices and institutions, as a contribution to wider social change (O'Reagen, 2003: p.3). In accounting, some interpretation has been influential, emphasizing interpretative schemas and accounting transformation at societal and organizational levels. However, ideas of other critical theorists, such as Adorno and Horkheimer, who examined the manipulation of human desires and consciousness, are less prominent in accounting research (Cooper & Hopper, 2007, p.212).

1.1.2. Historical Perspectives and Research Methodology

The 'foundational' approaches to historical sociology are evolutionary and functional accounts. Sociology's very first formulations proposed evolutionary theory as the foundation of a scientific approach to social change (Holmwood & O'Malley, 2003: p.39). On the one hand, some economic historians regarded the rather impressionistic quantification as "not scientific enough," and advocated an approach called cliometrics, that is, research based on the formal models and statistical testing procedures common in economics but hitherto rarely used in economic history; on the other hand, postmodern historians found the work "too scientific" in its ambition to capture an objectively real past. But historical research since the 1980s has been very diverse. Some researchers have predicted a "return of grand theory", a "revival of narrative", or a more fruitful cliometrics, liberated from the constraints of the

hyper-rational and largely a historical economic theory that dominated the 1970s and 1980s. One of the most widely followed streams of research has been “micro-history,” anthropology-like studies of specific incidents in the lives of ordinary individuals that provide insight into past societies. It seems likely that methodological positions in history are again in transition (Luft, 2007, p.271). This means that it is portrayed as simply the subject of antiquarian interest to ‘the traditionalist’ historians, who ‘decontextualize accounting’ by fruitlessly focusing on its ‘mechanical, procedural and technical aspects’. And there is also an emerging consensus amongst accounting historians that technical practices such as bookkeeping can play a crucial role in shaping beliefs. For example Miller and Napier portrayed accounting as part of the ‘disparate and variable’ assemblage of calculative practices that help create order in society (Oldroy and Dobie, 2008: p.1).

1.1.3. Accounting, Sociology and Rationalization

After a long period of neglect, the roles of accounting in shaping the economy are currently being rediscovered by sociologists. This neglect is curious, in so far as accounting was accorded a pivotal role at the outset of the sociological enterprise.(Miller, 2007, p.285). Economic action, according to Weber, is capitalistic in so far as it depends on an expectation of profit through the utilization of opportunities for exchange. And this ‘rational’ pursuit of profit required as its counterpart calculations in terms of capital. The modern, rational organization of capitalistic enterprise would not have been possible, Weber argued, without the calculative practice of bookkeeping. Accounting, in the sense of both budgetary management and capital accounting, was central to his analysis of the sociological conditions of economic activity (Miller, p.286). Prior to Weber, Marx had also signalled the importance of the relationship between accounting or bookkeeping and capitalism. According to Marx, bookkeeping is depicted as a deduction from the productive process, albeit an essential part of the circulation process. The machinery of the office, which includes labour power, thus mirrors the movement of value through the productive process. Marx did not accord accounting as central a role as did Weber. But for both, accounting helps define the social and economic relations that define a society; thus did the interrelation between accounting and sociology commence (Miller, p.287).

1.1.4. The Relation between Historical, Sociological Criticism and Accounting and Cultural and Environmental Factors

International Accounting research has developed within a range of a paradigms, from the “*technical*” at one extreme to the “*cultural*” at the other extreme. The development of accounting may be explained in terms of both cultural and environmental factors. Culture and the environment are both factors that shape the context in which accounting operates, and the recognition of the impact of culture on accounting is a significant contribution of the international accounting literature. Then the idea of culture is not just a potential explanatory factor for accounting, our cultural background shapes our examination of the historical evidence, while the evidence itself emerges against its own cultural backgrounds. As Merino mentioned, ‘*all source material must be viewed as a reflection of the culture*’ (Carnegie & Napier, p.699).

2. Is it Historical Jogtrot or Historical Evolution? What is the Truth for China?

Periodization is a procedure that is rooted within specific cultures. Periodization can, by highlighting the differences between different eras, be used to emphasize the alleged deviations of present practices and institutions (Toohey, 2003, pp.210-212). It may be said that the evolution periods for China in social way ranked as follows:

- dynasties period,
- republican revolution period (*the term can also refer to the 1911 Xinhai Revolution that led to the establishment of the Republic of China*),
- communist regime period,
- cultural revolution period,
- “*opened-door*” policy period,
- the last period (*becoming capitalist*)

2.1. Monadology of the Chinese Spiritual Canon

One of Leibniz’s monad as an entelechy was situated in his book named *Novissima Sinica*-New China which mentioned Chinese mental that (Cook & Rosemont, 1994: p.59-61):

“In the cult which the Chinese display towards Confucius and other deceased worthy of merit, especially their own ancestors, it apparently happens that there are rites which many elsewhere would view as religious ones. But it is quite certain that these symbols are mostly so ambiguous that their veneration can be seen as some sort of political cult, like emperors... We indeed know the Chinese people have gone to more extremes in ceremonial pomp than other nations, and in this regard they have fallen into excess. But such excesses do not require a strict interpretation. Therefore one must examine their opinions on souls on the basis of the appropriate evidence. This is especially important if according to the writings canonized by scholars, one could demonstrate that the literati thought that the souls of Confucius...”

China has experienced an historical evolution which was related to culture, but it has also kept its beliefs, values as the soul of Confucius. Confucius was not simply one philosopher among many; his defense and enhancement of the early Chinese heritage caused him to be seen as the symbol of Chinese civilization, and he was consequently revered even by those whose views were different (Daoists and Buddhists), and by those who could not read the writings which contained those views (*the common people*). Thus, the spirit of Confucianism was reflected strongly in the writings and actions of Confucian philosophers, and in addition, it thoroughly permeated the entire fabric of Chinese culture (Cook & Rosemont, pp.20-29).

2.1.1. The Living Soul and the Shapes of Things for Accounting

“*Accounting must be proper*”, said Confucius, famously alluding to the long-standing importance in China of reliable and accurate accounting (Fiducia, 2004). Confucius was a manager of warehouses and his writings mention that the job included proper accounting—keeping the records of receipts and disbursements up-to-date. Among the teachings of Confucius is the imperative to keep history, and accounting records are viewed as part of that history (Gray *et. al.*, 2001). The soul of Confucius guides the people of China to reshape their

social life in every phase of the evolution. For example, the evolution of bookkeeping methods is one of the main features in the advance of Chinese accounting over several thousand years. Beyond the last era, it was seen that the rise and fall of the 'increase-decrease' bookkeeping method which was the main characteristics of Chinese bookkeeping, and also was contended that the increase-decrease system was a continuing innovation of the Chinese-style bookkeeping and an attempt to adapt the western bookkeeping system in terms of the Chinese social and cultural traditions (Lin, 2003).

This evolution of Chinese accounting over its long history did not occur without the promulgation of many accounting and finance writings and theories. The idea of "spending no more than income" was adopted during the Western Zhou Dynasty. During the Western Han Dynasty, the difference among profit, expense, cost, and principal was recognized. During the Song Dynasty, many articles were written on how to reduce redundant expenses, of which some proposed making use of accounting data. The scope of discussion was broadened in the Ming Dynasty to become a theory of broadening revenue sources and reducing expenditures. The Ming Dynasty also saw the development of warehouse management theory to include elements of accounting, cross-checking, auditing, and operations management. During the Qing Dynasty, there were debates over government budgeting and final accounts (Chow *et. al.*, 2007, p.925).

In summary, over the course of China's history, the use of accounting in management had evolved to include multiple strands, encompassing (Chow *et. al.*, p.926):

- internal checking,
- external auditing,
- design of accounts and reports,
- design of accounting and auditing organizations,
- bookkeeping methods,
- specific control methods such as budgeting and
- standard costing,
- financial management theories and principles, and
- stipulation of accounting, auditing and other economic
- management regulations

2.1.2 Guanxi or Chinese Ideology

Guanxi is a sociological term that describes a subset of Chinese personal connections between people (relationships) in which one individual is able to prevail upon another to perform a favor or service and it lies in the skillful mobilization of moral imperatives in pursuit of diffuse and calculated instrumental ends (Langenberg, 2007, p.1).

An important institutional feature of these Asian economies is the dominance of family ownership in enterprises of all sizes, including large listed corporations. Usually one family holds investments in various public and private enterprises that are tied together by complex cross-holdings and personal or kin relationships. Many of these family groups are of Chinese origin, reflecting the significance of families in traditional Chinese ideology. The Chinese system of personal networking (guanxi) revolves around informal relationships rather

than formal legal contracts. The predominance of networked family business groups is both due to and a cause of less developed capital markets: private networks and public markets are alternative contracting systems (Ball *et. al.*, p.243).

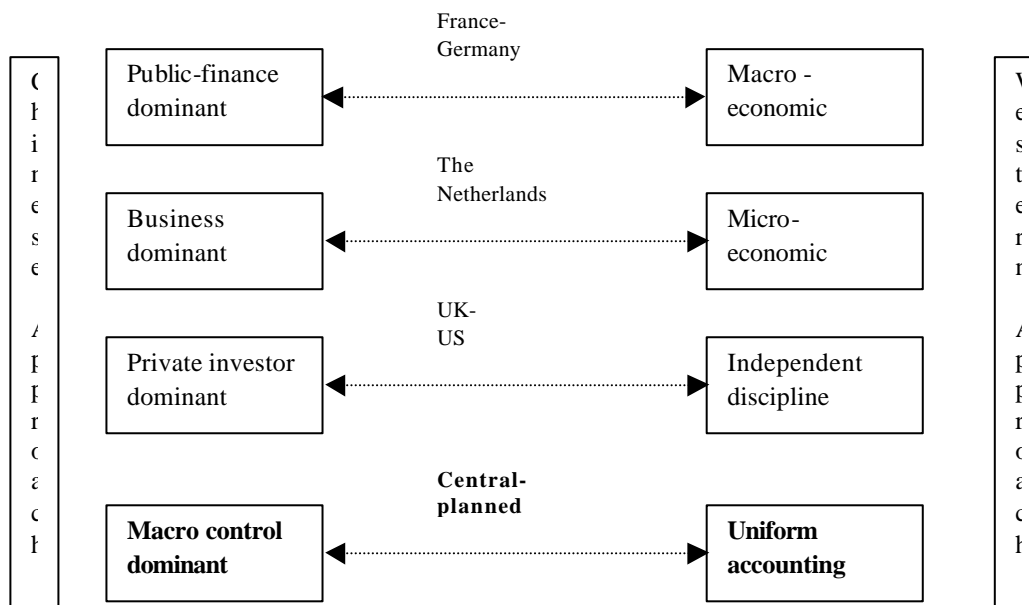
A related institutional factor that also reduces the demand for public financial reporting and disclosure in these countries is the prominence of banks as suppliers of capital, together with the banks' close ties to company groups. Banks generally play a very important role in providing capital in economies at an early stage of development, as is the case in these countries. The abundance of family owned businesses also contributes to the importance of banks, because family controlled firms tend to have a preference for internal funds and bank loans over public equity and debt, even in Hong Kong where the financial markets are more developed. Similar to code-law countries, the importance of privately informed banks, and the commensurably lower importance of individual shareholders and public debt, reduces the demand for high quality public financial reporting and disclosure (Ball *et. al.*, p.243).

3. History of Chinese Accounting in the Last Century

3.1. International Classification: Chinese Accounting System

It is obvious that different models of accounting systems are adopted in different countries because of different economic backgrounds and accounting goals. According to Mueller, four distinct patterns or approaches to accounting systems are classified, they are: macroeconomic pattern, microeconomic pattern, independent discipline pattern, and uniform accounting pattern. These patterns are closely linked to the relevant environmental factors of a nation, such as economic development, business complexity, political and social climates, and legal systems. A similar approach is also held by Chinese professions. Correspondingly, four models can also be identified, they are public finance-dominant model, business-dominant model, private-investor-dominant model, and "macro control-dominant model". Regarding the classification of world accounting and reporting systems, Chinese and the Western scholars have reached a consistency in general, even with some little divergence when allocating countries to categories. However, this issue has always been a debate; these four patterns of world accounting systems can be portrayed as follows in *Figure 1* (Ma & Ning, 1999: pp108-109):

Figure 1-The Chinese and the Western Approach of International Classification of Accounting System



The “macro-control-dominant model” identified as the uniform accounting pattern which includes the central-planned economy countries, such as, the former Soviet Union, China (in old times), and other socialist countries most of the time. Under this pattern, accounting is viewed as an efficient means of administration and control. These countries ordered the accounting standards in the form of rules, regulations, and codes, and put much stress on accounting information serving the macro-control and direct-control of the economy. Uniformity, mandatory and generally little freedom on method options are the characteristics of this model. Accounting’s function of serving the investor is weakened and the role of accounting information in directing capital flow is largely restrained (Ma & Ning, 1999: pp110-111).

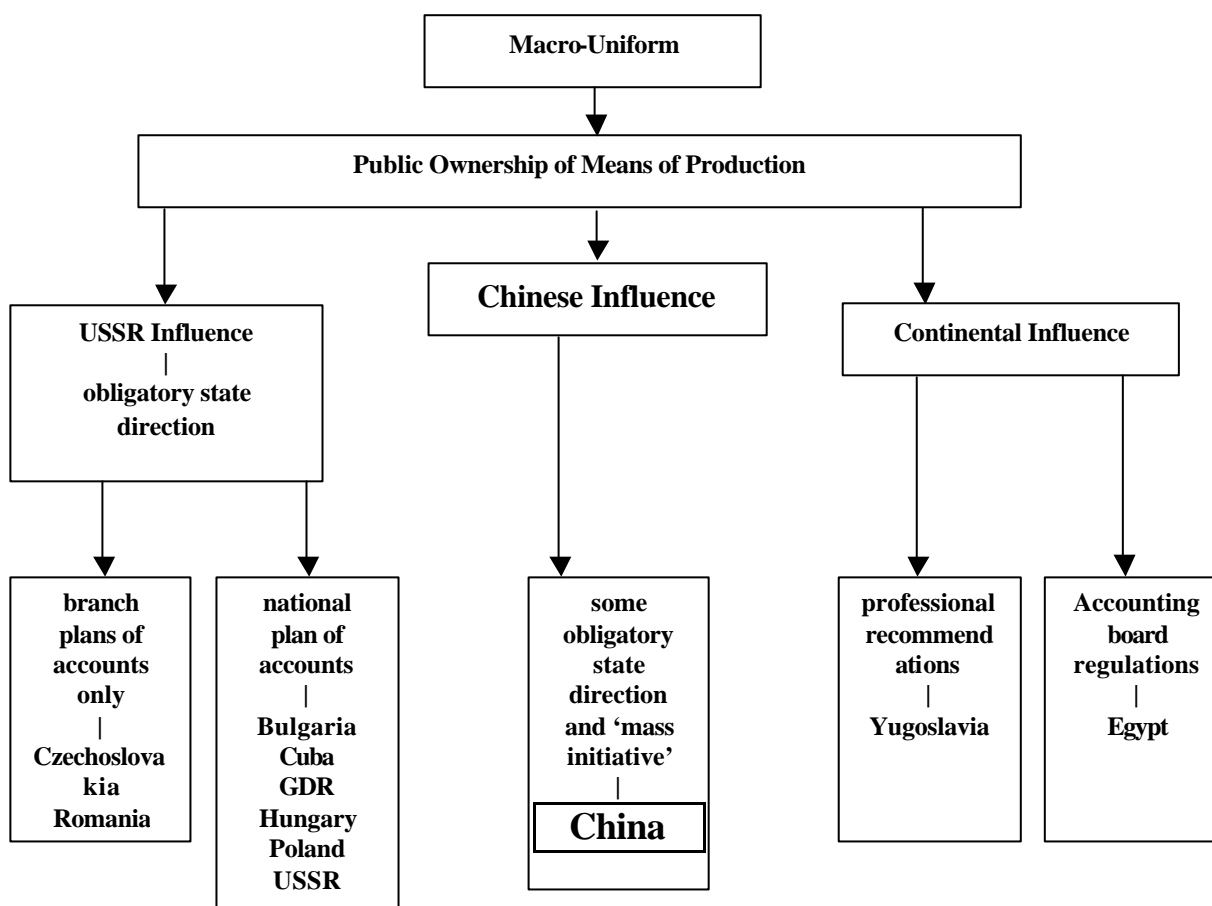
The development of China’s accounting stopped and changed to a new direction in 1949, when the Chinese Communist Party established People’s Republic of China (Zhang, p.70). It was the new phase of Chinese accounting. China mainly adopted examples from the Soviet Union at first and drew up accounting regulations for various levels of economic departments. China corrected and improved on these examples in the light of China’s specific conditions and requirements, and simultaneously adopted good ideas in accounting from the west. China established a unified accounting system with specific Chinese cultural characteristics (Zhao, p.184).

In addition, Maoist advocated the policy of self-reliance and rejected western learning as undesirable. In order to facilitate a Soviet-style centrally planned economy, the Chinese accounting system during the Maoist era was largely a macro-oriented system with control focus. Its primary function was to provide financial information on the use of state funds to

both the enterprise management and government ministries. Little attention was given to profit measurement and the long-term viability of economic entities (Auyeung & Ivory).

Although Bailey suggested the classification of communistic accounting in the era of later Mao, he could not generally in *Figure 2* what the macro-oriented system explained for accounting classification and where the Chinese Accounting situated is, as follows (Nobes, p.129):

Figure 2-Classification of Communist Accounting



3.1.1. The Era of Mao and Communist Accounting System

After the birth of the new China, accounting scholars instigated a nation-wide debate about the national characteristics and the scientific virtues of bookkeeping methods (Chen, 2006). The Ministry of Finance was established within the Central Government in 1949 as the department in charge of accounting affairs, and commenced to unify the variety of accounting systems inherited from the old society (Zhang, p.75).

New accounting system considered the characteristics of State-operated economy and the demands of State's finance and financial management. It was a mixture of scientific methods which were taken from Western accounting theory and Soviet-type accounting (Zhang, p.76).

The private sector had disappeared in the 1950s, and the Chinese national economy relied mainly on state-owned companies (SOE). The CPA system also came to be canceled. Accounting issues were the responsibility of the Accounting Rule Division created in late 1949 at the Finance Ministry, which gradually introduced the unified accounting system devised by the Soviet Union. This accounting system relied on physical quantities and had the following objectives (Chiapello & Ding, 2005: p.16):

- determining production quotas,
- controlling limited resources,
- allocating scarce resources between production activities, and
- reporting on production results and State funds.

The “Great Leap Forward” (1958-1961) saw the establishment of popular communes, rapid collectivization and control of communal administration by the Party representatives. The plan emphasized labor-intensive industrialization, typified by the construction of numerous small steel mills rather than one large mill. This period also saw the introduction of “*accounting without books*”. Accounting ledgers and journals were eliminated, causing great disruption to both the existing production-oriented accounting system and to accounting education (Chiapello & Ding).

Starting in 1966, debit-credit bookkeeping was abolished and replaced by the newly minted increase-decrease method in the merchandising sector. Shortly after the birth of the increase-decrease method, the Cultural Revolution quickly swept the country. The increase-decrease bookkeeping uses the words “increase” and “decrease” as bookkeeping labels, and records increases in any account on the left side and decreases on the right side in order to maintain a balance between fund applications and sources. With accounts classified according to the accounting equation and opposite recording rules for asset accounts and liability/equity accounts, debit-credit bookkeeping is able to maintain a balance between debits and credits in a single transaction, in all transactions together, and in account balances (Chen).

Mao Zhedong initiated the Cultural Revolution in 1966, following five years of natural disasters during which the Chinese economy suffered enormous losses and agriculture and manufacturing almost totally collapsed. The stated purpose of the Cultural Revolution was to eliminate all traditional Chinese culture; the real purpose, however was to cleanse the Communist Party of all of Chairman Mao’s political opponents. This Revolution completely destroyed the weak Chinese economy. Production of goods and services, government affairs, and education all came to a halt. Development of the accounting system was suspended (Chiapello & Ding).

3.1.2. Effects of Communist Culture on Chinese Accounting

The characteristics of a communist system are identified (Chiapello & Ding, p.13):

- collective ownership of production resources, supposed to result in abolition of exploitation;
- there is only one social group in relation to the manufacturing process: everyone is a worker. There is no income from work

- the value produced by the work must be returned to the worker either directly in the form of remuneration, or indirectly in construction of collective services for the benefit of the greatest number (education, leisure facilities, etc). The concept of profit as appropriation by the owner of the enterprise of the surplus value is abolished
- abolition of the market mechanisms, and general coordination through planning
- transformation of mechanisms for price determination; prices are set centrally and remain fixed for a given period

These fundamental ideological elements of soviet accounting were going to influence strongly all the means of accounting control, whether accounting plans, balance sheets, and income statements or, in a wider sense, audit techniques.

Table 1 summarizes the information on the contrast between capitalist and communist systems, and issues raised for examination regarding their reflection in accounting (Chiapello & Ding, p.14):

Table 1-The Comparison of Capitalist and Communist Economic Systems, and the Transposition of the Differences into Accounting Terms

Capitalism	Communism	Effect on accounting
Part 1: Definition of business entity		
Focuses on accumulation of capital. Capital invested should give rise to profit, which is reinvested in business to generate further profit the following period.	Organized so as to produce goods necessary for the people by means of centralized planning of production and exchanges between companies.	Definition of the accounting entity Role of accounting Concept of capital and definition of the company's economic income
Part 2: Role of market		
There is a market and companies operate in competition. Prices depend on supply and demand. Uncertainty of the markets.	There is no market; businesses are coordinated into hierarchical systems. Prices are fixed bureaucratically.	Signification of receipts and expenses recorded Role of accounting Conservatism principle
Part 3: Capital Accumulation and private ownership		
The funds required for economic activity come from private providers of capital. The reinvested profit is amalgamated with the initial private capital, and belongs to the same owners. The economic income of individuals comes from their work or their capital and varies widely.	The funds required for economic activity come exclusively from the State. Profit is abolished. The only income is income from work, and the range of incomes is narrower. The distribution of wealth is egalitarian and includes a wide range of social services.	Format and definition of balance sheet liabilities Definition of the company's economic income Methods used for distribution of income Accounting treatment of workers' incomes

For example, the concept of profit has no meaning if applied to the communist world. Communist accountants are incapable of measuring such a concept. To do so, the economic entity would need to have a certain type of boundary, with profit as one of its results. Particular rules for remuneration of the various parties involved would also be required, and monetary valuations of economic flows registered would have to be at least partly based on market mechanisms. Its status as a measurement of a single entity's performance presupposes that there is a capacity for free enterprise inexistent in communist economic structures. Accounting is a reflection of all the principles governing an economy.

The transition from a "communist" economy to a "capitalist" market economy is a generic term covering a phenomenon whose actual form varies according to factors of a political, historical and cultural nature, and depending on the level of social and economic development or regional and international integration (Chiapello & Ding, p.15).

3.2. 'Open Door' Policy: New Accounting Era with Deng

Press with the vital problems of widespread poverty and dire backwardness for thirty years of Communist rule, Deng challenged Mao's political rationality and improved a new policy called 'Open Door'. In addition, China enacted numerous commercial laws in the early years of Deng's modernization movement: The Equity Joint Venture Law, The Foreign Enterprise Law, The Patent Law, The Trade Marks Law, The Corporations Law, various tax laws (Auyeung & Ivory, p.22).

Deng's transformation of China is named as '*socialist market economy with Chinese characteristics*' (Rask *et. al.*, 1998: p.78). As China develops a new economic system, labeled as 'socialist market economy', it has chosen to liberalize the economic sphere while maintaining a tight grip on the state-owned core. Reforms have been carried out incrementally by sector, beginning with agriculture and extending to the industrial sector. This method of initiating institutional change on the margin has resulted in higher growth rates during the transition than those achieved by more radical alternatives which emphasized privatization at the expense of institutional development. The efficient provision of strategic services, including information services such as accounting, is the key of sustaining momentum in transition. Under the command structure, prices were set by a central pricing board relying on cost data provided by an accounting system designed to report aggregate statistics regarding plan fulfillment. Cost calculations were therefore relatively inaccurate and subject to political manipulation. As the transformation to a market economy progresses, setting meaningful prices requires that cost accounting be developed into an independent discipline and not merely an appendage of a rigid financial reporting system (Rask *et. al.*, 1998: p.80).

3.2.1. Impacts of Economic Transition on Chinese Accounting

The impacts of economic transition on Chinese accounting were described at three topics: the definition of business entity, the role of the market, and the accumulation of capital (Chiapello & Ding, p.19). The development of autonomous enterprises was intended to lead to redefinition in accounting terms of the boundaries of the firm. In practical terms, to limit the horizon of accounting to the boundaries of each enterprise separately negated the concept of a unified accounting system orientated mainly towards macro-economic needs. The business entity concept, under which an enterprise is deemed to exist independently of its

owner for the purposes of external financial reporting, is less relevant under central planning than in a market economy. In communist China, the national economy or a sector of the national economy was the accounting entity, rather than the individual enterprise, which was represented by an accounting sub-entity (Chiapello & Ding, p.20).

3.2.2. Reforms in China: Comparison Between Pre-Reform and Post-Reform

Since 1949, China's economy has undergone three periods of change, a socialist, centrally controlled, planned economy (1949-1978); socialist commodity economy (1949-1978); and socialist market economy (1992-present). In accordance with the development of China's economy, the development of China's accounting system has also experienced change: the "uniform accounting system" (1949-1978), which served for the centrally planned economy; the transition and the construction of accounting norms (1978-1992); which served for the commodity economy; and the construction of new accounting system (since 1992), which served for the socialist market economy (Zhang, p.70).

The 1992 reform reconstructed the financial reporting system. It can be summarized in four points: replacement of the fund balance statement by an Western-type balance sheet; introduction of a statement of changes in financial position; reduction of the number of statements, including the abolition of the cost and charge structure statement; compulsory inclusion of the notes and ratio analysis (Chiapello & Ding, p.23). *Table 2* compares the old and new systems (Tang & Lau, 2000: p.89).

Table 2-Types of Financial Statements at Chinese Pre-reform and Post-Reform Times

PRE-REFORM ACCOUNTING SYSTEM	REPORTING FREQUENCY	POST-REFORM ACCOUNTING SYSTEM	REPORTING FREQUENCY
Fund balance statement	Monthly	Balance Sheet	Monthly
Statement of amount not submitted and amount not covered by the state	Monthly	Income Statement	Monthly
Statement of increase and decrease fixed assets and current funds	Yearly	Statement of changes in financial position	Yearly
Income Statement	Monthly	Statement of allocation of profit	Yearly
Statement of detailed profit from sale of products	Yearly	Statement of detailed revenue and expenditure of major operation	Yearly
Cost Statement for commercial products	Monthly		
Statement of unit cost of major products	Quarterly		
Statement of production expense	Monthly		
Statement of detailed workshop and administration expense	Quarterly		
Statement of specific funds and specific appropriation	Quarterly		
Statement of capital construction loan and specific loan	Yearly		
Statement of increase and decrease in state funds in closed and suspended enterprises	Monthly		
Statement of detailed administration expenses funds in closed and suspended enterprises	Monthly		

The evolution toward market economy in China overwhelm totally the old accounting system in different aspects, such as the revenue recognition, the cost structure and wages, conservatism and provision, fixed assets, etc. For example; fixed assets on a Chinese communist enterprise's balance sheet included equipment, buildings, machinery and any other long-term assets costing. Land could not be included in the balance sheet, because the State was considered the country's only legitimate owner of land. Assets were valued according to the strict historical-cost principle, with sporadic revaluations based on the national economic plan (Chiapello & Ding, p.26).

The recognition of the capital in China after the economic reform changed totally the function of financial statements, both for balance sheet or for income statement. In the communist economic system, one of the main accounting functions was to safeguard property owned collectively by society and entrusted to enterprises. The balance sheet was then used to show the structure of the state-allocated funds (on the liabilities side) and the status of these

funds in the firm (on the assets side). *Table 3* indicates the changes of formats in balance sheet after the transition economy in China (Chiapello & Ding, p.26):

Table 3-Changes of Balance Sheet Format at Pre–form and Post–Reform Times

PRE-REFORM ACCOUNTING SYSTEM FUND BALANCE STATEMENT		POST-REFORM ACCOUNTING SYSTEM BALANCE SHEET	
Fund Application	Fund Source	Assets	Liabilities & Equities
Fixed Assets	Fixed Funds	Current Assets	Current Liabilities
Current Assets	Current Funds	Fixed Assets	Long Term Liabilities
Specific Assets	Specific Funds	Intangible and Other Assets	Owners' equity
Total	Total	Total	Total

3.3. Transition and Towards the International Standards

The Accounting Society of China was reorganized in 1980. Starting in the mid-1980s, the Chinese government hastened economic reform and adopted more liberal economic policies as it moved the nation towards a market-oriented economy. Two significant changes emerged. First, foreign investment rose dramatically with an increasing number of foreign companies establishing operations in China, both through joint ventures and other forms of direct investment. Distinct from previous policy that required Chinese partners to have a majority equity holding in a joint venture, foreign investors were allowed and were actually encouraged to become majority equity holders or to found wholly-owned businesses in China (Chen).

The Chinese Institute of Certified Public Accountants was established in 1988, and the State Auditing Bureau was set up in 1993. Many accounting standards were issued to harmonize Chinese accounting with international practices, including the Accounting Law in 1985, then revised in 1993 (Auyeung & Ivory, p.26).

The Accounting Law set out accounting responsibilities, accounting procedures, and legal responsibilities for state-owned enterprises. 1993 amendment widened the Law's scope to include all business and government organizations (Narayan & Reid, 2000: p.23). The 1999 amendment of Accounting Law clarified the respective roles and responsibilities of the State, organization managers, and accountants for accounting procedures to emphasize the importance of 'true and complete view' of accounting information.

In 2001, Chinese accounting system underwent another significant turning point - reunifying diversified accounting standards into a uniform system. (Jiang, p.8). The Ministry of Finance issued a new comprehensive "*Accounting System for Business Enterprises (ASBE)*". This new ASBE replaced the original different accounting system used by *Joint Stock Limited Enterprises (JSLE)* and *Foreign Investment Enterprises (FIE)*. From January 2002, all JSLE (including listed companies) and FIE started to follow one unique accounting system in China.

Meanwhile, the Ministry of Finance also announced its expectation of requiring all *Small and Medium Enterprises (SME)* as well as *State-owned Enterprises (SOE)* to adopt this new system overtime. From this point of view, this new system would eliminate the inconsistency of different industrial accounting regulations and enable the financial statements of different types of enterprises to become more comparable (Jiang).

3.3.1. Evaluate and Compare Chinese Financial Reporting Rules with IAS and Other Countries

After the process of socialist marketing economy have been activated, government and other organizations began to use double-entry bookkeeping and all transactions are recorded accrual basis. Not-for-profit organizations, such as health and education bodies, have recently moved to modified accrual accounting. All organizations prepare balance sheets and record non-cash adjustments, such as depreciation and provisions for bad debts (Narayan & Reid, 2000: p.28).

Although a generation of economic restructuring has brought about significant changes in the Chinese accounting system, it has had some way to go before it continued to conform to international accounting standards. The influence of macro-economic approach was felt and Chinese accounting practices differed from international practices in many areas, such as financial reporting requirements, inventory measurements, intangible assets and contingent liabilities (Auyeung & Ivory). Differences in financial reporting practices and accounting standards can be significant between countries.

The factors that influence the development of accounting practices and the differences between countries in terms of these practices, including such as the nature of a country's legal system, the prevalent providers of finance, the influence of taxation, and the strength of the accountancy profession. IASs have been developed to reduce national differences in accounting and financial reporting practices.

In recent years, many countries have either adopted IASs completely or have modified IASs to suit their particular national requirements. A survey in 1999 examined the extent to which countries use IASs – the survey results, which have been updated for the countries involved in this study, are presented in *Table 4*. It is very significant evaluation for Chinese Accounting to determine the characteristic of its system (IASC, 1997).

Table 4-Use of International Accounting Standards

Use of IASs	Countries
<i>IAS used directly</i>	
*as national standards and explanatory material is added.	Croatia, Cyprus, Kuwait, Latvia, Malta, etc.
*national standards are developed for topics not covered by IAS and explanatory material added.	Malaysia, Papua New Guinea
*as national accounting standards but, in some cases, may be modified for local conditions and circumstances.	Albania, Bangladesh, Barbados, Colombia, Jamaica, Jordan, Kenya, Poland, Uruguay, Zambia, etc.
<i>National Standards Based on IASs</i>	
*National accounting standards are separately developed but are based on, and are similar to, the relevant IAS. National accounting standards generally provide additional explanatory only.	People's Republic of China , Iran, Philippines, Slovenia, Tunisia, Uzbekistan
*National accounting standards are separately developed but are based on, and are similar to the relevant IAS, in most cases. However, some standards may provide more or less choice than IASs.	Brazil, Czech Republic, Turkey, France, India, Ireland, Lithuania, Mauritius, Mexico, Namibia, Netherlands, Norway, Portugal, etc.
*National accounting standards are separately developed but are based on, and are similar to the relevant IAS, in most cases. Each standard includes a statement that compares the national standard to IAS.	Australia, Denmark, Hong Kong, Italy, New Zealand, Sweden, etc.
<i>IAS used informally</i>	
*National accounting standards may or may not exist, but IASs, while not formally adopted, is usually used for private sector reporting.	Botswana, Romania, Vietnam, Cambodia, Lesotho
<i>National Accounting Standards are separately developed</i>	Austria, Belgium, Canada, Finland, Germany, Japan, Korea, Luxembourg, Spain, United Kingdom, United States

Of the options presented in *Table 5*, the authors support the direct or modified use of IASs for three reasons. Those countries that have opted to modify IASs will incur significant costs as they absorb the impacts of these additional standards(IASC).

Table 5-Nobes and Parker's Classification of Accounting Practices by Country Grouping

Accounting System	Accounting Model	Features	Countries
Uniform Accounting Plans	<i>Soviet Union</i>	*government driven *dominant by statistics and taxation requirements *accounting practices are statute-based *accountancy profession is not required	People's Republic of China , Mongolia, Russia, Uzbekistan
	Continental European	*government driven *dominant by taxation requirements *accounting practices are statute-based	Belgium, Cambodia, Germany, Vietnam, Venezuela, Italy, Spain, Sweden, Switzerland, France,
	Latin American	* "castilian model" *very similar to continental European model	Argentina, Bolivia, Chile, Colombia, Ethiopia, Paraguay, Peru, Uruguay
Standard Based Accounting	British Commonwealth	*commercially driven *overriding rule is that financial statements show a fair picture *Accounting practices reflect, and develop with, business practices *Professional regulation dominates.	Australia, Ireland, India, Fiji, Bahamas, Jamaica, Kenya, Netherlands, New Zealand, Pakistan, Papua New Guinea, United Kingdom, etc.
	United States	Same as Commonwealth Model except that: *Professional regulation coexists with extensive regulated disclosure	Canada, Japan, Mexico, Panama, Philippines, United States

3.3.2. New Accounting Standards and Convergence

China has adopted IFRS. By the early 1990s, accounting standards were mainly determined by the needs of state planning for most enterprises, except joint ventures involving foreign partners. However, financial reporting standards were gradually developed with many references to IFRS, since 1998 under the direction of a new body, the China Accounting Standards Committee. In November 2005, this committee decided to eliminate most of the remaining differences, and adopted the corresponding standards in February 2006(Veron, 2007: p.20).

The Ministry of Finance issued a series of new and revised Accounting Standards for Business Enterprises (the “New Accounting Standards”) on 15 February 2006. The New Accounting Standards include the revised Accounting Standard for Business Enterprises-Basic Standard (the “Basic Standard”), 22 newly-promulgated accounting standards and 16 revised accounting standards. It marks the establishment of a new system of Chinese Accounting Standards, which suits the development of China’s market economy and convergence with international practices. The basic standard is effective at the beginning 2007, while the 38 specific accounting standards are effective in 2007 for listed companies. Other companies are also encouraged to adopt them. In *Table 6* on the next page is shown the comparison of IAS-IFRS with Chinese new Accounting standards set (Ernst & Young, 2005: pp.1-3).

As a result, the standards applicable, from January 2007 on, to some 1,200 companies listed in Shanghai and Shenzhen are considered near-identical to IFRS. The main remaining difference is on ‘transactions with related parties’, which can hardly be comprehensively reported because the pervasive presence of the Chinese state makes it difficult to mention them all. In China, however, any reference to financial statements prepared ‘in accordance with IFRS’ needs to be taken with a pinch of salt. The most daunting challenge there is not the standards’ adoption, but their proper enforcement in a context of massive underdevelopment of the accounting profession (Veron, p.22).

4. Conclusion

International Accounting research has developed within a range of a paradigm, from the “*technical*” at one extreme to the “*cultural*” at the other extreme. The development of accounting may be explained in terms of both cultural and environmental factors. Culture and the environment are both factors that shape the context in which accounting operates, and the recognition of the impact of culture on accounting is a significant contribution of the international accounting literature.

This paper is situated what the effects of socio-cultural elements on Chinese Accounting towards the millennium, and it is also attempted to be given evaluation of culture on Chinese bookkeeping practices by using comparative differentiations in accordance with time and space variables.

In the last century of Chinese Accounting History, accounting practices have been deeply rooted in the rules of the Maoist ideology. The protection of socialist assets is specified the within Accounting Law. Institutional entities are shaped by this collective aim. Accountants are responsible for both state government and enterprise managers. But the accounting was almost regarded as corrupt by the government in Mao’s Era. Mao obstructed accounting education to defend the communist regime against capitalist policies. As a matter of fact, the development of China’s accounting stopped and changed to a new direction in 1949, when the Chinese Communist Party established People’s Republic of China and it was the new phase of Chinese accounting.

Table 6-Chinese New Accounting Standards published in 2006

Chinese ASBE	IAS-IFRS	Chinese ASBE	IAS-IFRS	Chinese ASBE	IAS-IFRS
Basic Standards	Conceptual Framework	13. Contingencies	IAS 37	26. Reinsurance Contracts (new)	IFRS 4
1. Inventories	IAS 2	14. Revenue	IAS 18	27. Extraction of Petroleum and Natural Gas (new)	IFRS 6
2. Long-term equity investment	IAS 27,28,31,39	15. Construction Contracts	IAS 11	28. Changes in Accounting Policies and Estimates, and Correction of Errors	IAS 8
3. Investment Property (new)	IAS 40	16. Government Grants (new)	IAS 20	29. Events after the Balance Sheet Date	IAS 10
4. Fixed Assets	IAS 16	17. Borrowing Costs	IAS 23	30. Presentation of Financial Statements (new)	IAS 1
5. Biological Assets (new)	IAS 41	18. Income Tax (new)	IAS 12	31. Cash Flow Statements	IAS 7
6. Intangible Assets	IAS 38	19. Foreign Currency Translation (new)	IAS 21	32. Interim Financial Reporting	IAS 34
7. Ex-change of Non-monetary Assets	There is no separate standard under IFRS	20. Business Combinations (new)	UFRS 3	33. Consolidate Financial Statements (new)	IAS 27
8. Impairment of Assets (new)	IAS 36	21. Leases	IAS 17	34. Earnings per Share (new)	IAS 33
9. Employee Compensation (new)	IAS 19	22. Recognition and Measurement of Financial Instruments (new)	IAS 39	35. Segment Reporting (new)	IAS 14
10. Enterprise Annuity Fund (new)	IAS 26	23. Transfer of Financial Assets (new)	IAS 39	36. Related Party Disclosures	IAS 24
11. Share-based Payment (new)	IFRS 2	24. Hedging (new)	IAS 39	37. Presentation of Financial Instruments (new)	IAS 32 IFRS 7
12. Debt Restructurings	There is no separate standard under IFRS	25. Direct Insurance Contract (new)	IFRS 4	38. First Time Adoption of International Financial Reporting Standards (new)	IFRS 1

The protection of socialist assets is within Accounting Law. Institutional entities are shaped by this collective aim. Accountants are responsible for both state government and enterprise managers. The Chinese accounting system during the Maoist era was largely a macro-oriented system with control focus. Its primary function was to provide financial information on the use of state funds to both the enterprise management and government ministries. Little attention was given to profit measurement and the long-term viability of economic entities.

The impacts of economic transition on Chinese accounting were described at three topics: the definition of business entity, the role of the market, and the accumulation of capital. The development of autonomous enterprises was intended to lead to redefinition in accounting terms of the boundaries of the firm. In practical terms, to limit the horizon of accounting to the boundaries of each enterprise separately negated the concept of a unified accounting system orientated mainly towards macro-economic needs. In addition, the evolution toward market economy in China overwhelm totally the old accounting system in different aspects, such as the revenue recognition, the cost structure and wages, conservatism and provision, fixed assets, etc.

Finally, political variables remains a core subject of Chinese life style and affects on economical behave, state government habits, accounting practices. But the cultural influence dominate on politics and economics. Because of the persistence of social and cultural values, Chinese implementation provides that the development of a western accounting system carry on modern business transactions with Chinese characteristic.

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LIST OF ABBREVIATIONS

- ASBE** : Accounting System for Business Enterprises
- FIE** : Foreign Investment Enterprises
- GAAP** : Generally Accepted Accounting Principle
- IAS** : International Accounting Standards
- IASB** : International Accounting Standards Board
- IFRS** : International Financial Reporting Standards
- JSLE** : Joint Stock Limited Enterprises
- MOF** : Ministry of Finance
- PRC** : People's Republic of China
- SME** : Small and Medium Enterprises
- SOEs** : State-owned enterprises

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