

**SEARCHING FOR THE ACCOUNTING FEATURES OF CAPITALISM:
AN ILLUSTRATION WITH THE ECONOMIC TRANSITION PROCESS IN
CHINA ¹**

Eve CHIAPELLO

Address: HEC School of Management
Department of Accounting and Control
78350 Jouy-en-Josas, France
Tel: +33 1 39 67 94 41
Fax: +33 1 39 67 70 86
E-mail address: chiapello@hec.fr

Yuan DING

HEC School of Management, Paris, France
China-Europe International Business School (CEIBS), Shanghai, China

Address: HEC School of Management,
Department of Accounting and Control,
78350 Jouy-en-Josas, France
Tel: +33 1 39 67 74 77
Fax: +33 1 39 67 70 86
E-mail address: ding@hec.fr

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Abstract:

In his famous work, *Der Moderne Kapitalismus*, Sombart (1916, p. 334) argues that capitalism and double-entry bookkeeping are indissociably interconnected. This assessment can easily be criticized and rejected nowadays, because Sombart was not able to anticipate what would happen afterwards: the double-entry bookkeeping accounting system was also adopted by anti-capitalist countries where a new economic system – the planned and centralized economy - was set up. This outcome shows how adaptable double-entry bookkeeping can be, and that it can be used in either a capitalist or communist context.

So if there really is a specifically capitalist accounting system, its blueprint must be something more than the double-entry bookkeeping technique consisting only of debiting an account and crediting its counterpart. What kind of economic concepts are put into action and conveyed by accounting in the context of capitalist countries? A study of how accounting has changed with the economic transition in China helps us identify those “accounting features” required for a capitalist economy that clearly differ from those needed for the planned and centralized economy.

Key words: capitalism, communism, accounting, China, reform, transitional economy

INTRODUCTION

In his famous work, *Der Moderne Kapitalismus*, Sombart (1916) argues that capitalism and double-entry bookkeeping are indissociably interconnected. This assessment can easily be criticized and rejected nowadays, at least because Sombart was not able to anticipate what would happen afterwards: the double-entry bookkeeping accounting system was also adopted by anti-capitalist countries where a new economic system – the planned and centralized economy - was set up. Furthermore, recent historical studies introduced into the English literature the fact that the double-entry method developed in China without the support of capitalism (Aiken and Lu, 1998). A Chinese double-entry framework emerged, using the Longmen and the Four Feet bookkeeping systems, three centuries before the First Opium War of 1840.

These facts indicate how adaptable double-entry bookkeeping can be, and that it can be used in different contexts. So if there really is a specifically capitalist accounting system, its blueprint must be something more than the double-entry bookkeeping technique consisting only of debiting an account and crediting its counterpart.

Our aim in this article is to construct an ideal-type of what we shall call "capitalist accounting features" as opposed to the accounting features typical of planned economies. These accounting features must contain all recognition, valuation and presentation rules required for the capitalist economy to function. We believe that accounting features reflect and – by this very fact – bring into material existence the principles governing economic systems. Accounting will be considered as a means of representing the way the economy works. What are the various economic entities, and what are their boundaries? What rules of economic exchanges govern the relationship between these entities (physical merchandise flows and "pure" monetary flows such as profit appropriation)? How are monetary valuations of the physical flows established? etc. An accounting system that closely follows the principles by which the economy works is also an illustration of the way that economy works. The actors in the economy can rely on the figures provided by accounting as a basis for decision-making and keeping the economic machine going. Seen in this light, accounting output is rather like a map of the economic territory, useful for organizing the actors' movements. Rules and practices differ from one economy to another, and accounting systems also differ. Particular attention is paid to the classification applied to economic flows in the various accounting systems, as there is a wide variety of ways to classify economic events, and the systems used are to be considered as a representation of the lines drawn in the worldwide economic playing field, organizing the "game" played between entities and economic actors within a given economy. The format of accounting statements is also informative as to what is considered relevant balances and subtotals. The aggregates presented in accounting documents indicate which figures count, i.e. at a deeper level, which economic concepts are influencing decision-making. Studying accounting features is an excellent first step to understanding how a given economic system works and the principles that apply. However, it must be borne in mind that these economic systems would quite simply not be able to function without these "accounting features"; the tools of modern economic action are precisely its accounting system, the concepts the accounts measure, and the calculations they make possible. Going further, we contend that it is quite simply impossible to construct a capitalist system without giving it a capitalist accounting system, which creates the cognitive instruments providing the means for capitalist action.

The question guiding our research is: What economic concepts does accounting in capitalist countries display beyond the variety of capitalist accounting systems? Thanks to the disappearance of the Communist Bloc, a rich field of evidence has opened up of the impact of transition from a communist type of accounting to a capitalist system (Richard, 2003, p. 332). This transition provides a unique opportunity to identify those “accounting features” required for a capitalist economy that differ from the accounting features in planned and centralized economies. The case of economic transition in China has some particularly interesting facets: China has followed a slower path of institutional change than most Eastern European countries (Rask, Chu, and Gottschang, 1998). Chinese politicians announced only at the beginning of the 1990s that their country was engaged in a process of transformation towards “a socialist market economy” (they still carefully avoided the word ‘Capitalism’, considered politically incorrect), whereas the process of institutional change had been engaged more than 10 years before (from 1978). What is happening in practice is that the economic sphere has been gradually oriented towards a free-market system, while the political arena has not been opened up. While in Eastern Europe the transition has generally affected all spheres of public life, and was initiated as much in order to change the political system as to transform the economy, the Chinese government is only changing what it considers must be changed to move towards a market economy.

The major change in accounting terms took place in 1993, not long after the announcement of the transition to a market economy (1992). A capitalist-type accounting system was introduced fairly early in the process, in fact before the introduction of other institutions necessary for a market economy. Given this sequentiality, and the specificity of the Chinese reform effort, it can be considered that the accounting change happened not because the country wanted to transform all its institutions at once into unthinking copies of western institutions so as to turn its back on communism as fast as possible, but because the reforms were quite simply vital for economic action in the new world. The Chinese authorities remain attached to the idea of a socialist society and can hardly be suspected of enthusiasm for capitalist countries' institutions; if they changed their accounting system, it was because they needed to, not just to imitate some admired model.

The accounting reforms in China will thus help us detect what we call the capitalist economy's “accounting features”. The aim of this article is not to give the full historical picture of accounting reforms currently taking place in China, but to build up a theoretical analysis bringing out the specific accounting features which differentiate capitalism from communism.

Before starting our analysis, it is important to emphasize firstly that our study scope is concentrated on the most common characteristics of capitalist accounting existing in all Western countries, above the diversity among different models of capitalism, for example we exclude from our study the issues like intangibles (raising debates still within the capitalist sphere), or like those linked to the capital market (one of the variance of capitalist system). Secondly, our analysis field covers the evolution of accounting regulation in China. We believe that the evolution of accounting regulation is more suitable than that in practices to discover the capitalist economy's “accounting features”. Since financial accounting is a highly regulated field in every country in the world, by observing which direction given and which accounting options chosen by the Chinese regulation, we can clearly record how the changes in economic system “pushes” Chinese authorities to reorient its accounting system, and so to adopt “accounting features” belonging to capitalist economy.

This article is composed of three parts. Part 1 analyzes the main features of capitalist and communist economic systems and develops a theoretical framework for our search to identify "capitalist accounting features" from the Chinese accounting reform process. Part 2 focuses on the history of economic transition in China and the evolution of its accounting system. The paper then describes the impact of economic transition on Chinese accounting in three specific fields (Part 3): the definition of business entity, the role of the market and the accumulation of capital. Each field begins with a description of accounting features in the communist economic system and capitalist economic system respectively, and the accounting reforms involved in the transition from the communist system to a capitalist system.

1. CAPITALIST VERSUS COMMUNIST ECONOMIC SYSTEMS

This part presents the archetypes of the two economic systems referred to above: capitalism and communism (planned and centralized economies). This definitional basis is vital for the pursuit of our objectives, as we must determine which specific characteristics of economic systems that we call capitalist qualify a system for that label. Once defined, we will seek to relate these characteristics, and these characteristics only, to concepts and practices used in accounting classification and presentation. The specificity required of these typically capitalist characteristics is that they must be common to all countries considered capitalist, not restricted to a small number of countries (for that would lead us to focus on one particular type of capitalism only). In the case of China, this work also enables us to go beyond the official discourse of the Chinese government and classify the country's current economic system as capitalist. Attributing the "capitalist" label is possible thanks to this initial definitional work, based not on the actors' discourses, but on the practical characteristics of the economic system under examination. Our definition of capitalism is drawn from the work of the authors who forged the concept.

1.1. Capitalist economic system

The concept of capitalism was forged during the 19th century. In fact, it was Sombart who popularized the term, in his 1902 work *Der moderne Kapitalismus* (Chiapello, 2003). The word was then incorporated into the Marxist vocabulary. The definition proposed by Sombart (2001, p. 4) is the following: "*Capitalism designates an economic system significantly characterized by the predominance of "capital"*". He defined an "*economic system*" as a concept which '*enables us to classify the fundamental characteristics of economic life of a particular time, to distinguish it from the economic organization of other periods and thus to delimit the major economic epochs in history*' (p. 5). It is '*a formative conception not derived from empirical observation*' which enables economic science '*to arrange its material in systems*' (p.4-5). "Capitalism" thus functions as a Weberian ideal-type, a theoretical construct used to identify relevant elements of the world and analyze them by differentiation from the typical model. The use of the term "capitalism" in this article is thus perfectly in keeping with its first historical usages.

To classify an economic system as capitalist is to consider that the system contains a certain number of specific characteristics. We have sought out these characteristics among those identified by the first theorists of capitalism: Sombart, Weber and of course Marx. In fact, Marx did not use the term capitalism, preferring to speak of the capitalist system or capitalist production. But despite the differences between these thinkers, it can be demonstrated that Marx's work underlies the concept of capitalism as taken up by German sociology.

The first and principal characteristic of capitalism is the fact that the economic process is oriented towards "unlimited accumulation of capital". The perpetual pouring back of capital into the economic circuit with a view to making profit, i.e. increasing the capital, which will then be reinvested, is the main hallmark of capitalism and confers on it the dynamics and transforming power that have fascinated even the most hostile observers. The accumulation of capital does not consist merely of amassing wealth, in the sense of objects desirable for their useful value, display value or as signs of power. The concrete forms of wealth (real estate, capital goods, merchandise, money, etc) are not of interest as such and, due to their lack of liquidity, may even be an obstacle to the only really important objective: the permanent transformation of capital, capital goods and various purchases (raw materials, parts, services, etc) into production, from production to money and money to further investments (Heilbroner, 1985). Marx (Marx, 1990) perfectly sums up the dynamics in the formula M-C-M'. "*Money which describes the latter course [M-C-M'] in its movement is transformed into capital, becomes capital, and from the point of view of its function, already is capital.*" (p. 248). Capital is any money thrown into the sphere of circulation for the purpose of being recovered with a surplus, and this cycle is seen as endless: "*the circulation of money as capital is an end in itself, for the valorisation of value takes place only within this constantly renewed movement. The movement of capital is therefore limitless*" (p. 253).

The detachment of capital from the tangible forms of wealth makes it a truly abstract concept, contributing to the perpetual nature of accumulation; it is impossible to think of capitalism without reference to the accounting concept of capital. Indeed, wealth is measured in accounting terms, with profit accumulated over a period being calculated as the difference between two balance sheets at two different dates. Since capital is defined in an accounting sense, there is no limit, satiety can never be achieved², as opposed to a system where wealth is used for the purposes of consumption, including luxury items.

Thus the link between the accumulation of capital and certain accounting practices lies at the very heart of the notion of capitalism (Chiapello, 1993). As Sombart says, "*double-entry bookkeeping has only one objective: to increase the value of a sum measured in a purely quantitative manner. When one plunges into double-entry bookkeeping, the nature of all the goods and products is forgotten, the principle of satisfying demand is forgotten, all that matters is the idea of accumulation: no other approach is possible if one wants to occupy a coherent position within this system: the aim is no longer to see sheaves or cargoes, flour or cotton, but only values which appreciate or depreciate (...)* The concept of capital was created essentially

² As Georg Simmel notes, only money never disappoints, as long as it is not for spending but for accumulation as a goal in itself. "As a thing devoid of qualities, it [money] cannot even provide what the meanest object conceals – the capacity to surprise or disappoint (quoted by Hirschman, 1980, p. 54). While satiety comes with the realisation of a desire through an intimate relationship with the thing desired, this psychological effect cannot be produced by a durably abstract accounting figure.

from this point of view", since the concept of capital can be defined "as the capacity for accumulation as assessed through double-entry bookkeeping" (our translation from Sombart, 1992, p. 24). The existence of a capital account is also central to Weber's definition of capitalism: "The most universal condition for the existence of modern capitalism is, for all large lucrative businesses supplying our daily needs, the use of a rational capital account as standard" (Weber, 1991, p. 297). And he clearly states that "the notion of capital is understood exclusively in the context of the private economy, and in an accounting sense" (Weber, 1971, p. 95).

From a historical standpoint too, it can easily be demonstrated that the very term "capitalism" derives from accounting vocabulary. Not only does capitalism seem to be inconceivable without a "rationalisation of the calculation in terms of capital", as Max Weber would say, but the word "capital" itself also originates from accounting practices. Its semantic history is indissociable from the successive accounting uses of the term.

"Capital" is noted for the first time in an economic sense in Italy, in a Florentine accounting ledger dating from 1211. The term then appears to have spread from Italy throughout Europe with the expansion of Italian commerce and banking (Deschepper, 1964; Braudel, 1981). The economic meanings of the word "capital" should be distinguished from older uses, when as an adjective it applied to crimes and punishments, or carried the most obvious sense of 'most important' (the capital city of a country).

In order of historical appearance, the economic meanings of the word "capital" have been: 1) the principal amount of a loan, i.e. the amount of money loaned as opposed to the interest on the loan, 2) the money invested in a trading concern or funds contributed by a merchant to a concern when he begins it, whether he acts independently or in association with other providers of capital, 3) by extension, for late 18th century economists, all wealth invested in the economy for production. In this case, the term "capital" is dissociated from the idea of an amount of money, covering all sorts of wealth and capital goods. This extension was to cause the frequent confusion between a definition of capital as the money invested, and as the things themselves in which the money is invested, since economists did not always take the trouble to explain their position despite the significant consequences (Hicks, 1974). 4) Also from the late 18th century, the emerging discipline of economics began to draw a distinction between a loan producing interest and capital generating profit, although these notions were not always clearly differentiated during the 19th century. The distinctions between the various forms of capital (principally fixed and circulating) were part of the same theoretical endeavors. The birth of the term "capitalism" would not have been possible without the prior birth of economic thinking that had given theoretical value to the accounting-rooted term of "capital", already part of the language of commerce and banking.

The existence in capitalist accounting systems of a capital account which increases over the years through accumulation appears to be an absolute prerequisite for the existence of a system that can be called capitalist. Whenever the accumulation of capital is not presented in, and calculable from the accounts, this suggests that the economic actors in the system concerned will not be able to operate under capitalist principles.

Moving on, a second characteristic of systems considered "capitalist" is that, at least since the end of the 18th century, capitalism has also been marked by the autonomous existence of the company. *"By the combination of all simultaneous and successive business transactions into a*

conceptual whole, an independent economic organism is created over and above the individuals who constitute it. This entity appears then as the agent in each of these transactions and leads, as it were, a life of its own, which often exceeds in length that of its human members" (Sombart, 2001, p. 13). The role of bookkeeping is, here again, determinant in this emancipation: "This integrated system of relationships treated as an entity in the sciences of law and accounting becomes independent of any particular owner; it sets itself tasks, chooses means for their realization, forces men into its path, and carries them off in its wake. It is an intellectual construct which acts as a material monster" (ibid, p. 13).

In our search to identify "accounting features", we must therefore look particularly carefully at how the boundaries of an enterprise are defined, or in other words, the definition of the accounting entity. Accounting plays a role in the construction of certain economic structures, and their autonomization such that they become "legal persons" (as the law calls them) capable of action, and relatively free to act as they will. The research described below concerning the communist system ideal-type will contribute to clearer identification of how far the definition of that capitalist entity, the autonomous enterprise, differs from the definition of a communist entity.

A third characteristic of capitalism is that its enterprises, constructed in this way by the law and accounting, are facing competition. Each capitalistic entity is thus constantly being threatened by the actions of competing entities. Such dynamics create a perpetual state of concern. Self-preservation is thus a very strong motivation for capitalists - it is a never-ending catalyst for the accumulation process. This aspect of capitalism is what the Chinese government refers to when it talks of "market socialism", while no mention is made of the related insecurity.

The last important characteristic in the definition of capitalism is wage-earning and the private ownership of the means of production. "*There is a regular cooperation of two groups of the population, the owners of the means of production and the propertyless workers, all of whom are brought into relation through the market* (Sombart, quoted by Parsons, 1928, p. 647). Many of those who hold little or no capital make money from the sale of their labor rather than from the sale of the fruit of their labor. They own no means of production, and therefore depend upon the decisions of those who do own them.

As we know, the wage relationship, which permits exploitation of the workers, is the hidden source of capitalist wealth creation, according to Marx. A key aspect of Marxian theory is indeed his theory of exploitation, which in his opinion explains the origin of the increase in value between M and M' that is the purpose of the capitalist process. According to Marx, the surplus-value that is the hidden origin of capitalist profit lies in the fact that the wage paid to workers is lower than the value they contribute to productions, which is pocketed by the capitalist when he puts new products on the market. The wage relationship requires workers to sell their labor, rather than the products of their labor, which belong to the capitalist. The workers are forced by the very existence of the wage relationship to give up ownership of the results of their labor. A class conflict between the proletariat and the capitalists, inherent to the capitalist system, is born out of the wage relationship and tends to become exacerbated over time, producing the historical dynamics.

Capitalism will not be described here as exploitation of the workers. As we know, Marx's theory that profit stems from such exploitation has come in for strong criticism, since Marx failed to refer to other possible complementary sources of profitability. However, it seems to us that the

twin pillars supporting exploitation should be included among the characteristics of a capitalist system: these are the wage relationship, and the ownership of production resources by a group of people who are not the proletariat group. The division of ownership of enterprises' capital between various private individuals is one of the characteristics of capitalism. In accounting terms, this means that in a capitalist system, private ownership rights to capital have to be clearly identified in a separate category; also, profit is accumulated in an account that is not merely a source of funds account, but an account associated with the rights of the firm's owners. In the capitalist system, profit is in fact what goes into the production resource owners' account.

As we shall see in more detail below, the communist system has not abolished wage-earning workers, but the other pillar that in Marx's opinion underlies exploitation: private ownership of production resources. This difference should be reflected in the nature of accounts kept.

Before going any further, it is useful to point out that at this stage we can see no reason to consider that double-entry bookkeeping (DEB) is an indispensable part of capitalist practice, although it is no doubt a better means of monitoring the profit formation and profit accumulation cycle. This leads us to consider that Sombart's concentration on DEB has been a source of several errors in the search for capitalist accounting features, as Sombart attributes to DEB features that are not necessarily specific to the double-entry system, but rather to what we would call capitalist accounting, whether single or double-entry. In our opinion, the major contributions of Sombart's approach are the importance of monetary language to convert various types of goods into abstract figures, and the use of regular valuations of capital, whether through DEB or by any other method. From this point of view we find Weber's statement (Weber, 1992, p. 18) more useful in understanding what capitalist accounting is: "*the important fact is always that a calculation of capital in terms of money is made, whether by modern book-keeping methods or in any other way, however primitive and crude*". Another reason to separate capitalism from DEB is given by historians (Yamey, 1964; Winjum, 1971). Although capitalism cannot be defined without reference to capital, it would appear that double-entry bookkeeping does not necessarily require the existence of a capital account. The capital account appeared a while after the first known occurrences of DEB. Winjum (1971) proposes four definitions of DEB, corresponding to four successive forms. He claims that the system referred to by Sombart and so strongly associated by him with capitalism, is the quasi-ultimate or ultimate form of double-entry bookkeeping, i.e. type 3 or 4 in the following list:

- (1) *A bookkeeping system constantly in equilibrium in which the only criterion is the equality of debits and credits.*
- (2) *The addition of a capital account to the first system.*
- (3) *The use of nominal accounts (revenues, expenses, ventures, etc.) in addition to the capital account of system 2, but an irregular closing of these accounts to capital. Under this system, there is no periodic calculation of net income.*
- (4) *The same as system 3 except for the periodic closing of nominal accounts to capital and the annual calculation of net income.*

For the purposes of this article, we consider that capitalist DEB is a type 3 or 4 system in Winjum's typology (1971). If DEB has eventually come out on top in the history of accounting, the reason may be because it is a system that can integrate all these elements into a single, coherent and self-referential system (Carruthers and Espeland, 1991). However, this historical triumph does not mean that capitalism necessarily needed a bookkeeping system constantly in

equilibrium, in which the only criterion is the equality of debits and credits. The issue of which calculations are performed, whatever the system used, and the form given to economic life by the accounts used is, we believe, much more important.

To conclude, the characteristics identified for a system to qualify as capitalism are as follows:

- the system must be oriented towards perpetual accumulation of capital,
- the system must be constructed around the operations of autonomous economic entities (enterprises) competing with each other on the market,
- it must employ wage-earners,
- there must be private ownership of capital, where the group of owners is different from the group of workers.

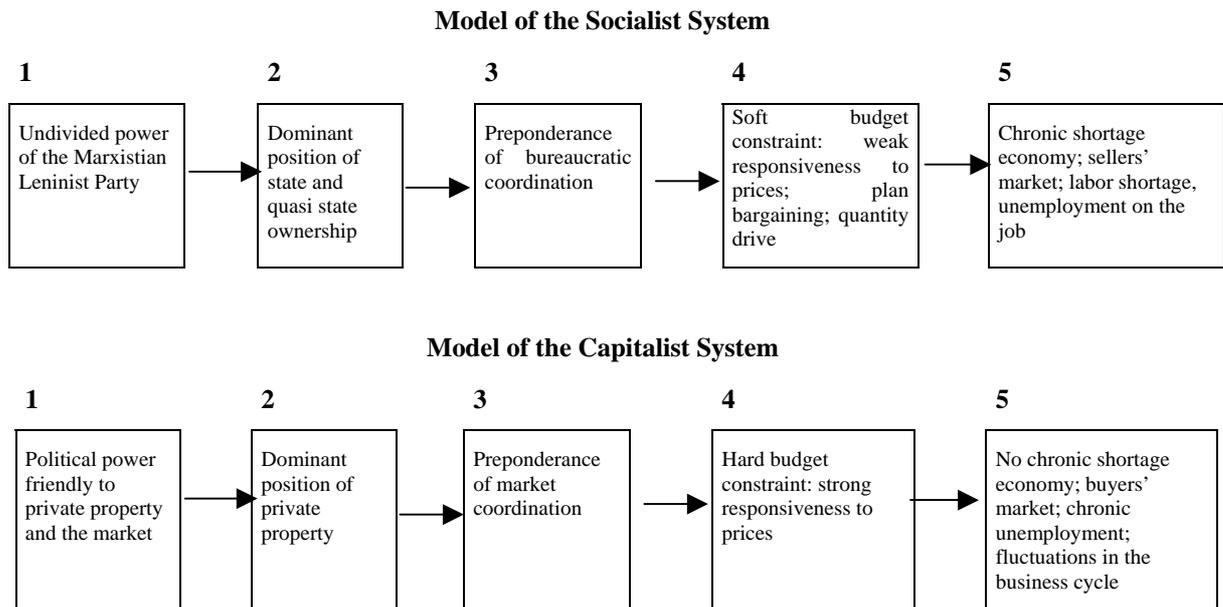
This ideal-type of capitalism will now be contrasted with the communist ideal-type.

1.2. Communist economic system

In this article, we use the term "communism" for the self-proclaimed Marxist-Leninist planned, centralized economic systems set up first in the Soviet Union, then largely by imitation in many other countries generally referred to as the communist countries. Politically, these countries were governed by a sole party, the communist party. Of course, communism, as Marx envisaged it, was merely the radiant future towards which these countries aimed to evolve. For convenience's sake, we use the word communism to describe the state of progress towards communism these countries believed they were in. The communist project was constructed based on the Marxian critique of the capitalist system whose main characteristics were presented above. Its opposition to capitalism was the basic foundation of the communist project, and it thus seems natural to describe communism by highlighting the fundamental differences between the two systems.

The following diagram is taken from the economist Kornai (2000), a specialist in economies in transition, particularly Hungary. His article presents the key characteristics of both systems, thus underlining the major differences.

Figure 1: Models of the Socialist and Capitalist Systems



Centralized and planned economies were different³ although they shared the features listed here, just as capitalist economies are not all identical (Hall and Soskice, 2001).

The communist model of the economy is constructed on the basis of collective ownership by the People. All production resources belong to the People, represented by the State who manages and controls them in the name of the People. Private ownership of production resources is abolished. When transposed into the accounts, this characteristic should be visible in the classification applied to the firm's sources of funds, as all funds come from the State.

As the State acts in the name of the People, it cannot act under the same reasoning as a capitalist proprietor. The aim of collective ownership is the abolition of exploitation. Although the fact there are still wage-earning workers in communist countries means exploitation in the Marxist sense is still possible, the fact that the People are paying themselves is supposed to lead to an alternative way of fixing workers' wages and allocating the surplus, different from what happens in the capitalist economy. The consequences of collective ownership rights should be different from those of the private ownership rights enjoyed by owners in a capitalist economy. Accounting should no longer be designed to reflect the accumulation of capital by private individuals, serving the purposes of profit maximization, i.e. maximization of this accumulation. In a communist economy, the equivalent of profit is supposed to return to those who have generated it, either directly as remuneration or indirectly via institutions serving the public good. In practice, this takes the form of egalitarian distribution of wealth without discrimination, which of course involves procedures for distribution of the economic earnings that are very different

³ "Depending on the time and place, the socialist system has been a war economy, a market economy (the Russian acronym NEP for the New Economic Policy in the USSR in 1921), a centrally planned bureaucratic economy, a market socialism as in Hungary, a self-managing economy (e.g. Yugoslavia) and a sort of "market communism" following the latest Chinese reforms." (Andreff, 1999, p. 421)

from the distribution principles of the capitalist system. Naturally, these differences are visible in accounting practices.

A third characteristic of communist economic systems is abolition of the market. The supply and demand regulating mechanisms typical of free markets do not exist, and regulation is the job of centralised planning bodies which operate on a national scale. The plan sets production objectives for the various finished products, based on estimated needs, and then the objectives for semi-finished products and raw materials are set accordingly. This has a major impact on the definition of the basic economic entity and its scope.

The economic agents of the communist system are not private companies as in the capitalist system, but mostly state-owned corporations⁴ of low legal and accounting autonomy with respect to the government. If communist economies have a "material monster" (to quote Sombart in his discussion of capitalism), then it is surely the State, whose role as organizer of all economic life means it is omnipresent and omnipotent. There is no market or range of hierarchies as in the capitalist system; instead there is a single hierarchy which organizes exchanges according to its own order, since market mechanisms have been almost totally removed. There is no more competition between companies, as there is only one single entity. Flows are regulated exclusively under centrally planned procedures. In this context, a company is considered to have only one function: receiving the resources coming from a single supplier (who in theory can default neither on supply nor on price) and transforming them into finished products whose sale has also been planned, with an equally predetermined income. In such a stable, secure and guaranteed environment, accounting essentially fulfils its original function of being a record of transactions. Key production, distribution and investment decisions even at the individual factory level were controlled by a massive planning bureaucracy. Labor, raw-material inputs and production volumes were all specified in detail by a national economic plan (Young, 1999).

Communist accounting thus serves different objectives from those of capitalist accounting: it cannot exist to calculate the surplus value generated by private capital injected into the economic circuit. Instead, accounting becomes the principal instrument for monitoring plan fulfilment.

In this context, individuals and small groups are viewed in relation to some larger unit (especially a social unit) of which they are integral parts. In its most comprehensive form, this larger unit is called "the whole," referring to the entire public. This is a striking contrast to the liberal democratic conception of discrete individuals, each coming into society with his own unique rights and interests, which should be protected against other citizens and against abuse by rulers (Munro, 1980). In a communist regime, the collective takes precedence over the individual. The alienation of the self is explicitly reflected in the communist slogan: "One for all and all for one!" and by the egalitarian distribution of wealth mentioned above.

Although a price system subsists, prices are not based on supply and demand, and are not used as an instrument for regulating flows, which are totally calculated and organized in volume data. Obviously, the concept of turnover thus takes on a very different sense in a communist economy. More broadly, *"the history of accounting under socialism is the history of an attempt to operate an accounting system in the absence of an effectively functioning price mechanism."*(Bailey,

⁴ Another category of entities is the cooperatives, particularly the agricultural cooperatives. The private sector is practically nonexistent.

1995). Prices are determined centrally by price committees, for wages, raw material prices and manufactured product prices. The fact that communist countries did not succeed in doing without prices altogether is due to the coordination opportunities they offer despite everything else, even when the economy as a whole is organized solely on the basis of volumes, and prices are not determined by the markets. In addition to basic goods, workers paid a wage could decide to consume the various goods available in variable proportions through a certain degree of budgetary discretion. This freedom within the allocated budget also provided a bit of slack for an economy that otherwise would have been totally straitjacketed, as consumption could be directed towards certain products when others were in short supply. In terms of achievement of Plan objectives too, the aggregation and synthesis possible in monetary language facilitated overall monitoring. The fact that the monetary valuations used in communist countries had such different meanings from those used in capitalist countries obviously totally changes the meaning of the accounting statements and figures, for example sales and purchases. These are calculated as the product of volumes produced (delivered or purchased) multiplied by pre-set prices. The enterprise can only be held responsible for volume effects, but never for price effects, which are not one of its action levers.

One of the reasons for abolition of the market lies in the fact that market mechanisms were deemed to be a source of too much uncertainty, to the detriment of the general wellbeing. The aim was to achieve controlled economic growth rather than a succession of profitable periods followed by crises, the brunt of which seemed always to be borne by the proletariat who found themselves laid off and without a source of income overnight. The market mechanism's involvement in wage determination, accused of keeping wages only just high enough for reproduction of the workforce without giving the workers any return from the value they added to the merchandise produced through their work, was also to be abolished. In a world where volumes and prices were considered to be certain, the conservatism principle used in western accounting clearly had no application.

The characteristics of a communist system are thus identified as follows:

- 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, income statements or, in a wider sense, audit techniques (Richard, 2003, p. 333).

1.3. Comparative summary and theoretical framework

It is possible at this stage to construct the following table summarizing the above information on the contrast between the two systems, and the issues raised for examination regarding their reflection in accounting.

Table 1: comparison of capitalist and communist economic systems, and 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 funds required for economic activity come exclusively from the State.	Format and definition of balance sheet liabilities
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.	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.	Definition of the company's economic income Methods used for distribution of income Accounting treatment of workers' incomes

Sombart and Weber considered that certain accounting practices were consubstantial with capitalism, and that capitalism could be neither understood nor even defined without taking into account the economic calculations at the foundation of the system. Capitalism was thus associated with a "calculative mentality" reflected in and equipped by accounting practices

(Bryer, 2000a;2000b). Extending this reasoning to the economic systems constructed against capitalism, it can equally be said that the communist economic system cannot be truly understood without reference to its agents' accounting policies, which reveal their analytical and economic decision-making categories: these policies were, very basically, what made them able to exercise their economic judgment. In this sense, accounting constructs and reveals the nature of economic reality, as perceived and constructed by the actors in both economic systems. A short analysis of communist systems and their accounting practices reveals the accounting assumptions of our capitalist economies from a fascinatingly different angle.

The concept of profit, for example, 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. In fact, one of the justifications of private appropriation of profit is that it represents remuneration of the enterprise's success. 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. Seen from this angle, 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. Below is a description of the evolution of the Chinese economy and its accounting system.

2. POLITICAL AND ECONOMIC TRANSITION IN CHINA

During the last five decades, the political and economic situation in China has undergone several profound changes. Three major periods can be identified during this evolution: the introduction and application of the communist economic system (1949-1978), economic reform and the open-door policy (1978-1992) and the development of a "socialist market economy" (1992-today). For each period, we also cover the evolution of accounting system.

2.1. The introduction of the communist economic system

The People's Republic of China (PRC) came into being after the 1949 revolution. Isolated from Western countries, China allied itself with its large and powerful neighbor, the Union of Soviet Socialist Republics, because of the shared social system and belief in communism. A new model of the economy was introduced: the state-run, centralized, planned economy.

The PRC went through a period of powerful planned voluntarism. In 1952 the new government initiated China's first Five-Year Plan, designed to help the country catch up economically with the Soviet Union and Western nations. The State Planning Committee established the variety and quantity of all goods to be produced. The government also experimented with work groups that

were assigned production quotas. Top management was concerned only with the imposed quantitative production quotas, and gave no consideration to financial performance.

The private sector had completely disappeared in the 1950s after the wave of nationalizations, and the Chinese national economy relied mainly on state-owned companies (SOE). The CPA system also came to be abolished. Accounting issues were the responsibility of the Accounting Rule Division created in late 1949 at the Finance Ministry (Xiang, 1999, p. 101), which gradually introduced the unified accounting system devised by the Soviet Union. This accounting system relied on physical quantities and had the following objectives: (1) determining production quotas, (2) controlling limited resources, (3) allocating scarce resources between production activities, and (4) reporting on production results and State funds (Xiang, 1999, p. 104).

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. The inefficiency of the agricultural communes and the diversion of farm labor to these small-scale industries was to cause the collapse of China's agriculture and industry. 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 (Yu, 1994, p. 35).

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. The Accounting Rule Division in the Finance Ministry was demolished (Yang and Lou, 1991, p. 82). At the level of enterprises, many accounting services and even accountants themselves were dismissed and the accounting reporting systems were out of control (Xiang, 1999, p. 161). The Cultural Revolution ended with the death of Mao in 1976.

2.2 Economic reform and the open-door policy

The failure of this first development strategy was visible in the collapse of agricultural and industrial production. Starting in 1978, economic reforms resulting in major transformations to Chinese society were initiated by Deng Xiao Ping.

The first major reforms concerned agriculture. After 1978, agricultural prices were substantially raised, resulting in improvements in agriculture's terms of trade. Mandatory quotas for sown area and output were also eliminated and purchase (compulsory procurement) quotas were reduced, while the sale of above-quota output on free markets was authorized. More scope was provided for undertaking so-called sideline activities, and the commune system allowed more room for family responsibility systems (Balassa, 1987).

The government also tried to improve the performance of the nonagricultural sectors, which had been heavily dominated by state-owned firms operating under central planning. The reforms decentralized many decisions to firm level, or at least to local government level. The expression “responsibility system”, originally applied to agriculture, came to be employed for state-owned industry as well. It is used to refer to the increased role of material incentives, including profit retention schemes and productivity-based bonuses, the increased power of managers vis-à-vis party officials in the affairs of the firm, and the greater latitude given to the firm in making its own production and investment decisions, with above-quota output sold to consumers either directly or indirectly through commercial channels.

Another key aim of the economic reforms was to make it easier for local governments, collectives, and even private households to set up their own firms outside of the state planning structure. There was rapid growth in the number and output of such firms in response to this new flexibility. For example, the output of township firms grew dramatically from 8.6% of national nonagricultural output in 1979 to 26.6% in 1988 (Gordon and Li, 1991). The planning system in China, similar to that in the Soviet Union, favored heavy industry and highly capital-intensive technologies, resulting in a very different allocation of resources than in market economies. Private and collective enterprises responded swiftly to economic liberalization. The former quickly expanded into the retail sector, while the latter took on a much more important role in the industrial sector. Not only did these firms produce badly needed goods and services, but they also introduced competitive pressures into the economy, undermining the monopoly power of state-owned firms.

The progressive move from a planned economy to a market economy repositioned the Chinese State's role in the national economy: from being the direct controller of the economy, the State now intervened indirectly. Alongside State-owned companies and cooperatives, new forms of organization sprang up: private companies, mixed-economy companies and joint ventures with foreign investors. The Chinese economy had finally opened up to the outside world.

This first phase of transition saw the introduction of new forms of economic entity independent of the central power and close to the western definition of an enterprise, plus certain market mechanisms, particularly for “above-quota output”. At the same time as these changes, China began to reconstruct its accounting rules, accounting practices, accounting education, and the accounting profession in the 1980s. The Accounting Rule Division was reestablished in January 1979 (Yang and Lou, 1991, p. 82). The China Society of Accounting, the first accounting professional association was founded in January 1980 (Yang and Lou, 1991, p. 85) and the system of certified public accountants was created in December 1980 (Yu and Qi, 1995, p. 13). The most remarkable achievement is the adoption of the Accounting Law in 1985 that broadly defined the functions of accounting, the organization of accounting work, and the rights and responsibilities of accountants. It further (1) required large- and medium-sized companies to appoint a chief accountant, (2) legally recognized the emerging professional accounting firms, and (3) defined accounting as an integral part of management rather than merely a bookkeeping function.

But the changes introduced into accounting remained relatively minor. The State first considered trying to adapt the traditional accounting system as the basis for market-oriented accounting.

Major accounting reform only arrived later, after Deng Xiao Ping decided to speed up the reform process.

2.3 Constructing a “socialist market economy”

In spring 1992, Deng put China firmly on the road towards a market economy. China’s Tenth Five-Year Plan confirmed the country's move from a state-driven to a market-driven economy. Chinese companies were increasingly encouraged to become listed on overseas stock exchanges and to establish joint ventures with foreign firms to improve operating results.

Immediately after this change in political direction, China decided to abandon most of the traditional accounting system and adopt a system developed elsewhere in market economies (Tang, 2000). The World Bank provided funds to this reform process and Deloitte Touche Tohmatsu was designated as the foreign expert team. The job of the accounting firm was to provide the reports on the comparison of major accounting standards systems in the world (Liu, 1996, p. 289). At the end of 1992 the Ministry of Finance promulgated the Accounting Standards for Business Enterprises (ASBE) and the General Financial Principles for Enterprises (GFPE). These standards are the foundation of the new financial accounting and regulatory framework. The accounting reform happened in several stages. General accounting standards for companies were published (November 30, 1992), applicable as of July 1, 1993, and accounting law was amended (December 29, 1993). Meanwhile, the law on chartered accountants was developed (October 31, 1993). A third factor was the publication of company law (December 29, 1993), the first regulation of companies in the history of the PRC. Finally, Chinese tax reform was introduced in December 13, 1993. The company law is the first law standardizing companies in history of the People's Republic of China. Besides the contents about the constitution and the running of companies (incorporated company and limited liability company), there are also the dispositions concerning the disclosure of accounting and financial information: composition of annual report, communication delay and verification by a CPA (Ding, 2000).

To meet demands for accounting information from both domestic and international sources, Western accounting principles were adopted to replace the Soviet accounting model. The ASBE standardizes financial accounting practices, providing detailed rules for recording transactions, charts of accounts, and formats of financial statements. The implementation of these standards has brought China substantially into line with international practices.

After more than two decades of sustained reform, the economy of the People’s Republic of China (PRC) bears scant resemblance to the erratically performing command economy that preceded efforts beginning in 1979 to re-introduce market principles. Twenty plus years of growth at around 9% a year have quadrupled gross domestic product and made the PRC into a trillion (US) dollar economy. There are several signals that confirm the successful transformation of the Chinese economy to a more market-oriented system.

Firstly, in terms of international trade, after twenty years of sustainable growth, China is now ranked as the third largest trader in the world, just behind the US and Germany.

Secondly, the capital market is playing an ever-more important role in national financial resource allocation. Since the early 1990s, the stock market has gained considerable momentum in China. In fewer than 12 years, China's stock market has grown into the eighth largest in the world, with market capitalization of over US\$500 billion.

Thirdly, the private sector has become the driving force behind Chinese economic growth. Two notable events in 2001 contributed to a significant improvement in the climate for private enterprise in the PRC. The first was the speech by President Jiang Zemin on 1 July extending membership of the Communist Party of China (CPC) to the owners of private businesses. Chinese entrepreneurs interpreted this development as an important elevation in the status of the private sector. The second event was the PRC's long-awaited accession to the World Trade Organization (WTO). With accession at hand, senior officials, especially in Beijing, became increasingly conscious that the PRC would soon be obligated to extend rights and privileges previously only granted to domestic private firms to privately-owned foreign ventures. Membership of the WTO would oblige the PRC to revise countless rules and regulations in order to eliminate distinctions made on the basis of the nature and location of ownership (Asian Development Bank, 2003).

The influence of IAS increased during this reform period. Firstly, following the suggestions from the international accounting firms, Chinese standard setter adopted many practices from IAS. The dual quotation system of Chinese capital market offers a unique phenomenon of financial reporting requirement. On one hand, there is an equity market only open to Chinese investors (A share market). The companies listed in this market (around a thousand) are required to follow Chinese GAAP and certified by a local auditing firm. On the other hand, there is another segmented equity market traded in foreign currencies (B share market) and open till 2001 only to foreign investors. The companies quoted in this market (about two hundred) are required to follow IAS and often certified by an international auditing firm. Besides, there are also more than fifty mainland Chinese companies listed in Hong Kong (H share market). These companies also base their accounts on IAS.

3. IMPACT OF ECONOMIC TRANSITION ON CHINESE ACCOUNTING

Having analyzed the main characteristics of both the capitalist and communist economic systems, and presented the evolution of Chinese economic and accounting systems over the last fifty years, we will now take a more detailed look at the accounting features of communist and capitalist systems, seeking to validate our hypotheses with examples from the transition in Chinese accounting. We will describe the impact of economic transition on Chinese accounting in three specific fields: the definition of business entity, the role of the market and the accumulation of capital.

3.1. Definition of business entity

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. As already seen, 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.

In the history of the accounting system in China, the notion of enterprise was replaced after 1949 by the “working unit” that was merely a subdivision of the whole nationwide planned economic machine. During the economic reform of the 1980s, the authorities gradually started to allow firms a certain degree of autonomy, and recognize state-owned firms as “relatively independent economic entities”. However, in 1988, for the first time in history, Article 2 of the State-owned Enterprise Law officially recognized the separate legal entity status of SOEs (State-Owned Enterprises). This Law also defines and recognizes the assets and liabilities of a SOE. With the restructuring of SOEs, the accounting entity concept has become an important accounting concept underlying SOEs’ financial reporting system (Tang and Lau, 2000). It was with the promulgation of the Company Act and the accounting standards in 1992 that the Chinese authorities adopted completely the business entity accounting principle. The definition used is similar to that of the capitalist theory, i.e. accounting information only reflects the operational activities of a particular enterprise, not including that of the owner of the enterprise nor that of other enterprises. The list of corporate assets was also reduced to productive assets only, whereas in the original communist system the enterprise also managed assets related to welfare activities for the benefit of personnel (e.g. childcare). As in capitalist regimes, workforce reproduction costs were now once more externalized to different economic entities. All the firms now have to do was pay wages and welfare costs (principally unemployment benefit insurance), and taxes (extensively reformed in keeping with the new developments).

The evolution of the entity concept has deep impact on some fundamental issues in accounting: the scope of accounting information users (3.1.1), the distinction of accounting for business enterprises from national accounting and the separation between financial accounting and management accounting (3.1.2) and the content of financial reporting (3.1.3).

3.1.1 Scope of accounting information users

There are certain fundamental differences between capitalist and communist accounting systems regarding the definition of accounting information users. The independence of the business entity draws a clear border separating the inside and outside of a firm. An early sign of economic transition in China was the extension of the list of potential users of accounting information.

Under the early communist regime, the primary task of accounting was the exercising of control over (i.e. monitoring) fulfillment of the goals of the national economic plan imposed on enterprises. At the time, the major duty imposed upon state-owned enterprises was to fulfill the production goals contained in each enterprise's corporate plan, a component of the national economic plan (Bailey, 1990). State enterprises were merely low-autonomy subdivisions of the national economy, which was itself totally organized by the State; the individual enterprise's accounts amounted to a small part of a much vaster set of accounts. The division between national and corporate accounts was nowhere to be seen, as the whole made up a totally integrated system. In the Soviet Union, at the beginning of the 1930s, it had been presumed possible to combine the processing of both accounting data and statistical data concerning

enterprise activities into a single unified system (Bailey, 1995). Another task attributed to accounting was the safeguarding of socialist property entrusted to enterprises.

Macro-economic use of accounting for volume planning led the Chinese authorities to adopt accounting practices that were different for different business sectors. This explains why China used more than forty accounting systems prescribed by various government authorities. Under this traditional regulatory framework, Chinese accounting served mainly as a simplified recording and reporting tool for the government's business administration (Lin and Feng, 2001). Use of judgment in the preparation of financial reports was discouraged. Chinese accounting statements were statistically oriented; accountants did little more than fill in forms. This lack of creativity and judgment in the accounting process helps explain why accountancy was generally viewed in China as an unappealing and low-status profession.

Of course, these communist accounting practices are very different from capitalist practices. In a capitalist context, the owner allocates his capital rationally. He is always searching for the best buy, i.e. the investment bringing the best the return with the lowest risk. The accounting information is used by him to calculate the profitability of his invested capital. One of the principal accounting objectives is to facilitate owner investment decision making. With the development of the private sector in China, the growing presence of foreign-invested companies and the appearance of listed corporations, consideration of investors' information needs became increasingly urgent. This was why accounting regulation began to extend the list of potential users of accounting information.

The most comprehensive and detailed of the early 1992 regulations was entitled "the Accounting System of Experimental Stock Companies". This regulation was meant to provide a regulated structure for the accounting methods used in the new corporate entities being allowed to operate in the country. Article 1 of the regulation states, "*in order to improve the accounting of stock companies and to protect the legal rights and interests of investors and creditors, this accounting institution is regulated in accordance with the Accounting Law of the People's Republic of China and other national laws and regulations.*"

After the accounting reform of late 1992, Chinese accounting introduced some consideration for investors' needs for accounting information. Article 11 of the Basic Accounting Standard stipulates: "*The accounting information must conform to the requirements of the state macroeconomic administration, meet the needs of interested parties in terms of understanding the financial situation and operating results of the enterprise, and also satisfy the demands from the enterprise itself for reinforcing internal management and control.*" The article reflects the current political and economic situation in China, where state-owned enterprises politically dominate the major sectors of the economy despite the weak performances of some, and the public authorities still wish to preserve the socialist regime in China. While the recognition of other interested parties in the accounting objectives is a big step towards harmonization, the significant difference between accounting objectives in China and Western countries is this long-lasting domination of the Chinese authorities' information requirements, and the great importance placed on the state's macroeconomic considerations. This Chinese accounting specificity has given rise to debate. Prof. Tang Yunwei, a leading Chinese accounting scholar, (2000) argued, "*Clearly, an accounting system that satisfies all three groups must be significantly different from a system that focuses on outside investors. We found that we could not simply adopt many*

accounting concepts and principles developed in other countries – where accounting is designed primarily for outside investors – to satisfy government and enterprise managers equally well". The changes in financial reporting objectives thus reflect the changes in business environment. They recognize the information needs of nongovernmental bodies including non-state investors, creditors and other users of financial statements (Tang and Lau, 2000).

3.1.2 Separation of business enterprise accounting from national accounting and distinction between financial accounting and management accounting

The adoption of the business entity concept has also brought back on one hand the separation of business enterprise accounting from national accounting and on the other the distinction between financial accounting and management accounting.

In the communist economic system, processing of data for the purposes of "financial accounting" and "management accounting" was to be undertaken by a common administrative office. The special character of the soviet accounting system comes from the fact that the state regulates not only financial accounting but also management accounting, in a way which makes visible all facets of the management of the business: there is a 'regulatory unity' (Richard, 2003, p. 333). The role of the accounting specialist within the enterprise came to be that of state controller (Bailey, 1990). He was expected to follow detailed instructions promulgated by planners at the national level on asset valuation, cost allocation and the preparation of official financial reports. In this context, the only accounting system in practice was the national accounting. The accounting practiced within each enterprise was merely an extension of the former.

From a capitalist point of view, these reports look like internal reports. Historically, much of the accounting data was collected to provide information for the Government's decision-making role in central planning and control, and there was thus no distinction between financial accounting and management accounting in the communist accounting system. Besides, state-owned enterprise management had few discretionary decision-making responsibilities, so there was little need for the detailed management accounting systems seen in capitalist economies.

The recent move away from central economic planning and the introduction of competitive markets and private ownership of firms has led Chinese enterprises to question the adequacy of the existing accounting systems, and to seek alternatives. Firstly, the growing numbers of foreign investors and the re-establishment of a taxation system make external financial reporting necessary⁵. Secondly, more sophisticated internal control and reporting skills are essential in order to improve the performance of the firm.

3.1.3 Content of financial reporting

As the Soviet economy made no distinction between financial and management accounts, this approach was also reflected in the pre-reform Chinese presentation of financial reports. The required statements, which could be as many as thirty for an annual report, were similar to

⁵ Firth's study (1996) shows that those Chinese enterprises who participated in foreign partnered joint ventures made more changes to their management accounting systems when compared to similar PRC companies who had no collaborative venture operations with foreign firms. In their study exploring the influences on the adoption of "Western" management accounting/control practices by China's state-owned enterprises (SOEs), O'Connor et al. (2004) indicated significant influences from use of limited-term employment contracts, joint venture experience, stock exchange listing, and the availability of training.

internal accounting statements. For example, the financial statements included disclosure of the cost and charge structure. But none of them provided information about the changes in financial position or cash flow.

The 1992 reform reconstructed the financial reporting system. It can be summarized in four points: 1. replacement of the fund balance statement by an Western-type balance sheet; 2. introduction of a statement of changes in financial position; 3. reduction of the number of statements, including the abolition of the cost and charge structure statement; 4. compulsory inclusion of the notes and ratio analysis. Table 2 compares the old and new systems. This reform was a sensible advance towards better understandability of Chinese enterprises' financial position and performance, allowing investors to assess the situation more accurately.

To follow standard international practice, the statement of changes in financial position was replaced by the cash flow statement in January 2001, with the publication of the relevant new accounting standard.

Table 2: Types of financial statements

PRE-REFORM ACCOUNTING SYSTEM	REPORTING FREQUENCY	POST-REFORM ACCOUNTING SYSTEM	
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 of 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	N/A	
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 in closed and suspended enterprises	Monthly		
Source: Tang & Lau (2000), table 4, p. 89			

3.2. Role of the market

As mentioned in the Part 1, another fundamental difference between capitalism and communism is the existence versus the absence of market. In the former system, the whole transactions of the firm are coordinated by the market via the market price mechanism, including that related to the labor. The evolution toward market economy in China overwhelm totally the old accounting system in different aspects. In this section, we will try to identify accounting changes linked to the role played by the market in four areas: the revenue recognition, the cost structure and wages, conservatism and provision, fixed assets.

3.2.1 Revenue recognition

The fundamental difference between the concept of revenue in the capitalist and communist context lies in the different understanding of price. As we have seen, communist prices were not only controlled but also contrived. Consequently the data derived from the accounting system lacked an economic content (Bailey, 1995).

Depending on the enterprise, prices were either administrative or quasi-administrative. Soviet industrial prices were not market-determined but set by the planners on the basis of average branch cost plus a profit markup (Thornton, 1965). But, in practice, costs often tended to rise above prices; hence most raw materials and semifabricates, as well as many items of machinery and equipment, were produced at a financial loss (Montias, 1957). Prices were sometimes adjusted to reflect priorities established by planners or political authorities. For example, prices for consumer staples were typically set far below costs in order to advance the political objective of ensuring basic economic security for the masses; the prices of some consumer items changed little during a very long period (Young, 1999).

In contrast to the capitalist economic context, where economic exchanges are in fact the exchange of ownership, the firms in the communist system were actually “shipping” the products but not “selling” them, and the main reason for doing so was not to make a profit but to comply with the planned objective.

3.2.2 Cost structure and wages

Another major difference between capitalist and communist accounting relates to the rigidity of cost structure and the meaning of wages. The cost structure in a capitalist firm reflects its exchanges with the market and is used in computation of commercial margins. There is no restriction at all regarding the structure of the cost. The ultimate goal is to maximize the profit of the firm.

Meanwhile in communist countries, costs were not transaction-based but determined by planners or political authorities. The Soviet accounting concept of cost, the Marxian “ $c + v$,” includes raw materials, depreciation, and wages. To this, the planners add a profit markup calculated as a percentage not of capital, but of total cost corresponding to the Marxian profit rate, “ $s/c+v$ ” (Thornton, 1965). The budget-line logic often meant limits would be set for a specific cost item. The cost structure was thus imposed on the related firm.

In a capitalist economic context, the workers do not own the capital, and have to sell their manpower on the job market to survive. Companies have no restrictions on their capacity to buy labor. The wage paid is one of the operating costs; profit is calculated after deducting wages and other costs and belongs only to the shareholders.

Wages in communist firms had a totally different meaning. There was no free job market. Wage levels or rewards were determined by a rigid wage system based on notions such as “years of service” and “quotas for promotion available” rather than by performance (Hilmy, 1999). Firms were only allowed to put a fixed part of this amount into the cost reported in the income statement. The rest (named bonuses or premiums) was considered as part of the profit appropriation.

During the reform, the Chinese authorities progressively liberalized the job market. Employment contracts with specified terms were introduced in 1986, with the aim of dismantling China's "iron rice-bowl" employment policy. As part of this reform, material incentives were slowly introduced, and bonuses became more important as a method of rewarding effort and productivity. In 1992, the contracting reforms gained greater credibility when the Chinese government decided to steer larger SOEs into the market, and to hold them responsible for their profits and losses. A new social security system (incorporating unemployment insurance) was established to cushion the blow to those workers displaced, and lifetime tenure for communist party members ("cadres") was abolished to encourage freer transfer of personnel. By 1997, at least 50% of employees were on contract terms (O'Connor et al., 2004).

3.2.3 Conservatism and provisions

Application of the conservatism principle requires consideration of the firm as a totally independent legal person. To prevent any over-distribution of a firm's wealth to outsiders (fiscal authorities or even shareholders), accountants in capitalist countries are in the habit of recognizing unrealized losses in advance, and deferring unrealized gains. Meanwhile, these possible unrealized losses or gains exist only in a market environment where the risks resulted from the market fluctuation and from the competition between firms occur. Furthermore, the market value is also a compulsory benchmark to measure these unrealized losses or gains. In Soviet Union, provisions for doubtful receivables were prohibited in 1943. The soviet planners, victorious over economic uncertainties, allowed themselves, it seems, to throw into the dustbin of history the principle of prudence which reigned in the capitalist market economies (Richard, 2003, p. 334).

The principle of conservatism was not applied in pre-reform communist China. There are several possible reasons (Ezzamel, Xiao, and Pan, 2003). The first is that the economic system was supposed to be free of uncertainty. Volumes and prices were fixed by the Plan, and the State as the only actor could not default against itself. A second, more deep-rooted reason can be found in the communist attitude to capitalist accounting practices. They were considered as a method devised by capitalists to conceal exploitation of the workers. Of all capitalist accounting practices, those related to conservative accounting were viewed with the greatest suspicion, because they systematically tended to reduce the profit calculated. Surely that must be a capitalist trick to hide the real amount of surplus value they had appropriated for themselves? A third reason for non-application in China of the conservatism principle is that it was in the interests of the various business leaders to maximize the surplus reported, because that indicated they had fulfilled the Plan objectives, and also meant the distributions of surplus expected by the workers could take place. The fact that the surplus belonged to the State, in the same way as tax, caused no tensions at the time of the type observed in capitalist countries, where business owners have great incentive to reduce taxable income.

After the economic reform, businesses' production factors became progressively determined by the market. Firms were increasingly considering themselves as independent entities and as a result, the risk of unpaid delivery and of potential losses related to the out-of-date inventory appeared. The phenomenon of uncollected receivables (triangle debts) amplified from the mid-1980s - some firms even used it as an effective instrument to resolve their cash problem. In response to this situation, the Chinese government timidly allowed the first two provisions in

Chinese accounting: the provision for receivables and the provision for inventory valuation. However, although it is recognized by the Basic Standard, application of the conservatism principle was only partial. The historical cost principle continued to be strictly respected, and revaluation of assets remained impossible. Following the same logic, use of the lower of cost and market method for stocks was still prohibited in Chinese accounting. Even for the two types of provision allowed, deductibility was limited to 0.5% of the closing balance of the account concerned. Bad debt was only recognized by the direct write-off method at the time it was proven (or discovered), in application of what the Chinese called the principle of ‘actuality’ defined in the Accounting Law (Hilmy, 1999).

China suffered from high inflation during the second part of 1980s and in the middle of 1990s and contemporary Chinese accounting was unable to reflect its impact. Application of Western accounting standards would have resulted in a lower company worth than under Chinese standards (Winkle, Huss, and Chen, 1994). Throughout the price deregulation phase (1985-1991), application of the conservatism principle in an economic system with a dual price system (where planned and market prices coexist) would have led to significant reductions in fiscal income at least for the first year, and the State was not in a position to allow that (Ezzamel et al., 2004).

In early 1998, narrowing the gap between national and international accounting regulations in a bid to make listed PRC companies more transparent, the Chinese Ministry of Finance promulgated a revised accounting system for joint stock companies (the Revised Accounting System), which governs the preparation of financial statements for listed PRC companies. The Revised Accounting System sets out requirements for various types of provisions, such as doubtful debt provisions, provisions for realizable values of inventory and short-term investments, and provisions for permanent impairment of long-term investments (Leung, 1999).

In the history of Chinese accounting, the conservatism principle is one of the last aspects of western-style accounting to have been allowed. This also applied to joint ventures. Although the precursor of the accounting system adopted in 1992 was already in operation for joint ventures with foreign partners from 1985, only when it began to be authorised for all enterprises, from 1992, was application of the conservatism principle also possible for joint ventures. Ezzamel et al. (2003) consider that this relative delay is deeply related to the political significance of the conservatism principle in the communist mind, which as mentioned above considered it as the ultimate accounting trick designed to draw a veil over exploitation of the workers. The writings of accounting researchers show that this reason for rejecting the conservatism principle remained alive and well for a long time.

3.2.4 Fixed assets: recognition, disposal and depreciation

The market also plays a predominant role in different aspects of fixed assets accounting: recognition, disposal and depreciation.

Fixed assets on a Chinese communist enterprise’s balance sheet included equipment, buildings, machinery and any other long-term assets costing at least 2,000 yuans RMB. 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. The historical cost was not a market price, however; rather, it was an administrative price based on the costs (plus profit margin) of the

enterprise that produced the asset, with adjustments by central planners to serve certain budgetary or planning priorities. Of course, the costs to the enterprise manufacturing the asset were themselves based on administrative prices (Young, 1999). The soviet accounting theorists came to the conclusion that the only method of valuing assets could be that of full real cost (of acquisition or of production), without any modification for a possible market value, since market values did not officially exist (Richard, 2003, p. 334).

For depreciation of fixed assets, the only authorized method was straight-line depreciation. The useful life of each category of such assets was fixed by the State, and firms had no discretion at all in the matter. Useful lives were very long and the amount of accumulated depreciation was generally insufficient to replace machinery when it was retired. The method used could not contribute any meaningful measure capable of signaling ineffectiveness in using resources. It should be noted that ‘fund’ as used in China is not a source of funding but indicates a resource rationing device, i.e., a budgetary tool. It is merely a form of account designation (Hilmy, 1999).

During its useful life, if a fixed asset was transferred from one firm to another, this was not considered as a disposal and neither gain nor loss was recognized in the income statement, because the firm concerned was not considered as the owner of the asset.

After the accounting reform, Chinese firms progressively adopted Western accounting practices for fixed assets. Useful lives of fixed assets were shortened and set at a more practical level, for example, between 10 and 14 years for ordinary machinery, 6 to 12 years for vehicles, 4 to 10 years for computers and 30 to 40 years for factory buildings. Furthermore, for specific industries given higher priority by the authorities, accelerated depreciation methods (double declining balance and sum-of-the-digits) were allowed. The new accounting rules also considered depreciation to be a “cost,” in contrast to the pre-reform period where, in most cases, depreciation amounted to a de facto revenue for the Government.

When foreign investors arrived in China to create joint ventures, so as not to disadvantage Chinese partners, the State allowed the land contributed by the Chinese partner and occupied by the future joint venture to be valued as an investment. Since constitutionally the land had always belonged to the State, the solution was to allow the joint venture to purchase a land use right for a period of up to 77 years. This land use right was then recognized by the firm as an intangible asset, as a part of the joint venture's start-up costs.

3.3 Accumulation of capital

In a capitalist system, the economic process is oriented towards “unlimited accumulation of capital”. The gradual establishment of this capital accumulation notion in China contributes some major changes in its accounting system. We cover three important points in this section: the function of financial statement, the definition of owners’ equity and the profit appropriation.

3.3.1 Function of financial statements

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.

One of the major financial statements prepared by an accounting entity is the balance sheet, which shows its financial status at a particular instant in time. The balance sheet is a pure illustration of the double-entry bookkeeping method, since it has two counterbalancing sections:

the left side (assets) represents the resources of the entity (everything the entity owns and controls); the right side represents the sources of resources used to acquire the assets. However, these characteristics are almost the only common points shared by communist accounting and capitalist accounting.

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). The firm was considered merely as a unit fulfilling the productive or commercial functions assigned by the state; there was no market for buying or selling these firms. Because of these safeguarding and controlling functions, the firm had to respect the budgets allocated to the respective balance sheet items.

In a market economy, however, it is possible to buy and sell shares representing ownership of the firm. The underlying logic is that all enterprises are intended to be sold. In this system, the balance sheet plays an important role as a basis for evaluating the firm, and the entrepreneur allocates his capital based on economic rationality criteria. He has total freedom to use production resources as he wishes; the only requirement is to maintain a sustainable financial structure. He is the owner of these production resources, which implies that he is entitled to sell them or even destroy them.

In a capitalist economic system, the income statement (or profit and loss account, to use the British term) reports the performance of the firm for a given period. Since the separation of accounting periods is an artificial device in comparison with the ongoing nature of the firm, accrual-based accounting is used to determine the performance of the firm for a specific period. Revenues and expenses are recognized in the income statement when the goods are shipped or services are performed, rather than when payments are actually made or received. Profit or loss is used as a relevant measure, because all income statement items, whether revenues or expenses, are determined by market-based transactions. The bottom line in an income statement (hopefully, it is positive) is the surplus value belonging to the owners of the firm.

However, the income statement did not have the same meaning in a communist context. The function of the income statement was reduced to reflecting how the firm follows the budget line during an accounting period.

3.3.2 Definition of owners' equity

The conventional Western distinction between liabilities and owners' or stockholders' equity had no relevance for Chinese firms during the communist period. All financing in these firms came from the State. Since firms were not considered as independent legal entities, there was no distinction between debt and more permanent forms of capital (equity). They were however categorized by type: the Chinese balance sheet or "fund balance statement" was not based on the usual equation "assets = liabilities + owners' equity", but on three equations: "fixed fund applications = fixed fund sources, current fund applications = current fund sources, specific fund applications = specific fund sources". "Fund sources" refers to the channel for obtaining and generating funds, while "Fund applications" represents employment and utilization of funds in obtaining property, goods and raw materials needed for operation (Tang and Lau, 2000). These

equations meant all the funds provided by the State had a specific use and firms had to respect it strictly. This is the source of the famous principle “A specific fund for a specific purpose”.

In the capitalist world, the system is governed by unlimited accumulation of capital, since profits are reinvested in the firm and transformed into capital. Each year, the non-distributed earnings are included in equity. This means capital plays a dominant role, since its holders have the power to control and organize the firm. Furthermore, the firm is not entirely financed by shareholder investment. Various sources of funds are visible in capitalist balance sheets. First comes the capital, divided into shares, with each share representing an ownership right. Afterwards, the balance sheet presents other sources of financing, i.e. the different sorts of liabilities which confer no share of ownership.

After the economic reform in China, the limitations of the traditional triple-equation balance sheet became clear for the first time when foreign investors started to found joint ventures at the beginning of the 1980s. The government published a specific accounting rule for enterprises with foreign investment in 1985, and introduced a Western-style balance sheet based on the equation “assets = liabilities + owners’ equity”. The old fund balance statement was totally abandoned after the accounting reform in 1992.

Table 3: Balance Sheet Format

PRE-REFORM ACCOUNTING SYSTEM FUND BALANCE STATEMENT		POST-REFORM ACCOUNTING SYSTEM BALANCE SHEET	
<i>Fund Application</i>	<i>Fund Source</i>	<i>Assets</i>	<i>Liabilities & Equities</i>
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
Source: Tang & Lau (2000), table 2, p. 87			

Splitting the whole of fund resources into equity and liabilities was a tricky business. Because of public ownership, property rights had never been properly delineated in the PRC. In theory, the assets of SOEs belonged to the state (that is to the People of the PRC), but in practice no proprietorial group or individual had been concerned with the conservation of SOE assets.

Before the economic reforms, acquisition of fixed (i.e. noncurrent) assets by enterprises was financed by specific funds distributed by the state. During the period 1983 to 1985, in order to exercise better control over the construction of infrastructures, distribution of funds was replaced by loan offers to enterprises. Enterprises were required to pay periodical interest to the state and to repay the loans, but the fixed assets remained the property of the state, in contrast to the situation for private enterprises in a market economy.

3.3.3 Profit appropriation

Accounting in capitalist countries, being at the disposal of the individual capitalist, was perceived by communist China to be primarily a tool of exploitation, legitimizing the private appropriation of a collectively-produced surplus.

Since the owner of the capital is free to decide how to allocate the realized profit, he can choose from all possible options (except in certain countries due to the existence of compulsory reserves, which were historically a late invention to protect the interests of creditors). The profit is not a fixed remuneration of capital. It explains the economic performance of the enterprise and the distribution of dividends is based on the realized earnings.

In market economies, profit measures what is left to common shareholders after all other claimants have been satisfied and all appropriate provisions have been made. One obvious problem with defining the term profit in the context of the communist economic system is that, if the enterprise is state-owned and all organs contributing funds and other resources to it are also state-owned, no logical distinction exists between the various claimants on assets.

Before the economic reform started in 1978, Chinese state-owned enterprises had to pay back to the State the total amount of their annual budget surplus. During the reform, the Chinese authorities introduced certain incentives to improve the efficiency of these firms. One of the most important incentives was the policy for transforming surplus hand-over to tax payment in 1985. Under this measure, in companies where surpluses exceeded the plan, normally half of the excess would be taxed and the other half retained by the firm. These after-tax surpluses could then be used by company managers to augment funds for investment, current assets, and, within limits, bonuses and welfare costs for the personnel. (Unlike Western firms, where these are considered expenses, the standard practice in socialist countries was to record them as an allocation of profits.)

Before the reform, the surplus after taxes and fees was divided into:

- a. fund for operating assets;
- b. fund for new product testing;
- c. fund for emergency;
- d. fund for employee bonuses; and
- e. fund for employee benefits (e.g. housing expenses).

However, the notion of surplus was further complicated by the fact that in addition to the taxes or contributions the firm paid into the state budget, the bureaucracy determined the firm's selling prices, the wages it paid its workers, and the price of its raw materials. If the company's surplus was negative, the bureaucracy also decided what budgetary support the firm would receive. In other words, the surplus reported by an enterprise was fixed arbitrarily by the planning bureaucracy and therefore could not be even remotely viewed as a measure of financial performance. This is why even after the income tax system was established, Chinese firms still treated payment of income tax as a surplus distribution item in their accounts. When they presented their performance, they always stated the total amount of net surplus plus income tax paid as an indicator.

Enterprise managers did care about reported surplus because, as mentioned previously, a portion of surplus might be retained by the firm for reinvestment and payment of extra salaries to managers and workers. The profit motive was weak, however. Most managers understood that even repeated losses carried little risk that sanctions or penalties of any kind would be imposed. In short, making a surplus conferred little advantage, and running a loss no particular danger. Under Soviet-style planning, surplus is not a major success criterion and solvency is not indispensable for the survival of an enterprise (Bailey, 1990). A firm's survival and expansion depend, not on the market, but on the economic co-ordination decisions of central planners and on management's ability to bargain with the authorities (Young, 1999).

The Reform now requires that part of the retained profit may be used for:

- a. a legal reserve;
- b. a public welfare reserve; and
- c. any other reserve established by the Enterprise if it so desires.

With the exception of the public welfare reserve, which may arguably be considered an expense, the Reform clarifies the distinction between the "cost" incurred to generate the revenue before recognizing a profit, and any subsequent distribution (or use) of profit.

CONCLUSION

Our analysis of the accounting changes begun and ongoing in China show that accounting transformation goes hand in hand with the transition from communism towards capitalism. No new political or economic orientation affecting companies can leave accounting unaffected.

The fact that China has had to reorganise its accounting framework in order to evolve from communism towards a market economy shows the structuring impact of accounting features on the economic systems they reflect, and whose reality they construct.

Accounting provides the best representation of the way a nation functions economically. Studying accounting leads us to understand the principles and practices governing the economic system concerned, and also identifies decision-making criteria used by the leaders of the economy. Accounting, because it simultaneously produces representations reflecting the way the economy operates, and supplies the cognitive equipment of the actors in the economy, is a major source of social construction affecting economic systems. This article shows that in particular, capitalism cannot work without a capitalist accounting system. Sombart's theory of the consubstantiality between accounting and capitalism is thus confirmed, but in contrast to Sombart, we do not consider double entry bookkeeping as the required criterion for classifying an accounting system as capitalist. Instead, as seen, capitalist accounting features lie in a particular way of defining the economic entity, the methods for calculating an enterprise's profit and the principles for appropriation of that profit, and the existence of a capital account with associated private ownership rights, where previous profits accumulate. Our thesis follows on from the work of Bryer (2000a, 2000b), among others, who referred to the existence of an "accounting signature" in past capitalist practices. In the contemporary world too, the study of

accounting signatures can still be a means for determining whether certain ways of functioning in the economic world qualify as capitalist.

The major limitation of this study is that while the paper shows clearly how the accounting reform accompanies the economic transition in China, it does not analyse the effect of retroaction, i.e. how accounting features could contribute to the decision making in a capitalist context, to the existence of the capitalism and to the formation of capitalist spirits. This important point needs to be explored in future studies.

Appendix 1: Chronology of major political, economic and accounting events in People's Republic of China (1949-2000)

Oct. 1949	Foundation of People's Republic of China
Dec. 1949	Creation of the Accounting Rule Division at the Finance Ministry
Mar. 1950	Promulgation of Provisory Unified Accounting Rules
1952-1953	Promulgation of a series of industry-based accounting rules
1957	End of nationalization
1958-1961	Great Leap Forward
1966-1976	Cultural Revolution
1978	Beginning of economic reform and opening policy lead by Ding Xiao Ping
Jan. 1979	Reestablishment of Accounting Rule Division
Dec. 1979	Creation of China Society of Accounting
Dec. 1980	Restoration of CPA system
Jan. 1985	Promulgation of Accounting Law
Mar. 1985	Promulgation of accounting rule for Sino-Foreign Joint Ventures
Jul. 1986	Promulgation of the Decree on CPA
Nov. 1988	Creation of the Association of CPA
1991	Creation of stock exchanges in Shanghai then in Shenzhen
May 1992	Promulgation of accounting rules for shareholding companies
Nov. 1992	Promulgation of accounting standards for business enterprises
Oct. 1993	Promulgation of CPA Law
Dec. 1993	Amendment of Accounting Law
Feb. 1995	Promulgation of Provisory Consolidation rules
Jan. 1997	Promulgation of Accounting standard – Disclosure of Related Party Relationships and Transactions
Mar. 1998	Promulgation of Accounting standard – Cash flow statements
May 1998	Promulgation of Accounting standard – Events Occurring After the Balance Sheet Date
Jun. 1998	Promulgation of Accounting standards – Debt Restructuring; Revenue; Investments; Construction Contracts; Changes in Accounting Policies and Estimates and Corrections of Accounting Errors
Jun. 1999	Promulgation of Accounting standards – Non-monetary Transactions
Apr. 2000	Promulgation of Accounting standards – Contingencies

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