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The interplay between accounting professionals and political ideologies: The emergence of Chinese accounting standards from 1978 to 1992

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Keywords

chinese, emergence, 1992, ideologies:, 1978, political, professionals, accounting, between, interplay, standards

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Abstract

This article explores the role of accounting professionals in the emergence of the first set of accounting standards – Accounting Standards for Business Enterprises (ASBE) – in China between 1978 and 1992. Based on a variety of sources drawn from the archives of Chinese language accounting textbooks and highly ranked academic journals, this article reveals how accounting professionals adapted accounting thoughts and practice to fit the demands of the prevailing political ideologies, which facilitated the social conditions essential for the development of ASBE. Drawing on theoretical perspectives on the interplay between accounting and its social context, as pronounced and advocated by Hopwood and his collaborators, this article provides evidence that further demonstrates the social nature of accounting as it was implicated in the broader economic and political transformations in China between 1978 and 1992.

Keywords

1978–1992, accounting professionals, emergence of accounting standards, China, Hopwood

Introduction

Increasingly recognising that accounting is not an autonomous phenomenon, other social, political and economic factors are now seen as being able to provide bases for accounting change, often playing a significant role in influencing the course of its transformation. (Hopwood, 1990: 8)

In recent decades, many accounting scholars have sought to apply alternative theoretical frameworks to better understand the relationship between accounting and its broader social and political conditions (e.g. Arrington and Francis, 1989, 1993; Arrington and Watkins, 2002;

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Cooper et al., 2010; Hopwood, 1987, 1983, 2000; Spence, 2007, 2009); Anthony Hopwood, in particular, had been a strong advocate of understanding the significance of interactions between accounting and its social contexts. The calculative functioning of accounting is an important part of a wider institutional network that organises human societies. As Hopwood (1994: 299) described,

Just as the techniques and terminology of accounting have permeated into the wider social functioning, so too the operation of accounting and the claims that are made on its behalf are infused and shaped by a multitude of the everyday features of the world in which we live, many of which are seemingly distant from the techniques of the accounting craft.

Over the long history of human civilisations, accounting has been used to convert human activities into economic terms so that they can be accounted for and then properly organised. This reflective function is not a neutral and objective process. On one hand, specific forms of accounting practice have been developed to fulfil certain needs of the underlying socio-economic systems. On the other hand, by making certain activities and values visible (or invisible), accounting is capable of normalising (or disguising) particular forms of socio-political governance (Miller and O'Leary, 1987). And in this way, the accounting technology is instrumental for shaping organisational functioning that sustains or sidelines certain economic and political interests. Over time, this social nature of accounting practice has been implicated in organisational and social transformations (Hopwood, 1987). To better understand the roles of accounting in social changes, Hopwood and his collaborators called for researchers to explore the process of

how the technical practices of accounting are tethered to the social, of how wider social forces can impinge upon and change accounting, and of how accounting itself functions in the realm of the social, influencing as well as merely reacting to it. (Burchell et al., 1985)

In the area of accounting standard setting, strong interest has been directed to examine the relationship between accounting standard setting and the ideological contexts in which it operates (e.g. Andrew and Cortese, 2013; Goddard, 2002; Lehman and Tinker, 1987). The majority of these studies, however, have concentrated on Western contexts. In contrast, we place our study in the broader socio-political context of China to investigate the emergence of the first set of accounting standards in that country: Accounting Standards for Business Enterprises (ASBE).

In 1992, the Ministry of Finance (MOF) issued ASBE to be applicable alongside the Uniform Accounting System that has been developed since the formation of the People's Republic of China, in 1949. The Uniform Accounting System was based largely on the previous Soviet Union style of accounting practice that differed significantly to the accounting practices that operated in Western capitalist societies. The ASBE, however, aimed to converge China's accounting reporting system with Western practice, particularly International Financial Reporting Standards (IFRS). This presented a significant shift in China's accounting regulatory strategy. And this change occurred in conjunction with the massive socio-economic transformation initiated by Deng Xiaoping (simply referred as Deng hereafter) from 1978. In this article, we investigate the process in which conflicting socio-political ideas underlying this socio-economic reform were intertwined with the development of the ASBE. Drawing on the theoretical position advocated by Hopwood and his collaborators, our study provides further evidence of the social functioning of accounting. In doing so, we focus on the role of accounting professionals in diffusing dominant political ideologies imposed by Deng, revealing the process in which political rhetoric mobilised

the placement of different accounting concepts and practices. This article, therefore, presents a history of the technical configuration of accounting practice but also implicates accounting in the construction of socio-political consensus by demonstrating how ideological diffusion took place through the ASBE during a period of accounting change in China.¹

The remainder of this article is organised as follows: section 'Accounting and society: the New Accounting History' further explains the social nature of accounting advocated by Hopwood and his contemporaries and also positions this article within a broader methodological perspective: New Accounting History. Section 'Accounting and society in China' explains the ideological background for this research. Section 'Empirical analysis: accounting changes and professional interactions' presents the empirical analysis. The final section summarises the findings and conclusions.

Accounting and society: the New Accounting History

[A]lthough recognized as important, all too often accounting has been seen as a rather static and purely technical phenomenon ... The purposes, processes and techniques of accounting, its human, organizational and social roles, and the way in which the resulting information is used have never been static ... They have evolved, and continue to evolve, in relation to changes in the economic, social, technological and political environments of organisations. (Hopwood, 1976, cited in Napier, 2006: 446)

Accounting has undergone constant changes to incorporate the different methods and technologies required to serve the various needs of organisational and social transformation (Hopwood, 1987). These technical changes have significantly influenced organisations' implementation of particular forms of management system (Burchell et al., 1980). In terms of organisational change, accounting is used not only to visualise organisational patterns but also to reconfigure the allocation of resources. As Hopwood (1987: 207) described,

Different accounts have been provided of organisational activities, processes and outcomes. Different emphases have been incorporated into accounting practices. Overtime, accounting has been implicated in the creation of very different patterns of organisational segmentation ...

In light of this, instead of viewing accounting as a neutral technology that reflects the pre-given economic necessities for administrative functions, Hopwood (1987) argued that accounting is embedded in a much wider process of organisational and social change. This is an important proposition that allows a fuller understanding of the modern organisational world and the changes in which those connect to accounting. For decades, Hopwood called for researchers to examine the underlying social forces of the creation of particular accounting techniques to reveal the implications of accounting practices on and beyond the organisational level (Hopwood, 1987).

There has been a growing body of research interested in the intrinsic link between accounting change and wide-ranging social transformation (Chapman et al., 2009). This research (Carnegie and Edwards, 2001; Potter, 2005) demonstrates that accounting has been presented in different ways in radical social transformations. The social nature of accounting means that it is possible to determine and adapt the particular form of accounting technique that is considered ideal under different social and institutional environments. In other words, accounting can be considered a socially constructed artefact that intertwines with organisational and institutional pressures and can be modified to adapt to varying social patterns (Hopwood, 1987). Contributing to this field of

study, this article explores the interaction of accounting and the broader socio-political ideologies associated with the emergence of the first set of accounting standards in China. We focus on the role of accounting professionals in the diffusion of prevailing political ideologies during this period. In doing so, we demonstrate a deeper and more sophisticated process in which accounting regulation changes to cope with external social transformations. This constitutes an important dimension of the relationship between accounting and society that Hopwood and others have explored. As such, the external social influences include

... bodies of thought which had no necessary a priori relationship to the accounting draft could influence the development of accounting thought, often in institutions which were far removed from the practices of accounting. (Burchell et al., 1980: 9)

Burchell et al. (1980) further applied this relationship to regulatory development and argued that accounting regulation is a reflection of the complex pattern of institutional and political phenomena. The focus of research in general, from this perspective, is to explore a range of diverse original motivations and interests in the development of accounting, as well as the political pressures that have given rise to the regulatory change. Rather than the consequences of accounting systems being determined by their mere existence, they are now being seen as stemming from those organisational processes which give them a particular meaning and significance (Burchell et al., 1980). The relationship between accounting and society has also been documented in studies of Chinese accounting practice. The development of accounting in China has been demonstrated as being highly intertwined with political ideologies (Ezzamel et al., 2007; Yee, 2009, 2012). In the field of standard setting, some studies, such as Winkles et al. (1994) and Xiang (1998), have attempted to identify the factors that have contributed to the emergence and development of accounting standards in China. These studies argued that economic reform provided the conditions for the accounting change, and in turn, accounting offered the technical support necessary for the economic reform, such as the privatisation of state-owned enterprises. In the literature, however, there has been little attention paid to the deeper and more fundamental political motivations underlying accounting standard setting. Drawing on Hopwood's works in 1983, 1985, 1987, 1994 and 2000, this article places the analysis in the broader political and institutional context in which the ASBE was developed. The findings illustrate the process in which accounting regulatory change proactively interacted with the changes in ideologies imposed by Deng in China, during the transitional period from 1978 to 1992.

Accounting and society in China

This section explains the social and political environment of the research period to set the background for the analysis presented in section 'Empirical analysis: accounting changes and professional interactions'. To do this, we first outline the accounting systems adopted in China prior to 1978 so that the changes occurring in the period of the ASBE have contextual meaning. We then explain the specific ideological changes incurred in the political domain during the period.

Accounting systems prior to 1978

After the Chinese Communist Party (CCP) took power in 1949, a series of political campaigns were launched under Mao Zedong's (simply referred as Mao hereafter) leadership from 1949 to 1976. Socialist ideology was considered essential in order to bring administrative control and economic direction into alignment with the Party's ideological beliefs (Riskin, 1991). Consistent with Mao's rejection of Western thought and capitalist values, the accounting systems were

developed to mirror the Soviet Union's industry accounting practice, which was also based on principles of communism. An accounting equation, 'Application of Funds = Sources of Funds', was adopted and replaced the previously used 'debit-credit'² bookkeeping system. The form, structure and content of the equation differed significantly to the ones adopted in the Western capitalist economic system during the time (Chow et al., 1995). For instance, the terms 'increase' and 'decrease' were used in place of 'debit' and 'credit', with increases recorded on the left side of the socialist-inspired accounting equation, and decreases were recorded on the right side (Chow et al., 1995). This bookkeeping practice was viewed as carrying 'a symbolic meaning, with political, ideological and cultural implications that Chinese socialist accounting was fundamentally distinct from western, capitalist accounting' (Chen, 1998: 86). Nationwide, during the 1950s and 1960s, China adopted the Uniform Accounting System, which was a highly specialised industry-oriented system to meet the requirements of the country's planned economic system (Chan and Rotenberg, 1999; Graham and Li, 1997; Xiao et al., 2004). The purpose of this macro-oriented system was to serve state control, with the socialist system giving little attention given to calculations of profit and management for profit-driven entities (Solas and Ayhan, 2008). Under the impact of political movements – specifically, the Great Leap Forward and Cultural Revolution that were launched subsequently in 1958 and 1966, respectively – China was in political and economic chaos and its accounting systems suffered as well. Several studies, such as Graham and Li (1997), Van Hoepan (1995) and Yapa and Hao (2007), describe accounting systems in the period of the Great Leap Forward as 'simplified accounting' and 'accounting without books' (Graham and Li, 1997: 249). The formal Uniform Accounting System used during the Cultural Revolution deteriorated to such an extent that it eventually became dysfunctional (Van Hoepan, 1995; Xu et al., 2014; Yapa and Hao, 2007). In the following subsection, we further outline the change of Mao's political ideologies during the research period, which is the immediate ideological context in which our empirical analysis is placed.

The ideological shift between 1976 and 1992

Following Mao's death in 1976, Deng initiated a series of reform policies as the new leader of the CCP.³ Following decades of social and political chaos, Deng had realised the importance of rebuilding China's economic system and enhancing the living standards of the entire population. His fundamental guiding principles were the 'Four Modernisations': strengthening China's agriculture, industry, national defence and science and technology sectors. To accomplish the 'Four Modernisations', Deng (1978c) promoted his political ideology 'Emancipating the Mind, Seeking Truth from Facts'. This became an important slogan in the attempt to eliminate Mao's previous ideological position that emphasised class struggle, public ownership and a planned economy. In public speeches, Deng (1978c) urged party members to retreat from the 'ideological taboos' or 'forbidden zones' created by Mao. Deng (1978c) cautioned against rigid 'book-worshipping' that was divorced from reality, arguing instead that breaking free of this rigid thinking was an essential condition for achieving the 'Four Modernisations' and helping China progress. This led to Deng's movement of 'letting a hundred flowers bloom, a hundred schools of thought contend',⁴ which aimed to encourage people's thinking and explore new ways of generating ideas (Deng, 1978c). Deng recognised that thinking outside the permitted parameters had led to 'stigmatisation' and 'political persecution', which had eventually brought about a cessation in free thought and professional development in Deng (1978c) and He (1980a).

Following the ideas of 'Emancipating the Mind' and 'Seeking Truth from Facts', Deng had two main strategies to achieve the 'Four Modernisations'. First, he shifted the ideological focus

from class struggle to economic development. Deng (1978c) remarked that the practice of attacking and silencing critics was a waste of resources that could be better spent on other social developments. Rather than alienating the bourgeoisie class, Deng (1979a) campaigned for a national collective will that combined the interests of different classes in order to ‘mobilise and unite the people of all nationalities in China’ (Deng, 1979b). Deng’s attitude to the distribution of salary system is a notable example of his effort to shift the focus from politics to economic development. The distribution system in the period of the Cultural Revolution was based primarily on workers’ political attitudes rather than production outputs. In contrast, Deng (1978a) commented that if the distribution were calculated based on labourers’ politics, the distribution principle would have been ‘to each according to politics’ rather than ‘to each according to work’. Deng (1978a) further asserted that an acceptable political attitude could only be praised with respect to the individual’s contribution to the socialist society and that individuals’ salary should be distributed according to their performance and technical competency. The second strategy Deng adopted was an ‘open-door’ policy (Deng, 1978b). The aim of this strategy was to enable China to learn from the rest of the world while still maintaining its socialist system. This was in contrast to the period of the Cultural Revolution, where ‘worshiping foreign things’ was strongly criticised (Deng, 1978b). Deng (1979a) explained his strategy of learning from other countries:

Capitalism already has a history of several hundred years, and we have to learn from the people of the capitalist countries. We must make use of the science and technology they have developed and of those elements in their accumulated knowledge and experience which can be adapted to our use. While we will import advanced technology and other things useful to us from the capitalist countries – selectively and according to plan – we will never learn from or import the capitalist system itself, nor anything repellent or decadent.

However, this statement is arguably a political cant. Although Deng attempted to link Chinese economic theories and practices to a system of market-based socialism, the final objective of Deng was to build the market economic system (Marti, 2002). For this reason, Deng is well known as the ‘father of Chinese capitalism’ (Schoppa, 2011: 366). Deng, (1979a, 26 November) subsequently introduced the notion of a market economy into China, couched carefully within socialist ideas. Deng (1979c) stated, ‘of course, we do not want capitalism, but neither do we want to be poor under socialism. What we want is socialism in which the productive forces are developed and the country is prosperous and powerful’. Deng (1979c) claimed that the market-based economic model was a valuable means for enhancing economic production, which was, in turn, necessary for building the ultimate socialist society.

In addition to encouraging learning of advanced scientific and technological knowledge from other countries, Deng also promoted the development of intellectual resources through collaborative projects between Chinese and foreign professionals (Deng, 1983). He argued that China did not have adequate experience in developing the modernisations (Deng, 1983), and opening China to the outside world would accelerate the country’s progress. From an accounting perspective, as noted previously, the political nature of accounting had been highly emphasised, and learning accounting systems from Western countries was prohibited under Mao. Therefore, eliminating old political taboos surrounding class hierarchies and encouraging learning from the West were the foremost ideological changes, which conditioned the later adoption of Western accounting standards in China. There have been some studies investigating the development of accounting systems in that period, focusing on delineating the evolution of bookkeeping systems. For instance, Chen (1998) pointed out that evolution of ‘debit–credit’ bookkeeping in China revealed the interaction of accounting with the socio-economic changes and suggested that the

re-emergence of double-entry bookkeeping in China was the result of economic reform launched by the Chinese government from 1978. However, these studies have mainly placed emphasis on the evolution of bookkeeping as a method of accounting, while focusing only generally on the underlying forces that drove the emergence of the accounting practice. The impact of Deng's political ideologies between 1976 and 1992 in China's accounting practice is still a developing area in the literature. Ezzamel et al.'s (2007) and Yee's (2009) works directly address this topic. Ezzamel et al. (2007) demonstrated how the accounting systems re-emerged and were considered a neutral technique under the impact of Deng's political ideologies. Yee (2009) adopted Gramsci's theory of hegemony to review the political environments that caused the (re)emergence of the accounting profession in China under Deng. Contributing to this field of study, this article provides further evidence for the impact of political ideology on the development of accounting standard setting under Deng's regime.

Empirical analysis: accounting changes and professional interactions

This section presents the empirical analysis of this study. Interpreted through the theoretical perspective that focuses on the relationship between accounting and society, this section reveals the changes that have been introduced into China's accounting practice and further demonstrates how the changes were mediated by the interaction of accounting professionals with shifting political ideologies. First, we present the process in which Chinese accounting professionals actively reconstructed a different identity for accounting by diffusing Deng's political ideologies, namely, the political nature of accounting and the importance of learning from other countries. This eradicated previous views of accounting under Mao and paved the way for the emergence of the Western-styled accounting standards during China's move towards a market-based economic model. Following the announcement of Deng's 'Emancipating the Mind' and 'Seeking Truth from Facts', and the call for 'letting a hundred flowers bloom, letting a hundred schools of thought contend', the accounting profession started to respond. A new academic journal titled *Accounting Research* was founded by the Accounting Society of China (ASC)⁵ in 1980, and it has been the top-ranked Chinese accounting journal since. In the first issue of *Accounting Research* (1980: 1), the editorial board framed expectation of accounting professionals as 'letting a hundred flowers bloom and a hundred schools of thought contend, to strive to set up an atmosphere that supported expressing views, free discussion, inspiring each other, and mutual consultations in academic research'. This mission statement was subsequently mobilised across the accounting community and sparked broader discussions and debates on the political nature of accounting and the importance of learning from other countries in the accounting discipline.

Re-conceptualising the nature of accounting

As noted, during the period examined in this study, Deng shifted the ideological focus in China from one of class struggles to that of economic development. However, some accounting practitioners still persisted with Mao's ideas arisen from 1950s and 1960s that accounting systems involve aspects of class conflicts. Ye (1979: 37) published a journal article in *Finance and Accounting* (a top-tier Chinese journal, administered from its launch in 1979 through to the present by the MOF) that maintained that the class nature of accounting existed in accordance with Mao's instruction in 1950s and 1960s:

In a class society, everyone lives in a certain class and it is branded by the thought of that class. For this reason, it is unreasonable to believe that accounting methods are objective and not relevant to people's subjective thinking. Debit-and-credit bookkeeping is not from heaven ... this double-entry bookkeeping is used to record, reflect and control assets for capitalists, and it is designed on behalf of capitalists, at their will and for their benefit.

Ye (1979) further argued that double-entry bookkeeping had been used for so long in capitalist societies because it reflected the collusion of capitalists and safeguarded their privileges. The purpose of double-entry bookkeeping, in his view, was to cheat the working class and cover up such exploitation. Because of this, it was argued, the 'debit-credit' method was not used prior to 1976 during Mao's period. Similarly, Li (1980) published an article in *Accounting Research* that argued that accounting serves specific classes in a class-based society, such as in capitalist countries, and further used the principle of conservatism to illustrate the class nature of accounting systems, stating that the purpose of conservatism was to 'increase the cost, decrease profit, and cheat workers, to reduce taxable payments and dividends and thus maximise profits' (p. 38). Statements analysing the principle of conservatism from such a class perspective were common in China's accounting discourse prior to 1980s (Liu, 1993; Yang and Shen, 1991). Not surprisingly, the socialist accounting system subsequently adopted under Deng did not contain the principle of conservatism. Instead, accounting professionals attempted to construct a unique socialist accounting system to distinguish the principles of the capitalist and socialist accounting systems, and these differences continued into the first few years of Deng's reign. For instance, an accounting textbook for tertiary education published in 1981 by Jiangxi Finance and Economics College supported the previous socialist accounting practice. It argued that socialist accounting uses Marxism as its guide and focuses on the organisation of productive forces and the improving of productive relationships, thereby enhancing China's economic results and progress to achieving the 'Four Modernisations'. The contents of the accounting system outlined in this textbook, which was also used in Mao's period, reflected socialist features. The textbook recommended using the balance sheet, based on the equation 'Application of Funds = Sources of Funds'. The profit calculation, in this textbook, was presented as a synthesised index to indicate the contribution of an enterprise to state accumulation. Therefore, the purpose of the income statement was 'to measure the ability of the implementation plan to promote enterprises' operating management, increase the state accumulation of funds, and enhance the development of production' (Jiangxi Finance and Economics College, 1981: 148). As discussed in section 'Accounting and society in China', China's social and political values were mirrored in the accounting domain. Accounting had come to be involved in the construction of particular forms of ideological order. During Mao's period, the class nature of society was highly emphasised, and this provided a political environment for the development and use of socialist accounting practices that reflected Mao's political ideologies. In order to safeguard the dominant role of Mao, any person who promoted any element of the Western system, including accounting, was branded a 'capitalist roader'.⁶ Many people were afraid of expressing their thoughts if they contradicted the prevailing political sentiment. However, after Deng announced the change in focus from class struggles to economic development and the opening up of China, Mao's socialist accounting system started to face some challenges. For example, one prominent accounting scholar, Yang Jiwan, an academic and the director of the Accounting Affairs Division of the MOF, encouraged accounting professionals to express different views and stated that 'the truth is becoming clear after discussion, whether for or against. In discussing issues, we should convince others ... rather than "bludgeon" and "label", dividing people into certain political positions and then discussing the issue' (cited in Xia and Ma, 1993: 25). This aligns with

Hopwood's argument in 1983, 1985 and 1987 that accounting can be seen as reflective organisational practice that is constructed during the configuration of a specific culture or social task. Accounting professionals, therefore, play a significant role in altering the accounting system to fit with broader institutional demands. In contrast to traditional professionals, who held fast to the ideological position of Mao, there was a group of progressive professionals who emerged alongside the new political ideologies espoused by Deng. Considering Deng's political attitude of learning from Western countries, this group of progressive accounting scholars challenged the view of traditional professionals with greater emphasis on the technical nature of accounting systems. Yan Dawu, an associate editor of *Accounting Research*, wrote an influential article with Yang Jiwan that was published in the first issue of *Accounting Research* in 1980, which noted that accounting is embedded within technical and political contexts. This article mainly analysed the technical aspects of accounting and how it could best serve economic production (Yang and Yan, 1980). Another article, written by Ge and Huang (1980: 23–24), was published in the first issue of *Accounting Research*, in which the authors questioned the view of the class nature of accounting:

Does accounting have class nature? How can we analyse the class nature of accounting? ... The objectives of accounting are different in different social systems. In a capitalist system, the objective of accounting is to account for the movement of capital, similarly in a socialist system it is for the movement of funds ... Therefore, either the capital or the fund is an objective reality, which does not have a class nature.

Yu (1980: 46), an accounting professor, published an article in *Economic Issues in China*,⁷ stating that

[a]ccounting can only be used for consultation and reference ... Accounting is an information system, and actually can be considered as a certain language or method, and *this language or method does not have a class nature*. One language or method *can be used by different classes to serve a certain class*; we cannot mix the application of language or method with language or method itself. Therefore, *the dual class nature of accounting cannot show the real nature of accounting*. (emphases added)

The idea of accounting as a technical tool was gradually gaining acceptance among accounting scholars. A few notable scholars, such as Ge Jiashu, began to revisit the double-entry bookkeeping method to discuss how it could be used in socialist China. Although double-entry bookkeeping was yet to be put into practice, the discourse surrounding and understanding of this method differed significantly to that in Mao's time. Ge's (1978)⁸ journal article 'Must restore the reputation of double-entry bookkeeping' was published in *Economic Issues in China*, and this article was considered the first attempt to consider the restoration of double-entry bookkeeping. In his article, Ge wrote that Mao's ideology categorised everyone into to a certain class, with even accounting thought being classified into different classes. However, he argued that closer examination was required before 'accounting theories and methods could actually be connected to the social system to serve a certain class, and to reflect a particular political position' (Ge, 1978: 77–78). Ge (1978: 83–84) argued that the equation 'Application of Funds = Sources of Funds' contained the same rationale of achieving a balance, as the equation 'Assets = Liabilities + Equity' adopted in the capitalist accounting system. Ge (1978) believed that rejecting the debit–credit double-entry bookkeeping method would not help the evolution of socialist production. Ge (1982) argued that accounting had been artificially divided into socialist and capitalist systems under Mao's rule, which had, in fact, restricted the development of a

socialist accounting system. In the following years, Ge (1980, 1981, 1982, 1984) published several articles advocating the benefits of the debit–credit bookkeeping method. Aligning with Ge’s (1978) argument, He (1979)⁹ published an article titled ‘No class nature on accounting bookkeeping methods’ in the MOF-founded journal *Finance and Accounting*. In this article, he wrote, ‘Is there a class nature in accounting bookkeeping methods? My answer is no’ (He, 1979: 20). He (1979: 20) stated that the class nature was only limited to accounting objectives, tasks and guiding principles and not the various bookkeeping methods per se. This article triggered substantial discussion among the accounting community. In a memorial¹⁰ published in 2010, He Nanxuan (2010) described that he received many letters from readers who expressed their excitement on reading his ‘outspoken paper’. He believed that his article had spoken for the majority of accounting practitioners during the time. One year later, He (1980: 68) further criticised the views of traditional accounting professionals, such as Ye (1979):

Ye’s article does not discuss relevant issues; rather, it only insists on criticising the adoption of double-entry bookkeeping in capitalist systems by noting that it is ‘hard to understand’ and can be used to ‘cover exploration, cheat the public’. Ye’s paper stated that double-entry bookkeeping is deliberately mystifying, and ... can only be understood by a few trusted followers. In fact, many people, such as general accountants and economic managers, understand this double-entry method in capitalist society; even labourers have learned economic management and this accounting method. This accounting method has been known by so many people, how can capitalists use it to cheat the working class?

This revised view of accounting was also reflected in many accounting textbooks. One example, written by Pan and Wang (1983: 5), defined accounting as ‘an economic information system used by enterprises, business, agents, and other organisations to record information in a continuous, systematic, and comprehensive way’. Furthermore, some accounting textbooks, such as that published by Jiangxi Finance and Economics College (1981), started to adopt the debit–credit double-entry bookkeeping method, which had been abolished under Mao.

Learning from other countries

With the spread of Deng’s ‘open-door’ policy, accounting scholars began to promote the idea of learning accounting systems from other countries. In the early 1980s, several academic articles were published in accounting journals to encourage this learning. In total, 39 out of 248 articles published in *Accounting Research* from 1980 to 1982¹¹ directly translated accounting standards from other languages – for example, from Japanese, English and German to Chinese – and 24 focused on introducing western countries’ accounting standards, explaining the importance of these standards in the process of economic construction. These articles covered comprehensively the various aspects of accounting systems practised in the West, including financial accounting (e.g. Yang, 1980), management accounting (e.g. Yang, 1980) and auditing (e.g. Chen and Shen, 1981). A common theme throughout these studies was that, consistent with Deng’s political ideology, accounting professionals could learn from other countries and apply these countries’ advanced technologies while still preserving China’s socialist characteristics. For instance, Bai (1981: 30) noted,

Management accounting in foreign countries is a managerial practice that has been developed by management and accountants. This is one of the important achievements in the capitalist system ... we should learn the practice of management accounting seriously ... When we are learning this experience, we should note there is a shortcoming, that is the public and masses are not encouraged to participate in

the management enterprise ... In our socialist context, the workers are the real owners of the enterprise, and our accounting and management should heavily rely on the participation of the workers ...

It was also common, among this group of academics, to state in their writings the importance of adopting Western accounting systems in China. For instance, in the preface to *Modern Accounting Foundations*, Tang (1991: preface) noted that 'this book is written to explain our country's accounting theory and practice, whilst absorbing some good experiences from western countries'. Similar statements were presented by Song and Hu (1991: 29), for example, that 'accounting research in China should use Marxism-Leninism and Mao Zedong's thoughts as guidelines, actively introducing other countries' accounting methods and techniques, in order to enrich and improve the accounting system in China'. Although the Western accounting systems, including debit-credit bookkeeping methods and financial accounting statements, had not been directly used in practice, they were introduced at length in many accounting textbooks (e.g. Wang, 1983, 1988). Furthermore, some accounting textbooks, such as Qiu (1991), replaced the accounting equation of 'Application of Funds = Sources of Funds' with 'Assets = Liabilities + Equity', arguing that this was necessary based on research results over the past 10 years (Qiu, 1991). The author explained,

... the concept of 'Sources of Funds' is ambiguous from the economic entity's view. It did not distinguish the enterprise's creditor and owner. ... In the private-ownership system, the owners of an enterprise are entitled to the ownership; similarly in the public-ownership system, the entire population owns the enterprise. In China, the socialist system is based on public ownership. The owners' equity in our state-owned enterprises and collective enterprises belongs to the owners of enterprise, which is the state and the public; hence the equation $A = L + E$ [Assets = Liabilities + Equity] also fits with this feature. (Qiu, 1991: 167)

Additionally, an increasing number of studies attempted to blur the distinction between socialist and capitalist accounting systems. Ge and Huang (1980: 1), for example, identified the 'commodity economy' as the common ground between socialist and capitalist countries to explain the reason for the adoption of Western practices in China. Ge and Huang (1980) argued that this system was not emphasised in Mao's time because of the extreme political bias against the commodity economy under Mao:

In China, we never abolished the commodity economy ... this is a good thing. However, we are uneasy when we use the term commodity economy, and always attempt to limit the usage. [The reason is that] Lin Biao and the Gang of Four¹² promulgated extreme rightist thought, spreading anti-Marxist extreme leftist theory, and arguing that a commodity economy is equivalent to a capitalist economy. In the period of the Gang of Four, although the commodity economy did not disappear, the anti-commodity economy was encouraged ... In this circumstance, it is impossible to provide the necessary conditions for an economic accounting system. (p. 1)

Similarly, Ge (1982) believed that accounting is a productive science without national boundaries; thus contemporary capitalist accounting theory could be cautiously applied in a socialist system. Yang (1989: 5) stated that 'accounting standards started from western countries, and they already have many years' experience, thus they can form one set of systems'. Therefore, Yang (1989) believed that it was important to 'learn experience from western countries, and it is wrong if someone rejects learning some scientific techniques but not others'. Similar statements showing the importance of Western accounting systems were common, such as those found in

Yang and Yan (1980), Yang and Yu (1981), Li (1982), Liu (1982), Ge (1982), Yu (1982) and Yang (1989). From the above, accounting systems became important in the reflection of political ideologies, and accounting change can be seen as a response to periods of ideological transition and the broader reconfiguration of specific socio-political settings. Moreover, accounting professionals played an important role in constructing and building the direction of accounting systems that followed newly emerged political ideas. By shifting the focus away from the class nature of accounting, accounting professionals contributed to a political environment that allowed the emergence of Western-style accounting standards in China. In accordance with Hopwood's (1983, 1985, 1987) theorising, this change in accounting system did not only occur on the basis of its technical merits per se. Rather, other institutional factors, most particularly political ideology, which seemingly had no a priori relationship with accounting, were critical in the evolution of these processes.

The emergence of the first accounting standards in China

Under Deng, the political environment in China transformed from the class struggle campaigns to a focus on economic development. As the previous sections discussed, accounting professionals played an active role in successfully diffusing the leader's political ideologies and (re)shaping common perceptions in the accounting discipline for this socio-political transformation. It was under this political environment that professional discussion started to occur at an official level for the development of the first set of accounting standards in China. The Accounting Standards-Setting Research Group (Group hereafter) was established under the Accounting Affairs Division of the MOF, in 1988. The Group and the ASC organised an accounting standard setting conference in the following year to discuss the structure and direction of accounting standards. The MOF coordinated the accounting standard setting programme and organised activities, such as proposing an agenda to the Group that followed the socialist market economic characteristic of China, organising research conferences for accounting standard-setting activity, consulting with the World Bank for technical support and inviting Western accounting experts to comment on the Chinese accounting standards. In this way, the MOF, ASC and international accounting experts participated in the development of the first accounting standards in China. Although outside input was important in the emergence of accounting standards, Chinese social and cultural attributes, such as 'guanxi' (connections), also helped to reinforce this process. Members of the MOF developed a sense of trust among professionals by relying on connections, which inspired confidence as a result of people's inherent respect for the knowledge and expertise of the community. In November 1992, the MOF released the first Basic Standard of the ASBE to provide theoretical guidance for the development of other specific accounting standards. The basic principles were developed with reference to the conceptual frameworks issued by International Accounting Standards Committee (IASC) and Financial Accounting Standards Board (FASB; Tang, 2000). In the following year, the Accounting Affairs Management Division of the MOF published a book that stated in its preface,

Reform is the only way to liberate and develop productive forces. Based on the requirement of economic reality in China, we urgently need to reform accounting with more courage, a faster step, and more ideological emancipation to investigate, test, absorb, and learn from international advanced management techniques and experience to promote reform and serve the development of socialism. (Compiling Group of Interpretation of Enterprises Accounting Standards, 1993: 1)

Three notable changes were introduced by the ASBE. The first was that article 8 of chapter 1, 'General principles of the ASBE', specified the use of the debit-credit double-entry bookkeeping method. The basic accounting equation of 'Application of Funds = Sources of Funds' was retained in the Uniform Accounting System during most of the period under Deng to reflect the collective ownership. However, in 1992, the ASBE adopted the equation 'Assets = Liabilities + Equity' to align with the Western practice. The MOF (1993: 23) explained this change:

- The equation 'Application of Funds = Sources of Funds' is built on the basis of a planned economy, aligning with a highly centralised economic management system. In this system, enterprises do not have the autonomy to manage their own production and operation.
- With the development of the economic system, the planned economy has been gradually transformed to a socialist market economy, and enterprises have become the investors and operators for their business. Thus, their relationships with outside parties are more complicated, so the traditional equations do not satisfy information users' requirements.
- The equation 'Asset = Liabilities + Shareholders' Equity' is beneficial for aligning with the International Accounting Standards Board (IASB) pronouncements and satisfying the requirements of enterprises' information users.

This shift to the Western-style accounting equation can be considered one of the most important adaptations in China's accounting regulation. It was officially endorsed by the government as a 'design' that better reflects the economic substance of business enterprises. In the previous Uniform Accounting System applicable to the state-owned enterprises, special fund accounts were used to record the income and expenses of the state. The state fund was directly reduced in some cases, to record, for example, the depreciation of property, plant and equipment; losses on scrapped assets; and inventory losses. Sometimes, the state fund increased, such as where there were gains in inventories because of a national price adjustment. However, when enterprises started to take responsibilities for their own business operations, the accounting system needed to reflect this shift of accountability by accounting for individual enterprise's fund changes rather than those of the state (Compiling Group of Interpretation of Enterprises Accounting Standards, 1993). The second change identified in this accounting reform was the change in the format of financial statements. The previous statements had been based on the accounting equation 'Application of Funds = Sources of Funds', which focused on public ownership of productive resources; their purpose had been to identify the corresponding funding for these productive resources. However, some problems had arisen from this set of financial statements when China started to incorporate a market economic model into its economic systems. The MOF (1993) pointed out several issues. First, this funds balance sheet did not consider whether funds came from debt or investment; therefore, it was difficult to recognise creditors and owners in a business transaction (Liaoning Department of Finance, 1993). Second, these financial statements were useful in the highly centralised economic system, when the aim was to help the state to manage the economy in a direct way, without considering the information needs of other stakeholders, such as private creditors and investors. Third, the differences between the funds balance sheet and the balance sheet prepared in the West created difficulties with comparability. Foreign investors would not be able to understand the Chinese enterprises' financial status through the statements. Thus, the ASBE started to adopt the form of financial

statements used in the West, including the balance sheet, income statement and statement of changes in equity.

The third major change was to re-emphasise the principle of conservatism in the ASBE. Previously, it had been argued that the principle of conservatism should not be included because bad debts would never occur in socialist China (Ezzamel et al., 2007). As noted, it was maintained that the real purpose of conservatism in capitalist accounting was to protect the benefits of capitalism and cheat the public by increasing costs and to reduce profits to deceive labourers along with decreasing taxes and the value of dividends. Therefore, many accounting scholars asserted that conservatism was only suitable in a capitalist society, rather than the socialist China (Li, 1980; Liu, 1993; Yang and Shen, 1991). With the shift to learning from Western countries, the principle of conservatism returned to the centre of professional debates. Ge (1982), as an influential academic, criticised the views of conservatism imposed in Mao's period and argued that this principle should be adopted to correct some widespread problems in previous accounting practice that encouraged the 'exaggeration' that prevailed in the political campaign of the Great Leap Forward. Following this call, some scholars started to re-evaluate the nature of conservatism through a re-consideration of the origin and development of this principle (Jia, 1987); as a result, scholars began to recognise the benefit of this principle.

Wang and Lin (1987) and Yang (1995b), for instance, suggested that the reason for rejecting this principle in the planned economy was that 'the state attempted to solve financial problems by [reducing bad debt expenses and hence] increasing [profit and] enterprises' taxes to support the growth in production' (Yang 1995b: 14), which was not relevant to a market economic system. Such discourse by progressive professionals undoubtedly influenced the acceptance of Western accounting practices, which was fundamental to the development of the ASBE in China. Conservatism was re-introduced in the new accounting standards, and the recognition of bad debt provisions and various depreciation methods gained acceptance. For instance, the ASBE's asset pronouncement (contained in chapter 3, article 27 of the ASBE), permitted the recognition of a bad debt allowance based on the amount of accounts receivable at the end of the year. In addition, the straight-line method and units-of-production method became the main depreciation methods, although accelerated depreciation was also allowed in certain industries. The importance of using the principle of conservatism to solve the inherited problems of the previous accounting system, and to meet the objectives of the socialist market economy, has been widely supported in the accounting discipline (Ge, 1982; Ge et al., 1988; Jia, 1987; Wang and Lin, 1987; Yang, 1995a).

Conclusion

The political nature of accounting standard setting in Western nations, particularly the development of IASB standards, has been well recognised in the accounting literature (Bengtsson, 2011; Brown, 2004, 2006; Georgiou, 2010; Larson and Kenny, 2011; Maines et al., 2004; McLeay et al., 2000). It is argued that the development of accounting standards has been captured by influential industrial interests through strong lobbying efforts during the standard setting process. In contrast, the development of accounting standards has been coordinated by the state government in China. During the transition from a planned economy to a socialist market economy, the previous Uniform Accounting System was challenged by the progressive accounting professionals in journal articles and textbooks, while they framed the purpose of accounting practice to meet the needs of the new political ideologies. The development of the first accounting standards through the ASBE took more than a decade, and the success of that

process was intertwined with the shifting of a social consensus towards the socio-political system envisioned by the political leaders. As a nation with a strong tradition of autocracy, social apparatus, including accounting, in China is heavily controlled by the state and its political ideologies. In the period of Mao, the class nature of accounting was emphasised and used to support Mao's socialist strategy. Following Deng's leadership, economic reform resulted in the opening of China's doors to other countries, with learning from Western countries highly encouraged. In this changing environment, accounting professionals strived to re-conceptualise the technical nature of accounting and to demonstrate how it could be used to fulfil a technical mission and create a desirable environment for the harmonisation of accounting practice with the West. This article has revealed the process of reconfiguration, in which accounting professionals played an active role in mobilising political ideologies through the accounting discipline. This process formed the essential foundation that conditioned consensus-forming and aligned accounting practice with the basic function and purpose of providing support to the Chinese business enterprise during the economic transition. However, far from meeting simply technical objectives, consistent with Hopwood's (1985) observation of the contingent nature of accounting practice, these changes in accounting regulation were motivated by political and institutional pressures. The process of the development of the Chinese ASBE setting exemplifies accounting as a mirror of social and political society and reflects the economic development of China during the period 1978–1992.

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Notes

1. Chinese language sources were translated to English by the first-named author.
2. This debit–credit bookkeeping, which was based on the equation 'Application of Funds = Sources of Funds', differs from the contemporary Western debit–credit bookkeeping.
3. The Third Plenum was a meeting held by the Central Committee of the Chinese Communist Party (CCP) from 18 to 22 December 1978 in Beijing. This meeting confirmed Deng's leadership of China and marked the time as one of reform.
4. This campaign was originally launched by Mao in mid-1956 to liberalise the political sphere. In this campaign, Mao encouraged everyone to express their suggestions for the development of socialist society. However, this campaign was unexpectedly stopped in mid-1957, and another campaign, the 'anti-rightist campaign', was launched to fight against those who disagreed with his regime and political ideology. Deng also used this slogan in his political strategy and once again encouraged citizens to express their thoughts. When promoting this strategy, Deng also emphasised that it is important to stop bad practices, such as attacking people who have offered critical suggestions.
5. The Accounting Society of China (ASC) was founded by the Ministry of Finance (MOF) in 1979 as a government body consisting of government officials and accounting theorists and practitioners.
6. This term was often used during the Cultural Revolution period to indicate a person in power who was accused of favouring capitalist policies.
7. This journal has been published by Xiamen University from 1959 to the present, and it is considered one of the most influential journals in the economic and business field in China.
8. He was one of the accounting scholars under Mao who supported the view that a class nature of accounting existed, but his view completely changed with the change in political leadership, and he became the first scholar to revisit the class nature of accounting in the early period of Deng.
9. He is one of the authors who criticised views concerning the technical nature of accounting during Mao's rule (see Xu et al., 2014).

10. He noted that although many accounting scholars during Mao's rule agreed with the technical nature of accounting, not many scholars were willing to express their own thoughts. He further argued that he was not allowed to state that no class nature existed in the accounting equation at that time – even though he held such beliefs – as this would be seen as a political issue (He, 2010).
11. To obtain a full picture of the political nature of *Accounting Research*, every publication issued by the journal between 1980 and 1982 (its first 3 years of existence) was reviewed for this article.
12. Lin Biao and the Gang of Four were labelled as 'anti-revolutionary forces' of the Cultural Revolution and blamed by the CCP for 10 years of turmoil.

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