

THE HISTORICAL EVOLUTION OF ACCOUNTING IN CHINA: THE EFFECTS OF CULTURE

Cigdem Solas

Sinan Ayhan

RESUMEN

Muchos estudios recientes han afirmado que China integra en su sistema contable sus reglas tradicionales, sus intereses culturales y su estilo de vida. La “cultura” sería el punto dominante en su sistema contable. Hofstede, Gray, Mueller y otros investigadores empíricos de la contabilidad, que enfatizan la influencia de los efectos culturales en la configuración de los sistemas contables nacionales, sostienen que la Contabilidad China ha sido dominada por la “Cultura” China.

Este trabajo presenta tres de entre las variables culturales chinas, a saber, Confucianismo, Feng Shui, Budismo, Yin-Yang, etc., que han marcado los comportamientos y las técnicas contables chinas. En China, el sistema contable se basó tradicionalmente en las prácticas confucianistas y en la antigua sabiduría; estos elementos todavía influyen en el sistema actual. En este artículo se estudian las influencias desde una perspectiva histórica en relación con las variables culturales chinas. Las influencias examinadas se centran en los métodos de la teneduría de libros, en las prácticas contables, en la información contable, etc.

La evidencia suministrada por la literatura indica que, a pesar de los cambios en los regímenes de gobierno y en los estilos de gestión empresarial en China, las características principales de las influencias culturales sobre la contabilidad han sobrevivido. De este modo, la polaridad Yin-Yang todavía equilibra la contabilidad china. La lógica económica china se ha transformado para adaptarse a las prácticas de mercado, pero el misticismo chino ha mantenido su lógica en la República Popular China

ABSTRACT

Many recent studies have argued that China integrates its traditional rules, cultural interests and its life style into its accounting system. “Culture” is the main point for their accounting system. Hofstede, Gray, Mueller, and some other empiricist accounting researchers who emphasize the influence of cultural effects on national accounting improvements claim that Chinese Accounting has been dominated by Chinese “Culture”.

This paper presents three Chinese cultural variables (e.g. Confucianism, Feng Shui, Buddhism, Yin-Yang, etc.) that have shaped Chinese accounting behaviors and techniques. In China, the Chinese accounting system was traditionally based on Confucian practices and ancient wisdom; these elements still influence the current system. In this paper, the influences are discussed from a historical perspective with regard to cultural variables in China. The influences studied focused on bookkeeping methods, accounting practices, accounting information, etc.

The evidence from the literature indicates that regardless of changes in government regimes, economic management styles in China the influence of culture on accounting, its basic characteristics have survived. For instance Yin-Yang polarity has still balanced Chinese accounting; Chinese economic logic metamorphosed to market-oriented model practices, but Chinese mysticism has maintained its logic on the People’s Republic of China.

PALABRAS CLAVE:

Factores ambientales, contabilidad, cultura, China, Confucianismo, Feng Shui, polaridad Yin-Yang, contabilidad por partida simple y partida doble

KEYWORDS:

Environmental Factors, Accounting, Culture, China, Confucianism, Feng Shui, Yin-Yang Polarity, Single & Double-Entry bookkeeping methods.

1. Introduction

Environmental influences are the clue to understanding the ranges of national accounting system. National Accounting is a part of its environment, it is shaped by these effects and it has a considerable volume in International Accounting.

After the 1960s, in international research, there was a tendency to give a meaning to categorize different countries accounting behavior, such as deductive or conductive insight's criteria. These criteria aim to explain the reasons for accounting differences between national accounting practices (Zhang, 2005: 14). Determinants of International Accounting are shaped around international tendencies. During the period of international accounting improvements around the world, two main tendencies have been seen, one is the deductive approach, and the other one is the inductive approach. In deductive approach, the development of accounting by linking the effects to influential environmental factors has been examined. On the other hand, the representatives of inductive approach have defined accounting by analyzing the factors and the practices to identify accounting patterns (Zhang, 2005: 14), who made a distinction between measurement and disclosure practices (Chanchani and Mac Gregor, 1999:2).

Hofstede's pioneering research in the 1970s distinguished the process by detecting the structural elements of culture, particularly those that most strongly affect known behavior in the work situations of organizations and institutions (Gray *et al.*, 2001: 42). Hofstede mentioned the expressed influence on accounting a long time ago and then he focused on culture in order to analyze the emergence of accounting climate.

In recent studies, new forms of epistemological analysis in social philosophy are seen in the paradigm of accounting; but culture has still kept its effectiveness on accounting subject matter.

1.1 Literature Review

Many researchers have asserted that international accounting was not only an important research area in its own right, in terms of looking at transnational issues and multinational enterprises. It is also important in giving an opportunity to develop domestic research by providing a 'laboratory' for the analysis of national accounting issues. Once international accounting became accepted as an important area to be investigated, researchers have attempted to identify the key environmental factors which influenced and explained accounting diversity and also seek to classify different national accounting systems and practices (Verma, 2005:1). The question is '*Which factor or paradigm forms the accounting environment?*'

"Culture" seems to be one of the important factors in this design as do politics and economics. At the beginning this effect has been seen only by Mueller (G.Mueller, 1968).

Hofstede asserts the processes of cultural dimension and accounting behavior. Gray developed the link between culture and accounting value; his claim provided a sense of provability about cultural effect (Zhang, 2005:15). Culture has been the dominant character among environmental influences. Radebaugh emphasized that culture was presented by the change of social system. In addition, Radebaugh and Gray discuss the issue of cultural influence on reporting practice in detail. Through a comparative study, they conclude that despite the existence of standards, each country's reporting practice is greatly influenced by its own particular culture and history (Forzeh and Nting, 2001:10).

1.2. Comparative Accounting and Classification of Accounting Developments

Comparative International accounting research has contributed to a growing realization that fundamentally different accounting patterns exist among countries and that international classification differences might have significant implications for harmonization and economic integration (Chanchani and Mac Gregor, 1999:2). National accounting practices were enforced to comply with international accounting practices by the international harmonization process of Accounting Standards. A classification in accounting may also help to shape development rather than merely describe how things are. Classification facilitates the study of the logic and the difficulties facing harmonization. Classification variables have to be determined among the most powerfully differentiating factors which are related to the measurement of national accounting characteristics (Nobes, 1992 pp: 29-56).

1.2.1. Classifications of Mueller, Nobes and Choi

Mueller pioneers the starting point of discussions in accounting classification subjects and recognized a wider set of influences, such as legal systems, political systems, and social climates, as relevant to accounting development, though without offering precise specifications. Mueller gives no express recognition to cultural factors, which were presumably subsumed within the set of environmental factors he identified (Gray *et al.*, 2001 :37) Mueller's environmental analysis was adapted and extended by Nobes, who bases his hypothetical classification on an evolutionary approach to the identification of measurement practices in developed Western nations. However, like Mueller, Nobes makes no explicit mention of cultural factors. Nobes makes a basic distinction between microeconomic and macroeconomic systems, and a further separation between business economics and business practice orientations under the micro-based classification (Gray *et al*, 2001:37). Mueller and Choi together claim that international accounting concepts are based on derived environmental analysis. This opinion suggests that any accounting innovations or development are activated by non accounting elements and they list what they believe to have been direct effect upon accounting developments named as environmental factors (Zhang, 2005 :17). Those factors are attributed to five main elements and titled as legal, political, economic, *cultural* and professional influences by the authors. Exactly among them, the social climate symbolizes the cultural influence. Cultural influences have emphasized by other researchers in later periods.

1.2.2. Hofstede's Values and Gray's Explanation Model on Accounting System Development

Hofstede developed a model of culture which was defined as the “*collective programming of mind*”, so culture includes a set of societal values that drive institutional form and practice (Salter and Niswander, 1995:380). He distinguishes four levels at which culture manifests itself: “*The levels of symbols, heroes, rituals and values*” (Zhang, 2005:17). According to these explanations accounting is conceptualized as a system which varies along national cultural lines. Dimension of culture is constructed in the following topics:

- Individualism versus collectivism *which relates to the relationship between the individual and group with collectivist or loyal values.*
- Large versus small power distance *which relates to social inequality including relationships with authority.*
- Strong versus weak uncertainty avoidance *which relates to ways of dealing with uncertainty, the control of expression of emotion.*
- Masculinity versus femininity *which relates to concepts of masculinity and femininity, and interests in the social implications of having been born as a boy or girl in any country.*

Gray defined culture as the value system shared by major groups of populations. According to Gray, in a theoretical way, linking accounting and culture within which the impact of culture on accounting values and accounting change could be assessed (Verma, 2005:11). Gray's theory is constructed from the societal values which are the origins of the accounting subculture. The value systems of accountants are derived from cultural or societal values with specific reference to work-related values. *Accounting values*, in turn, affect accounting systems, therefore cultural factors directly influence the development of accounting and financial reporting systems at a national level (Doupnik and Tsakumis, 2004 pp:1-30). Gray went on to suggest that there should be a close match between cultural areas and patterns of accounting systems. This is the basis upon which Gray rests his theory of cultural relevance to accounting (Chanchani and Wilett, 2004 pp: 125-154). Gray extended Hofstede's model by hypothesizing the existence of an accounting subsystem which drew its value system from the primary societal value system (Salter and Nieswander, 1995:382). In the hypotheses which were interested in culture, it was argued that a combination of accounting sub-cultural dimension have had considerable influence on accounting. Gray developed four accounting values which were based on Hofstede's model (Ding *et al.*, 2004:10). Gray's accounting values were represented as follows:

- Professionalism versus Statutory Control - *a preference for the exercise of individual professional judgment and the maintenance of professional self regulation, as opposed to compliance with prescriptive legal requirements and statutory control.*
- Uniformity versus Flexibility - *a preference for the enforcement of uniform accounting practices among companies and for the consistent use of such practices over time, as opposed to flexibility in accordance with the perceived circumstances of individual companies.*

- Conservatism versus Optimism - *a preference for a cautious approach to measurement so as to cope with the uncertainty of future events, as opposed to a more optimistic, laissez faire, risk-taking approach.*
- Secrecy versus Transparency - *a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing, as opposed to a more transparent, open and publicly accountable approach.*

Gray also proposed hypotheses that linked to accounting values. These hypotheses were an attempt to link cultural values to accounting values which themselves were linked to four aspects of accounting practice. Gray's model was a way of trying to understand the impact of culture on accounting, and a specific level which operationalise the links between culture, accounting values and accounting practices. In particular, Gray suggested that (Verma, 2005:14):

- *professionalism would influence the nature of authority for the accounting system*
- *the degree of uniformity preferred would influence the way in which the accounting system was applied*
- *the amount of conservatism preferred would influence the measurement practices within the system*
- *the degree of secrecy preferred would influence the extent of disclosure in the accounting system*

1.2.3. Major Environmental Characteristics: Economic Determinant

Aarpen and Radebaugh worked on the conceptual framework of environmental characteristics, in which environmental characteristics were organized into four major groups to explain the environmental influences on accounting: educational, *socio-cultural*, legal and political, economical (Zhang, 2005:26). They claimed that "economic development affects many socio-cultural attitudes and brings about changes in legal, political, and educational objectives and sophistication, each of which in turn can affect accounting practices." (Aarpen and Radebaugh, 1985:23). During the late Qing dynasty, Mao's era, and the last thirty years in economic transition; economic determinant could have been effective.

1.2.4. Linguistic Approach to Accounting

Culture is an important variable affecting a country's accounting environment; the lack of consensus among different countries on what constitutes proper accounting methods the purpose of accounting is cultural not technical. (Belkaoui, 2002:96). Belkaoui presented the most interesting determinants of national differences in international accounting by presenting an international accounting contingency framework to explain these differences: the main elements of the framework are: *cultural relativism*, linguistic relativism, political and civil relativism, economic and demographic relativism, legal and tax relativism (Zhang, 2005:27). Cultural relativism refers to the need to judge any behavior in terms of its own cultural contract, and not from another cultural context. Applied to accounting, cultural relativism rests on the fundamental assumptions that accounting concepts in any given

country are as unique as any other cultural traits. Cultural relativism is necessary to understand the determinants of national differences in international accounting (Belkaoui, 1985:29).

1.2.5 Modern Accounting, Comparative Accounting History and Narrative Accounting History

Contemporary accounting in any country is not the outcome of invention within a single country or culture but rather the outcome of innovations in many places across the centuries (Carnegie and Napier, 2002:689). The time and the places, both of them are important for analyzing the comparative elements about international accounting. This exactly means that accounting aims to situate local accounting practices of today within a comparative framework across space, and then logically country-based histories of accounting simulate the same process across time. The new accounting methods get promoted-links between accounting practices and real accounting norms; the paradigm of accounting research has emerged on subject matter. Both traditional and new accounting schools propose that accounting history is enhanced by locating our narratives within an understanding of specific context in which the context in which the object of the research emerges and operates. (Funnell, 1998:142). Traditional and new accounting historians continue to find common ground with the narrative form and its epistemological attributes; so it is clearly seem that postmodern forms of accounting history accommodate both the new and the traditional approaches, it is represented that the reconstructions of accounting research methods are established the narrative accounting history.

2. Epistemological means of Culture in Accounting

Culture is not random or haphazard; culture is empirically a multi-faceted concept. In anthropology, different cultures have developed different concepts of responsibility, self and understanding (Velayutham and Perera, 1996:66) Hofstede defines culture as the collective programming of the mind which distinguishes the members of one human group from another. Culture provides the cognitive terms for individuals within a group and society preconditions for human behavior (Gao and Schachler, 2003:43). This programming tends to be securely established in an individual by adolescence, but does evolve from generation to generation. Thus, culture is viewed as those beliefs and systematic values that are widely shared in a specific society at a particular point in time. Religion, proximity, history and education are factors that have been identified as important in defining cultural concept (Ralston *et al.*, 1997 :179) The impact of national culture (East-West) and economic ideology (capitalist-socialist) values can be represented by matrix model presented in *Figure 1* (Ralston *et al.*, 1997 :181).

Figure 1-Matrix of National Culture and Economic Ideology / China: Group-oriented Culture, Group-oriented Ideology

		Culture	
		Western	Eastern
		Capitalism	Socialism
I	d	<u>1</u> Individual-oriented Culture Individual-oriented ideology <u>USA</u>	<u>2</u> Group-oriented culture Individual-oriented ideology <u>Japan</u>
e	o	<u>3</u> Individual-oriented Culture Group-oriented ideology <u>Russia</u>	<u>4</u> Group-oriented culture Group-oriented ideology <u>China</u>
l	o		
g	y		

2.1. Background Literature for Chinese Accounting

The literature about Chinese Accounting which explains the national accounting system and accounting reform is plentiful in international and national accounting literature. Many publications focus on the Chinese accounting environment and its development in English and Chinese. But the volume of literature, which systematically analyzes the environmental influencing factors on China's accounting development and the process of Chinese accounting evolution, is quite sparse (Zhang, 2005:48).

Most publications are descriptive without providing any further analysis. Even for those publications that have made some analysis of environmental factors, they only analyze one or two aspects of environmental factors, such as Zhang (1992), van Hoepen (1992).

A list of authors can be found in the literature, such as Cheng (1980), Lou (1987), Enthoven (1987), Lin and Deng (1992), Blake (1992), Gao (1995), Nobes and Parker (1998), Ng (1999) and Zhu (2001) etc. Literature review discloses that in the existing international accounting literature concerning Chinese accounting development, there are also diverse opinions as to which factor has driven China's accounting development (Zhang, 2005:48). There are many descriptions in order to classify Chinese accounting behavior. For instance, some authors clarify their analysis by using culture as the main environmental influence; others view the economic determinants or ideological perspective more dominant or more effective on Chinese accounting environment.

Influenced by the increasing interest in cultural influence on accounting in international accounting research, some researchers have taken China as a case and tried to systematically analyze how Chinese culture influences its accounting theory and practice (Zhang, 2005:48). Zhang, van Hoepen and Berry provide some examples about cultural influences, as the dominant factor, on Chinese accounting. These researchers, particularly

Zhang, prefer to cite Hofstede's definition of culture and improve their arguments on cultural effects. In the course of time, several objections were raised as to Zhang's statement. First of all, it was argued for the linguistic relevance with accounting, which Belkaoui proposed, was argued and later was suspected for its relevance with accounting by Nobes. They seem the factors must be closer to the accounting environment than culture. Accounting language originates from a social language; it employs social language to explain its meaning. However accounting also has its own language within the accounting sphere, which is different from social language. They also assert that accounting is a kind of language, but this language is developed more and more universally without culture boundary (Zhang, 2005:50).

Besides Zhang, there are other researchers who also have noticed the cultural influence on China's accounting development. For instance, Van Hoepen thought that cultural influences, as far as they are still of influence on modern Chinese accounting, stem from the influence of religion, traditional Chinese philosophies and a certain degree of conservatism related thereto (Zhang, 2005 :50). In addition, Berry who has argued for the primary of culture emphasized that "Culture reasoning" has directed accounting developments in China and then concluded the synergistic effect of pluralism in the People's Republic of China's marketplace today could lead to more experimentation in the development of the accounting function. However, the PRC will be seeking for ideological explanations for the changes now being introduced so that its view of scientific management will exist in its appropriate cultural framework (Zhang, 2005:51). Thus it is clearly seen that culture might play an important part in determining the accounting system of China. The influence of culture is pervasively conceived to include and direct Chinese accounting theory, accounting system and accounting institutions.

2.1.1 Chinese Social Values on Accounting

Hofstede's statistical analysis and reasoning revealed four underlying societal value dimensions—that is, collective values at the national level along which countries could be positioned. These dimensions, with substantial support from prior work in the field, were labeled Individualism, Power Distance, Uncertainty Avoidance, and Masculinity. As the meaning of this conceptual structure, Hofstede claimed that an organization's control systems reflected basic cultural norms and are closely related to power distance. Gray also suggested that individualism versus collectivism and power distance were linked to the accounting subcultures, particularly professionalism and uniformity. Therefore, accounting subcultures are concerned with authority and enforcement of accounting systems, which affect the quality of accounting information (Chang and Lin and Mo, 2003: 283).

Subsequent research by Hofstede and Bond (Hosftede and Bond, pp: 5-21) into Chinese values revealed a fifth dimension: a short-term versus long-term orientation, or what was termed *Confucian Dynamism*. Such dimensions, which will be discussed shortly, are perceived as representing elements of a common structure in cultural systems (Gray *et al.*, 2001:37). *Confucian Dynamism* as significant cultural value dimensions, it can then be argued that it should be possible to establish their relationship to *accounting values*. If such a relationship exists, then a link between societal values and accounting systems can be established and the influence of culture assessed (Gray *et al.*, 2001:43). Chow *et al.*(Chow et

al., 1995 :40) apply the Hofstede cultural dimensions to provide an evaluation of societal values on Chinese Accounting as configured in on *Table 1* (Gao and Schachler, 2003 :44).

Table 1-Chinese Social Values on Accounting

Hofstede's Societal Value	China
Individualism/collectivism	Collectivism
Power distance	Large
Uncertainty avoidance	Strong
Masculinity/femininity	Less masculinity
Long-term/Short-term orientation	Long-term

Chow *et al.* described the accounting system and processes in China and the current state of the accounting profession. They suggested that accounting measurement and disclosure in China, the development of the accounting systems would be constrained by the influence of China's culture and its accounting sub-culture and also claimed that while financial reporting would be governed by accounting standards, their development and enforcement would remain a governmental and legalistic function (Chanchani and MacGregor, 1999 :2)

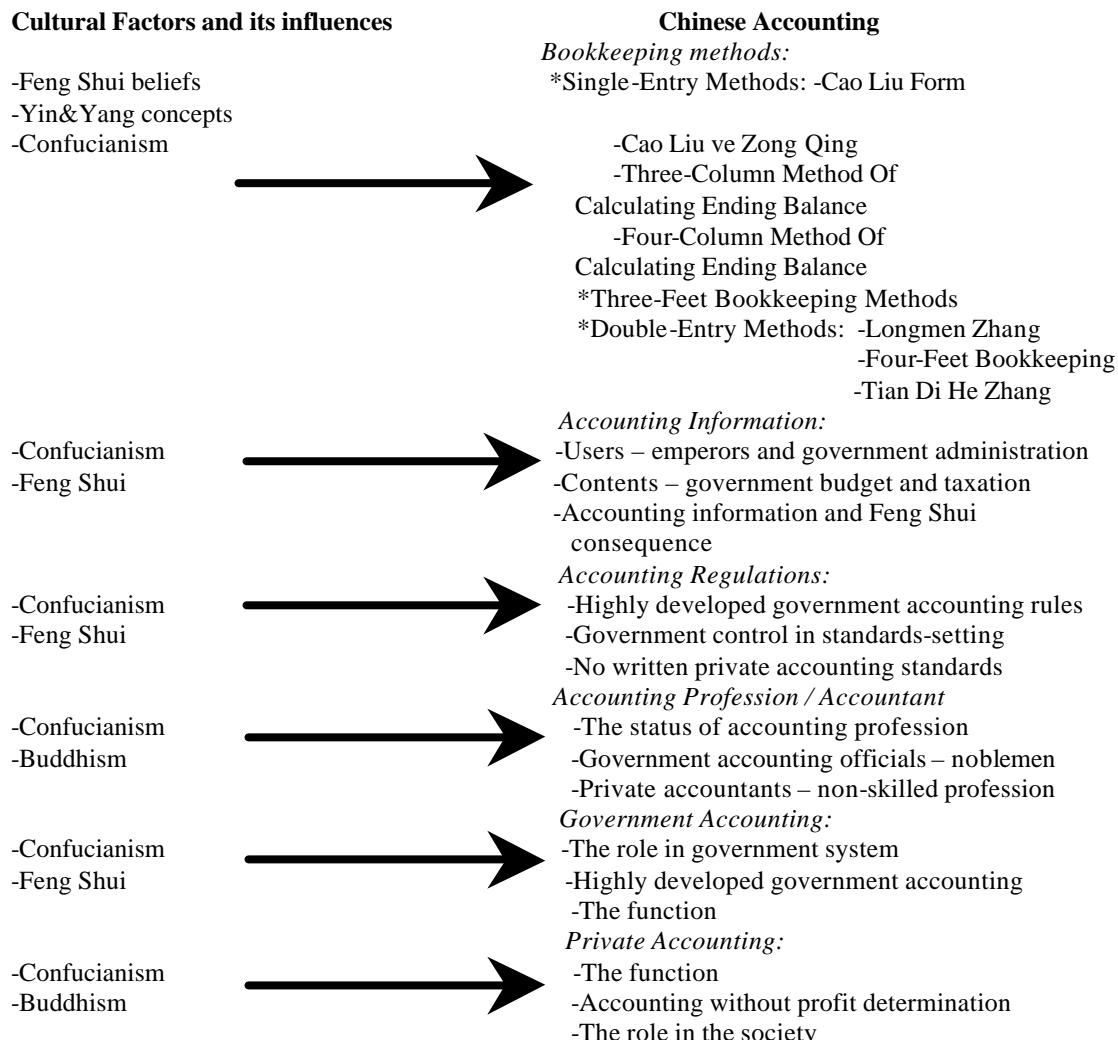
2.1.2. The Dominant Factor on Accounting Evolution in China: Culture

In recent research, most researchers claim that '*culture*' is the dominant factor among environmental influences in the evolution of Chinese Accounting. According to some researchers: "*Chinese accounting strongly depends upon its culture*". In the following arguments, researchers classified Chinese culture into two parts (Zhang, 2005:48):

- Chinese traditional culture (*was rooted in the Confucianism and Buddhist philosophy and handed down from generation to generation*)
- Chinese modern culture (*was encrypted and created in the light of socialist structure*)

There are six major traditional culture elements that affect the Chinese accounting system and practices: Theory of Opposing Yi (justice) and Li (profit); Opposition of Trusts and Contracts; The Dogmatic Attitude; The Conservative Thought; Collectivism; Religion (Zhang, 2005:48). *Figure 2* attempts to indicate the influences of traditional culture on Chinese Accounting system (Gao and Schachler, 2004: 54).

Figure 2-Cultural Factors Rooted From Tradition Influencing Chinese Accounting



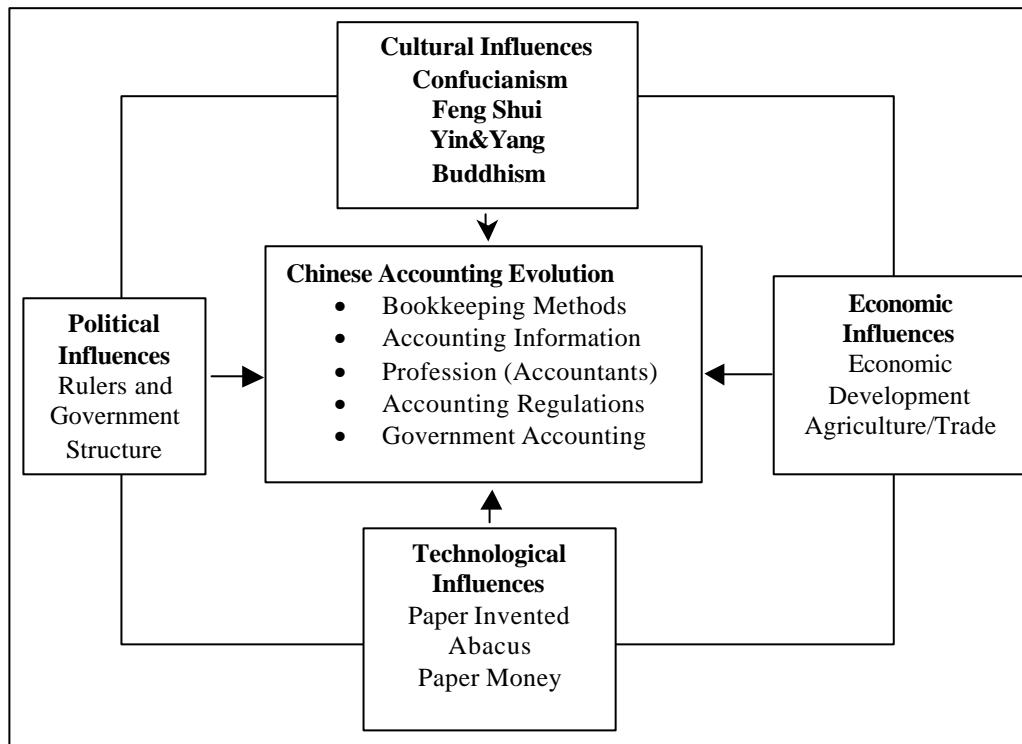
The most predominant modern cultural influences on accounting are (Zhang, 2005:49):

- The state theory (*which decides accounting objectives, functions and organizations*);
- The class theory (*which lead accounting to political oriented argument over accounting with class characteristics*);
- Marxism (*which becomes the basic concept of accounting, the theoretical accounting, and decides the development of accounting*);
- The Cultural Revolution (*which strongly discriminated against accounting and accountants*).

The researcher claims that the Chinese accounting system has been built according to its own traditional and modern cultural frameworks. However, today's Chinese accounting

depends not only on its own cultural values, but also to some extent on the cultural exchange with western cultures (Zhang, 2005:49). *Figure 3* attempts to give a general insight about the factors influencing the evolution of Chinese accounting, during Chinese history (Gao and Schachler, 2004:54):

Figure 3-Factors of Influencing the Evolution of Chinese Accounting



2.1.3. Key Concepts of Chinese Culture and Feng Shui

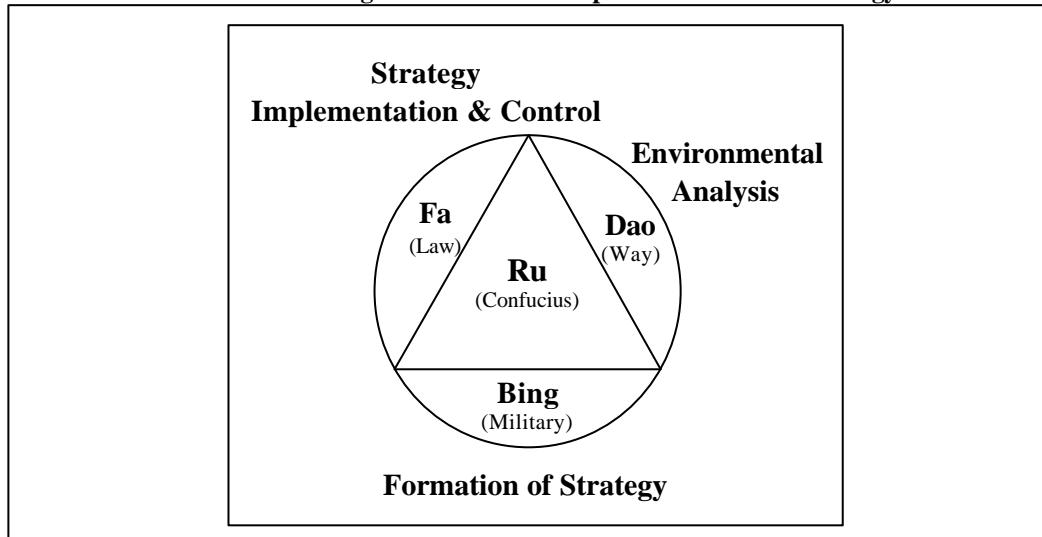
When considering the various influences upon the quality of life, the Chinese have a quintessential idiom: "First destiny, second luck, third '*Feng Shui*', fourth philanthropy, fifth education." Since there is no way one can change his/her destiny and luck, and despite the fact that *Feng Shui* ranks third, its importance to Chinese consciousness ensured that it has become first amongst the elements that can be modified and that are within human intervention in order to lead a better life. It is also believed that with the proper orientation of one's house or business premises, one is able to harmonize with heaven and earth; relate to the physical surroundings to attract desirable cosmological influences by intervening with *Feng Shui* (Cheng, 1996:32).

2.1.4. Cultural Components of Chinese Strategy

'*Dao Jia-The Way*' of universe system thinking guided by *Dao*. The principle of *Bing* is adopted to form the shadow strategy. The strategy is translated into programs and policies and subsequently executed and monitored with reference to *Fa* rules. The burden of building a harmonious and learning organization rests on *Ru* which aims to create a Confucian shaped culture, with a heavy dose of '*Yi-Change*', around the institutional structure (Cheng, 1996:41).

Ancient Chinese thoughts are merged with the new strategic paradigm of China. *Figure 4* also presented this emphasis on cultural components which were also taken their roots from Chinese four major schools of thoughts: *(The Way), *(Military), *(Law), *(Confucius).****

Figure 4-Cultural Components of Chinese Strategy



2.1.4.1. Who is Confucius? Accountant or Philosopher in the Eastern Part of the Paradise

Confucius grew up poor. As an adolescent, he did accounting work in his home area. He was bent on self-learning and improvement. Confucius traveled from state to state in China to encourage leaders to pursue his philosophy, for this reason, he established a school to train leaders, and also taught them Chinese history and classical literature. During those feudal times, there was a complete lack of law in his society and feudal wars were prevalent. Anarchy deformed the society. Pessimism about the future was common. In these circumstances, Confucius attempted to form a new society. He offered new social patterns which were the fundamentals of human nature, values, and also ethics, etc. Therefore, Confucianism means loyalty, filial piety, benevolence, righteousness, honesty, etc (Bloom and Solotko, 2003:29).

2.1.4.2. Confucianism

Traditional Chinese cultural values, as presented by Confucianism, Taoism and Buddhism, consist of a sense of order, vertical and horizontal relation between obligations to the group, and a preference for harmony and cooperation. The emphasis is on the status quo. The philosophical foundations of Chinese culture differ substantially from various philosophical traditions (Gao and Schachler, 2004:44). Confucian philosophy forms the essential basis of Chinese culture. According to Confucian doctrine, an individual is perceived as being a part different overlapping social networks and there are highly defined rights and obligations attached to the relative position each individual possesses in such networks (Gao

and Schachler, 2004:45). Confucianism emphasizes the family as the base of a person's operation and also as an ethical unit of society. At the top of the Confucian ethical system is the concept of filial piety which defines the relationship between parents and children (Velayutham and Perera, 1996:68).

Confucian thought is 'Wu Lun-five cardinal role': relations between emperor-subject, father-son, husbands-wives, elder-younger brothers, friend-friend. Regulating these social relationships are the five Confucian virtues of *Ren* (humanity-benevolence): *Yi* (righteousness), *Li* (profit), *Zhi* (wisdom) and *Xin* (trustworthiness). These definitive ideals set the norms governing how individuals act and behave each other in a social hierarchy. It should be noted that Confucian philosophy is not a utilitarian philosophy: material interests are directly in conflict with the dictates of virtues of *Wu Lun* (Gao and Schachler, 2004:45). At the top of the Confucian ethical system is the concept of filial piety which defines the relationship between parents and children, as it is seen Mencius thoughts; he said (Velayutham and Perera, 1996:68):

"The content of benevolence is the serving of one's parents; the content of dutifulness is the obedience to one's elder brothers; the content of wisdom is to understand these to hold fast to them."

2.1.4.3. Feng Shui, Confucian and Yin& Yang Based Philosophy and Their General Effects

The concept of Yin & Yang was derived from the '*I Ching*-Changes' and five elements, and came from the influence of the ancient magician (*fang-shih*). This ancient magic used the form of divination including six classes: astrology, almanacs, the five elements (*fang*), divination plant (*shih*) and the tortoise shell (*kuei*); miscellaneous divine uses, the system of forms (*hsing*). The combination of these two fundamental systems provides the explanatory basis for the formation of the cosmological symbols which have a correlation in the corresponding human world. This is further correlated with the philosophy of the unity of man and nature which conforms to conflicting philosophical currents, such as, the Confucian moral values, Taosit way, the numerologist willful heaven, and astrological order (Gao and Schachler, 2004:46).

The ancient Chinese believed that the cosmos was in perpetual flux, motion and change. It is called '*Tai Chi*'. Briefly, '*Tai Chi*' includes the means of change and transformation. There are three kinds of '*Chi*': '*Sheng Chi*', '*Si Chi*', '*Sha Chi*'. '*Sheng Chi*' means moving upward; '*Si Chi*' means dying or waning; and '*Sha Chi*' means a harmful energy. The cosmos is organized according to two concepts: known as Yin& Yang. They are regarded as the two cosmic forces that shaped and managed the life. These two opposing forces change each other over time. Yin will eventually become Yang, Yang will eventually become Yin; the system provides the balance concept (Gao and Schachler, 2004:47). Some researcher argues that mainstream accounting research represents Yang orientation without balancing of and by the Yin, and that alternative accounting research to the mainstream is a necessity for establishing a balance between Yin & Yang.

Yin & Yang are interconnected as different, but inseparable sides of the cosmos; e.g. Yin is like night, Yang is like daytime; night takes the place of daytime and moon takes the

place of sun. This is similar to the input-output activity in organizations and transformation of organizational transactions such as balancing profit and loss.

It is thought that this feature has considerably influenced the styles of Chinese people's thinking development. In addition Confucianism was very much influenced by the Yin & Yang relationship and always suggested a '*middle way*'. The '*middle way*' originated from the Yin & Yang balance, and it means understanding the inevitability of changes being prepared to make the necessary adjustments in whole life to maintain harmonious and balanced stance (Gao and Schachler, 2004:48). For this reason, it is thought that Yin & Yang, Feng Shui and Confucian Philosophy intend to be occurred conservative comprehensions in Chinese life style and made them conservative.

Confucian philosophy forms the basis of Chinese cognitive attitudes, which have also influenced the development of Chinese bookkeeping and accounting practices. Conservatism emphasizes conformity to the status protection of the larger social order. Conservatism also attracts the progress. During the evolution of Chinese accounting, slow progress and change were seen as the main characteristics of Chinese accounting (Gao and Schachler, 2004:48).

2.2. Approach of Conservatism or Struggling Against Uncertainty by Long-term Performance

Confucian doctrine takes a middle road approach against uncertainty. The emphasis on adherence to time-honored rituals and traditions in Confucianism would seem to suggest an accounting system that was characterized by form and structure, stressing conformity to customs and traditional practices rather than innovative new processes. Confucianism can lead to an accounting system with attributes of nepotism and secrecy. For that reason, the family firm would generally prefer non-disclosure. Another approach deal with uncertainty in accounting, known as income smoothing, which involves an attempt to stabilize earnings by tempering peaks that would generally occur in income performance measurement. Conservatism is seen as an active approach for coping with risks, showing losses as soon as reasonably possible, but deferring gains till they are clearly realizable. Income smoothing can be considered consistent with Confucianism inasmuch as it focuses on long-term, not short-term performance (Bloom and Solotko, 2003:31)

Another example of such an influence on conservatism was the determination of earnings in the *Longmen* system. Two kinds of inventory practices prevailed around the sixteenth century: appraisal of inventory and the highest price method. Under the former, the cost of goods sold in current period was determined by an appraisal of inventory at the ending date, based on:

$$\text{goods sold} = \text{total purchases} + \text{ending balance} - \text{beginning balance}$$

under the highest price method, the cost of goods sold was determined by the highest price of merchandises purchased in the period. The highest price method was more popular in accounting practice at that time, which apparently was the conservative approach.

2.2.1. Moral Effect of Confucianism on Chinese Accounting

Traditional Chinese cultural ethics do not recognize the profit motive and desire. The moral notion of Confucianism focused on Yi (justice) while common people think about LI (profit) was an ethic directing people's behavior in Chinese history of over thousands of years. In traditional Chinese culture, Yi and LI were opposite. Desire for profit was accepted as an evil for society. Confucian *Wu Lun* condemned any link between profit making and commercial activities for a nobleman (Gao and Schachler, 2004:51).

2.2.2. Yin & Yang Influence on Chinese Accounting

In the traditional way of Chinese thinking, Yin & Yang are expressed as aspects of one and ultimately the same system, (i.e. spirit or body, etc.) and the disappearance of either one of them would destroy the system. Under this influence, Chinese accounting developed with a clear-cut distinction between accounts, but the balance was strongly embedded. As observed in the *Longmen* bookkeeping method, the most advanced double-entry bookkeeping in accounting history reflects a lack of distinctive separation between liabilities and capital earnings. The basic principle of Chinese bookkeeping is that cash flows should be equal to cash outflows (Gao and Schachler, 2004:54).

The influence of Yin & Yang can also be seen in the naming accounting technique of both *Longmen Zhang* bookkeeping, which emerged at the end of the Ming and the beginning of the Qing dynasties; and *Tian* (Heaven-Earth) *He* (Matching) *Zhang* (Bookkeeping System), which emerged in the middle of the eighteenth century. The most popular *Feng Shui*, 'Tian-Di' and 'Longmen', were in fact used to name these bookkeeping systems (Gao and Schachler, 2004:54). Another sample for the influence of Feng Shui terms is observed at the relation of Yin & Yang balance. Under the *Longmen* bookkeeping system, the process was started with *Tian Fang* (the heaven-indicates Yang), continued with *Di Fang* (the earth-indicates Yin), and the process balanced with both of them was called *Tian Di He*, which means to match or balance heaven (Yang) with earth (Yin) (Gao and Schachler, 2004:54).

2.2.3. Collectivism and Uses of Accounting Information

"Collectivism represents a preference for a tightly-knit social framework" (Velayutham and Perera, 1996:72). Collectivism is defined as the subordination of personal goals to the goals of a work group with an emphasis on sharing and group harmony. Therefore, Chinese culture is defined as Confucian dynamism which epitomizes the Eastern value-system, particularly Chinese values (Egri *et al.*, 1999:418). It differs from the Western value-system with its derived identity which originated from ties of group sensibility.

Chinese culture is basically characterized by collectivism which is very group or mass oriented. The characteristics of collectivism have had a great impact on the development of Chinese accounting. First, under a collectivist society the users of accounting information were predominantly government administrative bodies with macroeconomic interests in mind. The primary purpose of accounting was to keep track of the flows in the Emperor's wealth and the state's properties as a matter of economic efficiency. Second, the information provided by accounting sources was mainly statistical data that was considered as part of government census. Cost measurement and profit calculation were rarely found in the ancient Chinese accounting system. This Confucian LI and Yi opposite ethics prevented Chinese

accounting from measuring and disclosing profits and loss (Gao and Schachler, 2004:57). Before the Tang dynasty's period, accounting practice varied from state to state and region to region as the terms of measurement and bookkeeping. As a result of the variation of bookkeeping and measurement, it was difficult for merchants to use and activate the means of exchange (e.g. cloth, silk, salt, grain, rice, etc.) and to evaluate the performance of product trading, which was a kind of barter (Gao and Schachler, 2004:58).

Huge amounts of paper were used in preparing accounts. In order to reduce the high amounts of pieces of paper used for annual reports, the Tang dynasty's authorities began to reform accounting reporting by implementing various new rules and laws. According to those times governmental standards, a standard form of statement called *Changxingzhi*, was capturing a regular implementation with two pieces of paper which contained accounting information on annual income and expenditure. This was to be used nationwide by local reporting officials. It marked an important stage in unifying the formation of accounting statements at the governmental statement (Gao and Schachler, 2004:58). Afterwards the Ming dynasty and Qing dynasty, both introduced some significant development; which involved the publication of unified governmental financial reports named *Wanli Accounting Report* and *Guangxi Accounting Report*.

Chinese culture instilled the in Chinese people the notion of obedience; they prefer to comply with the rules rather than accept innovations. Therefore, it might be thought that Chinese noblemen following Confucian doctrine kept the middle way notions on the whole country, and for a long period, this effect caused to be avoided private accounting requirement by widespread governmental accounting practices.

2.2.4. Effects of Chinese Philosophy on Accounting

Chinese philosophy was introspective and mainly ethical; its academic scope was officially restricted and a traditionalist ideology discouraged creativity and innovation. Moreover, at the height of its power and prosperity, China had no need to contemplate change based on western concepts and practices. The country had a stable social structure, a powerful central government and no political opposition. For many centuries China embraced bureaucratic feudalism supported by a unified system of ideological control. This structure had a built-in quality of stability, it was resistant to change and it did not tolerate creative and unorthodox thinking. Anti-mercantile values and structures inhibited the growth of the commercial class, capitalist enterprise and western accounting techniques (Auyeung, 2002)

2.3. Weber's Model: Stagnation on Accounting in China

Weber identified the western double-entry bookkeeping method as an important actor in the history of capitalism. Weber's classic study *The Religion of China* sought to answer why traditional China's considerable, political, technical, cultural and social potential for economic growth had somehow failed to ripen by comparison with the west (Gardella, 1992:321). "Weber's thesis" is way of claiming that culture makes all the difference (Vries, 2004:6). Weber explained two major forms of economic action: *formal* and *substantive rationality*. *Formal rationality* is considered value neutral and refers to matters of fact and to a scientific-technical sphere of life. *Substantive rationality* is an evaluative concept denoting

the degree to which an economic system; namely the capitalist markets, rational enterprises, accounting; provides for the needs or values of a specific social group.

Half a century of western expansion in China (1840-1890) forced traditional Chinese ideology to experience a searching self-examination and re-evaluation in a reintegration of the country. Reformers were guided by slogans, such as "*Chinese culture is spiritual, western culture is material*". This way of thinking was used to confirm the so-called Self-Strengthening Movement from 1861 to 1895. Harmony was to remain the essential core of Chinese ideology in order to conserve a stable and tradition-oriented society in China before the turn of the twentieth century. Weber claimed that China's failure to develop a rational bourgeois capitalism was due to the absence of a '*particular mentality for the needed motivation*'. He also distinguished the difference of content between Confucianism and Puritanism which represent comprehensive but mutually exclusive types of rationalism: it was the working out of the pervasive differences in mentality that promoted capitalist development of the west and impeded it in China (Auyeung and Ivory, 2003:19).

The Chinese merchants lacked cultural and ideological independence from the gentry; imperial consensus that relates to accountancy emerges mundane issue of the choice of writing materials. Adopting western bookkeeping methods would have required the replacement of Chinese writing patterns with western ones. Chinese were using calligraphy instead of orthodox uses. The written characters, which included numerals, were imbued with the mystical significance and such were all important markers of Chinese culture (Auyeung and Ivory, 2003:20).

In addition, the inhibiting factor came also from social institutions, close family, clan, or regional tie about reasons of the stagnation. Relying on kinship or regional tie is not in itself necessarily detrimental to modernization. Weber's opinion insists that Chinese enterprises did not cultivate the spirit of capitalism. Despite the many shortcomings of traditional accounting, the superiority of the western version, and the modified structural conditions was clear (Auyeung and Ivory, 2003:20).

3. Chinese Accounting History

Accounting researchers assert that Chinese accounting history might have begun nearly three thousand years ago and is as old as ancient Egyptian accounting. During the past periods, Chinese accounting has started with the assets which were designed an advance level and this level has provided to set up the base of accounting and auditing tradition (Güvemli, 2001:598).

In the search for the invention of writing it has been seen that there was a link between writing, abstract counting and accounting. It has also been argued that cuneiform writing was originally created for the exclusive purpose of recording economic transactions and the cuneiform envelope containing tokens used for accounting purposes. There were clay tablets which are signs. They consist of numerals and symbols that are pictographic or quasi-pictographic (Lu and Aiken, 1993 pp: 109-129).

In the period of Dynasties, dominant use of accounting was for supporting government functions and institutions. This sort of government accounting was included elements of bookkeeping, calculation, reporting and use of accounting information. (Chow *et. al.*, 2007: 924) The evolution of accounting techniques was starting with single-entry bookkeeping

system, functioning with incomplete system that was emerged single and double-entry bookkeeping systems; because it used single entries for cash transactions, but double entries for credit transactions (Chow *et. al.*, 2007: 925); and has continued with double-entry bookkeeping system.

3.1. B.C.: Exploration of Accounting

In its embryonic stages in China, accounting was developed in order to manage and protect property accumulated in production (Zhao, 1987:165). In the first historical stage of China (circa 2000-1500 B.C.) the country was transformed from a primitive to a slave society. In this era, Kuaji which meant preliminary accounting was get the method of bookkeeping. This type of record keeping elements was providing to gather and compare achievements among dukes and princes; thus accounting could be considered to have had its origin in these early records (Zhao, 1987:165).

In later stages (circa 1500-1000 B.C.), the character of the system became more sophisticated. As the result of the emperor's divination, the number of animals and other rewards given to officials or offered to gods and ancestors, such information was recorded. The decimal system was also mastered and numbers as large as 30.000 were used. This period was recognized as the embryonic phase of Chinese accounting (Zhao, 1987:166).

The Western Zhou Dynasty (circa 1100-700 B.C.) was extent of the slave system period. The amount of land, number of slaves and other rewards continued to grant and describing the awards reflected the ruler's power and definition of system's virtues (Zhao, 1987:166). With the development of agriculture, the annual grain harvest increased greatly so the means to calculate and record the amounts were more difficult than past practices.

3.2. The Emergence of the Chinese Accounting Climate

Among historical documents, the book of Menfucius is the earliest one to include the sentence for accounting. It says that Confucius's job was to conduct proper accounting. Confucius so as to affirm that the Chinese word for accounting had already appeared during the Spring and Autumn Period. Confucius was a minor official managing warehouses. By proper accounting he meant the recording of receipt and disbursement of materials in the warehouse had to be correct and up to date (Zhao, 1987:166). In that era(circa 700-220 B.C.) officials had the ability to manage and review accounts; the State have been managed by laws and statements so as to provide conformity and check the achievements by examining accounts. It was related to determine whether the records and bookkeeping were true and reliable (Zhao, 1987:166). Uniform tax systems were activated and used in those times (Bloom and Solotko, 2003:28).

3.2.1. Early Age of Governmental Accounting in China

Government accounting in China has existed for over two thousand years. It has been widely accepted by Chinese accounting historians that formal government emerged during the western Zhou dynasty. In the government structure of the western Zhou, there were six principal officials (Gao and Schachler, 2004:59): The official of Heaven, Earth, Spring, Summer, Autumn, and Winter. The Spring and Autumn Period was a significant time in the

history of China (Zhao, 1987:169). In the Spring and Autumn Period, a gradual and increasingly violent consolidation into a shrinking number of ever more powerful kingdoms was witnessed. The terminal phase of competition among the seven remaining the ‘Warring States’ period (475-221 BC), was effected by economic and political development, such as iron production, mass conscription, the suppression of feudal features in favor of private landownership and bureaucratization, and the introduction of coinage (Scheidel, 2005).

3.2.2. Early Age of Private-sector Accounting in China

China’s non-government accounting originated with the development of handicraft industries and commerce (Gao and Schachler, 2004:60). An independent class of merchants developed during the Spring and Autumn period. During the earlier periods, the existence of small amounts of commercial businesses such as the long distance transportation and trading of luxury goods; merchants had to calculate their revenue, also profit and loss. In the early stages, therefore, private accounting in China functioned only as a means of counting and recording. Although the concept of ‘profit’ appears in Chinese literature as early as dynasty (206 BC and AD 220), a method of profit determination did not exist until the fifteenth century.

3.3. Chinese Accounting Books

Before the 1850s three account books formed the basic structure of the Chinese accounting system: the *cao liu* (memorandum), *xiliu* (journal) and *zongqing* (ledger). The standard practice of Chinese book preparation was to write characters in a vertical column from top to bottom, beginning from the right-hand side of the page. A peculiarity of accounting in the Ming-Qing period (1368-1911) was the parallel use of three different kinds of numerals: the *caoma* numerals (the commercial form), *hanti* numerals (the standard forms) and *kuaji ti* numerals (the accounting form), which were used in account books respectively (Auyeung and Ivory, 2003:9).

3.4. Basic Stages of Chinese Bookkeeping Methods

Bookkeeping progressed very slowly in ancient China due to the low level of commercial activities. From the perspective of Confucian ideology, commerce was a highly despised activity in ancient China, and merchants were ranked among the lowest in society (Chen, 1998). It’s not surprising that for centuries after its invention, the single-entry system remained a sufficient bookkeeping method for both governmental and private accounting purposes. There were five traditional stages for accounting bookkeeping methodologies in China, which were seen and transformed respectively in the middle age dynasties era.: ‘*Ru-Chu*’ (three-column balancing method), *Shizhufa* (four-column balancing method), *Sanjiao zhang* (three-feet bookkeeping), *Longmen zhang* (dragon-gate bookkeeping), *Shijiao zhang* (four feet bookkeeping) (Auyeung and Ivory, 2003 :9).

The three column method was further developed into the four columns which were first applied during the Tang dynasty (AD 618-907) and it was a single-entry system. The four column method was expressed in the following formula (Gao and Schachler, 2004:54):

$$\text{Jinguang (the previous balance period)} + \text{Xinshou (the newly received)} - \text{Kaichu (payment)} = \text{Shizai (closing balance)}$$

Four column bookkeeping method was popular in the age of the Song (AD 960-1279), Ming (AD 1368-1644) and Qing (AD 1644-1911) dynasties; it became the standard reporting format both for government and non-government accounting. It was the basis of state accounting in late imperial China (Chen, 1998). Following innovation in commercial and trading activities after the Ming Dynasty, the single-entry bookkeeping method was transformed by the growing complexity of business transactions. The three-feet bookkeeping method was explored in the middle of the fifteenth century. This recording system was given the name '*three-feet*' from its use of double-entry for claims and transfers and also single-entry for cash transactions. The three-feet method further evolved into the four-feet bookkeeping in the late fifteenth century, which was the first form of Chinese double-entry bookkeeping. However, double-entry methods were not widely used in China until the nineteenth century (Chen, 1998). The development of dragon-gate bookkeeping which was derived from three-feet bookkeeping was promoted during the late Ming and early Qing dynasties (Zhao, 1987:169). The main feature of this system was its balancing equation (Auyeung and Ivory, 2003:9):

$$Jin \text{ (Revenues)} - Jiao \text{ (Expenses)} = Cun \text{ (Assets)} - Gai \text{ (Owner's equity and liabilities)}$$

The other significant development in the progress of Chinese accounting was the emergence of four-feet bookkeeping in the eighteenth century. It was a more advanced system than the previous bookkeeping methods for the account classifications (Auyeung and Ivory, 2003:11). The four-feet bookkeeping recorded all transactions in double-entry form; both cash and non-cash, in two corresponding accounts in the journals or ledgers. The end products consisted of two accounting reports (Auyeung and Ivory, 2003:11):

- *the caixiang report (profit and loss statement)*
- *the cungai report (balance sheet)*

3.5. Accounting at the Qing Dynasty or After the Opium War

After the First Opium War (1840), China gradually became a semi-colonial, semi-feudal society (Zhao, 1987:182). Reform was executed in all respects as to the forms and formulas practiced in the royal court, national politics administration and finance. Part of the reform of the system of accounting and auditing was to replace the Ministry of Revenue with the Ministry of Finance and Expenditure, which was responsible for the transportation of grain, taxation, market management, business and transportation, storage, official salaries, military funds, management of expenditure, and accounting. Also Government accounting systems adopted debit and credit bookkeeping as a means to achieve budgetary control. Therefore, statements and annual final accounts with documents of receipt and disbursement had to be submitted monthly to auditing offices for verification (Zhao, 1987:184).

As a result of massive changes in the nature, scale and sophistication of economic activities in China in the second half of the nineteenth century, Chinese bookkeeping methods became inadequate and less efficiency. In particular, the formation of joint stock companies increased the demand by absentee investors for accounting information. The elements of the

Chinese old accounting methodology were not used to preparing the measurement of profit for financial reporting purposes. The logic of new trade developments required financial instructions to ensure payment, take deposits and provide credit, and also required promissory notes which were not orders for payment, but instruments of credit (Auyeung and Ivory, 2003:12).

China's early efforts were about modernizing its accounting system. The modernization program planned to assimilate western bookkeeping methods through codification in the Commerce Law, newly established education institutions, the publication of textbooks, and application of its methods in the public and private sectors in order to resist against the foreign powers in commercial and industrial warfare (Auyeung and Ivory, 2003:12).

Until the introduction of western accounting methods in the second half of the nineteenth century, Bookkeeping in the Qing dynasty was shaped by these basic modes (Gardella, 1992:324):

- the majority of small and medium sized commercial institutions and old style banks used single-entry systems based on the *shizhufa*, while a minority employed the *sanjiazhang*.
- small number of large-scale commercial establishments employed the *longmenzhang* or improved version of it.

In the late nineteenth and early twentieth century, many Chinese pawnshops used seven different types of business ledger; the most important one known as *dianzhang* was a monthly pawn ledger, to record track of their goods; also the other types of ledgers existed to keep share capital, because pawnshops were often partnerships, in-house expenses, individual accounts, and daily exchange rates. Compared with their peers in other trades, pawnbrokers had a superior reputation for accounting probity (Gardella, 1992:324).

3.6. China's Accounting Development from the Beginning of 20th Century and to the End

The evolution of the accounting profession in China was influenced by the economic, political, cultural, and social environment (Yee, 2001:16). After the Qing Dynasty was overthrown by a revolution in 1911, the feudal economic system began to disintegrate. Foreign investors came to China and business activities with the rise of west. Such developments attracted foreign certified public accountants China, and in 1918 the Chinese government issued the Provisional Rules for Accountants. Professional public accountants first appeared in China in 1918 when the Northern Warlord government issued the Accountant Provisions, stipulating that anyone who was qualified in accordance with the provisions could apply to the government for professional certification. After passing examination organized by government, a qualified accountant would be able to directly run an accounting firm, and offer accounting services to the clients. This was the beginning of professional accounting in China (Zhao, 1987:184). Also at this time, it modern styles of accounting educations were introduced to the university level, and contemporary accounting

texts were introduced by establishing double-entry bookkeeping. Legislation in finance and accounting were also improved by certain laws. The following is the chronological index of the laws which were enacted before 1949 (Zhang, 2005 :49): *Accounting Law* (1935); *Auditing Law* (1938); *Budgeting Law* (1938); *Final Accounts Law* (1938); *Public Depository Law* (1938). The Civil Government published the *Unified Accounting System for All Departments in Central* in July 1937.

The Chinese banking sector in the Republican era could simultaneously enforce the use of accounting procedure based on English or American models while enlisting traditional ethics in an effort to create a Confucian corporate culture of collective loyalty and self abnegation. The logic of business rationalization in early twentieth century meant that China should not be reduced to a categorical imperative, with ecumenical modernity displacing parochial tradition. A well publicized contest between two approaches to accounting rationalization during the 1920s and 1930s serves to underscore the point. On one side were those who argued for the “*gaigepai-transformationist*”, who favored wholesale appropriation of advanced, scientific accounting from the West. On the other side stated the “*gailiangpai-reformationist*”, who committed to reforming China’s own accounting heritage by selective adaptation of foreign methods (Gardella, 1992:333).

The ‘*transformationists*’ were active in commercial accounting at that time. Import-export firms, maritime shipping concerns, hotels and department stores undertook thorough accounting and management restructuring under their advice. In the opposite side, the ‘*reformationist*’ strove to retain the forms of native Chinese accounting while linking them to certain key features of modern Western theory and practice. The most important elements were the principle of cash recording, the customary page format, the *shizufa* method, and continued use of specialized traditional terminology. These were complemented by the addition of double-entry, the use of receipts as a basis for recording entries, thoroughgoing rationalization of accounting categories, and closer account integration based on Western principles (Gardella, 1992:334).

In 1925, an association of accountants was founded in Shanghai. During the rule of the Kuomintang government, three further regulations for accountants were issued which stipulated the qualifications, scope of services, responsibilities and ethics of a certified public accountant. From 1918 to 1947, the number of certified public accountants multiplied. Unfortunately, the reform was short-lived and China was soon engaged again in Civil War. Following the invasion of Japan, the Chinese were preoccupied with fighting the Japanese from 1937 to 1945. Therefore, there was little opportunity for the Chinese to promote their economic activities, which retarded the development of accounting and the growth of the accounting profession in China (Yee, 2001:18).

Following years Chinese Accounting that has been formed by culture dramatically got foundational changes and was tested by procedures of transformation; first under communist regime, and then in today’s global world under liberalization. For example, the generation of economic restructuring has brought about significant changes in the Chinese accounting system (Auyeung and Ivory, 2003:22); but they could continue to conserve their cultural values without refusing the new implementations in accounting area. In today’s China, national accounting standards are separately developed but are based on, and are similar to, the relevant International Accounting Standards (IAS). Does it make any contrast or cause

any antagonism? Absolutely not; this great phenomenon seems like a social experiment and it gives us the secrets of life which is balanced with culture, presence and the wisdom.

Conclusion

The Chinese people have traditionally taken a long-term perspective of life throughout history. They have emphasized tradition in order to secure a peaceful and reliable environment and they have secretly resisted changes.

As a result of careful research, many researchers asserted that '*culture*' has been the dominant factor among environmental influences in evolution of Chinese Accounting. In this paper, the influences by contextualizing discussed from an historical perspective have been cultural variables in China. This article has focused on bookkeeping methods, accounting practices, accounting information. It is concluded that Chinese cultural influences have been the dominant factor in shaping Chinese accounting. In essence, Chinese accounting has been traditionally based on *Feng Shui or Confucian values and practices*.

Christopher Nobes claimed that classification variables have to be seen as among the most powerfully differentiating factors related to measuring national accounting characteristics. For the Chinese case, it is observed that Hofstede's cultural model and Gray's societal values are the differentiating environmental factors.

The main point of this paper is to demonstrate how cultural variables that have affected the national accounting environment have had a profound impact for China from the Dynastic period till modern times. The Feng Shui and Ying&Yang polarity components which are widely held to among the people of China encompass the development Chinese accounting. These cultural components have influenced them for different purposes, in terms of being more conservative, more moralist, more spiritualist etc. In order to indicate the real state of affairs, this paper has attempted to cover the historical narration of Chinese bookkeeping methods and techniques.

Political and economical factors have also been analyzed together with cultural factors in the determination of Chinese accounting characteristics. For example, the Chinese comply with the rules, because Confucian doctrine said that confidence and certainty are the most important elements in life. In addition, long-term means success. In that case, culture has been the dominant character for shaping the accounting environment as can be seen explicitly in Chinese accounting practice.

REFERENCES

- Aarpen, Jeffrey S.- Lee H. Radebaugh.: **International Accounting and Multinational Enterprises**, 2nd Edition, New York, John Wiley & Sons, 1985
- Auyeung, Pak K.: "A Comparative Study of Accounting Adaptation: China and Japan During the Nineteenth Century", **Accounting Historian Journal**, December 2002
http://www.findarticles.com/p/articles/mi_qa3657/is_200212/ai_n9155013, 12.06.2006

- Auyeung, Pak K.-
Ivory, Paul.: “A Weberian Model Applied to The Study of Accounting Stagnation in Late Qing China”, **Accounting Business & Financial History**, Volume 13, No 1, March 2003
- Barbu, Elena.: **L’existence d’un Référentiel Comptable International Reconnu Réduit-il Vraiment le Vagabondage Comptable?**, Université d’Orléans Laboratoire Orléans de Gestion, 2003, <http://www.univ-orleans.fr/DEG/LOG/>, 11.06.2006
- Belkaoui, Ahmet.: **Behavioral Management Accounting**, 1st Edition, London, Quorum Books, 2002
- Belkaoui, Ahmet.: **International Accounting Issues and Solutions**, London, Quorum Books, 1985
- Bloom, Robert-
Solotko, John.: “The Foundation of Confucianism in Chinese an Japanese Accounting”, **Accounting, Business & Finance History**, No. 13, 1 March 2003
- Bruhns, Hinnerk.: **Max Weber: Ökonomische Theorie und Wirtschaftsgeschichte**, 26.06.2002 <http://www.uni-erfurt.de/finanzwissenschaft/konf/Beitr%E4geHistSchools/Bruhns300602.pdf>, 22.06.2006
- Carnegie, Garry
D. -Christopher J.
Napier.: “Exploring Comparative International Accountin History”, **Accounting, Auditing & Accountability Journal**, Volume 15, No 5, 2002
- Chanchani, Shalin
-Alan
MacGregor.: “A Synthesis of Cultural Studies in Accounting”, **Journal of Accounting Literature**, 1999 (http://www.findarticles.com/p/articles/mi_qa3706/is_199901/ai_n88_48157/pg_2), 07.01.2007
- Chanchani,
Shalin-Roger
Willett.: “An Empirical Assessment of Gray’s Accounting Value Constructs”, **The International Journal of Accounting**, Vol. 39, I. 2, 2004
- Chang, K. Hung -
Kenny Z. Lin-
Phyllis Lai Lan
Mo.: “An Empirical Study on the Impact of Culture on Audit-Detected Accounting Errors”, **Auditing: A Journal of Practice & Theory**, Vol 22, september 2003
- Chen, Shimin.: “Rise and Fall of Debit-Credit Bookkeeping in China: History and Analysis”, **The Accounting Historians Journal**, Jun 1998, http://www.findarticles.com/p/articles/mi_qa3657/is_199806/ai_n8800792, 06.2006
- Cheng, Jimmy F.
M.: **A Fundamental Study of How Chinese Thinking Influences Westerners and Managerial Practices**, Hong Kong School of Business Research Project, August 1996
- Chiapello, Eve-
Yuan Ding.: **Searching for The Accounting Features of Capitalism: An Illustration with Economic Transition Process in China**, SASE, Budapest, 2 July 2005
- Cild, John.: **Management in China During the Age of Reform**, Cambridge University Press, 1994

- Choi, Frederick *et al.*: **International Accounting**, Fourth Edition, Prentice Hall Inc., New Jersey, 2002
- Chow, Chee W. *et al.*: “*Management Accounting Practices in the People’s Republic of China*”, **Handbooks of Management Accounting Research**, ed. by Christopher S. Chapman-Anthony G. Hopwood-Micheal D. Schields, 1st Edition, Volume 2, 2007
- Chow, L.M. *et al.*: “*Accounting Reforms in Cultural Constraints on Implementation end Development*”, **Accounting and Research**, 26, 1995
- Drenevich, Paul.: “*A Comparison of Capitalist System Examining the Roles of Culture, International Trade, and Global Competition*”, **Purdue University**, 26.2.2004, <http://www.mgmt.purdue.edu/centers/ciber/publications/pdf/2003-006%20Drnevich.pdf>, 18.06.2006
- Doupnik, T.S. - G.T. Tsakumis.: “*A Critical Review of the Tests of Gray’s Theory of Cultural Relevance and Suggestions for Future Research*”, **Journal of Accounting Literature**, Volume 23, 2004, pp.1-30 (http://www.findarticles.com/p/articles/mi_qa3706/is_200401/ai_n13602153)
- Egri, Carolyn P. *et al.*: “*Doing Business in the 21st Century with the New Generation of Chinese Managers*”, **Journal International Business Studies**, Volume 30, No. 2, 1999
- Evans, Thomas G.-Martin E.Taylor-Oscar Holzmann.: **International Accounting and Reporting**, Boston, PWS-KENT Publishing Company, 1988
- Forzeh, Fossung Michael -Rexon Tayong Nting.: “*Harmonization of Accounting Standards-Disclosure Policies and Practices of European Commercial Bank*”, **Göteborg University**, master Thesis No. 2001:11, December 2001, p.10
- Funnell, Warwick.: “*The Narrative and its Place in the Accounting History: the Rise of the Counter Narrative*”, **Accounting, Auditing & Accountability Journal**, Vol 11, No 2, 1998
- Gardella, Robert.: “*Squaring Accounts: Commercial Bookkeeping Methods and Capitalist Rationalism in Late Qing and Republican China*”, **The Journal of Asian Studies**, No. 51, May 1992
- Gao, Simon S. - HandleySchachler, Morrison.: The Influence of Confucianism, Feng Shui and Budhism in Chinese Accounting History, **Accounting, Business & Financial History**, Volume 13, 1 March 2003, (Çevrimiçi) www.taylorandfrancis.metapress.com/index/0L0UJH89A2LYRMBQ.pdf, 03.06.2006
- Gray, Sidney J. *et al.*: **Global Accounting and Control**, New York, John Wiley & Sons., 2001
- Guvenli, Oktay.: **Accounting History**, Volume IV, Istanbul, Avciol Publishing, , 2001
- Hofstede, Geert.: **Culture’s Consequences:International Differences, Related Values**, Beverly Hills, CA:Sage, 1980

- Hofstede, Geert.: **Culture Organisation, Software of Mind, Intercultural Cooperation and Its Importance for Survival**, Harper and Colins Publisher GB, 1994
- Hofstede.G-M. H. Boonds.: “*The Confucius Connection: From Cultural Roots to Economic Growth*”, **Organizational Dynamics**, Volume 16, No.4, 1988
- Hopwood, A.G. and P. Miller.: **Accounting as a Social Institutional Practice**, Cambridge University Press., 1994
- Jiang, Chun.: “*Optimism Vs ‘Big Bath’ Accounting: A Regulatory Dilemma in Chinese Financial Reporting Practices*”, **Social Science Research Network**, University of New England, (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=922484, 18.07.2007)
- Kelley, Lane- Odded Shenkar.: **International Business in China**, London, Routledge, 1993
- Kennedy, Scott.: **The Business of Lobbying in China**, Massachusetts, Harvard University Press, 2005
- Lappen, Alyssa A.: “Back to the Abacus”, **The Accounting Sampler**, Ed. by Thomas J. Burns-Harvey S. Hendrickson, Fourth Edition, New York, McGraw-Hill, 1986
- Lai, Alice Loui So Yee.: “*Philosophical Issues in Management in the East and in the West: From Confucius’ Concept of Face to Foucault’s Self-Esteem*”, **International Federation of Scholarly Association of Management**, 1998, p.2 (Çevrimiçi) www.ifsam.org/1998/DATA/14.pdf, 11.06.2006
- Lam, Willy Wo-Lap.: **China: After Deng Xiaoping**, New York, John Wiley & Sons, 1995
- Lu, Wei-Max Aiken.: “*Origins and Evolution of Chinese Writing Systems and Preliminary Counting Relationships*”, **Accounting History**, November 2004 (http://www.findarticles.com/p/articles/mi_qa3933/is_200411/ai_n10297975), 05.06.2006
- Mcdonald, Daniel I.: **Comparative Accounting Theory**, Washington, Addison-Wesley Publishing Company, 1972
- McNally, Christopher A.: “*The Contours of China’s Emerging Capitalism*”, **East-West Center**, Second International Conference, Honolulu, summer 2005, http://www.eastwestcenter.org/stored/misc/4B_Contours_Capitalismpdf, 24.06.2006
- Mueller, Gerhard.: “*Accounting Practices Generally Accepted in the US versus the Generally Accepted Elsewhere*”, **International Journal of Accountants Spring**, 1968
- Narayan, Francis B.-Barry Reid.: “*Financial Management and Governance Issues in the PRC*”, **Asian Development Bank**, RETA5877,2000 http://www.adb.org/Documents/Books/Financial_Mgt/China/default.asp, 18.06.2006
- Nee, Victor et. al.: **Politicized Capitalism: Developmental State and The Firm in China**, 8 February 2005, http://www.economyandsociety.org/publications/NeeOpperWong_07JAN05.pdf, 22.06.2006

- Nobes, Christopher.: **International Classification of Financial Reporting**, Second Edition, London, Routledge, 1992
- Radebaugh, Lee H.-Sidney J. Gray.: **International Accounting and Multinational Enterprises**, Fourth Edition John Wiley & Sons Inc., New York, 1997
- Ralston, David A. et al.: “*The Impact of National Culture and Economic Ideology on Managerial Work Values: A Study of United States, Russia, Japan and China*”, **Journal of International Business Studies**, Volume 28, Issue 1, 1997, pp.181-185 http://copenhagen.jibs.net/Archive/1997/28_1_97_177.pdf, 10.06.2006
- Rask, Kollen J. - David K.W. Chu- Thomas R. Gottshang.: “*Institutional Change in Transitional Economies: The Case of Accounting in China*”, **Comparative Economic Studies**, Volume 40, No. 4, Academic Research Library, Winter 1998
- Salter, Stephen B. -Fredrick Niswander.: “*Cultural Influence on The Development of Accounting Systems Internationally, a Test of Gray's (1988) Theory*”, **Journal of International Business Studies**, Second Quarter, 1995
- Solas, Cigdem.: **Financial Accounting I**, Istanbul, I.I.T.I.A Nihad Sayar Publishing, No:357-590, 1981
- Stittle, John.: “*The reformation of European Corporate Reporting-Towards a Model of Convergence or Confusion*”, **European Business Review**, Emerald Group Publishing Limited Vol. 16 No. 2, 2004, pp.139-151 <http://www.emeraldinsight.com/0955-534X.htm>, 17.06.2006
- Velayutham, S. - M.H.B. Perera.: “*The Influence of Underlying Metaphysical Notions on Our Interpretation of Accounting*”, **Accounting, Auditing & Accountability Journal**, Vol. 9, No. 4, 1996
- Vries, P. H. H.: “*The Role of Culture and Institutions in Economic History: Can Economics be of any Help?*”, **Nederlandsch Economisch Historisch Archief-The 3rd GEHN Conference in Konstanz**, 2004 http://www.neha.nl/publications/2001/2001_02vries.pdf, 07.12.2007
- Yee, Helen.: “*The Concept of Profession : A Historical Perspective Based on The Accounting Profession in China*”, **Deakin University-Accounting History International Conference**, 2001
- Weber, Max: **The Religion of China, Confucianism and Taoism**, The Free Press, 1951
- Wu, Shwu Hsing et. al.: **Comparing the Value-Relevance of Accounting Information in China: Standards and Factor Effects**, December 2005 http://www.business.uiuc.edu/accountancy/research/vkzcenter/conferences/france/papers/Wu_Koo_Kao.pdf, 18.06.2006
- Zhang, Guohua.: “*Environmental Influnce on Accounting Development*”, **Environmental Factors in China's Accounting Development since 1949**, 2005 (Çevrimiçi) <https://ep.eur.nl/bitstream/1765/1888/5/Chapter+2.doc>, 14.05.2006
- Zhao, You Liang.: “*A Brief History of Accounting and Auditing in China*”, in E.Y. Lou, S.N. Wang and A.J.H. Enthoven (eds), **Accounting and Auditing in PRC: A eview of its Practices, Systems, Education and Developments**, August 1987

Zurndorfer,
Harriet T.:
“Imperialism, Globalization, and Public Finance: The Case of Late Qing China”,
London School of Economics, Working Paper No. 06/04, August 2004, p.6
<http://www.lse.ac.uk/collections/economicHistory/GEHN/GEHNPDF/WorkingPaper06HZ.pdf>, 25.06.2006

Cigdem Solas es catedrático de la Istanbul Commerce University. Su e-mail es: csolas@iticu.edu.tr

Sinan Ayhan pertenece a la empresa Ali Selvi Audit Firm. Su e-mail es: nayhan@yahoo.com

Cigdem Solas is Professor at the Istanbul Commerce University. His e-mail is: csolas@iticu.edu.tr

Sinan Ayhan belongs to the firm Ali Selvi Audit Firm. His e-mail is: nayhan@yahoo.com