

PUBLIC ACCOUNTING IN CHINA: DECADES OF UNCERTAINTY

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Abstract

Although accounting in China can be traced back three thousand years, the country's public accounting profession is less than one hundred years old. As this paper visits various periods of the profession's development, it is clear that the continued existence of public accounting in China was, at times, uncertain. During the twentieth century, the profession faced several significant challenges and setbacks. Each time, however, the Chinese public accounting profession was able to fend off its permanent extinction. Resurgence of the profession after the many trials and tribulations of the mid-twentieth century demonstrates the necessity of public accounting in China's developing economy. Chinese public accounting continues to evolve to meet the country's ever-changing needs.

Introduction

Accounting in China developed more than three thousand years ago during the Western Zhou Dynasty. Centuries later, China developed into a feudal society, and accounting was

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primarily intended to facilitate governance by Kings or Emperors of various dynasties. Profit-making activities did not grow to a meaningful level until the late fifteenth century (Ebrey, 1981). Although Chinese accounting continued to develop, Chinese public accounting was still hundreds of years away.

By the end of the 19th century, large foreign investments had begun to flow into China, fueling rapid growth of its industrial capacity. This growth led to a need for accounting services, and ultimately, to the creation of a Chinese public accounting profession. Initially, European and American accounting firms established offices in Shanghai, the largest economic center in China at that time. Near the end of the Qing Dynasty, in the early 1900s, the development of a commodity economy brought about an increased need for public accounting. The Chinese economy continued to grow during WWI, but the country still had no recognized public accounting profession of its own. Almost all accounting-related business activities, such as raising capital, designing accounting systems, and consulting, were performed by foreign accountants who came primarily from America, England, and France (Guo, 1988, p. 422).

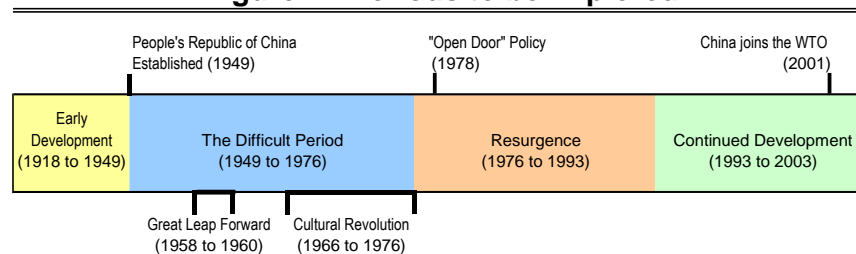
In order to develop a “native” public accounting profession, the Northern Warlord Government, in 1918, issued the first public accounting regulation, which was called “Provisional Regulations on Public Accountants” (Lu, 1967). At about the same time, the government granted Xielin, a well-respected member of the accounting profession, the title “Certified Accountant.” Soon thereafter, he established the first Chinese public accounting firm. Following the pioneering effort of Xielin, Chinese public accountants began to play an increasingly larger role in their country’s business activities. By 1925, there were more than two hundred professional public accountants in China, and the first Association of Certified Accountants had been established.

During the 1920s, 30s, and 40s, many native public accounting firms were organized, and four of them, Zhengze, Zhengming, Lixin, and Gongxin, grew to be known as the “Big Four” (L. Zhang, 2004). For those three decades, China’s public

accounting profession grew, and its outlook seemed quite positive. By the end of 1947, eleven provinces and cities had each established its own Association of Certified Accountants, and total membership had reached 1,719 (Yang & Shen, 1995). Soon, however, the once flourishing profession would find itself facing extinction.

As shown in Figure 1, this positive period of early development is followed by three time periods that follow the path of public accounting in China.

Figure 1 - Periods to be Explored



China's "Difficult Period," 1949 to 1976, challenged all aspects of Chinese life, and the country's public accounting profession was no exception. From the profession's perspective, China's Difficult Period can be roughly divided into three phases. Each phase brought challenges and setbacks for China's public accounting profession.

The Difficult Period (1949-1976)

Phase 1: 1949-1956

China endured many years of political unrest, but major conflict ended in the fall of 1949. By that time, the Chinese Communists had driven the nationalists off the mainland and established the People's Republic of China. Under Chairman Mao's leadership, significant changes were made very quickly. Shortly after assuming leadership of the country, the Communist government began adopting the former Soviet Union's economic

model. Its focus was centralized planning and uniformity in an economy where all major production was owned by the government. The Ministry of Finance was established to take charge of all accounting work in the country.

In order to develop and control the national economy, the government wanted to have a uniform accounting system in place throughout China. The Ministry of Finance was directed to focus on that goal. Under the leadership of the Chief Officer of the Accounting Systems Department, experts from various settings were brought together to work on the Committee on Accounting Systems. Accounting experts from other ministries and state-owned enterprises were brought in to serve on the Committee. Accounting professors from several Chinese universities were also active participants in the Committee's work.

Based on recommendations from the Committee on Accounting Systems, the State Administrative Council issued "Instructions for Drafting a Uniform Accounting System" in March 1950. Within a few months, the first system developed in response to the directive was completed. The "Uniform Accounting System for Enterprises and Economic Organizations Affiliated with the Ministry of Heavy Industry" became effective on July 1, 1950. Other ministries (e.g., Ministry of Light Industry, Ministry of Fuel, Ministry of Transportation, Ministry of Agriculture, and Ministry of Public Health) followed this precedent, and issued their own industry-specific accounting regulations and procedures (J. Xu, 2002, p. 27-36).

Uniformity at all levels of government was the goal. In December 1950, the Ministry of Finance promulgated the "Provisional Regulations on General Budget and Its Final Accounting for the People's Government at Different Levels." This regulation specified rules for making, examining, and approving the accounting procedures of various state organizations. It established, for the first time, complete and rigid uniform standards for the accounting work within government bureaus throughout the country. During 1951, several additional regulations were developed by the Ministry of Finance (Chinagate, 2002). Such

efforts to establish uniformity were intended to control the centrally-determined flow of funds.

By the end of 1951, the Committee on Accounting Systems was disbanded; once again, the Ministry of Finance alone controlled all aspects of accounting functions. Uniform accounting systems were established and enforced nationwide by the Ministry of Finance to ensure uniform accounting and financial reporting in all business entities within each industry. This uniformity would help insure that the necessary, relevant data for the state's economic planning and fiscal control would be provided.

The most significant feature of the uniform accounting system was its rule-based approach. All the accounting rules were centrally devised and very detailed. The requirements were designed to cover all possible situations. Rules could be modified for individual cases only with special permission from the central authorities. Because organizations were required to follow the rules very strictly, professional or managerial judgment was neither required nor permitted (Chang, 1998).

During the establishment of China's socialist economy, state-owned enterprises flourished while commercial operations supported by personal capital began to disappear. Within just a few years, all proprietorships were either dissolved or absorbed by state-owned or village collective enterprises. Consequently, by the mid-1950s, Chinese accounting firms had been dissolved. Thousands of public accountants had been declared irrelevant in the new social order. Some individuals, however, played significant roles in the foundation of the new socialist economy by helping develop new accounting systems for the state-owned enterprises. With completion of socialist changes in agriculture, handcraft trade, and capitalist industry and commerce, the transition to a centrally-planned economy was virtually complete, and public accounting ceased to exist in China.

By 1956, the Chinese leaders began to observe inadequacies of the accounting systems imported from the Soviet Union. An overemphasis on the information needs of government administration, as well as a lack of logical coherence of accounting

procedures prescribed in accounting regulations and rules, rendered the systems ineffective (Ge & Lin, 1993; Scapens & Hao, 1995). Some experts from the Soviet Union had suggested that because the Chinese economy was so different from that of the Soviet Union, the adopted model might not work well in China. After six years of unsuccessfully trying to adapt the Soviet Union's model to meet China's needs, it became clear that the experts had been correct, and China needed to develop its own economic strategy.

Recognizing these problems, the Chinese government began to change the accounting system to lessen the control and influence of the Soviet model. As a result, new regulations were issued to change the accounting systems and development of the Chinese accounting model entered a new phase.

Phase 2: 1957-1965

Even as Chinese accounting developed and evolved, its mission remained the same—serving the government and supporting its centrally-planned economy. In 1958, under the leadership of Chairman Mao, the government instituted a plan to significantly boost the output of the nation's industries. The effort, officially designated the "Great Leap Forward," was intended to maximize use of the nation's immense human resources. As part of this socio-economic initiative, all administrative work, including accounting, was given a much lower priority than the practical, productive work that Chairman Mao considered crucial to boosting the economy.

From this new perspective, the industry-based accounting systems designed in the early 1950s were criticized as having too many accounts and financial statements that were difficult to understand. As a result, the Ministry of Finance issued new rules requiring less complicated accounting procedures. This action was an effort to help the average peasant worker understand the organization's financial performance (Lawrence, 1997).

The revised accounting procedures were greatly simplified. For example, more than ten of the financial statements were combined into one, and over 1,000 items were combined into 66.

On the balance sheet, more than 200 items were combined to present only 12 accounts. "...[T]he 'Great Leap Forward' era was a catastrophe for accounting, including a concept known as 'accounting without books'—the elimination of many accounting records" (Bai, 1988, p. 28). As a result, the profession faced a widespread perception that accounting was not really important or relevant to economic activities.

In order to combat this perception and to promote an atmosphere of relevance and attention to precision in accounting, the government, in August 1959, mounted an effort referred to as "enhancing economic examination and calculation" (Wang & Wu, 2002). As part of this effort, the Ministry of Finance issued several regulations on accounting examination and calculation for state-owned enterprises. These regulations not only related to the new accounting procedures, but they also emphasized the relevance and importance of accounting to the Chinese economy.

Two years later, the National People's Congress passed a "Draft of Accounting Work for State-Owned Enterprises" that was prepared by the Ministry of Finance. Subsequently, the "Format and Use of Vouching and Booking for State-Owned Enterprises" was issued in its initial form for evaluation and modification by employees and leaders of the state-owned enterprises. Recognition of the need for a strong, vibrant accounting profession in China was growing, and the profession was starting to recover some of the stature it had before the "Great Leap Forward."

In 1963, the State Council issued the "Trial Regulations on the Duties and Authority of Accountants," which formally recognized the need for, and the role of, accountants in China (Chinagate, 2002). The regulations stipulated, for the first time, the responsibilities and rights, procedures for appointing and removing, and rewards and punishments for accountants. However, "accountant" referred to internal accountants or bookkeepers, and not to public accountants.

In practice, use of the basic debit/credit double-entry system was widespread. A second system, based on cash receipts and disbursements, was in use by banks and some government agencies.

In 1964, a third system was introduced. This new increase/decrease system was developed for governmental bodies. Soon, however, its use spread to small and medium-sized industrial enterprises (Lin, 2003). As a result, although accounting was playing a significant role in the planning and control of enterprises (state-owned ones in particular), diverse accounting methods made it difficult to compare the financial performance of the entities.

Financial statements contained a large amount of very detailed information that had little relevance to the purpose of the statements. However, the format was strictly prescribed and preparers had little, if any, discretion in what information was relevant and worthy of presenting. Before accounting could provide the relevant information required for good decision making, uncluttered by profuse amounts of irrelevant data, the unnecessary information needed to be cut from the statements. Major changes in the accounting systems were necessary if the problems were to be corrected. In July 1965, in order to address these problems, the Ministry of Finance issued the “Guideline for Accounting Reforms in Businesses.” The Guideline required that accounting systems be designed based on both the industry and the size of the business. Besides specifying the criteria for design, the Guideline also stipulated that the existing methods of recording and measuring costs be substantially changed to better reflect relevant information.

Then, in November 1965, the Ministry of Finance issued “Approved Accounts and Formats of Financial Statements for Industrial Enterprises,” and “Approved Accounts and Formats of Financial Statements for General Construction Enterprises.” Then, “Simplified Accounting Systems for Industrial Enterprises” and “Simplified Accounting Systems for General Construction Enterprises” were issued by the Ministry of Finance. These regulations deleted some accounts, combined others, and reduced the number of approved accounts from 58 to 26. The number of financial statements was lowered from fifteen to six (Zhang, Shi & Du, 2002). In addition, the Statement of Financial Position was officially modified and renamed the Statement of Capital Resources and Operation.

With the issuance of these statements in 1965, a rational framework for accounting systems was restored and accounting information became more useful to decision makers. The accounting profession continued to regain some of the importance it lost during the “Great Leap Forward,” but another wave of change was just around the corner.

Phase 3: 1966-1976

The third phase of China’s Difficult Period, 1966 – 1976, spans the period known as the Great Proletarian Cultural Revolution. Ostensibly, the Cultural Revolution’s goal was to return the operation of the nation back to the peasants and factory workers. However, political motivations overshadowed any humanitarian intentions. Early in the period, accounting’s mission was changed to emphasize recordkeeping for political purposes and not for economic development or decision making.

During the first few years of the Revolution, many accounting techniques were condemned, and the Administrative Accounting Office within the Ministry of Finance was eliminated. Accountants throughout the country were relieved from their duties and many were sent to remote areas to become physical laborers. The entire accounting profession was in a complete state of disarray. Accounting professors from most universities and colleges were forced to change their profession; many were forced to do physical work on farms (Z. Yang, 2004). The influence of the Ministry of Finance was significantly reduced, reflecting the fact that accounting’s importance to the society was diminished. Only basic financial records were maintained as part of the simple unified systems. While the Great Leap Forward had damaged the economy, the Cultural Revolution seemed to only make the situation worse. Once again, the accounting profession in China suffered a setback.

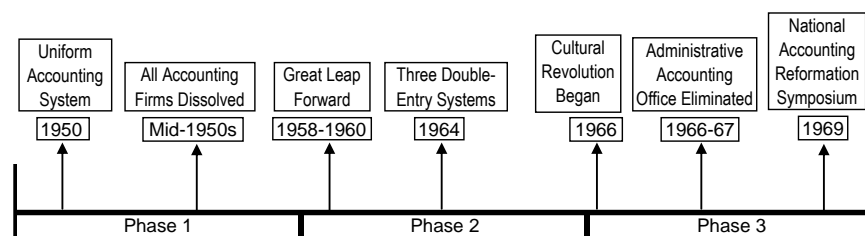
As the country’s economy worsened, Chairman Mao and his government searched for solutions to the problem. In November 1969, on orders from the government, the Ministry of Finance held a symposium to discuss “National Finance and Accounting Reformation for Business Enterprises.” Accounting and business

experts from across the country were gathered at the conference held in Shanghai. The participants shared ideas and suggestions about how to reform the accounting practices and procedures for businesses. As a result of this meeting, the Ministry of Finance began making major changes in the accounting framework, which resulted in substantial improvements for the profession.

From 1970 to 1973, the Ministry of Finance issued ten statements related to accounting models, financial statement formats, and cost accounting methods for the various types of enterprises in China. These regulations were an attempt to undo the damage inflicted upon the accounting systems during the early years of the Cultural Revolution (J. Xu, 2002). Efforts of the Ministry of Finance during the early 1970s did improve the accounting systems in place at that time. However, those improvements did not bring the systems back to the level of efficiency and effectiveness reached prior to the Cultural Revolution's start in 1966.

The Difficult Period was a turbulent time in China's history. As seen in Figure 2, the country's accounting profession endured its own ups and downs during those years.

Figure 2 - The Difficult Period



As the Difficult Period drew to a close in 1976, a new period was ready to begin.

Resurgence (1976-1993)

In 1976, the death of Chairman Mao brought about the end of the Cultural Revolution. Without Mao's leadership, the

Revolution could not sustain itself. New leaders began to make profound changes in the economy. As these changes were implemented, the Communist government quickly recognized the need for a strong public accounting profession to aid in the economic development of the country. At the 3rd Meeting of the 11th Committee of the Communist Party of China (CPC), held in December 1978, a movement towards a market-based economy was approved. With the adoption of an “Open Door” policy, the Chinese economy began to open to the outside world. Foreign-owned companies began to return, and the number of Sino-foreign commercial joint ventures (those between a Chinese entity and one from another country) began to grow. These developments further increased the need for public accountants to provide bookkeeping, consulting, and auditing services again. It quickly became clear that the accounting systems designed for a centrally-planned economy could not satisfy the needs of a market-based economy.

Then, in 1979, more change occurred after the government’s new policy of “economic liberalization and reformation” was initiated (Gu, 1998). With significant changes in business ownership structure and in the way the economy was managed, the Chinese economy became diversified. The inflow of foreign capital, in the form of joint ventures or more direct foreign investment, accelerated. Private ownership was again allowed, spurring the growth of companies financed by stock. Soon, a Chinese securities market reappeared. Decentralization of the government’s management of the economy also progressed. As a result, business financing and management practices changed dramatically.

Even though the Uniform Accounting Systems that were used in the former highly centralized, planned economy were recognized as being inadequate, only a few changes had been made thus far. Additional modifications came about during this period. The new strength and relevance of the Ministry of Finance was indicated by the 1980 issuance of the “Accounting System for State-Owned Industrial Enterprises: Accounting Accounts and Financial Statements.” In addition, after approval from the National People’s Congress, the Ministry of Finance released the “Detailed Principles

for Implementation of Income Tax Law for Sino-Foreign Joint Ventures.” This document required, for the first time, that a tax return for this type of company contain an auditor’s report signed by a Chinese public accountant (Hao, 1999).

Near the end of 1980, the Ministry of Finance issued “Provisional Regulations Concerning the Establishment of Accounting Consultancies,” to regulate accounting firms. Its first article required that the accounting consultancies (firms) have a significant staff of Certified Public Accountants (CPAs). The regulation’s second article provided that a public accountant be called “Certified Public Accountant” when she or he is conducting accounting activities. Since that time, the Chinese public accountant has been known formally as a Certified Public Accountant (Yang & Shen, 1995).

On January 1, 1981, the Gongzheng accounting firm was organized in Shanghai with Panxulun, a well-known, respected Chinese accountant, as its Director of the Board. With this accomplishment, the public accounting profession began its recovery after nearly thirty years of neglect. As time passed, other accounting firms were organized in large cities such as Guangzhou, Nanjing, and Beijing. Even more remote places such as Xinjiang, Kunming, and Ganshu began to see CPA firms in their areas.

The regulations issued by the Ministry of Finance in 1980 were certainly significant, but one issue was clearly overlooked. They offered no provisions regulating the certification of CPAs. Accountants could become certified just by evaluation, without any testing. A subjective judgment by a provincial officer was sufficient. During the early 1980s, most of the CPAs in China worked in local government finance offices. Consequently, almost all accounting firms established at that time were affiliated with CPAs employed by the government. As a result, independence and fairness became serious problems for accounting firms. Solving these problems required some difficult reforms and improvements; resolution was still many years away.

During the next few years, several actions to improve and promote recovery of the public accounting profession were taken.

The National Audit Office was formed in 1982, indicating that government leaders realized the importance of auditing to business development. In December 1983, the Ministry of Finance issued regulations providing that foreign CPAs could not register, certify, or issue valid documents for Chinese departments or organizations (Yang & Shen, 1995). If the foreign investors in a joint venture wanted an auditor's report to satisfy foreign requirements, they could invite foreign accountants to do the auditing. However, foreign investors were required to pay the fees of any foreign accountant; the joint venture itself could only pay the fees of Chinese CPAs (Hao, 1999).

When the "Accounting Law of the People's Republic of China" became effective on May 1, 1985, the Chinese government officially recognized the accounting profession. In conjunction with the Accounting Law, the government formulated a series of accounting regulations and a complete set of procedures. These procedures related to accounting for manufacturing businesses and trading firms. Guidelines and procedures for allowing Chinese CPAs to exercise professional judgment were also included.

CPAs were given specific legal status in July 1986 when the State Council issued "CPA Regulations." Previously, provincial officers could designate their accountants as CPAs based on nothing more than subjective evaluation. The new CPA Regulations created more independence for CPAs because accountants in local government finance offices could no longer be CPAs. However, even with this regulation in place, subjective evaluation and testing were both acceptable methods for becoming certified.

In addition, the CPA Regulations addressed such issues as the education and experience requirements of CPAs, as well as their rules of work, and required affiliation with a public accounting firm (Winkle & Huss, 1992). The establishment and enforcement of such rules helped make Chinese public accounting a more respectable, and even somewhat prestigious, career choice. By the end of 1986, there were 500 CPAs and 80 accounting firms in China.

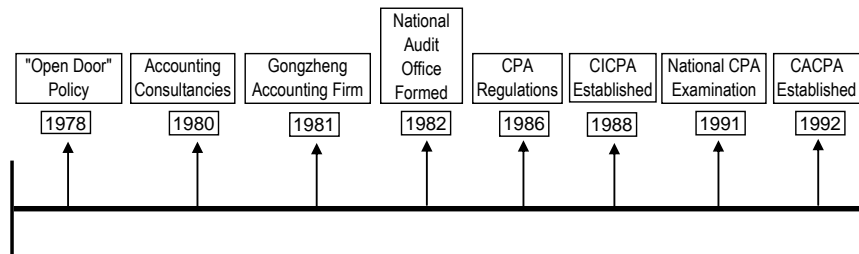
Article No. 5 of the CPA Regulations provided for the development of a professional association for Chinese CPAs. In

November 1988, the Chinese Institute of Certified Public Accountants (CICPA) was established. Its supervision and guidance was the responsibility of the Ministry of Finance.

Four years later, the Chinese Association of Certified Public Auditors (CACPA) was founded (Ji, 2000). The National Audit Office was given the responsibility of overseeing the CACPA. By the end of 1992, two types of professional accounting firms had developed. Existence of both accounting and auditing firms led to many serious problems for the profession. Duplication of services was the most obvious problem, but not the only one. The oddly-structured, competitive environment resulted in price wars among the firms (Macve & Liu, 1995). The situation drew criticism from both domestic and foreign investors. However, progress in resolving the problem moved slowly because of political rivalry over administrative control of public accounting at the ministerial level (Lin, 1998).

Highlights of the progress made by China's public accounting profession during the Resurgence are illustrated in Figure 3.

Figure 3 - Resurgence



The Resurgence embodied the modern revival and recognition of accounting in China, but the public accounting profession had not yet secured its permanent place in the economy or culture of the Chinese people. The years between 1993 and 2003 would include many steps forward in the growth and refinement of the Chinese public accounting profession.

Continued Development (1993-2003)

The year 1993 was a significant milestone in the maturation of Chinese public accounting; it marked the start of a new era in the reformation of the profession. On July 1 of that year, the “Accounting Standards for Business Enterprise,” “Financial Standards for Business Enterprise,” and 13 new industry-specific accounting regulations were enacted. Chinese accounting’s entire process of recording, measuring, and reporting business activities changed. Once these standards were in place, the Chinese accounting system had completed its transformation. Instead of serving a centrally-planned economy, the new system would be serving China’s new market-based economy.

In 1994, to protect CPAs’ legal interest and further regulate the accounting profession, the “Law of the People’s Republic of China on Certified Public Accountants” (CPAs’ Law) was issued. The issuance of this set of guidelines was another milestone for the profession, because it gave Chinese CPAs a means of self-regulation and a legal basis for enforcing rules (Xu, Xie, & Hu, 1997). The CPAs’ Law specifically permits and encourages the forming of private, independent accounting firms with partnerships and limited liability corporations being two types of approved organizational structures (Yang & Yang, 1997).

The CPAs’ Law also contains some additions and changes that affected the requirements for obtaining the CPA designation. The CPA examination had been administered annually since 1991, and hundreds of thousands of candidates had taken it. Obtaining the CPA license required both a passing grade on the CPA examination and two years of auditing experience (Tang, 2000). The CICPA was given responsibility for checking applications and issuing CPA certificates to those candidates meeting all requirements. As outlined in the CPAs’ Law, the Ministry of Finance retained the right to direct the CICPA to withdraw the certification of anyone it did not consider suitable.

During 1995, the public accounting profession in China underwent two major changes. Although government officials hadn't been allowed to be CPAs since 1986, they were still allowed to establish and operate accounting firms. These "affiliated firms" were plagued with the appearance of conflicts of interest, and their independence was often in question. In order to eliminate problems caused by affiliated firms, the Ministry of Finance issued "Certified Public Accountant Practice Rules." Rule 25 of the regulations clearly states that effective from the issuance date, no affiliated accounting firm may be established. Affiliated accounting firms established prior to issuance of the Rules were required to be "de-affiliated" within the next three years. The process was slow and difficult, but by the end of 1999, the elimination of affiliated firms throughout China was complete.

The second major change in 1995 required the collaboration of the National Audit Office and the Ministry of Finance. The two organizations worked together to forge an agreement between the Chinese Institute of Certified Public Accountants (CICPA) and the China Association of Certified Public Auditors (CACPA). In June 1995, the new organization, called simply the CICPA, became the single governing body over both major sectors of the Chinese accounting profession. After three years of overlapping operations, this change was a major improvement for the profession.

During the late 1990s, the accounting profession in China experienced significant growth. Other, related fields were also growing. The assets evaluation profession expanded significantly during the 1990s; in 2000, it became another group regulated by the CICPA. In 2002, the China Institute of Certified Public Tax Agents also joined the CICPA. With a larger portion of business professionals as members, the CICPA was in a better position to formulate and enforce the quality standards and professional ethics for all public accounting and tax practitioners across the country.

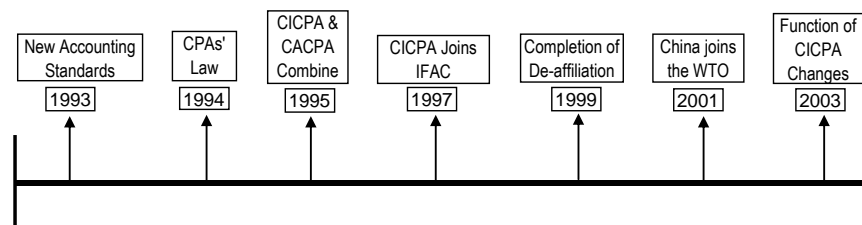
At the May 8, 1997 Council Meeting of the International Federation of Accountants (IFAC), the CICPA became a formal member of the Federation, and on December 11, 2001, China became the 143rd member of the World Trade Organization (WTO).

As China continues to hold its doors open to outside investors and international commerce, its public accounting profession continues to grow by leaps and bounds. As domestic CPA firms continue to increase in number, a recent surge of foreign CPAs in China is also evident. By May 2003, eleven foreign accounting firms had established seventeen offices throughout China (Feng, 2003).

Over the years, the CICPA has had to change its role in order to adapt to the changing environment. In early 2003, the CICPA made a major change by returning some of its functions to the Ministry of Finance. The CICPA would no longer approve CPA firms for practice, punish CPAs and accounting firms for violations, or approve foreigners to open offices in China. The Ministry of Finance also assumed responsibility for developing professional standards, and for developing content and rules for the CPA examination. In fact, the actual certification process to become a CPA requires final approval from the Ministry of Finance. These changes allowed the CICPA to concentrate on its service function (Conference Summary, 2004). Primarily, the CICPA is responsible for submitting proposals for rules and regulations affecting the professions of its members. The organization also conducts the actual CPA examinations and maintains records of applicants and their payments.

The ten-year period from 1993 to 2003 was a busy one for the public accounting profession in China. Figure 4 shows the primary achievements made during the profession's period of Continued Development.

Figure 4 - Continued Development



Conclusion

Though accounting in China dates back more than three thousand years, the country's public accounting profession is relatively new. By the end of the 19th century, China was experiencing a large influx of foreign investments and taking the first steps toward its new commodity-based economy. These changes brought about an increase in commerce and a growing need for accounting services. In 1918, China's public accounting profession was officially established. From that point, the profession grew steadily for thirty years.

Beginning in 1949, however, the outlook for public accounting in China became grimmer and more uncertain. The profession entered its Difficult Period, and within just a few years, all accounting firms throughout China were dissolved.

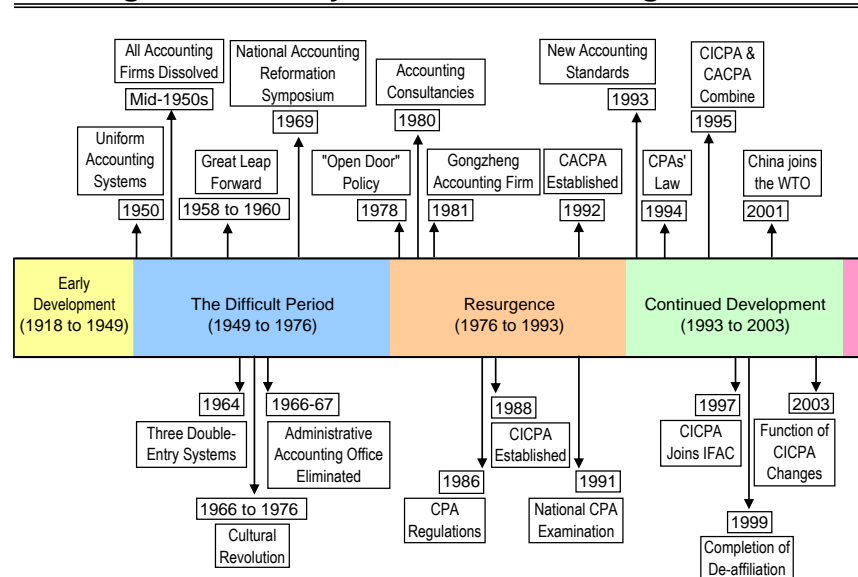
Over the next twenty-five years, the People's Republic of China experienced several different cultural and economic phases. The "Great Leap Forward" and the Cultural Revolution brought about major changes for the Chinese people and the country's accounting profession as well. Over the years, the Chinese government implemented various approaches to economic development. As policies changed, the Chinese government modified the accounting information it required. Some periods called for simplification, while others expanded the complexity and number of financial statements and accounts.

It was not until the death of Chairman Mao and the end of the Cultural Revolution in 1976 that the Chinese public accounting profession was resurrected. Adoption of an open-door policy in 1978 marked a significant change in the way China would interact with other nations. The government's 1979 policy of "economic liberalization and reformation" resulted in major changes throughout China. Private ownership of businesses was again allowed, and the number of enterprises financed by stock exploded. In addition, during this time, the Ministry of Finance issued several regulations providing a foundation for the development and growth of the accounting profession.

After thirty years of extinction, China's public accounting profession was reborn. In 1981, the first accounting firm in this modern era was established. The profession matured during the 1980s and 90s, as both its place in the country's economy and its governing regulations were established. Figure 5 provides an overview of the progress made and setbacks endured as China's public accounting profession evolved.

Figure 5 also indicates that the profession has entered a new period in its development. In a decade or two, historians will look back and tell the story of this new chapter. At this point in time, we know that the Chinese public accounting profession is experiencing tremendous growth.

Figure 5 - History of Public Accounting in China



The Chinese CPA exam is held only once a year; applicants must register during April in order to sit for the exam in September. Between 1991 and 2004, more than 116,000 candidates passed all five sections of the CPA exam (CICPA, 2005). By the end of 2004, the CICPA had approximately 140,000 members. More than half, however, were registered as non-practicing CPAs. At that time,

more than 5,000 accounting firms were conducting business throughout the country, employing more than 65,000 Chinese CPAs.

As China's population and economy continue to expand, the need for many additional accounting professionals is becoming increasingly evident. China is currently experiencing a severe shortage of Chinese CPAs, which could impact the profession in a manner we cannot yet foresee. Fifty years ago, the public accounting profession in China faced extinction. Over the past five decades, the profession has seen good times and bad times. Hopefully, the darkest days for Chinese public accounting have passed, and the profession's future will be bright.

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