

*Issues in Accounting Education*  
Vol. 12, No. 1  
Spring 1997

# The Recent Accounting Development and Internationalization of Accounting Education in China

Tang Yunwei

**A**CCOUNTING plays an important role in business management and economic development. This simple statement was not fully recognized in China until the recent economic reform which has led to valuable contributions by accountants. During the Great Proletariat Cultural Revolution (late 1960s to mid 1970s), accounting suffered greatly. Accounting was required to be simple and easily understood by anyone. Accounting education was weakened, too, as most accounting departments at institutions of higher learning were closed down. Soon after the start of the modernization campaign (the late 1970s), government officials and business managers found that qualified accountants were badly needed in order to help achieve their economic aims. Accounting regained its former position and accounting education began a period of rapid development.

## THE LEGACY OF THE OLD EDUCATION SYSTEM

In contrast to many western universities, finance, economics and accounting programs in Chinese universities were highly specialized, often industry oriented. In 1986, the State Education Commission found that there were 80 different kinds of specialties. There were

ten broad divisions within accounting: Accounting, Financial Accounting, Industrial Accounting, Agricultural Accounting, Commercial Accounting, Material Accounting, Management Accounting, Banking Accounting, Tourism Accounting and Petroleum Accounting. Within each of these were additional specialties.

Several factors contributed to this situation. Since the 1950s, the Chinese economy and government has used finely disaggregated information for its centralized planning system. In this system, most government organizations and enterprise leaders were obliged to carry out the policies and directives issued. There was little opportunity or

---

*Tang Yunwei is a Professor of Accounting at Shanghai University of Finance and Economics.*

---

*President Tang Yunwei was the American Accounting Association's Distinguished International Visiting Lecturer in Spring 1996. This commentary is offered to Association members who did not have the opportunity to hear him personally. President Tang founded the Chinese Accounting Professors' Association in 1995 and is its first president (1995-1998). The commentary here was adapted by Joseph J. Schultz, Jr., Arizona State University, who is responsible for any errors or omissions made in that adaptation.*

need for them to engage in independent thought, take initiative, or be economically responsible. Very specialized and vocationally-oriented finance and management education seemed appropriate for preparing cadres to execute their limited functions. This was particularly so in the early phase of this period when the demand for managers increased sharply.

Another factor, decided in the initial period of the Peoples' Republic, was the decision to follow the Soviet Union's model of higher education. This model of higher education consists of a large number of highly specialized institutes aimed at rapidly expanding the number of managers to fill the needs of the planned economy. Between 1951 and 1957, this resulted in a major reorganization of existing universities into a small number of "comprehensive universities" and a large number of "specialized institutes." For example, the Shanghai Institute of Finance and Economics (which later became the Shanghai University of Finance and Economics—SUFEE) was formed by combining departments of finance and economics of 21 universities and institutes in eastern China in 1952. The advent of the modernization campaign reversed this decision; by the mid 1980s the number of comprehensive universities had increased and they have since re-established their business schools.

A third factor was that many universities and colleges are administered and financially sponsored by line ministries. These sponsoring ministries want to secure the economic and finance graduates for the enterprises under their auspices. This induces them to strengthen and expand their existing hold over the specialized institutes under their jurisdiction. This "departmentalism" serves to constrain organizational and curriculum improvement.

## **CHANGE TO A MARKET-ORIENTED ECONOMY**

Economic reforms begun in the 1970s have brought about structural changes in the national economy. State enterprises are being converted to market-oriented modern enterprises. As a result, the knowledge and skills needed to practice accounting have changed, leading to the need for major change in accounting education. Many existing accountants find it quite difficult to make such drastic change, which has resulted in an extremely strong demand for university graduates in accounting. The main factors of economic reform that influence accounting are changes of government functions in macroeconomic management, diversification of business operations and ownership, the increasing complexity of business transactions, development of the accounting profession, and internationalization of economic activities.

### **Changes of Government Function in Macroeconomics Management**

Economic reform has changed the state's role from direct management to indirect guidance of enterprises. The state mainly employs macro policy-making to provide general direction for enterprise development; this allows enterprises to assume wide-ranging responsibility for specific operating procedures. This decentralization has triggered the initiative to establish accounting standards to best serve individual enterprises.

### **Diversification of Business Operations and Ownership**

The business environment has experienced two major changes during the period of economic reform. First, different enterprise ownership structure has emerged, such as the state enterprises combined with collective-owned ones.

This has resulted in the need for accounting to address diverse constituencies. Second, business activities within enterprises are no longer restricted to a single industry, leading to the need for accounting principles for different industries that can be combined to form an overall view of the enterprise's operations.

### **Increasing Complexity of Business Transactions**

During this period, new business transactions and financing activities have resulted in the need for change in accounting. Some of these include transferring the right of land use, equipment leasing, installment sales, securities transactions, and business combinations.

### **Development of the Accounting Profession**

Economic reform and its related developments have resulted in a fast-growing accounting profession. This in turn has provided momentum for the establishment of accounting standards to address the needs of the new market-oriented economy. For example, the Accounting Society of China and the Chinese Institute of Certified Public Accountants (CICPA) fostered research on accounting theory, practice and education. The fast development of accounting firms also played a significant role in driving the change in accounting and auditing standards.

### **Internationalization of Economic Activities**

Economic reform has led to China gradually expanding her international economic activities. Perhaps no other force has provided such a marked demand for change. Thousands of joint-venture enterprises with foreign investors have been established. Chinese en-

terprises have extended their business overseas. Recently, China issued bonds in the international market to finance various projects. In economic exchanges with other countries, China has started to follow international business practices and conventions in addition to her own policies. The internationalization of economic activities has accentuated a move to conform with international accounting standards. These developments can be divided into three time periods.

#### ***Stage 1: The Influence of External Forces***

The inflow of foreign investment in various forms, including joint ventures and wholly foreign-owned enterprises, resulted in major difficulty for foreign investors who were faced with incompatible accounting systems. The establishment of an accounting system favorable to attract foreign investment became an urgent issue. During this period, voluminous publications were devoted to the study of western accounting theory, practices and standards. For example, a comparative study of western and Chinese accounting systems was undertaken by the University of California, Los Angeles and SUFE. In 1983, the Ministry of Finance (MOF) issued the "Tentative Accounting Regulation for Joint Ventures using Foreign Capital." After a trial period of two years, the MOF promulgated the "Accounting Regulation for Joint Venture" and the "Chart of Accounts and Accounting Statements for Sino-Foreign Industrial Joint Ventures." These two regulations became the first accounting regulations formulated by reference to international accounting practices.

They resulted in seminal change, including adoption of:

1. The accounting elements of assets, liabilities and owners' equity to

replace the traditional concepts of fund sources and applications.

2. The accounting equation of Assets = Liabilities + Capital to replace the traditional accounting equation (i.e., Fund Sources = Fund Applications).
3. Accounting principles such as matching, consistency, historical cost, and capital expenditure vs. revenue expenditure.
4. Western financial statements, including the balance sheet, the income statement and the statement of changes in financial position.

Although the application of these regulations was restricted to the foreign investment sector, the impact of these regulations on accounting development in China can hardly be over-emphasized. They became a cornerstone for future accounting reforms.

When the regulations were promulgated in 1985, the legal framework for foreign investment was not comprehensive. A series of laws relating to foreign investment enacted thereafter, in particular the unification of tax laws for foreign investment, have paved the way for consolidating accounting requirements for different forms of foreign investment. This stage culminated with the promulgation in early 1992 of the "Accounting Regulations for Enterprises with Foreign Investment," and the "Chart of Accounts and Accounting Statements for Industrial Enterprises with Foreign Investment."

During the last part of this stage (1991 and 1992), all Big 6 international accounting firms formed joint-venture accounting firms with local counterparts. They brought considerable expertise in international accounting and auditing standards and adopted the policy of hiring many local staff members. Some Big 6 accounting firms established training centers in China for their local personnel. Furthermore, to fulfill a requirement

of the CICPA, they provided numerous accounting and auditing training programs to Chinese public accountants over the next several years.

### **Stage 2: The Impact of Internal Forces**

If the first stage of reform was passive and somewhat gradual, the second stage, which was symbolized by experimental joint-stock companies, resulted in frenetic activity by accounting regulatory bodies. Experience with joint venture accounting convinced people that internationally recognized practices were not only suitable for joint-ventures, but that they were also well-suited to serve all of China's more market-oriented economy. A conclusion was reached that it was necessary, and feasible, to apply them to domestic companies.

By the end of 1992, the MOF issued "Accounting Regulations for Experimental Joint Stock Companies." These regulations adopted the international accounting practices embodied in the "Accounting Regulations for Enterprises with Foreign Investment." In addition, the following conventions were incorporated:

1. International accounting practices relating to shareholders' equity, including the issuance of shares, distribution of dividends, and retained profits.
2. Disclosure of material events.
3. Interim financial reports and consolidated financial statements.
4. Accounting for termination and liquidation.

With this regulation, Chinese accounting moved even closer to international accounting practice. Furthermore, for enterprises which issued shares in foreign stock exchanges, the MOF issued supplementary requirements relating to foreign exchange transactions,

provision for bad debts, stock valuation, long-term contract work-in-progress, long-term investment, deferred taxation, contingent items and post-balance sheet events. These requirements were consistent with international practices.

### ***Stage 3: The Infusion of International Accounting Practice into Chinese Accounting Standards***

In this stage, the MOF issued the "Accounting Standard for Enterprises," with an effective date of July 1993. This regulation signaled the MOF's intention of establishing a conceptual framework of accounting. The standard adopted the four internationally accepted accounting assumptions, viz., business entity, going concern, periodicity and monetary measurement. It established qualitative requirements of accounting information, and guidance for accounting measurement and reporting. This was the first attempt in China to regulate domestic entities' financial reporting by accounting standards. It emphasized coherence in accounting treatments, allowed accounting income to differ from taxable income, and improved the quality of accounting information.

During this period, two other projects enhanced the adoption of standards aimed at international consistency. First, concomitant with a World Bank loan, the firm of Deloitte, Touche, & Tomatsu was appointed as an accounting consultant for China. The firm's primary task was to introduce other countries' experiences in standard setting and to assist in having other countries' standards serve as content references for standard setting in China. Second, international conferences on accounting standards were organized. Drafts of the accounting standards were circulated widely for comment (including experts from the International Accounting Standard Committee) to ensure

consistency with international accounting standards.

## **THE REFORM OF ACCOUNTING EDUCATION**

A major deficiency of the higher education system in business was over-specialization. Emphasis needed to shift toward the study of general principles to meet the rapidly changing practice environment. Now, there is growing acceptance for students to understand the realities and complexities of the domestic and international economy, to be aware of different views on important matters, to know how to acquire new information, to form their own judgments, and to express their views clearly and articulately. These are the main themes of accounting education reform.

### **Broadening the Common Body of Knowledge**

The State Education Commission took the initiative to reverse the situation of over-specialization by working to establish a suitable curriculum for finance and management education. In 1987, it sponsored a curriculum development seminar on Chinese economic and finance education. More than a dozen prestigious professors from the U.S., the U.K., Japan, West Germany, Australia and Canada, and over 20 Chinese professors from various universities, attended the seminar. As a prelude to the seminar, a survey was conducted to document the status of Chinese educational programs in finance and economics. A survey of the current and future needs for skilled manpower by ministries, enterprises, research institutes and other organizations was also completed. Prior to the seminar, the foreign experts personally observed the education process in management, finance and accounting, which led to preliminary suggestions.

The seminar focused on the survey results and the experts' reports. With unanimous agreement from all participants, a "minimum core program" consisting of six basic and four applied areas for undergraduate programs was adopted. The program was intended for all the universities and specialized institutions in China. Additional recommendations resulted in a proposal of six special core courses for management education. The recommended minimum core program, now adopted by most universities with finance, management or accounting programs, consists of a diverse set of courses not unlike the set common to accredited university programs in the U.S. For example, basic area courses (with credit hours) include political economics (8), micro/macroeconomics (6), mathematics (9), statistics (4), accounting (3), and computer application (3). Applied areas include public finance, money and banking, comparative economic development, and international trade and finance. An additional course in managerial accounting, along with five other courses, is required for students in the management track, leaving numerous hours of electives for specialization in any functional area.

### **Accounting Education Reform**

Only recently have comprehensive universities begun departments of accountancy. Prior to that, most large departments of accountancy were in the universities and institutes under the jurisdiction of the MOF. Because of this pattern, initial reform occurred in MOF-governed universities and institutes. The MOF specifically encouraged identification of the objectives and guidelines for accounting education; revision of accounting curricula; rewriting of textbooks; improvement of teaching, examination and grading methods; changing from a term system to a credit system; and placing emphasis on ethics.

SUFE's experiences provide insight into the development of accounting education in Chinese universities. SUFE's main objective is to equip regular full-time students with broad and comprehensive knowledge, to enhance their ability to adapt to the needs of the market economy, and to develop their potential for high-level responsibility in China's enterprises.

### **Development of Curricula**

To graduate in accounting, SUFE students must earn 163 credits (2,739 contact hours), of which 123 are compulsory courses, 28 are elective, and 12 are for the social survey, year-end thesis and the thesis required for graduation. At SUFE, just over half of the courses fall in the general category, including political theory (20 percent), and general courses in university topics (25 percent) and finance and economics (10 percent). About 30 percent consist of specialized courses within the major and about 20 percent are reserved for electives. The theses are in addition to these percentages.

### **Development of Classroom Materials**

Under the old system, textbooks were vocational and regulation-oriented. Theoretical and logical analysis of accounting issues appeared only rarely and basic conceptual issues were not dealt with at all. Only the recording and mundane reporting aspects of the accounting process were stressed, virtually ignoring other aspects such as forecasting, planning, analyzing and controlling.

Improved text materials have come from three general sources: (1) direct use of western textbooks; (2) new texts; and (3) training materials for international certification. The movement toward harmonization with international standards led to the adoption of English-language

books from the U.S. and the U.K. early in this transition. This was particularly the case for universities offering a specialization in international accounting. Even today, many accounting programs continue to use two or more English-language textbooks.

Several leading universities started to rewrite textbooks according to the new curriculum, which addressed Fundamental Accounting, Financial Accounting, Management Accounting, Cost Accounting, Auditing, Computerized Accounting and International Accounting. Compared to old texts, the new texts are far more conceptually oriented and introduce comprehensive frameworks such as the one developed in the U.S. Industry-specific accounting procedures are reduced to a minimum and the rationale underlying accounting practice is emphasized.

Another major source of classroom materials came from certification training programs. In 1990, the MOF, the Ministry of Foreign Trade and Economic Cooperation and the State Audit Administration began work with the Chartered Association of Certified Accountants (ACCA) to organize courses for candidates sitting for ACCA's professional examination. After several years of experience, the ACCA formally established a training center at SUFE in 1993. Spurred by the success of SUFE's training center, a number of training centers were established thereafter in other universities. Similarly, the Canadian General Accountants (CGA) also established training centers in China.

To rapidly increase the number of qualified CPAs, universities also set up a CPA specialization in the undergraduate accountancy programs. A set of textbooks that cover essentially the same topics as those covered in U.S. universities were specifically designed to prepare the students choosing this track.

These courses are heavily influenced by western textbook content, particularly for subjects such as auditing and computerized accounting and auditing.

### ***Development of Accounting Research***

Accounting research in China differs markedly from that in the U.S., particularly in terms of research methodology and depth of analysis. Several reasons account for this. First, the structure of accounting education dictated that accounting professors were primarily to convey "how-to" knowledge. Consequently, training in sophisticated research methodologies was lacking. However, China's desire to have world-class universities has led to change. China's university classification system (one-center universities stress teaching only; two-center ones stress both teaching and research) has encouraged considerable emphasis on research and publication in the promotion decision. To become a leading university, publication is encouraged in refereed journals.

Accounting journals that rely primarily on traditional methods have mushroomed over the past decade. Currently there are more than 40 journals at the province level and above. A brief review reveals that most of papers are descriptive in nature. Logical reasoning is employed in many articles. Articles employing deductive reasoning normally start with the general objective of building up the socialist market economy and modern enterprise system. Some articles focus on the reliability and relevance of accounting information as the objective to derive guidelines of accounting measurement and reporting. Inductive reasoning often starts with accounting practices in business enterprises, or with accounting practices in different countries. Generalizations are made based on these observations. The

inductive approach is frequently used to develop accounting principles.

Chinese accounting literature seldom includes empirical research as most Chinese academics are not familiar with the method. Statistical and quantitative methods, behavioral science, psychology studies, econometrics and information science are also rarely used by Chinese researchers. The scope of research is usually limited, e.g., studies relating the utilization of accounting information in the capital market are uncommon. And, individual papers typically do not probe specific issues as deeply as their western counterparts.

Efforts to increase the rigor of the methodology used in accounting research include changes in research-methods courses in doctoral programs, faculty exchange, and formation of the Chinese Accounting Professors' Association. A few universities have begun to introduce more sophisticated research methods into their doctoral studies. For example, SUFE has an introductory research course that includes methods in the following research areas: empirical accounting; positive accounting; securities markets; behavioral accounting; agency theory and information economics; human information processing; the events approach; and analytical research. Adoption of new methodology seems to be slow partly because too few schools are providing such courses and partly because of readers' reluctance to accept them.

Another factor that could help improve the situation is the exchange activities between Chinese and foreign scholars. Departments of accountancy in many Chinese universities continue to send their faculty members abroad to study accounting, either as visiting scholars or to obtain degrees. There they are exposed to other education systems and new subjects that are not well de-

veloped in China. On return, they combine what they have learned abroad with Chinese socio-economic policy and are able to make valuable contributions to both accounting research and education. At the same time, a large number of western scholars have visited Chinese universities to speak in seminars or to teach for a short period of time. They bring new information related to accounting practice, education and research. Their activities have had a great impact on the accounting education reform in China.

The establishment of the Chinese Accounting Professors' Association in 1995 is a milestone in the development of accounting education and research in China. It is the first national accounting academic body devoted to accounting education. The objectives of the Association are to promote exchange among the accounting educators of Chinese universities and those of foreign universities and to encourage the development of accounting research, education and practice.

Several features have contributed to its success. It is fully supported by the MOF, the Accounting Society of China, and the CICPA, who all sent representatives to its first two meetings and have promised long-term support. The Association enjoys broad support among accounting academics, with more than 130 accounting professors from more than 60 universities at its first annual meeting and nearly 200 at the second. Its board (Chairman, Vice Chairmen and Secretary General) is composed of representatives from all universities with doctoral programs in accounting. The open attitude of the Association embraces strong cooperation with academic institutions of different countries. This cooperation is intended to upgrade Chinese accounting education. Several officers of the American Accounting Association (including the president and president-elect) have

participated actively in each of the annual meetings, as well as several directors from the Chinese Accounting Professors' Association of North America. Strong research orientation is evidenced by the presentation of such modern methodologies as empirical research and capital market research and the first doctoral consortium. In addition, the Association plans to publish a newsletter and to compile an accounting faculty directory and an accounting periodical directory. The first doctoral consortium was held in 1996.

### CONCLUSION

It is clear that the development of accounting practice and accounting education is closely related to the social and economic environment. Ideological change in China has played a major role in accounting education reform. For a

long time western accounting was suspect, a social science serving the special interests of some classes. Many western accounting concepts were rejected. With the development of a market-oriented economy, people came to understand that accounting is a management tool, useful in conveying economic information. Reliable and relevant accounting information is necessary for China to move smoothly toward a market-oriented economy. People also realized that joining the international market required adopting an international business language. The desire to continue attracting foreign investment has resulted in a degree of urgency over the recent past that has been answered by additional accounting regulation, strong assistance from large accounting firms, and the dedicated effort of numerous accounting educators.