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THE RISE AND FALL OF DEBIT-CREDIT BOOKKEEPING IN CHINA: HISTORY AND ANALYSIS

Abstract: This paper presents a century-long history of the debit-credit method of double-entry bookkeeping in China. Since introduced to China at the turn of this century, debit-credit bookkeeping has gone through many years of turbulence until 1992, when the Chinese government officially designated it as the standard bookkeeping method. Rather than taking a narrow technical perspective, this paper examines many historical events that shaped bookkeeping methods in China from a broad socioeconomic and political viewpoint. The story of debit-credit bookkeeping in China exemplifies how accounting is intertwined with the political and socioeconomic environment in which it exists.

INTRODUCTION

The history of accounting demonstrates complex relationships among accounting, organizations, and society. Not only does accounting evolve in response to the political and socioeconomic environment, it also plays an active role in shaping and influencing organizational and societal changes, which in turn create possibilities for its own transformation [Hopwood, 1987, p. 207]. As "a product of the Italian Renaissance, the forces that led to the renewal of the human spirit in Europe were the same forces that created accounting" [Hendriksen and Breda, 1992, p. 32]. The convergence of those forces — free expression, private property, credit growth, and capital accumulation in 14th century Italy — created the precondition for the birth of modern accounting. The invention of modern accounting was believed to "provide a framework within which

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private capitalism could develop and generate the wealth which sustained the artist, the musician, the priest, and the writer" [Hendriksen and Breda, 1992, p. 32].

The industrial revolution in the 19th century represented a second milestone in accounting's history. To satisfy the needs of large industrial corporations, accounting was reshaped and changed to reflect the increasing importance of such concepts as depreciation, cost accounting, separation of the investor and the manager, multiple users of financial statements, and the distinction between return on and of investment [Hendriksen and Breda, 1992, p. 47]. These accounting developments helped facilitate the advancement of Western industrial capitalism and the formation of market economies dominated by large, multinational corporations.

The American stock market crash in 1929 and the subsequent depression led to the creation of the Securities and Exchange Commission in 1934, and the start of a regulated environment, which has significantly influenced the contemporary development of accounting in the U.S. With authority bestowed by the SEC, the accounting profession has tried diligently to make the self-regulation model a success. Although being criticized from time to time for not acting swiftly enough to meet the increasing needs of information users, there seems to be no doubt that accounting has contributed significantly to the thriving of "people's capitalism" in the U.S. [Hendriksen and Breda, 1992, p. 83]. As we are continuing to observe today, the stock market and changes in the market have in turn become primary mobilizing forces behind the current development of accounting.

While history suggests that accounting interacts with the political and socioeconomic environment within which it operates, studies of accounting change and history often take a rather technical perspective, viewing accounting as a set of techniques for collecting and processing useful information for organizational improvement [Hopwood, 1987, p. 207]. This narrow technical perspective was directly challenged by Loft [1986, p. 137] and Hopwood [1987, p. 207] in their respective studies of British accounting history. Through a detailed documentation of cost accounting in the U.K. between 1914 to 1925, Loft [1986, p. 138] showed "accounting not as merely a technical process, nor as a technical process with social and political consequences, but as an activity which is both social and political in itself." Based on examining three archaeological cases of accounting change, Hopwood [1987, p. 207] illustrated "the diversity of factors implicated in accounting change, the constitutive as well as reflective roles of accounting and the ways in which accounting change can shift the preconditions for subsequent organizational changes."

This current paper examines a turbulent history of debit-credit bookkeeping in China during the 20th century to illuminate further the interplay between accounting and the wider society in which it exists.[1] The history of 20th century China has been filled with turmoil and change and, therefore, provides an ideal context for examining how accounting is intertwined with its political and socioeconomic environment. While the ancient Chinese civilization was one of the contributing factors to the birth of modern accounting in 14th century Italy [Hendriksen and Breda, 1992, p. 52], East and West followed different paths in the development of accounting until the early 20th century when Western debit-credit bookkeeping was introduced to China. By that time, Chinese accounting had already enjoyed a long and distinctive history [Zhao, 1987, p. 165]. Subsequent to its introduction through 1993, the debit-credit method underwent a turbulent period of rise and fall in China. Although a purely technical method of accounting, the technique could not escape the influence of historical events and political as well as socioeconomic developments. This paper relates the story of debit-credit bookkeeping in China from a broad historical perspective. If history portends the future, accounting will continue to evolve in response to changes in Chinese society.

The paper is organized as follows. The next section briefly describes bookkeeping methods in China precedent to the 20th century. The process by which debit-credit bookkeeping was introduced to China follows. The three sections before the concluding remarks recount the stormy history of the debit-credit method subsequent to its introduction to China. Finally, the major lessons of this study are summarized in the concluding remarks.

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[1]Most of the historical events regarding debit-credit bookkeeping in 20th century China are adopted from two sources, Chen [1993] and Liu and Wang [1994], both of which were published in China. The results of their research are synthesized with other sources in this paper to present a comprehensive and coherent analysis of how bookkeeping methods in China interact with the environment.

BOOKKEEPING METHODS BEFORE THE 20TH CENTURY

Recorded Chinese government bookkeeping dates from the Shang Dynasty (1500 to 1000 B.C.). During that period, an emergent slave system brought about agricultural progress which necessitated accounting to track the increasing amount of wealth accumulated by the royal family. Historical records show that a decimal system was mastered and large numbers (30,000) were used in recording. However, the word "accounting" did not appear until the Periods of Spring and Autumn (770-475 B.C.). While Mencius was the earliest to include the word "accounting," it was in *The Rites of Zhou* that accounting activities were extensively described [Zhao, 1987, p. 166].

The Rites of Zhou used two Chinese characters, *ru* (meaning "in") and *chu* (meaning "out"), to describe the increase and decrease of state revenue. These two words were commonly used to describe economic activities in China. During the Warring States period (475-221 B.C.), *ru* and *chu* were formally adopted as bookkeeping labels [Zhao, 1987, p. 170]. A single-entry system was used to record transactions with *ru*, indicating receipts of revenue, and *chu*, payments of expenditure. This single-entry bookkeeping only accounted for changes (either increases or decreases) of state properties. At the end of an accounting period, all entries were summarized and balanced, based on the principle of *Sanzhu Jiesuan* (three-pillar balancing) as follows: *ru* (in) plus *chu* (out) were equal to *yu* (balance) [Lin, 1992, p. 103].

Similar to *ru* and *chu* in government bookkeeping, *shou* (meaning "receipt") and *fu* (meaning "payment") were used primarily in private-sector bookkeeping [Lin, 1992, p. 103]. These designations eventually became dominant in traditional Chinese accounting systems [Zhao, 1987, p. 171]. Bookkeeping progressed very slowly in ancient China due to the low level of commercial activities. Originated from Confucian ideology, commerce was a highly despised activity in ancient China, and merchants were ranked among the lowest in society [Lin et al., 1983, p. 18]. No wonder for centuries after its invention, the single-entry system remained a sufficient bookkeeping method for both governmental and private accounting. During the Tang and Song Dynasties (10th-12th century), *Shizhu Jiesuan* (four-pillar balancing) emerged as a bookkeeping innovation [Guo, 1982, p. 401; Lin, 1992, p. 103]. Different from *Sanzhu Jiesuan* wherein only the current period's balance was considered, *Shizhu Jiesuan* took both beginning and ending balances into account. To summarize and balance entries for a period, a four-component formula was followed — *jiuguang* (old trust or beginning balance) plus *xinshou* (receipt) is equal to *kaicu* (payment) plus *shizai* (real existence or ending balance). This equation is remarkably similar to the balancing principle of modern Western accounting.

With commercial and economic activities expanding over time, single-entry bookkeeping became inadequate to deal with increasingly complex business transactions. A new, hybrid bookkeeping method called *Sanjiao Zhang* (three-leg bookkeeping) appeared around the middle of the 15th century [Guo, 1988, p. 110; Lin, 1992, p. 103]. Differing from traditional single-entry bookkeeping, *Sanjiao Zhang* recorded transactions involving claims on and transfers of assets in two entries, with one recorded as *shou* (receipt) and the other as *fu* (payment). This is clearly a feature of double-entry bookkeeping. But a single-entry format was retained in recording cash transactions as *shou* or *fu*. While an important innovation in the history of Chinese accounting, *Sanjiao Zhang* was still a primitive method in comparison to modern double-entry bookkeeping.

A full-blown, double-entry bookkeeping method did not surface in China until the mid-17th century at the end of the Ming and the beginning of the Qing Dynasties. Fu Shan of Shanxi Province invented a double-entry bookkeeping system called *Longmen Zhang* (Dragon Gate bookkeeping) [Zhao, 1987, p. 181]. Accounts were classified into four categories — *jin* (to record receipts of revenue), *jiao* (to record payments of expenditures), *cun* (to record stocks of assets), and *gai* (to record claims on assets, including capital and liabilities). It retained *shou* (receipt) and *fu* (payment) as bookkeeping labels, but recorded every transaction in two entries of the same amount. To settle *Longmen Zhang* (to close the Dragon Gate), the balance between *jin* (receipt) and *jiao* (payment) had to equal that between *cun* (stock) and *gai* (claim). After some modifications, *Longmen Zhang* was renamed *Shijiao Zhang* (four-leg bookkeeping) as compared to the hybrid *Sanjiao Zhang* of the 15th century. With so many of its features resembling Western debit-credit bookkeeping, it is truly remarkable that the Chinese invented *Longmen Zhang* independent of the influence of Western accounting.

Although China had numerous accounting innovations during its long history, bookkeeping methods before the 20th century were primarily the products of the small-scale, feudal economy. They were developed in an environment that required record keeping for relatively simple economic activities. The process of accounting change was extremely slow because commercial activities were de-emphasized and the precondition for accounting improvement simply did not exist. No matter how frequent the change of dynasty, China remained a closed society to the outside world with the Emperor as the paramount ruler. The primary purpose of accounting was to keep track of the flows of the Emperor's wealth and the state's properties. Economic efficiency was never a concern to the rulers of China in its thousands of years of history.

Eventually, changes in Chinese society brought about the need for accounting transformation. Starting from the mid-Ming Dynasty (1368-1644), private commercial activities gradually grew in China and led to the emergence of privately owned, handicraft workshops, commercial centers and cities, and foreign trade [Lin et al., 1983, p. 14]. A free employment relationship, different from the feudal system, arose within these newly founded private businesses, which further spurred the development of commercial activities. With the economy growing and business transactions becoming more complicated, traditional Chinese bookkeeping revealed some severe weaknesses, such as the lack of integrated account systems, inconsistent account classifications, irregular account forms, different bookkeeping labels, poor organization of books, ambiguous recording rules, and difficulties in teaching and learning [Lin, 1992, p. 103; Liu and Wang, 1994, p. 43]. By the middle of the 19th century, the need for accounting reform arose, and people began to study Western accounting as an alternative. It was in this environment that Western debit and credit bookkeeping was introduced to China.

INTRODUCTION OF DEBIT-CREDIT BOOKKEEPING TO CHINA

As one of the most important historical events in modern Chinese history, the First Opium War of 1840 changed the course of Chinese life and had a considerable impact on the development of Chinese accounting. Before the war, China was a sovereign, feudal nation where commercial exchanges with foreign countries were limited and controlled. The Opium War forced the Chinese government to open its doors to Western commercial interests. After the war, business people from the West swarmed to China to open factories, trading companies, and banks. They also obtained direct control of customs, the railroad, the postal service, and other governmental agencies through a series of treaties. These foreign-owned or controlled businesses and agencies were the first to apply Western-style, double-entry bookkeeping in China.

Although debit-credit bookkeeping came to China immediately after the Opium War, it was not until 1905 that Xi Yong Cai wrote the first book in Chinese about Western bookkeeping [Chen, 1993, p. 30; Liu and Wang, 1994, p. 43]. The book, *Interlocking Bookkeeping*, attempted to introduce the Western debit-credit method to China by incorporating it into the traditional *shou* (receipt)/*fu* (payment)-based bookkeeping. Although the book was an important development in the history of Chinese accounting, it did not have a significant impact on the accounting practice at the time because of its attempt to compromise between Western bookkeeping and traditional Chinese methods [Guo, 1988, p. 322].

Lin Xie and Sen Meng co-authored a second but more influential book, *Bank Bookkeeping*, two years later [Liu and Wang, 1994, p. 43]. Not only did the book contain an extensive and systematic description of Western double-entry bookkeeping, it also illustrated the application of the method to the banking industry, including a chart of accounts and sample transactions [Chen, 1993, p. 30]. This book was instrumental in acquainting Chinese accountants with the debit-credit method that was eventually adopted in China's banking industry. Established in 1908, the Bank of Great Qing, the predecessor of the Bank of China, led the way in reforming traditional accounting practice. Relying on the newly published book, the Bank developed a new accounting system based on the debit and credit method and set up training schools in Beijing to assist in the transition [Guo, 1988, p. 334; Liu and Wang, 1994, p. 43]. By 1916, now renamed the Bank of China, it completed the conversion from traditional Chinese bookkeeping to the Western double-entry system. Shortly thereafter, several other banks, such as the Bank of Communications, followed suit as debit-credit bookkeeping gradually expanded into the entire banking industry.

YEARS OF TORTUOUS DEVELOPMENT

Debit-credit bookkeeping gained ground in China in the early 20th century, but the road it traversed thereafter was by no means smooth. It underwent several decades of turbulent development due to various political and socioeconomic reasons. During the 1920s and the 1930s, traditional Chinese bookkeeping coexisted with the Western method. However, debit-credit bookkeeping gained momentum during the period, threatening to prevail over the traditional system. Prospects for the demise of the indigenous method caused great concern among those who felt strongly about national heritage and pride. Instead of completely abandoning traditional Chinese bookkeeping, they advocated accounting reform by preserving the essence of the traditional system while incorporating the merits of the Western method. At the same time, in contrast to what reformers advocated, a group of people held a more radical and revolutionary view, calling for a complete abandonment of the traditional system and a replacement of Chinese bookkeeping with Western-style, debit-credit bookkeeping [Chen, 1993, p. 30; Liu and Wang, 1994, p. 43].

The chief advocate of the reformist school, a well-known Shanghai accountant Yong Zuo Xu, established the *Journal of Accounting* in January 1933 to discuss and promote the reformist agenda. It was believed that Chinese bookkeeping had merits in both form and substance which could not be replaced by Western debit-credit bookkeeping. In December of the same year, he published a book, *Reform of Chinese Bookkeeping*, in which he revealed a complete and detailed reform plan. The reform was based on the notion that the advantages of debit-credit bookkeeping could be incorporated into the traditional Chinese system of *Shijiao Zhang*. *Shou* (receipt) and *fu* (payment) were retained as bookkeeping labels, but the old pattern of vertical writing was replaced by horizontal writing, and a multicolumn account format (including date, transaction, receipt, payment, and balance) was adapted from the Western method [Zhao, 1987, p. 183].

The revolutionist school was led by a U.S.-educated accountant, Xu Lun Pan, who argued forcefully for the need to study and adopt Western debit-credit bookkeeping in China. He founded Li Xin Accounting, a major accounting firm in China, and actively promoted the debit-credit method throughout his practice. The revolutionist school argued that debit-credit bookkeeping was the most logical and scientific method of bookkeeping that had been ever invented and that its principles were equally applicable in any country around the world. As debit-credit bookkeeping had its genesis in technological advances and socioeconomic changes, they predicted the eventual demise of traditional *shou-fu* bookkeeping in China.

Not only did these two schools engage in public debate about the pros and cons of Chinese versus Western bookkeeping methods, they also competed with each other in practice. The government of the Republic of China took an ambiguous position in this debate. On the one hand, the Uniform Accounting System, promulgated by the government, stipulated the adoption of debit-credit bookkeeping. On the other hand, the government simultaneously allowed the use of the traditional bookkeeping method [Guo, 1988, p. 515]. The continued debate and competition between these two schools positively affected the development of accounting in China. Although both left clear marks on the accounting history of China, the revolutionist school gradually became more influential. By 1949, the debit-credit method had gained wide acceptance in large and medium-sized businesses. In contrast, modified *shou-fu* bookkeeping was primarily used in relatively small businesses.

The founding of the People's Republic of China in 1949 was another significant event in the development of the debit-credit method. After the birth of the new China, accounting scholars reinstigated a nation-wide debate about the national characteristics and the scientific virtues of bookkeeping methods. In the early 1950s, the *Da Gong Daily* published two articles written by Nai Qi Zhang — "A Discussion About Using Our Own Bookkeeping Method" and "A Second Discussion About Using Our Own Bookkeeping Method" [Chen, 1993, p. 30]. These two articles claimed that traditional *shou-fu* bookkeeping was not only more Chinese and popular among the people, but also more scientific than the debit-credit method. The author suggested that the government issue a decree to enforce a nationwide use of *shou-fu* bookkeeping. Although the ideas were not fully embraced by the government or the accounting community at that time, these two articles initiated the use of ideology as a primary weapon in the debate over bookkeeping methods. This ideology-centered approach eventually degenerated into absurdity during the Cultural Revolution.

As reflected in two accounting regulations stipulated by the Ministry of Finance in 1951, the new Chinese government took a compromised position in this furious debate [Chen, 1993, p. 30]. Both the "Regulations for Overall Budgetary Accounting" and the "Regulations for Unit Budgetary Accounting" required the use of a double-entry bookkeeping method similar to debit-credit bookkeeping. But, instead of strictly following the rules of the debit and credit method, the regulations specified receipt and payment as bookkeeping labels based on traditional Chinese *shou-fu* bookkeeping.[2] Consequently, during the following decade, debit-credit bookkeeping coexisted with the increase-decrease method.

RISE OF INCREASE-DECREASE BOOKKEEPING

A 1963 article in *Trends and Developments in Economics* dramatically changed the course of debit-credit bookkeeping in China [Chen, 1993, p. 30]. The article, introducing a new bookkeeping technique called the increase-decrease method, immediately caught the attention of the Ministry of Commerce. The Ministry launched a pilot project in 1964 to experiment with the increase-decrease method. The project lasted two years and led to an official document sponsored by the Ministry, *How to Replace Debit-Credit Bookkeeping by Increase-Decrease Bookkeeping* [Mao and Guo, 1993, p. 504]. The book criticized debit-credit bookkeeping as being obscure and hindering the oversight of economic activities by ordinary people. It explained in great detail the principles and recording rules of increase-decrease bookkeeping. Starting in 1966, debit-credit bookkeeping was abolished and replaced by the newly minted increase-decrease method in the merchandising sector.

Shortly after the birth of the increase-decrease method, the Cultural Revolution quickly swept the country. Debit-credit bookkeeping was attacked in unprecedented fashion, denounced as a sign of capitalism in China. It was asserted that debit-credit bookkeeping was founded upon the economic theory of capitalism and was used as a deceptive tool to cover the realities of exploitation in capitalist society. Those in favor of the debit-credit method were accused of being class enemies who wanted to use bookkeeping as a vehicle to obstruct and suppress the socialist enthusiasm of the people.

[2]The technical aspects of this method will be described in the next section, together with the increase-decrease method of bookkeeping.

Aided by this kind of rhetoric, the increase-decrease method became the dominant bookkeeping system in China in two and a half years [Mao and Guo, 1993, p. 504]. Although the arguments against the debit-credit method seem ridiculous from today's perspective, they did represent mainstream thought during this particular period of Chinese history. The increase-decrease method quickly spread to other sectors of the economy, such as industry, commodities, and transportation. Debit-credit bookkeeping was no longer in use in China.

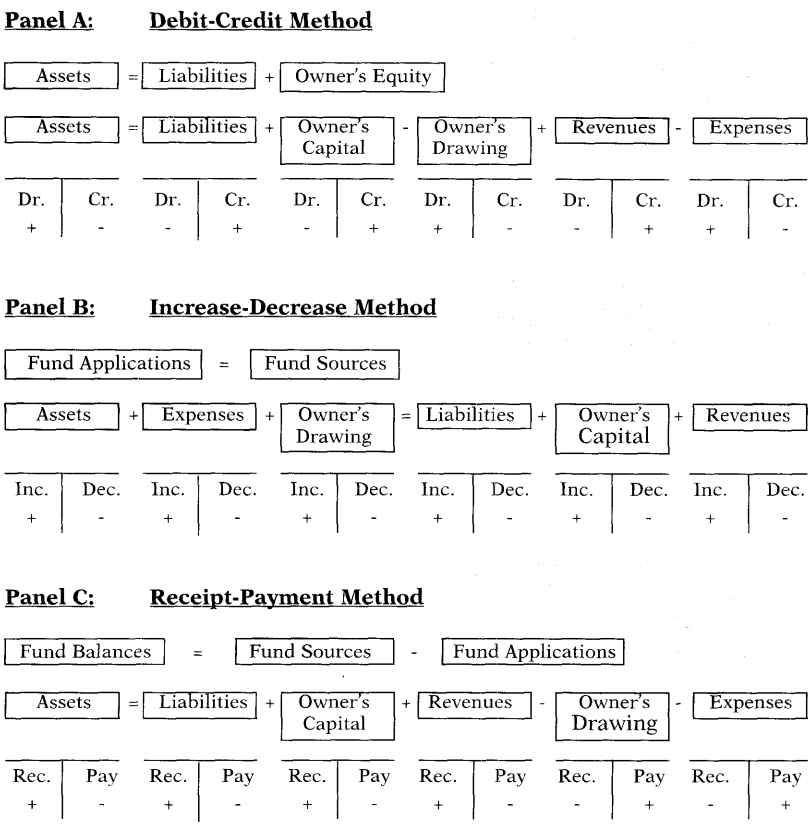
Was the increase-decrease method a truly innovative approach that differed fundamentally from debit-credit bookkeeping? As illustrated in Figure 1, these two methods basically employ the same principles embedded in the accounting equation. With accounts classified according to the accounting equation and opposite recording rules for asset accounts and liability/equity accounts, debit-credit bookkeeping is able to maintain a balance between debits and credits in a single transaction, in all transactions together, and in account balances.

Although increase-decrease bookkeeping classifies accounts into fund applications and fund sources, the classification can be easily mapped onto the accounting equation as shown in Panel B of Figure 1. The balance between fund applications and fund sources is simply another application of the expanded accounting equation. However, distinct from the debit-credit method, increase-decrease bookkeeping uses the words "increase" and "decrease" as bookkeeping labels, and records increases in any account on the left side and decreases on the right side. To maintain a balance between fund applications and sources, the following recording rules were developed — (1) if a transaction involves two accounts of the same category, one account is increased and another decreased; and (2) if two accounts belong to different categories, both are either increased or decreased. Using these recording rules will practically lead to the same result as debit-credit bookkeeping except that the two sides of liability and equity accounts are switched. That is, an increase in fund application or a decrease in fund source is the same as a debit, while a decrease in fund application or an increase in fund source is actually a credit (see the Appendix for sample transactions).

The receipt-payment method, modified from traditional *shou-fu* bookkeeping, was created in 1951 as a compromise between the two opposing opinions in the debate over the debit-credit method and traditional Chinese bookkeeping. As shown

FIGURE 1

Comparison of Bookkeeping Methods



in Panel C of Figure 1, "receipt" and "payment" are used as bookkeeping labels and accounts are classified into three categories. Fund balance accounts are assets, such as cash and equipment, where increases are recorded as receipts and decreases as payments. The same recording rules apply to fund source accounts (liabilities, equities, and revenues). However, fund application accounts (operating expenses and withdrawals by the owner) are processed differently with increases recorded as payments and decreases as receipts. Because of the difference in recording fund balance and application accounts, a set of complicated procedures had to be followed to keep accounts in balance. If a transaction increases the fund balance, receipts are recorded in a fund balance and a fund source account, while if a transaction decreases the fund balance, payments are recorded in a fund balance and a fund application account. For transactions not affecting the fund balance, a receipt is recorded in one account and a payment in the other.

While not as apparent as increase-decrease bookkeeping, the receipt-payment method can also be effectively reconciled with the debit-credit method. A debit is equivalent to a receipt in a fund balance account or a payment in a fund source or application account, while a credit is the same as a payment in a fund balance account or a receipt in a fund source or application account. Consequently, the fundamental balance between total debits and credits still exists but in an obscured way as follows — total receipts in fund balance accounts plus total payments in fund applications and sources accounts are equal to total payments in fund balance accounts plus total receipts in fund applications and sources accounts (see the Appendix for sample transactions).

It is evident that the attack on and the criticism against debit-credit bookkeeping were both unfounded and misleading. They were based solely on ideological considerations and preferences. Except for their appearance and formality, the increase-decrease and the receipt-payment methods did not change financial statements in any substantive way. They were simply different versions of debit-credit bookkeeping dressed in a Chinese gown. In fact, the unnecessary complications introduced by these two methods seem to serve no purpose except allowing them to be claimed as "native" Chinese inventions.

From the perspective of accounting change, the story of these two bookkeeping methods has interesting implications. Chinese accounting was certainly changed during this period, but it was not changed for the purpose of bettering accounting's traditional role to enhance organizational performance. As illustrated, neither the increase-decrease method nor the receipt-payment method improved bookkeeping in any meaningful way. Technically, they served the same purpose as debit-credit bookkeeping. Therefore, there was no reason for change; rather, the change occurred because accounting was a social activity intertwined with its environment.

During this particular period of Chinese history, political and socioeconomic events converged sufficiently to provide the preconditions for accounting change. After the founding of the new China in 1949, the political climate was filled with anti-West, anti-capitalism sentiment. This enmity was fueled not only by ideological considerations but also by the international Cold War environment and by the concern that the new government was in danger of subversion by Western-backed forces. To mobilize the country, the government called upon the Chinese people to destroy the old political and socioeconomic establishments and to build a new, socialist China. Originated from the West, debit-credit bookkeeping was a natural target for destruction. Replacing it with some type of indigenous Chinese bookkeeping method was seen as something larger than bookkeeping itself. It carried a symbolic meaning with political, ideological, and cultural implications that Chinese socialist accounting was fundamentally distinct from Western, capitalist accounting. Although based on an examination of totally different historical events, Hopwood's observation [1987, p. 213] seems strikingly applicable: "Indeed, in some senses, accounting, when seen from such a perspective, still has an essence, a mission which mobilises its development."

REVIVAL OF DEBIT-CREDIT BOOKKEEPING

The extremism, misconception, and confusion surrounding the debate over bookkeeping methods in China vanished gradually after the end of the Cultural Revolution in 1976. In 1978 and 1979, two leading Chinese accounting professors, Jia Shu Ge and Nan Xuan He, wrote two articles, entitled "We Must Rehabilitate Debit-Credit Bookkeeping" and "Debit-Credit Method is a Better, More Scientific Bookkeeping Method" respectively [Chen, 1993, p. 30]. These two articles, both fair, objective, and scientific evaluations of bookkeeping methods, led the way to a revival of the debit-credit method in China. Universities started teaching debit-credit bookkeeping again in their business curricula.

In 1982, the Ministry of Foreign Trade reinstated debit-credit bookkeeping within its jurisdiction [Chen, 1993, p. 30]. During the next few years, other sectors, such as industry, commodities, and supply and marketing cooperatives, started changing their bookkeeping methods. At the same time, the increase-decrease method was still used in the merchandising sector, while receipt-payment was utilized in the banking industry and government. This coexistence of multiple bookkeeping methods continued for almost another decade until the Chinese government in 1992 issued "Accounting Standards for Business Enterprises" [Ministry of Finance, 1992a], mandating the use of the debit-credit method for all Chinese enterprises.

It was not an isolated event that the Chinese government ended the use of multiple bookkeeping methods and mandated the debit-credit method as the standard bookkeeping practice for all businesses. Political and socioeconomic changes since the end of the Cultural Revolution had accumulated to such a degree that 1992 became a milestone year in the accounting history of China. During that year, the government issued three important accounting regulations which had the cumulative effect of reviving and standardizing the debit-credit method in China. While these regulations dealt with broader issues than bookkeeping methods [Winkle et al., 1994, p. 48; Davidson et al., 1996, p. 58], a brief review of the environment in which they were promulgated provides a revealing conclusion to the story of debit-credit bookkeeping in China.

Before 1978, China had a highly centralized, political-economic system, one which had been isolated for nearly 30 years to preserve a so-called, authentic socialism. It was in this environment that the increase-decrease and the receipt-payment methods were invented to distinguish Chinese from Western accounting. In 1978, the Chinese government initiated economic reforms to revitalize the ailing centralized economy and an "open door" policy to attract much-needed foreign capital. With state enterprises gaining more autonomy and access to foreign investment in terms of joint ventures, the Chinese accounting system was gradually transformed and its function shifted from implementing centralized state planning and safeguarding national assets to decision making by enterprise management and external decision makers, such as foreign investors. An important event during that period was the issuance of "Accounting Regulation for Joint Ventures Using Chinese and Foreign Investment" in 1985 as a part of the Chinese government's efforts to create a favorable environment to attract foreign investment [Ministry of Finance, 1985]. In fact, this was the first official accounting document in China that incorporated many internationally accepted accounting principles and practices.[3] Although the regulation specified the use of the

[3]The phrase, "internationally accepted accounting principles and practices," is broadly used in Chinese accounting literature to refer to conventional Western accounting concepts and practices, such as debit-credit bookkeeping,

debit-credit method, the document had little impact on the vast majority of state enterprises since it only applied to joint ventures.

Starting in the mid-1980s, the Chinese government hastened economic reform and adopted more liberal economic policies as it moved the nation towards a market-oriented economy. Two significant changes emerged. First, foreign investment rose dramatically with an increasing number of foreign companies establishing operations in China, both through joint ventures and other forms of direct investment. Distinct from previous policy that required Chinese partners to have a majority equity holding in a joint venture, foreign investors were allowed and were actually encouraged to become majority equity holders or to found wholly-owned businesses in China. A *Fortune* article [Curran, 1994, p. 116] estimated an almost 600% increase of foreign direct investment in China between 1987 and 1993. Second, stock markets reemerged in China with the Shanghai Stock Exchange established at the end of 1990 and the Shengzhen Stock Exchange in early 1991. Initially, only Chinese citizens could participate in the market. But, since the beginning of 1992, both exchanges started listing companies that offered type B shares to foreign investors.[4]

The increase in foreign investment and the emergence of stock markets became a catalyst for the comprehensive accounting reform that took place in 1992. It was well documented that overseas investors encountered numerous difficulties with the Chinese accounting system [Sender, 1992, p. 59; Curran, 1994, p. 116; Winkle et al., 1994, p. 48]. The system was originally designed to provide information for centralized macroeconomic planning and control, as well as for safeguarding state assets. The information need of external investors in

consistency, conservatism, comparative financial statements, full disclosures, LIFO and other inventory valuation methods, the equity method of investment, and consolidated financial statements. These concepts and practices were not followed in traditional Chinese accounting before the 1992 standard. See Winkle et al. [1994, p. 48] for a comparison of traditional Chinese with Western accounting.

[4]Chinese corporations offer two types of common stocks — type A to Chinese investors and type B to foreign investors. Both types of shares are listed on the two Chinese stock exchanges. Although there are Chinese companies that list their shares in overseas stock markets such as Hong Kong and New York to raise capital directly from foreign investors, the number is still very small at this point.

evaluating a company's operating performance and financial position was never an objective under the Chinese accounting system. In addition, the system contained various technical features that differed from international practice, and there were many variations between regions and sectors in applying the old standard [Winkle et al., 1994, p. 48].[5] Consequently, foreign investors had difficulty analyzing financial statements and assessing the financial health of Chinese companies. Clearly, accounting standards left over from the pre-reform era became a serious obstacle to foreign investors interested in either investing in China directly or entering the emerging Chinese stock market.

To respond to these problems, the Chinese government undertook an ambitious project of promulgating a set of accounting standards accepted by international norms for different types of business entities operating in China. With the help of the World Bank and some international accounting firms [Winkle et al., 1994, p. 48], the Chinese Ministry of Finance issued two regulations in May and June 1992 respectively — "Accounting Regulations for Experimental Corporations" [Ministry of Finance, 1992b] and "Accounting Regulations for Enterprises with Foreign Investment" [Ministry of Finance, 1992c]. The former standard applied to Chinese companies with stocks listed on either the Shanghai or the Shengzhen stock exchange, while the latter replaced the 1985 regulation for joint ventures and was applicable to any enterprise in China funded by foreign investment. Both regulations are generally in conformity with internationally accepted accounting practices. The debit-credit method was stipulated in both. Following these two documents, a landmark accounting regulation, "Accounting Standards for Business Enterprises" [Ministry of Finance, 1992a] was issued in November 1992. This regulation had much broader applicability as its intent was to bring accounting practices in all Chinese enterprises in line with international norms. As specified in Clause 8 of Chapter 1 [Ministry of Finance, 1992a, p. 16], effective on July 1, 1993, "all enterprises must adopt the debit-credit method." The revival of debit-credit bookkeeping in China was thus completed.

[5]The use of different bookkeeping methods was a typical example in this regard.

CONCLUDING REMARKS

This paper has presented a century-long history of debit-credit bookkeeping in China. Since its introduction to China from the West at the turn of this century, debit-credit bookkeeping has undergone years of tortuous development until 1992, when the Chinese government officially designated it as the standard bookkeeping method.

The history of debit-credit bookkeeping in China is a powerful story about how accounting is intertwined with the socio-economic changes and political events in a society. First, the introduction of debit-credit bookkeeping to China occurred at a time when a traditional, small-scale peasant economy began to disintegrate and a new commercial economy began to emerge. Second, the 1949 revolution changed the course of China and resulted in a socialist society with a highly centralized economy. Having originated in the West, debit-credit bookkeeping was harshly criticized and eventually replaced by the increase-decrease method, a bookkeeping system that was erroneously believed to be both politically correct and practically better for serving the needs of the planned economy.

Finally, the revolutionary change of 1992 in Chinese accounting was a direct result of the economic reform that the Chinese government had initiated in 1978. The movement toward an open-market economy demanded a complete transformation of Chinese accounting from a system based on a planned economy to a market-oriented one in harmony with internationally accepted practices. As a part of this change, debit-credit bookkeeping has finally gained complete and deserved recognition in China.

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APPENDIX

Sample Transactions

1) Owner investment totaled $5,000.
2) Borrow $5,000 from the bank signing a note.
3) Receive $3,000 cash revenue
4) Make a cash payment of $2,000 for expenses.

Panel A: Debit-Credit Method

Cash			N/P			Capital			Revenues			Expenses	
Dr.	Cr.	=	Dr.	Cr.	+	Dr.	Cr.	+	Dr.	Cr.	-	Dr.	Cr.
[1] 5,000	2,000[4]			5,000[2]			5,000[1]			3,000[3]		[4]2,000	
[2] 5,000													
[3] 3,000													
11,000				5,000			5,000			3,000		2,000	

11,000 = 5,000 + 5,000 + 3,000 - 2,000

Total Debit Balances = Total Credit Balances

Panel B: Increase-Decrease Method

Cash			Expenses			N/P			Capital			Revenues	
Inc.	Dec	+	Inc.	Dec.	=	Inc.	Dec.	+	Inc.	Dec.	+	Inc.	Dec.
[1] 5,000	2,000[4]		[4]2,000			[2]5,000			[1]5,000			[3]3,000	
[2] 5,000													
[3] 3,000													
11,000			2,000			5,000			5,000			3,000	

11,000 + 2,000 = 5,000 + 5,000 + 3,000

Total Increase Balances of Fund Application Accounts = Total Increase Balances of Fund Source Accounts

Panel C: Receipt-Payment Method

Cash			N/P			Capital			Revenues			Expenses	
Rec.	Pay	=	Rec.	Pay	+	Rec.	Pay	+	Rec.	Pay	-	Rec.	Pay
[1] 5,000	2,000[4]		[2]5,000			[1]5,000			[3]3,000				2,000[4]
[2] 5,000													
[3] 3,000													
11,000			5,000			5,000			3,000				2,000

11,000 = 5,000 + 5,000 + 3,000 - 2,000

Total receipt balances of fund balance accounts = Total receipt balances of fund source accounts - Total payment balances of fund application accounts