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HISTORICAL EVOLUTION OF THE BALANCE SHEET IN THE PEOPLE'S REPUBLIC OF CHINA

Abstract: This paper exhibits the historical evolution of the balance sheet in the People's Republic of China. In particular, we examine three major changes in the balance sheet (which reports the financial position of an economic or business entity) since the founding of the new China in 1949 and the political, social and economic changes during this period. The content, structure and presentation of the balance sheet (or alternative forms of the statement in use) are illustrated. The political and economic factors driving its evolution are analyzed to assist readers in understanding the rapid changes in Chinese accounting over the last six decades. The implications of the Chinese experience for international accounting convergence are also briefly outlined.
Keywords: Balance sheet, Statement of financial position, Chinese accounting, financial reporting, Economic reforms in China.

INTRODUCTION

The balance sheet is the first financial statement in contemporary accounting and portrays the financial position of an economic and business entity on the reporting date.[1] The appearance of this statement can be traced to the birth of double-entry

[1] This financial statement has been officially renamed the *statement of financial position* since January 1, 2009, after the International Accounting Standards Board (IASB) amended International Accounting Standard No. 1 (IAS 1)—*Financial Statements Presentation* in September 2007. However, it is still widely called the *balance sheet* in accounting practices around the world.

bookkeeping in Venice, Italy in the fifteenth century [Littleton, 1933].[2] According to Chatfield [1977, p.68], balance sheet came by the way of listing all debit and credit balances in the ledgers. However, the statement specifically originated from the mandatory, periodic inventory of accounts in the seventeenth century in the European Continent.[3] Littleton [1933] claims that the statement initially served the purposes of property tax levy and bankruptcy procedures by providing an overview of an entity to the latest statement date. After the Industrial Revolution in Europe (in the eighteenth and nineteenth centuries), business entities grew dramatically, from small crafts and production workshops to large-scale corporations with more owners and creditors (capital providers) to accommodate the growth in social productivity and market demands.[4]

The emergence of modern business corporations (e.g., joint stock companies) with separate ownership and management has expanded the number of parties with an interest in a particular business enterprise as firms need to raise capital from external investors and creditors and comply with more complicated market regulations. Therefore, externally oriented financial reporting became an obligation for business enterprises in presenting their resources, obligations, and net worth at regular intervals for the purposes of protecting the interests of capital providers and discharging the stewardship of the management [Chatfield, 1977]. As a result, the statement serves as one of the primary financial statements in most countries worldwide. The balance sheet has long been a tool for external capital providers to assess

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[2] Also see Chatfield, M. [1977], *A History of Accounting Thought*, Huntington, NY: Robert E. Krieger Publishing Company.

[3] According to American accounting historian, Littleton, A.C. [1933], early forms of the balance sheet date back to the trial balance (the balanced accounts) used in the fifteenth century in double-entry bookkeeping practices in Italy and the French Ordinance of 1673 that required merchants to make an "inventory" every two years of all of their fixed and movable properties and of their debts receivable and payable.

[4] However, the balance sheet used nowadays is derived mainly from the British practice of financial reporting for joint stock companies in the late eighteenth century after the Industrial Revolution. It became a mandatory financial statement under the Company Act of 1844 in the UK. This practice was adopted in financial reporting in other countries later on.

liquidity/solvency and asset valuation of a firm [Paton and Littleton, 1940].

Although there has been no substantial change in the structure and content of the balance sheet over the past centuries, the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board (IASB) have jointly initiated some changes in regards to this basic financial statement in recent years, to improve financial reporting quality and promote the international convergence of financial accounting standards and practices [IASB and FASB, 2008]. Not only has the statement been formally retitled as the Statement of Financial Position, but there are also significant amendments proposed to its structure and presentation format, such as inclusion of multiple sections to present assets and claims under segregated classifications of operating, investing and financing activities, income taxes and discontinued operations [IASB, 2008].[5] The main rationale behind the proposed changes is to enhance the cohesiveness of financial statement articulation and add disaggregated information to assist external users' decision making [IFRSF, 2010].

Nonetheless, the initial efforts of the IASB and FASB to remodel primary financial statements have invoked accounting scholars and practitioners around the world to reconsider the objectives of financial reporting and the rationale for potential changes in the structure and usage of financial statements [AAA, 2010]. Even in less-developed countries like China, where accounting is undergoing a significant convergence with international accounting norms, discussions about the changes are taking place. Chinese accounting has gone through dramatic changes since the People's Republic was founded in 1949 in pace with revolutionary changes in the country's political, social and economic environments. Even the official financial statements to be prepared by business enterprises have been substantially remodeled several times in their content and presentation structure. Thus, this paper presents a review of the evolution of the balance sheet in China within the context of the reforms of Chinese accounting during this period. We highlight the political, social and economic factors driving these changes, and the substantial changes in the balance sheet (both its content and pre-

[5] IASB and FASB jointly issued *Preliminary Views on Financial Statement Presentation* on October 16, 2008, and another staff draft was released in 2010 for public consultation and comments, proposing dramatic changes to the existing structure of the primary financial statements [IFRSF, 2010].

sentation format) at different phases of accounting development in the country. It is argued that such a historical review should facilitate understanding of Chinese accounting development in the past decades and of future moves in Chinese accounting in light of international accounting convergence. The lessons derived from the Chinese experience may also be relevant to current debates on the potential amendments to the presentation of this financial statement as proposed by the FASB and IASB.[6]

The paper is structured as follows. A brief review of the early use of the balance sheet in China is first presented. Three major reforms to the balance sheet, including the purposes, influential factors, and specific presentation formats of this financial statement in three major phases of Chinese economic growth and accounting development are discussed. The paper concludes with a brief discussion on the proposed changes to the presentation of primary financial statements by international accounting standards setters from the perspective of China's experience.

EARLY USE OF THE BALANCE SHEET IN CHINA

According to historical studies of contemporary accounting, the balance sheet originated in the West, derived from the balance of accounts procedure in double-entry bookkeeping. It evolved to the mandatory primary financial statement in business sectors, particularly since the Industrial Revolution in Europe in the eighteenth century [Littleton, 1933; Chatfield, 1977]. Generally speaking, the balance sheet presentation (i.e., its content and format) is associated with the progress of financial reporting objectives [IASB, 2008]. As corporations increasingly rely upon external sources for business financing, they must demonstrate the resources (assets) and obligations (liabilities) to show their net worth (owners' equity) at a particular point of time for the purposes of discharging the management's stewardship and to demonstrate their surviving capacities (e.g., liquidity and solvency), which will assist external capital providers make rational decisions [Paton and Littleton, 1940]. The balance sheet is therefore the statement of the financial position of a business entity to satisfy the information needs of investors and creditors.

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[6] Due to the dramatic nature of the proposed changes, strong reservations have been expressed by accounting practitioners and scholars. Thus FASB and IASB have had to postpone the introduction of the new financial statements although they initially planned to finalize the reporting standard project in 2011 [FASB, 2011].

The objectives of corporate financial reporting have evolved as a result of changes in the business environment, as well as the expansion of interest groups involved in business enterprises. These factors determine the content and presentation format of primary financial statements [AICPA, 1970; FASB, 1980]. In other words, the application and modification of primary financial statements (including the balance sheet) are subject to the requirements of financial reporting objectives under specific economic and business context [Most, 1980].

The balance sheet was "imported goods" to China. In general, Chinese accounting grew fairly slowly before the twentieth century even though it has a long history dating back to early human civilizations. For a relatively long period, Chinese accounting was mainly confined to rather simple governmental accounting (e.g., recordkeeping of the revenues and expenditures of different kingdoms or dynasties [Fu, 1971; Aiken and Lu, 1993]).[7] Due to the prolonged existence of agricultural and feudalist societies in Chinese history, social productivity and economic development were at fairly low levels. Also, there was a strong "anti-merchant" moral under the traditional Chinese social and cultural ideology [Auyeung, 2002]. Notable commercial and industrial activities were almost non-existent until the mid-nineteenth century [Guo, 1988]. Except for some small-scale processing productions for agricultural raw materials and handicraft works, such as tea, natural silks, general textiles, chinaware, there were almost no manufacturing or commercial operations in the modern sense until the early twentieth century [Fan, 1947; Feuerwerker, 1958]. Thus, Chinese accounting was undeveloped before the twentieth century. Only Chinese-style, single-entry recordkeeping with simple and crude form of balance accounts (*Shizhu Jiece*)[8] was used in practice, presenting a periodic trial balance for a small number of accounts being recorded [Guo, 1988, 2008; Lin, 1992; Aiken and Lu 1998].

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[7] More detailed information about ancient governmental accounting in China can be found in Guo, D.Y. [2004] *Accounting History Studies: History, Present, and Future*, Volume 1, Chapter 3 and 4, pp.187–280. Also, see Chatfield, M. [1977] *A History of Accounting Thought*, pp.7–9.

[8] Although an accounting statement such as the balance sheet was not in use in ancient Chinese accounting, the *Shizhu Jiece* (four-pillar/four-leg balancing) method was used to close books periodically [i.e., the books must be closed at the end of a period in the form of balancing accounts: *Junguan* (old trust or beginning balances) + *Xinshou* (new receipts) = *Kachu* (used out) + *Shizai* (remaining or ending balance)]. More information about the *Shizhu Jiece* method can be seen in Guo, D. [2008] *Accounting History Studies: History, Present and Future*, Volume 3, pp.82–107.

It was not until the mid-nineteenth century, when China was defeated by Western industrial powers during the Opium Wars (1840–1842), that China was forced to open its domestic markets to the West. Thus Western merchants came to China to trade and they brought in Western capital and cultural influences [Thomas, 1984]. In pace with the emergence of Western-style manufacturing and commercial operations, Western accounting (featuring double-entry bookkeeping) was introduced and expanded in China from the early twentieth century [Lin, 1992; Chen, 1998; Auyeung et al. 2005].[9] As a result, the two main financial statements prevailing in Western accounting (i.e., balance sheet and income statement) began to appear in Chinese accounting; mainly for some government-run administrative agencies controlled by Western industrial powers under the reparation treaties imposed on the Chinese government due to its defeat in the Opium Wars. These agencies included customs, communications services, postal services, national banks, railway corporations, and some large indigenous enterprises doing business with Western trade partners. However, the traditional Chinese-style accounting and reporting practices remained popular among most domestic business entities until the revolutionary changes in Chinese society in 1949 [Guo, 1988; Aiken and Lu, 1998]. As observed by Auyeung [2002, p.9], in the early twentieth century, a majority of Chinese commercial and industrial firms continued to use single-entry, four-pillar balancing method. A small minority adopted the partial double-entry, three-leg bookkeeping method, and a few large enterprises used the dragon-gate or double-entry, four-leg bookkeeping method.[10]

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[9] Some scholars believe that certain preliminary kinds of Chinese double-entry bookkeeping procedures, with a mixture of traditional single-entry bookkeeping practices, emerged in the commercial sectors in Northern China in the late nineteenth century, i.e., the *Longmen Zhang* [Dragon Gate bookkeeping] developed by merchants from Shangxi Province [see Lin 1992; Aiken and Lu, 1998; Auyeung, 2002]

[10] Chinese-style bookkeeping has evolved slowly from single-entry to double entry bookkeeping through the invention of *Sanjiao Zhang* (Tripod/Three-leg bookkeeping) around the mid fifteenth century. The method differs from the traditional single-entry bookkeeping by using separate recording treatments of different transactions or evens, i.e., transactions involved with claims and transfers must be recorded in both *Shou* (receipt) and *Fu* (pay) entries in two related journals or ledges simultaneously while other transactions be only recorded with one entry. Thus Chinese accounting historians call it a partial double-entry bookkeeping or *Pojiao Zhang* (Lame bookkeeping). Later, merchants in ShanXi province in Northern China (*JinShang*) created a rough double-entry bookkeeping system called *Longmen Zhang* (dragon-gate bookkeeping) with a four-pillar (four-leg) trial balancing structure around the seventeenth century (see [Lin, 1992; Aiken and Lu

The early expansion in the use of Western-style balance sheet in Chinese accounting occurred from the 1920s to the 1940s. Mr. Xulun Pan, the pioneer of modern Chinese accounting (who completed his accounting education in the United States in 1924[11]) demonstrated the basic structure of the balance sheet application in Chinese industrial and commercial enterprises in the 1930s, as shown in Table 1. Mr. Pan summarizes that, by using the primary classifications or presentation structure of the balance sheet, firms could list several subcategories, providing further detail of their operations. Hence some balance sheet categories may have listed up to a hundred sub-items in detail, while others may only have a total amount in each category [Pan, 2008]).[12]

TABLE 1

Basic Structure of Balance Sheet (used in the 1930s)

Current assets	Current liabilities
Fixed assets	Fixed liabilities
Other assets	Capital
	Surplus

According to Mr. Pan's observations, the balance sheet used in Chinese accounting in the 1930s is structured as follows: all asset items are presented on the left-hand side, in the order of their liquidity, from top to bottom; liability and equity items are presented on the right-hand side in terms of the settlement order of liabilities and the priority of equity claims from top to bottom. The total amounts for the two sides of the balance sheet must be equal. This balance sheet format remains common in

1998] for detailed description).

[11] Mr. Xulun Pan is the first Chinese person to have obtained an accounting education in the West. He received a master's in business administration degree from Harvard University in 1923 and a PhD in Economics (Accounting) from Columbia University in 1924. Mr. Pan returned to China to start his accounting career immediately after completing his studies in the US. He taught accounting courses at a university in Shanghai for three years and became a practitioner of public accounting in 1927. Mr. Pan established the *Lixing* Accounting Firm and *Lixing* Accounting School; the first of its kind in China, with branches located in most large cities across the country, to promote Western accounting in China through public practice and accounting education. Mr. Pan has been recognized as the "Father of Modern Chinese Accounting."

[12] See Pan, X. [2008], A few legal issues for corporate accounting in China, in *Selected Work of Pan Xulun*, (reprinted) *Lixing* Accounting Press, p.302.

present-day practice in most countries.

It should be noted that the balance sheet structure described by Mr. Pan is a general presentation. However, considerable variation existed in practice. This is because, in the early twentieth century, business operations and accounting were relatively backward due to the underdeveloped economy and external financing markets in the country; the information needs of external capital providers were not yet recognized in Chinese accounting and reporting. The prevalence of traditional Chinese social and cultural influences also obstructed the adoption of Western accounting methods [Auyeung, 2002]. In addition, a severe shortage of accounting personnel who had obtained appropriate training in Western accounting hindered the full adoption of Western-style financial reporting practices in Chinese accounting. The presentation of the balance sheet in practice may deviate considerably from the standardized formats. For instance, Table 2 exhibits the actual format of a balance sheet for Tianjin East Asian Woolen Textile Co. Ltd., located in one of the large commercial centers near Beijing, issued at the end of February 1940).[13]

TABLE 2

Balance Sheet of Tianjin East Asia Woolen Textiles Co. Ltd.
End of February, 1940

Assets	Amount at the End of Period	Liabilities	Amount at the End of Period
Cash		Contributed Capital	
Bank Deposits		Reserves	
Prepaid for Wool purchase			
Prepaid for Machinery		Depreciation Allowance	
Debtors		Bad Debts Allowance	
Receivable from Dealers		Bank Overdraw	
Collaterals for Rentals		Creditors	
Marketable Securities		Payable to Sale Dealers	
Machinery		Clients Deposits	
Furniture's		Consignment Guarantees	
Constructions		Collato Rentals	
Lands		Interest Payable	
Wool Stock		Payable to Governments	
End-Product Stock			
Woolen Stock		Retained Surplus	
Supplies			
Total		Total	

[13] Tianjin Archives, *Exhibition of Tianjin City Memories*, September, 2010.

Apparently, the firm's balance sheet is constructed based upon the basic principles of double-entry bookkeeping (i.e., strictly following debit and credit balances of accounts for their presentation in the balance sheet; all accounts with debit balances are listed on the left-hand side while all accounts with a credit balance are on the right-hand side). Therefore, depreciation allowance and bad debt allowance are listed under the category of liabilities due to their credit balances. This deviates from the current practice of setting contra accounts against corresponding asset accounts. Also, transactions for receivables from customers (debtors) and payable to customers (creditors) are presented on either side of the balance sheet according to the direction (debit or credit) of the account balances. This structure is mainly for the sake of facilitating bookkeeping and financial statements preparation. Thus, all accounts with debit balances are presented on the left (debit) side of the balance sheet while all accounts with credit balances are on the right (credit) side. This treatment is easy to understand and convenient for a trial balance, but there is a significant limitation as it mixes up the firm's assets and liabilities and may not reflect the actual amount (carrying values) of total assets and liabilities on the reporting date. In particular, putting the depreciation allowance and bad debt allowance (which are contra accounts against fixed assets and accounts receivables), within the category of liabilities, cannot be justified theoretically. Therefore, the balance sheet used by Chinese enterprises in the first half of the twentieth century was closer to a statement of trial balance in double-entry bookkeeping systems, compared to current standard practices.

REDESIGN OF THE BALANCE SHEET IN THE 1950S

After the Communists took power in 1949, China began to carry out a large-scale Socialist transformation of its manufacturing and commercial industries with the aim of having all production means owned by the public via state ownership or collective ownership. The main purpose of this transformation campaign was to build up a new Socialist economy nationwide as private business ownership was regarded as incompatible with the Socialist doctrine. State-owned enterprises (SOEs) were set up by expanding the industrial and commercial businesses developed in the regions under the early ruling of the Communist authorities before 1949, confiscating business properties and bureaucratic capital of the defeated old government,

and redeeming the contributed capital from individual (nationalist) capitalists.

The state ownership over business operations became the backbone of the Socialist economy for the new China. However, the accounting systems of business enterprises with different original ownerships and administrative systems were quite diverse, with the coexistence of traditional Chinese-style bookkeeping and Western bookkeeping systems in practice. So it was often impossible to compare business activities and accounting data for different enterprises, or to consolidate them into the state budgets and national economic plans. There was therefore a pressing need for the central government to establish new accounting systems to accomplish the Socialist transformation of industrial and commercial enterprises nationwide.

In this context, how to report/reflect all business properties (assets) under the new public (state) ownership not only became an urgent task for the government, but also caused serious debate among Chinese accounting practitioners. The central issue was whether to adopt the internationally accepted double-entry bookkeeping and the financial reporting practices prevailing in the West or to establish new accounting systems, to satisfy the administration needs of the new Socialist economy. The latter view gained prevalence in the debate as government agencies were the owners and funding sources for business enterprises. So providing information to the government to install a Socialist planned economy became the dominant task in accounting and financial reporting at that time. The Ministry of Finance at the central government then decided on "implementing the double-entry bookkeeping method and cash-based accounting method" in budgetary accounting for governmental departments. At the same time, a nationwide program for establishing uniform accounting systems for business entities was launched to facilitate the development of the Socialist economy in China [Xiang, 1999].

The new government adopted the Socialist political and economic administrative systems of the former Soviet Union immediately after the founding of the People's Republic in 1949. This is because the Soviet Union had been a Socialist country since the early 1910s and it was the 'Big Brother' (or patron) of all emerging Socialist countries after World War II. In particular, the Chinese Communist government entered into a political alliance with the Soviet Union and fully adopted the Soviet-style political and economic administration systems in China to implement the centrally planned economy in the early 1950s.

Thus Soviet-style accounting systems were introduced with the assistance of Soviet finance and accounting advisors working in various government authorities in China [Zhou, 1988; Lin 1989]. In order to convert the enterprises (originally under varied ownerships and administrative modes) into a Socialist state-owned economy, it was necessary to undertake a thorough inventory of the assets and obligations of all enterprises for national economic planning and control. Thus, the Central Finance and Economic Commission of the new government issued instructions for drafting uniform industrial accounting systems in March 1950 [Xiang, 1999].

The Central Ministry of Heavy Industry first issued a draft of a unified accounting system for all enterprises and economic institutions under its jurisdiction in April 1950. The draft was reviewed and approved by the Ministry of Finance and the Central Finance and Economic Commission and formally implemented on July 1, 1950. By June 1951, thirteen industrial administration ministries, at the central government, had issued unified accounting systems for the enterprises and economic institutions under their jurisdictions. The balance sheet was established as the primary financial statement under all of these industry-based uniform accounting systems.[14] This is because the primary objective of accounting and reporting during this period was to facilitate the government and its administrative agencies in taking inventory of the properties (resources), obligations and interest claims of all business entities under their jurisdictional administrations.

In October 1952, the Ministry of Finance organized the first national meeting on financial management and accounting for business enterprises and tabled the *Draft of the Amendment to the Uniform Format of Accounting Statements for State-Owned Industrial Enterprises*. It was resolved by the meeting that the new uniform national accounting systems would be implemented on January 1, 1953, including the introduction of a remodeled balance sheet for all state-owned enterprises across the country [Xiang, 1999]. Table 3 presents the content and structure of this first standardized balance sheet in the early 1950s in China.

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[14] Under the uniform accounting systems, the balance sheet, though keeping the name but modified substantially in terms of content, was coded as *KuaiGong* (industrial accounting) Form No. 1, indicating its status as the first financial statement for industrial enterprises.

TABLE 3

Uniform Balance Sheet for State-Owned Industrial Expenses (*KuaiGong* Form 1) (Effective on January 1, 1953)

Account Code	Assets	Account Code	Liabilities
	I. Fixed and Accrued Assets		**I. Fixed and Accrued Liabilities**
	Fixed Assets:		Fund:
0101	Long-term Assets	1401	Government Funds
0111	Unused Fixed Assets	1411	Other Funding
0121	Unnecessary Fixed Assets	1421	Basic Depreciation Funds
0131	Property Claiming Assets		1. Previous Year
0141	Improvement Costs of Leased Assets		2. Current Year
0151	Disposal of Fixed Assets	1431	Assigned assets with unsettled Claims
	Total Fixed Assets		Total amounts of Funds
	Accrued Assets:		Appropriations:
0201	Current assets paid to the Treasury	1501	Liquidity funds from the Treasury
0202	Current assets offset payable to the Treasury	1511	Transfer-in Liquidity Funds
0211	Depreciation Funds Paid to the Treasury	1521	Losses recovery by the Treasury
	1. Previous Year		1. Previous Year
	2. Current Year		2. Current Year
0212	Depreciation Funds Paid to Commercial Banks	1531	Transfer-in for Losses recovery
	1. previous Year		1. Previous Year
	2. Current Year	1541	2. Current Year
0221	Disposal Gains from Fixed Assets Paid to the Treasury		Other Appropriation
			Total Amount of Appropriations
0222	Disposal Gain from Fixed Assets Paid to Commercial Banks	1601	Depreciation Allowance:
0231	Profits Paid to the Treasury	1611	Fixed Assets
	1. Previous Year	1621	Unused Fixed Assets
	2. Current Year	1631	Unnecessary Fixed Assets
0232	Offset of profit remittance to the Treasury	1641	Assets with Unsettled Claims
	1. Previous Year		Improvement of Leased Assets
	2. Current Year		Total Amount of Depreciation
0233	Profits Paid to Commercial Banks	2051	Profit:
	1. Previous Year		1. Previous Year
	2. Current Year		2. Current Year
0241	Extraordinary Losses		Total Profits
0242	Storage Fee of Fixed Assets		
0243	Accrued Enterprise Incentive Funds		Quoted Liabilities:
0251	Refundable Prepaid	1901	Wages Payable
0252	Frozen Foreign Exchange and Other Assets	1902	Wage extra charged Payable
	Total Amount of Accrued Assets	1911	Accrued Expenses
		1921	Taxes Payable
	Investment:	1941	Guarantee Deposits by Customers
0261	Investment in Subsidiaries	1942	Customer Down payment
	1. Fixed capital		Total Standard Liabilities
	2. Current assets (working cap.)		
0262	Other Investment		Total Fixed and Quoted Liabilities
	Total Amount of Investment		
2051	Operating Losses:		
	1. Previous Year		
	2. Current Year		
	Total Amount of Loss		
	Total Fixed Assets and Accrued Assets		
0311	**II Quota Assets**		**II Quota Capital Liabilities**
0312	Raw Materials and Primary Materials		
0313	Auxiliary Materials	1701	Seasonal Borrowing
0314	Fuels	1711	Exceed Quote Loans
0321	Sporadic Accessories	1721	Obsolete Inventory Loans
0331	Wastes		
0332	Packaging Materials		
0501	Supplies and Consumables		
0511	Work in Process stock		
0601	Semi-finished Goods		
0701	Finished Goods		

TABLE 3 (continued)

	Prepaid Expenses:		Total Quota Liabilities
	1. Research & Development		
	2. Preparation Costs for Mining		
	3. Prepaid Insurance		
	4. Obsolete Raw Materials		
	Total Quota Assets		
	Ⅲ Liquidation and Other Assets		**Ⅲ Clearing and Other Liabilities**
0801	Monetary Funds:	1731	Bank Loans:
0811	Bank Deposits	1741	Borrowing for goods delivered
0821	Non-local Bank deposits	1751	Other Loans
0831	Foreign currency Deposits		Overdue Loans
0841	Credit bills		Total amount of Bank Loans
0851	Cash on hand		
	Securities	1801	Settlement with Customers:
	Total Monetary Funds	1811	Accounts Payable
		1821	Overdue Accounts Payable
0901			Provisional Accounts Payable
0911	Sales Collection and Liquidation:		Total Settlement with Customers
0921	Goods Sent-out		
	Rejection of payment for Goods Sent out	1931	Payable and Advances Received:
	Accounts Receivable	1951	Accrued Expenses
	Total Sales Collection & Liquidation	1961	Revenues in Advance
		1962	Enterprise Incentive Funds
1001	Receivables and Prepays:	1971	Employee Welfare Funds
1011	Petty Cash	1981	Unpaid Salary
1021	Down Payments		Temporary Collection
1031	Prepaid Processing Fees		Total Payable & Advances Received
1041	Other Advances		
1051	Receivable from employees	1101	Internal Contract Liabilities:
1061	Temporary Payment	1111	Contract Between Construction Units
	Storages of Materials to be Processed		Other Internal Contracts
	Total Receivables and Prepayments		Total Internal Contract Liabilities
1101			
1111	Internal Contract Assets:		Total Clearing and Other Liabilities
	Contract Between Construction Units		
	Other Internal Contracts		
	Total Internal Contract Assets		
	Total Liquidation and Other Assets		
1201	**Ⅳ Infrastructure Fund Assets**	2001	**Ⅳ Infrastructure Fund Liabilities**
1202	Completed Capital Investment Project	2002	Appropriation of Infrastructure Funds
1203	Completed Sporadic Construction Projects	2003	Sporadic Infrastructure Funds Received
	Pending write-off of Construction	2021	Other Infrastructure Funds Received
	Abolished and Other Expenditures:	2022	Contracting Payables
	1. Loss of Construction Abolished	2031	Accounts Payable
	2.	2041	Temporary Collections
1211			Enterprise Incentives Fund
1212	Unfinished Capital Investment Project		
1221	Unfinished Sporadic Construction Project		Total Infrastructure Liabilities
1222	Primary Raw Material		
1231	Other Material		
1241	Supplies and Consumables		
1251	Equipment to be Installed		
1261	Prepaid Expenses		
1262	Bank Deposits		
1271	Cash on Hand		
	Prepay Contractor Materials and Unfinished		
1272	Construction		
1273	Prepay for Engineering Structure and Parts		
1281	Prepay Installment for Contractors		
1291	Temporary Advanced Payment		
	Accrued enterprise Incentive Fund		
	Total Infrastructure Funds Assets		
1301	**V. Maintenance Projects Assets**	2101	**V. Maintenance Project Liabilities**
1311	Completed Maintenance Projects	2111	Maintenance Project Funding
1321	Unsettled Maintenance Projects Completed		Appropriation for Maintenance
1331	Unfinished Maintenance Project	2121	Funds
1332	Bank Deposits	2131	Borrowing for Maintenance Projects
	Maintenance Project Fund Assigned by		Other Liabilities
1333	Higher Authority		Total Maintenance Liabilities

TABLE 3 (continued)

1241	Supplies and Consumables		
1251	Equipment to be Installed		
1261	Prepaid Expenses		
1262	Bank Deposits		
1271	Cash on Hand		
1272	Prepay Contractor Materials and Unfinished Construction		
1273	Prepay for Engineering Structure and Parts		
1281	Prepay Installment for Contractors		
1291	Temporary Advanced Payment		
	Accrued enterprise Incentive Fund		
	Total Infrastructure Funds Assets		
1301	**V. Maintenance Projects Assets**	2101	**V. Maintenance Project Liabilities**
1311	Completed Maintenance Projects	2111	Maintenance Project Funding
1321	Unsettled Maintenance Projects Completed		Appropriation for Maintenance
1331	Unfinished Maintenance Project	2121	Funds
1332	Bank Deposits	2131	Borrowing for Maintenance Projects
1333	Maintenance Project Fund Assigned by Higher Authority		Other Liabilities
1341	Stock and Cash		Total Maintenance Liabilities
1351	Advanced Payments		
	Other Assets		
	Total Maintenance Fund Assets		
	Total Assets		**Total Liabilities**
	Supplementary Information:		
0101	1. Land		
	2. Leasing Fixed Assets		
	3. Hosting Governmental Goods		
	4. Processing Materials in Assignment		
1651	5. Amortization for Consumables		
2011	6. Amortization for Infrastructure Consumables and Prepayment		

Notes:

1) Source: Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing: pp. 115-125.
2) The statement has three columns of "Beginning balance", "Ending balance" and "Increase or Decrease amount" on the left- and right sides, respectively;
3) Sections "II. Quota Assets" and "II. Quota Capital Liabilities" must present the quota amounts planned for the prior year and the current year.

Although this financial statement was called "balance sheet," its structure and content differ substantially from the traditional balance sheet prevailing in most other countries. First, the statement is highly disaggregated and has an extremely lengthy format. Many line items in segregated sections were required by government and industrial administration authorities to fulfill their administrative needs. Since the government was engaged in Socialist economic transformation (i.e., converting enterprises under varied ownerships into state ownership), consolidation of their properties and claims into national economic plans was a primary economic task in the early days of the new China. Therefore, to provide data for different administrative authorities within the central government in their efforts to take inventory of all properties and claims they should have was the dominant objective of business accounting and financial reporting at that time. The remodeled balance

sheet was designed to manage such economic tasks, rather than to summarize the resources and claims from the perspective of a business entity's investors and creditors, as we see today.

As can be seen in the remodeled balance sheet shown in Table 3, the left-hand side lists all asset items by administration function (e.g., fixed/accrued assets, quota assets, liquidation assets, infrastructure fund assets, and maintenance project assets) and gives similar treatment to the liability items on the right-hand side. However, some non-asset items (e.g., deposit gains, profit paid to the State Treasury and commercial banks, offsetting of profit remittance, storage fees for fixed assets, accrued enterprise incentive funds, and extraordinary losses) are listed in the category of assets on the left-hand side of the statement. In addition, there are only liability items on the right-hand side and no equity interest item is shown on the statement. In fact, the equity interests (or net assets) of an enterprise (regardless of its original type of ownership) belong (accrue) to the government under public (state) ownership, so all claims against assets or resources utilized (or obtained) by the enterprise are shown as liabilities to the new government. Similarly, most capital funds and government appropriations to an enterprise, as well as profit made, are reported under the liability side of the balance sheet. Clearly such a structure, though fulfilling the purpose of inventory-taking for government and its administrative agencies, would mix up assets and liabilities and could not reveal the financial position (net worth) of an enterprise at the reporting date. The use of this form of balance sheet was hence determined by the political and economic changes in China in the early 1950s.

The statement is divided into five strictly segregated sections on both sides and a balance between the left-hand and right-hand sides is required for each corresponding section. This is a reflection of the government's fiscal administration policy of "Specific funding for specified purposes." In Section I, Fixed and Accrued Assets must correspond to Fixed and Accrued Liabilities; in Section II, Quota Assets corresponds to Quota Capital Liabilities; in Section III, Liquidation and Other Assets corresponds to Settlement and Other Liabilities; in Section IV, Infrastructure Fund Assets corresponds to Infrastructure Fund Liabilities; and Maintenance Project Assets corresponds to Maintenance Project Liabilities in Section V. Each section lists the corresponding balances in accordance with their respective accounts from the books. This structure is somewhat like that in Fund Accounting as it requires business enterprises to report

their resources and obligations for varied administrative functions or tasks with specified operating purposes (restrictions).

This statement serves as a tool for the government to carry out centralized economic planning and business administration. The underlying logic is that: *"the State prepares economic plans according to the needs and potential of social and economic development; the financial revenue and expenditure plans of all business enterprises are a part of the national economic plans and serve as the basis for the preparation of national fiscal budgets. In accounting, the use of accounts and the format of financial statements are designed in light of the needs for the preparation, implementation and evaluation of the State's plans for fiscal revenues and expenditures"* [Lin, 1989; Xiang, 1999].[15] However the essential characteristics of a business enterprise, as a market-oriented and self-sustained economic entity, were downplayed and the correlation between the operating results and interests of an enterprise and its non-government stakeholders was completely ignored, since all enterprises were simply regarded as government-owned subsidiaries to implement national economic plans [Tang, et al. 1995]. It is difficult to discern the enterprise's own resources and interest claims in the remodeled balance sheet.

Later, in 1954, the Ministry of Finance issued two sets of uniform accounting systems applicable to industrial enterprises of varied sizes (i.e., *Unified Format of Accounts and Accounting Statements for the State-Owned Industrial Enterprises* and *Simplified Version of Unified Format of Accounts and Accounting Statements for the State-Owned Industrial Enterprises*). In 1956, after the completion of the Socialist transformation of private industrial and commercial enterprises, the Ministry of Finance issued *Standard Accounts and Accounting Statement Formats for Joint Operations of Public (State)-Private Ownership Enterprises under the Jurisdiction of the Central Administrative Ministries (Draft)*, which was implemented on January 1, 1957. These accounting systems made certain modifications and simplifications to the required balance sheet, although the basic structure and content were unchanged from the remodeled one that had been introduced earlier.

RESCISSION OF THE BALANCE SHEET IN THE 1960S

Back in the early 1950s, some Chinese accounting practi-

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[15] Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing, p.13.

tioners and scholars called for the establishment of accounting systems based on traditional Chinese accounting (bookkeeping) rather than adopting Western accounting methods for the new China. For instance, Mr. Naiqi Zhang, a famous Chinese financial expert and scholar, published two articles in national newspapers to promote the use of indigenous and popular Chinese-style, cash-based bookkeeping instead of the stereotypical foreign debit–credit bookkeeping in 1950.[16] Two other accounting scholars, Zinging He and Shouchen Huang, contended that accounting had the property of "class nature" [He and Huang, 1951] and should operate with distinct characteristics under different social and political systems.

Until the late 1950s, the mainstream view in Chinese accounting circles was that the balance sheet was outdated, strictly served the needs of capitalism and was a tool for capitalists to exploit workers. Thus the balance sheet should be rejected in a Socialist economy; instead, new accounting systems and financial statements, compatible with the Socialist planned economy, should be established in China.

In 1958, the Chinese government launched a political movement, the *Great Leap Forward*, throughout the country. This demanded an unrealistically fast pace of growth in almost every aspect of economic and social development. In accounting practice, the call to abandon capitalist elements (concepts) in accounting, and to simplify accounting and reporting procedures, became overwhelming [Zhang, 1980; Chan and Rotenberg, 1999]. As a result, an increase–decrease bookkeeping system[17] was created to replace the Italian-style, debit–credit, double-entry bookkeeping for almost all industrial and commercial entities [Lin, 1989] and the funds balance statement replaced the previous balance sheet.

However, the funds balance statement does not depart completely from the traditional balance sheet. Although the title, classification elements and presentation of related accounts in the statement have been altered, the principle of balancing accounts in the balance sheet structure has not been abandoned. The English title of balance sheet emphasizes the balancing of

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[16] See Zhang, N. [1950] "Adoption of Our Own Bookkeeping Principles in Accounting" (January 29) and "Reconsideration of Adopting Chinese Bookkeeping Principles in Accounting" (March 31) in *Ta Kung Pao* (one of the earliest national newspapers in China), Shanghai.

[17] Zhang, Y.K. [1980], *The Increase–Decrease Bookkeeping Method* describes the details of the so-called Socialist bookkeeping system in China during this period.

assets owned by a business entity with the legal claims against the assets (e.g., liabilities and owner's equity). But the new funds balance statement is structured based on the balancing relationship between the uses (applications) and sources of funds utilized by a business entity. It is, in essence, more like the fund statement in Fund Accounting promoted by Vatter [1947] and mainly applicable to governments and non-profit organizations in other countries [James, 1950]. Table 4 presents the format and content of this funds balance statement introduced by the Chinese government administrative authorities in the 1960s [Xiang, 1999].

TABLE 4

Funds Balance Statement (*KuaiGong* Form 1)

Prepared by: year/ month/ date Unit: *yuan*

Uses of Funds	Beginning Amount	Ending Amount	Source of Funds	Beginning Amount	Ending Amount
Fixed Assets:			**Fixed and Liquidity Funds:**		
Original Price of Fixed Assets			Fixed Funds from State Treasury		
Subtract: Depreciation			Enterprise Fixed Fund		
Net Amount of Fixed Assets			Fixed Fund to be Transferred		
Capital Expenditures to be Write-off			Liquidity Funds from State Treasury		
Loss of Fixed Assets to be Disposed			Enterprise Liquidity Fund		
Intangible Assets			Investment on Other Entities		
Long-term Investments			Sub-total		
Sub-total			**Borrowed Funds:**		
			Borrowings Capital Investments		
Current Assets:			Investment Loans		
Subtotal of Quota Current Assets:			Loans for Designated Uses		
Reserve Funds			Bonds Payable		
Production Funds			Payable for Imported Equipment		
Finished Goods Funds			Working Capital Loans		
Overstock of Materials & Goods			Sub-total		
Loss of Current Assets to be Disposed			**Settlement Funds:**		
Subtotal of Other Current Assets:			Installment Payment Received		
Goods Delivered			Accrued Expenses		
Monetary Funds			Withholding Taxes		
Include: Bank Account Deposits			Notes Payable		
Notes Receivable			Payables and Advanced Deposit		
Accounts Receivable and Prepaid			Other Payables		
Unsettled Losses			Taxes Payable		
Other Receivables			Unremitted Profits		
Subtotal			Other Payables		
			Un-retained Profits (For January to November)		
			Sub-total		
Special-purpose Assets:			**Special-Purpose Funds:**		
Deposits for Special-purposes			Specially-designated Funds		
Special-purpo. Materials & Goods			Wage Funds		
Expenditure of Special Projects			Designated Appropriations		
Securities for Special-Purposes			Un-remitted Special-purpose Funds		
Receivables and Prepayments			Payable and Temporary Collections		
Sub-total			Sub-total		
Total of Funds Used			**Total of Funding Sources**		

Source: Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing: pp. 175-176.

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As shown in Table 4, the structure of the funds balance statement departs substantially from that of the remodeled balance sheet adopted in the 1950s. First, it is a fund statement that emphasizes fund flows in an enterprise. The funds balance statement must clearly demonstrate the funding sources (e.g., the state) and the uses (or applications) of the funds (in the form of different categories of assets) in the enterprise on the reporting date. This is because Chinese enterprises, at that time, were budgetary units for the government to implement the centrally administered economic plans and specific economic/fiscal policies and were assigned several tasks or responsibilities by the government's administrative authorities (e.g., special-purpose investments, social security and labor protection, and local social and economic development projects).

With the varied responsibilities, segregated accounts had to be kept to discharge the various administrative mandates. Thus the concept and format of fund accounting were also applied in business accounting and the funds balance statement was required for financial reporting. Second, no separate presentation of liability and owner's equity is shown on the statement, because the distinction between liability and owner's equity is not particularly important or meaningful as almost all enterprises are fully owned by the government. Third, there was no reflection of asset valuation or revaluation because business accounting mainly served government administrations and the historical cost accounting principle was strictly applied to fulfill the custodian responsibility for state-owned properties. Information on the current value of assets and liabilities, highly relevant to decision-making by external investors and creditors, was completely ignored. Fourth, this statement is substantially simplified in content compared to the previous balance sheet. In particular, the original five-section structure is replaced by two-section balancing: 1) the sum of fixed assets and current assets on the left-hand side should balance the sum of fixed and liquidity funds, borrowed funds, and settlement funds on the right-hand side and 2) the special-purpose assets on the left-hand side must balance the special-purpose funding sources on the right-hand side. Segregation of assets and liabilities by administrative function is imposed as intersection fund flows are not allowed. This layout reflects the government authorities' varied administrative requirements for different funds entrusted to the enterprises. Fifth, there is an improvement in the classification and presentation of related accounts. For instance, depreciation allowance is now treated as a contra account (to the fixed assets)

and listed under the uses of funds on the left-hand side. Thus the book value of fixed assets can be shown directly. Classification of fixed and current assets is consistent with the common definitions prevailing in other countries and intangible assets are recognized.

This form of funds balance statement was in use until the early 1980s although some minor modifications were made during its use. Nonetheless, the funds balance statement remains government-oriented. Just as Radebaugh and Gray [1993, p.227] observed, accounting in a centrally planned context is perceived as having primarily a recordkeeping function and is not decision-oriented or concerned with efficiency at the enterprise level.

RESTORATION OF THE BALANCE SHEET IN THE 1980S

The centrally planned economy was not successful in China as enterprises owned and run by governments are inefficient in operation. In particular, the Cultural Revolution (1966-1976) launched by the orthodox ideologists brought pervasive anarchy and chaos, socially and politically, in the country [Pye, 1986]. China's social development stagnated and its economy experienced serious recessions. After the death of Chairman Mao in late 1976, the Chinese government decided to end the disastrous revolution and refocus on economic development with large-scale reforms of economic administration systems [Joseph et al. 1991]. In particular, the Third Plenary Session of the Chinese Communist Party was held in Beijing in December 1978, which accepted political pragmatism as a means of breaking away from orthodox "leftist" doctrine. Therefore, the policy of "economic reform and opening to the outside world" was formally adopted.

China's social and economic development has been on a fast track since then. The highly centralized, planned economy has been in gradual transition towards a market-based, Socialist economy. State-ownership and strict state economic planning and control were reduced dramatically and continuously. Enterprises were allowed to be relatively independent economic entities rather than budgetary units used to implement the state economic plans and other administrative policies [Lin, 1989; Tang and Lau, 2000]. Economic diversification was encouraged, as share-capital companies and private business ownership emerged and flourished in Chinese economy. Foreign capital and investments were also permitted. As a result, non-govern-

ment stakeholders appeared (e.g., external investors and creditors). Also, the ideological liberation campaign launched by the new leadership of the Communist Party prompted a pragmatic view toward the development of Western-style economies and business administrations.

The Chinese accounting profession started a discussion in the late 1970s about how to recognize the fundamental properties of accounting in general, as well as how to evaluate the debit and credit bookkeeping and the generally accepted accounting principles in the Western countries [Tang et al., 1994]. Consequently, with recognition that the concepts of capital, commodities, market, credit, shares capital, private ownership, and property rights could be part of a "market economy with Socialist characteristics" in China, debit–credit, double-entry bookkeeping was relieved of the "capitalist" label [Ge, 1978; Lin, 1989].[18] Later, many state-owned enterprises were converted into share-capital companies with the reopening of two stock markets in Shanghai and Shenzhen in the early 1990s.[19] Therefore business enterprises were required to be "relatively independent commodity producers" and started to gain financing through the markets instead of depending entirely on government appropriations. Businesses needed to have their own resources (assets) and obligations (liabilities and owner's equity), and bear the market pressures to grow and survive. Thus the objectives of business accounting evolved to accommodate the information needs of both government and non-government users, leading to substantial changes in business accounting and reporting in the country [Scapens and Hao, 1995; Graham and Li, 1997].

In line with the rapid progress of economic reforms and increasing inflows of foreign capital, the Chinese government reintroduced Western-style debit and credit bookkeeping and financial statements with the implementation of the *Accounting System for Joint Ventures with Sino-foreign Capital* and *List of Accounts and Accounting Statements for Joint Ventures with Sino-foreign Capital* issued by the Ministry of Finance on July 1, 1985 [Zhou, 1988; Robert el at., 1995].

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[18] Professor Ge Jiasu, a prestigious Chinese accounting scholar, published a paper entitled "We should restore the reputation for the 'debit–credit bookkeeping method'—evaluate the so-called capitalist bookkeeping method," in *China Economics Issues* (No. 4) in 1978, this heralded the start of the internationalization of Chinese accounting over the last three decades.

[19] Stock exchange in Shanghai started in the 1930s but was closed down in the early 1950s during the Socialist transformation of industrial and commercial enterprises in the country.

The new practices were rapidly expanded to other types of business entities [Lefebvre and Lin, 1990]. In particular, the Ministry of Finance formulated *Accounting Standards for Business Enterprises* and *General Rules of Financial Management for Business Enterprises*, along with thirteen new industrial accounting systems in November 1992 [Winkle et al. 1994; Chow et al., 1995], and officially required the listed companies to adopt the Western-style balance sheet for financial reporting.

As the Chinese economy became more diversified with increasing foreign investors and private businesses, the demands for information grew (with respect to a firm's assets, legal claims, liquidity and solvency), particularly for the information needed by other nongovernment external capital providers (i.e., investors and creditors). Furthermore, as the Chinese economy integrated increasingly with world markets, the needs for attracting foreign capital, advanced technologies and financing from international capital markets prompted the international harmonization of Chinese accounting and reporting practices. As a result, restoration of the balance sheet (commonly used in most developed countries) resulted from Chinese accounting reforms in the early 1990s [Robert et al., 1995; Tang, 2000].

In 2000, the Ministry of Finance consolidated the thirteen industrial accounting systems in effect at that time into the *Accounting System for Business Enterprises*, *Accounting System for Financial Institutions*, *Accounting System for Small Business Enterprises*, and *Accounting System for Rural Collectively-Owned Economic Entities*. A uniform balance sheet, as illustrated in Table 5, was then introduced to replace the funds balance statement for all business enterprises across the country [MoF, 2001].[20] At the same time, footnote disclosure (e.g., accounting policies being applied and auxiliary schedules and explanations) was added to financial statement presentation to provide more relevant supplementary information to assist users' understanding and utilization of financial statements.[21] Another reason

[20] In 2006, the Ministry of Finance amended and issued the "Basic Accounting Principles for Business Enterprises" and 38 specific accounting standards, which have achieved substantive convergence with international accounting standards (IFRSs and IASs). Again, the balance sheet is adopted as the first financial statement. The new set of accounting standards has been implemented for all listed companies since 2007.

[21] For a long time before the early 1990s, Chinese accounting statements were very detailed with lengthy disaggregated line items (see Tables 2 and 3). Therefore footnote disclosures were not officially required. Since the government fiscal administration authorities imposed specific and mandatory accounting and

behind the abundance of the funds balance statement is due to criticisms against the over-disaggregation, and a mixture of operating activities by varied administrative functions in the statement, which was quite confusing and difficult to understand by non-government users.

The balance sheet has been reinstated as the first financial statement to report the financial position in Chinese accounting since 1993. Significant changes have been made in comparison to the previous funds balance statement since enterprises are now treated as business entities, independent of the government, and must report their own financial positions to external users. As shown in Table 5, its structure and content are aligned with internationally accepted norms. Following rapid privatization of state-owned enterprises, Chinese enterprises are now operating in the market-oriented economy with their own assets, liabilities and equity interests. The government is now one of the capital providers to the enterprises rather than the sole owner and capital provider. Therefore, 1) separate classifications of liabilities and owner's equity are made on the right-hand side of the statement to show different legal claims by external investors and creditors against total assets employed by each enterprise; 2) profit does not belong directly to the government and enterprises can retain their net income after paying taxes to the government (undistributed profits); 3) information on liquidity and solvency is emphasized as assets and liabilities are presented in the order of liquidity following the classifications of current and long-term items that are consistent with prevailing practices in the developed world; 4) some new items are added on the balance sheet (e.g., impairment of fixed assets or long-term investments to reflect market uncertainty or risk, and deferred tax asset or liability to reflect the reform of business income tax systems by the government to introduce specific economic incentives to boost business operations and economic growth; 5) all assets are presented in net book amounts while the contra accounts (e.g., bad debt allowance, accumulated depreciation and impairment, and inventory write-off) are presented under the related accounts to derive their net amounts (carrying values); 6) several reserves are allowed to enhance

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finance rules (e.g., the official accounting systems) for all industries and enterprises, explanation of accounting policies was unnecessary. Even a supplementary explanation was required to elaborate on a few key line items in the accounting statements; very limited information was included in the explanation disclosure before the new accounting standards were implemented in 1993.

enterprises' capacities to survive and expand, although some mandatory reserves are set mainly to fulfill certain policy needs of the government, such as employees' welfare funds and mandatory general capital reserves; and 7) footnotes disclosure was officially required, in line with the international accounting and reporting norm, to help reduce the overly detailed line-item presentation of the balance sheet.

TABLE 5

Balance Sheet (*Kutaisi* Form 01)

Prepared by: year/ month/ date Unit: *Yuan*

Assets	Row	Liabilities and Equity	Row
Current Assets:		**Current Liabilities:**	
Monetary Funds	1	Short-term Borrowings	68
Short-term Investments	2	Notes Payable	69
Notes Receivable	3	Accounts Payable	70
Dividends Receivable	4	Collections in Advance	71
Interest Receivable	5	Wages Payable	72
Accounts Receivable	6	Employee Welfare Payable	73
Other Receivables	7	Dividends Payable	74
Payments in Advance	8	Taxes Payable	75
Subsidies Receivable	9	Other Remittent Due	80
Inventory	10	Other Payables	81
Prepaid Expenses	11	Accrued Expenses	82
Long-term Debt Investment Due in one Year	21	Estimated Liabilities	83
Other Current Assets	24	Long-term Debts Due in One Year	86
Total of Current Assets	31	Other Current Liabilities	90
Long-term Investments:		Total Current Liabilities	100
Long-term Equity Investments	32		
Long-term Debt Investments	34	**Long-term Liabilities:**	
Total Long-term Investments	38	Long-term Borrowings	101
Fixed Assets:		Bonds Payable	102
Original value of fixed assets	39	Long-term Payables	103
(-): Accumulated Depreciation	40	Payables for Special-purpose	106
Net Amount of Fixed Assets	41	Other Long-term Liabilities	108
(-): Impairment of Fixed Assets	42	Total Long-term Liabilities	110
Net amount of Fixed Assets	43	**Deferred Taxes:**	
Construction Goods	44	Deferred Tax Credits	111
Construction in Progress	45	Total Liabilities	114
Disposal of Fixed Assets	46		
Total of Fixed Assets	50	**Owner's Equity:**	
Intangible Assets and Other Assets:		Paid-in Capital	115
Intangible Assets	51	(-): Capital Contributions Returned	116
Long-term Prepaid Expenses	52	Net Paid-in Capital	117
Other Long-term Assets	53	Capital Surplus	118
Total Intangible Assets and Other assets	60	Reserves	119
		Include: Statutory Welfare Funds	120
Deferred Taxes:		Undistributed Profits	121
Deferred Tax Debits	61	Total Equity	122
Total Assets	67	**Total Liabilities and Equity**	135

Notes: 1) Source: The Ministry of Finance of the People's Republic of China, [2001], *Accounting Systems for Business Enterprises 2000*, Economic Science Press, Beijing: pp. 282-283.
2) Comparative numbers at the beginning and the end of the fiscal year are required for all balance sheet items to be reported.

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It should be pointed out that the balance sheet introduced under the Chinese accounting standards and uniform accounting systems in 2000 is fairly similar to the one used in most Western countries today. This is mainly due to significant economic diversification and integration of Chinese economy with world markets. After its implementation, the new balance sheet helps strengthen enterprises' status as independent business entities, increase the understandability of Chinese accounting, facilitate inflows of foreign capital and advanced technology, and enhance the relevance of accounting information for economic decisions made by users (both government and non-government). Furthermore the change has facilitated the international convergence of Chinese accounting and promote rapid economic growth in China.

DISCUSSION AND CONCLUSION

The balance sheet, which originated in Western double-entry bookkeeping, was initially adopted in Chinese accounting due to the import of Western influences under the semi-colonization of the country by major Western powers in the early twentieth century. However, the accounting statement underwent substantial changes several times after the founding of The People's Republic in 1949. The evolution of this statement is a reflection of the significant political, social and economic changes in China at three different stages: 1) the establishment of a Socialist economy with public (state) ownership for a transformation of non-Socialist (private/capitalist) business entities by adopting the former Soviet-style political and economic administrative systems in the 1950s; 2) the implementation of a nationwide planned economy with strong political or ideological influences in the 1960s and 1970s; and 3) large-scale economic reforms to promote economic diversification and a market-based economy since the mid-1980s.

Chinese accounting has experienced significant changes to accommodate these dramatic changes, and facilitated different types of economic administrations and business restructuring tasks [Scapens and Hao, 1995; Xiao and Pan, 1995; Tang, 2000]. The objectives of accounting and reporting are determined by the information needs of the dominant users in specific political and economic environments [FASB, 1978; Most, 1986]. Thus, the content and structure of the primary financial statement (i.e., the balance sheet) in China have been amended substantially and continuously to accommodate specific accounting and reporting

purposes in light of economic and accounting developments.

Following decades of wars (including civil wars) in the first half of the twentieth century, the Chinese Communists reunited the country and established a centralized plan economy. The Chinese accounting practices replicated from the former Soviet systems in the early 1950s unified the country's diverse accounting and reporting systems and promoted the Socialist transformation of all industrial and commercial enterprises throughout the country. The remodeled balance sheet with substantial changes in its content and structure, especially the design of five-section accounts balancing with very detailed entries, was justified to facilitate primarily the government's consolidation of all business properties and claims. The dominant accounting task was to serve the government's administrative needs for inventory-taking and to establish a Socialist economy nationwide.

During the 1960s and 1970s, the traditional balance sheet became incompatible with the Socialist planned economy and was basically rejected in Chinese accounting until the 1980s. At this stage, the role of independent business entities was downplayed. In a centrally administered plan economy, all enterprises were directly owned and run by the government. There were almost no external financing channels and outside investors. Enterprises were treated as budgetary units to implement centralized economic plans. The Chinese government tried to modify the content and structure of the financial statement via the adoption of the funds balance statement, which replaced the remodeled balance sheet in the 1950s, mainly to facilitate government authorities to carry out economic administrative tasks and fiscal control. Since enterprises, in this era, were not independent commodity producers and relied on governmental appropriations for financing, the primary objective of accounting and reporting was to meet the information needs of government's economic planning and policy control. The information needs of non-government users were generally ignored.

However, the highly centralized planned economy dampened the production initiatives of business enterprises because they were not exposed to market opportunities and pressures, leading to low operating efficiency and poor production outcomes for most state-owned enterprises. As a result, the Chinese economy experienced a prolonged stagnation in the 1960s and 1970s. The Chinese government had to launch large-scale economic reforms in the early 1980s. China opened its markets to the outside world under the new party leadership after the end of the "Cultural Revolution". Since then, badly needed foreign

capital and technologies have rejuvenated the Chinese economy. In pace with the rapid progress of economic reforms and convergence with international accounting standards, China began accounting reforms by adopting the advanced accounting practices in the developed economies and reducing the differences between Chinese accounting and internationally accepted practices. Accounting reforms have enhanced the comprehension, relevance and creditability of accounting information, with respect to external investors and other non-government users [Winkle et al. 1994; Black and Gao, 1995; Tang, 2000]. This has contributed to the rapid economic growth in China over the last three decades.

China's economic reforms and business restructuring (e.g., the transition towards a market-oriented economy) led to changes in the objectives and practices of accounting and reporting for Chinese enterprises. In particular, the expanded non-government interest groups resulting from economic diversification and their information demands promoted the development of general- purpose reporting in business accounting with the restoration of the commonly applied balance sheet and other financial statements in China. So Chinese accounting has made rapid progress in its move toward international harmonization and convergence since the early 1980s. Accounting systems and financial reporting practices in China are now broadly aligned with international norms following the restoration of debit–credit, double-entry bookkeeping and Western-style financial statements. The Chinese experience demonstrates that accounting and reporting practices are highly sensitive to particular environmental and institutional changes [Xiang, 1998].

There remain some differences in the content and usage of the balance sheet in China in comparison with Western practices at present. For instance, the primary objective of financial accounting is to provide information to assist investors and creditors in making rational investment and credit decisions in a market economy [FASB, 1978]. However, since state ownership remains dominant in many business enterprises in China, governments at different levels are still the primary users and accounting must be a viable tool for governmental administration. Although three major user groups (i.e., the government, investors/creditors, and enterprise management) were outlined in the *Chinese Basic Accounting Standards* (equivalent to the conceptual framework of financial reporting for IFRS), the main focus of Chinese accounting remains on governmental users as the information needs of the latter two groups are secondary in nature [Davidson et al., 1996;

Tang, 2000]. Thus the content and structure of primary financial statements in China are still heavily influenced by the information needs of governments and their agencies, and the classifications and presentation of assets, liabilities and owners' equity have not fully departed from that of the former funds accounting. Certain business transactions or accounting events derived from market economies, such as asset revaluation and prudent loss provisions, are in use with restrictions.

Although the IASB recognized in 2009 that Chinese accounting standards are almost equivalent to the international financial reporting standards [MoF, 2010], differences exist in the classification and presentation of some traditional balance sheet elements or items. For instance, there is no separate presentation of varied information bases, fair value has not been fully adopted in Chinese accounting, provision for asset impairment is restricted, and balance sheet presentation is still overly disaggregated to accommodate the administration needs of government agencies. Nonetheless, accounting and reporting should serve the information needs of all users, particularly investors and creditors who provide external financing. A business enterprise has various external interest groups who have to make different decisions. General-purpose financial statements can help to fulfill the primary objectives of financial reporting [FASB, 2011]. Therefore there is a room for further improvement in Chinese accounting, including the presentation and usage of the balance sheet, so long as China continues to move toward economic integration with world markets.

The preparation and use of the balance sheet, to report the financial position of business entities, depend technically on the principles of double-entry bookkeeping; especially the accounting equation of *Assets* = *Liabilities* + *Owner's equity*. Nonetheless, the more fundamental nature of the balance sheet is to accommodate the accounting needs of contemporary business entities that emerged from the separation of ownership and management [Paton and Littleton, 1940]. An enterprise, as a relatively independent business entity in a market economy, must have its resources (i.e., assets of varied types) to pursue business operations, and it should demonstrate the interest claims of its owners or creditors who provide the resources. These users are particularly concerned about a firm's net worth and its liquidity and solvency that can be portrayed on a balance sheet for a specific date. Following business restructuring and incorporation process in the course of economic reforms since the mid-1980s, Chinese enterprises must now report to

expanded external stakeholders (both governmental and non-governmental) and provide reliable and relevant information about their resources, obligations and equity interests. At any point of time, the resources in use and claims against them are just two dimensions of the same economic substance, and they must always be equal. This is the essential property of the balance sheet, while the principles of double-entry bookkeeping simply provide a technical framework to balance the resources owned (or controlled) and the interest claims against them on the reporting date.

In the evolution of contemporary accounting, dramatic changes in social, political and economic systems may cause modifications in the role and utility of the balance sheet, but the basic structure of this statement has prevailed as it should reflect the nature of business enterprises as independent commodity producers with separation of ownership and management. We believe this is the essential characteristic of the balance sheet and it has been confirmed by the Chinese experience over the last 60 years. In China, we expect to see business ownership and financing structures will evolve to facilitate enterprises to become really independent business entities in the market. Enterprises will increasingly expand their ties with non-government interest groups and need to provide general-purpose financial reports to assist all users make rational economic decisions. This should lead to further alignment of the balance sheet and other financial statements in Chinese accounting with the common practices in market economies around the world.

It should be noted that the evolution of the balance sheet in China might have implications for the development of international accounting and reporting. As illustrated earlier, the content and structure of the balance sheet in China were once extremely detailed in terms of the line items in regards to varied funding sources and usages and the presentation of assets and liabilities was in multiple sections separately (i.e., segregated by major administration functions or purposes). This presentation format is to satisfy the different requirements of governmental control and restrictions over the resources entrusted to business enterprises, and demonstrate the fulfillment of an enterprise's obligations in terms of specific administrative purposes and functions. However, the modified presentations often caused confusion and were difficult to understand by investors, creditors and other non-government users [Scapens and Hao, 1995; Tang and Lau, 2000]. This was one reason for the reinstatement of the Western-style balance sheet in Chinese accounting in the

early 1990s.

Internationally, the IASB and FASB have recently proposed dramatic changes to the presentation of primary financial statements, with multiple section layouts and segregated classifications for operating, investing and financing activities, income tax, and discontinued operations, in order to provide more detailed information on fund flows and changing results among the varied categories [IASB and FASB, 2008].[22] The underlying rationales include 'cohesiveness' in financial statement presentation and disaggregation of information to enhance the understandability and usefulness for external users. The proposed new structure of the balance sheet (i.e., the statement of financial position), has led to heated debates in the Chinese accounting profession. Some scholars support the IASB and FASB proposal as they contend that the new structure can enhance the information content of financial statements [Chen, 2009]. However, many others are skeptical about the proposed changes. They argue, in particular, that the presentation format, with assets and liabilities listed and balanced under multiple segregated sections in the balance sheet, is, to a certain extent, similar to the multiple-section balancing structure in the remodeled Chinese balance sheet used in the 1950s and 1960s. The presentation format was found to be undesirable in practice, especially from the perspective of business accounting [Xie, 2010]. This format of balance sheet in Chinese accounting failed to produce a clear and complete picture of the resources and interest claims against them for external capital providers (e.g., investors and creditors) and other stakeholders. Drastic change in the articulation of the balance sheet elements among assets, liabilities and owner's equity with more complicated multiple segregated-sections may diminish easy use of the statement, make it harder to understand, and even impair its relevance to users' decision making.

It is further argued that each of the primary financial statements has to provide specific information serving different reporting purposes. The balance sheet portrays a firm's financial position and net asset change on the reporting date, the income statement reports the operating results, and the cash flow statement illustrates the cash generation and usage by different

[22] IASB and FASB originally planned to complete the new standard for financial statement presentation by mid-2011, but the joint project has been delayed after public consultation in 2010 due to strong reservations expressed by the constituents [FASB, 2011].

business activities over a certain period of time. There are specific articulations among the three primary financial statements, and simply requiring a cohesive classification or similar grouping among them may artificially break down the coherent structure underlying the financial statements. This may result in more confusions or misinterpretations instead of enhancing the understandability and usefulness of the financial statements. For instance, users may not easily and intuitively find out what are the total resources and related interest claims of a firm from the balance sheet presentation with multiple segregated sections. This, in fact, deviates from the initial objective of enhancing cohesiveness and informativeness of the financial statements as proposed by IASB and FASB.

Additional useful information could better be supplemented through footnote disclosures with auxiliary schedules accompanying the main line items in the financial statements. The evolution of the balance sheet from the remodeled multiple-section format in the 1950s to the restoration of the traditional structure in the 1990s demonstrates that the balance sheet reforms in China, with an overemphasis on information disaggregation and segregation by administrative function, were not successful and the Chinese experience could be a lesson for accounting standard setters and practitioners in other countries.

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