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HISTORICAL INSTANCES OF INNOVATIVE ACCOUNTING PRACTICES IN THE CHINESE DYNASTIES AND BEYOND

Abstract: The purpose of this paper is to explore special features of the diffusion of ideas and, subsequently, of innovative practices in Chinese accounting and then to examine early instances of the introduction of auditing. Three general periods of accounting innovation are identified which coincide with the establishment of certain dynasties. Some conclusions are then drawn about the main reasons underlying accounting changes occurred during this long period of time. Also examined are relationships between the long-term evolutionary conditions for the growth of Chinese accounting. Possible phases of development in the present of generally accepted practices of financial accounting and reporting are traced to opportunities for innovation which have arisen in the past.

Chinese accounting and auditing has had a long history. Historical records indicate approximately 6,000 years ago the people of China were numerically literate. Calculations, memoranda and records (notched on wood) have shown aspects of the embryonic stage of Chinese accounting [Feng, 1933]. During its ancient period of development, Chinese accounting reached a peak of sophistication in the *Western Zhou* Dynasty (1100-771 B.C.) [Fu, 1971]. At that time, accounting practice became more advanced than elsewhere in the world.

During the long centuries of feudal society after the *Western Zhou* Dynasty, accounting in China experienced only a slow development. However, there were some advances. For example, there was use of the *Bi-Bu* system—an auditing system developed in the *Tang* Dynasty (618-907 A.D.) — and also invention of the elaborate government accounting system of the *Song* Dy-

nasty (960-1279 A.D.) [Guo, 1988]. These instances can be regarded as significant achievements in Chinese accounting and denote contributions that the Chinese have made to the world. Chinese accounting development, as a part of the overall history of accounting development, is significant. It deserves close attention by theorists, historians, researchers and, particularly, practitioners of the accounting discipline. The last mentioned group can benefit greatly through a knowledge of the evolution of practices over long periods of time [Hopwood, 1987] and the relation of such a history to both developments in other disciplines and to present trends in accounting practice.

A MODEL OF GOVERNMENT SPONSORED ACCOUNTING IN THE WESTERN ZHOU DYNASTY (1100-771 B.C.)

Chinese accounting formally originated in the *Western Zhou* Dynasty.¹ According to the *Rites of Zhou*² "the controller general, who administers the country in accordance with certain laws and principles, must pay heed to accounting" [Zhou, 1966]. This reference could be the earliest known mention of accounting in Chinese literature. The *Western Zhou* was the third dynasty of China and it was much more fully developed as a civilization than the earlier dynasties of *Xia* (2000-1500 B.C.) and *Shang* (1500-1100 B.C.). The *Western Zhou* achievements are highly regarded by historians [Hsu and Linduff, 1985] and the feudal economic institutions established then were to remain

¹Some scholars hold the view that Chinese accounting was originated in the *Xia* Dynasty (2000-1500 B.C.). China was transformed from a primitive state to a slave society in the *Xia* Dynasty and this slave society lasted almost 1,000 years, covering the *Xia* and *Shang* Dynasties, for example: according to Maqian Si, *Book of the Record of History*, Taipei. Their conclusions were based on events in the *Xia* Dynasty, where people started to record economic activities. The authors argue that such recording had not become an independent function because of social and economic conditions in the *Xia* Dynasty. Therefore, the authors agree that Chinese accounting formally originated in the *Western Zhou* Dynasty. This opinion is in line with the idea that *Western Zhou* was much more fully developed as a civilization than the earlier dynasties of *Xia* and *Shang*.

²*Rites of Zhou* is a book describing government posts, official duties, and the structure of *Zhou* governmental administration. Although the author is unknown, the ideas in the book are attributed to the King of *Zhou* by many scholars. *Rites of Zhou* is highly valued by scholars both in China and abroad. For example, see Friedrich Hirsch, *The Ancient History of China to the End of the Zhou Dynasty*, New York: Columbia University Press, 1908. The author writes: "As an educator of the nation, *Rites of Zhou* has probably not had its like among the literatures of the world, even excepting the *Bible*."

influential.³ Achievements of the *Western Zhou* Dynasty included the following developments.

(a) *Agriculture*

Agriculture implements were improved and people started to use simple irrigation systems. Also, land fertilization was introduced at this time. The role of fishing and hunting in the society decreased as the role of agriculture was increased.

(b) *Handicraft and technology*

Production of china, jewelry and bronzeware grew quickly. The use of iron, which was of revolutionary importance to the development of human society, also appeared during the *Western Zhou* Dynasty.

(c) *The economic society and commerce*

There was a systematic hierarchy of fief and sub-fief holders. Each lord's land was divided into (1) his personal land and (2) that which was parcelled out as sub-fiefs. The whole system was organized as a complex family, each lord owing allegiance, tribute and service to the King, being the family's head. The King periodically was to check on the lords and punish them for various offences. There was also recognition of the need for regular trade with allied states.

(d) *Literature and philosophy*

In the *Western Zhou*, many philosophers arose including *Mencius*, *Lao Tse* and *Confucius*. Their influence is known to have had an enduring impact upon Chinese civilization.

Many historians have explored the historical and cultural foundations of accounting (Jones, 1989). Among them DR Scott (1931) and A.C. Littleton (1933) were pioneers. Scott tried to classify the sequence of historical events into cultural phases or patterns of a society's development and to find a relationship between this framework and the growth in importance of accounting functions. He stated:

³There are two schools of thought about the start of the long Chinese feudal system, one holding that it began in the *Western Zhou* as early as about 1100 B.C., (see Coulbern, R., *Feudalism in History*, Princeton: Princeton University Press, 1956); the other believes that the *Qin* Dynasty, which began in 221 B.C., represents its beginning, (see Guo, Daoyang, *The History of Accounting Development*, Beijing: Chinese Broadcasting and Television University Press, 1986).

The designed orientation of accounts has proved to be obtainable only through an interpretation of cultural organization which places accounts at the very center or pivotal point of that (p. vi).

In *Accounting Evolution to 1900*, Littleton asserted his view of the function of historical analysis in accounting research and identified an evolutionary element of accounting development with its historical environment or culture:

Accounting originated in known circumstances in response to known needs; it has evolved and grown in harmony with its surroundings; its changes can be explained in terms of forces current at the time (p. 361).

The accounting developments in the *Western Zhou* Dynasty were significant because of their support of economic, cultural and technological achievements. Associated changes in accounting will now be classified and examined under (1) government accounting, (2) government revenue and expenditure accounts, (3) bookkeeping and reporting, and (4) auditing.

Government Accounting System

A fairly complete government accounting system was formed. Chatfield (1977) writes:

Perhaps more than any other pre-Christian nation, the Chinese reduced their public finance to a civil service routine in which accounting was used chiefly to evaluate the success of government programs and the efficiency of personnel (p. 8).

In the *Western Zhou* government structure (Table 1) there were, under the control of the King, six officials: *the Official of Heaven, the Official of Spring, the Official of Summer, the Official of Autumn, the Official of Winter, and the Official of Earth*. In modern terms, these six officials would be called the Prime Minister, the Minister for Religion, the Minister for Crime, the Minister for War, the Minister for Labor, and the Minister for Education. The Official of Heaven was appointed by the King to be in charge of two main areas: the management of properties; and financial management and accounting. Under the Official of Heaven, *Xiao-Zai* (the Stock Controller) was responsible for national stock; *Si-Kua* (the Controller General) was directly responsible for financial management, government revenue collection and expenditure. In this domain, four divisions were es-

established: *Si-Shu* (the Official Superintendent of Records), *Zhi-Bi* (the Official of Revenue), *Zhi-Shui* (the Official of Disbursement) and *Zhi-Nei* (the Official of Surplus). The last mentioned was in charge of the calculation of the government surplus. All reports were available for scrutiny by *Zai-Fu*, an auditor independent of accounting.

Government Revenue and Expenditure Accounts

As with other countries in the world during this period, the *Western Zhou* government account titles usually referred to revenues and/or expenditures [Zhang, 1939]. According to Fu [1971], "five kinds of resources were set aside . . . these funds may be classified as general revenue funds, special revenue funds, welfare funds, relief funds, and reserve funds" (p. 41). General revenues and special revenues, each of which had nine sub-items, comprised nine forms of taxes and nine tributes. The nine forms of taxes were levied on different regions⁴ and items; and the nine tributes were those which noblemen and other leaders gave to the King annually under nine categories. Financial expenditure consisted of nine streams or classifications. Nine was regarded as a lucky number (there were, for example, considered to be nine types of occupation and, indeed, nine heavens). Tables 2 and 3 clarify the nature of revenues and expenditures.

It is interesting to note that: (a) the nine forms of taxes were mainly used for government spending and the nine tributes went mainly to government reserves; (b) under general revenue and expenditure, each revenue source was reserved for a specific expenditure, e.g., land tax from the region within 400-500 *Lis* from the capital city was particularly used for worship and sacrifice (it was a special purpose fund).

Bookkeeping and Financial Reports

The single entry bookkeeping method was first used in government accounting.⁵ Before the *Western Zhou* period, the account book took the form of a day book. In the *Western Zhou* Dynasty, the account books had two forms: *Cao Liu* and *Zong Qing*. *Cao Liu* was used to record transactions roughly as they

⁴In the *Western Zhou* for the first time, ancient China was divided into six regions according to their distances from the capital city.

⁵In China, initiatives in government accounting occurred earlier than for non-government accounting.

Table 1
Diagram of the Western Zhou Government Accounting Structure

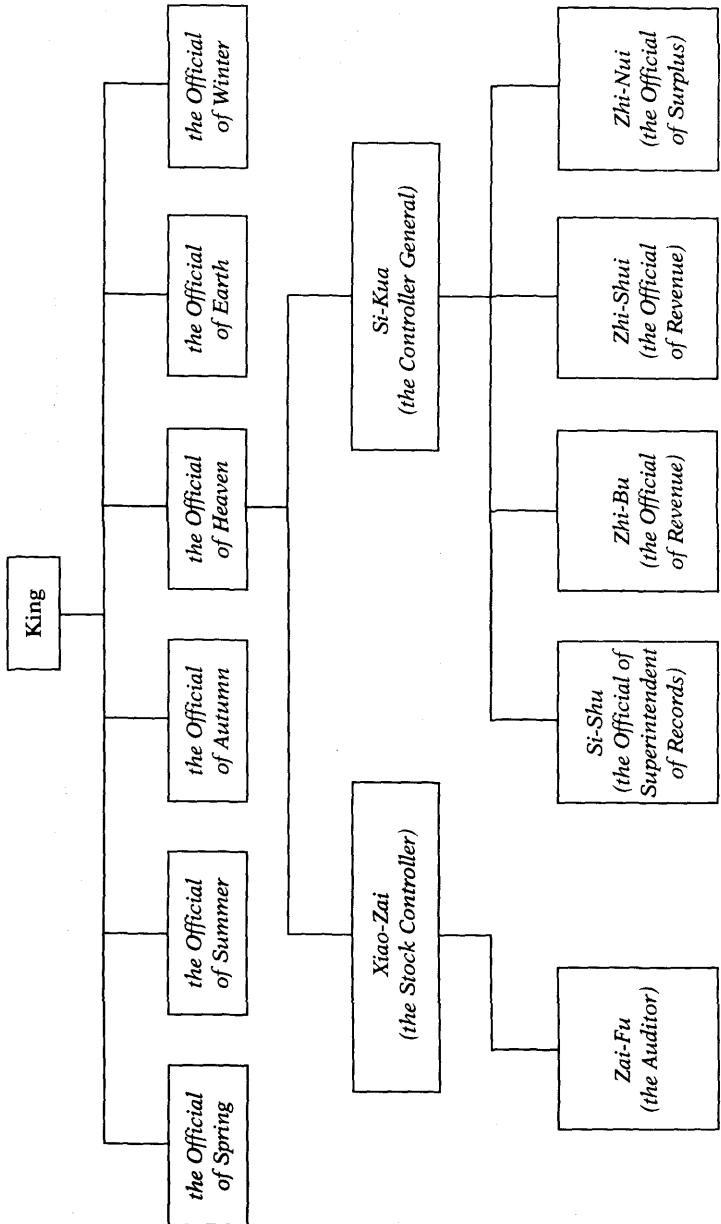


Table 2
Revenue

| | Revenue |
|--|---|
| <p>Nine Forms of Taxes (General Revenue)</p> | <ol style="list-style-type: none"> 1. Land tax from the region of capital city 2. Land tax from the region within 100 <i>Li</i>⁶ from capital city 3. Land tax from the region within 100 - 200 <i>Li</i> from capital city 4. Land tax from the region within 200 - 300 <i>Li</i> from capital city 5. Land tax from the region within 300 - 400 <i>Li</i> from capital city 6. Land tax from the region within 400 - 500 <i>Li</i> from capital city 7. Revenues from commerce and market taxes 8. Taxes on forestry, fisheries and miscellanies 9. Proceeds from sales of government surplus |
| <p>Nine tributes (special revenue)</p> | <ol style="list-style-type: none"> 1. Revenues from animal and wine tributes 2. Revenues from silk, cloth tributes, etc. 3. Revenues from metal, musical stones, red paint tributes, etc. 4. Revenues from embroidered garment tributes 5. Revenues from timbers tributes, etc. 6. Revenues from pears, gold, and other precious materials tributes 7. Revenue from material used for ceremonial tributes 8. Revenue from feather, hair tributes, etc. 9. Revenue from overseas luxury tributes |

⁶*Li* is a Chinese distance measurement. One *Li* equals about half a kilometre.

Table 3
Expenditure and Source

| Expenditure | | Source |
|---|---|--|
| 1. Diplomats and state guests | ↗ | 1. Land tax from the region of the capital city |
| 2. Military expenditures | ↗ | 2. Land tax from the region within 100 <i>Li</i> from capital |
| 3. Public construction | ↗ | 3. Land tax from the region within 100 - 200 <i>Li</i> from capital city |
| 4. Salaries and pensions | ↗ | 4. Land tax from the region within 200 - 300 <i>Li</i> from capital city |
| 5. Ceremonial presents to priests and guests | ↗ | 5. Land tax from the region within 300 - 400 <i>Li</i> from capital city |
| 6. Worship and sacrifice | ↗ | 6. Land tax from the region within 400 - 500 <i>Li</i> from capital city |
| 7. Maintenance of royal family | ↗ | 7. Revenues from commerce and market taxes |
| 8. State funerals and emergencies | ↗ | 8. Taxes on forestry, fisheries and miscellanies |
| 9. Complimentary gifts to King's relatives and feudal princes | ↗ | 9. Proceeds from sales of government surplus |

occurred, like a day book. Entries were transferred to *Zong Qing* every ten days or monthly.⁷ In non-government accounting, the accounts were in persons' names; while in government accounting, which was more advanced than non-government accounting at that time, the accounts were usually named after financial revenue and expenditure items. The Chinese characters for "Ru" (input) and "Chu" (output) were used as recording symbols. Because of the lack of a single stable monetary unit, entries in the two account books were quite descriptive and the inventories were identified by their weight and size instead of currency value. To check the balance, the Three Column Method was used. The formula was:

$$\text{New Receipt} - \text{Amount Paid Out} = \text{Balance}$$

It is notable that, at this time, financial reporting was required by the King. Four kinds of accounting reports were prepared throughout the budget cycle. These were called *Ri-Cheng* (ten day report or *Xun* report), *Yue-Yao* (monthly report), *Shui-Kua* (annual report) and *Da-Ji* (triennial report). The *Xun* reports were descriptive, while the monthly and yearly reports were summaries [Guo, 1986]. Every government agency was required to prepare a yearly report on its accomplishments. These reports were finally summarized by the *Si-Kui* (Controller General) for the King. The King then decided who should be punished or rewarded, his decision to be based on those reports. This system was further developed into the *Shangji* system, a reporting and checking system in the *Han* Dynasty (206 B.C.—A.D. 221) which was then to be used for more than 400 years during the ancient period of the Chinese dynasties.

Government Auditing

There was also a special official, called *Zai-Fu*, who was in charge of checking all revenues and expenditures (see Table 1). This was the earliest form of auditing in China [Lau and Yang, 1991]. Usually *Xun* reports were audited on a random basis of selection, while the monthly and yearly reports were audited in detail within the accounting department, a kind of internal auditing. People, at that time, began to appreciate the importance of independent auditing [Lu, 1936]. Although the reports were

⁷The *Zhou* dynasty used the lunar calendar, which had been established in the *Shang* Dynasty, and which divided the year into twelve months of twenty-nine or thirty days each, and each month into three ten-day periods called *Xun*.

inspected by the Controller General, the *Zai-Fu* was an official who was independent from the accounting department; and although his rank was lower than that of the controller General,⁸ he could report directly to the *Official of Heaven* or even to the King. This type of auditing had a profound long-term influence on Chinese auditing development. From the *Western Zhou* dynasty onwards, several recording systems were established under a variety of dynasties, with different auditing systems being developed. For example, the famous *Shang Ji* systems of reporting and checking was developed in the *Han* dynasty.

THE TREASURY SYSTEM IN THE *QIN* AND *HAN*
DYNASTIES (221 B.C.—221 A.D.): THE *SHANGJI*
SYSTEM OF REPORTING AND CHECKING; AND NON-
GOVERNMENT ACCOUNTING IN THE *HAN* DYNASTY

*The Financial and Treasury System in the Qin
and Han Dynasties*

From the *Qin* Dynasty (221-206 B.C.) to the *Han* Dynasty (206 B.C.—221 A.D.), China experienced unification after a long period of disunity [MacGawan, 1973]. This is historically part of the *Spring and Autumn and Warring States* Period (770 B.C.—221 A.D.). In the *Han* Dynasty, Chinese civilization advanced significantly.

Under the emperor of the *Qin*, the central feudal system included a *Zha-Xiang* (Premier) to help the Emperor with national affairs; a *Yu-Shi-Da-Fu* (Vice-Premier and Inspector) to be in charge of government administration and inspection; and a *Da-Wei* (Military General) to be in charge of military affairs. Under these three officials (*Gong*), there were nine ministers (*Qin*). Historically this was called the Three *Gong* and Nine *Qin* system. Among the nine ministers, *Zhi-Su-Nei-Shi* (Government Financial Minister) and *Shao-Fu* (Royal Financial Minister) were responsible for governmental finances and royal financial affairs respectively. This was the first time in Chinese history that these duties were to be separated. Under *Zhi-Su-Nei-Shi*, there were *Tai-Cang-Ling* (Superintendent of the Government Granaries), *Da-Nei* (Cashier) in charge of financial expenditure, and *Ji* (Accountant).

The *Han* Dynasty's financial system was based on that of the *Qin* Dynasty but was improved to some extent [Zhang,

⁸See Table 1. The structure of the *Western Zhou* Dynasty.

1939]. Because tax was now the major source of governmental funds and royal revenues, the tax levy was increased. There were four kinds of tax: land, artisan-merchant, capitation (a tax levied on all males, ages 15 to 56), and miscellaneous [Chou, 1974]. The government's accounting system at that time was based on government revenues and expenditures.

Standard Characters, Currency, Weights and Measures of the Qin Dynasty

Before the *Qin* Dynasty, the competing powers had engaged in political and military quarrels and thus there existed a lack of standardized weights and measures and written languages. The great contributions which the Emperor of the *Qin* Dynasty made were cultural and technological advances and the unification of the nation [Needham, 1954]. Unification fostered the use of standardized Chinese characters, currency, and a system of weights and measures.⁹ Also, the Emperor promoted the use of standardized accounts throughout the nation.

Invention of Paper and the Abacus

By the end of the *Eastern Han* Dynasty (25-220 A.D.), paper had been invented¹⁰ and was being used to keep accounts. In ancient times, the account books had been called "*Bushu*." Before the invention of the paper, *Bushu* were made of bamboo slips (see Table 4) or silk pieces. The evolution from bamboo slips to the use of paper marked a great development in human achievement. Also, it led to a breakthrough in the development of accounting. In this same period, the abacus was used. One historical record described the early abacus as follows:

An abacus was divided into two parts. The upper part comprised one-third of the abacus, while the lower part comprised two-thirds. Each abacus ball could be moved within a certain space, and one fen space (equal to about 3 centimetres) was kept in the middle between the left and right in order to determine the numerical space [Xu Yue, 1987].

⁹The Great Wall was completed under the *Qin* Dynasty by constructing new walls and connecting existing walls.

¹⁰According to historical records, paper was invented by Lun Ce. This is also one of the four Chinese ancient inventions, see Kwangchih Chang, *7000 years of Chinese Civilisation*, Milan: Silvana Editoriale, 1983.

A typical Chinese abacus contains several rods mounted in a frame, the upper part of each rod has two beads each representing 5, and lower part has 5 beads each representing 1.

Just as the use of computers has transformed accounting in recent decades, so the use of the abacus during nearly two thousand years after the *Han* Dynasty was a crucial element in the development of accounting from ancient times to the modern era in China. The use of the abacus facilitated calculations and thus the ensuing preparation of annual, quarterly and monthly reports. The abacus is still widely used in China and some scholars believe that computations of plus and minus can compare with modern computing [Yang, 1988]. It is clear that the invention of paper and the abacus created unprecedented change in both recording and calculation. These two inventions were of great importance to the development of accounting in China.

The Shangji System of Reporting and Checking in the Han Dynasty and the Shangji Law

In the *Han* Dynasty, the *Shangji* reporting and checking system was used regularly. It consisted of a special conference held by *Yu-Shi-Da-Fu* (Vice Premier and Inspector) which the Emperor attended. At the conference, officials from different regions presented their reports and could be asked questions. In this way, the officials' work could be judged; and might be rewarded or punished accordingly.

The *Shangji* system was so important that it was later written into a law called *Shangji Law*¹¹ which listed penalties in accordance with the accounting and reporting records. It had a significant impact on the establishment of accounting and auditing law at that time and in later periods. From the *Han* Dynasty, this system was carried on by almost every dynasty and was improved greatly over the years through practice.

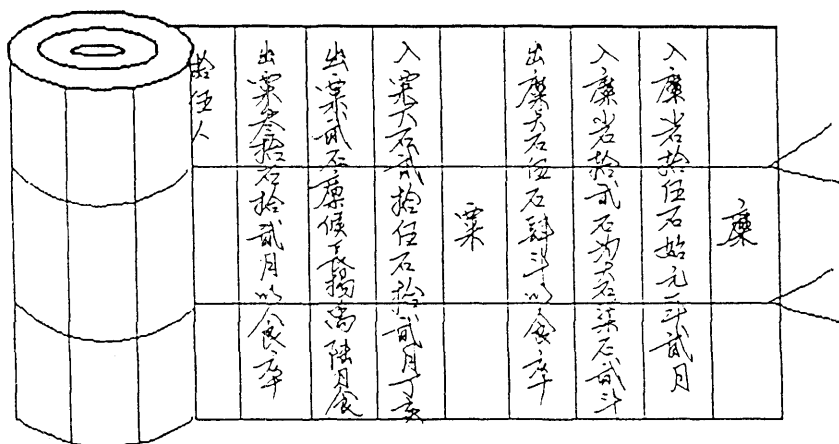
Non-government Accounting in the Han Dynasty

China's non-government accounting originated from the development of handicrafts and commerce. According to historical records, even in the *Shang* Dynasty (1500-1000 B.C.) there were some kinds of commercial activity such as the long distance

¹¹He, Xiao, in the *Han* Dynasty, wrote *Jiu Zhan Law* in which one part deals with the *Shangji* Law.

Table 4

Diagram of Chinese Bamboo Slip Book



transportation and trading of luxury goods, salt and other basics. Merchants needed to calculate their profit or loss. This was the initial period of non-government accounting. During the Han Dynasty a national market was opened and commodities exchanges and currency usage were developed rapidly [Kirby, 1953]. Salt and iron dealers often became as wealthy as the nobility. Usually transactions were very large, so the dealers began to employ people as part-time or full-time bookkeepers.

The Chinese characters for *Shou* (Receipt) and *Fu* (Disbursement) were used as the recording symbols in non-government accounting, while *Ru* (Input) and *Chu* (Output) were still used in government accounting, as in the Zhou Dynasty. At that time, people started to pay more attention to the calculation of profit and loss. There were special account books used to record goods purchases, goods sales, expenditure and profit and loss, so that the total of purchase, sales and expenditure could be obtained. Because of the complexity of business, merchants also were beginning to record receivables and payables more clearly [Wei, 1984].

THE USE OF THE FOUR COLUMN METHOD
AND THE AUDITING SYSTEM IN THE
TANG AND SONG DYNASTIES
(618-1279 A.D.)

*The Financial and Treasury System
in the Tang and Song Dynasties*

Under the Tang (618-707 A.D.), central government's powers consisted of three super ministries: *Shan-Shu-Shen* (the Administration Super-ministry), *Zhong-Shu-Shen* (the Decision Super-ministry) and *Men-Xia-Shen* (the Censorate Super-ministry). These were set up to help the Emperor handle national affairs. Generally, national affairs were discussed by the Censorate Super-ministry, then sent to the Decision Super-ministry for ratification. Finally, Administration Super-ministry enforced these national practices. Under the Administration Super-ministry, there were six Ministries: *Li-Bu* (the Personnel Ministry), *Hu-Bu* (the Statistics and Finance Ministry), *Li-Bu* (the Foreign Ministry), *Bin-Bu* (the Defence Ministry), *Xing-Bu* (the Justice Ministry) and *Gong-Bu* (the Construction Ministry). *Hu-Bu*, the Statistics and Finance Ministry, was mainly in charge of preparing statistics about land use and population change, levying taxes and overseeing accounting practices and financial management. Under *Hu-Bu*, there were also four departments. These were called *Ben-Si* which was responsible for preparing the census and land usage statistics; *Du-Zhi-Bu*, which was responsible for national budgeting and accounting; *Jin-Bu*, which was responsible for the treasury; and *Cang-Bu*, which was in charge of stock control. *Jin-Bu* and *Cang-Bu* made reports to *Du-Zhi-Bu* regularly. The relationship of these three departments was similar, in terms of modern equivalents, to that of the accounting department, purchasing department, the inventory control and cashier.

In the Song Dynasty, a series of reforms were carried out [Naite, 1948]. These were based on the Tang system. The reasons for such reforms were: (a) that local governments had too much power in their jurisdictions over finances, which thus led to military capabilities reducing the central government's power, and (b) the premier of the Administration House had too much power. The position of premier had military, financial, personnel and judicial power. Historically, these caused *AnShi*

Chaos.¹² At the beginning of the Song Dynasty, GaoZhu as emperor had learned lessons from the previous emperors and had set up a system in which all administration, jurisdiction and financial powers were placed under the control of the central government. This was a change from the Three Super-ministries and Six Ministries system to a Two Super-ministries and Three Departments system. The Two Super-ministries system—*Zhong-Shu-Sheng* (the Decision Super-ministry) and *Shu-Mi-Yuan* (the Military Super-ministry)—was supported by the Three Departments system—*Yan-Tie-Bu* (the Salt and Iron Department) to be in charge of the selling of salt and iron and the levying of taxes on these; *Du-Zhi-Bu* (the Accounting Department) and *Hu-Bu* (the Census and Land Department). These two Super-ministries and three departments were formally defined and each premier had less power than previously held in the Tang Dynasty. This arrangement became the structure adopted early during the Song Dynasty but a series of reforms were carried out over time by the emperors during the Song Dynasty. All these reforms enhanced the status and role of accounting in the society. The premier of *Du-Zhi-Bu* (the Accounting Department) was for the first time ranked at the same level as premier of *Zhong-Shu-Sheng* (the Decision Super-ministry) and *Shu-Mi-Yuan* (the Military Super-ministry).

Accounting Developments During the Tang and Song Dynasties

The Tang and Song Dynasties excelled both in cultural achievement and economic development. They represented the *Golden Age* in the history of Chinese feudal society [MacGawan, 1973; Latrouette, 1964]. Woolf summarized accounting's role as "the laws which govern the history of accounting are those which govern the progress of the human race" [Woolf, 1912]. Also, Chatfield [1977] writes:

Whether the progress of ideology governs the development of social institutions or vice versa, there are obvious connections between ideas and the conditions under which people live. A study of their evolution suggests that accounting processes are reactive, that they

¹²*AnShi Chaos* refers to the rebellion of An, Lushang An and Shi, Siming between 755 and 763 A.D., which marked the end of the Tang's flourishing period. From then on, the Tang experienced the period of decline. For more details, see Kenneth Scott Latourette, *The Chinese: Their History and Culture*, New York: The Macmillan Company, 1964.

develop mainly in response to business needs at any given time, and that their growth is relative to economic progress generally. In general, the higher the level of civilization, the more elaborate the bookkeeping methods. And as record keeping needs multiply, the ability of accounting data to promote or hinder economic development also increases. (p. 27)

During the *Tang* Dynasty, three major trade routes were established which branched off from *Dunhuang*¹³ and reached, by land and sea, to the Mediterranean. The diplomatic preliminaries for trade with Japan were initiated. It is said that Master *Jian-Zheng* went to Japan by sea bringing both Chinese merchandise and his native culture. By the end of the Seventh Century, the *Tang* had reduced much of Central Asia and Korea to tributary status. Traders bought and sold goods from these areas and so filled the great city markets. The *Tang's* military victories helped to secure commerce, particularly with Central Asia. Commercial law became more formalized, with penalties prescribed for not using standard measures. Some large government and private businesses engaged in trades such as weaving, dyeing and wine making to meet the imperial household's needs. In the *Song* Dynasty, the government encouraged commerce more than ever before, preventing tax increases from being levied on commercial activity and occasionally reducing taxes or removing them altogether from minor items. Foreign trade flourished more than in any previous dynasty. Trade was engaged with Korea, Japan, Continental Europe and Arabia. Exports included gold, silver, strings of coins, cloth and porcelain. Imports included spices, ivory, coral and tropical hardwoods. Paper currency appeared with the development of commerce in the *Song* Dynasty. It replaced the heavy and inconvenient iron money.¹⁴ Under these economic conditions financial and accounting systems were allowed to progress in order to meet the needs of economic management. The accounting system estab-

¹³*Dunhuang* is in the western part of China on the way used by the ancient Chinese silk trade.

¹⁴With the development of commerce, merchants invented paper currency which was then called *Jiaozi*. At the very beginning, it was issued by an alliance of sixteen trading firms. It could be circulated in markets and also be cashed by the issuing firm. For more details, see Philip Fu, *A Study of Governmental Accounting in China: With Special Reference to the Song Dynasty*, Ph.D. dissertation, University of Illinois, 1968.

lished in the *Song* Dynasty is regarded by accounting historians to be the most elaborate accounting system in Chinese history [Fu, 1968]. In the *Tang* Dynasty, there appeared a Four Column method of recording which, in the *Song* Dynasty, became very popular [Lin, 1992]. The formula is :

$$\text{the old} + \text{the newly received} = \text{payment} + \text{balance}$$

This was more advanced than the Three Column method which was widely used in the *Zhou* Dynasty. Before the *Tang* Dynasty, Chinese accounting reports mainly took the form of literal interpretation which was very descriptive. Since the use of the Four Column method, accounting and reporting were advanced to the form of numeral interpretation in which the old, the newly received, the payment and the balance were listed in terms of currency. The Four Column method also settled the foundation of Chinese double entry development.¹⁵ During the *Tang* Dynasty in 736 A.D., Li Lingpu, an official who worked in *Hu-Bu* (the Statistics and Finance Ministry) asked the emperor to promulgate *Chang Xing Zhi Tiao*. In this, all items and sub-items of revenues and expenditures in central and local government budgets were standardized. It was the first uniform system of accounting in China.

Under one modern view, the more advanced the accounting practice, the greater the necessity for the accounting measures that are used to be disclosed adequately to the public [Brown, 1968]. Both the *Tang* and the *Song* Dynasties published some famous accounting reports, e.g. *National Account Book* and *Account Book*.¹⁶ In both of these books, there was also some accounting analysis. This included (1) the financial comparison between the current year and the previous year and (2) analyses

¹⁵Under the Chinese double entry method or *Longmen* Account, all economic transactions were divided into four categories—receipt, payment, keeping and owing. Under each category there were some subcategories. The basic recording rule is: it must have a receipt and disbursement side for each transaction and the amount for both sides should be equal. The accounting equation was Receipt — Payment = Keeping — Owing. *Longmen* accounting was the beginning of the development of Chinese double-entry accounting.

¹⁶Some scholars view the appearances of these two reports to have been the most influential accounting events in the *Tang* and *Song* Dynasties. They cover the following information: (1) the statistics on land and population, (2) the annual revenues and expenditures, and (3) analysis of the annual performance. For more details, see Chingwei Shou, *Democracy and Finance in China: A Study in the Development of Fiscal Systems and Ideas*, New York: Columbia University Press, 1926.

about causes of revenue and expenditure variations. These books have become famous in Chinese historical literature not only in terms of accounting history but also in art and culture [Guo, 1986].

It is important to note that non-governmental accounting was emphasized because of the economic development which was occurring during the *Song* Dynasty. Personal names were used in accounts titles although such titles were also classified according to the contents and nature of transactions.

The Auditing System—Bi-Bu in the Tang Dynasty

The most important development during the *Tang* Dynasty was that the auditing function was separated from the Finance Ministry and thus became an independent organization. This was called *Bi-Bu* (the Auditing Department) and it was placed under the direction of *Xing-Bu* (the Punishment or Justice Ministry). Before this, auditing had been performed by the accounting officers of the Finance Ministry, and later by a specific audit functionary who was ultimately to remain under the jurisdiction of the accounting office. The latest change gave auditing to a judicial authority and its conclusions were regarded as judicial decisions [Lau and Yang, 1991].

Further Development in the Later Dynastical Period

During the *Ming* Dynasty (1369-1643 A.D.), the Premier's position was discarded because the Emperor himself was also Premier.¹⁷ The six departments were controlled directly by the Emperor himself. Among them, *Hu-Bu* (the Accounting Department) was in charge of financial management and accounting. At that time, there were thirteen provinces in China. Thus within *Hu-Bu*, there were thirteen departments, each of which was responsible for one province. Each department had four divisions. These were to be in charge of the census, accounting functions, treasury and policy and stock control. Each local government area had departments of accounting and taxation. The *Qing's* (1644-1911 A.D.) system later became based on that of the previous *Ming* Dynasty. Together these systems covered the

¹⁷In 1380, the first emperor of the *Ming* Dynasty, Zhu, Yuanzhang, sentenced the premier Hu, Weiyong to death, accusing him of conspiracy. From then on, the premier's position was discarded. For more details, see Shen Meng, *History of the Ming Dynasty*, Taipei, 1957.

later dynastical period (1369 A.D. to 1911 A.D.). Because of the influence of foreign trade and customs, an analysis of the development of accounting in China during this period is not included in the present paper.

CONCLUSION

Since the emergence of accounting and its elaborate development in the *Western Zhou* Dynasty, Chinese accounting experienced a long and slow development over thousands of years under the feudal dynasties. Two conclusions can be drawn from such developments in early Chinese accounting and auditing.

First, during this long period of tedious development overall, there emerged spasmodically some inventive accounting systems and methods: the government sponsored accounting system and Chinese single entry bookkeeping developed during the *Western Zhou* Dynasty, the *Shangji* system of reporting and checking started in the *Han* Dynasty and *Bi-Bu* which became the system of the *Tang* Dynasty. These would be used for a span of years until they absolutely could not be fitted to technological and economic change and, ultimately, began to retard economic development. The development of accounting in China was linked strongly with the development of Chinese feudal society. Major influences on the development of accounting practices can be summarized as:

Political Influence

Chinese feudal society was typical of a mature feudal system. The structure was fixed and could not be changed easily. In such a culturally diverse society, accounting could not achieve initiatives quickly. In the long history of Chinese feudal society, especially in the initial period of every dynasty, there was no doubt that new emperors wanted to strengthen their powers and so they started economic and social reforms. At that time, accounting could be advanced in response to the economic and social changes. After a period of time, things became fixed, the Emperor seemed to indulge himself, and the economic and social conditions worsened. At such times accounting could not be advanced quickly.

Cultural Influence

One feature of Chinese culture over several thousands of years is the high degree of state control exer-

cised over the people who obeyed the will of the head of the state [Fitzgerald, 1961]. The government had played a major role in managing and regulating the economy which was based on central planning, e.g., control of irrigation and water works, industries and commerce. Because China did not have a vigorous class of economic entrepreneurs independent of the government, the development of accounting in China to emphasize government accounting which was more advanced than non-government accounting. As mentioned, the development of non-government accounting depended largely on changes in commerce, for example, in the *Han*, *Tang* and *Song* Dynasties. In Chinese feudal history, the policy of stressing agriculture and looking down upon commerce was associated with every dynasty. In the meantime, because of the domination of Confucius Philosophy in the Chinese feudal society, gentlemen were not allowed to speak about money, otherwise they would be regarded as mean. As mentioned, people liked to be regarded as gentle folk. In some dynasties, merchants were even classified as criminals. They were forced to serve in the army along the border areas. Court officials and scholarly officials often viewed accounting as a non-skilled profession. All of these conditions continued to obstruct the development of non-government accounting in China, particularly in the later years of the *Ming* and *Qing* Dynasties (1369-1911) [Meng, 1957; Xu, 1955].

Economic Influence

Accounting development is often linked with economic conditions. As mentioned above, when political conditions were relaxed, the economy would grow quickly and then accounting, especially non-government accounting, would be developed further. During the *Song* Dynasty, non-governmental accounting was emphasized because of important economic developments.

Technological Influence

The development of technology has often played an important part in accounting development [cf. Hopwood, 1987]. During the *Han* Dynasty, paper was invented. This substituted for bamboo slips and silk pieces in the recording process. The development of paper and the abacus created important changes in ac-

counting in China. During the *Song* Dynasty, copper coins and paper notes facilitated transactions and were used for paying taxes related to commerce and land. Currency became the main form of commercial measurement and allowed exchange transactions to be captured for government and private operations relevant to accounting and finance.

The second major conclusion is that in the long evolution of Chinese accounting during the more ancient of the dynasties development was unbalanced. Sometimes accounting practice would be pushed forward because of the economic situation. Some accounting methods and systems would be merged at that time. Eventually accounting became more sophisticated than anywhere else in the world, including the accounting system of the *Western Zhou* Dynasty and the *Bi-Bu* system in the *Tang* Dynasty. These systems represent contributions of Chinese accounting to world accounting. Chinese accounting also had a significant influence on accounting development in other Eastern cultures [Jong, 1979], for example, in Japan and Korea. This was due to a prosperous trade that took place between China and eastern countries.

This history of early accounting in China has traced aspects of progress over long periods of time. This history tends to support the recent hypothesis of Mokyr (1990) with respect to developments of economic history. It is a hypothesis which in its turn follows that of the palaeontologists (cf. Gould, 1982) with respect to basic patterns of the evolution of life on earth, as analyzed also in biological science. There will be long periods of dominance by entities, species and/or ideas under conditions which are subject only to marginal modification. However, under the notion of "punctuated equilibrium" organisms find a need for adaptation to a changing environment. In this context, mutations, theories and alternative practices will arise.

A revolutionary change may occur in the form of a response by accounting practitioners to crucial associated changes in cultural, legal and economic phenomena. Progress will, under this strongly confirmed hypothesis of evolution, be brought about by changes in the direction of relevant thinking in society itself. A practical purpose of any history of accounting development is to convey to present day practitioners scenarios for improvement. Historical ideas, when linked to relevant perspectives, can forearm collective deliberations. Agreements may then arise about

the likely nature and extent of present and future disciplinary changes to generally accepted practices, given observed cultural and legislative changes in the society. This thrust for progress may become confirmed further as accounting in China reacts to opportunities and challenges of the present, particularly those associated with new ventures and with international trade.

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