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Rethinking China: Discourse, convergence and fair value accounting



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ABSTRACT

There is a significant contradiction between the capitalist economic ambitions of China and the socialist rhetoric that dominates contemporary Chinese politics. Whilst the tension between the surplus orientation of a free market and the welfare orientation of socialism appear obvious, we know little about how these ideals are reconciled within China. In this paper we explore the role that accounting discourse has played in mediating the relationship between socialism and capitalism and in particular, the role that these discourses have played in the reframing of the free market at an ideological level. Using critical discourse analysis (CDA) we examine the convergence of Chinese Accounting Standards (CAS) with International Financial Reporting Standards (IFRS) and the uptake of Fair Value Accounting (FVA) as it was presented discursively by the government, the media and leading academics within China. We also explore forms of dissent and resistance. Our analysis points to the ways in which the use of accounting discourse has helped progress the market oriented ambitions of the Chinese Communist Party whilst allowing the coexistence of socialist ideals. Using the Chinese experience as an example, our paper provides further evidence of the important role accounting discourse continues to play in the ongoing neoliberalisation of political economies across the globe.

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1. Introduction

Today's accounting in China is strikingly different from 20 years ago . . . recently issued accounting standards closely resemble those developed in many market economies (Tang, 2000, p. 93)

(O)ur interest is in pursuing how dominant political and intellectual elites in China produced and circulated *performative* ideological discourses that impacted the regulation of accounting (Ezzamel, Xiao, & Pan, 2007, p. 672).

Over the last century, China has undertaken a series of substantive reforms to accounting practice. Much of these reforms reflect the need for accounting to produce the kind of information that supports the broader socio-political and economic direction of the nation. Given this, China offers a unique opportunity to study the relationship between the political economy of a nation and its accounting practices. Whilst we know that accounting is not a benign or neutral technology, it still successfully masquerades as such, and our collective ambivalence towards accounting makes it a powerful vehicle through which the intentions of the state or the market can be made material. Indeed, these intentions can appear natural and pre-ordered, despite their ideological potency (Zhang & Andrew, 2014). In an effort to explore these relationships and to examine,

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in detail, the way that accounting discourse is mobilised to depoliticise decision-making, this paper considers the role accounting has played in the production of Chinese politics and economics after China's decision to converge its national accounting standards with International Financial Reporting Standards (IFRS) in 2007. In particular, we consider the ways in which accounting discourse has functioned to smooth China's transition towards a market economy in recent years, both in practical and ideological terms.

2. Background: China, international financial reporting standards and fair value accounting

Historically, accounting has played an important role in the political, economic and social structuring of modern China (Xu, Cortese, & Zhang, 2014). Despite its appearance as a useful, but relatively benign technology, accounting has contributed significantly to the transformation of China's political-economy over the last century. With the establishment of People's Republic of China (PRC) in 1949, it was soon clear that the practice of double-entry bookkeeping¹ with its emphasis on surplus was both a contaminant to the principles of communism, and also impractical given the political, economic and social ideals of the newly formed PRC (Xu et al., 2014). Consequentially, in the early 1950s double entry bookkeeping was replaced with a Soviet-style accounting system to reflect the collective, distributional emphasis of communism. The accounting equation that governed accounting practice at the time, "Applications of Funds = Sources of Funds", mirrored the socialist emphasis on distribution rather than surplus accumulation (Zhou, 1988). This shift laid the foundation for accounting in China, but the PRC's accounting system continued to develop to meet the needs of the new political system and to help weave together China's unique political structure, Chinese modes of economic production, and their apparatus for social control with the ideals of communism (Ezzamel et al., 2007; Xu et al., 2014).

After the death of Mao in 1976, the Chinese accounting system was again subject to considerable reforms in an effort to bring to fruition the social and economic transformations underlying the Chinese Communist Party (CCP)'s vision for China. Reforms to accounting practice in the 1970s helped smooth the emergence of a market system within China and facilitated the incorporation of a 'market' into the centrally controlled political system (Wang, 2011). In particular, the shift back to the double-entry bookkeeping method in the 1980s subtly reintroduced the legitimacy of private property and equity interests; the possibility of surplus as a legitimate economic goal; and the importance of profitability within organisations. Not long after this, the CCP insisted on a nation-wide accounting system with a set of prescribed standards to encourage the development of reliable and comparable information that we know to be the cornerstone of market oriented decision-making. Through these reforms, China was slowly aligning its accounting practices with those in western capitalist economies, and at the same time it was successfully sustaining the authority of the one-party political system (Ge & Liu, 1999). This transformation was solidified when Chinese Accounting Standards (CAS) converged substantially with International Financial Reporting Standards (IFRS) in January 2007, adopting the same "principles of recognition, measurement and reporting" as those of IFRS, including fair value accounting (FVA) (Peng & Bewley, 2010, p. 983).

Whilst the political economy of China remains unique, the convergence of CAS with IFRS means that their accounting regulations are now in line with those governing accounting across much of the globe. In effect, this means that China now uses accounting standards that have been designed for market economies within a political economy that remains dominated by the state. Given the tensions that exist between markets and socialism, the implementation of IFRS in China offers a unique opportunity to study the link between accounting, political ideology and economic transformation. Indeed, in this paper we explore the ways that IFRS have functioned as a vehicle for such change and how the mobilisation of accounting discourse can smooth tensions between the political and the economic. The adoption of FVA under IFRS represents the most significant change to the new CAS (Ge, 2006; Liu & Zhang, 2006; Peng, Tondkar, van der Laan Smith, & Harless, 2008). Given the market valuations had been prohibited, their inclusion represents a radical departure from established accounting practice. That being said, it's adoption may reflect the CCP's willingness to harness the market to enable the "primary stage of socialism" that has been part of the CCP's agenda since the 1980s (Deng, 1978). In light of this, the implementation of FVA represents more than a new valuation technique; it represents the next stage of socialism and this is tied, almost irreversibly, to market economics (for more on this see Zhang, Andrew, & Rudkin, 2012 and on financialisation within China Zhang and Andrew, 2014).

3. Accounting discourse and change in China

Given the methodological and theoretical approach adopted in this paper, our work contributes to the substantial body of accounting literature that highlights the rhetorical and ideological dimensions of accounting discourse (Arrington & Francis, 1993; Ezzamel et al., 2007; Hines, 1988; Lehman & Tinker, 1987; Llewellyn & Milne, 2007; McCloskey, 1985; Mouck, 1992; Reiter, 1998; Shearer & Arrington, 1993; Tinker, 1991; Walters-York, 1996; Warren, 2005; Williams, 1989). Much of this literature has demonstrated the significant influence accounting discourse has on the construction of organisational knowledge, practices and structures in a variety of contexts. It is reasonably well accepted that the (e)xplicit recognition of accounting's status as a discursive practice (as opposed to the view that accountants just report the facts) is profoundly

¹ The Western double-entry bookkeeping method was introduced and implemented in China following the Opium War in 1840.

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