[Accounting Historians Journal](https://egrove.olemiss.edu/aah_journal)

Volume 6
Issue 2 *Fall 1979*

Article 6

1979

Book reviews [1979, Vol. 6, no. 2]

Kenneth Oswald Elvik

Kenneth O. Elvik, Editor
IOWA STATE UNIVERSITY

BOOK REVIEWS

David A. R. Forrester, *Schmalenbach and After: A Study of the Evolution of German Business Economics* (Glasgow: Strathclyde Convergencies, 1977, pp. 90. Distributor: International Scholarly Book Services, Inc., Forest Grove, Oregon, $14.95)

Reviewed by Konrad W. Kubin
Virginia Polytechnic Institute and State University

This book highlights some of the major contributions of German accounting thought to complex issues confronting the profession around the world. Previously, these contributions have not been widely known in English-speaking countries due to (1) the language barrier, (2) the fact that accounting in that country is not considered a separate academic field of inquiry, but an integral part of business economics, and (3) the intuitive rejection of thoughts that originated partially during a totalitarian era.

Forrester's book helps to overcome all three of these obstacles. By retracing the evolution of German business economics, he identifies the leading German accounting academicians as well as their thoughts on inflation accounting, uniformity, and social accounting, which have influenced the development of accounting around the world. Forrester also helps us to understand how rational theorems can be promulgated and professional objectivity and integrity can be preserved during a totalitarian era with its repeated harassments, academic boycotts and even threats to one's life.

Although the book analyzes the historical development of German accounting thought and refers to the contributions of numerous individuals, it is at the same time a biography of Eugen Schmalenbach (1873-1955), the undisputed leader among German accounting academicians. It consists of nine chapters and a unique "Index of Persons and Authors, with References" which should prove to be especially valuable for future research efforts.

The introductory chapter outlines the approach taken by Forrester in presenting Schmalenbach and his major accomplishments.

Chapter II describes Schmalenbach's early years, his brief engineering and manufacturing experience which is reflected in many of his later contributions to product costing and transfer pricing, his years at the universities of Leipzig and Cologne, his marriage to Marianne Sachs and their family life, Schmalenbach's emergence in the 1920's as a leading business economist and consultant, his persecution during the Third Reich, and his last years.

Chapter III summarizes the evolution of business economics and business administration in Germany. Repeated references to Schmalenbach show how this development has been fundamentally influenced by him and his disciples.

In the following chapter, Forrester sketches the German cameralist form of accounting and the influence of state and farm accounting on commercial accounting. Schmalenbach was attracted to farm accounting because it allowed him to study pricing and allocation problems in situations where production and consumption are often so closely interrelated that transfer prices established by a free market system are unavailable. These studies are in effect the embryonic thoughts of today's "shadow prices".

Justifiably, the chapter on "dynamic accounting" is the longest one since it deals with Schmalenbach's best known contributions to accounting theory. It includes elaborations on inflation accounting, valuation, and the approach taken in Germany towards the development of accounting principles. It also discusses the evolution of the German income statement from the 1920's to the present time and the conservative measurement of income which permits the creation of hidden reserves.

Chapter VI discusses the development of uniform charts of accounts in the 1920's, the adoption of such charts by the Third Reich, and the current efforts in the EEC and elsewhere to harmonize accounting with the help of similar charts of accounts. This chapter is followed by further elaborations on Schmalenbach's perceptions of cost and prices. Forrester discusses such concepts as marginal pricing, fixed costs, budgets, and Schmalenbach's notion of "management by prices" instead of rationing or management interventions.

Investment decisions, cost of capital, the valuation of the enterprise as a whole, and the interrelationship between capital, credit and interest are discussed in Chapter VIII. Also summarized are Schmalenbach's deliberations on capital formation by the state through taxes and the relation between capital and labor, including the well known German phenomenon of "worker participation" or "co-determination."

The book closes on a philosophical note when Forrester attempts to extrapolate Schmalenbach's accomplishments. He seems to submit that Schmalenbach's greatest contributions for future generations may very well be threefold: (1) the realization that the individual accountant needs to stand up for professionalism, ethics and integrity instead of capitulating to the economic and political system, (2) the demand for economizing through waste avoidance, and (3) Schmalenbach's emphasis on dissemination of decision-making powers during a time when we rely more and more on professionally trained valuators and other specialists.

To borrow Schmalenbach's philosophy that "too great leniency in criticism is a sin against the profession," it needs to be pointed out that this book is far too short to do justice to Schmalenbach and the development of German business economics in general. Readers who possess only a very sketchy familiarity with Schmalenbach's work will be easily lost without additional background. The very worthwhile introductions to the literature at the beginning of most of the chapters can only partially overcome this problem. Hopefully Forrester will build on his expertise of Schmalenbach and expand this book into a more comprehensive and further cross-referenced volume.

Despite this criticism, the book represents an excellent contribution towards familiarizing the English-speaking world with the thoughts of one of the leading accounting pioneers. The Hour Glass Award given to Forrester by the Academy of Accounting Historians for his achievement is truly deserved. The book should be well received not only by accounting historians, but also those interested in international accounting, accounting theory, cost and managerial accounting, social accounting, as well as business administration and economics in general. It can only be hoped that additional research studies about Schmalenbach and the development of accounting in Germany will be forthcoming as a result of this stimulating publication.

Tito Antoni, *Il Bilancio di una Azienda Laniera del Trecento* [The Financial Statement of a Cloth Manufacturer During the Fourteenth Century.] (Pisa: Columbo Cursi Editore, 1966, pp. 69, Lire 2,000).

Reviewed by Alvaro Martinelli
Appalachian State University

The renewed interest of historical research in accounting and the contribution brought by many scholars during the last fifty years have left no doubt that the use of financial statements originated during the thirteenth century. Indeed, the earliest example of a balance sheet dates back to 1277, and it belonged to the partnership of Filippo Peruzzi of Florence. It is now recognized that from those earlier times, financial statements were drawn as separate and autonomous documents, although they were always closely related to the entries in the ledger. This is also the conclusion reached by Tito Antoni, a brilliant scholar in the history of accounting.

The documents analyzed in this book were found by the author in the State Archives of Pisa, in the "Book of Accounts" that the company of Biagio delle Brache, merchant from Pisa, kept from 1326 to 1356. In particular, two financial statements were drawn in 1347: one prepared by Biagio "for my own accounts," and the other by one Colo Bugarro for the transactions in the "shop of the wool."

Colo and Biagio had established a partnership for the manufacturing of cloth. Biagio, who contributed the capital, was to receive two-thirds of the profit, and Colo, the merchant-entrepreneur, the remaining one-third. Colo was also the accountant of the partnership.

The pages on which the financial statement discussed in this book was drawn were added and stitched, at different dates, to the ledger of Biagio, where he recorded his personal business transactions. The statement is formed by two different groups of accounts recorded in running form one after the other, with the assets first, followed by the division of profits, liabilities and the owners' equity. The purpose of this statement was to show to Biagio how his capital had been invested and the amount of profits to be shared as of the first of September 1347. The accounts summarize several homogeneous classifications of debts and credits, transferred from the final totals found in the ledger.

The accounts are expressed in arabic numerals, and the monetary unit is an abstract *lira* called "good money" divided into 20 *soldi* and 240 *denari*. Only the submultiples of this abstract currency were minted in silver and copper.

The author gives us a vivid and detailed description of the manufacturing and commerce of woolen cloths during the Middle Ages. Inside the shop of Colo and Biagio only small or minor works were performed, for which no expensive equipment was necessary. When during the long process of transformation of the wool into cloth the two partners had to go through a phase where big immobilization of capital was necessary, such as buildings and machinery, one may notice the intervention of outside entrepreneurs, specialized in that particular industrial stage of the manufacturing process. Consequently in the shop, the partners undertook the simple operations of cutting, carding and combing, performed by workers called by the generic name of "labourers." The additional operations of washing, spinning (performed mainly in the countryside), warping and weaving, purging, fulling and dyeing, were performed by workers who exercised their art independently.

In order to determine production costs Colo Bugarro kept several subsidiary ledgers where he recorded all the facts in great detail. In the *quaderno* he recorded the cost of the wool delivered to the shop, including the original cost, transportation charges to the port of origin where it was loaded, and eventually the freight, unloading and storage expenses at Porto Pisano, and finally the carriage by land to the shop in Pisa.

All the different manufacturing operations performed outside the shop were initially recorded by Colo in the *libro del mandato,* and later transferred to special ledgers open to weavers, dyers, etc. At the end of the period the totals from these ledgers were used to prepare the financial statement. The *libro del mandato* was one of several subsidiary ledgers used by the partnership. In this book Colo kept record of all orders remitted to outside workers specialized in specific phases of the manufacturing process. Each account was debited for advance payments given to the worker, and it was credited for the total amount of the job just completed. The debit balance represented the debt of the company toward the independent worker.

The financial statement may be summarized as follows:

Assets				
Cash	L.	48	s.	6
Accounts Receivable		2,685		10
Inventory		780		2
Equipment		13		9
Prepaid Expenses		6		6
	L.	3,533	s.	13
Liabilities and Equity				
Accounts payable (short term)	L.	127	s.	16
Accounts payable (long term)		1,608		6
Partners' Equity		1,207		10
Net Income		590		1
	L.	3,533	s.	13

It is of interest to notice that accounts receivable represent 76.46% of the total assets, since there was a long delay between sales and collections. During the Middle Ages money was a scarce commodity, so that quite often the customer had first to sell the merchandise he bought before being able to make any payment. It appears that this practice was causing some problems to the partnership, which had to borrow from Biagio an additional L. 1,608 s. 6. One may also notice that the current ratio is 27:1, however if we include among liabilities the amount loaned by Biagio, the ratio becomes a more modest 2:1.

The author emphasizes how in the fourteenth century the partnership was already considered as a separate entity, more like an abstract person, and the capital account or equity represented a debt of the company toward its owners, as expressed by Colo: "I found that I owe ser Biagio 700 gold florins (L. 1,207 s. 10), which represent our capital."

At the end, Colo will record the division of the profit: "Of three *denari* Colo shall receive one, or L. 196 s. 13. Of three *denari* ser Biagio shall receive two, or L. 393 s. 6." So that Biagio invested his capital with a rate of return of 32.57%.

With this book Tito Antoni makes a significant contribution to the history of accounting in the Middle Ages, and he shows how during the first half of the fourteenth century the profit motive was already well rooted in the average merchant and how real capitalistic organizations were created in order to satisfy this need.

Heinrich Sieveking, *Die Casa di S. Giorgio: Genueser Finanzwesen mit besonderer Beruecksichtigung der Casa di S. Giorgio, II* (Freiburg i. B.: Verlag von J.C.B. Mohr [Paul Siebeck], 1899. Reprint edition: Osaka, Japan: Nihon Shoeseki, Ltd., 1977, p. 259, $30.00, (printed in German).

Reviewed by Norlin G. Rueschhoff
University of Notre Dame

This book, printed in German, is the second volume of a two-volume series. The first volume was originally published by Sieveking in 1898, titled *Genueser Finanzwesen vol. 12. bis 14. Jahrhundert,* and reprinted by Nihon Shoseki, Ltd., Osaka, Japan, in 1973. The second volume has three chapters covering the time periods 1407-1444, 1447-1561, and 1586-1815. The two volumes thus cover the history of Genovese finance over a period of eight centuries.

The first chapter of the second volume deals with the establishment of the Casa di S. Giorgio in Genoa, Italy during the first era of its banking business, 1407-1444. The Casa di S. Giorgio, that is, the Bank of St. George, hereinafter referred to as the Casa, received its foundations in 1407 as a central underwriting agent to consolidate various financial paper issues of eight companies and state agencies. The final payment of the refunding bonds was projected through a sinking fund accumulated through tax revenues. Tax revenues in those days were derived through property taxes, customs duties at port of entry, and poll taxes.

The Casa provided an invaluable service for the people of Genoa. In a sense the Casa was an excellent manager in trying to protect the bond investments of the citizens. When opened on March 2, 1408, the Casa also maintained checking accounts for the taxing agencies as well as the public. Thus, it was a central collection agency for taxes which were used to pay off the loans for the local governments. Its books were kept in Roman numerals. All transactions were written in one bank book. For example, a thousand page bank book in 1414 was completely full by the end of June and required two such bank books for that year. By 1418 three bank books were necessary to record the bank's transactions. In 1439, a branch bank was opened with a bookkeeper and a cashier and a half year later a third branch was opened. In 1444 the banks' connection with the state treasurer put the bank in a difficult position. Because the tax collections were slow, timely interest payments were critical. And when the interest payments could no longer be made on time and with the bank's connection to the state government, the bank was liquidated. Thus ended one of the banking periods.

The Casa's life from 1447 to 1562 is covered in the second chapter. An important event for the Casa during this period was the acquisition of its main building, a palace, in 1451. In this building the Casa was re-established. Again its need as an underwriting agent in the consolidation of various financial paper issues gave reason for its being. In 1464 eight auditors were appointed to help with the activities of the Casa. When the bank was again reorganized in 1447, Genoa was under the control of Cyprus. The Casa was instrumental in financing of grain trade with Cyprus. With the establishment of a colony in Corsica, the Casa was also instrumental in providing a development loan. During this era, the key purpose of the Casa was to be a depositing agent for tax revenues. The most important tax during the time was still the direct property tax, with about two thirds of the revenue coming from this tax and another third from poll taxes. The tax burden was heavy because of the many unfortunate battles around Genoa. Moreover, the Casa was involved in the support of Genoa's great son, Christopher Columbus.

The third chapter deals with the second period of banking for the Casa from 1586-1815. In 1597 Genoa had a population of 60,529 and by 1801 grew to 86,063. During this era, the Casa was involved with transactions of the state treasurer, the public utilities, and the colonial companies. After the end of the sixteenth century, the Genoa government shifted to the use of indirect taxes, such as a 1% sales tax. Furthermore, tax incentives were used to attract industry to Genoa and some tax revenues were raised through customs duty on grain exports. The state of Genoa opened up its own state bakery, and monopolies were established for salt, grain, and even meat. These monopolies in the seventeenth century caused an uneven distribution of resources and special offices to aid the poor were established. Because the state government debt grew rapidly, the maturity dates of the bond issues and later even the interest payments were postponed. A depression in 1646 meant a crisis for the Casa. However, in the plague of 1656 the Casa made considerable amounts of windfall profits because of unclaimed deposits of deceased deposit holders. The Casa survived through economic depressions and political turmoil; it became so respected that the Bank of England was established using the Casa as a model. As the government frequently changed hands, the Casa always stood as a sound financial institution, a non-partisan, respected institution. However, when Genoa came under Napoleon's France, the French decided to liquidate the bank. The long established directors of the Casa tried to convince the French to continue the Casa as an independent institution. In vain, and in May, 1817, the liquidation was completed.

Certainly this book is an interesting commentary on finance, particularly public finance as centered in the bank of Genoa. The reading of the book is not simple, because of the use of many mediaeval German terms, and a considerable amount of interspersing with Latin and Italian terminology. On the other hand, it becomes apparent that Sieveking is truly a scholar, having an excellent writing ability in German, a rather fluent capability in Italian, a working knowledge of Latin, and a very insightful expertise in public finance. However, there is little information on mediaeval accounting in this treatise. Thus, for the accountant, who has a reading knowledge in German, this book serves as a good source for a background on the history of finance during the times that double entry bookkeeping originated. For the researcher interested in the accounting and tax procedural aspects of finance in Genoa, Seiveking has written another book which has also been reprinted recently. The book is: *Aus Genueser Rechnungs- und Steuerbuchern. Ein Beitrag zur mittelalterlichen Handels- und Vermoegensstatistik,* published in Vienna in 1909 and reprinted by Nihon Shoseki Limited, Osaka, Japan in 1974. The book is a documentary with many excerpts from accounting and tax records. The book's six chapters cover, in order, financial records in the fourteenth century, the accounting records of the Casa di S. Giorgio, tax revenue sources in the fourteenth and fifteenth centuries, calculation of property tax valuations in Genoa, and a comparison with property valuations in Florence and Pisa. As a documentary, the book attempts to make no analysis of the theory or practice of the times. Nevertheless, this book does fill a gap for the accountant, the gap concerning accounting as mentioned in the preceding paragraph.

Emanuel Benjamin Ocran, Jr., *Transportation Costs and Costing 1917-1973: A Select Annotated Chronological Bibliography* (New York and London: Garland Publishing, Inc., Garland Reference Library of Social Science, Vol. 10, 1975, pp. xxvi, 751, $60 U.S.)

Reviewed by David B. Vellenga
Iowa State University

The purpose of this bibliography is to present an extensive source of references on transportation costs and costing and appears to be the most exhaustive reference ever compiled on this topic. The following sources were used to develop the bibliography: *Applied Science and Technology Index, British Technology Index, Current Literature in Traffic and Transportation, Dissertation Abstracts International, Engineering Index, Industrial Arts Index, Industrial Aerospace Abstracts and Public Affairs Information Service Bulletin.*

The more than five thousand references in the index are cross referenced in several ways and the volume is very easy to use. Entries are generally listed by chronological years (usually decades e.g. 1931-1940), by mode of transport (e.g. air), and by subject headings where applicable. The subject headings include: accounting, competition, costs, fares, finances, insurance, management, operation costs, pricing, rates, securities, statistics, taxation, tolls and wages. In addition the book has a name index (authors arranged alphabetically) and a subject index structured on the chain indexing procedure. Many of these subject index entries are annotated.

The bibliography also contains four useful appendices which are: Appendix A — Transportation Dissertations, Appendix B — Transportation Statistical References, Appendix C — Journals Cited in the Bibliography and Appendix D — Abbreviations Cited in the Bibliography.

The bibliography will be very useful for reference librarians, transportation managers, transportation economists and students, researchers and consultants working on transportation projects and transportation historians. The book also suggests the need for continued effort and improvement in transportation cost accounting methodology and techniques. This book would be considered a must for any transportation firm and for university libraries. An update from 1974 to the present would be a welcome addition to the literature in transport costs and costing. The author is to be commended for this excellent work.

James Don Edwards, *History of Public Accounting in the United States* (University, AL: University of Alabama Press, 1978. Reprint of edition published in 1960, Michigan State University, 370 pp., paperback, $7.50).

Reviewed by Frederic M. Stiner, Jr.
The University of Maryland

Now back in print as one of the Accounting History Classic Series, this book is a milestone in accounting thought. This wealth of facts is organized so that Chapters I and II, after a brief introduction, cover the Antecedents of American Public Accounting and Chapter III, Definition of American Public Accounting. Chapter IV covers the Emergence of Public Accounting in the United States, 1748-1895. Chapter V, Public Accounting in the United States, 1896-1913, begins with the time period of the first CPA law, in New York, to the time of passage of the Sixteenth Amendment. Chapter VI covers the period 1913-1928, a time of competing societies and important legislative precedents. The period 1928-1949, Chapter VII, discusses the impact of the securities acts, the extension of audit procedures, World War II, and litigation over unlawful practice of the law. Chapter VIII reports the 1950's. The book concludes with a useful summary and a bibliography.

Two appendices show the first CPA exam, (1896) and original CPA Certificates issued by state and year. An extremely useful errata to the 1960 edition appears after the index.

The book is a useful primary and secondary source. Some documents, which are difficult to obtain now, are reproduced in full, such as the Certificate of Incorporation for the American Association of Public Accountants, the first CPA law, the first CPA exam, and the 1917 Code of Ethics. Many fascinating incidents keep the narrative alive: The first violator of the first CPA law was swiftly convicted nine days after the offense, and given a choice of a $35 fine or 10 days in jail. At one point in 1924, the Oklahoma State Board continued operating without a law to support it, after their original law was declared unconstitutional.

The book is a fertile source of leads for further research. Most useful is the discussion of the 1950's, where Edwards becomes a primary source himself by spending 100 pages reporting the profound developments of that time. Many original sources, such as letters to Edwards on permissive and regulatory state licensing statutes, are provided. We see the Accounting Principles Board created, and have its initial opinions. The material on the 1950's is useful in understanding the subsequent history of the APB.

The book belongs in every college and university library, and should be considered as one reading in a graduate seminar. It is an excellent choice for the Accounting History Classics Series, and the Arthur Andersen & Co. Foundation has done a great service to scholars everywhere by supporting the reprint of this important work.

Geo [rge] Soulé, *Soulé's New Science and Practice of Accounts.* Seventh Edition Enlarged, 1903. Reprint. New York: Arno Press, 1976, pp., 749. $43.00.

Reviewed by James J. Linn
Tulane University

George Soulé was undoubtedly an outstanding practitioner, student and author of business and accounting. All of these are reflected in his book which is primarily and mostly a handbook and secondarily a text. Also, it is a good statement of business practices as of 1903 in New Orleans.

The main emphasis is accounting practice and briefly, the attendant theory. There are also sections on commercial forms, corporations and joint stock companies, partnership law and "correspondence." It is very much a handbook in the sense that in part it is a compendium of illustrations, examples, lists, vocabulary and definitions and it is comprehensive. For example, accounts are defined and described by transaction content, something the students of today often request.

In my opinion a major drawback of this text is the quality and amount of the accounting discussion. To make an evaluation of the accounting, it is natural and proper I believe to refer, for comparative purposes, to the three authors, Sprague, Hatfield, and Cole, that represent accounting thought at the beginning of the present century. These were the men who wrote in the transition period of the depersonalization of accounts and the analytical presentation of double-entry first described by Ezra Sprague.

Judged in this context, Soulé's discussion of accounting, theory, his abstraction from his experiences, is concise, complete but out-of-date. There are less than fifty pages of this 750 page volume devoted to a discussion of accounting basics. However, this defect is offset by a profuse use of illustrations which both further explain the idea or procedure and illustrate applications.

The practical part of this book is the strongest; the accounting is good—very modern. Problems such as liquidation and fire insurance adjustments are discussed and special journals are used. On the other hand, the old personalization of accounts, and the old methods of explaining debits and credits, and transforming transaction data into journal entries are used. The inherent obtuseness of these pedagogical tools is more than offset by the profuse illustrations available. But, the student was forced to memorize a large number of specific transactions and their particular transformation, instead of fewer, general rules as we do today.

There are, according to the author's preface, four major sections in all. They are: Scientific—pp. 18-126; Practical—pp. 127-561; Expert Accounting and Practical Miscellany—pp. 562-679; and Punctuation and Correspondence—pp. 680-710. There is an Index but no Table of Contents.

I found in section three, Expert Accounting and Practical Miscellany, some items of particular interest on locating errors and the use of check figures (digits). There is a short section on auditing that is general but good. For example, it contains an admonition that account balances be verified by investigation and not by mere reference to the ledger; and a comment on determining assets to be free of encumbrances.

Also there is a brief summary history of accounting which was good for the time.

It appears, to this reviewer, that George Soulé wrote a book, and revised it over the years, that was exactly what he needed and used—Soulé Business College is still in existence in New Orleans. It was highly practical and contained material other than accounting and bookkeeping. This book would have been useful as a text and reference for bookkeepers and businessmen. Accountants probably found it useful as a general reference on bookkeeping, forms, letters and other miscellany. I suspect that accountants used other sources as references in what was then accounting theory. It was a useful, practical book it its time. Now, it is interesting to us as an example of commercial and accounting thought and procedure in New Orleans at the beginning of this century. It is interesting to conjecture what it would have evolved to today if a succession of co-authors had kept it current.