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THE ACCOUNT CHARGE AND DISCHARGE

Abstract: The account charge and discharge system was a competitor of the double-entry accounting system and some of its features may give answers to some of the problems plaguing our present day accounting.

As I understand it, the medieval period had at least two accounting systems running in parallel—the eventual winner, double-entry; and the account charge and discharge.

The latter was pre-eminently the system of stewardship. The steward was charged with the sums for which he was responsible (opening balance, plus receipts), and discharged of his legitimate payments; the end balance showed what he must hand over to his lord or keep in his charge for the next period.

The system had the enormous advantage, in an illiterate society, of not requiring written documents. If need be, it could be worked instead with an "exchequer"—lines on a table to act as columns for units, tens, scores, etc., and small pieces (like draughtsmen) to represent numbers. The petty official who handled the pieces at the English royal court was in time to blossom into the Chancellor of the Exchequer. Officers in attendance to check the steward's explanations did not read but heard them—hence "auditor".

Scottish Trust Accounts

The written account charge and discharge persisted in some stewardship dealings till well after the medieval period. Thus contractors to the British government were still using it—with Roman numbers—in the eighteenth century.[1] And, curiously enough, I myself was trained in it during my apprenticeship in Edinburgh; Scots law and accounting continued obstinately to prefer it, rather than double-entry, for various kinds of semi-legal reckoning such as

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testamentary trusts, "judicial factories", charities, etc. Thus, I am an anachronistic survivor of an almost extinct species.

The yearly Account C and D was like a sandwich. The top and bottom slabs were the opening and closing "estates" (the complete range of assets, at cost, and the sum due by or to the steward). The filling was a rearranged cash account—a list of receipts and payments, grouped under such heads as dividends received, wages paid, etc., with the full detail of each group displayed in chronological order; one sometimes needed four or five parallel columns to accommodate all the sub-groups and sub-sub-groups. When fitting, charge and discharge were both divided into "capital" and "revenue" sections, and so net income could be calculated. "Apportionment" between capital and revenue (for instance, of rent and interest accrued at a testator's death) was elaborate, to mirror the convolutions of Scots law; thus we apprentices grew proficient in splitting, into the parts "effeiring" to capital and to a "liferentrix", such items as the rent from pastoral farms where the rent was paid six months forehand (or was it backhand?)

The system was better than our familiar income-statement-cum-balance-sheet where trustees, etc. wanted to study all details; it had a grim logic; and it certainly gave apprentices a wonderful training in analysis and draughtmanship. It is still used by a dwindling number of Scottish solicitors. But it is incomprehensible to most readers; and, where there are many transactions, it grows voluminous and clumsy. "A monstrous beauty, like the hind-quarters of an elephant".

Trust Accounts and Early Theory

There must be many bundles of these accounts in the attics of Scottish accountants. They would surely be a far more fruitful subject for a Ph.D. thesis than today's fashionable forays into inconclusive statistical tests. For did they not constitute a prolonged—and eventually abandoned—experiment in something close to cash flow accounting? More important, they (and their double-entry counterparts outside Scotland) must have played a big role in the development of accounting theory. It seems reasonable to suppose that, as trusts flourished long before company accounting grew up, they gave the prime push to notions of income and valuation: "capital" and "revenue" become vivid when linked with the conflicting rights of known persons; theories become explicit when advocates must be briefed in legal squabbles. Accountants nurtured

in trust work would automatically stretch its theory, when the time came, to companies and income tax.

However, trustees must be more influenced by legalisms and fairness than economics. So income theory may have received bias in ways that now seem unfortunate. In particular, wealth could fall or rise, yet "income" was not affected. Fairness impelled trustees to charge part of the year's administration expense against the estate if the cost was incurred to protect the person who would in the end get the estate. In this way, accountants came to accept "capital charges" that have nothing to do with the acquisition of assets, but on the contrary signal their loss. Further, gain on an asset's sale could normally not be distributed (the physical maintenance test in embryo).

FOOTNOTE

[1] I illustrate this in *The House of Hancock*, Boston: Harvard University Press (1945). It could be combined with double-entry: see William Holmes, "Governmental Accounting in Colonial Massachusetts", *Accounting Review*, January 1979, page 51.