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ACCOUNTING IN THE BIBLE

Abstract: This paper traces several accounting concepts in the Bible. In particular, the Bible discusses the objectives of accounting, internal control procedures and managerial accounting topics. This paper links the Bible to current accounting thought.

The beginnings of modern accounting are commonly traced to Pacioli in the 15th century. Actually many of the fundamental ideas that underlie modern accounting may be traced much further back. The Bible, which is generally viewed as covering events between 1800 B.C. and 95 A.D., contains several references, both direct and indirect, to accounting and basic accounting concepts. In particular, it discusses financial accounting, internal control, and management accounting. The purpose of this paper is to discuss the Bible's relationship to accounting thought.[1]

Financial Accounting

One of the major purposes of accounting is to monitor the performance of management. In addition, accounting serves the purpose of insuring that the accounting entity is not defrauded either by its agents or by outsiders. The Bible discusses this in a negative way in 2 Kings 12:16 which says about the building of the Temple:

> "No accounts were kept with the men to whom the money was paid over to be spent on workmen since they were honest in their dealings."

This is virtually repeated in 2 Kings 22:7. We can infer from this that accounts would have been kept if the contractors were less than honest. Thus the Bible points out that accounting is necessary to reduce fraud.

The Bible also provides the motive for monitoring agents. In the New Testament there is a parable about a steward. In the parable the owner hears that his steward is wasting money and in Luke 16:2 says:

The author appreciates the comments of C. Hagerman and R. Huefner.

> "What is this I heard about you? Draw me up an account of your stewardship."

This indicates that accounting was used as a control device to monitor performance, and also suggests that the master/owner should have insisted upon periodic accounting reports to detect the problem with the steward earlier.

Accounting also serves the purpose of resolving disputes between parties. Accounting insures that debtors and creditors agree on the amounts due and that partners and other classes of owners know their share of the earnings. The Bible makes this point in Ecclesiasticus 4:1-2 where it states:

> "These are things you should not be ashamed of—keeping strict accounts with a traveling companion."

The idea here is that these accounts will reduce conflicts between the travelers.

The Bible provides very little in the way of describing how to account for transactions. There seems to be only one place in the Bible where a particular accounting system was required. The Bible in Ecclesiasticus 14:7 states that:

> "Whatever stores you issue do it by number and weight, spending and taking put everything in writing."

This clearly indicates that a perpetual inventory system should be used. In addition, the last phrase may be interpreted as a requirement that accounts for all revenue and expenses be maintained.

The Bible does not provide much information regarding how financial reports should be prepared or how the accounting system should be set up. The Bible does discuss the motivation for financing reporting. In particular, the Bible points out that financial accounting is necessary to avoid fraud, to monitor agents, and to reduce conflicts over resources. Today, of course, we place great emphasis on the idea that accounting exists to provide information to investors. The economy, in Biblical times, did not have diffused ownership that required that accounting serve this function. Even though the Bible does not deal with the information objective of accounting, the other accounting objectives discussed still exist today.

Internal Control

The Bible provides an extensive discussion of internal control. This is not surprising since large amounts of cash were used and control was necessary. The Bible discusses limited access to assets, separation of duties, dual custody of liquid assets, and the rationale for internal control in a very modern way.

The rationale for internal control systems is that if employees have an opportunity to steal they may succumb to the temptation. Therefore it is important to have a system that reduces this temptation. The Bible in Micah 7:5-6 says on this point:

> "Put no trust in a neighbor, have no confidence in a friend."

This is a rather negative statement about human nature but it does describe the logic behind the need for internal control systems. This statement also reflects the healthy skepticism that auditors should have.

Because of this view of man the Bible discusses how the Israelites practiced the dual custody of assets as an internal control measure. This concept is graphically described in 2 Chronicles 24:11-12 in the following way:

> "When the chest was taken to the royal office of control, run by the Levites, they would check the amount of money in it, then the king's secretary would come with a representative of the chief priest; they would take up the chest and carry it away."

In this case the king's secretary and the representative of the high priest had dual custody of the fund. It is also interesting to note that the Levites kept a control total of the funds to ensure that all the funds reached their destination.

The Bible also discusses the fact that custodians of funds should be men of integrity. In 2 Corinthians 8:16-17, St. Paul says that he is sending Titus and two brothers to collect a fund the Corinthians have gathered. He extols their virtue and says in 2 Corinthians 8:20 that he is sending three so that:

> "We hope that in this way there will be no accusations made about our administering such a large fund; for we are trying to do right not only in the sight of God but also in the sight of men."

Clearly, St. Paul knew that multiple custody by honest men would reduce the probability of fraud and would reduce the people's concern about fraud. This is consistent with the current internal control principle that the system requires competent and honest employees.

The lack of honest employees and dual custody is portrayed in John 12:7-8 in discussing Judas as the treasurer:

> ". . . he [Judas] was in charge of the common fund and used to help himself to the contributions."

Later experience showed that Judas was less than honorable and the lack of dual custody allowed him to steal. Thus the consequences of poor control are pointed out in the Bible.

One of the most basic internal control procedures is the physical safeguarding of assets by providing limited access to them. Ecclesiasticus 42:6-7 succinctly states this internal control principle as:

> "Where there are many hands, lock things up."

This not only summarizes the concept of physical safeguards but also again reflects a view of human nature upon which internal control systems are based.

Finally, the Bible discusses the value of surprise audits as an internal control device. In the Gospels of Luke and Matthew there are parables about how owners should make surprise inspections. Matthew 24:46 summarizes the behavioral implications of these audits or inspections as follows:

> "Happy is that servant if his master's arrival finds him at his employment."

This type of inspection is currently recommended to small businessmen who can not afford complete control systems.

The Bible provides several interesting statements regarding internal control systems for the simpler economy that existed in Biblical times. The fact that man was likely to steal unless a system was designed to prevent it was clearly understood. The concepts of physical safeguards, dual custody, surprise audits and care in selecting employees were used as internal control features. All these ideas are as relevant today as they were then.

Managerial Accounting

The Bible does not contain as much about managerial accounting as it does about internal control, but it does mention a wide range of managerial topics. The Bible has references to budgeting and the helpfulness of allowing participation in the budgeting process. In addition, the Bible provides advice on how to evaluate a product. These are, of course, all managerial topics.

An important element in business planning is the budgeting process and this subject is not neglected in the Bible. Luke 14:28-29 says:

> "Which of you here intending to build a tower would not first sit down and work out the cost to see if you had enough to complete it?"

This quotation refers not only to project budgeting but also to cash flow forecasts. The need for such budgeting is true today as it was in St. Luke's time.

Participatory budgeting is also apparently mentioned in the Bible. Proverbs 15:22 states:

> "Without deliberation plans came to nothing, where counselors are many, plans succeed."

If we assume that the counselors are sub-unit managers, then this statement is consistent with the spirit of participatory budgeting. It is surprising that this apparently recent idea appears in the Bible.

Finally, the Bible provides a very accurate description of whether to retain or drop a product. Ecclesiasticus 7:22-23 states:

> "Have you cattle? Look after them; if they are making you a profit, keep them."

This is the basic decision rule behind decisions of this type. The Bible does not discuss the need to use the contribution margin of the product or to consider externalities, but this is a simple statement of the basic principle.

The Bible contains references to current managerial accounting concepts. It recognizes the importance of budgeting and the behavioral implications of participation in that process. The Bible also shows that economic logic was used in product decisions. It is interesting to see how ideas we consider to be modern were used by an ancient civilization.

Conclusion

The purpose of this paper has been to show that many of the accounting concepts we use today were recognized a millennium ago. In particular, the rationale for accounting was known along with appropriate internal control procedures. The psychological implications of budgeting and other elements of managerial accounting were also known then. Thus, much of today's accounting thought can be traced back to Biblical times.

FOOTNOTES

[1]All Biblical references are from *The Jerusalem Bible.*

BIBLIOGRAPHY

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